ANNUAL REPORT 2013

Avio

Avio S.p.A.

Company limited by shares with sole shareholder
Registered Office: Strada del Drosso 145, Turin - Italy
Paid-in Capital 40,000,000 Euros
Company Register – Turin Office No. 05515080967

2013 ANNUAL REPORT

CONTENTS

Note: this report has been translated into English for the convenience of international readers. The original Italian document should be considered the authoritative version.

HIGHLIGHTS [1]

Revenues
€ 287.7 million (+0.9% compared with 2012)

Revenues by geographical area

Italy:	€10.8 million or 4% of revenues
Europe (excluding Italy):	€276.9 million or 96% of revenues

***Adjusted* EBITDA [2]**
€39.6 million (-12,9% compared with 2012)

Net financial position
€1,189.6 million (+€1,312.2 million, compared with 2012 figures – considered with the same perimeter)

Order book
€815 million (+8% compared with 2012)

Research & Development
€43.9 million or 15.3% of revenues (a reduction of 39% compared with 2012)

Employees:
773 at December 31, 2013 (-4,596 employees compared with December 31, 2012, taking into consideration the contribution operation described in the Note 1 below)

[1] The data shown in this section refers to the business of the Avio Group as emerging following the extraordinary transfer of the Aviation Business (including AeroEngine Sector and related Corporate structures) and subsequent transfer to the General Electric Group. For more information on the effect of the specified extraordinary transactions, please refer to additional and detailed description in the rest of this document.

[2] Adjusted EBITDA is considered a highly representative indicator for measuring the Group's financial results, besides not considering the effects of changes in taxation, in the amount and source of financing of capital employed and in depreciation and amortisation policies (items not included in EBITDA), it also excludes those factors that are non-recurring or exceptional, in order to increase the level of comparability of results.

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

2013 was characterised by a further weakness in the global economic cycle as a result of lower growth rates in industrialised countries, combined with a contraction in the economic activity of emerging countries. While, thanks to economic policies put in place, emerging countries continued to be the driving force behind the global economy, leading to an increase in global GDP, a more substantial recovery in the U.S. has been registered, thanks to the policies of internal economic development assistance put in place by the Obama administration; in Europe, except for Germany, the efforts for the respect of States' budgetary parameters have altogether departed the goal of economic recovery.

2013 saw your company leaving out of civil and military aircraft engine mechanics sector; in fact, with effect from August 1 our activities were focused exclusively on the Space sector, having transferred to General Electric Group the investment held in GE Avio S.r.l., that previously received the contribution in-kind of the "AeroEngine" business. The assets sold have profited in the first half by a slight market recovery especially as a result of orders received by manufacturers of engines for commercial aircraft, who are preparing to deal with a more sustained recovery of passenger traffic for the next few years, particularly in the Middle East and Asia. The military sector was affected by the continuous reductions on defence budgets by Western governments; such reductions affected not only the branch of aircraft fleets, but also the sector of missile weapon systems and consequently of its propulsion systems, included in the Space sector. On the other hand, the increased exports trend of these products could contribute to the recovery of satisfactory volumes, waiting to development start of new activities in our tactical propulsion compartment.

The launch services sector has faced a stable global demand for commercial satellites placed in orbits (geostationary), owned by the world's largest operators of telecommunications networks and services, and an increasing demand of launches for specialized applications in LEO orbit, destined mainly to Public Institutions for Earth Observation, territorial control, the environment and safety management. Despite continuing success with the launch of the Ariane 5, whose portfolio today provides coverage of nearly three years, the resumption of competitor’s launches as Proton and Falcon 9 forced Arianespace to close a not fully satisfactory 2013 year, because of issues related to the availability and matching of satellites in medium and large size.
2013 was an important year for the Ariane line because ESA, based on the mandate given by the Council at Ministerial level held in Naples in November 2012, began preliminary studies for the development of a new vector that will replace the Ariane 5 from 2023, named Ariane 6. The final configuration chosen by the Ministerial Council and based on solid propulsion includes a first launch in 2021, with a target price of 70 million Euros.
The configuration of this new Ariane, strongly supported by our company, in addition to confirming our role in the solid propulsion, will offer important opportunities for the technologies developed by Avio for the manufacture of carbon fibre engine structures used for Vega, allowing significant production synergies. In a context of increasing global competition in the field of launchers, Avio now has a unique technological know-how, engineering and accomplishment expertise in Europe, thanks to the efforts and the outstanding results achieved in the first two flights of the European launcher Vega.

Vega in 2013 made, with excellent results, its maiden commercial flight, expanding the flexibility and the capacity of his mission, with the double weight placing in orbit. Our company received in 2013 from Arianespace the order for the purchase of 10 units to be added to the first 5 units of ESA’s contract, thus giving strong impetus to the position of Vega in the context of a rapidly growing LEO market. The 2012 Ministerial Conference also outlined the objectives of the evolution of Vega with a first configuration named C to be developed by 2017, and a Vega E ready to fly in 2024, capable of putting into LEO orbit loads up to 2,500 kilograms.

Due to the focused scope in the Space operations, the company maintains a strong connotation of a company with great and innovative technology content that, together with the reliability of its products and the distinctive skills of its workers, today occupies an irreplaceable position in Europe.
Avio adds, to the classical values of attention to Customer need, to People, and to the Environment and Workplace Safety, also the ability to react with flexibly and to adapt to new environments while maintaining and strengthening its financial soundness.

2013 ended with extremely positive results, strongly characterized by the effects of registration of the capital gains arising from the disposal of the investment in GE Avio S.r.l.

The Group's economic data have therefore made reference for the first seven months of 2013, to the AeroEngine and Space activities, while from August 1st 2013, reference date of the mentioned contribution in kind and subsequent sale operation, remained attributable to the Group a perimeter substantially equivalent to the Space Division, as well as certain related corporate structures.

When considered at aggregate level (including both AeroEngine and Space business), the revenues from operating activities during the year amounted to 1,575 million euros and Adjusted EBITDA approximately to EUR 296 million; with reference to the Space sector, as representative of the activities remained in the responsibility of the Group, revenues amounted to about 288 million, and Adjusted EBITDA was approximately 39.6 million Euro, with decreasing values as compared to the previous year, even taking into account the effects of the perimeter change occurred at mid-year. In addition, the backlog has increased, reaching 815 million Euro at the end of the year, or a growth of 8% compared to 2012, and the net financial position, which has benefited from the dual effect of transfer of the majority of the pre-existing debt, as well as the cash flow incoming linked to the selling price of the investment held in GE Avio S.r.l., recorded, as of December 31, 2013, a positive balance of 1,190 million Euro (compared to an aggregate negative balance of 1,533 million Euro as of December 31, 2012).

2014 started for Avio with a prospect of further growth and development, on the one hand due to the increase of frequency of Vega flights, expected to be stabilized in 3 flights/year, and, on the other hand, to the prospect of the operational phase starting of the new Ariane 6 development, for which your company is a leader in technology and expertise. In particular, the backlog of Arianespace continues to increase, reaching, at the end of 2013, a value of 4.3 billion Euro, which corresponds to the production of 38 Ariane 5 and 14 Vega, which orders are going to be finalized, confirming the great confidence of our customers in the future. Both programs will be supported by our full commitment to pursue plans for development and growth and to meet the challenges that will help consolidate the leading position which Avio has built in the space industry at international level.

Pier Giuliano Lasagni
Chief Executive Officer
Avio S.p.A.

MANAGEMENT REPORT

THE AVIO GROUP

PROFILE

The Avio Group (referred to in this Annual Report as "Avio" or the "Group") is a primary international operator, leader in the space propulsion, headed by Avio S.p.A. (the "Company" or the "Parent"). Founded in 1908, it is present on four continents with commercial and representative offices and 12 industrial plants. The Group is headquartered in Colleferro (Roma) and has over 750 employees, approximately 590 of whom are based in Italy.

Avio is operating in the field of space propulsion, in particular with reference to the design, development and production of propulsion systems for solid and liquid propellant launchers, solid-propellant propulsion systems for tactical missiles, development and integration of complete spatial launch (Vega), research and development of new propulsion systems with low environmental impact, engine ride control systems for satellites

Such activities are performed in the context of the major European space programs such as Ariane 5, Vega and Aster, by providing systems to national (ASI - Italian Space Agency) and international (ESA - European Space Agency) space agencies.

The Group operates in the design, development and production of propulsion systems for space launchers of different categories needed for the launch of GEO satellites, both to geostationary orbits - Geostationary Earth Orbit (usually established by Ariane at about 36,000 km altitude by releasing satellite into transfer orbit GTO) and for low orbits (LEO between about 300 and 1,700 km altitude), and for tactical missiles, through participation in main national and international programs.

Historically, the Group has participated since the beginning, at the European space programs by providing solid propulsion motors (SRM) and, currently, the Group supplies the lateral solid propellant engines (booster) for the European launcher Ariane5, which is the main satellite launch system for geostationary orbits.
With the start of the program Vega, the Group, through its subsidiary ELV, has signed a contract with ESA in the role of the prime contractor for the design, development, integration and production of the new European launcher for satellites in low orbits (non-geostationary).

In the area of tactical propulsion, the Group designs and manufactures propulsion systems for European tactical missiles, among which the Aster, the European hypersonic missile for air and missile defense.

With 2013 revenues related to Space activities in excess of 287 million euros and an Adjusted EBITDA margin of 13.1%, the Group currently occupies a top position in the Italian and European space industry, the competitiveness of which contributes the abroad realization of more than 95% of its revenues.

It should be noted, however, that, until July 2013 (reference date of the contribution of aviation business in GE Avio S.r.l. and the subsequent transfer of investment held in the latter to General Electric Group), the Group was also engaged, through activities performed by the AeroEngine Sector, in the following areas of design, development and production, as well as technical assistance and review:
(i) components and modules for civil engines;
(ii) components, modules and complete military engines;
(iii) components and modules of aeroderivative gas turbines for industrial applications, electric energy production and marine propulsion;
(iv) electronics, control and automation systems, and electrical systems;
(v) Maintenance services, repair and overhaul of engines and components for civil and military applications

The strong technological content of its business has led Avio to invest considerable resources in R&D, thorough internal activities as well as through a network of laboratories and other types of collaboration with many of the most important Italian and international universities and research centres.

CORPORATE BODIES

Board of Directors (A)

Alan Bowkett	Chairman
Sandro Ferracuti	Vice Chairman
Pier Giuliano Lasagni	Chief Executive Officer (B)
Giorgio Brazzelli	Director
Roberto Italia	Director
Simon Rowlands	Director
Giuseppe Viriglio	Director

Board of Statutory Auditors (C)

Raoul Francesco Vitulo	Chairman
Maurizio Salom	Statutory Auditor
Luigi Gaspari	Statutory Auditor
Roberto Serrentino	Alternate Auditor
Antonio Cattaneo	Alternate Auditor

External Auditors

Deloitte & Touche S.p.A.

(A) Avio S.p.A.'s Board of Directors was appointed by the Shareholders' meeting held on May 30, 2012 and will remain in office until the shareholder meeting approving the Financial Statements as of December 31, 2013.

(B) Appointed as Director on 1 August 2013 and subsequently appointed as Chief Executive Officer on August 8, 2013, and will remain in office until the date of the shareholder meeting approving the financial statements as of December 31, 2013.

(C) Avio S.p.A.'s Board of Statutory Auditors was appointed by the Shareholders' meeting held on May 27, 2013 and will remain in office until the date of the shareholder meeting approving the financial statements as of December 31, 2013.

HISTORY

1908
Avio was set up when Fiat first entered the aeronautical sector with the development and manufacturing of the first ever aircraft engine, the SA 8/75, derived from racing cars.

1915
From World War I, Fiat designed and produced complete aircraft.

1972
The Fiat Group sold the aircraft construction activities to Aeritalia (Finmeccanica). The scope of work then focused on the design, development, production and MRO services for civil and military aeronautical engines and mechanical transmissions for helicopters.

1976
Fiat Aviazione S.p.A. was formally established with 3,700 employees and 2 factories in Turin and Brindisi.

1977
Fiat Aviazione extended its activities in the field of civil aeronautical engines, starting with the PW2037 (for the Boeing 757).

1980s
Development continued in the civil aviation sector through the participation in engine programmes including the PW4000 and CF6-80 (for *widebody* aircraft such as Boeing's 747 and 767) and the V2500 (for *narrowbody* aircraft).

The Company began production of components for the LM2500 aeroderivative gas turbine for marine and industrial applications, and the generation of electric energy.

Fiat Aviazione S.p.A. (FiatAvio S.p.A. after 1989) participated in numerous military aeronautical engine programmes, including the RB199 for the Tornado fighter aircraft, the Spey MK807 for the AMX tactical fighter, the EJ200 for the European Typhoon Eurofighter, and the T700-C7 for helicopters, also providing military engine MRO services to the Italian Armed Forces.

1990s
FiatAvio S.p.A. expanded its orderbook by participating in important civil and military engine programmes, in particular the GE90, PW308 and PW150. It also signed agreements with General Electric to participate in the development of the LM2500 and LM6000 aeroderivative gas turbines.

1994
The Group entered the space propulsion sector by acquiring BPD Defence and Space, with its industrial plant in Colleferro (Rome).

1997
The Group acquired Alfa Romeo Avio in Pomigliano d'Arco (Naples), operating from the industrial plants at Pomigliano d'Arco and Acerra (Naples), with the aim of consolidating its experience in the production of aeronautical components and expanding its activities in MRO. The acquisition also brought about the Group's participation in the CFM56 engine programme for *narrowbody* aircraft.

2000
In collaboration with the ASI (which retains a 30% share), ELV S.p.A. was established, the prime contractor for the European Vega launcher.

2001
With the creation of AvioPolska, which specialises in the production of airfoils for aeronautical turbines, the Group began international expansion in Poland.
The Group took part in the development and production of accessory drive trains for the Trent 900 engine, powering the new Airbus A380 aircraft.

2003
After leaving the Fiat Group, the Company became an independent entity and changed its name to Avio.

The Group won the tender to supply the accessory drive trains for the propulsion system of the Airbus A400M military transport aircraft.

Avio signed an agreement with General Electric to participate in the LMS100 programme, the most powerful aeroderivative gas turbine ever developed.

2004
Avio signed an agreement to participate in the development programme of the GEnx engine, General Electric's engine to power Boeing's 787 Dreamliner and 747-8 aircraft.

2006
BCV Investments, a company made up by funds and other investors managed by Cinven and Finmeccanica, acquired a controlling stake in the Group.

2008
Avio acquired Teksid Aluminum Getti Speciali, with its industrial plant in Beinasco - Borgaretto (Turin), which specialises in the production of aluminium castings for the aeronautical segment.

2010
The Group signed a long-term agreement with Pratt & Whitney to supply components for the Pure Power® PW1500G, the engine characterised by the revolutionary *geared turbofan* (GTF), to power the new Bombardier CSeries aircraft.

Avio directed its attention to emerging markets and created a *joint venture* in China focused on the development and production of combustors for aeronautical engines and aeroderivative gas turbines, mainly for the Chinese market.

2011
International expansion continued with the creation of a second *joint venture* in China, focused on power transmissions, accessory drive gearboxes and components for civil aircraft.

With the acquisition of Focaleng Engenharia e Manutenção Ltda (today incorporated into Avio do Brasil Ltda), the Group, which had already provided direct MRO services for propulsion systems for the Brazilian Air Force's AMX fighter aircraft since 2008, reinforced its presence in Brazil and further consolidated its role as a strategic supplier to the Brazilian Air Force.

2012
On February 13, 2012, an important goal was achieved thanks to the success of the maiden qualification flight of the European space vehicle Vega, designed and produced by Avio.

The Group signed an agreement with Snecma for the development of the LEAP (Leading Edge Aviation Propulsion), the aeronautical engine that will substitute the CFM56 on *narrowbody* aircraft, and announced the signing of another agreement with Pratt & Whitney for the production of the "Fan Drive Gear System" (power gearbox) for the Pure Power® PW1100G-JM engine.

In December, General Electric announced the signing of an agreement for the acquisition of Avio's aeronautical business.

2013
On May 7, 2013 the European space vector Vega accomplishes successfully its first commercial flight.

Following the obtaining of antitrust authorization, On August 1, 2013, has been completed the path started with the signing of the December 2012 preliminary agreement for the transfer of aviation business, with the change of ownership of the subsidiary GE Avio S.r.l. (that had received the contribution of Aero Engine business) to the General Electric group.

BUSINESS AREAS

Main Activities: design, development and manufacture of solid- and liquid-propellant propulsion systems for satellite launch vehicles, solid-propellant propulsion systems for tactical missiles, development and integration of complete light space launchers (Vega), R&D of new propulsion systems with low environmental impact and attitude control motors for satellites.

Main programmes: Ariane 5, Vega and Aster.

Main customers: EADS, ASI (Italian Space Agency), ESA (European Space Agency) and MBDA
Industrial plants: Colleferro (Rome) and Kourou (French Guyana).

GEOGRAPHICAL PRESENCE

ITALY

AS of December, 31, 2013:
(I) (II) Colleferro (Rome): solid-space propulsion
(IV) Rome

Up to August, 1, 2013
(II) Rivalta di Torino (Turin): aeroengine modules and components, liquid-oxygen turbopumps
(II) Beinasco – Borgaretto (Turin): aluminium and magnesium castings
(II) Campiglione Fenile (Turin): aluminium castings
(III) Turin
(II) San Pietro Mosezzo (Novara): high-tech components through additive manufacturing
(II) Colleferro (Rome): solid-space propulsion
(II) Pomigliano d'Arco (Naples): combustors, structural components, stator vanes and rotor blades for turbines and civil MRO
(II) Brindisi: military engine assembly, military MRO and marine propulsion
(IV) Rome
(V) Capua (Caserta): CIRA (Italian Aerospace Research Centre)

EUROPE

As of December, 31, 2013:
(V) Suresnes – France: Europropulsion S.A.
(V) Evry-Courcouronnes – France: Arianespace S.A

Up to August, 1, 2013
(II) Bielsko Biala – Poland: airfoils for aeroengine turbines
(III) Warsaw – Poland: Laboratorium Polonia Aero
(II) Eindhoven – The Netherlands: static and rotating components for compressors and sheet metal components
(II) Woensdrecht – The Netherlands: military MRO
(IV) Brussels – Belgium
(V) Suresnes – France: Europropulsion S.A.
(V) Evry-Courcouronnes – France: Arianespace S.A.
(V) Hallbergmoos – Germany: Eurojet Turbo GmbH - Turbo-Union Ltd.

REST OF THE WORLD

As of December, 31, 2013:

(II) Kourou – French Guyana: assembly and loading of Vega and solid-propellant boosters of Ariane 5

Up to August, 1, 2013

(II) Englewood Cliffs – New Jersey (USA): purchasing and sales of modules for civil aeroengines

(II) Rio de Janeiro – Brazil: military engines MRO

(II) Beijing – China

(II) Harbin – China: power transmissions, accessory drive gearboxes and mechanical transmission components for aeronautical, marine and industrial applications

(II) Xi'an – China: combustors for aeroengines and aeroderivative gas turbines

(II) New Delhi – India

Key to symbols

(I) Headquarters

(II) Industrial plants and offices

(III) Research laboratory

(IV) Representative office

(V) Consortia and participating companies

STRATEGY

Following the completion of the aviation business contribution in GE Avio S.r.l. and subsequent sale of the investment held in the latter to General Electric Group during the month of August 2013, the structural setting of the Group is currently focused on the activities of the Space segment. Consequently, the information in this section refer to the Group's strategies in the context of the business of space propulsion.

Avio, the European leader in solid propulsion, presented with its propulsion systems on all Ariane family's launchers, from the first flight on Christmas night of 1979, has factually contributed to the success of more than 200 launches. The reliability demonstrated by the Ariane 5 vector, which has just released the 59th consecutive successful flight, along with the competitiveness of the solid-propellant propulsion, are the basis of the strategies put in place by Avio to help, in the context of selection of future European launchers, the choice of configurations based on our technologies.

The November 2012 Ministerial Conference defined the replacing time limits for Ariane 5 ECA, the development of Ariane 5 ME and of Ariane 6, timing of use of Vega and the evolution of Vega C and Vega E. Crucial to this strategy of cost containment is the configuration PPH (Poudre, Poudre, Hydrogen) of solid Ariane6, which uses technologies, components, and systems of Vega evolution. The main objective of the European strategy is to maintain the autonomy of access to space by ensuring competitiveness in the commercial market, without the need of additional financial support after the development phase.

In the next decade is expected the consolidation of commercial launches of large payloads with the replacement, in two steps, of the Ariane 5 vector and, in parallel, the evolution of the Vega small launcher to increase its competitiveness mainly in the area of Earth observation satellites.

The competitor's aggressive pricing strategy, mainly supported by SpaceX, has favoured the starting of the development phase of the new Ariane 6, whose debut is expected in 2021. Meanwhile has also been approved a transition plan that provides for an enhanced version of Ariane 5, called Ariane 5 ME, whose entry into service is expected in 2018.

Even for the Vega is expected a two steps evolution phase: a first enhancement of the launcher with the replacement of the first stage with a more powerful engine (whose qualification flight is expected in 2017) and the final evolution that will allow the transport of a load almost twice the current, with qualification flight planned for 2024.
Following the success of the Vega's experience, Avio has proposed a unique strategy for the development of the two future European launchers (Ariane 6 and Vega Evolution) using the same propulsion modules and/or the same technologies for both launchers, with synergies, including:
- the reduction of the cost, time and risk for the Ariane 6's development;
- the optimization of industrial costs of both launchers (eg. by using of the same infrastructure for the realization of the various solid stages).

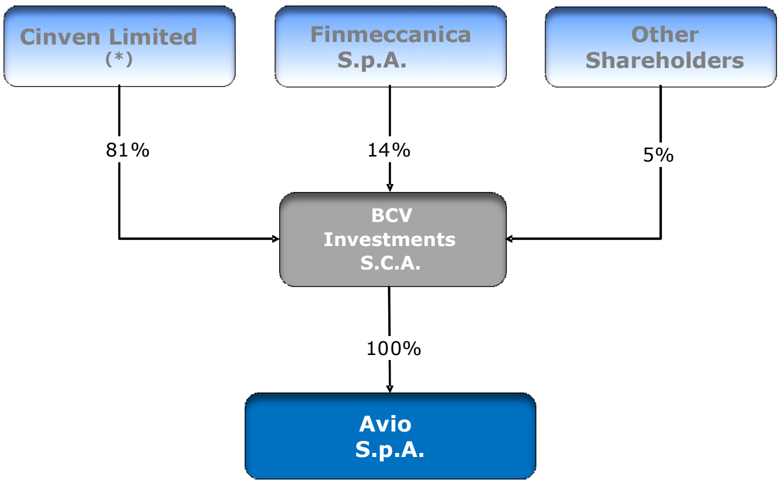
The strategic propose of Avio is based on several key factors as Avio itself:
- has developed solutions in the areas of solid, liquid, and orbital propulsion, has accumulated experience in avionics system and aerodynamic analysis, mechanical and thermal properties, necessary for the development of advanced and reliable launch systems;
- is a critical actor in the European value chain for Space, thanks to the continuous effort of innovation in production techniques and design of the product;
- has proposed the research of a new space sector governance model using, as opportunity, the need to face new economic and technical challenges related to the development of the Ariane 6 as the successor of the current Ariane 5 and of the advanced version of Vega;
- is unquestionably benefited from having realised the Vega program and the development of technologies supporting the new family of European vectors.

All this elements allow Avio to join the next Ministerial Conference scheduled at the end of 2014 as the main actor for the allocation of roles, aiming a 15% of participation in the next phase of the Ariane 6 and Vega evolution programs. This strategy, certainly sustainable for what has been done so far, must be confirmed by the Member States, more and more addressed to a significant return on investment. Also the new ESA policy on Georeturn no longer guaranteed, along with a political support for a "fly European policy" should allow to Avio a significant growth in the coming years.

OWNERSHIP

The parent company Avio S.p.A. was incorporated on December 11, 2006 with the company name of Avio Investments S.p.A., to acquire the companies constituting the Avio Group. In 2007, Avio Investments S.p.A. carried out a merger by incorporation of the companies AvioGroup S.p.A., Aero Invest 2 S.r.l., Avio Holding S.p.A. and Avio S.p.A., all directly or indirectly wholly owned subsidiaries, taking on the current operating holding structure and the company name AVIO S.p.A. This name was modified to Avio S.p.A. by resolution of the extraordinary Shareholders' Meeting held on July 29, 2011, to improve the identification of the Company's brand name.

Avio S.p.A.'s share capital is totally held by the sole shareholder BCV Investments S.C.A., a Luxembourg company, owned principally by investment funds and institutional investors managed and mainly controlled by the primary international *private equity fund* Cinven Ltd. (ca. 81%), and by a subsidiary of Finmeccanica S.p.A. (ca. 14%), one of the global leaders in the aerospace and defence sectors.



(*) Through a) the management of a plurality of investment funds (56%), and b) institutional investors whose rights to vote are exercised according to instructions given by Cinven Limited (25%)

2013 FINANCIAL YEAR

MAIN EVENTS

February / March

In February were enforced all the decisions taken in the course of the ESA Council at Ministerial level, and in particular steps to maintain operative both Ariane and Vega programs, in particular, with reference to the following main projects:
- Exploitation of the Ariane 5 ECA 2020 [3]
- Development of the Ariane 5 ME with the first launch in 2018 and used until 2024/25
- Development of the Ariane 6 with the first launch in 2021 [6]
- Using Vega until 2019 [6]
- Development of Vega C with the first flight in 2017 [6]
- Development of Vega E with the first launch in 2024/25 [6]

In this context, has been defined the start of The Phase A of the development of the new European launcher Ariane 6. The first part of the activity performed, under the leadership of ESA, by Airbus Space and Defense with HERAKLES (SAFRAN Group) and Avio partnership, provides a detailed trade-off to get to the choice of the best configuration of the launcher, economically competitive, with great reliability, availability of the launch services, flexibility in the strategy of putting into orbit and full transparency of the technical status of the launch service.

At the same time the program of Vega evolution is started, addressed to the C configuration, which will enable the launch of LEO satellites up to 1700 kg, thanks to an expansion of the first stage. The program aims to use the same engine developed for Ariane 6, maximizing the synergies between the two programs.

April / May

On May 7, 2013 the first commercial launch of Vega vector is successfully completed from the spatial base of the European CSG of Kourou. The mission included the launch into orbit with an extraordinary precision of Proba V (ESA) satellite, VNREDSAT (Vietnam) satellite and ESTCube 1 (Estonia) satellite after a flight of about two hours, extremely complex, culminating in 5 engine lighting of the fourth stage required to allow the positioning of the three satellites in significantly different orbits. The successful launch lays the foundation of the commercialization phase of the vector and subsequent sales agreements with Arianespace.

As part of the activities related to the workstream of Space business separation, is presented and approved before by the direct customer SNECMA, and subsequently by the ESA, the organizational and logistical support of production activities for the implementation and development of turbopumps (carried out at the production sites pertaining to the AeroEngine sector), in connection with the business separation proposed.
In the same context it is presented the transfer plan of integration activities of the turbopumps in the Colleferro site.

June / July

At the end of June, the A phase of the Ariane 6 program has been completed, with the choice of the main configuration. On July 3, 2013, two months later than the scheduled date, ESA announced the choice and started B phase of the program. To demonstrate the quality of the work done by Avio, and the competitiveness of its industrial model, is chosen the configuration of the launcher previously proposed by Avio, that includes four identical 145 tons solid propellant engines as the first and second stage of the launcher. A stadium with liquid equipped to a Vinci liquid hydrogen and oxygen engine completes the propulsive part of the launcher.

August / September

On August 1, 2013 the transfer of the business relating to the assets and liabilities of the AeroEngine Sector becomes effective, together with the related corporate structures, as well as the financial debt in respect of third parties, to the subsidiary GE Avio S.r.l., then sold to Nuovo Pignone Holding S.p.A. (now GE Italia Holding S.p.A., a General Electric Company).

[3] Program which sees the direct involvement of the Avio Group

On August 8, 2013, the Board of Directors of Avio S.p.A. assigns to Pier Giuliano Lasagni the operational guide of the Group, giving him the role of Managing Director and Chief Executive Officer and related proxies and powers.

In September, the development program of the Vega C has been re-addressed. The choice of Ariane 6 to adopt a 145 tons of propellant engine preclude its direct use on Vega C. For this reason, it is decided by ESA, following the proposal of Avio, to restrict the evolution of the first stage of Vega to a 105 tons propellant engine, thus reducing to a minimum the changes on the various components of the P80 engine. It is, however, preserved the technological synergy between the two programs that, in principle, should take the same basic technologies. The 145 tons propellant engine for Ariane 6 will find its place even later on Vega E, completing the synergy between the two vehicles.

At the end of September the propulsion unit of the satellite SmallGeo is delivered and departed to the OHB establishment in Bremen (Germany).

October / November

On November 20, 2013, in the presence of French President Francois Hollande, the French Prime Minister Jean-Marc Ayrault and the Italian Prime Minister Enrico Letta, the agreement between Arianespace and ELV for the purchase of 10 Vega's launcher was signed. This agreement will cover the production of the launchers between years 2016 and 2017, with a 3 launchers/year schedule.

At the end of November is completed the integration of the second and third stage of the Vega launcher, destined to equip the vehicle intended for the third flight of Vega (VV03). This is the second commercial flight of Vega whose objective is to put in orbit the Kazakhstan satellite DZZ-HR. The stages are subsequently completely loaded to for expedition in Guyana in early December.

In the same month, is signed, between Avio and MBDA Italy, the contract for the development of the missile's engine CAMM-ER, that is intended to replace the Aspide missile. This is the most important development in the field of tactical propulsion since the Aster engine development.

On November 29, 2013, the Avio S.p.A.'s Shareholders' Meeting approved the distribution of reserves in favour of its sole shareholder BCV Investments SCA for a total amount of € 555,074 thousand, through the transfer of short term bond for a total amount of € 550,000 thousand and by cash transfer of € 5,074 thousand.

December

Under the Lyra program, funded by the Italian Space Agency, is completed the integration and delivery in Russia of the first methane fuel turbopump ever made by Avio. The machine is designed to be integrated on the liquid methane and oxygen engine, on Italian-Russian liquid methane and oxygen engine MIRA demonstrator. At the end of the year, with the arrival of the machine at the site of Russian company KbKha, a global leader in cryogenic propulsion and partner of Avio in this initiative, the integration of a MIRA demonstrator engine started, with the aim of complete a full-scale test in the first half of 2014.

In the month of December is signed between Europropulsion (jointly controlled company, 50% owned by Avio) and Airbus Space and Defence, the Ariane 5 PB+ contract, for the supply of 18 additional launchers in respect of the current production related to the contract PB. The new order is intended to cover the production period between 2016 and 2019.

The delivery of the last 30 Aster booster for the 2014 has been completed. During the same month it is also is finalized the negotiation of an amendment to the contract for the Aster production that provides a 201 booster reduction in the MBDA supply, compared to the original contract, due to a reduction of the supply to the French Defence. The new contractual scenario determine the need for a revision of the amount of engines to be produced in 2014 and 2015.

MARKET DEVELOPMENTS AND BUSINESS PERFORMANCE

Premise

Following the completion of the aviation business contribution in GE Avio S.r.l. and subsequent sale of the investment held in the latter to General Electric Group during the month of August 2013, the structural setting of the Group is currently focused on the activities of the Space segment. Consequently, the information in this section refer to the performance of the market and the Group's activities in the context of the space propulsion business.

General Situation

During the year 2013, the global economic crisis has not been superseded, although the first recovery signs have ignited the hope for a trend reversal. Despite this, the world space market, observing a well-established trend, continues to remain stable, or, in some cases, to growth. In fact, current projections indicate a slight tendency for growth in the decade 2013-2022, in compared to last year expectations.

During the period between 2013 and 2022, in the commercial launchers area is expected an increase of the annual average of the launches number from 29.1 to 31.2 with a peak in 2015, in which 40 launches.
s are estimated. This peak, not included in 2013 forecasts, is even greater than the maximum recorded in 1998 and covers both geostationary orbit (GTO) and non-geostationary orbit (NGTO) launches.

The same trend is expected for commercial satellites, which is estimated to grow to 56.5 average number of launches per year over the next decade compared to 50.9 average in 2013. Both the launchers and the satellites have the same growth forecasts for GTO orbits and NGTO orbits applications.
Beside the commercial sector view, also forecasts of institutional launches not intended to be put on the market estimate an increasing tendency in the next decade.

Another important parameter in analysis of satellites and launchers market is related with the average mass released into orbit. Despite the introduction of electric propulsion for orbit transfer, mainly addressed to the telecommunication satellites, also the total average of satellites' load shows a growing tendency, compared to recent years forecasts. The expected reduction in mass, produced by electric propulsion, will not be an aim in the near future, where the objective is to increase the number of transponders, to reach a lower cost per launched transponder.

2013 showed also the launch of the European Commission Horizon 2020 program, which is integrated with already established programs named Galileo and Copernicus. Related investments made by the European Commission for research and innovation complete and integrate the funds made available for the Member States through ESA.

The European policy of independent access to space pursued by the Member States and ensured by the ESA should get a major boost with the provision of funding from the European Commission, allowing the industry to maintain and enhance the leadership gained in years with the success of not only their own vectors but also of telecommunications services and of navigation (satellite system called Galileo), observation and Earth monitoring.

Market launchers

During the year 2013 a further element to the Italian space technological assets is added, with the first commercial launch of the small European launcher Vega that is occurred successfully on May 7, 2013.
The launcher, of which the company ELV (Avio 70% and 30% ASI) was the prime contractor, has released precisely in the orbits provided the ESA satellite Proba-V destined to the study of terrestrial vegetation, the commercial Vietnamese satellite VNREDSat-1 and the first Cubesat ESTCube-1 satellite launched by the Republic of Estonia.

The launch can be considered as a real second qualification launch as the procedure for placing satellites in orbit required 5 relighting (maximum number expected for the engine) of the fourth stage of the launcher (AVUM), contrary to what happened in the maiden launch occurred in 2012.
In addition to the complex release manoeuvre, must also be emphasized the success of the new flight software developed, with funding from the Italian Space Agency, by ELV, with the support of a number of national industries.

In 2013 also the contract including decisions taken by the Ministerial Conference of the ESA member countries in November 2012 was signed, defining the launch of the development phase of the Ariane 5 development model, Ariane 5 ME (Mid-life Evolution), and of the development phase of the future European heavy launcher called Ariane 6. The configuration chosen for this launcher was based on solutions originally proposed by Avio, thanks to the experience gained at Vega, which includes the first and second stage to be totally based on solid propulsion with four equal engines and the use of a carbon fibre shell. The choice of this configuration provides to Avio the ability to provide know-how and expertise gained in the development and qualification of the Vega engine.

2013 was also a record year for Arianespace (Avio holds 3% of related shares), having registered the signing of 18 launch contracts, including 15 for Ariane 5 and 3 for Vega. At the end of 2013, the global amount of new orders acquired by Arianespace was at 4.3 billion euros for a period exceeding three years. Globally, Arianespace has in order 21 launches Ariane 5, 9 launches Soyuz and 6 launches Vega.

From an industrial point of view, in 2013 were successfully completed 4 Ariane 5 launches, reaching 57 consecutive successfully performed launches, confirming the undisputed reliability of the launcher. This small number is due to the delays in the satellites availability. Other than Ariane 5 and Vega, the complete number of service carried out by Arianespace in 2013 included three launches of Russian Soyuz vector, including one made performed from Baikonur.

Regarding competitors, in December 3, 2013 the Falcon 9 vector of Space X for launches into geostationary orbits made its debut. The aggressive Space X's cost reduction policy for the commercial market and the success of its Falcon 9 launch represents a real threat for the leader position reached by the Ariane 5 European launcher, even if some difficulties to maintain the commitments of a very ambitious launch schedule are arising.
The Chinese, Indians and Russians competitors have mainly focused their 2013 production in institutional launches.

The great development of satellites for earth observation provides excellent opportunities for the Vega launcher market position even if the competitors in this industry have proven aggressive attitude in terms of cost policy. Despite this, the expectations to achieve the maximum production rate of the Vega with three launches per year seems to be a very realistic opportunity.

In the context of tactical propulsion, the production of the French-Italian missile defense program Aster 30 highlighted a stable trend also in 2013. Program will be completed in 2016 and contacts are in progress to define its evolution in the near future.

ANALYSIS OF THE GROUP'S RESULTS OF OPERATIONS AND FINANCIAL POSITION

Premise

It should be noted that, following the contractual provisions included in the preliminary sale contract (Sale and Purchase Agreement, hereinafter the "Agreement") signed on 21 December 2012, between the parent company Avio S.p.A, as the seller, the parent BCV Investments SCA and the Nuovo Pignone Holding S.p.A. (now the General Electric Group, "NPH"), on August 1, 2013, after obtaining the necessary antitrust approval from the European Union and the United States of America, as well as regulatory approvals by the Italian Government, following operations were completed:

- (i) the transfer of Avio S.p.A.'s AeroEngine business (related to the design and manufacturing of components for aeronautical engines, aeroderivative and MRO – Maintenance, Repair & Overhaul – services for both civil and military use) in a wholly owned subsidiary, newly constituted (GE Avio S.r.l.);
- (ii) the subsequent sale of the entire share capital of GE Avio S.r.l. to NPH.

According to the Agreement, the contribution-in-kind to the new company included all of the Avio Group's operations in the AeroEngine Sector, together with related Corporate headquarter activities, and all of Avio S.p.A.'s financial indebtedness from third parties; on the other hand, Avio S.p.A., as the contributing entity, maintained ownership of the Space Sector and of certain other assets and liabilities (primarily related to the tax and social security liabilities) that the parties agreed not to include in the described sale operation.

In particular, assets and liabilities transferred to the new company (*disposal group*) specifically included the financial payables due under the *Senior Facilities Agreement* and *Subordinated TreasuryCo Loan Agreement No. 2*, on the basis of specific contractual agreement, related to full repayment of mentioned liabilities by the receiving company, performed at the time of closing of the sale transaction, drawing on resources provided by the purchaser.

The separation of the Group's businesses included in the AeroEngine Sector from those related to Space Sector is an extraordinary transaction that has a significant strategic value for Avio since it allows the Group to refocus operations and monetize a very significant portion of net assets, creating value for both of the businesses.

In particular, joining one of the leading international groups in the aerospace industry will allow the AeroEngine Sector to benefit from further development opportunities, while the new focus of the Group's operations in the Space Sector will allow Avio to bring increased financial resources to support development plans for this business, while benefitting from a debt-free financial position.

The consolidated financial statements of the Avio Group at December 31, 2013 refers, from a financial point of view, to the assets and liabilities resulting from the completion of the transactions described above, while from an economic point of view, it was prepared, in accordance with 'IFRS 5 - Non-current Assets Held for Sale and Discontinued operations, by identifying the business being sold as "Discontinued operations" and to represent it as such in the financial statement. Therefore, the consolidated income statement at December 31, 2013 includes, giving separate evidence:

- (a) a portion of costs and revenues of the parent company (pertaining to the Space Sector business and to the related Corporate activities) and those of the consolidated companies included in the Avio Group as of December 31, 2013 (the so-called "Continuing operations")
- (b) the complementary part of costs and revenues of the parent company (referring to both the Aeroengine business, the related corporate activities and the specific economic effects of the extraordinary transaction) and those of the consolidated companies until the date of 31 July 2013, subject of the separation ("Discontinued operations").

Both the 2013 statement of financial position and the income statement are consistent with the representation of the information used for the preparation of the consolidated financial statements at 31 December 2012, which, since the transfer of the proposed contribution of AeroEngine business in GE Avio S.r.l. and the subsequent sale of investment held in the latter was considered at that date as highly probable, had already been prepared in application of the logic of presentation required by IFRS 5.

With reference to the data presented in this paragraph, with the goal of enabling a comparative and homogeneous analysis of the Group's financial results, based on the current configuration of the business, are presented and discussed below the amounts of the income statement which relate to Continuing operations (taking into account that is non-significant to compare the economic information of the business being transferred, because of the different relevant periods - 12 months for the financial year 2012 compared to 7 months for the financial year 2013); from a financial point of view, reference is made to the comparison between the amounts at December 31, 2013 and those related to the corresponding perimeter of the previous year, represented by the statement of financial position's data of Continuing operations at December 31, 2012, as presented in these financial statements, and (net of the retrospective effects of application of IAS 19 as described below) in the consolidated financial statements at 31 December 2012.

This method of representation is consistent with the current structural organization of the Group, whose core business is related to the development, in the context of space propulsion systems, of liquid and solid propellant launchers and tactical missiles, including the integration activities of satellite launchers.

Analysis of the results

The following table summarises the Group's results from operations for 2013 and 2012 (thousands of €):

	2013 Continuing operations	**2012 Continuing operations *(restated)* [*]**	**Change**
Revenues	287,649	285,035	2.614
Other operating income and change in inventory of finished and semi-finished goods	14,583	21,200	(6,617)
Costs for materials and services, for personnel, other operating expenses, net of costs capitalised	(282,471)	(268,776)	(13,695)
Operating results before depreciation and amortisation (EBITDA)	**19,761**	**37,459**	**(17,698)**
Depreciation, amortisation, write-down and impairment	(17,618)	(17,066)	(552)
Operating results (EBIT)	**2,143**	**20,393**	**(18,250)**
Interests and other financial income (expenses)	(2,169)	(498)	(1,671)
Financial results	**(2,169)**	**(498)**	**(1,671)**
Results from financial investments	979	1,367	(388)
Results before taxes	**954**	**21,262**	**(20,308)**
Income taxes – current and deferred	(13,353)	(9,695)	(3,658)
Net result – Continuing operations	**(12,399)**	**11,567**	**(23,966)**
Discontinued operations Result	1,290,062	21,447	1,268,615
Total Net Result	**1,277,663**	**33,014**	**1,244,649**

[*] The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes to the financial statements

Revenues amounted to €287,649 thousand in 2013, an increase of €2,614 thousand (0.9%) compared to 2012. In particular, sales volumes for the Ariane 5 program remained stable, compared to 2012 (to a slightly higher value than the budget forecast), while, with regard to the Vega Launcher programme, 2013 revenues highlighted increasing results both in comparison with 2012 (7.6% of increase), and with budget forecasts, as well as those relating to liquid propulsion programs, offset by a reduction of the volume of activity related to tactical propulsion.

In 2013, the operating income before depreciation and amortization and impairment of tangible and intangible assets (EBITDA) from Continuing operations amounted to € 19,761 thousand, registering a decrease of € 17,698 thousand (-47.2%) compared the same period in 2012.

This performance was primarily attributable by the following factors:

- a decrease in other income for € 15,701 thousand (mainly due to the recognition of € 7 million income related to tax credits on research and development registered in 2012 and to the release of provisions for risk and charges registered in 2012), partially offset by the change in inventories which shows a reduction of costs by € 9,084 thousand, mainly referred to Europropulsion S.A.'s inventory trend;
- an increase in costs of goods and services, personnel costs and other operating expenses net of costs capitalised (€ 13,695 thousand), mainly due to fluctuations in the cost of services and other operating expenses, which include non-recurring costs related to the extraordinary operations linked to the restructuring of the group structure (about 7.2 million, not present in 2012), as well as accruals for environmental liabilities (approximately € 3.7 million, compared to € 1 million in 2012) and the restructuring costs and staff incentives (Euro 1.4 million, compared to 0.3 million EUR in the previous year).

Operating results (EBIT) amounted to €2,143 thousand, presenting a decrease of € 18,250 thousand (at 89,5%) compared to 2012, which was negatively affected by the operating results before depreciation and amortisation (EBITDA) trend, and by an increase (€552 thousand) in depreciation and amortisation in the period compared to the same period of time of the previous year.

For a more complete presentation of the Group's operating performance, the following table summarises *Adjusted* EBITDA, *Adjusted* EBIT and relative margin percentages for 2013 and 2012 (thousands of €):

	2013 Continuing operations	2012 Continuing operations (restated) [*]	Change
***Adjusted* EBITDA**	**39,613**	**45,471**	**(5,858)**
Adjusted EBITDA Margin (*Adjusted* EBITDA/revenues)	13.8%	16.0%	
***Adjusted* EBIT**	**26,079**	**32,489**	**(6,410)**
Adjusted EBIT Margin (*Adjusted* EBIT/revenues)	9.1%	11.4%	

[*] The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes to the financial statements

***Adjusted* EBITDA** was € 39,613 thousand in 2013 (13.8% of revenues), a decrease of € 5,858 thousand (12.9%) compared with €45,471 thousand (16.0% of revenues) in 2012. *Adjusted* EBITDA is considered a highly representative indicator for measuring the Company's financial results because, as well as not considering the effects of changes in taxation, in the amount and source of financing of capital employed and in depreciation and amortisation policies (items not included in EBITDA), it also excludes those factors which are non-recurring or exceptional to increase the comparability of results.

***Adjusted* EBIT** was €26,079 thousand in 2013 (9.1% of revenues), a decrease of € 6,410 thousand (19.7%) compared with €32,489 thousand (11.4% of revenues) in 2012. *Adjusted* EBIT is also considered a highly representative indicator for measuring the Group's financial results, and is measured by operating results (EBIT) excluding amortisation of customer relationships for participation in programmes (€44,756 thousand per year) and events considered to be nonrecurring or exceptional, already excluded from the calculation of *Adjusted* EBITDA.

The above-mentioned ratios on revenues of the *Adjusted* EBITDA and *Adjusted* EBIT showed a decline compared with 2012, in particular due to the cost trend that, even excluding non-recurring items, recorded an increase compared to the volume of revenue, also due to the effects, on the operational activities, of the change of the Group structure.

The following table shows the reconciliation between EBIT, *Adjusted* EBIT and *Adjusted* EBITDA for 2013 and 2012(thousands of €):

		2013 Continuing operations	2012 Continuing operations (restated) [*]	Change
A	**Operating profit/EBIT**	**2,143**	**20,349**	**18,251**
	Non-recurring or exceptional expenses/(income):			
	- Restructuring costs	*1,426*	*343*	*1,083*
	- Costs related to the Group reorganization (contribution in kind and sale operation)	*7,211*	*-*	*7211*
	- Expenses for environment restores and operations	*3,700*	*1,193*	*2,507*
	- Costs for cash-settled share-based payment (1)	*650*	*1,063*	*(405)*
	- Charges for tax provisions	*-*	*2,850*	*(2,850)*
	- Other non-recurring expenses/(income) (2)	*1,378*	*465*	*913*
B	Total non-recurring or exceptional expenses/(income)	14,373	5,914	8,459
C	Investor Fees	1,196	124	1,072
D	Other adjustments for non-recurring expenses	4,283	1,973	2,310
E	Amortisation of customer relationships for participation in programmes	4,084	4,084	-
F	***Adjusted* EBIT A+B+C+D+E**	**26,081**	**32,489**	**(6,408)**
G	Net depreciation/amortisation (3)	13,534	12,982	552
	***Adjusted* EBITDA F+G**	**39,613**	**45,471**	**(5,858)**

[*] The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes to the financial statements

(1) Costs for cash-settled share-based payment: include provisions of the adjustment of the valuation of liabilities to cash incentive scheme for long-term cash-settled share-based payment.
(2) Other non-recurring expenses/(income): other expenses or income considered as non-recurring, as, i.e., resolution of claims with customers or suppliers or other extraordinary transactions.
(3) Net depreciation/amortisation: Total depreciation/amortisation of the financial year (€17.6 million in 2013), net of amortisation of customer relationships for participation in programmes arising from the purchase price carried out in 2007 (amounting to € 4.1 million in 2013)

Financial results went from a net negative value of €498 thousand in the year ending December 31, 2012 to a net negative value of €2,169 thousand in the year ending December 31, 2013. The net increase of financial expenses is related to the change of pre-existing debt structure of the Group related with the extraordinary operations of AeroEngine business in GE Avio S.r.l. and subsequent sale of the investment held in the latter, that also had an impact on the structure of the financial position of the Continuing operations.

The results from financial investments in the ending year December 31, 2013 recorded a net gain of € 979 thousand, a decrease of € 1,367 thousand compared with the same period of 2012; the 2013 income refer to the recording of dividends received from ASPropulsion Capital NV to (€ 979 thousand).

The net profit from continuing operations, after the recording of current and deferred taxes (allocated to Continuing and Discontinued operations based on the requirements of IFRS 5, detailed on the Explanatory Notes) showing a negative balance of € 13,353 thousand, represents in 2013 and a loss of € 12.399 thousand, compared to a profit of € 11,567 thousand recorded in the year ended December 31, 2012.

The net result from discontinued operations amounted to €1,290,062 thousand, compared to € 21,447 thousand in 2012. Such result is strongly impacted by the effects (€ 1,233 million) related to the transfer of the business on AeroEngine and the disposal of GE Avio S.r.l., mainly related to the registration of the relative capital gain (€ 1.061 billion, net of tax effect).

The Adjusted Net Income from Continuing operations was € 19,104 in the year ending 31 December 2013 (6.6% of revenues), with a decreasing in absolute value of € 1,160 thousand compared to the value of €20,264 thousand euro recorded in the year ending 31 December 2012 (7.1% of revenues). The result achieved was mainly due to the operating result (EBIT and Adjusted EBIT level) recorded in 2013, net of the tax charge of the year.

Adjusted Net Income is measured by the net result excluding expenses/(income) deemed to be non-recurring or unusual for the measurement of *Adjusted* EBITDA, financial expenses related to the *Intercompany Loan Agreement,* unrealised exchange (gains)/losses, and net of related theoretical tax effect.

The following table shows the reconciliation between the net result of the Group and non-controlling interests and *Adjusted* Net Income for 2013 and 2012 (thousands of €):

		2013 Continuing operations	2012 Continuing operations (restated) [*]	Change
A	**Net result of the Group and non-controlling interests**	**(12.399)**	**11,567**	**(23.966)**
B	Non-recurring or exceptional expenses/(income) (1)	14.373	5,914	8.459
C	Other adjustments for non-recurring expenses	4.283	1,973	2.310
D	Investor Fees	1.196	124	1.072
E	Amortisation of customer relationships for participation in programmes	4.084	4,084	-
F	Intercompany Loan Agreement interests	3.547	697	2.850
G	Unrealised foreign exchange (gains)/losses	(68)	(64)	(4)
H	Theoretical total tax effect (2)	(8.568)	(4,031)	(4.537)
	***Adjusted* Net Income A+B+C+D+E+F+G+H**	**6.447**	**20,264**	**6.447**

[*] The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes to the financial statements

(1) As detailed above (see *Adjusted* EBIT and *Adjusted* EBITDA reconciliation).
(2) Theoretical Tax effect on charges and income included in caption B, C, D, E, F and G

Adjusted Net Income, measured as described above, represents an indicator consistent with *Adjusted* EBIT and does not consider the effects of fluctuations in unrealised exchange rates, as they are non-monetary gains or losses characterised by volatile elements affecting the comparison between economic results. In addition, it does not consider financial expenses related to *Intercompany Loan Agreement,* consistent with Avio's net financial indebtedness (as described below).

The analysis of the Group's consolidated statement of financial position is shown in the following table (thousands of €):

	December 31, 2013	December 31, 2012 (restated) [*]	Change
Property, plant and equipment and investment property	50,083	52,603	(2,520)
Goodwill	221,000	221,000	-
Intangible assets with finite useful lives	97,183	102,600	(5,417)
Investments	5,178	5,178	-
Total fixed assets	373,444	381,381	(7,937)
Net working capital	(41,336)	(188,479)	147,143
Provisions for risks	(40,672)	(84,407)	43,735
Provisions for employee benefits	(11,617)	(11,271)	(346)
Net invested capital - continuing operations	**279,819**	**97,224**	**182,595**
Net invested capital - discontinued operations	**-**	**2,204,291**	**(2,204,208)**
Net invested capital	**279,819**	**2,301,515**	**(2,021,613)**
Net financial position – available share	(1,074,600)	126,641	(1,201,241)
Non-current financial assets subject to restrictions and non-current financial receivables	(115,000)	(4,040)	(110,960)
Net financial position- continuing operations	(1,189,600)	122,601	(1,312,201)
Net financial position- discontinued operations	-	1,410,404	(1,410,404)
Net financial position	**(1,189,600)**	**1,533,005**	**(2,722,605)**
Equity	**1,469,419**	**768,510**	**700,992**

[*] The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes to the financial statements

At December 31, 2013, total fixed assets amounted to €373,444 thousand, showing a decrease of €7,937 thousand compared with December 31, 2012. The net change in property, plant and equipment and intangible assets with finite useful lives was due primarily to the excess of the period depreciation and amortisation (€ 5.822 thousand and € 11,756 thousand), in relation to the new investments (€3,345 thousand for property, plant and equipment and € 6,345 thousand for the intangible assets with finite useful lives).

Fixed assets included, at December 31, 2013, €221,000 thousand relating to goodwill recognised at the time of the business acquisition, which gave rise to the current Group, and subsequent acquisitions. This value is not subject to amortisation.

At December 31, 2013, net working capital decreased by €147,143 thousand in its negative balance, reaching €41,336 thousand due to liabilities exceeding assets.

The main items of the net working capital are shown in the table below (thousands of €):

	December 31, 2013	December 31, 2012 (restated) [*]	Change
Inventories	169,601	166,311	3,290
Contract work in progress, net of related progress billing and advances	52,722	53,362	(640)
Trade receivables	13,580	13,442	138
Trade payables	(57,701)	(56,728)	(973)
Other assets and liabilities	(261,816)	(257,414)	(4,402)
	(83,614)	**(81,027)**	**(2,587)**
Deferred tax assets and tax liabilities, net	42,278	(107,452)	149,730
Net working capital	**(41,336)**	**(188,479)**	**147,143**

[*] The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes to the financial statements

The change in net working capital was determined by the change of net assets and liabilities for prepaid and deferred taxes (reduction of the liabilities € 149,730 thousand), determined mainly by the release of deferred tax liabilities (€ 157,585 thousand) recognised in relation to the differences in the tax and accounting value of the goodwill pertaining to the Aviation Business (part of the assets and liabilities derecognised as a result of the contribution), whose amortization has tax relevance.

At December 31, 2013, provisions for risks and charges reported a total decrease amounted of €43,735 thousand compared with December 31, 2012, mainly due to the following effects:

- use of € 80,082 thousand mainly relate to provision for cash-settled share-based payment charges and for costs of variable salaries and wages for € 57,672 thousand and to provision for tax risks for € 21,297 thousand;
- accrual for a total of €36,649 thousand, mainly related to provision for cash-settled share-based payment charges and for costs of variable salaries and wages for € 20,982 thousand, to provisions for tax risks for € 5,723 thousand, to provision for contractual and commercial risks for € 4,113 thousand, to provision for personnel expenses and restructuring for € 1,399 thousand and to provisions for legal and environmental risks for € 4,432 thousand.

At December 31, 2013, provisions for employee benefits showed an increase of €346 thousand compared to December 31, 2012, due to accruals in the liability net of payments primarily related to severance indemnities (especially TFR – severance indemnity payment), for the retirement and exit of personnel in 2013. It should be noted that the liabilities for employee benefits are presented, with reference to the data at December 31, 2012, in applying the requirements of IAS 19 revised, retrospectively applied by the Group stating from 1 January 2013 (as specified in the Explanatory Notes).

The following table shows the net financial position (thousands of €):

	December 31, 2013	December 31, 2012 (restated) [*]	Change
Non-current financial assets	6,040	4,040	2,000
Current financial assets	1,279,301	25,209	1,254,092
Cash and cash equivalents	58,032	2,715	55,334
Total financial assets(A)	**1,343,373**	**31,964**	**1,311,426**
Non-current financial liabilities	139,929	133,880	6,049
Current financial liabilities	13,844	20,685	(6,841)
Current portion of non-current financial liabilities	-	-	-
Total financial liabilities(B)	**153,773**	**154,565**	**(792)**
Total net financial indebtedness (B) – (A)	**1,189,600**	**(122,601)**	**1,312,201**
(Less) Assets subject to restrictions	(115,000)	(4,040)	(110,960)
Total net financial position	**1,074,600**	**(126,641)**	**1,201,241**

[*] The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes to the financial statements

Net financial position at December 31, 2013 showed a €1,312,201 thousand increase in its positive balance amounted to €1,189,600 thousand compared with a €122,601 thousand indebtedness at December 31, 2012. The change in this period resulted from the net effect of various components, among which: the increase in current financial assets and cash equivalents, due to the use of funds obtained from the sale of the investment held in GE Avio S.r.l. (€ 1,923,180 thousand, inclusive of a share of € 115,000 thousand relating to Escrow accounts, unavailable until August 1, 2014, as guarantee for the extraordinary operation), partly for the purchase of short–term floating rate notes for € 1,700,000 thousand, subsequently partially used (550,000 thousand) for the distribution of reserves to the sole shareholder.

Equity at December 31, 2013 amounted to € 1,469,419 thousand (€ 1,460,732 thousand of which attributable to the Group), an increase of € 700,992 thousand compared to December 31, 2012, effected from the following combined factors:

- recording of cumulative income for the period (equal to € 1,277,663 thousand, related to the capital gain of € 1,102,528 thousand of the transfer of GE Avio S.r.l. investment, net of related tax effect amounted to € 41,882 thousand and to the € 157,585 thousand effect of the reversal of deferred tax liabilities recognized in relation to the enfranchised value of goodwill transferred);
- the reduction in reserves for € 555,074 thousand compared to the distribution of reserves for of the sole shareholder BCV Investments SCA, on the basis of the Shareholders' Meeting held on November 29, 2013;
- the reduction of the reserves, included in the financial statements at December 31, 2012 as "other comprehensive income" (with counterpart expenses or income included in operating income) in particular for the reversal to profit & loss of the cash flow hedge reserves for currency risk, interest rate risk and commodities risk (for a total value of € 14,590 thousand, net of related tax effect).

To complete the analysis, some economic and financial indicators are shown below with reference to the years ending December 31, 2013 and December 31, 2012:

	December 31, 2013	December 31, 2012	Change
Net debt at nominal value/ *Adjusted* EBITDA	30.0	(2.7)	32.7
Net debt at nominal value/ Equity	0.7	(0.2)	0.9

The economic performances and the effects on net debt and shareholders' equity (the two latest impacted by the effects of extraordinary transactions) have resulted in a significant improvement in the ratio Net financial position / Adjusted EBITDA (Leverage ratio), standing at the end of 2013 to a positive value of 30.0 x.

RESEARCH, INNOVATION AND ENVIRONMENT

In the space industry, Research & Development ("R&D") investment is a key factor to achieve and to maintain a consolidate competitive position.

Avio has always dedicated significant resources to R&D, product and process development and innovation, in line with its mission. The Group has among its objectives the sustainable development of its activities and products, paying particular attention to environmental protection linked to industrial production, as well as improving the safety of its production plants and the health and safety of its employees.
In these framework it works with national institutions such as the Italian Space Agency (ASI), the Ministry of Education, University and Research (MIUR), the Ministry of Economic Development (MISE), organizations supporting the regional research , the Technological Districts, particularly in Campania and Lazio or with international institutions such as the European Space Agency or the European Union.
For the "Space" product, Avio has developed a network of partnerships with universities and research institutions in Italy and in Europe: among the main are listed the Italian Center for Aerospace Research (CIRA), ENEA, the first and second University of Rome, Politecnico di Milano, the University of Naples "Federico II", University of Padua, University of Forli. The Group also participates in several associations of European industries and research institutions for the development of basic research for the most part regarding energetic materials.

The total expenditure for R&D supported by Avio within the Space sector in 2013 amounted to € 43.9 million (€ 75.3 million in 2012), corresponding to 15.8% of consolidated revenues (26.4% in 2012).

The Group carries out R&D activities commissioned and financed by customers, in 2013 amounting to €35.0 million (a decline compared to €66.5 million in 2012) and other projects internally financed, for a total 2013 spend amounting to €8.9 million (€7.4 million in 2012).

The self-financed activities include, in 2013, € 5.1 million related to development costs capitalized in intangible assets with a definite life (€ 5.1 million in 2012) and € 3.8 million relating to costs of research or development, not meeting capitalisation requirements and charged directly to the income statement (€ 2.3 million in 2012).

The total amount of costs related to self-financing activities charged to the income statement in 2013 was € 10.6 million (€ 8.8 million in 2012), consisting of € 3.8 million for costs not capitalized directly expensed (€ 2.3 million in 2012) and € 6.8 million relating to the amortization of capitalized development costs in previous years (€ 6.6 million in 2012).

Product innovation

During 2013 Avio led innovation activities on its main product lines, harmonizing activities of basic research, applied research and pre-competitive development.

<u>Solid Propulsion</u>
In the strategic vision of Avio, the solid propulsion is a mature but competitive technology that allows to significantly reduce the cost of launch services, while maintaining the European space transportation industry competitive against international bidding. Avio has defined its vision on both the consolidation and development of the Vega launcher, and on the future launcher destined to replace Ariane 5 (Ariane 6).
In the field of solid propellant engines, Avio has conducted research with the objectives to consolidate and optimize the technologies of production of qualified products, as part of the Ariane 5 and Vega, and to prepare for the changes of the next generations of European launch vehicle, Ariane 6, Vega C and Vega E.
During the year the **product** development activities have been oriented, following the outcome of the Ministerial Conference in 2012, toward the preliminary stages of the development of the first stage engine of the future Vega C (P-CV), and feasibility studies of the first and second stage engine of the Ariane 6 (P145). Product development has been largely framed in the context of ESA programs Vecep and Ariane 6. Additional work continued on the development of the engine

Z40 (the future second stage of the Vega E), which has passed the stage of preliminary design with the closure of Preliminary Design Review in the first half of 2013. Z40 activities are funded through the Law 808.
In the field of materials, the research has been directed to:

- the study of new energy molecules and ligands, through participation in a consortium under the 7th Framework Programme of the European Union and through a self-funded program aimed at environmental compatibility;
- the development of a new pre-impregnated carbon epoxy the formulation of whom has been covered during the year by the Avio patent (through participation in the program PRADE with the contribution of Regione Campania);
- the feasibility of a new Elastomeric Thermal Protection for combustion chambers (EG12ZY), as part of the Z40 program;
- the characterization of a Thermal Protection outer phenolic -based composite cork, through a self-funded activity;
- the feasibility of a new class of UHTC materials for use like valve inserts of throat nozzles for high performance, through self-financing.

In the development and tuning of **technologies**, have been undertaken activities to develop automation of the stratification of composite tapes (Automated Tape Lay-up) on the composite wrap skirts, the realization of carbon pre-formed items for the construction of divergent nozzle, the reinforcement in composite hybrid carbon glass by flexible joints of nozzles with thrust vector control, activity mostly carried out under the above-mentioned program Z40. In the same field, activities were initiated on embedded diagnostics for composite structures.

<u>Tactical Propulsion</u>
The activities were focused on the early stages of development of the engine of the CAMM-R missile, including the main components, some of which are highly innovative for Avio, such as the propellant, the blast pipe, the Safe & Arm based on the principle of energy and system architecture which allows a high class of insensitivity to the booster.
Self-financed pre-competitive development activities continued during the year for the Electromechanical Thrust Vector Control for tactical engines of Aster 30 class. Activities have led to the development of an integrated controller in a power management unit at breadboard level.

<u>Storable Liquid Propulsion</u>
Most of the development activities of this sector, technologically mature, have been directed to the Europeanization of the components of the fourth stage of the Vega, which is now a Russian or American production. In particular specifications were issued for the new generation aluminum propellant tanks, to be developed with an European partner. The activities were funded by ESA under Vecep contract.

<u>Cryogenic Liquid Propulsion</u>
Avio considers the cryogenic propulsion, based on oxygen and liquid methane, as the answer to the next generation of high stages for launch vehicles, as well as for exploration spacecraft.
In 2013, work continued on the development of the LM10 - MIRA demonstrator, liquid oxygen gas engine with 10 tons boost, in partnership with the Russian company Kbkha , under the Lira contract of ASI. In particular, the fuel turbo pump, developed in Avio has been integrated and accepted. The demonstrator is being integrated, for a camping consisting in a series of fire tests scheduled for early May 2014.
Also the feasibility activities started for the flight version of MIRA, which could provide the propulsion of the third stage of the future Vega E.
Through the agreement with CIRA Hyprob, activities were carried out in the development of an injection plate and a combustion chamber liquid oxygen and methane to improve the Technology Readiness Level (TRL) for some enabling technologies (such as between the brazing alloys copper and Inconel). Avio has conducted a series of self-financing activities with the aim of developing potential breakthrough in terms of configuration, technologies and materials for combustion chambers LOx methane.
As part of the Theseus program under the auspices of the SIA, Avio has completed the Critical Design Review of a thruster LOx methane 250N of thrust, suitable for attitude control systems for spacecraft and launch vehicles with methane propulsion. The tests of the first prototype are expected in the first half of 2014 .

On turbo machinery Avio has begun, on a self-financed basis, some activities for the numerical simulation of the cavitation phenomena. Within the programs FLPP (ESA) Avio has also been involved in activities of materials and components characterization, as well as architectural studies for turbo machinery liquid oxygen.

Hybrid Propulsion

As part of the Theseus program under the auspices of the SIA, Avio has completed the Critical Design Review of a hybrid powertrain (solid fuel, liquid oxidizer) based on HTPB and nitrous oxide. It is an intrinsically low environmental impact engine, and with reduced on-ground and in-flight operational constraints. The prototype, designed in order to increase the Avio TRL in the segment, is being built for a campaign of bench tests expected in the second half of 2014.

Phases Farming of Space Transportation Systems

Avio has undertaken preliminary development activities of the Vega launcher C under the contract Vecep (ESA), based on a first stage with a total impulse of 20% higher than the current version and a fourth stage with pulse greater than 15%. The aim is, inter alia, a consolidation of the flexibility of the launcher through the increase of the load of reference by more than 20%.
Avio has also done some system studies as a crosscheck to the industrial activity of the architect of the Ariane 6 for the selection of the configuration and staging.
Through ELV, Avio has carried out or funded pre-competitive contracts with ESA for the use of Vega as part of the Active Debris Removal, as a platform for the In-Orbit Testing or In-Orbit Demostration, as a vector for geostationary satellites equipped with propulsion electric orbit raising systems. Also continued his studies to verify the feasibility and the market interest for an electric module to integrate in the composite top of the Vega to allow space exploration missions.
Avio has continued its activities, on a self-financed basis, but in close coordination with the Ministry of Defence for testing the feasibility of a small airborne pitcher, compatible with the platforms C130J and A400M .
It also explored, in partnership with the Brazilian firm Odebrecht the feasibility of a small launcher (Beta) compatible with operations from the Brazilian Alcantara launch site.

Other Applications

Avio has continued the development of a composite oil tank for use in the aeroengine field, through an initiative of the ROP Lazio.
It has also intensified its exploration technologies Additive Layer Manufacturing, generally oriented to the liquid propulsion, in terms of extending the technology to both new classes of materials (copper alloy) and to actual configurations.

HUMAN RESOURCES

Following the AeroEngine business contribution to GE Avio S.r.l and subsequent sale of the investment held in the latter to General Electric Group, as at December 31, 2013, the number of Group employees totaled 829 units, compared to 5,496 on July 31, 2013. Most of them are employed by the parent company Avio S.p.A., whose personnel at the same date, is equal to 553 units.

With effect from September 2013 major organizational reviews were carried out linked to the redefinition of the corporate entities and to the enhancement of the Quality area.

Industrial relations
During 2013, a voluntary redundancy plan was initiated at the Colleferro site, based on the union agreement signed on December 5, 2013, due to the reorganization of the productive activity aimed at the improvement of production processes with the purpose of increasing the competitive level of business.

Development and Training
With regard to recruiting activities, in 2013 the Group has recruited a total of 11 people from the outside, in Avio S.p.A. (6) and ELV S.p.A. (5). Recruitment focused on recent graduates, graduates and professionals with experience and specific skills, as well as 8 factory workers.

The processes of internal job mobility, which are configured as a strategic tool inserted into a broader pattern of employment and development of people, skills and leadership, designed to ensure coverage of the roles necessary for the development of the business, involved in 2013 about 10% (n. 23 people) of the professional population. People has been involved for 3% (no. 7 people) in job enlargement activities, and 7 % (n. 16 people) in cross-functional mobility actions both to the Italian sites and to the organizational realities abroad.
About 20% of these people, recognized a step forward in the career development during 2013.

With regard to the staff development, in order to achieve an earlier identification of potential of people working for the company, the evaluation system was improved by introducing the AVO (Assessment and Evaluation Guidance) . Through this means the company identifies and measures the potential of young people who have completed 24/36 months experience and provides useful information to guide their paths towards commitment/development of systemic or specialist management roles.
The initiative continued, addressed to the executives, through the evaluation by the Systemic Assessment, which aims to define and support individual development paths of people with potential or with professional high-impact.
It was an action carried out by weighing the clerical and managerial positions, with the aim of guiding organizationally the development actions, also as a result of the new organization of the Company and to optimize, in terms of rewarding, the internal equity and strategic positioning in the market. The activity was carried out using the Towers Watson methodology.

In support of learning paths, at Group level were delivered over 2,700 days of training with more than 1,000 participations and with the effective involvement of 650 people, investing more than 2.5 days of training per capita. Internal training accounted for about 20%, with the use of a team of certified corporate trainers.

The main guidelines that have characterized the training plan of 2013 , were:
- Strengthen the ability to read the macro-economic and geo-political international contents in which the organization operates, with reference also to the ethical responsibilities of business;
- Maintain and develop the core competencies;
- Support the development of people to positions with greater responsibility (leadership curriculum);
- develop the managerial skills and managerial enterprise (inter participation in events of high-level seminars);
- improvement methodologies (Lean Six Sigma);
- support the new certifications in safety, quality and environment;
- ensure extended language support

- Support individual persons development, with particular reference to those involved in the systemic assessment: coaching and group training, training on people management issues, leadership, communication with generative techniques.

Regarding the learning method, in 2013 we continued with the structured model of learning organization, where:
- the organization learns through the active involvement of people in meeting spaces, which takes place in a structured way the exchange of knowledge, experiences and methods (workshops , focus groups and with opinion leaders);
- moments of informal learning guided are preferred, by the application of the methods of managing people within the business areas, such as meetings and feedback from team meetings to promote the goal orientation and integration among the people.

COMMUNICATION AND SOCIAL RESPONSIBILITIES

Avio promotes its image and its products both through participation in the most important international events and through the constant presence in the Italian and international aerospace context, relevant for the research and development of new technologies in the specific field of space propulsion and launchers.

Avio develops its own network of scientific exchange and development of new products through collaboration in the research field with universities and research institutes, both in Italy and abroad, through the technical and operational collaboration with the most important European space agencies, in particular the Agency Italian Space Agency (ASI), the Centre National d'Études Spatiales (CNES), the European Space Agency (ESA)

Events and Shows

Avio has participated during 2013 to some of the most important international events by selecting their participation on the basis of areas of interest, relevance to the business and geographic interests for the development of its activity.
In particular, emphasis should be made to the participation of Avio at the Le Bourget International Exhibition which brings together every two years, near Paris, the most important global players in the aerospace field. It ah been an opportunity to reach a large part of the group of stakeholders from space agencies, universities, and finally to the Companies, not only from the western part of the world, but also of Far East and South America countries, increasingly active in the space sector.

Collaboration with universities

Avio is a partner in [•] university research departments in some major Italian and collaborates on research projects with leading international universities.

In this framework of close cooperation, Avio, in addition to the more specific and individual programs dedicated in particular to the university by master's and doctoral specializations, welcomes in their offices all those who wish to deepen their knowledge of our activities for scientific, educational, institutional or territorial collaboration.
In particular, the activities are aimed at high school students (especially those in the area next to the production) and university students, from both Italy and abroad.

We highlight the constant presence of Avio to the meeting days with young students and recent graduates during the career day.

Social Responsibility

Avio considers its relationship with its employees and the territory as a priority and asset of great strategic importance.
During the year, campaigns and initiatives have been promoted to strengthen the sense of belonging and satisfaction of the people with whom Avio cooperates, as it has been present, in the local communities where sites are located, either through participation in local events as through the involvement of the local community itself to most important events that relate to the Group.

Avio maintains within its operational the involvement of all the staff in the preparing and updating campaign in matters relating to environmental, health and safety at work in the spirit of preventing accidents and carry out work in safety.
This prevention education and attention to risk factors has a positive effect in individual behavior, even outside of their work environment.

MAIN RISKS AND UNCERTAINTIES TO WHICH THE GROUP IS EXPOSED

In the context of general economic conditions, the economic and financial position of Avio is influenced by various factors that constitute the macro-economic framework (including GDP growth, trend in interest rates , in cost of raw materials, unemployment rate), both in the various countries in which the Group operates and globally, due to the impact on the spending ability of individual countries (particularly within Europe) in the development of space activities, through the national and continental agencies.

In recent years, financial markets have been characterized by extreme volatility that has had serious repercussions on the banking and financial institutions and, more generally, on the economy and ended up as a burden on public budgets. The significant and widespread deterioration of the market conditions was exacerbated by a severe and pervasive difficulty in accessing credit, both for consumers and for businesses, and has resulted in a lack of liquidity (with a consequent increase in the cost of funding) which affected the last stage in the industrial development and employment, and, consequently, budgeting strategies of European states and, consequently, the spending capacity of the referenced space agencies.

Although governments and monetary authorities have responded to this situation with far-reaching measures, including cutting interest rates at historic lows and financing interventions and strengthening of the intermediaries, it is now impossible to predict if and when the economy will return to pre-crisis levels, more so in the light of the aggravation of the international geopolitical context and the slowdown in the growth of the Chinese economy, as well as the renewed volatility in financial markets and tensions on the financial situation and the credit worthiness of different countries.

If this situation of weakness and uncertainty significantly continue to deteriorate particularly in the market in which the Group operates, the activities, strategies and prospects of the Group could be adversely affected, especially with regard to the expectations of flight/launches future planning of the Group’s vectors, with a consequent negative impact on the economic and financial position of the Group.

The Group operates in the space sector, to a significant extent by long-term contracts. For the recognition of revenue and margins deriving from construction contracts in the long term Avio uses the percentage of completion method, which requires an estimate of the total costs for the execution of contracts and monitoring of the progress of activities. Both these elements are, by their very nature, subject to the management's estimates, which in turn depend on the objective possibility and ability to predict future events. The occurrence of unforeseen or differently evaluated events can cause an increase of the costs incurred in the execution of long-term contracts, with negative effects on the economic situation and financial position of the Group.

In relation to the business model in place until August 1, 2013, the Group recorded a very significant part of its revenues in foreign currencies, particularly in U.S. dollars with regard to the field of aero engines for commercial use. With regard to costs, costs of production and labor costs are incurred primarily in Euro (transaction risk), while a significant portion of purchases of goods and services and payments for the costs of participation in international collaboration programs (related to Discontinued operations), were carried out in U.S. dollars, in part by reducing exposure to the dollar from revenues generated in the same currency. As a result, revenues, operating results and cash flows of the Group have been (until the date of transfer of the AeroEngine business) affected by changes in value of the euro against the dollar (such risk was mitigated by the use of financial derivative instruments).

It should be noted that, following the AeroEngine business contribution to GE Avio S.r.l. and subsequent sale of the investment held in the latter to the General Electric Group, most of the foreign currency transactions have been transferred by the Group, which, with reference to the Space business, is impacted by foreign exchange risk in a totally irrelevant way, working for substantially all of the transactions in a continental context and with the Italian and European Space Agencies. Consequently, starting from August 1, 2013, the Group did not appeal to the use of financial derivative instruments for this purpose.

In addition, a substantial portion of the Group's debt was, until August 1, 2013, expressed in U.S. dollars. Therefore, any negative changes in exchange rates could have negative effects on economic performance. Given this situation, the Group has applied a policy of continuous transaction risk hedging, based on the coverage of a significant proportion of the flows in U.S. dollars, through the use of financial instruments available on the market.

Similarly, until the date of the indebtedness transfer under the transaction with the General Electric Group, the Group had a high level of debt in the medium -to long- term that determined that there is a risk of interest rate fluctuations, since the debt position toward the banks, set at variable rates. To cope with these changes "interest rate swap" hedging transactions were put in place, until the first half of the year 2013, to determine a fixed rate of interest for a certain period in the future.

Following the completion of the contractual provisions of the Sale and Purchase Agreement - signed on December 21, 2012 by the parent company Avio S.p.A. , BCV Investments SCA and the Nuovo Pignone Holding S.p.A. - Net debt TreasuryCo Senior Facilities Agreement and Subordinated Loan Agreement No. 2 (main case subject to the risk of fluctuations in interest rates) have been included in the transfer, thereby removing, for the Group, the need to use derivative financial instruments, also considering the contractual terms of the outstanding financial instruments (in particular short-term floating rate notes held as financial assets and long-term debt to the parent regarding the contract Intercompany Loan Agreement), regulated on the basis of the Eonia rate, the variability of which produces no significant effect.

OUTLOOK

Subsequent events after the year-end

On April 29, 2014, at 10:35 pm local French Guiana time, Arianespace successfully launched the third Vega (first launch) from the Guiana Space Center (CSG), orbiting the KazEOSat -1 (DZZ-HR), satellite for the government of Kazakhstan, made by Airbus Defence and Space.

The complete success of the mission and the great punctuality and precision have consolidated the success of Vega launcher, further strengthening its prospects.

As for new contracts, must be highlighted the signing with Europropulsion of the Ariane 5 PB+ contract in February 2014, regarding the supply of 18 additional launchers to be delivered in the 2017-2019 period for an amount of €236 million (Avio portion of the contract).
The corresponding contract for the complete engine between Europropulsion and the final customer Airbus Defence & Space was signed in December 2013 for a total amount of €555 million.
For Avio is then added the signature of the corresponding contract with Safran to produce 18 Booster pumps for liquid oxygen of the Vulcain engine, for an amount of €15 million.

Must be noted, finally, that Avio, based on the ESA’s tender, has been selected to lead the development of carbon fiber casings of the new solid-propellant motors for the new European launcher Ariane 6, successor to Ariane 5.
This event was followed by the signing with Airbus Defence & Space of the contract to develop the preliminary (Phase B1) Engine Solid propellant for Ariane 6, which covers the activities planned in the current year (2014), preparatory to the pending decision to the next Conference Minister of Space which will be held later this year to fund the complete development of this new launcher.

On May 16, 2014 Avio S.p.A. signed with the parent BCV Investments SCA, a supplementary agreement ("Amendment Agreement") to the Intercompany Loan Agreement, which regulated a change in the terms of the original agreement, reducing, effective from January 1, 2014, the interest rate applied to a value substantially in line with the one (based on EONIA rate) applicable to short-term floating rate notes subscribed using part of the proceeds generated from the sale of the investment in GE Avio S.r.l.

Business outlook

The forecast for 2014 indicate a total volume of revenue growing, as compared to 2013, due to the increase in activities related to the Vega program (both for development and for production phases) and for the Ariane 6 program (for development activities), only partially offset by the reduction in the volume of the program Aster (production) and the slight decrease of the Ariane 5 program (production).

Parallel to the growth in revenues, we expect an improvement in absolute and percentage terms of the operating profitability (as Adjusted EBITDA), mainly due to the improvement in gross profit (revenue less cost of production and sales), partially reduced by a slight increase in general and administrative expenses, related to the set-up of the corporate structures of the new Company and the Group business configuration.

AVIO S.P.A. FINANCIAL REVIEW

Premise

It should be noted that, following the contractual provisions included in the preliminary sale contract (Sale and Purchase Agreement, hereinafter the "Agreement") signed on 21 December 2012, between Avio S.p.A. (the "Company"), as the seller, the parent BCV Investments SCA and the Nuovo Pignone Holding S.p.A. (now the General Electric Group, "NPH"), on August 1, 2013, after obtaining the necessary antitrust approval from the European Union and the United States of America, as well as regulatory approvals by the Italian Government, following operations were completed:

(i) the transfer of Avio S.p.A.'s AeroEngine business (related to the design and manufacturing of components for aeronautical engines, aeroderivative and MRO – Maintenance, Repair & Overhaul – services for both civil and military use) in a wholly owned subsidiary, newly constituted (GE Avio S.r.l.);
(ii) the subsequent sale of the entire share capital of GE Avio S.r.l. to NPH.

According to the Agreement, the contribution-in-kind to the new company included all of the Avio S.p.A.'s operations in the AeroEngine Sector, together with related Corporate headquarter activities, and all of Avio S.p.A.'s financial indebtedness from third parties; on the other hand, Avio S.p.A., as the contributing entity, maintained ownership of the Space Sector and of certain other assets and liabilities (primarily related to the tax and social security liabilities) that the parties agreed not to include in the described sale operation.

In particular, assets and liabilities transferred to the new company (*disposal group*) specifically included the financial payables due under the *Senior Facilities Agreement* and *Subordinated TreasuryCo Loan Agreement No. 2*, on the basis of specific contractual agreement, related to full repayment of mentioned liabilities by the receiving company, performed at the time of closing of the sale transaction, drawing on resources provided by the purchaser.

The separation of the Company's businesses included in the AeroEngine Sector from those related to Space Sector is an extraordinary transaction that has a significant strategic value for Avio since it allows the Company to refocus operations and monetize a very significant portion of net assets, creating value for both of the businesses.

In particular, joining one of the leading international groups in the aerospace industry will allow the AeroEngine Sector to benefit from further development opportunities, while the new focus of the Company's operations in the Space Sector will allow Avio to bring increased financial resources to support development plans for this business, while benefitting from a debt-free financial position.

The financial statements of Avio S.p.A. at December 31, 2013 refers, from a financial point of view, to the assets and liabilities resulting from the completion of the transactions described above, while from an economic point of view, it was prepared, in accordance with 'IFRS 5 - Non-current Assets Held for Sale and Discontinued operations, by identifying the business being sold as "Discontinued operations" and to represent it as such in the financial statement. Therefore, the income statement at December 31, 2013 includes, giving separate evidence:

(a) a portion of costs and revenues of the Company, pertaining to the Space Sector business and to the related Corporate activities (the so-called "Continuing operations")
(b) the complementary part of costs and revenues of the Company, referring to both the Aeroengine business, the related corporate activities and the specific economic effects of the extraordinary transaction ("Discontinued operations").

Both the 2013 statement of financial position and the income statement are consistent with the representation of the information used for the preparation of the financial statements at 31 December 2012, which, since the transfer of the proposed the AeroEngine business contribution to GE Avio S.r.l. and subsequent sale of the investment held in the latter to the General Electric Group was considered at that date as highly probable, had already been prepared in application of the logic of presentation required by IFRS 5.

With reference to the data presented in this paragraph, with the goal of enabling a comparative and homogeneous analysis of the Company's financial results, based on the current configuration of the business, are presented and discussed below the amounts of the income statement which relate to Continuing operations (taking into account that is non-significant to compare the economic information of the business being transferred, because of the different relevant periods - 12 months for the financial year 2012 compared to 7 months for the financial year 2013); from a financial point of view, reference is made to the comparison between the amounts at December 31, 2013 and those related to the corresponding perimeter of the previous year, represented by the statement of financial position's data of Continuing operations at December 31, 2012, as presented in these financial statements, and (net of the retrospective effects of application of IAS 19 as described below) in the financial statements at 31 December 2012.

This method of representation is consistent with the current structural organization of the Company, whose core business is related to the development, in the context of space propulsion systems, of liquid and solid propellant launchers and tactical missiles, including the integration activities of satellite launchers.

Analysis of results

In the following table, is represented in a synthetic way the economic performance of the Company in the years 2013 and 2012 (amounts in thousands of Euro):

	2013 Continuing operations	**2012 Continuing operations (restated) [*]**	**Change**
Revenues	202,459	198,066	4,393
Other operating income and change in inventory of finished and semi-finished goods	4,043	9,532	(5,489)
Costs for materials and services, for personnel, other operating expenses, net of costs capitalised	(194,121)	(176,868)	(17,253)
Operating results before depreciation and amortisation (EBITDA)	**12,381**	**30,730**	**(18,349)**
Depreciation, amortisation, write-down and impairment	(14,819)	(14,712)	(107)
Operating results (EBIT)	**(2,438)**	**16,018**	**(18,456)**
Interests and other financial income (expenses)	(2,040)	(349)	(1,691)
Exchange gains (losses) and income (expenses) from currency derivative instruments	-	-	-
Financial results	**(2,040)**	**(349)**	**(1,691)**
Results from financial investments	(8,909)	9,773	(18,682)
Results before taxes	**(13,387)**	**25,442**	**(38,829)**
Income taxes – current and deferred	(14,497)	(11,666)	(2,831)
Net result – Continuing operations	**(27,884)**	**13,776**	**(41.660)**
Discounted Operations result	1,273,240	15,892	1,257,348
Net result	**1,245,356**	**29,668**	**1,215,688**

[*] The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes to the financial statements

Revenues for 2013 amounted to € 202,459, with an increase of € 4,393 thousand (2.2%) compared to 2012. Specifically, there has been a substantial stability in the sales volumes for the Ariane 5 program compared to 2012 (to a value slightly higher than budget), while with regard to the program of the Vega launcher, revenues in 2013 were higher compared to both 2012 (increase of approximately 9.6 %) and with respect to budget, as well as those relating to programs of liquid propulsion, offset by a reduction in the volume of activities related to tactical propulsion.

In 2013, the operating income before depreciation and amortization and the impairment of tangible and intangible assets (EBITDA) from Continuing operations amounted to € 12,381 thousand, registering a decrease of € 18,349 thousand (-59.7%) as compared to the same period in 2012.

This performance was driven primarily by the following factors

- A reduction in other income of € 4,014 thousand (mainly due to the higher release of risk provisions compared with 2012 for € 4.3 million) and the change in inventories, which showed an increase in costs of € 1,475 thousand;
- An increase in costs for services, personnel and other operating expenses (€ 17,252 thousand), mainly due to the fluctuations in the cost of services and other operating expenses, including non-recurring costs concerning extraordinary transactions related to the restructuring of the Company's structure (about € 7.2 million, not present in 2012), and costs for reorganization and staff incentives (€ 1.4 million, not present in the previous year) compensated by the positive change in capitalized costs for internally generated assets (increase of the item of € 2,095 thousand);

The operating result (EBIT) was negative and amounted to € 2,438 thousand , showing a decrease of € 18,456 thousand compared to 2012. Such a result was adversely affected by the performance of the operating income before depreciation and amortization (EBITDA), as depreciation and write-downs were in line with the previous year.

For a more complete representation of the performance of earnings of the Company, the following adjusted values are relative to EBITDA to EBIT and to the margins achieved in the year 2013, and 2012 (amounts in thousands of euros):

	2013	2012 (restated) [*]	Change
***Adjusted* EBITDA**	**25,109**	**36,485**	**(11,376)**
Adjusted EBITDA Margin (*Adjusted* EBITDA/revenues)	12.4%	18.4%	
***Adjusted* EBIT**	**14,374**	**25,857**	**(11,483)**
Adjusted EBIT Margin (*Adjusted* EBIT/revenues)	7.1%	13.1%	

[*] The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes to the financial statements

Adjusted EBITDA amounted in 2013 to € 25,109 thousand (12.4% of revenues), with a decrease of € 11,376 thousand, equal to 31.2 %, compared to the value of € 36,485 thousand recorded in 2012 (18.4% of revenues). *Adjusted* EBITDA is considered a highly representative indicator for measuring the Company's financial results because, as well as not considering the effects of changes in taxation, in the amount and source of financing of capital employed and in depreciation and amortisation policies (items not included in EBITDA), it also excludes those factors which are non-recurring or exceptional to increase the comparability of results.

Adjusted EBIT amounted in 2013 to € 14,374 thousand (7.1% of revenues), a decrease of € 11,483 thousand, accounting for 44.4 % of revenues, compared to the value of € 25,857 thousand recorded in 2012 (13.1% of revenues). *Adjusted* EBIT is also considered a highly representative indicator for measuring the Company's financial results, and is measured by operating results (EBIT) excluding amortisation of customer relationships for participation in programmes (€4,084 thousand per year) and events considered to be nonrecurring or exceptional, already excluded from the calculation of *Adjusted* EBITDA.

The indicated ratios compared to the revenues of the Adjusted EBITDA and the Adjusted EBIT decreased as compared to the previous year, particularly due to the trend of costs that, even excluding non-recurring items, has recorded an increase compared to a substantial maintaining of the revenues volume, also for the effects, from an operational point of view, of the change in the structure of the Company.

The result of the financial operations increased from a net loss of € 349 thousand in the year ended December 31, 2012 to a net loss of € 2,040 thousand in the year ended December 31, 2013. The increase in the net financial expenses is related to the modification of pre-existing debt structure of the Company in relation to the extraordinary AeroEngine business contribution to GE Avio S.r.l. and subsequent sale of the investment held in the latter, that also had an impact on the structure of the financial position of Continuing operations.

The result from investments presents, for the year ended December 31, 2013, a net loss of € 8,909 thousand, a decrease compared to the positive value of € 9,773 thousand in the same period of 2012, mainly due to the impairment of the investment in ASP International BV (for € 16,998 thousand), offset by the recognition of dividends received by subsidiaries, associates and joint ventures totaling € 8,089 thousand.

The net profit of the Company, after the detection of current and deferred taxes which have a negative balance of € 14,497 thousand in 2013 showed a loss of € 27,884 thousand, compared with a profit of € 13,776 thousand recorded in the year ended December 31, 2012.

The net result from discontinued operations amounted to € 1,273,240, compared to € 15,892 thousand in 2012. Such a result is strongly impacted by the effects (€ 1,233 million) related to the transfer of the business unit and the sale of AeroEngine GE Avio S.r.l., mainly relating to the registration of the relative gain (€ 1.061 million, net of the related tax effect).

The analysis of the capital structure of the Company is set out in the following table (in thousands of euros):

	December 31, 2013	December 31, 2012 (restated) [*]	Change
Property, plant and equipment and investment property	22,644	24,234	(1,590)
Goodwill	219,100	219,100	-
Intangible assets with finite useful lives	95,050	99,878	(4,828)
Investments	67,813	84,697	(16,884)
Total fixed assets	404,607	427,909	(23,302)
Net working capital	(56,223)	(189,075)	132,852
Provisions for risks	(26,158)	(75,756)	49,598
Provisions for employee benefits	(9,540)	(8,969)	(571)
Net invested capital - Continuing operations	**312,686**	**154,109**	**158,577**
Net invested capital - Discontinued operations	**-**	**2,179,842**	**(2,179,842)**
Net invested capital	**312,686**	**2,333,951**	**(2,021,265)**
Net financial indebtedness	(1,018,046)	195,032	(1,213,078)
Non-current financial assets subject to restrictions and non- current financial receivables	(115,000)	(4,040)	(110,960)
Net financial position – continuing operations	(1,133,046)	190,992	(1,324,038)
Net financial position – discounted operations	-	1,453,633	(1,453,633)
Net financial position	(1,133,046)	1,644,625	(2,777,671)
Equity	**1,445,732**	**689,326**	**756,406**

[*] The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes to the financial statements

Fixed assets, which amounted to a total of € 404,607 thousand as at December 31, 2013, registered a € 23,302 thousand decrease compared to December 31, 2012. The net change in tangible and intangible assets with a definite life is largely due to the excess of the amortization for the period (respectively € 3,753 thousand and € 11,065 thousand) compared to new investments (amounting to € 2,183 thousand for tangible and € 6,333 thousand for intangible assets with a definite life).

Among the assets is included as at December 31, 2013, the amount of € 219,100 thousand relating to the goodwill recorded at the time of formation of the Group as a result of a business combination and subsequent acquisitions, the value of which is not subject to amortization.

The net working capital shows a reduction of its negative balance amounted to € 132,852 thousand, amounting to € 56,223 thousand in excess of liabilities over assets.

Its main components are shown in the following table (amounts in thousands of euros):

	December 31, 2013	December 31, 2012 (restated) [*]	Change
Inventories	51,936	52,902	(966)
Contract work in progress, net of related progress billing and advances	(11,301)	(27,964)	16,663
Trade receivables	6,247	6,843	(596)
Trade payables	(53,059)	(48,172)	(4,887)
Other assets and liabilities	(89,594)	(63,640)	(25,954)
	(95.771)	**(80.031)**	**(15.740)**
Deferred tax assets and tax liabilities, net	39.548	(109.044)	148.592
Net working capital	**(56.223)**	**(189.075)**	**132.852**

[*] The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes to the financial statements

The change in net working capital was primarily determined by changes in the net assets and liabilities and deferred tax assets (liabilities for a total reduction of € 148,592 thousand), mainly caused by the release of deferred tax liabilities (for an amount of € 157,585 thousand) recorded in relation to the differences in the tax and accounting value of the goodwill attributable to the AeroEngine business (part of the assets and liabilities eliminated following the contribution) and whose amortization has tax relevance.

Provisions for risks and charges reported, on December 31, 2013, a total decrease amounted to € 49,598 thousand compared to December 31, 2012 due, essentially, to use for € 79,072 thousand mainly related to to provision for cash-settled share-based payment charges and for costs of variable salaries and wages and to provision for tax risks, partially offset by an increase for € 29,474 thousand, related mainly to provision for contractual and commercial risks, for tax risks and for cash-settled share-based payment charges and for costs of variable salaries and wages.

Provisions for employee benefits are increased to € 2,590 thousand compared to December 31, 2012, due to the liability adjustment, net of the amounts of the payments, mainly TFR, provided during the year 2013 for employees leaving. It should be noted that the liabilities for employee benefits are presented, with reference to the data as at December 31, 2012, in applying the requirements of IAS 19 revised, applied, retrospectively by the Group as from January 1, 2013 (as specified in the Notes to the Financial Statements).

The following table shows the composition of net debt (amounts in thousands of euros):

	December 31, 2013	December 31, 2012 (restated) [*]	Change
Non-current financial assets	6,040	4,040	2,000
Current financial assets	1,275,858	12,958	1,262,900
Cash and cash equivalents	48,541	-	48,541
Total financial assets(A)	1,330,439	16,998	1,313,441
Non-current financial liabilities	139,929	133,880	6,049
Current financial liabilities	57,464	74,110	(16,646)
Current portion of non-current financial liabilities	-	-	-
Total financial liabilities(B)	197,393	207,990	(10,597)
Total net financial indebtedness(*) (B–A)	**1,133,046**	**(190,992)**	**1,324,038**
(Less) Assets subject to restrictions and non-current positive financing	(115,000)	(4,040)	4,040
Total net financial position	**1,018,046**	**(195,032)**	**1,328,078**

[*] The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes to the financial statements.

The net financial position resulting from the financial statements represents an increase of € 1,324,038 thousand, positive value at year-end 2013 € 1,133,046 thousand, compared with a net debt at December 31, 2012 amounted to € 190,992 thousand. The change in this period resulted from the net effect of various components, among which: the increase in current financial assets and cash equivalents, due to the use of funds obtained from the sale of the investment held in GE Avio S.r.l. (€ 1,923,180 thousand, inclusive of a share of € 115,000 thousand relating to Escrow accounts, unavailable until August 1, 2014, as guarantee for the extraordinary operation), partly for the purchase of short–term floating rate notes for € 1,700,000 thousand, subsequently partially used (550,000 thousand) for the distribution of reserves to the sole shareholder.

Equity as at December 31, 2013 amounted to € 1,445,732 thousand, an increase of € 756,406 thousand compared to December 31, 2012, from the combined effect of the following factors:

- Recording of cumulative income for the period (equal to € 1,258,011 thousand, € 1,102,528 thousand related to the gain on the sale of the investment in GE Avio S.r.l., net of related taxes amounted to € 41,882 thousand and € 157,585 thousand related to the gain on the release of deferred tax liabilities recorded in relation to the value of eliminated goodwill pertaining to AeroEngine business);
- the reduction in reserves for € 555,074 thousand compared to the distribution of reserves for of the sole shareholder BCV Investments SCA, on the basis of the Shareholders' Meeting held on November 29, 2013;
- the reduction of the reserves, included in the financial statements at December 31, 2012 as "other comprehensive income" (with counterpart expenses or income included in operating income) in particular for the reversal to profit & loss of the cash flow hedge reserves for currency risk, interest rate risk and commodities risk (for a total value of € 15,142 thousand, net of related tax effect);
- the € 80 469 thousand increase in reserves as a result of the recording, with direct effect on net equity, of the surplus arising from the contribution in kind, in relation to the application, in accordance with OPI 1, of the "continuity of values" criterion to assets and liabilities recognized in the consolidated financial statements (which, in this case, have affected the goodwill - with effect of € 11.507 thousand - and the equity investments - with an effect of € 68,964 thousand, representing the adjustment to the relative pro-rata equity, net of the respective consolidation adjustments).

TRANSACTIONS WITH SUBSIDIARIES, ASSOCIATED COMPANIES, CONTROLLING COMPANIES AND WITH COMPANIES SUBJECT TO THE CONTROL OF THE LATTER

The relationships of the Company with subsidiaries, affiliates, parent companies and subsidiaries and associates of the latter are constituted by commercial and financial transactions carried out in the ordinary course of management and concluded under normal market conditions. In particular, they refer to the sales and purchases of goods and services, including services in the field of administrative-accounting, tax, information technology, human resources, assistance and advice and related receivables and payables at year-end and financing operations and management treasury and related income and expenses, primarily against companies belonging to the Group. The exposure of the balance sheets and income statements for 2013 related to these businesses is given in the notes to the financial statements.

OTHER INFORMATION

Pursuant to art. 40 of Legislative Decree no. 127/1991it is hereby confirmed that no shares of the Parent Company were owned by the same or by subsidiary companies, not even through trust companies or via third parties.

INTERNAL CONTROL SYSTEM, REGULATION OF ADMINISTRATION RESPONSIBILITY OF THE COMPANY (Legislative Decree no. 231/2001)

During 2013, strengthening activity of the internal control system of Avio continued. The activities in the field of Internal Audit continued until August 1, 2013 , in custody to an external manager (under a contract of consultancy with direct report to the CEO) and from August 1, 2013, following the transfer of the AeroEngine business, have been entrusted to the responsible of the "Compliance Services Group", with direct report to the newly appointed CEO of the Company.

In October 2013 started, with completion at the beginning of 2014, the updating activities of the business risks mapping (Enterprise Risk Management) after the business separation; starting form that assessment is going to be finalized a three-year plan of the Internal Audit Department.

With regard to the administrative responsibility of the Company (Legislative Decree no. 231/2001), until August 1, 2013, the three-person "Organismo di Vigilanza" in charge continued to operate, as from August 1, 2013 a monocratic "Organismo di Vigilanza" was constituted and appointed by the responsible of the "Compliance Services Group", also adopting the updates of the Organization, Management and Control Model in accordance with art . 6 Legislative Decree 231/2001, adapted to the new Company structure, after the contribution and sale operation.
Activities to verify the adequacy and updating of the above mentioned model are currently on going.

PROPOSAL FOR THE ALLOCATION OF 2013 NET RESULT OF AVIO S.p.A.

We hereby submit the Statutory Financial Statement of Avio S.p.A. for the year ending December 31, 2013 for your approval, prepared in accordance with international financial reporting standards IFRS, closed with a net income of €1.245.356.180 as follows:

To exchange rate adjustment reserve (Art. 2426 No. 8-bis of the Civil Code)	€35,741
To dividends distribution	€949,000,000
To Retained earnings for the remaining portion	€296,320,439

* * *

May 30, 2014

for the BOARD OF DIRECTORS
Chief Executive Officer
Pier Giuliano Lasagni

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Note	December 31, 2013	December 31, 2012 Restated (*)	January 1, 2012 Restated (*)
(Euros)				
ASSETS				
Non-current assets				
Property, plant and equipment	3.1	47,597,038	50,076,412	303,281,719
Investment property	3.2	2,486,315	2,526,143	2,565,971
Goodwill	3.3	221,000,000	221,000,000	1,969,936,658
Intangible assets with finite useful lives	3.4	97,183,339	102,600,372	1,046,924,981
Investments	3.5	5,177,933	5,177,933	24,378,788
Non-current financial assets	3.6	6,040,000	4,040,000	2,211,355
Deferred tax assets	3.7	42,580,251	1,845,981	35,184,667
Other non-current assets	3.8	13,941,102	16,435,247	36,652,928
Total non-current assets		**436,005,978**	**403,702,088**	**3,421,137,067**
Current assets				
Inventories	3.9	169,600,734	166,310,526	478,549,570
Contract work in progress	3.10	71,551,487	76,133,244	170,795,436
Trade receivables	3.11	13,579,746	13,442,089	295,535,112
Current financial assets	3.12	1,279,301,305	25,208,543	24,179,848
Cash and cash equivalents	3.13	58,031,985	2,714,674	77,803,947
Current tax assets	3.14	16,184,527	18,450,140	14,655,988
Other current assets	3.15	20,556,725	8,015,376	43,185,736
Total current assets		**1.628,806,510**	**310,274,592**	**1,104,705,637**
Assets classified as held for sale and Discontinued operations	3.16	-	3,969,869,134	-
TOTAL ASSETS		**2,064,812,487**	**4,683,845,814**	**4,525,842,704**

(*)The comparative data for 2012 have been restated to include the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

As more fully illustrated in the Note 1.1, following the signing of the preliminary sale and purchase agreement with New Pignone Holding S.p.A., which took place on December 21, 2012, the assets and liabilities related to the *aeroengine* business are classified in the consolidated statement of financial position at December 31, 2012, respectively in the items Assets and Liabilities classified as held for sale and Discontinued operations, in accordance with IFRS 5. By the completion of the transfer of the business and the subsequent sale of the transferee company (GE Avio Srl), the statement of financial position at December 31, 2013 includes the residual balances of the Group following the implementation of the effects of the transactions described.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Note	December 31, 2013	December 31, 2012 Restated (*)	January 1, 2012 Restated (*)
(Euros)				
EQUITY				
Share capital	3.17	40,000,000	40.000.000	40,000,000
Additional paid-in capital	3.18	73,575,782	726,400,000	726,400,000
Other reserves	3.19	(2,037,213)	(1,550,926)	(14,991,839)
Retained earnings/(losses)		72,523,992	(37,906,400)	(48,672,636)
Profit/(Loss) for the year of the Group		1,276,669,022	31,665,314	10,919,765
Total equity of the Group	3.2	**1,460,731,583**	**758,607,989**	**713,655,291**
Non-controlling interests	3.21	8,687,140	9,582,708	8,399,664
TOTAL EQUITY		**1,469,418,723**	**768,190,697**	**722,054,955**
LIABILITIES				
Non-current liabilities				
Non-current financial liabilities	3.22	139,928,864	133,879,720	1,568,632,797
Provision for employee benefits	3.23	11,617,305	11,318,143	81,009,972
Provisions for risks	3.24	24,184,134	35,662,392	89,896,265
Deferred tax liabilities	3.25	302,432	109,297,649	231,539,577
Other non-current liabilities	3.26	56,794,693	57,430,864	510,014,853
Total non-current liabilities		**232,827,428**	**347,588,768**	**2,481,093,464**
Current liabilities				
Current financial liabilities	3.27	13,844,820	20,684,554	30,160,732
Current portion of non-current financial liabilities	3.28	-	-	72,688,628
Provisions for risks	3.24	16,488,212	48,744,835	56,691,717
Trade payables	3.29	57,700,663	56,727,953	290,058,254
Advances for contract work in progress	3.1	18,829,298	22,770,795	434,755,417
Current tax payables	3.3	47,479,430	10,008,547	15,454,782
Other current liabilities	3.31	208,223,914	232,874,027	422,884,755
Total current liabilities		**362,566,337**	**391,810,711**	**1,322,694,285**
Liabilities classified as held for sale and Discontinued operations	3.16	**-**	**3,176,255,638**	**-**
TOTAL LIABILITIES		**595,393,764**	**3,915,655,117**	**3,803,787,749**
TOTAL LIABILITIES AND EQUITY		**2,064,812,487**	**4,683,845,814**	**4,525,842,704**

(*)The comparative data for 2012 have been restated to include the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

As more fully illustrated in the Note 1.1, following the signing of the preliminary sale and purchase agreement with New Pignone Holding S.p.A., which took place on December 21, 2012, the assets and liabilities related to the *aeroengine* business are classified in the consolidated statement of financial position at December 31, 2012, respectively in the items Assets and Liabilities classified as held for sale and Discontinued operations, in accordance with IFRS 5. By the completion of the transfer of the business and the subsequent sale of the transferee company (GE Avio S.r.l.), the statement of financial position at December 31, 2013 includes the residual balances of the Group following the implementation of the effects of the transactions described.

CONSOLIDATED INCOME STATEMENT	Note	Year 2013	Year 2012 Restated (*)
(importi in Euro)			
Revenues	3.32	287,649,145	285,035,000
Change in inventory of finished and semi-finished goods		7,831,661	(1,252,404)
Other operating income	3.33	6,751,520	22,452,860
Raw material consumption	3.34	(132,719,155)	(156,329,112)
Costs of services	3.35	(84,672,155)	(55,570,104)
Personnel costs	3.36	(55,227,961)	(55,340,901)
Depreciation and amortisation	3.37	(17,617,799)	(17,065,859)
Write-down and impairment/reversal		-	-
Other operating expenses	3.38	(15,357,878)	(7,050,272)
Capitalisation of costs for internally generated assets	3.39	5,505,724	5,514,515
OPERATING PROFIT		**2,143,101**	**20,393,722**
Financial income	3.4	1,844,424	869,101
Financial expenses	3.41	(4,013,271)	(1,367,598)
NET FINANCIAL INCOME/(EXPENSES)		**(2,168,847)**	**(498,497)**
Share of income/(expenses) in investments in associated companies accounted for using the equity method		-	-
Other income/(expenses) from financial investments	3.42	979,368	1,367,249
NET INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS		**979,368**	**1,367,249**
PROFIT/(LOSS) BEFORE TAXES AND DISCONTINUED OPERATIONS		**953,621**	**21,262,474**
INCOME TAXES	**3.43**	(13,353,000)	(9,695,198)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		**(12,399,379)**	**11,567,277**
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS NET OF TAXES	**3.16**	1,290,062,019	21,447,340
PROFIT/(LOSS) FOR THE YEAR		**1,277,662,641**	**33,014,617**
-- attributable to owners of the Parent		1,276,669,022	31,667,651
-- attributable to non-controlling interests		993,619	1,346,966

(*)The comparative data for 2012 have been restated to include the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

As more fully illustrated in the Note 1.1, following the signing of the preliminary sale and purchase agreement with Nuovo Pignone Holding S.p.A., which took place on December 21, 2012, the revenues and costs related to to the *aeroengine* business are presented in the consolidated income statement for the 2012 and 2011 financial years, in the item "Profit/(Loss) from Discontinued operations net of taxes", in accordance with IFRS 5. By the completion of the transfer of business unit and the subsequent sale of the transferee company (GE Avio S.r.l.), at December 31 2013, revenues and costs related to the transferred business are classified in the consolidated income statement for the year 2013 under the heading "Income / (Loss) from Discontinued operations net of taxes, together with the gain, net of related tax effects accounted for as a result of the sale of the assets and liabilities of the Discontinued operations in accordance with IFRS 5.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Year 2013	Year 2012 Restated (*)
(Euros)		
PROFIT/(LOSS) FOR THE YEAR (A)	**1,277,662,641**	**33,014,617**
Gains (losses) included directly in equity (which are not subsequently reclassified to income statement)		
- Actuarial gains and losses-reserve Actuarial gains/losses	(2,809,949)	(19,544,596)
Gains (losses) included directly in equity (which will be subsequently reclassified to income statement)		
- Gains/(Losses) on hedging derivative instruments recognized directly in cash flow hedge reserve *(*)*:		
- currency	-	23,023,901
- interest rate	-	(2,699,428)
- commodities	-	(201,083)
Gains/(Losses) on exchange differences on translating foreign operations *(**)*	-	502,366
Income tax relating to components of Other comprehensive income *(*)*	772,736	(159,169)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX (B)	(2,037,213)	921,992
TOTAL COMPREHENSIVE INCOME FOR THE YEAR (A+B)	**1,275,625,428**	**33,936,609**
-- attributable to owners of the Parent	**1,274,667,246**	**32,625,080**
-- attributable to non-controlling interests	**958,182**	**1,311,529**

(*)The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

(**) The gains and losses, net of the related tax effect, on hedging derivative instruments directly recognized in cash flow hedge reserve and those resulting from the translation of financial statements of consolidated companies in foreign currencies, are entirely attributable to discontinued operations.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(€ thousands)

			Other reserves										
	Share Capital	Additional Paid-in Capital	Curren-cy Conver-sion reserve	Riser-ve Law 488/ 1992	*Cash flow hedge currency reserve*	*Cash flow hedge interest rate reser-ve*	*Cash flow hedge commodi-ties reserve*	*Retai-ned earnings / (losses)*	Profit/ (Loss) of the Group	Total Equity of the Group	Total equity of the Group	Non-contro-lling inte-rests	Total Equity
Equity as at 01/01/2012 (as previously reported)	**40,000**	**726,400**	**(2,399)**	**-**	**(1,980)**	**(2,063)**	**66**	**-**	**(48,332)**	**10,615**	**722,307**	**8,400**	**730,707**
Effects from retrospective application of revised IAS 19	-	-	-	-	-	-	-	(8.596)	(298)	303	(8.591)	(60)	(8.651)
Equity as at 31/12/2011 restated (*)	**40,000**	**726,400**	**(2,399)**	**-**	**(1,980)**	**(2,063)**	**66**	**(8,596)**	**(48,630)**	**10,918**	**713,716**	**8,340**	**722,056**
- Allocation of prior year profit/(loss)	-	-	-	-	-	-	-	-	10,918	(10,918)	-	-	-
- Profit/(Loss) for the year 2012	-	-	-	-	-	-	-	-	-	31,665	31,665	1,349	33,014
- Other comprehensive income / (losses):													
- Changes in fair value of hedging derivatives, net of related tax effect	-	-	-	-	18,672	106	(212)	-	-	-	18,566	-	18,566
- Gains / (Losses Actuarial, net of related tax effect	-	-	-	-	-	-	-	(5,538)	(194)	-	(5,732)	(15)	(5,747)
- Foreign Exchange rate conversion adjustments	-	-	394	-	-	-	-	-	-	-	394	109	503
Total comprehensive income / (losses) for the year	-	-	394	-	18,672	106	(212)	(5,538)	(194)	31,665	44,893	1,443	46,336
Other changes in equity	-	-	-	-	-	-	-		-	-	-	-	-
Other changes	-	-	-	-	-	-	-		-	-	-	(200)	(200)
Equity as at 31/12/2012 restated (*)	**40,000**	**726,400**	**(2,005)**	**-**	**16,692**	**(1,957)**	**(146)**	**(14,134)**	**(37,906)**	**31,665**	**758,609**	**9,583**	**768,192**
Allocation of prior year profit/(loss)	-	-	-	-	-	-	-	-	31,665	(31,665)	-	-	-
Profit/(Loss) for the year 2012	-	-	-	-	-	-	-	-	-	1,276,669	1,276,669	993	1,277,662
Other income / (losses):											-		
- Changes in fair value of hedging derivatives, net of related tax effect	-	-			297	1,123	(286)	-	-	-	1,134	-	1,134
- Gains / (Losses Actuarial, net of related tax effect	-	-	-	-	-	-	-	(586)	-	-	(586)	-	(586)
- Foreign Exchange rate conversion adjustments	-	-	(4,238)	-	-	-	-	-	-	-	(4,238)	(43)	(4,281)
Total comprehensive income / (losses) for the year	-	-	(4,238)	-	297	1,123	(286)	(586)	-	1,276,669	1,272,979	950	1,273,929
Other changes in equity	-	-	-	-	-	-	-	-	-	-	-	-	-
Conferment effects	-	-	6,243	-	(16,989)	834	432	12,683	(18,985)	-	(15,782)	(1,845)	(17,627)
Distribution of reserves and related operations	-	(652,824)	-	-	-	-	-	-	97,750	-	(555,074)	-	(555,074)
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity as at 31/12/2013	**40,000**	**73,576**	**-**	**-**	**-**	**-**	**-**	**(2,037)**	**72,524**	**1.276,669**	**1.460,732**	**8,688**	**1,469,419**

(*) Data as at 1 January 2012 and as at 31 December 2012, as well as 2012 changes, have been restated including the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

(€ thousands)

	2013	2012
OPERATING ACTIVITIES		
Profit/(Loss) for the year from Continuing and Discontinued operations	(13,649)	32,677
Adjustments for:		
- Income taxes	13,353	57,565
- Net (income)/expenses from financial investments	(979)	(244)
- Net financial (income)/expenses not inherent to operating activities	6,538	114,913
- Depreciation and amortisation	17,616	155,467
- Write-down and impairment/(reversal)	-	66
- (Gains)/losses from sales and other (gains)/losses	(7)	(244)
Changes in equity reserves:		
- Currency, interest rate and commodities cash flow hedge reserves (gross of the related tax effect)	1,565	25,608
- Translation adjustments reserve (inherent to operating activities)	-	(313)
Net changes in exchange rate and commodities derivatives assets and liabilities	-	(21,714)
Net changes in provisions for risks	(43,735)	15.548
Net changes in provision for employee benefits	299	899
Cash provided by operating activities before changes in working capital	**(18,998)**	**380,228**
Changes in:		
- Inventories	(3,290)	(22,931)
- Work in progress and advances for the work in progress	640	(55,292)
- Trade receivables	(138)	(55,652)
- Trade payables	973	70,504
- Other current and non-current assets	(7,782)	(3,561)
- Other current and non-current liabilities	(50,650)	15,609
	(60.247)	(51,323)
Cash provided by operating activities	**(79,245)**	**328,905**
Income taxes paid	(20,327)	(36,979)
Interest paid	-	(75,359)
Net cash provided by operating activities	**(99,572)**	**216,567**
INVESTING ACTIVITIES		
Capital expenditures for:		
- Property, plant, equipment and investment property	(3,350)	(60,072)
- Intangible assets with finite useful lives	(6,340)	(128,565)
- Net change in payables related to the participation in international collaboration agreements Note A	-	56,843
- Investments in associated and other companies	-	(8,933)
- Short-term floating rate notes	(1,150,000)	-
Proceeds from sale of fixed assets	1,923,197	5,964
Dividends from financial investments	979	244
Purchase of investments, net of cash and cash equivalents of acquired subsidiaries	17,481	-
Net cash used in investing activities	**781,968**	**(134,519)**
FINANCING ACTIVITIES		
Proceeds from long-term borrowings	-	211,163
Payment of transaction costs related to the amendment and extension of long term borrowings	-	(21,272)
Repayments of long-term borrowings	(820)	(256,785)
Share Capital and additional paid-in capital	-	-
Reserve distribution to Shareholders	(555,074)	-
Financing given	(2,000)	(4,040)
Funds transferred to Escrow accounts to guarantee the GE Avio S.r.l. investment's sale operation	(115,000)	-
Net changes in non-controlling interests in equity	(896)	(90)
Other changes in financial assets and liabilities	4,399	(8,270)
Net cash provided by financing activities	**(669,391)**	**(79,294)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**13,004**	**2,754**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**80,558**	**77,804**
Net cash from change in consolidation area (***)	**(35,532)**	**-**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**58,031**	**80,558**

(*) In order to provide a representation more consistent to the actual operating structure of the Company on a standalone basis, the 2013 cashflow includes only cash flows related to Continuing operations.

(**) 2012 cash flows represent the real operating structure of the Company of that period and include both Continuing and Discontinue Operation.

(***) It represents cash held by subsidiaries related to AeroEngine Sector at the moment of the sale of the investments held in GE Avio S.r.l., in which cash balances were transferred through the contribution-in-kind of the AeroEngine business.

Note A: In order to provide a better representation of the cash flow in investing activities, the change in payables related to the participation in international collaboration agreements, for which payment is contractually deferred in more than one financial period, is exposed in reduction of the related capital expenditures included in the intangible assets with finite useful life.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Avio S.p.A. (the "Company" or the "Parent", whose legal name was AVIO S.p.A. until July 29, 2011) is a single member joint stock company (*società per azioni a socio unico*) incorporated and organized under the laws of Italy, registered at the Turin Company Register and with its registered office in Strada del Drosso 145, Turin, Italy.

The Company was incorporated on December 11, 2006 under the name of Avio Investments S.p.A. and is owned by the sole shareholder BCV Investments S.C.A., a Luxembourg company whose capital is principally owned by funds and institutional investors managed and mainly controlled by Cinven Limited (about 81%) and by Finmeccanica S.p.A. (about 14%).

On December 14, 2006, the Company acquired the entire share capital of AvioGroup S.p.A., at that time the holding company of the Avio Group, from subsidiaries of The Carlyle Group and Finmeccanica S.p.A., which held respectively 70% and 30% stakes (the "Acquisition").

Pursuant to the resolution of the extraordinary shareholders' meeting held on May 15, 2007, the Company, with public deed of July 25, 2007 and legal, accounting and fiscal effect from August 1, 2007, executed the merger by incorporation of AvioGroup S.p.A., Aero Invest 2 S.r.l., Avio Holding S.p.A. and Avio S.p.A., all directly or indirectly wholly owned subsidiaries. In accordance with a resolution adopted by the same extraordinary shareholders' meeting, effective August 1, 2007, the Company changed its name to AVIO S.p.A.

Subsequently, following the resolution of the extraordinary shareholders' meeting held on July 29, 2011, the Company again changed its legal name from AVIO S.p.A. to Avio S.p.A.

At December 31, 2013, the Parent directly or indirectly participates in four controlled subsidiaries and one jointly controlled company, included in the consolidation area (together the "Group" or the "Avio Group").

During the year 2013, the consolidation area of the Company has had a significant change related to the completion of the transfer of business performed by the Parent company, which includes, in addition to the aeroengine activity of Avio S.p.A. (represented by the activities related to the design and production of components for aircraft engines and maintenance and overhaul services in the civil and military), also investments held in eleven subsidiaries referring to the aeroengine industry that were included in the consolidation scope of the previous consolidated financial statements at December 31, 2012.

Following the transaction described above, the Group is currently leader in space propulsion sector, operating with six locations and sites, located in four countries in Europe, South America and Asia. The main activities of the Group are described in the Report on Operations.

The consolidated financial statements are presented in Euros (€) as this is the currency in which most of Group's operations are managed. The consolidated statement of financial position, the consolidated income statement and the consolidated statement of comprehensive income are stated in Euros. The statement of changes in consolidated equity, the consolidated statement of cash flows and amounts reported in these notes to the financial statements are stated in thousands of Euros, unless otherwise noted. Foreign activities are included in the consolidated financial statements in accordance with the accounting principles indicated in the notes below.

1.1. DISCONTINUED OPERATIONS

On December 21, 2012, the Parent Avio S.p.A., as seller, together with its shareholder BCV Investments S.C.A., and Nuovo Pignone Holding S.p.A. (now GE Italia Holding S.p.A., a company belonging to the General Electric Group, "NPH") signed a preliminary sale and purchase agreement (hereinafter referred to as the "Agreement") which contemplates, among other things, (i) the contribution-in-kind of the Company's AeroEngine business (related to the design and manufacturing of components for aeronautical engines, aeroderivative and MRO – Maintenance, Repair & Overhaul – services for both civil and military use and, according to the Agreement, defined as "Aviation business") by Avio S.p.A. to a wholly owned company newly incorporated for this purpose, and (ii) the subsequent sale of the entire share capital of this new company to NPH.

The fulfillment of this contract, following the occurrence of conditions contemplated in the Agreement (including obtaining the necessary authorizations from the antitrust authorities of the European Union and of the United States of America, as well as the regulatory authorizations required from the Italian government), was finalized on August 1, 2013: at that date was therefore carried out the operation of the transfer of the assets and liabilities pertaining to the operations of the AeroEngine Sector and related corporate structures, as well as the net financial debt originally contracted by the Parent Company against third parties, in a newly established company (GE Avio S.r.l., 100% owned by Avio S.p.A.) as conferee.

This transaction qualified as "business combination of entities under common control" occurred, in accordance with the relevant accounting standards (OPI 1), based on the "continuity of values" criterion (referred, as indicated by the accounting standard, to the values reflected in the consolidated financial statements of the entity that controls transaction parts).

The book values of assets and liabilities being transferred in the consolidated financial statements of the Avio Group have been confirmed as results of the evaluation activities included in a specific appraisal report ("Relazione di Stima"), prepared in accordance with art. 2465 of the Italian Civil Code, of the value of the "Aviation" branch conferred by Avio S.p.A. to GE Avio S.r.l., signed by Professor Alessandro Nova (Professor of Corporate Finance at Bocconi University, chartered accountant and member of Statutory Auditors of Milan), who certified the value of the business unit being contributed not less the value of the capital, including the related additional paid-in capital, made in the conferee.

After the conclusion of contribution in-kind operation, investments held by Avio S.p.A. in GE Avio S.r.l. was sold to Nuovo Pignone Holding S.p.A., a subsidiary of General Electric, on the basis of an evaluation of the transferring company's assets and liabilities of € 1,923,180 thousand. The transaction therefore produced a gain of € 1,102,528 thousand, as result of the difference between the sale value of the investment held in GE Avio S.r.l. and the accounting value recorded by the conferee, as subsequently adjusted.

After the above transfer operation, the Avio Group has therefore maintained ownership of the management of the business unit related to Space sector, as well as some assets and liabilities that, on the basis of contractual agreements, were not included in transferred perimeter.

The business unit transferred (disposal group) was qualified for Avio Group in accordance with IFRS 5 as "Discontinued operations" and as such was represented in these consolidated financial statements (with effects on the presentation of the income statement).
Such representation was consistent with what already carried out with respect to the financial statement related to the year ended December 31, 2012, in which, being the contribution and the sale operation considered to be highly probable (in relation to the signing of the Agreement on December 21, 2012), the Aviation business had already been accounted for as Discontinued operations. Thus, occurred no need to make changes to the representation of the comparative figures of the financial statements compare to those included in the consolidated financial statements for the year ended 31 December 2012 (except for the effects of the retrospective application of IAS 19 revised accounting principle, as described in the following paragraphs).

In accordance with IFRS 5, the following basis of presentation has consequently been adopted:

- For both 2013 (for the period between January 1, 2013 and August 1, 2013) and, for comparative purposes, for 2012 (for the whole period) all revenues and costs relating to *Discontinued operations* have been reported as a single amount in the consolidated income statement under "Profit /(Loss) from *Discontinued operations*";
- All current and non-current assets relating to *Discontinued operations* as at December 31, 2012, included in the financial statements for comparative purposes, have been reported as a single amount in the consolidated statement of financial position as "Assets Held for Sale and Discontinued operations";
- All liabilities (excluding equity) relating to *Discontinued operations* as at December 31, 2012, included in the financial statements for comparative purposes, have been reported as a single amount in the consolidated statement of financial position as "Liabilities Held for Sale and Discontinued operations".

- All 2013 and 2012 cash flows arising from *Discontinued operations* have been presented in the consolidated statement of cash flows as separate line items under cash flows from operating, investing and financing activities.

Discontinued operations assets and liabilities have been identified as follows:
(i) by including assets and liabilities of the Parent Company and of all consolidated companies related to the AeroEngine Sector, on a basis consistent with the allocation criteria used for the Group's segment reporting as at December 31, 2012; and
(ii) by allocating other assets and liabilities related to Corporate activities at December 31, 2012 on the basis of the terms of the Agreement referred to above, that define the parties agreement regarding the other specific assets and liabilities to be contributed and therefore disposed of by the Group.

In particular, assets and liabilities classified as Discontinued operations exclude at December 31, 2012, the following:
a. items related to rights and obligations whose legal ownership remained, in 2013, with the contributing or transferring entity (including mainly receivables and payables relating to tax and social security matters, tax-related provisions and reserves for benefit plans qualifying as "cash-settled share-based payment" plans);
b. deferred tax assets and deferred tax liabilities arising from temporary differences whose reversal, even if related to assets and liabilities contributed, remained with the contributing entity (mainly the effect of the portion of goodwill allocated to the AeroEngine CGU that is deductible for tax purposes);
c. financial payables due to the shareholder, BCV Investments S.C.A.

The classification of income statement items (costs, revenues, income and expense) to Discontinued operations (that, as indicated, for the financial year 2012 covered the entire accounting period, while for 2013 only refers to the period from January 1, 2013 to August 1, 2013) has been determined as follows:
(i) operating costs and revenues of the Parent and of all consolidated companies related to the AeroEngine Sector have been attributed on a basis consistent with the allocation criteria used for the Group's segment reporting;
(ii) other costs and revenues related to Corporate activities have been allocated on the basis of the following assumptions:
a. allocation of all personnel costs (and related costs) of Corporate functions related to staff then included in the disposal group;
b. allocation of other Corporate operating costs and expenses on the basis of the ratio of revenues of the AeroEngine business to total Group's revenues;
c. allocation of all financial interest expense related to the contributed financial payables and of a portion of financial interest expenses related to financial payables to the controlling company BCV Investments S.C.A., determined on the same basis as for Corporate operating costs and expenses, up to August 1, 2013, considering all the subsequent financial charges pertaining to Continuing operations;
d. allocation of current and deferred income tax effects on the basis of the Avio Group's effective tax rate for the period applied to the profit or loss before tax of the AeroEngine Sector (except for some specific allocation as described below);
e. allocation of other tax charges related to the provision for tax risks (as pertaining to the aggregate structure of Avio Group, being referred to the period before the contribution) on the basis of the ratio of revenues of the AeroEngine business to total Group's revenues.

(iii) some income and expense, primarily related to corporate structures of the Parent company, as referring to the effects on the income statement of Avio S.p.A., both in the period before August 1, 2013 and on that date, as a direct consequence of the contribution and sale operation have been attributed to Discontinued operations.
In particular, has been considered as part of the Discontinued operations for 2013, the following main elements:
a. the capital gain arising from the sale of the shares in GE Avio S.r.l. and the related tax effect (determined with regard to the tax value of assets and liabilities transferred);
b. the effects of the reversal to the income statement of the amounts entered in the reserves of cash flow hedges to manage exchange rates risk, interest rates risk and commodity prices risk, with related tax effect;

c. the income related to the reversal in the income statement of deferred tax liabilities recorded on difference between tax and accounting value of the portion of the goodwill allocated to AeroEngine Sector, whose tax benefits (related to the future deductibility of amortization) will impact the conferring company, Avio S.p.A.

Refer to Note 3.16 below for details of amounts classified to Discontinued operations in the consolidated statement of financial position (relating only to year ended December 31, 2012) and in the consolidated income statement (both for 2013 and for comparative data).

In order to give a more complete level of information, the explanatory notes included in section 3 of these Notes include disclosures related not only to Continuing operations, but also to Discontinued operations, when relevant, taking into consideration their significance.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The Parent was incorporated on December 11, 2006 and, in accordance with its deed of incorporation, the first financial year closed on December 31, 2007. Therefore, these financial statements are the seventh consolidated financial statements of the Parent.

According to Art. No. 3 of Legislative Decree No. 38 of February 28, 2005, the Parent decided to adopt, on a voluntary basis, the international accounting principles (hereinafter referred to as "IFRS") issued by the International Accounting Standards Board ("IASB") and adopted by the European Commission for the preparation of its consolidated financial statements.
The designation "IFRS" includes the IFRS, all revised International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Standard Interpretations Committee ("IFRS IC" formerly "IFRIC"), formerly the Standing Interpretations Committee ("SIC").
With regard to this, it is important to state that the IFRS accounting principles applied in the preparation of the financial statements at December 31, 2013, are those in force at that date.

The consolidated financial statements in accordance with IFRS are prepared under the historical cost convention, modified as required for the fair value valuation of certain financial instruments and of other assets and liabilities, as well as on the going concern assumption.

The preparation of the financial statements that conform to IFRS requires management to make estimates and assumptions. In addition, management is requested to assess the Group's implementation process of accounting policies. Items for which a higher level of attention or complexity is involved, and those for which assumptions and estimates are significant for the preparation of the consolidated financial statements, are analysed in a subsequent note.

2.2. Format of the financial statements

The consolidated financial statements for the year ended December 31, 2013, include the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in the consolidated equity, the consolidated statement of cash flows and the notes to the consolidated financial statements.

The format used by the Group shows:
- For the consolidated statement of financial position, the classification between current and non-current assets and liabilities, generally adopted by industrial and commercial groups, with separate evidence of the profit/(loss) of Discontinued operations;
- For the consolidated income statement, the classification by nature of expenses, with separate evidence of the profit/(loss) of Discontinued operations;
- For the consolidated statement of comprehensive income, the adoption of the "two-statement" approach with the presentation of other comprehensive income gross of the related tax effect;
- For the consolidated cash flows statements, the indirect method is presented, with separate evidence of the flows relating to Discontinued operations.

2.3. Comparative information

As requested by IAS 1, the consolidated financial statements for the year ended December 31, 2013 disclose comparative information related to prior period. Some balances related to December 31, 2012 have been reclassified in order to obtain a full comparison with the consolidated financial statements at December 31, 2013. In particular, following the retrospective application of the revised IAS 19 and the amendment to IAS 1, some balances set out in this document, have been subject to some adjustments and additions compared to those previously published, as more fully explained below.
In addition, as required by accounting standards, as a result of the retrospective application of revised IAS 19, also the balance sheet data as at January 1, 2012 (corresponding to the data published at 31 December 2011, net of adjustments necessary) have been included in this document.

2.4. Basis of consolidation

The consolidated financial statements include the financial statements of the parent company, of directly or indirectly controlled companies and of the companies over which the Group exercises joint control with other shareholders, (companies for which the Group has the power to govern the financial and operating policies in order to obtain benefits from their activities) as specified below and as defined in IAS 27 - Financial consolidated and statutory financial statements benefits from their activities.

Controlled subsidiaries
An enterprise is considered a subsidiary when the Group has the power to govern the enterprise's financial and operating policies to obtain benefits from its activity.
The financial statements used for the consolidation are derived from the statutory financial statements approved or prepared by the Board of Directors of each subsidiary for approval by the respective shareholders' meetings, and duly adjusted, where applicable, in order to align them with the Group's accounting principles.

Subsidiaries are fully consolidated from the date the control by the Group commences until the date the control ceases.
If necessary, financial statements of consolidated subsidiaries are duly adjusted, in order to align them with the Group accounting principles. Subsidiaries dormant or for which the consolidation does not produce significant effects (due to the specific operations conducted, as for consortia), and those representing immaterial investments (taking into consideration the value of the investment and related balance sheet and income statement amounts), are not included in the consolidated financial statements. These companies are valued at the same criteria used for investments in other companies.

The consolidation is carried out according to the total integration method, assuming the entire amount of assets, liabilities, revenues and expenses of the consolidated companies, regardless of the percentage of ownership held. The book value of investments in consolidated subsidiaries is eliminated against the corresponding share of their equity, allocating to assets and liabilities their fair values at the date of the acquisition of the control.

Changes in the interests in a subsidiary which do not lead to the acquisition or loss of control are recognised directly in equity.

All receivables, payables, revenues and expenses among consolidated companies, as well as significant gains and losses arising from transactions among consolidated companies not yet realised with third parties, are eliminated in the consolidated financial statements. The elimination of inter-company losses is recorded to ensure the carrying amount of assets does not exceed their net realisable value or value in use.

Intra-group dividends are eliminated from the income statement.

Significant unrealised gains or losses on transactions with associates or jointly controlled companies are eliminated to the extent of the Group's interest in those entities.

Non-controlling interests in net assets and in profit/(loss) of the consolidated companies are reported separately in the consolidated equity of the Group.

Business combinations
The acquisition of businesses is accounted for by applying the purchase method. The cost of a business combination is the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for the control of the acquired entity. Acquisition-related costs are generally recognised in the income statement as incurred. On acquisition, the assets, liabilities, and contingent liabilities of a subsidiary, which satisfy the recognition criteria stated by IFRS 3 - *Business Combinations*, are measured at their fair value at the date of acquisition, except for deferred tax assets and liabilities, assets and liabilities relating to employee benefits arrangements, liabilities or equity instruments relating to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree and assets (or disposal groups) that are classified as held for sale, which are measured in accordance with the relevant standard. Goodwill arising from acquisitions is recognised as an asset and initially measured at cost. Goodwill is measured as the excess of the aggregate of (i) the

consideration transferred in the business combination; (ii) the amount of any non-controlling interest in the acquiree and (iii) the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the income statement as a bargain purchase gain.

Non-controlling interest is initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The selection of the measurement method is made on a transaction-by-transaction basis.
Any contingent consideration arrangement in the business combination is measured at its acquisition-date fair value and included as part of the consideration transferred in the business combination in order to determine goodwill. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are recognised retrospectively, with corresponding adjustments to goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which may not exceed one year from the acquisition date) about facts and circumstances that existed as of the acquisition date.
When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured at its acquisition-date fair value and the resulting gain or loss is recognised in the income statement. Changes in the equity interest in the acquiree that have been recognised in Other comprehensive income in prior reporting periods are reclassified to income statement as if the interest had been disposed of.
If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete in the consolidated financial statements. Those provisional amounts are adjusted during the measurement period to reflect new information obtained about facts and circumstances that existed at the acquisition date which, if known, would have affected the amounts recognised at that date.
Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.
No significant restrictions exist in transferring resources (dividends, loans redemptions or advances) to the Parent.

Investments in jointly controlled entities
Jointly controlled entities are consolidated by using the proportionate consolidation method, from the date in which they become operative, whereby assets, liabilities and income statement are consolidated on a line-by-line basis proportionally to the percentage of control from the date the joint control commences until the date the control ceases. If necessary, the financial statements of jointly controlled companies are duly adjusted, in order to align them with the Group accounting principles.

Investments in associated companies
Associated companies are enterprises over which the Group has significant influence, as defined by IAS 28 - Investments in associates, but not control or joint control over the financial and operating policies. Generally, an investment between 20% and 50% of voting rights means the existence of significant influence. Associated companies, over which the Group has significant influence, are accounted for by using the equity method, from the date the significant influence commences until the date that significant influence ceases. According to this method, the carrying value of investment in an associated company is adjusted at each year-end, to take into consideration the result of the associated company, net of dividends received, after having adjusted, where necessary, its accounting principles in order to align them with those applied by the Group. Any excess of the cost of the acquisition over the fair values of the Group's interest of assets, liabilities and contingent liabilities identifiable at the acquisition date, is recognised as goodwill. Goodwill is included in the carrying value of related investment and is accounted for its total value. The accounting of goodwill at the acquisition date complies with the accounting principle reported in the previous paragraph related to Business combinations. The goodwill is included in the carrying amount of the investment and it is recognised in full. The total balance of the investment is tested for impairment if events or changes in circumstances indicate that it might be impaired. Impairment losses, if any, are not allocated to any assets (and goodwill in particular) that forms part of the carrying amount of the investment in the associate, but to the carrying amount of the

investment overall. Accordingly, any reversal of that impairment loss is recognised in full. Any deficiency of the cost of the acquisition below the fair values of the identifiable net assets acquired is credited immediately to the income statement. When the Group's share of losses of an associate, if any, exceeds the carrying amount of the associate in the Group's statement of financial position , the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations, legal or constructive, in respect of the associate.

Investments in associated companies, which are not significant on a consolidated basis are not adjusted to equity.

Investments in other entities
Entities in which the Group holds an investment between 20% and 50% of voting rights without the existence of significant influence and investments in other companies, for which related fair value is difficult to be determined, are valued at cost, adjusted, if necessary, for loss in value. When the Group's share of losses, if any, exceeds the carrying amount of the investment in the Group's statement of financial position, the carrying amount is reduced to nil and recognition of further losses as liabilities is not recorded except to the extent that the Group has incurred an obligation, legal or constructive, in respect of the entity. Dividends received from those entities are included in the item "Net income from financial investments".

2.5. Consolidation of foreign entities

Separate financial statements of each subsidiary belonging to the Group are originally prepared in the currency of the primary economic environment in which it operates. For consolidation purposes, these statements are translated into Euros, the Group's functional currency and the presentation currency for the consolidated financial statements. Transactions in currencies other than Euro are recorded at the exchange rate prevailing on the dates of the transactions and exchange gains or losses deriving from the settlement of the transaction are recorded in the income statement. At year-end, monetary assets and liabilities denominated in currencies other than Euro are translated at the rates prevailing at that date and related exchange gains or losses are recorded in the income statement. Non-monetary assets and liabilities valued at historical cost, denominated in foreign currencies, are not translated at year-end exchange rate.

In order to hedge its exposure to foreign exchange risks, the Group entered into derivative contracts (see below for details of the Group's accounting policies related to such derivative financial instruments). These instruments, and related underlying transactions, had been contributed to GE Avio S.r.l. and, after that transaction, the Group did not subscribed any derivative contracts related to exchange rate risk.

On consolidation, the assets and liabilities, and income and expenses of the Group's operations, denominated in currencies other than Euro are translated at exchange rates prevailing at year-end and at the average exchange rate for the period, respectively. In addition, in the consolidation process, exchange rate differences deriving from translation of opening equity at current and at prior year-end exchange rates, are reflected in a specific equity reserve, along with those arising from the translation of the income statement at an average exchange rate rather than year-end exchange rate. In case of subsequent disposal of any foreign operation, the value of the accumulated translation difference, originally recorded in equity, is reversed to the income statement.

The exchange rates for the 2013 financial year, applied on the translation of the financial statements denominated in currencies other than Euro, were:

Currency	December 31, 2013 exchange rate	2013 average exchange rate	December 31, 2012 exchange rate	2012 average exchange rate
Indian Rupee	85.366	77.93	72.560	68.597

2.6. Consolidation Area

The consolidated financial statements at December 31, 2013, include the financial statements of the Parent and its Italian and foreign subsidiaries in which it holds, directly or indirectly at December 31, 2013, more than 50% of the share capital. These financial statements are included in the consolidation on a line-by-line basis.
The consolidated financial statements also include the financial statements of Europropulsion S.A. jointly held at 50% with another shareholder, which are consolidated on a proportionate basis.
Consolidated companies at December 31, 2013 are analytically listed in Note 9 hereunder.

In 2013 the Group scope consolidation recorded significant changes related to the transfer of the business unit and to the sale described above:

- Starting from February 21, 2013, the first-time consolidation of the newly formed GE Avio S.r.l.;
- Starting from August 1, 2013, the deconsolidation of the same GE Avio S.r.l. and all of subsidiaries pertaining to AeroEngine business and included in the contribution.

The changes in the consolidation scope during the year 2013 are listed below:

Companies in scope consolidation at December 31, 2012	**Entry in scope consolidation**	**Other movements (*)**	**Transferred companies/ sold - removed from scope consolidation**	**Companies in scope consolidation at December 31, 2012**
Controlled companies consolidated on a line-by-line basis				
Continuing operations				
ASPropulsion International B.V.	-	-	-	ASPropulsion International B.V.
SE.CO.SV.IM. S.r.l.	-	-	-	SE.CO.SV.IM. S.r.l.
ELV S.p.A.	-	-	-	ELV S.p.A.
Regulus S.A.	-	-	-	Regulus S.A.
-	-	Re-allocated	-	Avio India Aviation Aerospace Private Limited
Discontinued operations				
A&E Services S.r.l.	-	-	Transferred	-
Avio Polska Sp.z o.o.	-	-	Transferred	-
Avio Inc.	-	-	Transferred	-
Getti Speciali S.r.l.	-	-	Transferred	-
O.A.V. S.r.l. in liquidazione	-	Liquidated	-	-
Avio (Beijing) Aviation and Aerodynamics Technology Co., Ltd.	-	-	Transferred	-
Avio do Brasil Fabricação e Manutenção de Motores e Peças para Aeronaves Ltda	-	-	Transferred	-
Avio India Aviation Aerospace Private Limited	-	Re-allocated	-	-
Avioprop S.r.l.	-	-	Transferred	-
DutchAero Services B.V.	-	-	Transferred	-
DutchAero B.V.	-	-	Transferred	-
Laboratorium "Polonia Aero" Sp.z o.o.	-	-	Transferred	-
-	GE Avio S.r.l.	-	Sold	-
Companies consolidated on a proportionate basis				
Europropulsion S.A.	-	-	-	Europropulsion S.A.

(*) The company Avio India Aviation Aerospace Private Limited, which at December 31, 2012 was classified in *Discontinued operations*, as part of the aeroengine business, was not included as part of the assets transferred and subsequently sold on the basis of contractual agreements between parties during 2013 and subsequently re-allocated to continuing operations. It should be noted that, as of December 31, 2013, the Indian subsidiary is in liquidation.

Non-controlling interests in net assets and in profit/(loss) of the consolidated companies are reported separately from the consolidated equity of the Group, in the item "Minority interest".

2.7. Accounting principles

Property, plant and equipment

Property, plant and equipment are recorded at their purchase price or construction cost, less accumulated depreciation and accumulated impairment losses, if any.
The purchase price corresponds to the price paid, including related expenses, to bring the asset to its location and condition necessary for it to be capable of operating in the manner intended by management, gross of third party contributions, if any, and the initial estimate of costs of dismantling and removing of the asset and restoring the site on which it is located, if needed and recognisable in accordance with IAS 37. For contributed assets, cost corresponds to the value attributed in the expert's appraisal report. Included in the value of internally constructed assets are all construction costs incurred up to the moment in which these assets enter into operation, whether relating directly and specifically to the specific asset or, in general, to the construction activities involved and thus common to more than one asset. Borrowing costs, if any, which are directly attributable to the acquisition, construction or production of qualifying assets (as defined under IAS 23 *Borrowing costs*), which are assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised and amortised over the useful life of the class of assets to which they refer. All other borrowing costs are expensed when incurred.

Costs incurred subsequent to the acquisition (mainly repair, maintenance and overhaul expenses) are capitalised only if they increase the future economic benefits associated with the related item of property, plant and equipment. Repairs, maintenance and overhaul expenses that do not meet requirements to be recorded as assets are expensed as incurred.

The gross book value of the assets is depreciated on a straight-line basis over the years in which the assets are utilised, by providing depreciation rates, determined according to their estimated useful life and residual value. Depreciation starts when the asset is available and ready to enter into operations. As for the contributed assets, related depreciation is calculated based on the residual useful life at the contribution date.

The depreciation rates used by the Group are deemed to represent the economic-technical life of the assets to which they refer and are the following:

Category	Depreciation rate
Buildings	3-10%
Plants and machinery	7-30%
Industrial and commercial equipment	25-40%
Other assets:	
- Furniture, office machinery and equipment	12-20%
- Transportation vehicles	20-25%
- Other assets	12-25%

The depreciation rate for the first year of depreciation is proportionate to the period of effective utilisation. Useful life of assets is reviewed annually and changes, if any, are accounted for prospectively.

Costs for improvement works on assets belonging to third parties and used by Group companies are capitalised, classified in the category of Property, plant and equipment to which they refer and amortised during the lower period between the residual length of the rental or licence agreement and the residual useful life of the asset to which the improvement refers.

Each part of an item of property, plant and equipment, with different useful lives and with a cost that is significant in relation to the total cost of the item, is depreciated separately (*component approach).*

Assets relating to financial lease contracts, for which all risks and benefits connected to the ownership are substantially transferred to the Group in accordance with IAS 17 are recognised as Group assets at their fair value, or, if lower, at present value of future lease payments. The corresponding liability to the lessor is included among the financial payables.

The contracts, which do not have the legal form of a lease contract but include a lease according to the provision of IFRIC 4, are accounted for as a financial lease.

Land is not depreciated.

In case of impairment in value, regardless of the depreciation already provided, the asset is written-down accordingly. If in subsequent periods, the reasons for the write-down cease to apply, the original value is reinstated. The increased carrying amount of the asset attributable to a reversal of an impairment loss, will never exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years.

Gains and losses arising from de-recognition of property, plant and equipment are determined by the difference between the selling price and the net book value and are recorded in the income statement.

Investment property

Real estate and land not directly used for conducting the operations of the Group and held to earn rental income or for capital appreciation or for both, are initially measured at cost determined with the same principles adopted for Property, plant and equipment. After initial recognition, they are recorded at their purchase price, less accumulated depreciation (determined, for real estate, by applying a 3% depreciation rate, which is deemed to represent the useful life of the assets) and impairment losses, if any. Investment properties are derecognised when they are sold or when they are permanently withdrawn from use and no future economic benefits are expected from their disposal.

Intangible assets

An intangible asset is an asset without physical substance and is recorded only if it is identifiable, the Group has control over it, it is probable that expected future economic benefits will be realised by the Group and can be measured reliably.
Among intangible assets, the goodwill acquired in a business combination is included.

Intangible assets with finite useful life are recorded at their purchase or production cost, less accumulated amortisation and impairment losses, if any. Amortisation rates reflect expected useful life and the amortisation process begins when the asset is available for use. The useful life is reviewed annually and changes in original estimates, if any, are accounted for prospectively.
Intangible assets with indefinite useful life are not amortised but tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.
Intangible assets recognised because of a business combination are recorded separately from goodwill, if their fair value can be reliably identified.

Intangible assets with indefinite useful lives

Goodwill
Goodwill arising from business combinations is initially measured at cost as established at the acquisition date, as defined in the paragraph related to Business combinations. Goodwill is recognised as an intangible asset with an indefinite useful life and is not amortised but tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Impairment losses, if any, are immediately recorded in the income statement and are not reversed in subsequent periods. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. On disposal of a subsidiary, the residual amount of the related goodwill is included in the determination of the gain or loss on disposal.

To execute the impairment test at December 31, 2013, goodwill is allocated at the cash-generating unit (CGU) level, identified in the two operating Sectors, AeroEngine and Space, which represents a unit largely independent of the cash inflows from other assets or groups of assets.

Goodwill related to non-consolidated subsidiaries, associated companies and other entities, is included in the carrying value of related investment. Negative goodwill arising from business combinations is directly charged to the income statement.

Intangible assets with finite useful lives

Costs of participating in international collaboration agreements
Costs for participating in international collaboration agreement programmes for the development and production of commercial aircraft engines are incurred by the Group. These costs are generally paid through deferred payments and are recognised as intangible assets with finite useful lives under the requirements of IAS 38 considering, in particular, the Group's control over the assets, which allows the valuation and determination of the related useful lives, and the identifiability and evidence that, from those assets, future economic benefits will flow to the Group. Intangible assets arising from the participation in international collaboration agreements are measured at the fair value of the consideration, in case of deferred payment plans, determined as the sum of the present value of future payments. The corresponding entry is a liability, classified in the item "Other Current Liabilities" or "Other Non-Current Liabilities", which is then adjusted to reflect the adoption of the amortised cost using the effective interest method. Amortisation rates are determined according to the expected useful life and the amortisation process begins when the commercial production of related programme starts. Amortisation rates are proportioned, for the first year, to the actual utilisation period. Useful lives are determined with reference to a prudential estimate of the length of the programmes from which related economic benefits arose and are initially stated at 5, 10 or 15 years, according to the specifications of the programmes to which they refer. Capitalised costs related to programmes for which production has not yet started are not amortised; they are recorded among intangible assets after having been tested for impairment based on the expected profitability of the programmes to which they refer. Subsequent to the initial measurement of these assets, additional costs are generally recognised, which are added to the original amount and amortised based on the residual useful life of the programme to which they refer. The recognition of these additional intangible assets occurs in the year in which they can be measured reliably.

Development costs
Development costs are mainly related to the production of components and parts for aeroengines and are recognised as assets if, and only if, the cost can be measured reliably, related development activities are clearly identifiable, there is evidence that from these costs future economic benefits will flow to the Group, and it can be demonstrated: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) the Group's intention to complete the intangible asset and use or sell it; (iii) the availability of adequate technical and financial resources to complete the development and use or sell the intangible asset; (iv) the Group's ability to reliably measure the expenditure attributable to the intangible asset during its development. Amortisation is recorded on a straight-line basis beginning from the time commercial production of related programmes starts. Amortisation rates are proportioned, for the first year, to the actual utilisation period. Useful lives are determined with reference to a prudential estimate of the length of the programmes from which related economic benefits arose and are initially stated at 5, 10 or 15 years, according to the specifications of the programmes to which they refer. Capitalised development costs related to programmes for which production has not yet started are not amortised; they are recorded among intangible assets after having been tested for impairment based on the expected profitability of the programmes to which they refer.

Research costs and development costs that do not meet the above-mentioned requirements are expensed as incurred in the income statement and they cannot be recognised as intangible assets in subsequent periods.

Intangible assets for customer relationships
At the Acquisition date and starting from 2007 financial year, the Group allocated the Acquisition cost recognising assets, liabilities and contingent liabilities of the acquired subsidiaries at their fair value. Following this allocation, certain intangible assets deriving from customer relationships for participation in programmes were identified as being separately recognised in accordance with IFRS 3 and IAS 38. These assets were recognised at their fair value by applying an income approach valuation methodology, based upon the present value of future cash flows generated by assets over the expected remaining useful lives, determined by applying a rate of return, which discounts for the relevant risks associated with the assets and the time value of money. Moreover, the benefit attributable to the tax saving obtainable by a potential purchaser, deriving from the amortisation of the recognised intangible assets, was considered in determining the fair value of the assets (*tax amortisation benefits*).

The customer relationships intangible assets are amortised, in connection with the weighted average remaining useful lives of the programmes to which they refer, in a period of 15 years. With respect to the recorded intangible assets, the relative deferred taxes were also recognised, determined by applying the tax rate expected to be in force at the moment the relevant amortisation is charged to income.

Other intangible assets
Other intangible assets with finite useful lives are recognised as assets if, and only if, they can be reliably measured and there is evidence that from these costs future economic benefits will flow to the Group. When these requirements are met, the intangible assets are recorded at their purchase price, including related expenses. For contributed assets, the cost corresponds to the value attributed in the expert's appraisal report. Other intangible assets accounted for in connection with a business combination are recognised separately from goodwill if their fair value can be measured reliably.

The gross book value of the assets is amortised systematically over the years in which the assets are utilised, by providing constant amortisation rates, determined according to the estimated useful life. The amortisation process begins when the asset is available for use and amortisation rates are proportioned, for the first year, to the real utilisation period. As for the assets received in contribution, amortisation is calculated based on the residual useful life at contribution date. The amortisation rates used by the Group are the following:

Categories	Amortisation rate
Licences	20%
Trademarks	10%
Software	20-33%

Investments

Investments in non-consolidated entities are accounted for in accordance with the principles stated in the note "Basis of consolidation".

Impairment of assets

The Group reviews, at least annually, the recoverability of the carrying amount of tangible and intangible assets, in order to determine whether there is any indication that those assets have suffered an impairment loss. If indication of impairment is present, the carrying amount of the asset is reduced to its recoverable amount. In addition, intangible assets with indefinite useful lives are tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired. The impairment loss of an asset is equal to the difference between its carrying amount over its recoverable amount. The recoverable amount is the higher of its fair value less cost to sell and its value in use, which is the present value of estimated future operational cash flows, excluding cash flows arising from financing activities. Cash flow projections are based on financial plans and reasonable and supportable assumptions related to the Group's future expected economic results and general economic conditions. The discount rate takes into consideration the time value of money and specific industry risks.
If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the C*ash-Generating Unit (CGU)* to which the asset belongs.

When the recoverable amount of an asset (or of a cash-generating unit) is less than its carrying amount, the carrying amount of the asset is reduced to the recoverable amount and the impairment loss is immediately recognised in the income statement. Then, when there is any indication that an impairment loss recognised in prior periods for an asset (or for a cash-generating unit) other than goodwill may no longer exist, the carrying amount of the asset (or of the cash-generating unit) will be increased to the new estimate of its recoverable amount. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. The reversal of the impairment is immediately recognised in the income statement.

Financial assets

Financial assets comprise, with regard to the maturity date within or beyond 12 months from the balance sheet date:
- assets arising from financial transactions other than derivative financial instruments, with fixed maturity and fixed or determinable payments;
- the initial *fair value* of the derivative financial instruments;
- the effect of subsequent fair value adjustments of derivative financial instruments, except for changes of hedging values of foreign exchange derivatives,

Gains and losses related to such assets are recorded in the income statement.
Impairment tests are performed in order to determine whether there is any indication that non-current financial assets, other than derivative financial assets, have suffered an impairment loss. In the case that impairment is identified, an impairment loss is immediately expensed to the income statement. Then, when there is indication that an impairment loss recognised in prior periods for an asset may no longer exist, the previously recognised impairment loss will be reversed. The reversal will not result in a carrying amount of the financial non-current asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

Derivative financial instruments

The Group's operations are exposed mainly to financial risks related to changes in currency and interest rates, and, to a lesser extent, in commodities prices. To hedge such risks, the Group entered into derivative financial instrument contracts. The use of such instruments is regulated by Group policies, which define procedures for the use of such derivative contracts, in accordance with the Group's *risk management* strategy.
All derivative financial instruments (including those embedded that are separated from the host contract) are measured at *fair value*. The split accounting method requires that derivative financial instruments, and originating risks or benefits not directly linked to the item hedged, must be accounted for separately in the balance sheet.
Non-embedded derivative financial instruments are only used for hedging purposes. In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when, at the inception of the hedge: (i) there is formal designation and documentation of the hedging relationship; (ii) the hedge is expected to be highly effective; (iii) its effectiveness can be reliably measured; (iv) it is highly effective throughout the financial reporting periods for which the hedge is designated.

When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:
- *Fair value hedge*: where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of a recognised asset or liability, which is attributable to a particular risk, and could affect the income statement, the gain or loss for re-measuring the hedging instrument at fair value is recognised in the income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in the income statement;
- *Cash flow hedge*: where a derivative financial instrument is designated as a hedge of the exposure to variability in future cash flow of a recognised asset or liability or a highly probable forecasted transaction and could affect the income statement, the effective portion of any gain or loss on the derivative financial instrument is recognised directly to equity. The cumulative gain or loss is removed from equity and recognised in the income statement at the same time in which the hedged transaction affects the income statement. The gain or loss associated with a hedge or part of a hedge that has become ineffective is recognised in the income statement immediately. When a hedging instrument or hedge relationship is terminated but the hedge transaction is still expected to occur, the cumulative gain or loss realised to the point of termination remains in equity and is recognised in the income statement at the same time as the related transaction occurs. If the hedge transaction is no longer probable, the cumulative unrealised gain or loss held in equity is recognised in the income statement immediately.

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

It should be noted, however, that, as of 31 December 2013, following the completion of the conferment and transfer of assets belonging to the AeroEngine business (to which derivative instruments outstanding were related), the Group does not have any derivative instrument in place.

Inventories

Inventories are valued at the lower of purchase or production cost or net realisable value, which is defined as the estimated selling price less expected completion costs and selling expenses.
Specifically, raw materials, semi-finished goods and work in progress are initially recorded at purchase or production cost. Purchase cost includes costs paid to suppliers and other costs incurred in bringing the inventories to their present location, net of discounts and allowances. Production cost includes costs incurred in bringing the inventories in the place and condition in which they are at the balance sheet date, including direct costs and recharges of indirect and general production costs. Inventories are generally valued adopting the FIFO method. This method is deemed the most appropriate for a true, fair and consistent representation of the financial and economic position of the Group.

The inventories value is, if necessary, adjusted by providing appropriate reserves in order to consider obsolete and slow-moving materials, with respect to their possible use and future recoverability.

Land owned by the subsidiary SE.CO.SV.IM. S.r.l. (hereinafter also referred to as "Secosvim") included in inventory and deemed to be sold in the course of the ordinary business of the company, is valued at the lower of purchase cost or market value.

Contract work in progress

Contract work in progress (or construction contracts) refers to specifically negotiated contracts for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. These contracts are mainly related to development and production activities for space and military engine programmes.

When the outcome of a construction contract can be estimated reliably, construction contracts are recognised based on the percentage of completion method applied to the overall contractual price. According to this method, costs, revenues and related profit are accounted for taking into consideration the proportion of work completed. For the computation of the percentage of completion, the economic method of the ratio between production costs already occurred and total budgeted costs of the whole contract (cost-to-cost) is adopted, using up-to-date estimates at the balance sheet date. Assumptions used for the evaluations are revised on a periodic basis. Variations, price adjustments and incentive payments are subsequently included in contract revenues only if they have been agreed with the customer and related adjustments, if any, are accounted for in the accounting period in which they become known.

When the outcome of a construction contract cannot be estimated reliably, revenues are recognised only to the extent of contract costs incurred that will probably be recovered and costs are recognised as expenses in the period in which they are incurred.

Future costs expected to be incurred after the closing of the contract and expected losses are considered by recording a provision, classified as a liability in the item "Provisions for risks". In particular, the expected losses are recognised as expenses immediately at the moment they become known.

The Group shows the balance of contract work in progress as an asset net of progress billing. The following analysis is conducted for each contract: if the gross amount of specific contract work exceeds the progress-billing amount, the positive difference is classified in the item "Contract work in progress"; on the contrary, the net negative difference is classified in the item "Advances for contract work in progress".

Trade receivables

Trade receivables are initially recorded at fair value, which corresponds to their nominal value, adjusted to the estimated realisable value by means of a provision for doubtful accounts. The reserve is related both to the risks on specific receivables and to the general risk of not collecting the trade receivables, which is estimated taking into account historical experience and solvency of debtors.

Receivables for which the collection is deferred beyond the average payment terms are adjusted to their present values and then measured at the amortised cost using the effective interest rate method.

Sales of receivables occurred through factoring transactions may be with or without recourse; certain without-recourse transactions imply continuing significant exposure to the cash flows deriving from the receivables sold. These kinds of transactions do not meet IAS 39 requirements for assets de-recognition, since the risks and rewards have not been substantially transferred. Consequently, receivables sold through factoring transactions that do not meet IAS 39 de-recognition requirements, are recognised as such in the financial statements, even though they have been legally sold. A corresponding financial liability is recorded for the same amount included in "Current financial liabilities".

Cash and cash equivalents

This item includes cash on hand, in bank accounts and other current financial assets with a high level of negotiability that can be promptly converted into cash and that are subject to non-significant risk of reduction in value. Bank overdrafts are classified in reduction of cash and cash equivalents in the cash flow statement only.

Financial liabilities

This item includes financial liabilities, classified as non-current, and bank overdrafts, classified as current, as well as current and non-current liabilities that, even if related to commercial or non-financial transactions, have been negotiated with terms that modify the original non-financial liability into a financial liability. Current and non-current financial liabilities are initially measured at fair value, net of related transaction costs and then measured at the amortised cost using the effective interest rate method.

The portion of non-current financial liabilities that is due within 12 months after the balance sheet date is classified in the item "Current portion of non-current financial liabilities".

Employee benefit provisions

Employees of the Group are beneficiaries of post-employment benefit plans, which may be defined benefit or defined contribution plans, and other long-term benefit plans in accordance with local conditions and practices in the countries in which the Group operates.

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

Defined contribution plans are post-employment benefit plans under which the Group's companies pay fixed contributions into a separate entity on a mandatory, contractual or voluntary basis and will have no legal or constructive obligation to pay further contributions if the entity does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions are expensed to the income statement on an accrual basis and are classified within personnel expenses.

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The Group's obligation to fund defined benefit pension plans and the annual cost recognised in the income statement are determined based on independent actuarial valuations using the projected unit credit method, taking into consideration certain factors such as, age, service years, and expected future level of salary/wage.

Gains and losses relating to defined benefit plans arising from changes in actuarial assumptions and experience adjustments are immediately recognized in the period in which they arise in other comprehensive income / (loss) and are never included in income statement in subsequent periods. The post-employment benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses, unrecognized and reduced by the fair value of the plan assets, if any. Any net asset resulting from this calculation is recognised to the extent of unrecognised past service costs related to previous years plus the present value of available refunds and reductions in future contributions to the plan.

Costs related to defined benefit plans are classified among personnel expenses, except for costs related to the increase of the present value of the obligation, arising from the approach of the moment of benefits payment, which are classified among financial expenses.

The TFR (severance indemnity payment) pertaining to Italian companies, was considered until December 31, 2006 a defined benefit plan. Law No. 296 of December 27, 2006 (the so-called "*Legge Finanziaria 2007*" – 2007 Budget Law) and subsequent Decrees and Regulations, substantially modified the relevant rules. As a consequence, and particularly with reference to companies employing not less than 50 employees, this type of benefit should now be considered as a defined benefit plan exclusively regarding the portion accrued until January 1, 2007 (and not paid at the balance sheet date), while afterwards it was considered as a defined contribution plan. Therefore, the TFR portion maturing after the above-said date is assumed to be a contribution plan, thus excluding the actuarial estimate components from determining the relevant cost. The TFR portion matured up to December 31, 2006 continues to be valued as a defined benefit plan according to actuarial methods, but excluding the component related to future salary increases.

Other long-term benefits
Other long-term benefits have the same accounting treatment of defined benefit plans, except for the fact that related actuarial gains and losses are immediately recognised in the income statement, with no application of the corridor approach.

Share-based compensation plans

Cash-settled share-based compensation plans, that may be settled in cash or by the delivery of other financial assets, are accounted for as liabilities, among "Provisions for risks", and are measured at fair value at the end of each reporting period until the date of settlement, with any changes in fair value recognised in profit or loss for the period.
Equity-settled share-based compensation plans, that may be settled by the delivery of shares of the controlling company, are measured at the grant date. The fair value is expensed over the vesting period of the benefit with a corresponding increase in equity. Periodically, the Group reviews its estimate of the benefits expected to vest through the plan and recognises any difference in estimate in profit or loss, with a corresponding increase or decrease in equity.

Provisions for risks

The Group records provisions when it has a present obligation, legal or constructive, as a result of a past event to a third party, when it is probable that an outflow of Group resources will be required to settle the obligation and when a reliable estimate of the amount can be made. Provisions are recorded based on the best estimate of costs needed to discharge the obligation at the balance sheet date. If the effect is significant, provisions are recorded at discounted present value and the increase due to the passage of time is subsequently recorded in the income statement and classified among financial expenses.

Provisions related to lawsuits are determined based on estimates made to determine probability, terms and amounts involved.

Provisions for future dismantling, removal and clean-up costs related to assets are classified as a reduction of the same assets. Related cost is recognised in the income statement through the depreciation process of the asset.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Changes in estimate, if any, are accounted for in the accounting period in which changes occur.

No provision is recorded, but only disclosed in the notes, when the obligation is only possible or the likelihood of an outflow of resources is remote.

Trade payables

Trade payables with an average payment term are not adjusted to their present value. They are measured at nominal value deemed representative of their settlement value.

Trade payables are classified among current liabilities, except for those payables for which the Group has a contractual right to fulfil the obligation beyond 12 months after the balance sheet date.

Payables for funding pursuant to Law No. 808/85

These payables are measured in the financial statements at nominal value and are classified in the items "Other non-current liabilities" and "Other current liabilities".

Revenue recognition

Revenue is recognised if it is probable that the economic benefits associated with the transaction will flow to the Group and its amount can be measured reliably. Revenue is recognised at fair value of the amount received or due on an accrual basis, net of VAT, returns, discounts, allowances and rebates.

Revenue from sales of goods is recognised when the Group transfers significant risks and rewards of ownership of the goods to the customers, which is generally at the time of shipment.
Revenue from services is recorded by applying the stage of completion method of the transaction at the balance sheet date, using the same criteria adopted for contract work in progress. In addition, when the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised to match the costs that have been incurred, only if the costs incurred are recoverable.

Revenues also include changes in contract work in progress, which are accounted for using the percentage of completion method (as more fully described in the related note).

Interest income is accounted for on an accrual basis, taking into consideration the financed amount and the applicable effective interest rate, representing the rate used to discount future expected income generated by the financial asset in order to adjust the carrying value of the financial asset.

Dividends received

Dividends from companies not included in the consolidation are accounted for in the period in which the shareholders have the right to receive the payment.

Grants

Grants are recognised in the financial statements when there is reasonable assurance that the Group will comply with the conditions foreseen and the grants will be received. Grants are generally recognised as income over the periods necessary to match them with the related costs, which they are intended to compensate, on a systematic basis. In particular, grants obtained relating to capital expenditure in property, plant and equipment and development costs are recorded as liabilities in the items "Other non-current liabilities" or "Other current liabilities" and are recognised as income over the useful life of the assets to which they relate. If grants are obtained in periods subsequent to those in which the amortisation process of the asset started, the portion of grants related to previous periods is credited to the income statement among other revenues. The benefit of a government loan at a below-market rate of interest is treated as a public grant. The benefit of a government loan at a below-market rate of interest is measured as the difference between the initial carrying value of the loan (fair value plus transaction costs) and of proceeds received, and is accounted for in accordance with the policies already used for the recognition of public grants.

Tax credits for R&D activities

Tax credits for R&D activities (Law No. 296/2007 and subsequent modifications) are accounted for in the financial statements to the extent that the tax credit is considered as recoverable and usable. These credits are initially recorded against the item "Other non-current liabilities" or "Other current liabilities" and charged to the income statement, depending on different types of costs being the subject of the intervention, in relation to the percentage of completion of contract work in progress to which the costs that formed the basis for calculating the credit were contributing or to the recognition in the income statement of R&D expenses.

Expenses

Expenses are accounted for on an accrual basis in respect of the going-concern assumption of the Group's companies, net of VAT, returns, discounts, allowances and rebates. Provisions are recorded in accordance with the terms provided in the note related to Provisions for risks.

Interest expenses are accounted for on an accrual basis, taking into consideration the financed amount and the applicable effective interest rate.

Taxes

Income taxes represent the sum of current taxes and prepaid/deferred taxes.

Current income tax is calculated on the estimated taxable income in accordance with the legislation currently in force in the countries in which the consolidated companies operate.

Taxable profit differs from the result arising from the income statement as it excludes positive or negative items that are taxable or deductible in the next accounting periods, and other items that will never be taxable or deductible. The liability for current taxes is determined applying the tax rate enacted at the balance sheet date.

Deferred tax assets and liabilities are the taxes expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and they are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Tax benefits arising from the carry forward of tax losses are recorded when there is reasonable certainty of the existence of future taxable income in the period in which the losses may be utilised. Deferred tax assets or liabilities relating to the most significant consolidation adjustments are also recorded.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries and associated companies, and interest in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Prepaid and deferred income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised taking into consideration local tax rules of the countries in which the Group operates. Deferred taxes are recognised in the income statement, except when they relate to items directly recognised to equity, in which case deferred taxes are also dealt with in equity. Deferred tax assets and liabilities are offset if there is a right to offset current tax assets and liabilities, if they refer to the same company and are due to the same tax authority, and if the Group decides to settle current tax assets and liabilities on a net basis. The net amount is recorded in the item "Deferred tax assets", if positive, or in the item "Deferred tax liabilities", if negative.

Payment of dividends

Dividends payable by the Group are reported as a movement in equity and classified as a current liability in the period in which the distribution is approved by the shareholders' meeting.

2.8. Risk management

Credit risk

Credit risk concentration of the Group, depending on the nature of transactions carried out and on the markets in which the Group operates. Considered from a global point of view, there is a concentration of credit risk in trade receivables in the European Union and, up to August 1, 2013, in the North American markets. Trade receivables are recognised net of write-downs for the risk that debtors will be unable to fulfil their contractual obligations, determined based on the available information as to the creditworthiness of the customer and historical data.

Liquidity risk

The Group is exposed to liquidity risk if there is difficulty in obtaining financing for operations at any given point in time. The two main factors affecting the Group's liquidity are cash flow provided by or used in operating and investment activities, and the maturity and renewal features of financial debts, liquidity and financial investments.

Cash flows, funding requirements and liquidity are monitored and managed on a centralised basis to ensure timely and effective funding of financial resources or appropriate investments of available cash.
The present context of the whole economy, of the markets the Group deals with and of financial markets requires a close liquidity risk management; focus is placed on operating activities generating financial resources and on the achievement of enough liquidity to contend with the Group's obligations.

Management considers that available cash and credit lines (evaluated taking into consideration the non-recurring nature – respect the normal course of operating business - of the financial assets related to the financial assets in place representing the investment of funds received from the sale of investment held in GE Avio S.r.l.), and those that are generated by the operations and, in case, from the redefinition of the current indebtedness structure, will allow the Group to face the financial needs arising from investment activities, working capital management, and debt repayment or renewal at maturity.

Interest rate risk and exchange rate risk

The Group (with particular reference to the activities carried out within the AeroEngine business), was exposed to market risk from fluctuations in foreign currency exchange rates until August 1, 2013, as it operated in an international market in which transactions are carried out in many currencies, and interest rates. The exposure to foreign currency risk arises both in connection with the geographical distribution of the Group's industrial activities in which it sells products, and in relation to the use of financing sources denominated in foreign currencies. The exposure to interest rate risk arose substantially from financial liabilities bearing variable interest rates. The Group was exposed (until August 1, 2013) to the risk of interest rate in particular with regard to financial liabilities at variable rates (subject to contribution). Therefore, change in interest rates could have been the effect of either increasing or decreasing the Group's profit/(loss).

The Group regularly assesses its exposure to interest rate and foreign currency risk and, until August 1, 2013, managed these risks using derivative financial instruments in accordance with established risk management policies. The Group's policy permits derivatives to be used only for managing the exposure to fluctuation in exchange and interest rates connected to monetary flows, assets and liabilities, and not for speculative purposes.

The Group used, until August 1, 2013, derivative financial instruments designated as cash flow hedges, mainly to fix:
- the interest rate on a portion of the loans and borrowings at variable rate (financial instruments used mainly interest rate swaps);
- the exchange rate use to account for, or at least to fix the lower oscillation limit, expected transactions denominated in foreign currency (financial instruments used have been mainly forward sales and purchases).

Based on applicable Group's policies, when derivative financial instruments on foreign exchange risk and interest rate risk qualify for hedging, as provided by IAS 39, the Group provides, from the inception of the hedge, formal designation and documentation of the hedging relationship, the target of risk management and the hedging strategy. In addition, the Group assesses the effectiveness of hedging instruments to compensate for changes in the financial flows attributable to the hedged risk. This assessment is made at inception throughout the financial reporting periods for which the hedge is designated. Counterparties to these agreements have been major international financial institutions.

As indicated at December 31, 2013 the Group did not have any derivative financial instruments in place.

Additional qualitative and quantitative information on financial risks to which the Group is exposed are reported in Note 6.

2.9. Use of estimates

The preparation of financial statements and related notes in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date, and revenues and expenses.

Actual results could differ from those estimates due to uncertainties on which assumptions are based. Estimates and assumptions are reviewed annually in order to verify they still reflect the best available knowledge of the Group's operations and of other factors deriving from actual circumstances. Changes, if any, are immediately accounted for in the income statement.

The present international macroeconomic context, whose effects are spread into some businesses in which the Group operates, determined the need to make assumptions related to future development with a high degree of uncertainty. For this reason, it is not possible to exclude that, in the next or in subsequent financial years, actual results may differ from estimated results. These differences, at present unforeseeable and unpredictable, may require adjustments to book values. Estimates are used in many areas, including accounting for non-current assets, deferred tax assets, bad debt provisions on accounts receivable, inventory obsolescence, employee benefits, contingent liabilities and provisions for risks and contingencies and to determine contract work in progress costs and related stage of completion.

The following are the critical measurement processes and key assumptions used by the management in applying IFRS which may have significant effects on the amounts recognised in the consolidated financial statements or for which there is a risk that a significant difference may arise in respect to the carrying amounts of assets and liabilities in the future.

Recoverability of non-current assets

Non-current assets include Property, plant and equipment, Goodwill, Intangible assets with finite useful lives and Investments. The Group periodically reviews the carrying amount of non-current assets held and used and that of assets held for sale when events and circumstances warrant such a review. For goodwill such analysis is carried out at least annually and when events and circumstances warrant such a review. The analysis of the recoverable amount of non-current assets (impairment test) is usually performed using estimates of future expected cash flows from the use or disposal of the asset and a suitable discount rate in order to calculate present value. When the carrying amount of a non-current asset is impaired, the Group records an impairment loss for the amount by which the carrying amount of the asset exceeds its estimated recoverable amount from use or disposal determined by reference to the cash flows included in the most recent business plans prepared by the Group.

The estimates and assumptions used as part of that analysis reflect the current state of Group's available knowledge as to the expected future development of the business of the various sectors and are based on a realistic assessment of the future development of the markets and the aerospace industry, which remain subject to a high degree of uncertainty due to the continuation of the economic and financial crisis and its effect to the international macroeconomics context. Although current Group estimates do not indicate any other situations concerning possible impairment losses on non-current assets, any different developments in the economic environment or Group performance could result in amounts that differ from the original estimates, needing the carrying amount of certain non-current assets being adjusted.

Recoverability of deferred tax assets

At December 31, 2013 the Group had deferred tax assets on deductible temporary differences and on tax benefits from tax loss carry-forward for an amount which recoverability in the future is deemed to be probable by the management. In making this evaluation, management has taken into consideration figures from budgets and forecasts consistent with those used for impairment testing and discussed in the preceding paragraph relating to the recoverable amount of non-current assets.

Allowance for doubtful accounts

The allowance for doubtful accounts reflects management estimate of losses inherent in the credit portfolio of the Group. The allowance is based on the estimate of the losses to be incurred, which derives from past experience with similar receivables, current and historical past due amounts, write-offs and collections, the careful monitoring of portfolio credit quality and current and projected economic and market conditions.

Allowance for obsolete and slow-moving inventory

The inventory reserve reflects management's estimates of the loss in value expected by the Group and has been determined on the basis of past experience and historical and expected future trends in the related markets, for obsolete and slow-moving items, if any, related to technical or trading reasons.

Pension plans and other post-retirement benefits

Employee benefit liabilities, costs and net interest expense are measured on an actuarial basis which requires the use of estimates and assumptions to determine the net liability. Such method is based on periodic estimates made by actuarial consultants using a combination of statistical and actuarial factors, among which statistical data related to past financial years and of future costs forecast. In addition, the estimation process involves mortality and retirement rates, the assumptions related to the future trend of the discount rate, the growth rate of salaries and of inflation rate and the analysis of health care costs trend.
Changes in any of these assumptions may have an effect on future contributions to the plans. As a result of adopting the IAS 19 revised for the recognition of actuarial gains and losses arising from the valuation of employee benefit liabilities and assets, the effects resulting from revising the estimates of the above parameters are recognised in the Group's statement of financial position through the inclusion in a specific reserve of the Group's equity.

Provisions for risks and contingent liabilities

The Group makes a provision for pending disputes and legal proceedings when it is considered probable that there will be an outflow of funds and when the amount of the losses arising from such can be reasonably estimated. If an outflow of funds becomes possible but the amount cannot be estimated, the matter is disclosed in the notes.
The Group is the subject of legal and tax proceedings covering a range of matters which are subject to a different degree of uncertainty, including the facts and circumstances of each

particular case, the jurisdiction and the different laws involved. In the normal course of business the Group monitors the stage of pending legal procedures and consults with legal counsel and experts on legal and tax matters. It is therefore possible that the provisions for the Group's legal proceedings and litigation may vary as the result of future developments of the proceedings in progress.
In additions, the Group's operations are carried out in industries and sectors in which some trading issues may be solved only after a long lapse of time. As a consequence, management is required to estimate the outcome of such issues, through the monitoring of contract conditions and of their progress.

Evaluation of contract work in progress

The Group operates in sectors and with contractual arrangements that are especially complex. Some of them are recognised on a percentage-of-completion basis. In such case, margins recognised in the income statement are a function of both the state of progress on contracts and the margins that are expected to be recognised for the completed contract. Accordingly, correct recognition of work in progress and margins on contracts that have not yet been completed requires management to make a careful estimate of the final costs and expected increases as well as delays, extra costs and penalties that could reduce the expected margin. In order to enhance support for this activity, the Group has adopted contract management and risk analysis tools designed to identify, monitor and quantify the risks associated with such contracts. The amounts posted in the financial statements represent management's best estimate at the reporting date.

Other

In addition to the items listed above, estimates were also used with regard to the valuation of certain financial assets and liabilities, of derivative financial instruments, of plans for compensation attributable to a certain number of Group manager and of the fair value measurement of assets acquired and liabilities assumed in business combinations.

2.10. New accounting principles

Accounting principles, amendments and interpretations effective from January 1, 2013

The following amendments, improvements and interpretations have been applied for the first time by the Group from January 1, 2013.

- On June 16, 2011, the IASB issued amendments to IAS 19 - Employee Benefits, which eliminates the option to defer the recognition of gains and losses, with the corridor method , requiring that all actuarial gains or losses are immediately recognised in the statement of Other comprehensive income, so that the full net amount of provisions for defined benefit plans (net of assets serving the plan) is included in the financial statement position. The amendment also provides that, between one year and the next, changes in the defined benefit fund and the activities of the service plan must be divided in three components: the cost components relating to service period shall be recorded in the income statement as "service costs"; net financial expense, calculated by applying the appropriate discount rate to the net defined benefit fund, net assets resulting at the beginning of the year , must be recorded in the income statement as such , actuarial gains and losses arising from the re-measurement of assets and liabilities must be recorded in the statement of " Other gains/(losses)". In addition, as stated above, the return on assets included in net financial expenses is calculated based on the discount rate of liabilities and no longer on the expected return on assets. Finally, the amendment introduces new supplementary information to be provided in the notes to the financial statements. The amendment is applicable retrospectively from the beginning of the year 2013.

Introducing the new principle has the following effects on the consolidated financial statements of the Group:

Effect on statement of financial position	**At January 1, 2012**		
(thousands of Euro)	**Amounts previously reported**	**Effect of IAS 19 revised application**	**Restated amounts**
Deferred tax assets	35,175	9	35,185
Provision for employee benefits	(69,077)	(11,933)	(81,010)
Deferred tax liabilities	(234,812)	3,272	(231,540)

Effect on statement of financial position	**At December 31, 2012**		
(thousands of Euro)	**Amounts previously reported**	**Effect of IAS 19 revised application**	**Restated amounts**
Deferred tax assets	1,835	11	1,846
Assets classified as held for sale and Discontinued operations	3,969,786	83	3,969,869
Provision for employee benefits	(8,920)	(2,398)	(11,318)
Deferred tax liabilities	(109,933)	636	(109,298)
Liabilities classified as held for sale and Discontinued operations	(3,163,861)	(12,540)	(3,176,256)

Effect on income statement	**Year 2012**		
(thousands of Euro)	**Amounts previously reported**	**Effect of IAS 19 revised application**	**Restated Amounts**
PROFIT/(LOSS) FOR THE YEAR (A)	**32,677**	**337**	**33,015**
Gains (losses) included directly in equity (which are not subsequently reclassified to income statement)			
- Actuarial gains and losses-reserve Actuarial gains/losses	-	285	285
Gains (losses) included directly in equity (which will be subsequently reclassified to income statement)	26,112	-	26,112
Income tax relating to components of Other comprehensive income	(7,043)	(89)	(7,132)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX (B)	19,070	195	19,265
TOTAL COMPREHENSIVE INCOME FOR THE YEAR (A+B)	**51,747**	**532**	**52,279**

- On 17 May 2012, the IASB published the document Annual Improvements to IFRS, 2009-2011 Cycle, which incorporates the changes to the accounting policies, as part of the annual improvement of them focusing on changes that are deemed necessary but not urgent. Below summarizes changes that have led to a change in the presentation, recognition and measurement of assets and liabilities:
    - IAS 1 Presentation of financial statements - Comparative information: in case of additional comparative information are provided, they must be presented in accordance with IAS / IFRS. In case of an entity changes an accounting policy or makes a grinding / reclassified retrospectively, the same entity must submit a balance sheet also at the beginning of the comparative period ("third balance sheet" in the patterns of budget), while in the notes comparative disclosures are not required for such "third balance sheet", apart from the items concerned. This amendment has been applied on the occasion of the retrospective restatement of the balance sheet data in relation to the application of the amendment to IAS 19, the effects of which have been reflected in the tables above.

- On 16 June 2011, the IASB issued an amendment to IAS 1 - Presentation of Financial Statements require entities to group items presented in the statement of "Other gains / (losses)" ("Other comprehensive income") in two subgroups, depending on whether they can or cannot be reclassified subsequently to profit or loss. The Group adopted this amendment as of 1 January 2013, with no impact on the evaluation of the balance sheet, with limited effects on "information provided in this report.

Accounting principles, amendments and interpretations applicable as at January 1, 2013 and not relevant to the Group

The following amendments are effective from 1 January 2013, relate to matters that were not applicable to the Group at the reporting date, but which may have accounting effects on future transactions or arrangements:

- On May 12, 2011, the IASB issued IFRS 13 – *Fair Value Measurement*, clarifying the determination of the fair value for the purpose of the financial statements and applying to all IFRSs permitting or requiring a fair value measurement or the presentation of disclosures based on fair value. In addition the standard requires broader disclosures related to fair value measurement (fair value hierarchy) than those actually provided by IFRS 7. The standard is effective prospectively from January 1, 2013. The application of this new standard is not expected to have any significant effects on the Group's financial statements.
- In October 2011, was published the interpretation IFRIC 20 costs of excavation (stripping costs) at the production stage of an open pit mine which is applied to the cost of excavation (the process of removing the waste material to gain access to mineral deposits surface) incurred during the production phase of the mine. The interpretation clarifies when the costs of excavation should be capitalized and how this activity should be assessed, both initially and in subsequent periods. The interpretation, as relating to a situation not applicable for the Group, has not resulted in the recognition of any effect on these consolidated financial statements.
- On December 16, 2011, the IASB issued certain amendments to IFRS 7 – *Financial Instruments: Disclosures*. The amendments require information about the effect or potential effect of netting arrangements for financial assets and liabilities on an entity's financial position. Entities are required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The required disclosures should be provided retrospectively. The application of this new standard is not expected to have any significant effects on the Group's consolidated financial statements.
- March 13, 2012, the IASB published an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards - Government Loans that changes the accounting for government loans in the transition to IFRS. The amendments to IFRS 1 must be applied for annual periods beginning January 1, 2013, or later. Not being our first adopter group, this amendment has no effect on these consolidated financial statements.
- On May 17, 2012, the IASB issued the document *Annual Improvement to IFRS's: 2009-2011* including the amendments that are applicable retrospectively from January 1, 2013, with early application allowed. Set out below are those that may lead to changes in the presentation, recognition and measurement of financial statements items, excluding those that affect standards or interpretations that are not applicable to the Group:
  - IAS 16 *Property, plant and equipment* – Classification of servicing equipment: the amendment clarifies that spare parts and servicing equipment shall be recognised as Property, plant and equipment if they are used for more than one year, otherwise such items shall be classified as inventory.
  - IAS 32 *Financial instruments:* Presentation: the amendment eliminates an inconsistency between IAS 12 – *Income taxes* and IAS 32 concerning the recognition of taxation arising from distribution to shareholders, establishing that these shall be recognised in income statement to the extent the distribution refers to income generated by transactions originally recorded in income statement.
  - IAS 34 Interim Financial Reporting - Total assets for reportable segment: it is clarified that the total assets in the interim financial statements should be reported only if such information is regularly provided to the chief operating decision maker of the entity and there has been a material change in the total assets of the segment compared to what is reported in the last annual financial statements.

The implementation of the amendments had no impact in terms of measurement and has had limited impact in terms of reporting on the financial statements of the Group.

Accounting principles, amendments and IFRS and IFRIC interpretations endorsed by European Union but not yet applicable to the Group and not early applied

At the date of these consolidated financial statements, the European Union had not yet completed its endorsement process for these standards and amendments:

- On 12 May 2011, the IASB issued IFRS 10 - Consolidated Financial Statements replacing SIC-12 Consolidation - Special Purpose Entities (SPV) and parts of IAS 27 - Consolidated and Separate Financial Statements, what will be renamed Separate Financial Statements and addresses the accounting treatment of investments in the separate financial statements. The main changes established by the new standard are as follows:
  - According to IFRS 10 there is a single basic principle to consolidate all types of entities, and this principle is based on the control. This change removes the perceived inconsistency between the previous IAS 27 (based on monitoring) and SIC 12 (based on the transfer of risks and benefits);
  - It introduces a definition of control more robust than before, based on three elements: (a) power on the company acquired; (b) exposure, or rights, to variable returns from involvement with the same; (c) ability to use the power to influence the amount of such returns;
  - IFRS 10 requires an investor to assess whether it has control over the acquired enterprise and focuses on activities that significantly affect the returns of the same;
  - IFRS 10 requires that, in assessing whether control exists, considering only the substantive rights, in other words those which are exercised in practice when important decisions must be taken on the acquired company;
  - IFRS 10 provides practical guidance to aid in assessing whether control exists in complex situations, such as the de facto control, potential voting rights, the situations in which it is necessary to establish whether the person who has the power of decision is acting as an agent or main, and so on.

  In general terms, the application of IFRS 10 requires a significant level of judgment on a number of aspects of implementation. The amendment is applicable retrospectively from 1 January 2014. Adopting this new standard will not impact on the consolidation of the Group.

- On 12 May 2011, the IASB issued IFRS 11 - Joint Arrangements which will replace IAS 31 - Interests in Joint Ventures and SIC-13 - Jointly Controlled Entities - Contributions in kind by the venturers. The new principle, subject to the criteria for the identification of the presence of a jointly controlled entity, provides the criteria for the accounting treatment of joint arrangements by focusing on the rights and obligations arising from such agreements rather than its legal form, distinguishing between joint ventures and joint operations.
  According to IFRS 11, the existence of a separate vehicle is not a sufficient condition for classifying a joint arrangement as a joint venture. For joint ventures, where the parties have rights only on shareholders' equity Agreement the standard establishes a single method of accounting in the consolidated financial statements using the equity method. For joint operation, where the parties have rights to the assets and obligations for the liabilities of the agreement, the principle involves the direct inclusion in the consolidated financial statements (and Separate Financial Statements) of the pro-rata share of the assets, liabilities, expenses and revenues from the joint operation. The new standard is applicable retrospectively from 1 January 2014.
  IAS 28 - Investments in Associates has been amended to include within its purpose of application, the effective date of the standard, accounting for investments in joint ventures. The application of this principle will lead to new effects in the consolidated financial statements with reference to the consolidation of jointly controlled entities Europropulsion SA.

If the Group had applied in preparing the financial statements at 31 December 2013 the principle (enrolling income and expense for adjustments to the value of equity within the operating result), he recorded the following main effects:

Effetti sulla Statement of Financial Position	**As at December 2013**		
(amounts in thousand Euro)	**Amounts previously reported**	**Effect of IFRS 11 application**	**Restated Amounts**
Net working capital	(28,687)	26,076	(2,611)
Tangible fixed assets, goodwill and intangible assets with a finite life	368,266	(1,436)	366,830
Investments	5,179	2,983	8,162
Provisions for risks	(52,289)	715	(51,574)
Net financial position	1,189,600	(28,338)	1,161,262
Equity	(1,469,419)	-	(1,469,419)

Effect on income statement	**Fiscal Year 2013**		
(amounts in thousand Euro)	**Amounts previously reported**	**Effect of IFRS 11 application**	**Restated Amounts**
Revenues	287,649	(55,579)	232,070
Operating Costs	(285,506)	52,208	(233,298)
Income / (expense) from investments (*)	-	2,311	2,311
Operating Profit	2,143	(1,060)	1,083
Income/Expenses	(2,169)	(69)	(2,238)
Income / (expense) from investments (**)	979	-	979
Taxes	(13,353)	1,129	(12,224)
Profit / (loss) from continuing operations	**(12,399)**	**-**	**(12,399)**
Profit / (loss) from discontinued operations	**1,290,062**	**-**	**1,290,062**
Profit / (loss) for the year	**1,277,663**	**-**	**1,277,663**

(*) Portion related to equity method adjustment pertaining to net assets of Europropulsion SA, classified in operating activities.
(**) Portion related to equity method adjustment pertaining net assets of investments other than Europropulsion SA

- On May 12, 2011, the IASB issued IFRS 12 – Disclosures of Interests in Other Entities, a new and comprehensive standard on disclosures requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other unconsolidated vehicles. The standard, endorsed on December 11, 2012 is effective retrospectively at the latest for annual reporting periods beginning on or after January 1, 2014.
- On December 16, 2011, the IASB issued certain amendments to IAS 32 – Financial Instruments: Presentation to clarify the application of certain offsetting criteria for financial assets and financial liabilities in IAS 32. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively.
- On June 28, 2012 IASB issued the document *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)*. First, the document clarifies the Board intent in relation to transition rules reported in IFRS 10 Consolidated financial statements, particularly with reference to identification criteria of the date of initial application of IFRS 10 and related retrospective applications, if any. In addition, the Board modified IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* to limit the requirement to provide adjusted comparative information to the immediately preceding period (i.e. the comparative period reported in the financial statements). Changes occurred in IFRS 12 too, to eliminate the requirement to present comparative information for the disclosures related to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied.
- On October 31, 2012 were issued amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities" which introduce an exception to the consolidation of subsidiaries for an investing company, except in whose subsidiaries provide services that relate to the investment activities of such companies. Pursuant to these amendments, an investment company must evaluate its investments in subsidiaries at fair value.

  These amendments are applicable, together with the principles of reference, from periods beginning on or after 1 January 2014, unless earlier application.

- On May 29, 2013, the IASB issued amendments to IAS 36 - Impairment of assets - Additional information on the recoverable value of non-financial assets. The amendments are intended to clarify that the additional information to be provided about the recoverable amount of the assets (including goodwill) or cash-generating unit, in case their recoverable amount is based on fair value less costs of disposal, relate only to the assets or cash-generating unit to that has been recognized or reversed a loss in value during the financial year. The amendments shall be effective retrospectively for annual periods beginning on or after 1 January 2014.
- On June 27, 2013, the IASB issued narrow scope amendments to IAS 39 - Financial Instruments: Recognition and Measurement entitled "Novation of Derivatives and Continuation of Hedge Accounting". The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. Similar relief will be included in IFRS 9 - Financial Instruments. The amendments are effective retrospectively for annual periods beginning on or after January 1, 2014.

Accounting principles, amendments and IFRS and IFRIC interpretations not yet endorsed by European Union

At the date of these consolidated financial statements, the European Union had not yet completed its endorsement process for these standards and amendments:

- On 20 May 2013 was published the interpretation IFRIC 21 - Levies, which provides clarification on when recognition of a liability related to taxes set by a government agency, and for those that are recognized in the accounts in accordance with IAS 37 - provisions, Contingent Liabilities and Contingent Assets, both the timing and reliable amount of taxes.
- On November 12, 2009, the IASB issued a new standard IFRS 9 – Financial Instruments that was subsequently amended on December 16, 2011. This standard, having an effective date for mandatory adoption of January 1, 2015 retrospectively, represents the completion of the first part of a project to replace IAS 39 and introduces new requirements for the classification and measurement of financial assets and financial liabilities. The new standard uses a single approach to determine whether a financial assets is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. The most significant effect of the standard regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss. Under the new standard these changes are recognised in other comprehensive income and loss and are not subsequently reclassified to the income statement.
- On November 19, 2013, the IASB published the document "IFRS 9 Financial Instruments - Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39" for the new hedge accounting model. The document aims to answer some of the critical requirements of IAS 39 for hedge accounting, often considered too aggressive and not suitable to reflect the risk management policies of the entity. The main new issues of document are:
    - changes to the types of transactions eligible for hedge accounting, are extended in particular the risk of financial assets / financial liabilities not eligible for hedge accounting to be managed;
    - change in the method of accounting for forward contracts and options when included in a report of hedge accounting in order to reduce the volatility of the income statement;
    - changes to the effectiveness test by replacing the current procedures based on the parameter of '80-125% with the principle of "economic relationship" between the hedged item and the hedging instrument; In addition, you will not be prompted for a retrospective assessment of the effectiveness of the hedging relationship;
    - greater flexibility of the new accounting rules is offset by additional requests for information on the risk management activities of the company.
- On December 12, 2013, the IASB published the document "Annual Improvements to IFRSs: 2010-2012 Cycle" which incorporates the changes to the standards as part of the annual process of improvement. The main changes include:
    - IFRS 2 Share Based Payments - Definition of vesting conditions. Changes have been made to the definition of "vesting condition" and "market condition" and added further definitions of "performance condition" and "service condition" (previously included in the definition of "vesting condition")

- IFRS 3 Business Combinations - Accounting for contingent consideration. The amendment clarifies that a contingent consideration classified as an asset or a financial liability shall be re-measured at fair value at each balance sheet date and changes in fair value are recognized in the income statement or between the elements of comprehensive income on basis of the requirements of IAS 39 (or IFRS 9).
- IFRS 8 Operating Segments - Aggregation of operating segments. The amendments require an entity to provide disclosures about the assessments made by management in applying the criteria of aggregation of operating segments, including a description of the operating segments and aggregate economic indicators considered in determining whether such operating segments have "economic characteristics similar. "
- IFRS 8 Operating Segments - Reconciliation of total of the reportable segments' assets to the entity's assets. The amendments clarify that the reconciliation between the total assets of the operating segments and the total assets of the entity must be submitted only if the total assets of the operating segments are regularly reviewed by the chief operating decision maker more.
- IFRS 13 Fair Value Measurement - Short-term receivables and Payables. You have changed the Basis for Conclusions of this principle in order to clarify that with the issuance of IFRS 13, and consequential amendments to IAS 39 and IFRS 9 remains valid, the possibility of accounting for receivables and trade payables without detecting the effects of an update where such effects result not material.
- IAS 16 Property, plant and equipment and IAS 38 Intangible Assets - Revaluation method: proportionate restatement of accumulated depreciation / amortization. The changes have removed the inconsistencies in the recognition of depreciation when a tangible asset or intangible asset is re-valued. The new requirements clarify that the gross carrying value is appropriate to an extent consistent with the revaluation of the carrying value of the asset and the accumulated depreciation is equal to the difference between the carrying value and the gross carrying amount, net of losses value accounted for.
- IAS 24 Related Party Disclosures - key management personnel. It is clarified that in case the services of key executives are provided by an entity (and not an individual), that entity is considered a related party.

- On December 12, 2013, the IASB issued the document *Annual Improvement to IFRS's: 2009-2011* including the amendments that are applicable retrospectively from July 1, 2014, with early application allowed. Set out below are those that may lead to changes in the presentation, recognition and measurement of financial statements items, excluding those that affect standards or interpretations that are not applicable to the Group:
  - IFRS 1 First-time Adoption of International Financial Reporting Standards - Meaning of "effective IFRS". It has been clarified that an entity adopts IFRS for the first time, as an alternative to the application of a principle currently in force on the date of the first IAS / IFRS, may opt for early application of a new standard intended to replace the principle in force. This option is allowed only when the new standard permits early application. It also needs to be applied to the same version of the principle in all periods presented in the first IAS / IFRS.
  - IFRS 3 Business Combinations - Scope exception for joint ventures. The amendment clarifies that paragraph 2 (a) of IFRS 3 excludes from the scope of IFRS 3 the formation of all types of joint arrangement, as defined by IFRS 11.
  - IFRS 13 Fair Value Measurement - portfolio exception (para. 52). The amendment clarifies that the portfolio exception included in paragraph 52 of IFRS 13 applies to all contracts included within the purpose of IAS 39 (or IFRS 9) regardless of whether they meet the definition of financial assets and liabilities provided by IAS 32.
  - IAS 40 Investment Properties – Interrelationship between IFRS 3 and IAS 40.
  - The amendment clarifies that IFRS 3 and IAS 40 are not mutually exclusive and that, in order to determine whether the purchase of a property falls within the purpose of IFRS 3, it is necessary to refer to the specific instructions provided by 'IFRS 3; to determine, however, whether the purchase in question falls within the scope of IAS 40, it is necessary to refer to the specific instructions of IAS 40.

The amendments are effective for annual periods beginning on or after 1 July 2014 or after. Earlier application is permitted.

3. COMPOSITION, COMMENTS AND CHANGES IN THE MAIN ITEMS AND OTHER INFORMATION

As already mentioned, the explanatory notes below include disclosures related not only to Continuing operations, but also to Discontinued operations (however detailed in Note 3.16), when relevant, taking into consideration their significance.

NON-CURRENT ASSETS

3.1. PROPERTY, PLANT AND EQUIPMENT

The values of property, plant and equipment are stated in the balance sheet net of accumulated depreciation and impairment losses reserves, as shown in the following table (€ thousands):

	Al 31/12/2013			Al 31/12/2012		
	Gross Values	Accumul. depreciation	Net values	Gross values	Accumul. depreciation	Net values
Land	7,189	-	7,189	7,189	-	7,189
Buildings	31,169	(10,625)	20,544	30,529	(9,528)	21,001
Plant and machinery	55,185	(40,295)	14,890	53,427	(36,879)	16,548
Industrial and commercial equipment	14,352	(12,021)	2,331	14,061	(11,397)	2,664
Other assets	6,978	(4,791)	2,187	6,644	(4,324)	2,320
Construction in progress and advances	456	-	456	354	-	354
Total	**115,329**	**(67,732)**	**47,597**	**112,204**	**(62,128)**	**50,076**

At December 31, 2013, construction in progress and advances referred to investments in progress, mainly plant and machinery, for €456 thousand.

The movements that occurred in 2013, with reference to gross value, are detailed hereunder (€ thousands):

Gross Vales	December 31, 2012	Additions	Disposals	Reclassifications and other changes	Translation adjustments	December 31, 2013
Land	7,189	-	-	-	-	7,189
Buildings	30,529	640			-	31,169
Plant and machinery	53,427	1,653	(2)	107	-	55,185
Industrial and commercial equipment	14,061	283	-	8	-	14,352
Other assets	6,644	413	(188)	109	-	6,978
Construction in progress and advances	354	356	-	(254)	-	456
Total	**112,204**	**3,345**	**(190)**	**(30)**	**-**	**115,329**

The movements that occurred in 2013, with reference to accumulated depreciation, are detailed hereunder (€ thousands):

Accumulated depreciation	December 31, 2013	Impairment losses	Reduction due to disposals	Reclassification and other movements	December 31, 2012
Land	-	-	-	-	-
Buildings	9,528	1,097	-	-	10,625
Plant and machinery	36,879	3,434	(2)	(16)	40,295
Industrial and commercial equipment	11,397	621	-	3	12,021
Other assets	4,324	670	(179)	(24)	4,791
Total	**62,128**	**5,822**	**(181)**	**(37)**	**67,732**

Depreciation charged in 2013 was calculated in relation to the estimated useful life and the economic-technical obsolescence of the assets. For assets arising from the contribution, the estimated remaining useful life at contribution date was considered. This assumption, in line with the substantial continuity of the business activities, was considered conservative, and represented the economic-technical life of the contributed assets.

The item Reclassifications and other changes also includes the effects of the reallocation of fixed assets (and the related accumulated depreciation) classified at 31 December 2012 as Discontinued operations and reclassified in 2013 as Continuing operations, after the completion of the process of the IT infrastructure allocation of the Parent Company as part of that transfer process.

In December 31, 2012 on the fixed assets of the Group, together with the property investment, were made up of the collateral, represented by mortgages on properties with a nominal value of € 216,500 thousand and a special privilege on plant and equipment with a nominal value of € 83,554 thousand, for the loans obtained from the banks; in addition, certain fixed assets were subject to some restrictions of availability in accordance with the provision of loan agreements or government grants. The warranties described have ceased to exist, on August 1, 2013, according to the repayment of financial debts, carried out following the transfer of the investment in GE Avio S.r.l., by the same conferee, through the use of the funds made available by the conferee.

3.2. INVESTMENT PROPERTY

The values of investment property are stated in the balance sheet net of accumulated depreciation, as shown in the following table (€ thousands):

	Al 31/12/2013			Al 31/12/2012		
	Gross values	Accumulated depreciation	Net values	Gross values	Accumulated depreciation	Net values
Land	1,847	-	1,847	1,847	-	1,847
Industrial buildings	1,328	(689)	639	1,328	(649)	679
Total	**3,175**	**(689)**	**2,486**	**3,175**	**(649)**	**2,526**

Investment property relates to land, premises and buildings in the Colleferro (Rome) area owned by the controlled company Secosvim (whose main activity is the management of property towards Group companies and third parties), and rented to third parties. In 2013, income from rentals towards third parties and companies non included in the consolidation are amounted to €529 thousand.

The movements that occurred in 2013, with regard respectively to gross value and accumulated depreciation are detailed hereunder (€ thousands):

Gross values	December 31, 2012	Additions	Disposals	Reclassification	December 31, 2013
Land	1,847	-	-	-	1,847
Industrial buildings	1,328	-	-	-	1,328
Total	**3,175**	**-**	**-**	**-**	**3,175**

The movements that occurred in 2013, with reference to accumulated depreciation, are detailed hereunder (€ thousands):

Accumulated depreciation	December 31, 2012	Depreciation	Utilisation	Reclassification	December 31, 2013
Land	-	-	-	-	-
Industrial buildings	649	40	-	-	689
Total	**649**	**40**	**-**	**-**	**689**

At December 31, 2013, certain guarantees were released on investment of the Group, as well as on property, plant and equipment, with respect to the financing obtained, consisting of mortgage on land and buildings for a nominal value of € 35,000 thousand for the loans obtained from the banks.
On August 1, 2013 the warranties described were removed according to the repayment of borrowings from banks, carried out following the transfer of business and the sale of the investment in GE Avio srl, by the same assignee, through the use of the funds made available by the purchaser.

3.3. GOODWILL

At December 31, 2013 goodwill related to Continuing operations amounted to €221,000 thousand unchanged compared to December 31, 2012) and referred to portion allocated in 2007 to the Space Sector.

As mentioned in Note 2.7. - Accounting Principles, goodwill is not amortised but in case written-off for impairment losses. The Group verifies the recoverability of the goodwill at least annually, or more frequently if events or changes in circumstances indicate that it might be impaired, with specific impairment test conducted on each CGU. The CGU designated by the Group for the impairment test on goodwill are the same units identified as operating segments as required by IFRS 8 – *Operating segments*.

Goodwill classified among Continuing operations

Goodwill allocated to the Space CGU (which is the only CGU in place at December 31, 2013, following the contribution and sale operation occurred) was tested for impairment with reference to the date of the 2013 financial statements, and as a result no impairment loss arose to be recognised on the carrying value of the goodwill recorded among Continuing operations at December 31, 2013.

The recoverability of the carrying value was tested by comparing the CGU net invested capital (carrying value) with related recoverable amount. The recoverable amount was represented by the present value of future operating cash flows arising from expectations included in the approved long-range plan of the Group, properly extrapolated, as indicated below, in order to consider the peculiarity of the Group's business life cycle and by a normalised terminal value, used to estimate future results for periods exceeding the laps of time specifically considered. These cash flows were then discounted using interest rates, which were representative of the current market assessment of the time value of money and took into account the Group's and CGU's specific risks.

At December 31, 2013 expected cash flows of the Space CGU were determined, for 2014, based on the budget prepared by the Management and approved on May 5, 2014 (in a general way) and on May 30, 2014 (in a detailed version) by the Parent's Board of Directors and for the subsequent period until 2017, on the basis of the long-range plan approved on May 28, 2013 by the Parent's Board of Directors, also considering the most recently Directors forecast related to the CGU, which formalization is at present in process. For the subsequent period 2018-2021, in order to consider the peculiarity of the Group's business life cycle and of the CGU, have been extrapolated other projections using growth rates of 3%. For the calculation of the terminal value, the cash flows foreseen for the last year of projection (2021) were normalised using the perpetuity method, and considering a 2% growth in the expected cash flows starting from 2021.
The average interest rate (weighted average cost of capital) used to discount expected cash flows was 10,3%, after tax (9,71%% last year).

It is important to mention that estimations and figures reported in the long-range plan used as a basis for the impairment test were determined by the management based on past experience and expectations on the development of markets the Group deals with. In respect to this, the current international macroeconomic context and its potential effects on the economy, particularly on governments' and supranational institutions' budget dedicated to the space industry, could present scenarios of uncertainty in reaching long-range plan targets, without resulting, however, in an impairment situation for goodwill.
The determination of the recoverable amount of goodwill requires, however, management to use estimates and as a consequence, considering that manufacturing and marketing cycles of the products are characterised by long-term periods, which allows a recovery in possible delays in achieving the targets forecasted in the plan, there is no assurance that in the future goodwill may not be impaired, as a result of changes in the global environment that are not foreseeable today.

The circumstances and events that may require an additional impairment test on the value of goodwill are constantly monitored by Group management.

A sensitivity analysis was performed by simulating a change (considered representative) of the major parameters of the impairment test. In particular;
- a 100 basis point decrease was considered for the growth rate relating to the period of the long-range plan (until 2021);
- a 100 basis point decrease was considered for the growth rate relating to the period of the long-range plan (until 2021) and for the growth rate relating to the terminal value;
- a 50 basis point increase was considered in the discount interest rate for cash flows.

Based on the above assumptions (even if considering the total negative effect), the recoverable amount of the Space CGU resulted as being higher than the carrying value.

3.4. INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

The composition of this item is set out in the following table (€ thousands):

	December 31, 2013			December 31, 2012		
	Gross Values	Accumul. amortisation	Net Values	Gross Values	Accumul. amortisation	Net Values
Development costs – amortised	71,189	(22,630)	48,558	69,415	(15,655)	53,760
Development costs – not yet amortised	14,841		14,841	11,505	-	11,505
Total development costs	86,030	(22,630)	63,399	80,920	(15,655)	65,265
Customer relationships for participation in programmes	61,257	(28,587)	32,670	61,257	(24,503)	36,754
Concessions, licences, trademarks and similar rights	4,143	(3,246)	897	2,207	(1,708)	499
Patents	-	-	-			-
Other	1,027	(848)	179	889	(844)	45
Intangible assets in progress	37	-	37	37	-	37
Total	**152,494**	**(55,311)**	**97,183**	**145,310**	**(42,710)**	**102,600**

Development costs are mainly related to design and testing costs of the Vega launcher programme.

Development costs are amortised, commencing with the production start-up of each programme, on a straight-line basis over the estimated useful life of the programmes to which they refer (initially stated at 5, 10 or 15 years).

Development costs not yet amortised and some costs of participating in international collaboration agreements are not amortised as they refer to programmes whose production has not yet started. Their recognition as "Intangible assets with finite useful lives" is subject to impairment test and is based upon the estimated profitability of the programme to which they refer.

Intangible assets for customer relationships for participation in programs are related to the identification of such assets as a result of allocation of the acquisition purchase price. These assets are measured at fair value based on the present value of expected future cash flows from them and amortized over a period of 15 years based on the average useful life of the programs to which they refer.

Concessions, licences, trademarks and similar rights, primarily include acquired software licences.

The movements that occurred in the period, with reference to gross values, are detailed as follows (€ thousands):

Gross values	December 31, 2012	Additions	Disposals	Reclassif. and other changes	Translation adjustments	December 31, 2013
Development costs – amortised	69,415	9	-	1,765	-	71,189
Development costs – not yet amortised	11,505	5,101	-	(1,765)	-	14,841
Total development costs	80,920	5,110	-	-	-	86,030
Customer relationships for participation in programmes	61,257	-	-	-	-	61,257
Concessions, licences, trademarks and similar rights	2,207	1,187	(1)	750	-	4,143
Patents	-	-	-	-	-	-
Other	889	138	-	-	-	1,027
Intangible assets in progress	37	-		-	-	37
Total	**145,310**	**6,435**	**(1)**	**750**	**-**	**152,494**

The increases during the year referred to development costs capitalized by the parent company are mainly referred to the Vega launcher development programme. In addition, a part of the capitalized costs during the previous year (in particular incurred by the subsidiary ELV S.p.A.) started their amortization process in 2013 with the start of the commercial activities of the Vega launcher.

The investment in the items Concessions, licenses, trademarks and similar rights are related primarily to expenses linked to the Group technology infrastructure, also as a result of changes in the operational structure of the parent company, in relation to the transfer of most of the *Corporate* structures.

The movements that occurred in the period, with reference to accumulated amortisation, are detailed as follows (€ thousands):

Accumulated amortisation	December 31, 2012	Additions	Disposals	Reclassif. and other changes	Translation adjustments	December 31, 2013
Development costs – amortised	15,655	6,975	-	-	-	22,630
Development costs – not yet amortised	-	-	-	-	-	-
Total development costs	15,655	6,975	-	-	-	22,630
Customer relationships for participation in programmes	24,503	4,084	-	-	-	28,587
Concessions, licences, trademarks and similar rights	1,708	693	-	845	-	3,246
Patents	-	-	-	-	-	-
Other	844	4	-	-	-	848
Intangible assets in progress	-	-	-	-	-	-
Total	**42,710**	**11,756**	**-**	**845**	**-**	**55,311**

The item Reclassifications and other changes also includes the effects of the reallocation of a part of intangible assets with a definite useful life (and the related accumulated depreciation) classified at 31 December 2012 as *Discontinued operations* and reclassified in 2013 as Continuing operations, after the completion of the process of the IT infrastructure allocation of the parent company as part of that transfer process.

Certain assets relating to intellectual industrial properties (trademarks and patents), included in the item Concessions, licences, trademarks and similar rights, were pledged in connection with financing granted, and disposal of these assets is limited in compliance with the provisions of the financing agreements. On August 1, 2013 pledge described were removed according to the repayment of borrowings from banks, carried out following the transfer of business and the sale of the investment in GE Avio S.r.l., by the same assignee, through the use of the funds made available by the purchaser.

Some development costs are not yet amortised as they refer to programmes whose production and marketing have not yet started. Their recognition as "Intangible assets with finite useful lives" is subject to impairment test and is based upon the estimated profitability of the programme to which they refer.

3.5. INVESTMENTS

The composition and book value of investments and their breakdown between Continuing operations and Discontinued operations is as follows (€ thousands):

	December 31, 2013		December 31, 2012			
	Group share	Total	Group share	Continuing operations	Discontinued operations	Total
Controlled companies not consolidated						
- Servizi Colleferro – Soc. Consortile per Az.	52.00%	63	52.00%	63	-	63
Total controlled companies not consolidated		**63**		**63**	**-**	**63**
Associated and jointly controlled companies						
- HADAT Ltd	50.00%	-	50.00%	-	25,000	25,000
- ASPropulsion Capital N.V.	49.00%	1,030	49.00%	1,030	-	1,030
- XAXAC Ltd	49.00%	-	49.00%	-	2,840	2,840
- Termica Colleferro S.p.A.	40.00%	3,566	40.00%	3,566	-	3,566
- Eurojet Turbo G.m.b.H.	21.00%	-	21.00%	-	156	156
- Turbo-Union Ltd.	20.04%	-	20.04%	-	1	1
- Consorzi diversi		5		5	-	5
Total associated and jointly controlled companies		**4,601**		**4,601**	**27,997**	**32,598**
Other companies						
- Altre società		514		514	59	573
- Consorzi diversi		-		-	11	11
Total other companies		**515**		**515**	**70**	**585**
Total		**5,179**		**5,179**	**28,067**	**33,246**

The movements that occurred in the period are detailed as follows (€ thousands):

	December 31, 2012	Additions	Write-downs	Reclassifi-cations	December 31, 2013
Controlled companies not consolidated	63	-	-	-	63
Associated and jointly controlled companies	4,601	-	-	-	4,601
Other companies	515	-	-	-	515
Totale	**5,179**	**-**	**-**	**-**	**5,179**

Investments in associated and in jointly controlled companies are valued at cost of acquisition or underwriting, as they are not significant for the representation of the consolidated financial statements or as they are still inoperative. However, the equity evaluation of these investments does not differ significantly from the valuation at cost.

No significant restrictions in transferring resources (dividends, redemptions or advances) to the Parent exist.

Investments in other companies are also valued at cost.

3.6. NON-CURRENT FINANCIAL ASSETS

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Financial receivables from associated companies	6,040	4,040	61	4,101
Financial receivables subject to restrictions	-	-	2,150	2,150
Total	**6,040**	**4,040**	**2,211**	**6,251**

Financial receivables from associated companies classified among Continuing operations are made of the financing granted to the associated company Termica Colleferro S.p.A., with maturity renewable each year until December 31, 2016. In the year 2013 they increased of € 2,000 thousand.

3.7. DEFERRED TAX ASSETS

At December 31, 2012, total deferred tax assets amounted to €42,580 thousand (December 31, 2012, in relation to the effects of the retrospective application of IAS 19 revised, classified among Continuing operations for €1,846 thousand and classified among Discontinued operations for and €52,028 thousand) and they were related to consolidated subsidiaries in the accounts of which the net balance between prepaid and deferred tax is an asset (mainly Avio S.p.A. and Secosvim S.r.l.), as well as the tax effects on consolidation adjustments. The amounts relating to consolidated subsidiaries for which the balance is a deferred tax, are recorded as a liability in the item "Deferred tax liabilities".

Net balances in deferred tax assets (recognized in non-current assets) and deferred tax liabilities (recognized in non-current liabilities) are as follows (amounts in thousands of Euro):

	December 31,2013	December 31,2012 Restated (*)		
	Total	*Continuing operations*	*Discontinued operations*	Total
Deferred tax assets	42,580	1,846	52,028	53,874
Deferred tax liabilities	(302)	(109,298)	(133,582)	(242,880)
Net Value	**42,278**	**(107,452)**	**(81,554)**	**(189,006)**

(*)The comparative data for 2012 have been restated to include the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

The net balance includes net deferred tax assets and liabilities determined both on the consolidation adjustments, and on temporary differences between the carrying amounts of assets and liabilities assumed for purposes of preparing the consolidated financial statements and the respective values relevant for tax purposes of the consolidated companies.

Deferred tax assets and liabilities are calculated by applying the tax rates that are expected to be applied when the temporary differences will reverse or the tax loss carry forwards are utilized.

The analysis of the temporary differences and tax losses that led to the recognition of deferred tax assets and deferred tax liabilities, which have a net asset balance at December 31, 2013 amounting to € 42,278 thousand (compared to net balances payable of € 107,452 thousand referred to the Continuing operations and € 81,554 thousand for Discontinued operations at December 31, 2012) is shown in the following table (amounts in thousands of euros):

	December 31,2013		December 31,2012 Restated (*)	
	Temporary differences	Tax effect amount	Temporary differences	Tax effect amount
Positive variations:				
Depreciation exceeding deductible amount and write-downs	17,199	5,053	15,520	4,630
Goodwill reduction due to development costs capitalisation	14,627	4,668	130,598	41,674
Reserve for inventory write-down	1,183	361	1,106	353
Allowance for doubtful accounts	667	191	444	122
Provisions for risks and charges	20,759	6,166	56,498	15,912
Maintenance expenses and other costs not deductible in the year	17,115	4,626	16,483	4,486
Other costs and expenses not deductible in the year	-	-	1,104	308
Interest expenses exceeding the limit of 30% of operating result	251,380	69,130	218,882	60,193
Amortisation of goodwill for tax purposes only (AeroEngine portion – contributed – relevant for tax purposes business)	266,437	84,727	-	-
Recovery of deductions for tax purpose only (IRAP)	168,887	7,032	312,716	13,227
Elimination of inter-company profits and other consolidation adjustments	1,307	330	1,307	330
Total	**759,561**	**182,284**	**754,658**	**141,235**
Negative variations:				
Allocation of goodwill to intangible assets	(32,168)	(10,591)	(36,252)	(11,568)
Development cost capitalisation and related amortisation	(30,458)	(9,767)	(34,413)	(10,981)
Accelerated depreciation for tax purposes only	(17,829)	(5,597)	(17,547)	(5,588)
Amortisation of goodwill for tax purposes only	(83,569)	(26,257)	(683,371)	(218,067)
Reversal of depreciation land	(2,021)	(653)	-	-
Work in progress reduction value	(4,866)	(1,805)	(4,867)	(1,858)
Other income deferred for taxation	(2,197)	(695)	(2,283)	(721)
Exchange gains	(32)	(9)	-	-
Total	**(173,140)**	**(55,375)**	**(778,733)**	**(248,783)**
Net deferred tax	**586,420**	**126,909**	**(24,075)**	**(107,548)**
Tax asset on tax loss of the year		-		-
Tax asset on tax losses of prior years		96		96
Evaluation allowance (**)		(84.727)		-
Net deferred tax		**42,278**		**(107,452)**

(*) The comparative data for 2012 have been restated to include the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.
(**) Based on deferred tax assets recoverability evaluation on the basis of forecasted data consistent with those used for the impairment testing.

The following table shows the analysis of the temporary differences and tax losses that had resulted in the recognition of deferred tax assets and deferred tax liabilities are classified as Discontinued operations, which had a negative net balance at December 31, 2012 amounted to 81,554 thousand Euro (amounts in thousands of euros):

	December 31,2012 *Discontinued operations* Restated (*)	
	Amount of temporary differences	Amount of tax effect
Positive variations:		
Depreciation, amortization and impairment losses in excess of statutory	67,862	18,803
Goodwill reduction compared to capitalized development costs	-	-
Provisions for bad stores	12,823	3,939
Bad debts Provision	6,771	1,862
Provisions for risks and charges and staff	206,217	66,434
Maintenance and other expenses deferred deductibility	-	-
Other expense deferred deductibility	327	89
Borrowing costs in excess of 30% ROL	-	-
Fair value adjustment derivative instruments on rates	3,267	898
Tax credits for tax relief	3,663	706
Recovery deductions IRAP	-	-
Elimination of intercompany profits and other consolidation adjustments	59,772	22,416
Total	**360,702**	**115,147**
Negative variations:		
Allocation of goodwill to intangible assets	(366,551)	(116,966)
Capitalisation of development costs and related amortization	(108,973)	(34,773)
Accelerated depreciation	(50,673)	(16,185)
Amortisation of (goodwill)	-	-
Reversal of amortization of intangible assets with a definite life	(52,754)	(16,792)
Work in progress reduction value	(6,466)	(2,853)
Fair value adjustment of derivatives on exchange rates and commodities	(21,396)	(5,884)
Capital gains of deferred tax	-	-
Revaluation of assets	(1,078)	(270)
Net gains from foreign exchange adjustment	(13,343)	(3,669)
Total	**(621,234)**	**(197,392)**
Net deferred tax	**(260,532)**	**(82,245)**
Deferred tax assets for tax losses		129
Deferred tax assets relating to tax losses from previous years		562
Net deferred tax		**(81,554)**

(*)The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

The components that during the year resulted in the net asset balance at December 31, 2013 are as follows (amounts in thousands of euros):

Net deferred tax liabilities at December 31, 2012 (Continuing operations)	**(107,452)**
Deferred tax assets and deferred income taxes recognized in the income statement and other changes	10,374
Deferred tax assets and deferred income taxes recognized in profit or loss - effects related to the transfer recorded in Discontinued operations	151,843
Deferred tax assets and deferred income taxes recognized in Reserve Actuarial gains and losses	168
Net deferred tax assets (liabilities) at December 31, 2013	**54,933**

Deferred tax assets have been recognised as their future recovery is deemed probable. On the same basis, tax assets arising from tax losses carry forward have been recognised as, according to present tax law, they have no maturity, for the most part. Deferred tax assets were calculated at the tax rates that are expected to apply in the period when temporary differences will be recovered or the tax losses carried forward will be used. As resulting from the approved long-range plan, it is expected that positive taxable income, in order to allow the recovery in full of the deferred tax assets balance, will be reached in future financial years.

3.8. OTHER NON-CURRENT ASSETS

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85	13,670	16,162	15,917	32,079
Cautionary deposits	271	273	994	1,267
Fair value (hedging) of foreign exchange derivatives (cash flow hedge – non-current portion)	-	-	19,075	19,075
Totale	**13,941**	**16,435**	**35,986**	**52,421**

Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85 represent the present value of the non-current portion, whose nominal value amounted to €17,886 of funding, whose payment is deferred over a ten-year period, granted at December 31, 2013 by the Ministry of Economic Development subsequent to the approval of Resolution No. 28 of March 22, 2006, reporting guidance for the aerospace industry, by the Interministerial Committee for Economic Planning (CIPE).

These receivables relate to programmes classified as being functional to national security or to realising a project of common European interest and are recognised in the financial statements at their amortised cost using the effective interest rate method. This value will increase due to the effect of the cumulative amortisation of the difference between the initial amount and the amount actually received in cash, against the item "Financial income", and it is initially accounted for against the item "Other non-current liabilities" (Note 3.26).

The present value of the non-current portion to be cashed within five years amounted to € 11,365 and the present value of the non-current portion to be cashed beyond five years amounted to € 3,696 thousand. The current portion of total funding (to be collected within one year), amounted to € 2,936 thousand and is classified in the item "Other current assets" (Note 3.15).

CURRENT ASSETS

3.9. INVENTORIES

The total value of the inventories at December 31, 2013 was €169,601. The composition of the item is shown in the following table (€ thousands):

		December 31, 2013			December 31, 2012		
		Gross value	Inventory reserve	Net value	Gross value	Inventory reserve	Net value
Raw materials and supplies	Continuing operations	18,776	(1,419)	17,357	14,866	(1,361)	13,505
	Discontinued operations	-	-	-	106,904	(11,243)	95,662
	Total	**18,776**	**(1,419)**	**17,357**	**121,771**	**(12,604)**	**109,167**
Work in progress	Continuing operations	64,006	(424)	63,581	58,335	(382)	57,953
	Discontinued operations	-	-	-	123,534	(7,221)	116,313
	Total	**64,006**	**(424)**	**63,581**	**181,869**	**(7,603)**	**174,265**
Finished goods	Continuing operations	8,485	(10)	8,475	6,977	(5)	6,971
	Discontinued operations	-	-	-	120,483	(10,974)	109,510
	Total	**8,485**	**(10)**	**8,475**	**127,460**	**(10,979)**	**116,481**
Advances to suppliers	Continuing operations	80,188	-	80,188	87,881	-	87,881
	Discontinued operations	-	-	-	13,686	-	13,686
	Total	**80,188**	**-**	**80,188**	**101,567**	**-**	**101,567**
Total	*Continuing Op.*	**171,455**	**(1,854)**	**169,601**	**168,059**	**(1,747)**	**166,311**
	Discontinued Op.	**-**	**-**	**-**	**364,607**	**(29,438)**	**335,169**
	Totale	**171,455**	**(1,854)**	**169,601**	**532,666**	**(31,186)**	**501,481**

Finished goods include land owned by the subsidiary Secosvim for €8,243 thousand, unchanged as compared to the previous year, which is deemed to be sold in the course of the ordinary business of this company.

At December 31, 2012, a special lien was released on a certain amount of inventories, as security in connection with the financing agreements. On August 1, 2013, the mentioned line was removed, as a result of the contribution and the simultaneous sale of the share in GE Avio S.r.l., because of the repayment of debts to banks, through the use of funds made available by the purchaser.

3.10. CONTRACT WORK IN PROGRESS

Contract work in progress is classified as an asset if, based on the analysis made for each contract, the gross amount of work in progress is higher than advances received. On the contrary, the balance is classified as a liability.

At December 31, 2013 provisions on expected losses on contracts with negative margins were accrued for €1,065 thousand and classified as a liability in the item "Provisions for risks". At December 31, 2012 no losses were expected.

The total amount of the gross value of contract work in progress and progress billing and advances cashed from customers is detailed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Contract work in progress (gross amount)	559,687	437,124	785,485	1,222,609
Progress billing	(506,965)	(383,762)	(1,047,515)	(1,431,277)
Contract work in progress - net amount / (Advances) – net amount	**52,722**	**53,362**	**(262,030)**	**(208,668)**

The following table presents the balance of contract work in progress for which the gross amount of work in progress exceeds progress billing and which net value is therefore classified as an asset (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Contract work in progress (gross amount)	550,283	435,462	369,658	805,120
Progress billing	(478,732)	(359,329)	(284,268)	(643,597)
Contract work in progress (net amount)	**71,551**	**76,133**	**85,390**	**161,523**

The following table presents the balance of contract work in progress for which progress billing and advances exceed the gross value of work in progress and which net value is therefore classified as a liability (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Contract work in progress (gross amount)	9,404	1,662	415,827	417,489
Progress billing	(28,233)	(24,433)	(763,247)	(787,680)
Advances (net amount)	**(18,829)**	**(22,771)**	**(347,420)**	**(370,191)**

3.11. TRADE RECEIVABLES

Total trade receivables at December 31, 2013 amounted to €13,580 thousand (at December 31, 2012, €13.442 thousand were classified among Continuing operations and €337,746 thousand were classified among Discontinued operations). The item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Trade receivables from third parties	13,447	12,136	314,427	326,563
Receivables from controlled companies	-	106	-	106
Receivables from associated companies	133	1,200	22,319	24,519
Total	**13,580**	**13,442**	**337,746**	**351,188**

The book value of trade receivables is deemed to approximate their fair value.

At December 31, 2012, a portion of trade receivables was pledged as security in connection with the financing agreements. On August 1, 2013, the mentioned pledge was removed as a result of the contribution and the simultaneous sale of the share in GE Avio S.r.l., because of the repayment of debts to banks, through the use of funds made available by the purchaser.

Trade receivables from third parties

The item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued Operations	Total
Gross value	10,982	10,617	316,444	327,061
Less: allowance for doubtful accounts	(500)	(502)	(2,021)	(2,523)
Net value – within one year	10,482	10,115	314,423	324,538
Trade receivables – beyond one year	2,965	2,021	4	2,025
Total	**13,447**	**12,136**	**314,427**	**326,563**

No receivables with maturity date beyond five years exist.

The total change in the allowance for doubtful accounts was mainly due to a decrease for the reversal to income of provisions no longer required (€2 thousand).

Receivables from associated companies

The item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Eurojet Turbo G.m.b.H.	-	-	14,609	14,609
Turbo-Union Ltd.	-	-	7,203	7,203
Isi Geie	-	-	1,507	1,507
Consorzio Servizi Acqua Potabile	131	257	-	257
Termica Colleferro S.p.A.	-	943	-	943
Consorzio Servizi Colleferro S.c.p.A.	2	-	-	-
Total	**133**	**1,200**	**23,319**	**24,519**

The receivables are deemed to be fully collectable within one year and therefore no adjustments in value were recorded.

3.12. CURRENT FINANCIAL ASSETS

The item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Current financial assets from associated companies	119	4,454	-	4,454
Current financial assets from third parties	1,278,851	20,685		20,685
Fair value (non-hedging) of foreign exchange derivatives (current portion)	-	-	79	79
Other financial assets	-	70	487	557
Financial prepaid expenses	331	-	388	388
Total	**1,279,301**	**25,209**	**954**	**26,163**

Financial assets from associated companies are related to the short term portion of financial receivables due from the associate Thermal Colleferro SpA, representing accrued interest on the loan to the associate. At December 31, 2012 the caption included, with reference to Continuing operations, the credit balance (completely cleared at December 31, 2013) of the treasury account of ASPropulsion International B.V. with ASPropulsion Capital N.V., a non-consolidated associated company, within the framework of the centralized treasury operations effective for Dutch Group companies.

Financial assets from third parties mainly consist of the following:
- the present value of the short-term floating rate notes issued by Corsair Finance (Ireland) Limited - Series 119 ("Corsair") representing the investment made by the Parent company of proceeds deriving from the sale of the investment in GE Avio Srl (€1,150,000 thousand);
- the balance of restricted funds (up to August 1, 2014) included in specific escrow accounts, related to the sale operation described above (€115,000 thousand); and
- the balance of the treasury account held by Europropulsion S.A., which is consolidated on a proportionate basis, with its other joint shareholder (€13,845 thousand)

In particular, the use of part of the proceeds deriving from the transfer of the investment in GE Avio S.r.l. (amounting to a total of 1,923,180 thousand) is detailed as follows:
- € 115,000 thousand were deposited at Citibank in three separate escrow accounts, SPA Escrow Account (€ 70,000 thousand), Business Warranty Escrow Account (€ 30,000 million) and General Warranty Escrow Account (€ 15,000), as a guarantee of any liability connected to potential claims arising in connection with the execution of the Contract and in relation to the completion of business transfer. These funds are subject to restriction in terms of availability for Avio S.p.A. up to date August 1, 2014, as contractually provided.

- €1,700,000 thousand have been used for a short-term investment (based on a contract signed on August 12, 2013 and expiring October 5, 2014) concerning 17 floating rate notes issued by Corsair, each with a denomination of € 100,000 thousand; the investment transaction in described notes is collateralized by an operation of repurchase agreement signed by Corsair with JP Morgan Securities Ltd. ("JPM"), to which Corsair has deposited the cash received by Avio S.p.A. against delivery (by JPM) of a basket of securities (securities of European issuers with a minimum AA rating, denominated in euro, held in custody by The Bank of New York Mellon SA / NV - London Branch) as security deposit. In order to ensure the value of the investment, the contract provides for the trading of securities, on a daily basis, carried out by Euroclear SA / NV - Brussels, third-party entity that manages the margining of securities as collateral.

  The investment guarantees to Avio S.p.A., on a quarterly basis (as of the date October 5, 2013, subsequent to the balance sheet date, on January 5, April 5, July 5 and October 5, 2014), the payment by Corsair of interest based on EONIA Flat rate (corresponding to the interest paid by JPM to Corsair).

  Avio S.p.A. has the right to request from Corsair, with three months of notification, the early redemption of all or part of the investment to an amount equal to the notional amount

invested (whose value is guaranteed based on the contractual mechanism described above) plus the accrued interest to the date.
In November 2013, the contract with Corsair was changed in order to redefine the minimum value of the notes, fixed at € 50,000 thousand, and, on November 29, 2013, following to a resolution of the Shareholders of Avio S.p.A., a number of notes equal to a value of € 550,000 thousand have been transferred to the parent BCV Investments SCA in the context of an equity reserves distribution totaling €555,074 thousand (as described in Note 3.18).

Following the described operation, the value of notes outstanding as of the date of December 31, 2013 amounted to € 1,150,000 thousand;

- € 108,180 thousand were maintained as current liquidity of the parent company and used to manage current operations and the liquidation of liabilities recognized in the Avio S.p.A. accounts, based on the requirements of the Contract, including liabilities (in particular, related to tax and social security) pertaining to the AeroEngine business subject of the contribution.

3.13. CASH AND CASH EQUIVALENTS

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Bank and post-office accounts	58,030	2,713	76,951	79,664
Cash on hand	2	2	892	894
Total	**58,032**	**2,715**	**77,843**	**80,558**

At December 31, 2012, certain bank accounts were pledged as security in connection with the financing received. On August 1, 2013, mentioned pledge has been removed as a result of the contribution and the simultaneous sale of the share in GE Avio S.r.l., because of the repayment of debts to banks, through the use of funds made available by the purchaser.

3.14. CURRENT TAX ASSETS

Current tax assets at December 31, 2013 amounted to €16,185 thousand (€23,121 thousand at December 31, 2012 out of which €18,450 thousand classified among Continuing operations and €4,671 thousand classified among Discontinued operations.
The item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
VAT receivable	7,817	5,379	4,026	9,405
Receivables from Tax Authorities	5,820	1,706	-	1,706
Research and development tax credit	2,248	10,684	-	10,684
EU VAT receivable	300	331	-	331
Various other taxes claimed for reimbursement	-	350	645	995
Total	**16,185**	**18,450**	**4,671**	**23,121**

The increase in tax receivables from Tax Authorities refers primarily to the parent company's credit balance in respect of tax IRAP, as a result of advances paid for an amount greater than the debt posted at year end.

Research and development tax credit provided by Italian Law No. 296/2007 (2007 Italian Budget Act), subsequently modified by Legislative Decree No. 185/2008, which became Law No. 2/2009, was accounted for, according to existing rules, for an amount reasonably expected to be used to offset income taxes on future expected taxable income. The decrease was a consequence of the utilisation, in the year 2013, of the credit to offset other taxes due.

3.15. OTHER CURRENT ASSETS

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Receivables from Social Security Institutions	27	211	875	1,086
Receivables from employees	613	554	1,745	2,299
Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85	2,898	2,898	2,864	5,762
Receivables for public grants to be collected	2,610	2,610	4,332	6,942
Receivables from controlled companies: -Servizi Colleferro – Società Consortile per Azioni	-	31	-	31
Receivables from other debtors	14,274	1,653	5,015	6,668
Allowance for doubtful accounts on receivables from other debtors	(150)	(150)	(2,996)	(3,146)
Fair value (hedging) of foreign exchange derivatives (cash flow hedge - current portion)	-	-	6,060	6,060
Fair value (hedging) of commodities derivatives (cash flow hedge - current portion)	-	-	-	-
Prepaid and accrued expenses	285	208	21,005	21,213
Total	**20,557**	**8,015**	**38,900**	**46,915**

Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85 represent the present value (corresponding to a nominal value of €2,936 thousand for Continuing operations and of €2,904 thousand for Discontinued operations) of funding granted in 2009 by the Ministry of Economic Development subsequent to the approval of Resolution No. 28 of March 22, 2006, reporting guidance for the aerospace industry, by the Interministerial Committee for Economic Planning (CIPE), which are relative to programmes classified as being functional to national security and to realising a project of common European interest. The collection of these receivables is expected to occur within 12 months. The non-current portion is classified in the caption "Other non-current assets" (Note 3.8)

Receivables from other debtors include an amount of €10,877 thousand towards the former subsidiary Avio Inc. (pertaining to the business contributed to GE Avio S.r.l.) related to the recognition, occurred in late 2013, of a revenue adjustment for the period January 1, 2013 - August 1, 2013, resulting, as counterpart, in a negative price adjustment (adjusting the value of the gain related to the sale of investment in GE Avio S.r.l.) for the same amount (see Note 3.31).

3.16. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

In this note are reported the details of Discontinued operations' balances, at December 31, 2012, related to the the AeroEngine business contribution to GE Avio S.r.l. and subsequent sale of the investment held in the latter (more fully described in previous Note 1.1, also regarding allocation principle to Discontinued operations) as shown in the consolidated statement of financial position, in the consolidated income statement and in the consolidated statement of cash flows.

The detail of the assets classified among Discontinued operations at December 31, 2012 is the following:

Assets classified among Discontinued operations (Euros)	Note	**December 31, 2012 Restated (*)**
Non-current assets		
Property, plant and equipment	3.1	254,650,644
Investment property		-
Goodwill	3.3	1,756,962,759
Intangible assets with finite useful lives	3.4	959,290,684
Investments	3.5	28,067,350
Non-current financial assets	3.6	2,211,355
Deferred tax assets	3.7	52,027,720
Other non-current assets	3.8	35,985,327
Total non-current assets		**3,089,195,840**
Current assets		
Inventories	3.9	335,170,398
Contract work in progress	3.10	85,389,676
Trade receivables	3.11	337,745,393
Current financial assets	3.12	953,893
Cash and cash equivalents	3.13	77,843,391
Current tax assets	3.14	4,671,212
Other current assets	3.15	38,899,332
Total current assets		**880,673,295**
TOTAL DISCONTINUED OPERATIONS' ASSETS		**3,969,869,134**

(*)The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

The detail of the liabilities classified among Discontinued operations at December 31, 2012 is the following:

Liabilities classified among Discontinued operations (Euros)	Note	**December 31, 2012 Restated (*)**
Non-current liabilities		
Non-current financial liabilities	3.22	1,404,546,471
Provision for employee benefits	3.23	78,124,471
Provisions for risks	3.24	43,297,848
Deferred tax liabilities	3.25	133,581,699
Other non-current liabilities	3.26	483,269,223
Total non-current liabilities		**2,142,819,712**
Current liabilities		
Current financial liabilities	3.27	8,697,646
Current portion of non-current financial liabilities	3.28	78,168,495
Provisions for risks	3.24	62,931,183
Trade payables	3.29	303,345,794
Advances for contract work in progress	3.10	347,419,673
Current tax payables	3.30	10,473,880
Other current liabilities	3.31	222,399,255
Total current liabilities		**1,033,435,926**
TOTAL DISCONTINUED OPERATIONS' LIABILITIES		**3,176,255,638**

(*) The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

The economic values that produces the profit /(loss) from discontinued operations, net of tax, related to the period from January 1 2012 to December 31, 2012 and for the period from January 1 2013 to August 1, 2013, are shown in the following table:

Revenues/(costs) and income/(expenses) classified among Discontinued operations	**Note**	**Year 2013 (Jan 1 – Aug 1)**	**Year 2012 (Jan 1 – Dec 31)**
(Euros)			
Revenues	3.32	1,287,737,321	2,067,625,434
Change in inventory of finished and semi-finished goods		54,656,983	27,999,476
Other operating income	3.33	38,659,951	47,501,907
Raw material consumption	3.34	(359,996,485)	(555,730,205)
Costs of services	3.35	(562,387,053)	(943,314,746)
Personnel costs	3.36	(156,862,012)	(269,135,028)
Depreciation and amortisation	3.37	(84,095,210)	(138,401,161)
Write-down and impairment/reversal	3.38		-
Other operating expenses	3.39	(70,198,317)	(70,613,402)
Capitalisation of costs for internally generated assets	3.40	16,545,633	34,446,156
OPERATING PROFIT	,	**164,.060,811**	**200,378,431**
Financial income	3.41	57,465,549	84,462,158
Financial expenses	3.42	(128,444,236)	(215,573,106)
NET FINANCIAL INCOME/(EXPENSES)		**(70,978,687)**	**(131,110,948)**
Share of income/(expenses) in investments in associated companies accounted for using the equity method		-	-
Other income/(expenses) from financial investments	3.43	1,102,730,423	178,076
NET INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS		**1,102,730,423**	**178,076**
PROFIT/(LOSS) BEFORE TAXES FROM DISCONTINUED OPERATIONS		**1,195,812,546**	**69,445,559**
INCOME TAXES	3.44	**1,195,812,546**	**69,445,559**
PROFIT/(LOSS) AFTER TAXES FROM DISCONTINUED OPERATIONS		**1,290,062,257**	**21,447,340**

(*) The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

With reference to the 2013 results from *Discontinued operations* (in particular the period between January 1, 2013 and August 1, 2013), it includes the following main components:

- €1,060,646 thousand related to the capital gain arising from the sale of investment in GE Avio S.r.l. to Nuovo Pignone Holding S.p.A., net of the related tax effect (for details please refer to the note on 3.42)
- € 157,585 thousand income related to the reversal of tax liabilities in the income statement recognized at 1 August 2013 representing the future tax effect of goodwill amortization attributable to the AeroEngine business (eliminated in the context of the contribution operation);
- € 14,327 thousand income emerging from the impact in the income statement, net of the related tax effect, of the reversal of *cash flow hedges* of exchange rate, interest rate and *commodity* reserves, due to the early termination of contracts (for instruments related to the interest rate and *commodity*) and to the transfer of the contracts and the underlying transactions (for instruments relating to exchange rate) in the context of the AeroEngine business contribution and consequent sale of the investment in GE Avio S.r.l.;
- € 57,504 thousand representing the positive result, net of the related tax effect, of the AeroEngine sector recurring activities for the period from 1 January 2013 to August 1, 2013.

The breakdown of cash flows, divided by nature, generated by the *Discontinued operations*, is the following:

Cash flow of Discontinued operations	**2013**	**2012**
(*Euros*)		
Net cash provided by operating activities	35,581	155,939
Net cash used in investing activities	(34,820)	(122,083)
Net cash provided by financing activities	(581)	(75,185)

EQUITY

3.17. SHARE CAPITAL

The Parent share capital as of December 31, 2013 was €40,000 thousand, fully issued and paid, and unchanged with respect to December 31, 2013.

Share capital was paid entirely at the incorporation of the Parent, on December 11, 2006.

At December 31, 2013, share capital consisted of 400,000,000 ordinary shares with a par value of €0.1 each, wholly owned by the sole shareholder BCV Investments S.C.A., and unchanged with respect to December 31, 2012.

Following a resolution of the extraordinary shareholders' meeting of July 29, 2011, resolved to increase share capital by cash, for an amount up to €20,000 thousand of par value, by issuing a maximum of 200,000,000 maximum new ordinary shares with a nominal value of €0.1 each, regular entitlement, to be offered in Italy for subscription to the general public under a public offer, and/or to Italian qualified investors and foreign institutional investors, in an institutional underwriting, aiming at the admission to listing of the Parent's share on the Italian Stock Exchange (MTA – *Mercato Telematico Azionario*, organized and managed by Borsa Italiana S.p.A.).

Such resolution has been revoked by the shareholders' meeting of August 1, 2013, following MTA listing process interruption, due to the extraordinary contribution and sale operation.

The objectives identified by the Group for managing capital are to create value for shareholders, to preserve business continuity and support the growth of the Group.

Capital means both the value contributed by shareholders, represented by share capital and additional paid-in capital, and the value generated by the Group in terms of results achieved in operations, represented by retained earnings and other reserves, excluding gains and losses recognised directly in equity (translation adjustments reserve, actuarial gain and losses reserves and cash flow hedge reserves) and non-controlling interests.

3.18. ADDITIONAL PAID-IN CAPITAL

Additional paid-in reserve was €73,576 thousand at December 31, 2013 (€726,400 thousand at 31 December 2012).

The decrease in the reserve refers to the decisions taken by the shareholders' meeting during the month of November 2013, which resolved with reference to the impact on equity, as follows:

- on November 15, 2013, to cover Avio S.p.A. past losses (€ 143,242 thousand) through the use of retained earnings (for € 37,884 thousand), the reserve of foreign exchange gains (for € 12,933 thousand) and the share premium reserve (for € 92,425 thousand);
- on November 29, 2013, to execute a distribution in favor of the sole shareholder of an amount of € 555,074 thousand, by using the share premium reserve.

3.19. OTHER RESERVES

The item, entirely referred to Discontinued operations, is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012 Restated (*)
Consolidated subsidiaries financial statements in foreign currencies translation adjustments reserve	-	(2,005)
Exchange rate cash flow hedge reserve	-	16,692
Interest rate cash flow hedge reserve	-	(1,957)
Commodities cash flow hedge reserve	-	(146)
Actuarial gain/(losses) reserve	(2,037)	(14,135)
Total	**(2,037)**	**(1,551)**

(*)The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

The translation adjustments reserve includes the exchange differences arising from the translation of equity of consolidated subsidiaries, whose financial statements are denominated in currencies other than Euro with reference to Avio India Aviation Aerospace Private Limited, hereinafter referred to as "Avio India Private Limited" (whose financial statements are denominated in Indian Rupees).

The interest rate, exchange rate and commodities cash flow hedge reserves are recorded (unitl July 30, 2013 with regard to interest rates and commodity cash flow hedge reserves, and until August 1, 2013 with regard to exchange rate cash flow hedge reserve) to recognise in the equity the portion of gains and losses on hedging instruments (used to hedge exchange rate, interest rate and commodities risks) determined to be effective. When the forecasted transactions result in the recognition of a financial asset or a financial liability, the associated gains or losses previously recognised in equity are reversed to the income statement.

The movements of mentioned reserves, entirely related to Discontinued operations, are the following (€ thousands):

	Exchange rate cash flow hedge reserve			Interest rate cash flow hedge reserve			Commodities cash flow hedge reserve		
	Gross value	Deferred tax effect	Net value	Gross value	Deferred tax effect	Net value	Gross value	Deferred tax effect	Net value
At December 31, 2012	23,024	(6,332)	16,692	(2,699)	742	(1,957)	(201)	55	(146)
Changes due to measurement of hedging effectiveness	2,624	(722)	1,902	(24)	7	(17)	(394)	109	(285)
Reversal to income statement	(2,215)	610	(1,605)	1,573	(433)	1,140		-	-
Extraordinary reversal to income statement	(23,433)	6,444	(16,989)	1,150	(316)	834	595	(164)	431
At December 31, 2013	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Changes due to measurement of hedging effectiveness and Reversal to income statement refer to the movements recognized by *cash flow hedges* reserves during the period from January 1, 2013 to July 30, 2013 (for the interest rates and commodities *cash flow hedge* reserve) and during the period from 1 January 2013 to August 1, 2013 (for the exchange rate *cash flow hedge* reserve).

The extraordinary reversal to the income statement of the reserves occurred on July 30, with reference to the interest rate and commodity *cash flow hedge* reserves, following the termination of respective derivative contracts, while regarding the exchange rate cash flow hedge reserve for, it was subject to reversal to income statement on August 1, 2013, following the effect of contribution, which included both derivatives and related underlying transactions, producing the elimination of the hedging conditions, with related recognition in the income statement of the effects suspended into reserves, in accordance with relevant accounting standards.

It should be noted that, following the contribution and sale operation, at 31 December 2013, the Group has no derivative financial instruments contract in place.

The actuarial gains / losses reserve, negative for € 2,037 thousand at December 31,2013 includes gains and losses arising from the retrospective application, starting from January 1, 2013 of IAS 19 revised.

In this regard, with respect to financial information published in the consolidated financial statements at 31 December 2012, net actuarial losses amounted to € 14,135 thousand (refer both to the component that *Continuing Discontinued*), net of € 5,361 thousand tax effect (for further details refer to note 2.10 New accounting standards) were recognized in comparative data included in the present document.

To a certain number of Group managers was given the right to participate in an investment plan in the Parent's controlling company, which may be considered as an equity settled share-based payment under the provisions of IFRS 2, and the fair value of which resulted as not being material and therefore not accounted for.

3.20. RECONCILIATION OF EQUITY OF THE PARENT TO THE CONSOLIDATED EQUITY

The reconciliation of Equity at December 31, 2013, and the profit/(loss) for the year 2013 resulting from the statutory financial statements of the Parent, and the corresponding values resulting from the consolidated financial statements, is presented in the table below (€ thousands):

	Equity at December 31, 2013	Profit/(Loss) for the year 2013	Equity at December 31, 2012 Restated (*)	Profit/(Loss) for the year 2012 Restated (*)
Avio S.p.A. statutory financial statements	**1,445,731**	**1,245,356**	**689,584**	**29,668**
Elimination of the carrying amount of investments recorded in the statutory financial statements	(120,402)	-	(242,038)	-
Equity and results of consolidated subsidiaries	134,481	21,454	334,075	16,438
Elimination of inter-company dividends	-	(12,615)	-	(8,440)
Elimination of gains and losses on inter-company transactions and other consolidation adjustments	909	22,472	(23,013)	(6,001)
Consolidated financial statements (Group interest)	**1,460,732**	**1,276,669**	**758,608**	**31,665**

(*)The comparative data for 2012 have been restated to include the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

3.21. NON-CONTROLLING INTERESTS

The non-controlling interests in equity is related to third parties interest in the equity of subsidiaries consolidated line-by-line, and is as follows (€ thousands):

	December 31, 2013			December 31, 2012 Restated (*)		
Subsidiary	Non-controlling interests %	Share capital and equity reserves	Profit/(Loss) for the period	Non-controlling interests %	Share capital and equity reserves	Profit/(Loss) for the period
Continuing operations						
ELV S.p.A.	30.00%	2,463	58	30%	2,289	175
Regulus S.A.	40.00%	4,975	1,192	40%	4,160	1,415
		7,438	**1,250**		**6,449**	**1,590**
Discontinued operations						
Polonia Aero Sp.z o.o.	40.85%	-	(164)	40.85%	1,319	(154)
Avioprop S.r.l.	16%	-	(92)	16%	465	(87)
		-	**(256)**		**1,784**	**(241)**
Total		**7,438**	**994**		**8,233**	**1,349**

(*)The comparative data for 2012 have been restated to include the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

The share of profit (loss) of the year 2013 allocated to Discontinued operations refers to the results attributable to minority interests for the period January 1, 2013 - August 1, 2013, with reference to the subsidiaries pertaining to AeroEngine business, subject to contribution and sale operation.

NON-CURRENT LIABILITIES

3.22. NON-CURRENT FINANCIAL LIABILITIES

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing operations*	*Discontinued operations*	Total
Financial payables to banks (Senior Facilities)	-	-	1,049,958	1,049,958
Financial payables to associated companies	-	-	338,647	338,647
Financial payables to parent company	139,929	133,880	-	133,880
Easy-term financing from Ministry of	-	-	6,709	6,709
Economic Development and Ministry of Education, University and Research	-	-	55	55
Other financial payables to banks	-	-	1,444	1,444
Financial payables related to the participation in international collaboration agreements	-	-	-	-
Fair value (non-hedging) of foreign exchange derivatives (non-current portion)	-	-	7,734	7,734
Total	**139,929**	**133,880**	**1,404,547**	**1,538,427**

At December 31, 2013, Non-current financial liabilities includes financial payables to parent company.

Financial payables to banks

The balance is composed as follows (in thousands of euros):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Nominal value of the debt	-	-	1,116,185	1,116,185
Effect of application of the amortized cost method	-	-	(66,227)	(66,227)
Total	**-**	**-**	**1,049,958**	**1,049,958**

Financial payables to banks classified as Discontinued operations at December 31, 2012 referred to the agreement named "Senior Facilities Agreement" signed on December 13, 2006 by BCV Investments S.C.A. (the sole shareholder of the Parent), also with accession on the same date by the Parent, as Original Obligors, with J.P.Morgan plc, Lehman Brothers International (Europe), The Royal Bank of Scotland plc - Milan Branch, Banca Intesa S.p.A., Bayerische Hypo-und Vereinsbank AG. - Milan Branch, and Citigroup Global Markets Limited as "Mandated Lead Arrangers", then, during the year 2012, subject to amendments.

Financial liabilities were recorded at the value resulting from the application of the amortized cost method, determined as the liability initial fair value net of costs incurred to obtain the loans, plus the cumulative amortization of the difference between the initial value and the maturity amount calculated using the effective interest rate.

With reference to the outstanding debt at December 31, 2012, relating to the amended *Senior Facilities Agreement,* it should be noted that, even considering the effects arising from the presence of a preliminary agreement for the contribution of the business including the loan agreement to GE Avio S.r.l. and subsequent sale of the investment held in the latter, the same liability was presented (in 2012 financial statement) as a non-current liability, based on the fact that any eventual refund would result (as confirmed by the events of 2013) be the responsibility of the buyer (thus not producing a change in payment flows expected for Avio S.p.A.) and, at the moment of preparation of financial statements at December 31, 2012, the validity of the Agreement was subject to the fulfillment of certain conditions precedent (including obtaining the necessary antitrust approval from the European Union and the United States of America, as well as regulatory approvals by the Italian Government).

As indicated, in response to the Agreement's requirements, on August 1, 2013, the loan agreement and related liabilities recognized in the accounts of Avio S.p.A. have been the subject of transfer to GE Avio S.r.l., producing, as provided by the relevant accounting standards (IAS 39), the recording, in the Avio's income statement, of € 16,564 thousand financial charges (recognized in *Discontinued operations*) representing the effect of liabilities value adjustment at their nominal value (amortized cost unwinding) at that date (to a value corresponding to the one provided by contract for the contribution).

It is also noted that the *Senior Facilities Agreement* provided for certain guarantees, including mortgages, liens and pledges set up special on certain assets of the Group, as well as the existence of restrictions on the granting of guarantees to third parties (negative pledge), the imposition of constraints for the execution of certain operations in excess of amounts established, the periodic reporting obligations and compliance with specific financial ratios calculated for each quarter. These constraints and obligations have ceased on August 1, 2013, according to the repayment of financial liabilities related to the *Senior Facilities Agreement*, carried out through the use of funds made available by the purchaser, in the context of Agreement provision.

Financial payables to associated companies

The balance is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Nominal value of the debt	-	-	359,409	359,409
Effect of application of the amortized cost method	-	-	(20,762)	(20,762)
Total	**-**	**-**	**338,647**	**338,647**

At December 31, 2012, financial payables to associated companies, classified among Discontinued operations, were represented by the loan agreement for the contract named *Subordinated TreasuryCo Loan Agreement No. 2*, granted at December 14, 2006 by the associated company ASPropulsion Capital N.V., a financial company controlled by the parent company BCV Investment S.C.A. within the framework of the financial transactions put in force at Group level in conjunction with the Acquisition.

This financial payable was accounted in the financial statement at the value resulting from the application of the amortized cost method determined as the payable initial fair value net of costs incurred to obtain the loans, plus the cumulative amortization of the difference between the initial value and the maturity amount calculated using the effective interest rate.

With reference to the debt outstanding at December 31, 2012 relating to the *Subordinated TreasuryCo Loan Agreement No. 2*, it should be noted that, even considering the effects arising from the presence of a preliminary agreement for the contribution of the business including the loan agreement to GE Avio S.r.l. and subsequent sale of the investment held in the latter, the same liability was presented (in 2012 financial statement) as a non-current liability, based on the fact that any eventual refund would result (as confirmed by the events of 2013) be the responsibility of the buyer (thus not producing a change in payment flows expected for Avio S.p.A.) and, at the moment of preparation of financial statements at December 31, 2012, the validity of the Agreement was subject to the fulfillment of certain conditions precedent (including obtaining the necessary antitrust approval from the European Union and the United States of America, as well as regulatory approvals by the Italian Government).

As indicated, in response to the Agreement's requirements, on August 1, 2013, the loan agreement and related liabilities recognized in the accounts of Avio S.p.A. have been the subject of transfer to GE Avio S.r.l., producing, as provided by the relevant accounting standards (IAS 39), the recording, in the Avio's income statement, of € 5,743 thousand financial charges (recognized in

Discontinued operations) representing the effect of liabilities value adjustment at their nominal value (amortized cost unwinding) at that date (to a value corresponding to the one provided by contract for the contribution).

It is also noted that the *Subordinated TreasuryCo Loan Agreement No. 2* provided for certain guarantees and the compliance with certain commitments. Such guarantees and commitments have ceased on August 1, 2013, according to the repayment of financial liabilities related to *Subordinated TreasuryCo Loan Agreement No. 2*, carried out through the use of funds made available by the purchaser, in the context of Agreement provision.

Financial payables to parent company

The balance is composed as follows (in thousands of euros):

	December 31, 2013	December 31, 2012		
	Total	*Continuing operations*	*Discontinued operations*	Total
Nominal value (principal amount)	96,964	97,784	-	97,784
Nominal value (capitalized interests)	54,054	46,694	-	
Amortised cost adjustment	(11,089)	(10,598)	-	36,096
Total	**139,929**	**133,880**	**-**	**133,880**

The debt, classified among Continuing operations, is related to the loan granted by BCV Investments S.C.A. under the "*Intercompany Loan Agreement*" signed on December 13, 2006 by the Parent, within the framework of the financing transactions connected to the Acquisition.

Based on the above *Intercompany Loan Agreement*, the loan, utilisable up to a maximum of €100,000 thousand, was drawn for €93,000 thousand on December 14, 2006. In the 2008 financial year a new €5,900 financing was granted. In 2011, 2012 and 2013 a partial repayment has been made for respectively €420, €696 and €820 thousand. The interest applicable over each drawing is 8%, payable with the reimbursement of the loan, which may be made partially or totally, at any time selected by the Group, provided that the loan is to be entirely repaid by December 13, 2021. The repayment of the loan was subordinated to the obligations due under the other financing related to the *Senior Facilities Agreement*, *Senior* Performance Bond Facility Agreement and Subordinated TreasuryCo Loan Agreement No. 2, until August 1, 2013. Mentioned obligations have ceased on 1 August 2013, according to the repayment of financial liabilities related to contract the Senior Facilities Agreement and Subordinated TreasuryCo Loan Agreement No. 2, which occurred subsequently to the contribution and sale of the investment in GE Avio S.r.l., made by the assignee, through the use of funds made available by the purchaser.

The financial payable is measured by applying the amortised cost method, using the effective interest rate.

Easy-term financing from Ministry of Economic Development and Ministry of Education, University and Research

The balance is composed as follows (€ thousands):

	December 31, 2012	December 31, 2012		
	Total	*Continuing operations*	*Discontinued operations*	Total
Financing from the Ministry of Education, University and Research	-	-	143	143
Financing from the Ministry of Economic Development pursuant to a programme general agreement Puglia Region	-	-	6.566	6.566
Total	-	**-**	**6.709**	**6.709**

Financial lease payables

This item, classified among *Discontinued operations*, at December 31, 2012, included the €1,444 thousand liability recognised as a financial payable as counterpart of tangible fixed assets recorded in accordance with IFRIC 4 among *Discontinued operations*.

3.23. EMPLOYEE BENEFITS PROVISIONS

The item includes obligations for post-employment benefits and other long-term benefits payable to employees.
The way these benefits are provided varies according to legal, fiscal and economic conditions of each country in which Group companies operate, the benefits generally being based on employees' remuneration and years of service. The obligations relate to active employees.

Post-employment benefits
Group companies provide post-employment benefits for their employees, contributing to independently administered funds through defined contribution plans, and with defined benefit plans.

Defined contribution plans
In the case of defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory or contractual basis. Once the contributions are paid, the Group has no further payment obligations. Liabilities for contributions accrued but not paid are included in the item "Other current liabilities". The Group recognises the contribution cost when the employee has rendered his service and includes this cost in the item "Personnel costs".

Defined benefit plans
Defined benefit plans are unfunded and substantially relate to employee severance indemnity payment ("*Trattamento di Fine Rapporto* - TFR") applicable to the Group's Italian companies, and to the special long-term service indemnity, which is payable at the moment of retirement to employees who have matured certain length of service seniority requisites within the company. The amount of these obligations is determined on an actuarial basis using the projected unit credit method.

TFR is related to the obligation payable to employees at termination of employment, in accordance with the provision of Art. 2120 of the Italian Civil Code. The 2007 Budget Law and subsequent Decrees and Regulations, significantly modified the relevant rules. In particular, regarding companies employing an average of more than 50 employees, TFR maturing after January 1, 2007 is transferred because of a choice made by the employee, to a complementary pension fund or to the treasury fund managed by INPS (National Social Security Institute). Consequently, for the Group's companies employing an average of more than 50 employees, the portion of TFR accrued after this date is assumed as a defined contribution plan, because the Group's obligation is represented exclusively by the payments to the complementary pension funds or INPS, while the past provision accrued at December 31, 2006 continues to represent a defined benefit plan, to be assessed based on actuarial methodologies. For the Group's companies employing an average of less than 50 employees, the portion of the year is still accrued in the TFR reserve, except for a specific decision taken by employees on a voluntary basis.

Other long-term benefits

The Group grants certain other long-term benefits to its employees, generally paid when the employee attains a specific seniority in the company. In this case, the measurement of the obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. The amount of this obligation recorded in the balance sheet is calculated on an actuarial basis using the project unit credit method.

The detail of the defined benefit plans reserve as detailed is as follow (€ thousands):

	December 31, 2013	December 31, 2012 Restated (*)		
	Total	*Continuing operations*	*Discontinued operations*	Total
Defined benefit plans:				
Employee severance indemnity (TFR)	7,259	7,326	51,771	59,097
Other defined benefit plans	1,892	1,671	12,797	14,468
	9,151	8,997	64,568	73,565
Other long-term benefits	2,466	2,321	13,556	15,877
Total	**11,617**	**11,318**	**78,124**	**89,442**
of which:				
- Italy	10,816	10,550	78,124	88,674
- Other countries	801	768	-	768
Total	**11,617**	**11,318**	**78,124**	**89,442**

(*) The comparative figures for 2012 have been restated to include the retrospective application of the IAS 19 revised and the amendment to IAS 1. Specifically, with reference to the Continuing operations, TFR increased by €1,414 thousand (€9,905 thousand for the Discontinued operations) and Other benefit plans increased by €937 thousand (€ 6,892 thousand for the Discontinued operations).

Changes in employee benefits provisions for the year ended December 31, 2012 are as follows (€ thousands):

	Defined benefit plans	Other long-term benefits	Total employee benefits provisions
Balance at December 31, 2012 (published) (*)	54.098	15.877	69.975
Actuarial losses to be recorded according to IAS 19 revised	19.467	-	19.467
Balance at January 1, 2013 according to IAS 19 revised	**73.565**	**15.877**	**89.442**
Financial expenses/(income)	309	60	369
Recognised actuarial losses/(gains)	610	362	972
Current service costs	284	365	649
Other changes	(245)	34	(211)
Benefits paid	(1.278)	(991)	(2.269)
Change in consolidation area	(2.490)	(591)	(3.081)
Contributed benefit plan	(61.604)	(12.650)	(74.254)
Balance at December 31, 2013	**9.151**	**2.466**	**11.617**

(*) Including Continuing and Discontinued operations.

The amounts charged to the 2013 income statement related to the employees benefits provisions, are detailed in the following table (€ thousands):

	December 31, 2013			December 31, 2012				
	Defined benefit plans	Other long-term benefits	Total	Defined benefit plans		Other long-term benefits		Total
			Employee benefits provisions	*Continuing operations*	*Discontinued operations*	*Continuing operations*	*Discontinued operations*	Employee benefits provisions
Past service cost	-	-	-	1	47	-	-	48
Current service cost	284	365	649	62	505	152	654	1.207
Recognised actuarial losses/(gains)	610	362	972	60	405	140	1.347	1.952
Total personnel costs	894	727	1.621	123	957	292	2.001	3.373
Financial expenses/(income)	309	60	369	181	1.260	173	1.525	3.139
Total	**1.203**	**787**	**1.990**	**304**	**2.217**	**465**	**3.526**	**6.512**

Post-employment benefits and other long-term benefits are calculated based on the following actuarial assumptions:

	Year 2013	Year 2012
Discount rate	1,69%	2.29%
Expected salary increase	2,71%	2.57%
Inflation rate	2,00%	2.00%
Average rate of turnover	7,95%	7.14%

In order to calculate the present value, bonds issued by corporate issuers included in "AA" class rating have been considered, with the assumption that this class identifies a high level of credit ratings in the set of "Investment Grade" bonds and excluding in this way, riskier bonds. The market curve chosen is a market curve "Composite", which summarizes the market conditions at the date of valuation for bonds issued by companies belonging to different industries including Utilities, Telephone, Financial, Bank, Industrial . The geographical area considered was the Euro zone.

A 100 basis points increase or decrease in the discount rate would results as indicated in the following table in the estimated value of TFR and of long-term service indemnity:

	Increase 1,00% in the discount rate	Decrease 1,00% in the discount rate
TFR	(379)	406
Long-term service indemnity	(132)	148

3.24. PROVISIONS FOR RISKS

The composition of the reserves for risks and charges is as follows (€ thousands):

	December 31, 2013			December 31, 2012						
	Current	Non - current	Total	Current			Non-current			Total
				Continuing operations	*Discont. operations*	Total	*Continuing operations*	*Discont. Operations*	Total	
Reserve for costs of variable salaries and wages	9,868	-	9,868	46,558	12,971	59,529	-	-	-	59,529
Reserve for personnel expenses and restructuring	-	1,894	1,894	19	6,701	6,720	541	1,701	2,242	8,962
Reserve for legal and environmental risks	2,322	7,295	9,617	2,168	320	2,488	3,747	6,110	9,857	12,345
Reserve for contractual and commercial risks	-	4,377	4,377	-	42,939	42,939	840	35,487	36,327	79,266
Reserve for tax risks	4,298	10,618	14,916	-	-	-	30,534	-	30,534	30,534
Total	**16,488**	**24,184**	**40,672**	**48,745**	**62,931**	**111,676**	**35,662**	**43,298**	**78,960**	**190,636**

The reserves are summarised below:

- The reserve for costs of variable salaries and wages is related for the current portion to the amount to be paid to qualified employees contingent upon the achievement of company and individual results and (for a total amount of €7,743 thousand) for the provision related to a remuneration plan attributable to a certain number of manager. Such remuneration plan is subject to the occurrence of specific events related to the shareholding of the Parent or its controlling company and is dependent on the achievement of the Group's specific level of equity evaluation. This plan is considered as a "cash settled share-based payment" according to the provision of IFRS 2 and the related fair value was determined through mathematical-actuarial models;
- The reserve for personnel expenses and restructuring is related to estimated costs, relevant to social security costs, to additional TFR and other costs arising from the agreements signed with the Trade Unions referring to the procedures for early retirement for redundancy of qualified personnel (for €1,894 thousand) and to other restructuring costs;

- The reserve for legal and environmental risks included provisions made for current legal proceedings and for estimated costs arising from risks for the portion contractually attributable to the Group, in connection also with proceedings consequent to environmental damage claims;
- The reserve for contractual and commercial risks mainly refers to provisions for outstanding commercial litigation, penalties and contract termination costs and losses;
- The reserve for tax risks, related mainly to the accruals made for possible adverse results from tax audits conducted on the Parent and on some Italian subsidiaries, also following the notification by the Government Tax Office ("*Agenzia delle Entrate*") of some formal tax claims ("*avvisi di accertamento*").

The changes in total current and non-current provisions in 2013 are detailed as follows (€ thousands):

	December 31, 2012	Provisions	Non-recurring provisions	Reclass.	Utilization	Amounts reversed to income	December 31, 2013
Reserve for costs of variable salaries and wages	46,558	12,256	4,029	4,697	(57,672)	-	9,868
Reserve for personnel expenses and restructuring	560	-	1,399	-	(65)	-	1,894
Reserve for legal and environmental risks	5,915	732	3,700	-	(730)	-	9,617
Reserve for contractual and commercial risks	840	4,113	-	-	(318)	(258)	4,377
Reserve for tax risks	30,534	5,723	-	-	(21,297)	(44)	14,916
Total	**84,407**	**22,824**	**9,128**	**4.697**	**(80,082)**	**(302)**	**40,672**

The item "Reclassification" includes a portion of provisions classified, at December 31, 2012, among Discontinued operations and reclassified among Continuing operations in 2013 following the definition of the underlying contractual relationship.

3.25. DEFERRED TAX LIABILITIES

Deferred tax liabilities at December 31, 2012 amounted to €302 thousand (€109.933 thousand classified among Continuing operations and €138,256 thousand classified among Discontinued operations and related to the consolidated subsidiaries in which the net balance between prepaid tax assets and deferred tax liabilities was negative. ELV S.p.A. is the only consolidated company presenting a negative net balance between deferred tax assets and deferred tax liabilities.

The analysis and composition of deferred tax liabilities is reported, together with those of the deferred tax assets, in Note 3.6 - "Deferred tax assets".

3.26. OTHER NON-CURRENT LIABILITIES

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing operations*	*Discontinued operations*	Total
Payables related to the participation in international collaboration agreements - portion due after one year	-	-	193,064	193,064
Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 - portion due after one year	39,230	37,775	260,764	298,539
Deferred income for funding pursuant to Law No. 808/85 – portion due after one year	16,347	18,051	17,332	35,383
Deferred income for grants related to assets - portion due after one year	38	70	6,937	7,007
Deferred income for tax credit related to R&D activities – portion due after one year	1,180	1,535	3,175	4,710
Fair value (hedging) of foreign exchange derivatives (cash flow hedge – non-current portion)	-	-	286	286
Fair value (hedging) of commodities derivatives (cash flow hedge – non-current portion)	-	-	84	84
Other non-current liabilities	-	-	1,627	1,627
Total	**56,795**	**57,431**	**483,269**	**540,700**

Payables related to the participation in international collaboration agreements – portion due after one year

This item was included, at December 31, 2012, among *Discontinued operations*, because it is related to payables to partners in international collaboration agreements for contractual charges associated with the development of commercial aircraft programmes in which original costs were capitalised and classified as intangible assets with finite useful life, pertaining to Discontinued operations.

The amount included in this item, being a long term debt not interest bearing, was valued with the amortised cost method (at December 31, 2012 the nominal value was of € 229,933 thousand).

Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 – portion due after one year

This item (€39,230 thousand at December 31, 2013) relates to the financing provided by the Ministry of Economic Development pursuant to Law No. 808/85, and subsequent legislation intended to promote research and development activities, including studies, tests and designs for new programmes and certain other activities, in the aerospace industry. This financing is interest free and is required to be repaid over the life of the related programmes. These payables are valued at their nominal value.

In 2006, the regulations for the implementation of Law No. 808/85 were modified. In particular, within the scope of programmes eligible for intervention under the above law, specific guidelines were carved out for programmes directed at national security and at realising a project of common European interest. According to these new guidelines, the payment of compensation on the sale of products developed within the above programmes is now provided for, superseding the current refunding of financing granted.
The obligation to refund the amount free of interest stands for programmes not included in the above categories.
These new guidelines are deemed not to be applicable for programmes eligible for intervention decided before the adoption of Resolution No. 28/2006 by the Interministerial Committee for Economic Planning (CIPE), as formally communicated to the Ministry of Economic Development in prior years, and following an in-depth analysis carried out also with the support of authoritative legal advisors, taking into consideration the specific situation of the programmes involved, and, therefore, no modifications to the current law having arisen in 2013, the accounting method presently utilised in recognising this financing was not modified.

Deferred income for funding pursuant to Law No. 808/85 – portion due after one year

This item (€16,347 thousand at December 31, 2013) represents the initial counterpart of the receivable from the Ministry of Economic Development for funding pursuant to Law No. 808/85 related to programmes classified as being functional to national security or to realising a project of common European interest (as explained in Note 3.8) for the portion to be credited to income statement of future periods, after one year, to match them with the related costs for which funding has been granted.

Deferred income for grants related to assets – portion due after one year

This item (€38 thousand at December 31, 2013) refers to capital grants related to property, plant and equipment, the portion of which is deferred to future years over the remaining depreciation period of the related assets.

Deferred income for tax credit related to R&D activities – portion due after one year

This item (€1,180 thousand at December 31, 2013) represents the portion of the tax credit recorded in the financial statements as provided for by Law No. 296/2007 (2007 Finance Act) subsequently modified by Law Decree No. 185/2008, converted into Law No. 2/2009, to be credited to the income statement in future financial years, after one year, depending on different types of costs being the subject of the intervention, in relation to both the year of charging to income statement R&D expenses, based on which the tax credit has been determined, and to the recognition of revenues related to contract work in progress, to the amount of which R&D expenses concurred.

CURRENT LIABILITIES

3.27. CURRENT FINANCIAL LIABILITIES

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing operations*	*Discontinued operations*	Total
Financial payables to jointly controlled companies	13,845	20,685	-	20,685
Financial payables to associated companies	-	-	4,756	4,756
Financial payables to third parties	-	-	21	21
Fair value of interest rate derivatives (current portion)	-	-	2,795	2,795
Fair value (non-hedging) of foreign exchange derivatives (current portion)	-	-	1,125	1,125
Total	**13,845**	**20,685**	**8,697**	**29,382**

Financial payables to jointly controlled companies, classified among Continuing operations, regarded 50% of the financial intercompany debt of Avio S.p.A. towards Europropulsion S.A., not eliminated in the consolidation as the proportionate method is applied.

3.28. CURRENT PORTION OF NON-CURRENT FINANCIAL LIABILITIES

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing operations*	*Discontinued operations*	Total
Current portion of financial payables to banks (*Senior Facilities*)	-	-	46,085	46,085
Current portion of financial payables to associated companies	-	-	14,896	14,896
Current portion of easy-term financing from banks, Ministry of Economic Development and Ministry of Education, University and Research	-	-	953	953
Current portion of other financial payables to banks	-	-	55	55
Current portion of financial lease payables	-	-	648	648
Current portion of financial payables related to the participation in international collaboration agreements	-	-	15,355	15,355
Financial accrued interests	-	-	176	176
Total	**-**	**-**	**78,168**	**78,168**

At December 31, 2013 there are no current portion of non-current financial liabilities, as well as for Continuing operations at December 31, 2012.

The following comments refer to most significant items included among Discontinued operations at December 31, 2012 for a better understanding of the changes that have occurred in 2013 and because of the significance of the relative amounts.

Current portion of financial payables to banks

The item, classified at December 31, 2012among Discontinued operations, included the portion of financial payables borrowed under the *Senior Facilities Agreement* of December 2006, with contractual or expected maturity date within one year (as more fully described in Note 3.22 - "Non-current financial liabilities”). It included the share of short-term liabilities determined in relation to the application of amortized cost (equal to the discounted amounts at the effective interest rate of the flows of interest payments then planned for 2013).

Current portion of financial payables to associated companies

The item, classified at December 31, 2012 among Discontinued operations was related to the current portion of payables to associated companies for €14,896 thousand and is entirely related to the effect arising from the application of the amortised cost method to the loans granted by *Subordinated TreasuryCo Loan Agreement No. 2* to ASPropulsion Capital N.V.

Current portion of financial payables related to the participation in international collaboration agreements

The item, classified at December 31, 2012 among Discontinued operations, was made up of the portion due within one year of the financial payables, calculated under the amortised cost method, arising from the liability linked to the participation in international collaboration agreements for the development and production of commercial aircraft engines. Such liability calculated used the amortised cost method (based on a nominal value of €9,049 thousand), was originated from the interest bearing deferral payment of a portion of amounts due for participating to a programme for which deferral payment had been agreed upon.

3.29. TRADE PAYABLES

Trade payables are as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing operations*	*Discontinued operations*	Total
Trade payables to third party suppliers	55,784	54,137	303,220	357,357
Trade payables to controlled companies	-	-	-	-
Trade payables to associated companies	1,917	2,591	126	2,717
Trade payables to parent companies	-	-	-	-
Total	**57,701**	**56,728**	**303,346**	**360,074**

At December 31, 2013, this item amounted to €57,701 thousand (€56,728 thousand classified at December 31, 2012 among Continued Operations and €303.346 thousand classified among Discontinued operations). The caption includes trade payables to third party suppliers for €55,784 thousand at December 31, 2013 and trade payables to associated companies for €1,917 thousand at December 31, 2013.

Trade payables to associated companies are as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing operations*	*Discontinued operations*	Total
Eurojet Turbo G.m.b.H.	-	-	125	125
Turbo-Union Ltd.	-	-	1	1
Termica Colleferro S.p.A.	1,917	2,591	-	2,591
Total	**1,917**	**2,591**	**126**	**2,717**

3.30. CURRENT TAX PAYABLES

The composition of current tax payables is as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing operations*	*Discontinued operations*	Total
Tax withholdings payable	1,014	6,761	344	7,105
Income tax payables – IRES	38,615	-	12	12
Income tax payables – IRAP	104	1,517	62	1,579
Other taxes and duties payables	7,746	1,730	10,056	11,786
Total	**47,479**	**10,008**	**10,474**	**20,482**

Tax withholdings payable referred to payables to the Italian Treasury for retention made by the Group as withholding agent on salary and other income. The decrease registered in comparison with previous period (if compared to 2012 Continuing operations) is due to the fact that, at December 31, 2012, tax withholdings payable of all Parent Company employees (including those related to AeroEngine business) were attributed to Continuing operations, on the basis of provision included in the Agreement.

Income tax payables - IRES is represented by the negative difference between the taxes payable for 2013, and the balance of the advances paid during the year. The increase compared to the previous year is primarily related to the increase in taxable income of the Group, related to the completion of the tax losses carried forward utilization process and to the taxation of the capital gain resulting from the sale of the investment in GE Avio S.r.l.

Other taxes and duties payables mainly comprised taxes related to foreign Group companies.

3.31. OTHER CURRENT LIABILITIES

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing operations*	*Discontinued operations*	Total
Advances from customers for supply of goods and services	183,685	206,782	129,048	335,830
Payables related to the participation in international collaboration agreements - portion due within one year	-	-	45,898	45,898
Social Security payables	3,948	16,930	1,322	18,252
Other payables to third parties	17,368	5,650	36,406	42.056
Deferred income for grants related to assets - portion due within one year	33	33	2,521	2,554
Deferred income for funding pursuant to Law No. 808/85 – portion due within one year	1,704	1,945	2,545	4,490
Deferred income for tax credit related to R&D activities – portion due within one year	58	58	425	483
Other accrued expenses and deferred income	1,428	1,476	1,912	3,388
Fair value (hedging) of foreign exchange derivatives (cash flow hedge – current portion)	-	-	2,178	2,178
Fair value (hedging) of commodities derivatives (cash flow hedge – current portion)	-	-	144	144
Totale	**208,224**	**232,874**	**222,399**	**455,273**

Advances from customers for supply of goods and services

This item mainly includes advances recognised by final customers for supply of goods and services for €183.685 thousand (€206,782 thousand classified at December 31, 2012 among Continued Operations and €129.048 thousand classified among *Discontinued operations*).

Payables related to the participation in international collaboration agreements – portion due within one year

This item was related to non-financial payables classified at December 31, 2012 among *Discontinued operations* to partners in international collaboration agreements for contractual charges associated with the development of commercial aircraft engine programmes. Original amounts were capitalised and classified among the intangible assets with finite useful lives.

Social Security payables

This item related to payables amounting to €3,948 thousand at December 31, 2013 (€16,930 thousand classified at December 31, 2012 among Continued Operations and €1,322 thousand classified among Discontinued operations) relevant to the amount payable by the companies and withheld from employees for contributions on salaries and wages, in accordance with current legislation.

The decrease compared to the Continuing operations value at December 31, 2012 refers to the fact that, at that date, all social security payables relating to employees of Avio S.p.A. were included in

Continuing operations (being expected to maintain relative obligation in the responsibility of Avio S.p.A. itself, as taxpayer for the purposes of insurance and social security), while at December 31, 2013, this item includes only the amounts due for personnel related to non-contributed business unit.

Other payables to third parties

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing operations*	*Discontinued operations*	Total
Payables to employees	4,683	4,697	12,133	16,830
Sundry payables	12,685	924	7,996	8,920
Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 – portion due within one year	-	-	16,306	16,306
Total	**17,368**	**5,621**	**36,435**	**42,056**

Payables to employees included certain payroll costs and deferred compensation accruals at year-end 2013.

Sundry payable include an amount of €10,877 thousand towards of Nuovo Pignone Holding S.p.A. (purchaser of the investment in GE Avio S.r.l.) related to a negative price adjustment of the gain on the sale of GE Avio S.r.l. (please also refer to what is stated in Note 3.15).

Deferred income for grants related to assets – portion due within one year

This item of €33 thousand is composed of capital grants related to property, plant and equipment, the portion of which is deferred to the next year over the remaining depreciation period of the related assets.

Deferred income for funding pursuant to Law No. 808/85 – portion due within one year

This item of €1,704 thousand, is composed of funding pursuant to Law No. 808/85 (as disclosed in Note 3.8), the portion of which is deferred to the next year in relation to the recognition of costs for which funding has been granted.

Other accrued expenses and deferred income

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing operations*	*Discontinued operations*	Total
Accrued expenses related to personnel	1,135	1,048	1,315	2,363
Accrued sundry expenses	219	367	-	367
Other deferred income	74	61	597	658
Total	**1,428**	**1,476**	**1,912**	**3,388**

3.32. REVENUES

Revenues include sales of goods and services and change in contract work in progress, representing total consolidated revenues, and are composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations Jan 1-Dec 31	*Discontinued operations Jan 1-Aug 1*	Total	*Continuing operations*	*Discontinued operations*	Total
Revenues from sales of goods	64,136	1,040,950	1,105,086	245,791	1,634,756	1,880,547
Revenues from services and work in progress	2,913	296,964	299,877	2,456	541,967	544,423
	67,049	1,337,914	1,404,963	248,247	2,176,723	2,424,970
Change in contract work in progress	220,600	(50,177)	170,423	36,788	(109,098)	(72,310)
Total	**287,649**	**1,287,737**	**1,575,386**	**285,035**	**2,067,625**	**2,352,660**

The breakdown of revenues by business line and by geographical area is presented in the note related to the segment reporting (Note 4).

3.33. OTHER OPERATING INCOME

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations Jan 1-Dec 31	*Discontinued operations Jan 1-Aug 1*	Total	*Continuing operations*	*Discontinued operations*	Total
Revenue grants	-	2,596	2,596	155	3,893	4,048
Tax credit income related to R&D activities	78	276	354	7,492	422	7,914
Income related to amount credited to the income statement of funding pursuant to Law No. 808/85	1,945	1,485	3,430	2,069	2,716	4,785
Portion for the period of grants related to assets	2,430	3,254	5,685	471	3,096	3,567
Recovery of costs, compensation and other income			-	6,584	4,749	11,333
Reserves credited to income	352	14,764	15,116	5,524	24,361	29,885
Gains on disposal of property, plant and equipment	74	5,587	5,661	27	270	297
Gains on disposal of intangible assets	-	-	-	-	96	96
Income related to prior years	1,872	10,698	12,570	123	6,464	6,587
Non-recurring income and reserves credited to income	-	-	-	8	1,435	1,443
Total	**6,752**	**38,660**	**45,412**	**22,453**	**47,502**	**69,955**

Revenue grants related mainly to amounts received, within the framework of European Union support, for multi-national technology programmes relating to Discontinued operations.

The tax credit income related to research and development activities was made up of the portion of the tax credit (described in Note 3.14 – "Current tax assets") recorded on an accrual basis, determined upon both research and development costs charged to the 2013 income statement for which tax credit was determined (including the amortisation of development costs, purpose of the tax facilitation, capitalised among intangible assets with finite useful lives) and revenues related to contract work in progress whose amount includes costs for research and development activities subject to the tax concession. The change occurred in 2013 with reference to Continuing operations is mainly due to tax credit accounted for in 2012 income statement by the subsidiary ELV S.p.A. in relation to costs incurred in 2008 and 2009.

Income related to the amount credited to the income statement of funding related to Law No. 808/85 are made up of the portion of the period of funding granted by the Ministry of Economic Development related to programmes classified as being functional to national security and to realising a project of common European interest. The portion credited to income statement was determined taking into consideration the nature of costs for which the funding was granted and the matching with expenses and depreciation of the assets to which they refer.

Reserves credited to income included the reversal of provisions made in prior years, whit particular impact on Discontinued operations and relative to the utilisation of provisions for risks against costs incurred during the financial year, the release of the amount exceeding the provision accrued in previous years to provisions for risks and allowance for doubtful accounts.

Gains on disposal of property, plant and equipment related to disposals of equipment, machinery and industrial tools, in the ordinary course of business.

3.34. RAW MATERIALS CONSUMPTION

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations Jan 1-Dec 31	*Discontinued operations Jan 1-Aug 1*	Total	*Continuing operations*	*Discontinued operations*	Total
Raw materials and supplies	137,088	372,737	509,825	154,862	557,096	711,958
Change in inventories	(4,369)	(12,741)	(17,110)	1,467	(1,366)	101
Total	**132,719**	**359,996**	**492,715**	**156,329**	**555,730**	**712,059**

3.35. COST OF SERVICES

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations Jan 1-Dec 31	*Discontinued operations Jan 1-Aug 1*	Totale	*Continuing operations*	*Discontinued operations*	Totale
Raw materials and supplies	83,285	558,527	641,812	53,554	936,549	990,103
Change in inventories	1,387	3,860	5,247	2,016	6,766	8,782
Total	**84,672**	**562,387**	**647,059**	**55,570**	**943,315**	**998,885**

The costs of outside services included in the 2012 financial year the total amount of fees due to the directors and statutory auditors of the Parent, including amounts due for these functions also in other consolidated companies, which amounted to €180 thousand relating to the statutory auditors and €763 thousand relating to the directors of the Parent.

Cost of services included, among others, costs and expenses for professional advices, professional and technical services, external processing, overhaul services, temporary labour supply and, for the most part, costs and expenses, classified among Discontinued operations, for services related to sales arising from international collaboration agreements. Such costs and expenses are made of both marketing and commercial expenses, to be paid in relation to the participation share, and common costs, bear and billed to the Group by the partners, made of technical and administrative costs to manage the programmes and to support related products. These service costs are recognized on an accrual basis at the time of recognition of revenues.

3.36. PERSONNEL COSTS

This item is composed as follows (€ thousands):

	Year 2013			Year 2012 (*)		
	Continuing operations Jan 1-Dec 31	*Discontinued operations Jan 1-Aug 1*	Total	*Continuing operations*	*Discontinued operations*	Total
Salaries and wages	38,674	103,741	142,415	38,788	167,985	206,773
Social security contributions	12,391	31,635	44,026	12,363	50,512	62,875
Defined contribution plan expenses	1,629	6,581	8,210	1,633	10,770	12,403
Other personnel expenses and provision for variable salaries and wages costs	1,977	10,346	12,323	2,007	13,155	15,162
Costs related to defined benefits plans and other long-term benefits:						
Current service costs	261	490	751	214	1,159	1,373
Actuarial (gains)/losses on employee benefit plans	296	40	336	136	1,351	1,487
Past service costs	-	-	-	-	48	48
Cash settled share-based payment plan cost	-	4,029	4,029	200	24,155	24,355
Totale	**55,228**	**156,862**	**212,090**	**55,341**	**269,135**	**324,476**

(*)The comparative data for 2012 have been restated to include the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

Cash settled share-based payment cost referred to the provision related to the adjustment in the evaluation of the liability for a remuneration plan attributable to a certain number of managers (for the most part belonging to Discontinued operations), as mentioned in Note 3.24 – "Provisions for risks". In addition, as mentioned in Note 3.19 – "Other reserves of Equity", a certain number of Group managers (for the most part belonging to Discontinued operations) was given the right to participate in an investment plan in the Parent's controlling company, which may be considered as an *equity settled share-based payment* under the provisions of IFRS 2, and the *fair value* of which resulted as not being material and therefore not accounted for.

The following table shows the average number of employees, at Group level and divided by category, of all the consolidated companies:

	2013 Average (*)	2012 Average
Blue-collar workers	18	2,912
White-collar workers	420	2,313
Managers	332	118
Total	**770**	**5,343**

(*) 2013 Average data represents the average number of employees pertaining to Continuing Operations

The change occurred in 2012 is mainly due to the effect of the transfer of the business unit relating to the activities of the AeroEngine Sector, which employed the majority of employees.

The average number of total employees of jointly controlled entities consolidated by using the proportionate consolidation method is as follows:

	2013 Average	2012 Average
Blue-collar workers	40	43
White-collar workers	50	51
Managers	1	1
Totale	**91**	**95**

3.37. DEPRECIATION AND AMORTISATION

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations Jan 1-Dec 31	*Discontinued operations Jan 1-Aug 1*	Total	*Continuing operations*	*Discontinued operations*	Total
Property, plant and equipment	5,822	28,260	34,082	6,171	48,388	54,559
Investment property	40	-	40	40	-	40
Intangible assets with finite useful lives	11,756	55,835	67,591	10,855	90,013	100,868
Total	**17,618**	**84,095**	**101,713**	**17,066**	**138,401**	**155,467**

Amortisation of intangible assets with finite useful lives included €44,756 thousand (out of which €4,084 thousand classified among Continuing operations and €40,671 thousand classified among Discontinued operations), which related to the amount charged to income for amortisation of customer relationships for participation in programmes intangible asset, recorded in 2007 as a result of the Acquisition cost allocation.

3.39. OTHER OPERATING EXPENSES

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations Jan 1-Dec 31	*Discontinued operations Jan 1-Aug 1*	Total	*Continuing operations*	*Discontinued operations*	Total
Provisions for risks	9,966	53,423	63,389	876	37,610	38,486
Write-down of trade receivables	-	307	307	6	298	304
Other operating expenses	4,264	14,515	18,779	3,149	25,334	28,483
Non-recurring expenses and provisions	1,128	1,953	3,081	3,019	7,371	10,390
Total	**15,358**	**70,198**	**85,556**	**7,050**	**70,613**	**77,663**

Provisions for risks

These provisions represented the amounts charged to income relative to the initial recording of, or addition to, reserves for risks and charges, and mainly related, for Continuing operations, to legal and environmental risks, to personnel and organizational restructuring risks and to fiscal risks, and, for Discontinued operations, to contractual and commercial risks, to tax risks and to variable remuneration risks.

Write-down of trade receivables

The write-down of receivables represented the provisions recorded in 2012 for the allowance for doubtful trade accounts receivable from third parties shown as a reduction to the corresponding asset item.

Other operating expenses

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations Jan 1-Dec 31	*Discontinued operations Jan 1-Aug 1*	Total	*Continuing operations*	*Discontinued operations*	Total
Taxes and duties	2,796	3,159	5,955	2,372	5,655	8,027
Other expenses	659	4,538	5,197	654	12,498	13,152
Losses on disposal of property, plant and equipment	4	208	212	26	731	757
Losses on disposal of intangible assets	-	-	-	-	-	-
Expenses related to prior years	805	6,610	7,415	97	6,450	6,547
Total	**4,264**	**14,515**	**18,779**	**3,149**	**25,334**	**28,483**

Other expenses included mainly institutional public relations costs, association fees, contractual penalties, costs recharged by consortia and costs related to international collaboration agreements, mainly related to *Discontinued operations*.

Losses on disposal of property, plant and equipment related to the ordinary course of business dismissal of equipment, machinery and other assets.

Non-recurring expenses and provisions

The item included expenses that were either non-recurring or arising from exceptional events which are not related to the ordinary operating activities of the Group. This item is detailed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations Jan 1-Dec 31	*Discontinued operations Jan 1-Aug 1*	Total	*Continuing operations*	*Discontinued operations*	Total
Expenses:						
- for organisation restructuring and personnel expenses	27	802	829	1,365	6,091	7,456
- for other non-recurring items	1,101	1,151	2,252	134	690	824
	1,128	1,953	3,081	1,499	6,781	8,280
Provisions:						
- for organisation restructuring	-	-	-	-	-	-
- for legal and environmental risks	-	-	-	1,179	590	1,769
- for tax risks	-	-	-	293	-	293
- for contractual and commercial risks	-	-	-	48		48
	-	-	-	1,520	590	2,110
Total	**1,128**	**1,953**	**3,081**	**3,019**	**7,371**	**10,390**

3.40. CAPITALISATION OF COSTS FOR INTERNALLY GENERATED ASSETS

This item represents the setoff of costs incurred for the internal production of tangible and intangible fixed assets, recorded in the consolidated statement of financial position.

In 2013, the item amounted to €22,052 thousand (€39,961 thousand in 2012) out of which €5,506 thousand classified among Continuing operations and €16,546 thousand classified among Discontinued operations and included the following costs (€ thousands):

	Year 2013			Year 2012		
	Continuing operations Jan 1-Dec 31	*Discontinued operations Jan 1-Aug 1*	Total	*Continuing operations*	*Discontinued operations*	Total
Costs for the internal construction of tangible fixed assets	277	1,872	2,149	371	6,362	6,733
Costs for development activities	4,721	14,674	19,395	5,144	26,174	31,318
Costs for internal production of intangible assets	508		508	-	1,910	1,910
Total	**5,506**	**16,546**	**22,052**	**5,515**	**34,446**	**39,961**

3.41. FINANCIAL INCOME

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations Jan 1-Dec 31	*Discontinued operations Jan 1-Aug 1*	Total	*Continuing operations*	*Discontinued operations*	Total
Interest income from banks	1,033	18	1,051	-	100	100
Discounts and other financial income	444	335	779	525	1,112	1,637
Interest income on financial receivables	37	(26)	11	57	7	64
Interest income on financial receivables from associated companies	205	-	205	77	-	77
Income from interest rate derivative instruments	-	7.738	7,738	-	28,092	28,092
	1,719	8.065	9,784	659	29,311	29,970
Realised exchange gains	35	23.706	23,741	146	39,655	39,801
Unrealised exchange gains	90	-	90	64	14.822	14,886
Income from foreign exchange derivative financial instruments	-	25.695	25,695	-	674	674
	125	49.401	49,526	210	55,150	55360
Total	**1,844**	**57.466**	**59,310**	**869**	**84,462**	**85,331**

The item related to the interest income to associated companies included €205 thousand towards the associated company Termica Colleferro S.p.A.

The realised exchange gains arose from the collection of receivables and the payment of payables denominated in foreign currencies.

The unrealised exchange gains related to the adjustment of receivables and payables denominated in foreign currencies to the exchange rate in effect at year-end 2012 and referred to trade items and, for the amount classified among Discontinued operations, to the US dollar portion of the financial liabilities Senior Facilities Agreement and Subordinated TreasuryCo Loan Agreement No. 2. In 2013, all exchange rate differences related to Discontinued operations were considered realised following the contribution of the assets and liabilities that generated these differences into GE Avio S.r.l. and subsequent sale of the investment held in the latter.

3.42. FINANCIAL EXPENSES

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations Jan 1-Dec 31	*Discontinued operations Jan 1-Aug 1*	Total	*Continuing operations*	*Discontinued operations*	Total
Interest on financial payables to banks - *Senior Facilities Agreement*	-	48,045	48,045	-	51,193	51,193
Interest on financial payables to associated companies - *Subordinated TreasuryCo Loan Agreement No. 1 and No. 2*	-	24,532	24,532	-	40,656	40,656
Interest on financial payable to parent company - *Intercompany Loan Agreement*	3,547	3,754	7,301	697	6.278	6,975
Interest on other financial payables to associated companies	291		291	58	115	173
Interest on easy-term financing from banks and the Ministry of Economic Development	-	6	6	-	19	19
Interest on other payables	13	10,185	10,198	71	10,012	10,083
Discounts and other financial expenses	154	7,313	7,467	59	9,871	9,930
Interest costs on employee benefits	(30)	777	747	354	2,785	3,139
Expenses from interest rate derivative instruments	-	11,026	11,026	-	32,804	32,804
	3,975	105,638	109,613	1.239	153,733	154,972
Realised exchange losses	16	19,561	19,577	129	53,939	54,068
Unrealised exchange losses	22	-	22	-	2,296	2,296
Expenses from foreign exchange derivative instruments	-	3,246	3,246	-	5,605	5,605
	38	22,807	22,845	129	61,840	61,969
Total	**4,013**	**128,445**	**132,458**	**1.368**	**215,573**	**216,941**

The amount of interest relative to payables, mainly classified among Discontinued operations, recorded in the balance sheet at the value resulting from the amortised cost method, was determined using the effective interest rate.

The caption "Interest on financial payables to banks" included, among others, the effects (expenses for €16,564 thousand) arising from the effects of the reversal to profit & loss (unwinding) of the difference between the payable value accounted for in accordance with IAS at August 1, 2013 and the corresponding nominal value, in connection with the de-recognition of financial liabilities recorded in the context of the contribution an sale operation.

The realised exchange losses arose from the collection of receivables and the payment of payables denominated in foreign currencies.

The unrealised exchange losses were related to the adjustment of receivables and payables denominated in foreign currencies. In 2013, all exchange rate differences related to Discontinued operations were considered realised following the transfer of the business unit and the subsequent sale of the assets and liabilities that generated these differences.

The net balance between exchange gains and losses and income and expenses related to derivative financial instruments, mainly related to Discontinued operations, was positive at €26,681 thousand. In 2012, the balance was negative at €6,609 thousand.

The item relative to interest on other financial payables to associated companies included, among Continuing operations, €180 thousand relative to 50% of the interest expenses on the intercompany loan of Avio S.p.A. towards the jointly controlled company Europropulsion S.A., not eliminated in the consolidation as the proportionate method was applied and, among Discontinued operations, €252 thousand of interest expenses towards the associated company ASPropulsion Capital N.V. related to financing granted to foreign Group's companies.

3.43. INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS

The net income from financial investments (referred to Continuing operations and Discontinued operations – Note 1.1) presented in 2013 an overall positive balance of €1,103,710 thousand (€1.545 thousand at December 31, 2012) related to the recognition of dividends distributed by the company ASPropulsion Capital NV for an amount of €979 thousand (as Continuing operations) and to the record of gain arising from the sale of the investment in GE Avio S.r.l. occurred on 1 August 2013.

The following table includes details of the data relating to the determination of the gain on the sale of the investment in GE Avio S.r.l. occurred on August 1, 2013 (amounts in thousands of Euro, referred to figures included in the statutory financial statements of Avio S.p.A., taken as base for the calculation of the gain, aligned with that recorded in the consolidated financial statements, due to on the use of the "continuity of values" criterion – applied to the consolidated financial statements' values - as provided by the relevant accounting standards):

	Avio S.p.A. August 1, 2013 (before contribution)	Transferred Assets and liabilities (values included in the statutory F/S)	Effect of GE Avio S.r.l. contribution (on statutory F/S)		Avio S.p.A. August 1, 2013 (after contribution)	GE Avio S.r.l. sale and subsequent adjustment		Avio S.p.A. August 1, 2013 (after GE Avio S.r.l. sale)
Tangible assets	201.589	(178.702)	-		22.887			22.887
Goodwill	1.956.530	(1.737.430)	-		219.100			219.100
Intangible assets with a finite life	1.031.107	(934.034)	-		97.073			97.073
Investments	206.703	(121.892)	-		84.811			84.811
Investments in GE Avio S.r.l.	100	-	809.675	(A)	809.775	(809.775)		-
Total Assets	**3.396.029**	**(2.972.058)**	**809.675**		**1.233.646**	**(809.775)**		**423.871**
Net working capital	(839.602)	627.970	-		(211.632)	(10.877)	(B)	(222.509)
Provision for risk and charges	(153.733)	79.135	-		(74.598)			(74.598)
Employee benefits provisions	(83.223)	74.254	-		(8.969)			(8.969)
Net invested capital	**2.319.471**	**(2.190.699)**	**809.675**		**938.447**	**(820.652)**		**117.795**
Net financial position (NFP)	**1.617.584**	**(1.461.493)**	**-**		**156.091**	**(1.923.180)**	(C)	**(1.767.089)**
Share Capital and reserves	690.405	-	80.469	(A)	770.874			770.874
Profit /(Loss) for the period	11.482	-	-		11.482	1.102.528	(C)	1.114.010
Equity	**701.887**	**-**	**80.469**		**782.356**	**1.102.528**		**1.884.884**
Equity + NFP	**2.319.471**	**(1.461.493)**	**80.469**		**938.447**	**(820.652)**		**117.795**
Imbalance	-	*(729.206)*	*729.206*		-	-		-

Note

(A) Capital increase, equal to net book value of the assets contributed, inclusive of the incremental portion, representative of the alignment of net asset assets value to corresponding value included in consolidated financial statements (in accordance with the "continuity of values" criterion, based on OPI 1 provision), recording, in counterpart, the effect of surplus value directly into an equity reserve.

(B) It represents the adjustment to gain on the GE Avio S.r.l.'s sale due to the change in revenues for the period January 1, 2013 -1 August 2013, Avio S.p.A. against the subsidiary Avio Inc. (as described in Note 3.15).

(C) Gain (gross of tax effect) recorded in the consolidated income statement (included into Discontinued operations), in line with the value determined for the purposes of the statutory financial statements, depending on the application of the "continuity of values" criterion on the basis of the consolidated financial statements' value of assets and liabilities contributed, within the meaning of mentioned OPI 1.

3.44. INCOME TAXES

In 2013, income taxes (referred to Continuing and Discontinued operations – Note 1.1) presented a net positive balance of €80,896 thousand, composed of current income tax charges for €84,571 thousand and net deferred tax income amounting to €165,467 thousand. In 2012, income taxes resulted in a net negative balance of €57,693 thousand, composed of current income taxes for €70,268 thousand, and net deferred income tax income of €12,575 thousand.

Current taxes included the provision for corporate income taxes on the taxable income of the financial year, including IRES, income taxes of foreign companies and other taxes (€65,373 thousand), IRAP (€13,109 thousand), other tax charges for tax matters for €6,206 thousand (referred to the accruals to the tax risks provision) and differences between taxes paid and accrued in prior year amounting to €117 thousand.

The following table summarises the income taxes for 2013, referred to Continuing operations and Discontinued operations – Note 1.1 (€ thousands):

	IRES and other taxes	IRAP	Total
Current income taxes:			
- taxes for the year	65,373	13,109	78,482
- other tax charges	6,206	-	6,206
- difference between taxes accrued in previous year	(10)	(107)	(117)
	71,569	13,002	84,571
Net deferred/(prepaid) income taxes	(148,725)	(16,741)	(165,467)
Total	**(77,156)**	**(3,739)**	**(80,896)**

On the basis of the allocation criteria for current and deferred taxes described in previous Note 1.1 - Discontinued operations, here following is reported the breakdown of the caption Income taxes for Continuing operations and Discontinued operations (€ thousands):

	Continuing operations			*Discontinued operations*			Total 2013		
	IRES and other taxes	IRAP	Total	IRES and other taxes	IRAP	Total	IRES and other taxes	IRAP	Total
Current taxes:									
- taxes for the year	292	171	463	65,081	12,938	78,019	65,373	13,109	78,482
- other tax charges	569	-	569	5,637	-	5,637	6,206	-	6,206
- difference between taxes accrued in previous years and paid in 2012	-	-	-	(10)	(107)	(117)	(10)	(107)	(117)
	861	171	1,032	70,708	12,831	83,539	71,569	13,002	84,571
Net deferred/(prepaid) income taxes	11,074	1,247	12,321	(159,800)	(17,988)	(177,788)	(148,725)	(16,742)	(165,467)
Total	**11,935**	**1,418**	**13,353**	**(89,092)**	**(5,157)**	**(94,249)**	**(77,156)**	**(3,740)**	**(80,896)**

The reconciliation between the theoretical and effective tax rate, excluding IRAP because of its particular nature, and the accruals to the reserve for tax risks, is presented in the following table (€ thousands):

	Year 2013	Year 2012 Restated (*)
Profit/(Loss) before taxes (Continuing and Discontinued operations)	1,196,766	90,708
Ordinary IRES tax rate	27,50%	27.50%
Theoretical income taxes	329,111	24,945
Effect of adjustments:		
Non-taxable income (**)	(261,869)	-
Dividends	(1,763)	(2,268)
Permanent non-deductible costs	7,933	7,422
Goodwill amortization (relevant for tax purposes)	(17,397)	-
Reversal of temporary differences due the contribution-in-kind	(132,836)	-
Other permanent differences	(9,172)	(16,705)
Effect of deferred taxes not accounted for	488	(503)
Effect of tax rate change (incl. difference between ordinary and local tax rates)	2,116	(1,558)
Taxes related to prior years	26	171
Total	**(412.473)**	**(13,441)**
Effective income taxes	(83,362)	11,504
Effective tax rate	**-7.0%**	12.70%

(*) The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1.
(**) Refers to the non-taxable portion of capital gains on the sale of the stake in GE Avio S.r.l.

4. SEGMENT AND GEOGRAPHICAL AREA REPORTING

Information by industry segment

Operating segment information for Avio Group, exposed in accordance with IFRS 8, is shown below, with a structure consistent with what is stated in Note 1.1.

Therefore, with reference to financial figures related to December 31, 2012 and to 2012 and 2013 economic data, the segments of activity in accordance with IFRS 8 coincide with Space sector, represented as Continuing operations and AeroEngine sector, represented as Discontinued operations, while the financial data at December 31, 2013 include only assets and liabilities not contributed, representative of the actual configuration of Space Sector.

The following tables separately report information by business segment relating to Continuing operations, inclusive of Space business and a portion of Other activities excluded by the contribution of the branch of business (Note 1.1) and segment information related to Discontinued operations included AeroEngine Sector and the related portion of Other activities.

Here following the required segment information as mentioned above (amounts in millions of Euro):

	Continuing operations (Jan 1, 2013 – Dec 31, 2013)			Discontinued operations (Jan 1, 2013 – Aug 1, 2013)		
	Space Sector	Other activities	Total Continuing operations	AeroEngine Sector	Other activities	Total Discontinued operations
	(a)	(b)	(a+b)	(c)	(d)	(c+d)
2013 Consolidated Income Statement						
Third parties revenues	287.6	-	287.6	1,287.7	-	1,287.7
Inter-sector revenues	-	-	-	-	-	-
Total revenues	287.6	-	287.6	1,287.7	-	1,287.7
Sector result	18.0	-	18.0	211.5	-	211.5
Unallocated income/(expenses)	-	(15.9)	(15.9)	-	(46.9)	(46.9)
Operating profit	18.0	(15.9)	2.1	211.5	(46.9)	164.6
Net financial income/(expenses)		-	(2.2)			(71.0)
Net income/(expenses) from financial investments			1.0			1,102.7
Profit/(loss) before taxes			0.9			1,195.8
Income taxes			(0.7)			94.2
Profit/(loss) for the year			0,2			1,290.6

	Space Sector	Other activities	Total
	(c)	(d)	(c+d)
Consolidated Statement of financial Position as at December 31, 2013			
Sector assets	693.7	-	693.7
Unallocated assets	-	1,371.1	1,371.1
Total assets	693.7	1,371.1	2,064.8
Sector liabilities	381.7	-	381.7
Unallocated liabilities	-	213.7	213.7
Total liabilities	381.7	213.7	595.4

The sector information reported to the consolidated financial statements for 2012, exhibited coherently as indicated, were as follows:

	Continuing operations			Discontinued operations		
	Space Sector	Other activities	Total Continuing operations	AeroEngine Sector	Other activities	Total Discontinued operations
	(a)	(b)	(a+b)	(c)	(d)	(c+d)
2012 Consolidated Income Statement						
Third parties revenues	285.0	-	285.0	2,067.6	-	2,067.6
Inter-sector revenues	-	-	-	-	-	-
Total revenues	285.0	-	285.0	2,067.6	-	2,067.6
Sector result	25.2	-	25.2	308.4	-	308.4
Unallocated income/(expenses)	-	(4.9)	(4.9)	-	(108.4)	(108.4)
Operating profit	25.2	(4.9)	20.3	308.4	(108.4)	200.0
Net financial income/(expenses)			(0.5)			(131.1)
Net income/(expenses) from financial investments			1.4			0.2
Profit/(loss) before taxes			21.2			69.1
Income taxes			(9.7)			(47.9)
Profit/(loss) for the year			11.5			21.2

	AeroEngine Sector	AvioService Sector	Aggregate	Space Sector	Other activities	Total consolidated
	(a)	(b)	(a+b)	(c)	(d)	(c+d)
Consolidated Statement of Financial Position at December 31, 2012						
Sector assets	702.8	-	702.8	3,851.6	-	3.851,6
Unallocated assets	-	11.2	11.2	-	118.2	118,2
Total assets	702.8	11.2	714.0	3,851.6	118.2	3.969,8
Sector liabilities	397.6	-	397.6	1,522.2	-	1.522,2
Unallocated liabilities (*)	-	340.0	340.0	-	1,641.7	1.641,7
Total liabilities	397.6	340.0	737.6	1,522.2	1,641.7	3.163,9

(*) Unallocated liabilities included in Continuing operations reflect the logic of allocating liabilities detailed in Note 1.1.

The number of employees of the Group at 31 December 2013 is equal to 773.

Information by geographical area

With reference to the split by geographical area (based on the country of customers), Group's revenue related to Continuing operations were related for the whole amount in 2012 and 2013 to the Italy/EU countries area (considering also French Guyana as part of EU countries), while those related to Discontinued operation, referred to North America area (approx. 60%), to Italy/EU countries area (approx. 30%), to other countries for the residual 10%.

Group's assets related to Continuing operations are completely located in the Italy/EU countries area (considering also French Guyana as part of EU countries), while assets related to Discontinued operations were located, at December 31, 2012, in the Italy/EU countries area (90%) and in the North America area (10%), as represented below:

	Year 2013	Year 2012 Restated (*)		
	Total	*Continuing operations*	*Discontinued operations*	Total
Italy/EU countries	2,065.8	714.0	3,589.5	4,303.5
North America	-	-	364.8	364.8
Other countries	-	-	15.5	15.5
Total	2,065.8	714.0	3,969.8	4,683.8

(*) The figures for 2012 have been displayed to include the retrospective application of IAS 19 revised and the amendment to IAS 1.

Geographical segment information (based on the countries in which the investments occurred) of the Group's new additions to property, plant and equipment, investment property and intangible assets with finite useful life, divided between Continuing operations and Discontinued operations at December 31, 2012, is the following (€ millions):

	Year 2013	Year 2012		
	Total	*Continuing operations*	*Discontinued operations*	Totale
Italy/EU countries	9.7	12.7	168.3	181.0
North America	-	-	7.4	7.4
Other countries	-	-	0.2	0.2
Total	9.7	12.7	175.9	188.6

5. GUARANTEES GRANTED AND COMMITMENTS

Guarantees granted and commitments are the following (€ thousands):

	As December 31, 2013	As December 31, 2012 (*)
Guarantees granted		
Personal guaranties		
Guarantees issued by third parties on behalf of the Group	16,904	121,833
Other	29,788	32,571
Secured guarantees	-	475,306
Total Guarantees granted	46,692	629,710
Third party goods deposited with the Group	1,000	567,623
Goods belonging to the Group deposited with third parties	1,740	15,728
Guarantees and received guarantees	16,904	27,948
Total	**66,336**	**1,241,009**

(*) Including both Continuing and Discontinued operations data

Guarantees granted

Unsecured guarantees included suretyships issued from third parties on behalf of the Group and in favor of customers for the execution of contracts, and other guarantees represented by patronage letters issued on behalf of Group companies.

Secured guarantees at December 31, 2012, related to mortgages on real estate (out of which (€35,000 thousand related to Continuing operations) and special liens on machinery and inventories, in connection with the financing contracts Senior Facilities Agreement and Senior Performance Bond Facility Agreement, mainly related to Discontinued operations, that were eliminated as a result of the contribution and sale operation (with subsequent reimbursement, by the purchaser, of the loan related liabilities).

In addition, at December 31, 2012, certain Group companies, as parties in the financing agreements, classified among Discontinued operations, *Senior Facilities Agreement, Senior Performance Bond Facility Agreement* and *Subordinated TreasuryCo Loan Agreement No. 2,* acting as "Additional Guarantor" and "Borrower" and depending on the agreement, assumed guarantees for the obligations of other "Obligors" arising from financing agreements, and gave specific guarantees, represented by the pledge on shares of certain subsidiaries and associated companies, on intellectual property rights, on specific account receivables, bank accounts and receivables from insurance policies, in favor of the "Lenders". Also these guarantees were eliminated as a result of the contribution and sale operation (with subsequent reimbursement, by the purchaser, of the loan related liabilities).

Third party goods deposited with the Group

This item mainly includes equipment related to tactical propulsion activities owned by customers as well as material held on deposit.

Goods belonging to the Group deposited with third parties

Other than share certificates representing investments deposited with banks (for 113 thousand Euro related to investments as at December 31,2013), these relate to materials and equipment deposited with, or used by, suppliers.

Suretyships and guarantees received

This item relates to suretyships received from suppliers related to orders not yet completed.

Legal proceedings and contingent liabilities

The Group is exposed to certain legal risks arising from the variety and complexity of laws and regulations to which the industrial and commercial operations of the Group are subject, especially in relation to the environment, health & safety in the workplace, product liability, taxes and antitrust and commercial competition. Therefore, in the ordinary course of business, the Group is a party in certain civil, administrative and criminal judicial proceedings, as either a plaintiff or defendant. Although it is not possible to foresee or determine the outcome of these proceedings, the Group believes their final settlement will not significantly affect the Group's financial position negatively.

The Group records, however, provisions when it is probable that an outflow of Group resources will be required to satisfy the obligation, and when the amount can be reliably estimated.

The amounts accrued in the provisions for risks and those included in the estimated costs of long-term contracts are deemed adequate in order to face possible liabilities arising from pending or contingent litigations. In addition, costs arising from environmental proceedings are subject to a specific guarantee, provided that certain limits and conditions are satisfied, released by the seller and included in the purchase agreement executed in 2003, relative to the acquisition of Avio S.p.A. by Avio Holding S.p.A. (the two companies now merged into the Parent).

A short description of the most significant proceedings is reported below, together with a short description of the most significant contingent liabilities.

The Municipality of Colleferro / Secosvim (ARPA 1 and ARPA 2)
In March 2004, the extraordinary commissary of the Municipality of Colleferro issued an injunction against Secosvim providing emergency safeguards and clean-up activities due to pollution on certain sites (known as "ARPA 1" and "ARPA 2") in the Colleferro industrial district. Secosvim appealed against the injunction before the Lazio Regional Administrative Court ("TAR - *Tribunale Amministrativo Regionale*") as it believes that it is not responsible for the pollution. However, subsequent to the appeal, Secosvim resolved to partially assent to the Public Administration's request in relation to implementing emergency safeguards. For these measures only, a specific provision for estimated future costs and within the limit of the on-charge costs was accrued. The appeal was declared expired and therefore is considered to be permanently closed.

Meanwhile, on December 18, 2008, an agreement was signed between the Office of the Commissioner for the Emergency in the Sacco Valley ("*Ufficio Commissariale per l'Emergenza nella Valle del Sacco*") and Secosvim, with the object of cleaning up the unsaturated ground and water table of the ARPA 1 site, as well as the permanent safety of the site identified as "*ex Cava Pozzolana*".
In particular, based on this agreement, the commissarial authority undertook to accomplish the works relative to the project and carrying out of the clean-up of the unsaturated ground and water table of the site, including the project and fulfilment of a suitable and definitive adjacent area
In turn, Secosvim undertook to participate with a voluntary contribution for the above permanent clean-up interventions, and to sustain the financial charges of post-operating management and maintenance of the area.
On July 29, 2011 was signed a further agreement between the Commissioner's Office for Emergency in the Valle del Sacco and Secosvim for the permanent safety of the site HARP 2. Under this agreement, the Commissioner's Office has assumed the implementation of all the operations for the design and construction of the permanent safety to ARPA 2, consisting in the creation of an area of confinement on the site.
In turn, Secosvim undertook to participate with a voluntary contribution of 80% of the total amount of executed works, to be determined at the end of the intervention, to sustain the economic charge of post-operational management and maintenance of the area, to realise, bearing related costs, works to clean-up the water table located under the "*benzoino*" and derivatives site to pay an additional contribution of Euro 1 million in order to solve of all the issues arose during the clean-up works of the ARPA 1 site. Due to an additional agreement signed on August 1, 2012 and to the last Conference of Services held on October 30, 2012 Secosvim undertook to put under permanent safeguard the industrial by-products and the related site found during the above mentioned cleaning up activities. Related costs for the Company have been estimated in about Euro 1 million. In relation to such obligation, a specific provision was accrued within the limit of the on-charge costs.
Activities relating to the permanent safety of the site "ex Cava Pozzolana" were concluded.
Clean-up activities of the ARPA 1 site, charged to the Office of the Commissioner, came to end and was completed the implementation of permanent safety of industrial by-product. In the course of 2013 it was decided to start the business of securing permanent shelter of the contaminants in the storage tanks of the ARPA 1 site.
The execution of the public competitive tender for ARPA 2 site is in progress too.

The Municipality of Colleferro against Secosvim and Avio S.p.A. (Sacco river contamination)
In June 2005, due to toxic substances found in milk produced in some farms of the Sacco river valley, the Municipality of Colleferro issued injunctions against Secosvim, Avio S.p.A., and other companies operating in the same area, ordering them to implement emergency safeguards and provide site clean-up activities. Secosvim and Avio S.p.A. appealed against the injunction before the TAR of Lazio, asking for a suspension of the injunction. However, at the same time, certain emergency safeguards were implemented. For these measures only, a specific provision for estimated future costs and within the limit of the on-charge costs was accrued. The appeal is been declared lapsed and therefore is considered to be permanently closed.
Meanwhile, on December 18, 2008 and July 29, 2011, the above-mentioned programme agreements were signed between the Office of the Commissioner for the Emergency in the Sacco Valley ("*Ufficio Commissariale per l'emergenza nella Valle del Sacco*") and Secosvim, regarding the clean-up of the ground and water table of the ARPA 1 site, the permanent clean-up measures of the site identified as "*ex Cava Pozzolana*" as well as the permanent clean-up measures of ARPA 2 site. The clean-up of the ground and further integration of the emergency measures of making safe the site are at the completion stage, although not yet received the authorization to discharge.

Secosvim/Caffaro
Within the Colleferro industrial district, there is an industrial area named "*benzoino and derivatives*" that, until 31 December 2007, was leased to Caffaro S.p.A., since September 2009, was put into extraordinary administration proceeding. In order to collect debts owed by Caffaro, Secosvim submitted request for admission in the case of its liabilities before the Udine Court.
At the same time, the extraordinary commissary of the office of Sacco Valley issued an injunction against Caffaro for an estimated cost of about €7 million, which corresponded to the expected cost for the clean-up of this area. Caffaro appealed to the TAR of Lazio against the claim for damages and Secosvim appeared before the Court. The case is currently pending. There is the possibility that Caffaro will claim the above costs from Secosvim as owner of the property. For the moment, Secosvim requested before the Velletri Court a preventive technical appraisal to determine any responsibilities by Caffaro for the contamination of the "*benzoino and derivatives*" area, which

concluded with an expert's report confirming some direct responsibility by Caffaro for the above contamination.
With the above mentioned programme agreement for ARPA 2 site (signed on July 29, 2011), Secosvim with the Office of the Commissioner for the Emergency in the Sacco Valley undertook clean-up interventions on the water-bearing stratum of the "*benzoino and derivatives*" area. The construction of facilities for cleaning up the aquifer is in progress.
In the early months of 2014, work is in progress on finalizing some aspects of environmental activities.

Tax inspection related to the 2007 fiscal year
On June 3, 2009, the *Guardia di Finanza* (the Italian Tax Police) began a tax audit at the Parent Company relating to the 2007 fiscal year ended on December 17, 2009 with the issuance of preliminary report relative to the carry-forward of tax losses of Avio Holding S.p.A. following the merger of that entity into Avio S.p.A. in that year. At the same time, the *Guardia di Finanza* also communicated that they intended to request to establish a joint study group between the *Guardia di Finanza* and the Government Tax Office ("*Agenzia delle Entrate*") in order to achieve a conclusion on the accuracy of the tax treatment of the leveraged buy-out transaction carried out in 2006 (the Acquisition).
On May 20, 2010, the *Guardia di Finanza* returned to the Parent Company to communicate the results of the additional analysis and discussion carried out jointly with the *Agenzia delle Entrate* for the transaction in question and to complete the related tax audit procedures. This activity was completed on July 15, 2010 with the issuance of a new report in which the *Guardia di Finanza* claimed that the Parent Company had not re-charged to its controlling shareholder in Luxemburg, identified as the beneficiary of the transaction, financial charges incurred from the Acquisition date (December 14, 2006) to the audit date (May 20, 2010) on the portion of the loan agreement for the acquisition of the Avio Group.
On December 28, 2012 the Parent Company received formal notice of a related tax claim ("*avviso di accertamento*") from the *Agenzia delle Entrate*, which confirmed this complaints, quantifying the claim, inclusive to interest and penalties, in approximately €3.3 million compare to the 2007 fiscal year.

Parent Company advanced, against the challenges described, a first instance for a tax settlement and , as a result of the un-successful conclusion of this procedure, subsequently presented an appeal (without payment of the provisional amounts) on 19 June 2013.
On 20 December 2013, the Guardia di Finanza notified to the Parent tax claims related to tax period 2008, including the same objections recorded for the year 2007, quantifying a request, inclusive of interest and penalties, of approximately € 32.9 million with reference to the year 2008 with regard to the issues associated with the leveraged buy-out operation.
On January 29, 2014, a first court hearing was held at the Provincial Tax Commission ("CTP") of Turin for the discussion of the first stage of judgment on the appeal presented for the financial year 2007, and, with on April 16 2014, the CTP rejected the appeal of the Parent, confirming only the reasons set out in the preliminary tax claims, but, on the basis of interpretations of the Group's Management and its legal advisors , without specifically discussing the defensive arguments presented, concerning of legal profile of the claim. With reference to this first stage pronouncement, the Group is preparing to appeal, asking the total rejection of the claim presented.

For the purpose of the financial statement preparation, regarding the first issue described, related to the carry-forward of tax losses originating in the merged entity Avio Holding S.p.A., it has correctly applied the applicable tax rules, as corroborated by the position taken by the Italian Chartered Accountants Association (Associazione Italiana Dottori Commercialisti) in its Interpretation No. 176 of December 18, 2009.
With regard to the second issue, concerning the leveraged buy-out operation, the Group confirmed, also considering the first stage judgment occurred, its own assessment of the potential risk associated considering no currently identifiable a potential liability that is likely to generate outflows to the Group, based on the technical reasons provided during the court hearing, already included in the formal memoranda presented to the tax authorities in the course of the proceedings.

This position is further supported by specific tax opinions that the Parent has obtained from authoritative Italian tax experts (as an update and integration of previously released opinions, in light of recent events described) and by the evidence of a number of judicial rulings favourable to the taxpayer in entirely similar cases.
On December 28, 2012, together with the mentioned notifications relating to the leveraged buy-out operation, the Parent also received formal notice of an additional tax claim related to the alleged

omission of a 27% withholding tax on interest paid to ASPropulsion Capital N.V., since not recognized as the beneficiary of the transaction, together with a related notice of penalties for the omitted payment of the same withholding taxes. On December 20, 2013 was notified to the Parent a tax claim pertaining to the same issue, relating to the year 2008.

As regards the claim related to the omission of withholding taxes, the Group, based on the information in its possession and in light of a tax opinion received from Italian tax experts, has concluded that the contingent liability may generate outflows to the Group and therefore has accrued appropriate provisions in the financial statements at December 31, 2012, partially used during the year 2013, based on cash outflow related to the tax settlement concerning tax period 2007. Specific provisions recognized in the financial statements at December 31, 2013 are considered to be adequate, based on the information currently available, to cover future outflow related claim described.

SE.CO.SV.IM. S.r.l. - Tax audit Fiscal Year 2009-2010-2011-2012

On 19 March 2013, in concluding a tax audit related to 2010 tax year (then extended to 2011 and 2012 and then to 2009), the Tax Authority ("Agenzia delle Entrate") – Third Provincial Direction of Rome, Controls Office - issued a tax claim notification ("Processo verbale di constatazione" or "PVC").

In particular, the following claims were reported:

- VAT, including additional taxes, fines and interests amounting to € 2,008 thousand (for 2010) and € 511 thousand (for the year 2011, excluding fines) - the Tax Authority particularly claimed the exclusion, for tax purposes, of certain invoices issued to the parent company Avio Spa related to environmental costs;
- IRAP, including additional taxes, fines and interest for an amount of € 25 thousand (for 2011) - the Tax Authority objected the non-taxation of income related to invoices issued to company Simmel Difesa S.p.A. relating to certain contractual fines, reduced on the basis of valid economic reasons, in comparison with original contract.
- IRES, including additional taxes, fines and interest for an amount of € 3,265 thousand (for 2009) and € 1,764 thousand (for 2010) - the Tax Authority has objected the absence of control condition by the company AS Propulsion International BV, owner of 100% of the share capital of Secosvim, in the context of requirements to access the tax consolidation regime (with the Parent Company as consolidator).

On December 23, 2013, following an agreement with the Tax Authority, distinct instances of tax settlement have been submitted, with the aim of finding an overall agreement, based on cancellation of the tax assessments for IRES and the re-definition of VAT claim. With reference to tax claim related to IRAP, on December 13, 2013 a counterclaim was presented.

During a first meeting, held on January 24, 2014, the Tax Authority confirmed its willingness to cancel IRES claims, indicating the need to involve Lazio Regional Office and requested the Company to prepare a specific memorandum illustrating the reasons for considering tax claims as illegal. At present, the Group is proceeding with the preparation of memorandum in order to clarify their positions within the IRES. However, by way of precaution, an appeal in court was presented on 18 April 2014.

On the other hand, since discussion on VAT and IRAP claims have failed to date, the Company proceeded to recourse on March 11, 2014 and on April 18, 2014 in front of the Rome Provincial Tax Commission.

Sale and Purchase Agreement - Communication received from the General Electric Group

On October 21, 2013, November 1, 2013 and then on April 21, 2014, the Parent Company has received different communications from the General Electric Group, representing GE Holding S.p.A. Italy (already Nuovo Pignone Holding S.r.l., the "Buyer"), including the notification of certain facts and circumstances, identified by Buyer as potential causes of Business Warranty Claims, as defined in clause 6.2 of the Sale and Purchase Agreement ("SPA") contract.

In particular, mentioned communications refer to possible changes in the valuation of certain transferred assets and liabilities in connection with events that, based on Buyer's opinion, occurred prior to the sale itself. The Buyer itself specified in the text of the notices, that those communications do not constitute an event to be qualified as a claim pursuant to the SPA and stated that the quantification of potential impacts is not definable on the basis of current available information, confirming that further analysis are pending of the cases reported.

On the basis of current available information, the Group, also supported by the evaluations of its legal advisors, has not identified, also considering the generic nature of the arguments provided by the counterparty, not supported by factual elements, the risk of incoming charges as probable and, also considering that, on the basis of available information, a reasonable quantification of the issues is, at moment, not possible, did not accrued any provision in the financial statements at 31 December 2013.

6. DISCLOSURES ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Categories and fair value of financial assets and liabilities

The relevant categories and the exposure at fair value of financial instruments outstanding at the reporting date is represented in the following table (amounts in thousands euros):

	Non-current assets and liabilities	Current portion of non-current assets and liabilities	Current assets and liabilities	Total book value	Total fair value
FINANCIAL ASSETS					
Loans and receivables					
- Financial assets	6,040	-	1,279,301	1,285,341	1,285,341
- Trade receivables	-	-	13,580	13,580	13,580
- Other assets	13,941	-	20,557	34,498	34,491
- Cash and cash equivalents	-	-	58,032	58,032	58,049
- Investments	5,178	-	-	5.178	5,178
	25,159	-	1,371,470	1,396,629	1,396,639
FINANCIAL LIABILITIES					
Liabilities at amortised cost					
- Financial liabilities	139,929	-	13,845	153,774	121,372
- Other liabilities	56,795	-	208,224	265,019	265,019
- Trade payables	-	-	57,701	57,701	57,705
	196,724	-	279,770	476,494	444,096

The only item that present a *fair value* different from the book value refers to the non-current financial payables to the parent company on *Intercompany Loan Agreement* (classified among Continuing operations). The relative fair value was determined by applying the discounted cash flow method, or the discounting back of the expected cash flows at the interest rate and credit conditions prevailing at December 31, 2013. The definition of an appropriate credit risk indicator that characterised each debt instrument valued at fair value, was carried out based on the credit scoring methodologies commonly used, assigning a specific spread to every instrument, in function of certain balance sheet indicators of the issuer, contractual characteristics of the same instruments (level of capital recoverability and duration of the debt), and the trend of the credit spread of the sector issues.

For equity investments, whose fair value was not possible to be determined in a reliable way, the valuation was maintained at cost and in case reduced for loss of value.
For the other items, no differences were found with respect to the book value, as the same represented a reasonable approximation of the relative fair value.

Types of financial risks and related hedging activities

The Group is exposed to financial risks deriving from its operating activities, particularly regarding to:
- credit risks, relative to trade receivables and financing activities;
- liquidity risks, relative to the availability of financial resources and access to the credit market;
- market risks, related in particular until August 1, 2013 to Discontinued operations, mostly deriving from exposure to the variability of exchange rates with regard to transactions in different currencies from that of consolidated financial statements, and interest rates regarding the use of financial instruments generating interest.

The Group constantly monitors the above-mentioned financial risks, adopting actions aimed at facing and mitigating the potential negative effects by means of appropriate policies and, for *Discontinued operations*, through special hedging instruments, until the date of contribution and sale of the related assets.
In this section, qualitative and quantitative information is supplied relative to the effect that these risks may have upon the Group.

The quantitative data reported in the following, do not have any value of a prospective nature and, in particular, the *sensitivity analysis* on market risks, related to *Discontinued operations*, is unable to reflect completely the complexity of the market and its related reactions, which may result from any change that may occur.

Credit risks

Credit risks represent the Group's exposure to potential losses deriving from the non-fulfilment of the obligations agreed upon by the counterparties.
The exposure to credit risk is essentially represented by the carrying amounts stated for receivables, particularly trade receivables, in the balance sheet, and the guarantees given in favour of third parties.
The maximum credit risk to which the Group was theoretically exposed as at December 31, 2013 was represented by the total carrying amount of trade receivables.
The main Group customers, regarding space sector, are represented by governmental bodies and public authorities that, because of their nature, do not present any significant credit risks.
The trade receivables showed, as at December 31, 2013, an exposure for past due receivables of about €10.0 million (€17.2 million as at December 31, 2012, out of which €1.9 million related to Continuing operations and €15.3 million related to *Discontinued operations)*. With respect to these credits, an individual risk valuation was carried out and a specific allowance for doubtful accounts was recorded, taking into account an estimation of the recoverable amounts, any pending litigations, and possible rescheduling. Moreover, it is important to note that part of the past due amount was offset by liabilities subject to correlated "if–and-when" payment conditions, and relevant provisions for risks and charges were accounted for.

Liquidity risks

The risk of liquidity to which the Group is subject, is identifiable in the possible difficulties in obtaining, under economic conditions, the financial resources to support the operating activities. The two main factors that determine Group liquidity are, on one side, the resources generated or absorbed by the operating and investment activities and, on the other hand, the debt lending period and renewal characteristics or liquidity of the funds employed.

Cash flows, the need for financing, and liquidity, are monitored and managed centrally through the implementation of centralised treasury systems involving the main Italian and foreign companies of the Group, in order to promptly guarantee an effective raising of the financial resources or an adequate employment of the funds available, thus optimising the management of the liquidity and cash flows. The Group verifies the compliance of financial covenants and monitors expected and realised cash flows and updates projected future cash flows in order to optimise liquidity management and to define funds needed, if any.

The funds currently available (in particular with regard to the funds deriving from the sale of the investment in GE Avio S.r.l. and still available as at December 31, 2013, net of the distribution of dividends occurred in November 2013) in addition to those that will be generated by the operating and financing activities are deemed to enable the Group to meet its requirements resulting from its investment activities, working capital needs and reimbursement of debts at maturity.

Liquidity analysis
The following table represents an analysis by maturity of the future contractual flows arising from financial, trade and the principal other liabilities of the Group as at December 31, 2013 (values in € thousand).

The analysis reports the cash flows not discounted back, inclusive of the principal amount and interest, calculated at the existing market conditions at the balance sheet date. More precisely, the analysis reflects the assumptions made for the expected cash outflows based on the reimbursement date contractually defined or, in some cases, estimated. In the absence of a predefined reimbursement date, the flows are considered taking into account the first date on which the payment might be requested. For this reason, the treasury accounts are included in the on-demand maturity.

The item relating to non-current liabilities also includes the current portion of non-current borrowings.

Continuing operations	Book value	On-demand	1 to 6 months	7 to 12 months	1 to 5 years	Beyond 5 years	Total cash flows
Liabilities other than derivative financial instruments							
Non-current financial liabilities							
- Financial payables to parent company	139,929	-	-	-	-	212,734	212,734
- Easy-term financing from the Ministry of Economic Development and from the Ministry of Education, University and Research	-	-	-	-	-	-	-
	139,929	-	-	-	-	212,734	212,734
Current financial liabilities							
- Financial payables to jointly controlled companies	13,845	13,845	-	-	-	-	13,845
- Financial payables to third parties	-	-	-	-	-	-	-
	13,845	13,845	8	698	-	-	13,845
Trade payables	57,705	-	57,705	-	-	-	57,705
Other non-current liabilities							
- Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85	39,230	-	-	-	-	39,230	39,230
Total	250,709	13,845	57,705	-	-	251,964	323,514

(*) With reference to Financial payables to parent company, the forecasted cash flow is based on the contractual conditions in place at December 31, 2013, not taking in to consideration changes occurred on the same financial agreement in 2014.

The difference between the book value and the total cash flows was essentially due to the interest calculation for the contractual duration of debts. Furthermore, as for liabilities measured at amortised cost, the calculation methodology of interest indicated above includes the use of the nominal rate (forward interest rates related to each maturity) instead of the effective rate, used to determine the values recorded in the balance sheet.

Market risks

With reference to the financial structure attributable to the Space sector operations and due to the fact that Euro is the prevailing currency, it is expected no significant market risk arising from currencies and from interest rates on financial receivables and payables fluctuations.

Discontinued operations were subject (until August 1, 2013) to market risk arising from the fluctuation of currencies, as they operate in an international environment in which transactions are made in different currencies, of interest rates on financial receivables and payables that generated interest and, to a lesser extent, and of the price of some commodities.

Therefore, here following are reported notes related to exchange rate, interest rate and commodity price risks related to Discontinued operations only applicable until the date of August 1, 2013.

Exchange rate risk

Group's Discontinued operations exposure to exchange rate risk arose both from the geographical distribution of its industrial activities with respect to the geographical distribution of the markets in which it sells its products, and from the use of external sources of financing in foreign currencies. The exposure to exchange rate risks was mainly determined by the surplus of Group's Discontinued operations sales denominated in US dollars as regards the costs sustained in the same currency, and by the financing denominated in US dollars, held until the date of August 1 2013.

In addition, assets and liabilities of consolidated companies, whose currency of account is different from Euros, may be translated into Euros at different counter values, depending on the variations in exchange rates. Accordingly to the accounting principles, the effects of these changes were recognised directly in the item "Currency translation adjustment reserve" of companies consolidated whose currency of account is different from Euros, included in equity, almost entirely attributable to *Discontinued operations*.

The Group regularly valuates its own exposure to the risk of variations in exchange rates and managed it using derivative instruments, according to what is established in its own risk management policies. Within these policies, the use of derivative financing instruments the instruments used are mainly trades futures – *forward*) is reserved for the management of the exposure to exchange rate fluctuations of the monetary flows and the assets and liabilities, and activities of a speculative intention are not permitted.

Exchange rate risk management is regulated by specific policies that define the objectives of risk management. In particular:

- the Group's objective is to mitigate the effects induced by an unfavourable trend of the exchange rate on operating result and the cash flows expected and denominated in foreign currencies resorting, where necessary, to derivative instruments;
- the hedging activity is made based on the reliable forecasts of future transactions;
- the percentage of hedging of the cash flow in foreign currencies, resulting from the budget and long-term plan, are defined annually with respect to Group policy;
- the identified positions are hedged through the use of linear (forwards), exclusively aimed at hedging;
- the Group can resort to operations of roll-over and unwinding in order to guarantee the coherence between cash flows deriving from the commercial activities and those generated by the financial instruments.

Sensitivity analysis

As described above, the potential effects arising from changes in the exchange rate of the Euro against the U.S. dollar, are not significant with respect to the assets and liabilities as at 31 December 2013.

<u>Interest rate risk</u>

The Group was exposed to interest rate risks essentially with reference to financial liabilities at variable rates attributable to Discontinued operations, in place until August 1, 2013. The variation of interest rates could have a positive or negative impact on the Group's economic result and consolidated net equity.

The Group regularly valuates its own exposure to the risk of interest rate variation and managed it, until the date of contribution, using derivative financial instruments, according to what is established in its own risk management policies and in line with the provisions of the *Senior Facilities Agreement*, classified among *Discontinued operations*. Within these policies, the use of derivative instruments is reserved for the management of the exposure to exchange rate fluctuations of the monetary flows and the assets and liabilities, and activities of a speculative intention are not permitted.
The Group used derivative instruments intended to hedge cash flows, aimed at predetermining the interest rate of financial and other liabilities at variable rates. The instruments used in the pursuit of this strategy are substantially the interest rate swaps.
The risk management objectives for the management of the interest rate risks may be summarised as follows:

- the Group's objective is to mitigate the effects of the risks of negative net result variance and cash flow as regards what is foreseen in the budget, and the long-term plan due to the unfavourable interest rate fluctuations, ensuring a fixed rate on part of its financial exposure, subject to variable rates;
- the identified positions (outstanding or expected financing, of which the high reliability is verifiable) are hedged through the use of derivative instruments, generally *interest rate swap plain vanilla* (also *forward starting)*;
- the use of derivative instruments for a speculative end are not permitted, namely, not to pursue the aforesaid objective.

Sensitivity analysis
As described above, the potential effects resulting from a change in the yield curve of interest are not significant with respect to assets and liabilities as at 31 December 2013.

Commodity price risk

The Group was exposed to a limited extent, until the date of August 1, 2013, at the risk of the price of certain raw materials, due to the structure of some contacts supply attributable to Discontinued operations.

The derivative financial instruments used to manage this risk are designated as hedges of expected future cash flows with the intent to pursue the objectives of stability of the costs of industrial supply, and in particular the tools in place until August 1, 2013 are were essentially commodity swaps, with the underlying price of nickel.

At 31 December 2013, there were no contracts in derivative financial instruments related to commodity price risk.

Hedging activities

As already indicated, the Group, as at December 31, 2013, does not have in place any derivative transactions to hedge exposure to variability in cash flows in relation to the variability of exchange rates, interest rates and commodity prices.

In the case of derivative hedging contracts of exchange rate risk, interest risk and price risk designated as hedging instruments under IAS 39, the Group formally documents, from inception of the hedge, the relationship coverage between the hedging instrument and the hedged item, its risk management objectives and strategy for undertaking the hedge. The Group also assesses the effectiveness of the hedging instrument in offsetting changes in cash flows attributable to the hedged risk.

The effectiveness of the hedge is recorded at the start of the operation and periodically (at least at each reporting date of the financial statements or interim financial statements) and is measured by comparing the changes in fair value (or *intrinsic value* in the event of use of optional instruments) of the derivative and the underlying asset, both measured on the balance sheet date on the basis of actual data (retrospective test) and determined in the event of shocks to market conditions (prospective test).

The amount recorded in the cash flow hedge reserve will be recognised in the statement of operations accordingly to the timing of the flows of the underlying bond. Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of recognised asset or liability or a highly probable forecasted transaction and could affect the income statement, the effective portion of any gain or loss on the derivative financial instrument is recognised directly in equity. The cumulative gain or loss is removed from equity and recognised in the income statement at the same time as the economic effect arising from the hedged item affects income. The gain or loss associated with a hedge or part of a hedge that has become ineffective is recognised in the income statement immediately. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss held in equity is recognised in the income statement immediately. When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss realised to the point of termination remains in equity and is recognised at the same time as the related transaction occurs.

During the year 2013 (in particular until the date of July 30, 2013 as regards reserves for interest rate risk and commodity and until the date of August 1, 2013 as regards the reserve for exchange currency risk), the Group reversed by equity and recognized in the income statement for a share of net losses previously recognized in reserves of cash flow hedges amounting to € 0.5 million (€ 0.8 million in the previous year), net of the related tax effect in relation to the theoretical 'current operations in derivatives and subsequently, due to the early termination of derivatives for interest rate risk and commodity, as well as the provision of foreign exchange contracts and all corresponding underlying transactions, has been recognized in income statement a portion of net losses previously recognized in reserves of cash flow hedges amounting to € 15.7 million.

Such amount has been recognized in the income statements lines as follows (amounts in thousands of Euro):

	2013	2012
Foreign exchange risk:		
Increase/(Decrease) of revenues	409	412
Interest rate risk:		
Financial income	3,708	23,538
Financial expenses	(2,160)	(25,042)
Commodities price risk:		
Financial income	(394)	-
Financial expenses	-	(39)
Total	1,563	(1,131)
Theoretical income taxes	(430)	309
Total	**1,133**	**(822)**

7. TRANSACTIONS WITH RELATED PARTIES

At December 31, 2013, the Parent was fully owned by the sole shareholder BCV Investments S.C.A. that owns 100% of share capital. BCV Investments S.C.A., which governing body is represented by BCV Management S.A., is a company incorporated in Luxembourg the main shareholdings of which are a plurality of investment funds managed by Cinven Limited ("Cinven") about 56.02%, institutional investors whose rights to vote are exercised according to instructions given by Cinven about 25.13% and Finmeccanica S.p.A. about 14.32%.

The Parent carries out, on a regular basis, commercial and financial transactions with subsidiaries and jointly controlled companies, conducted in the ordinary course of operations and arranged on an arms-length basis. In particular, they relate to the sale and purchase of goods and services, mainly relative to finance and accounting, tax, IT, personnel management, and assistance and advisory services, and related receivables and payables at year-end and centralised treasury management and related income and expenses. These transactions are eliminated in the consolidation process and, therefore, are not analysed in this section.
There is no guarantee that, if such transactions had been concluded between or with third parties, the same would have negotiated and signed the contracts, or performing the same transactions under the same conditions and in the same way.
It should be noted that the Group's related parties are parent companies, companies that are able to exercise control over the Avio Group and its subsidiaries, companies that are controlled but not consolidated in the Avio Group, associated and jointly controlled companies of Avio Group and other companies.

The tables below show the data for the quantification of transactions with related parties not included in the consolidation of the Avio Group Statement of Financial Position and Income Statement at 31 December 2013 and December 31, 2012, both for Continuing operations and for Discontinued operations.

At December, 31 2013 and December 31, 2012, for both Continuing operations and for Discontinued operations, the analysis of the financial statements data related to transactions between the Group and related parties is the following (€ thousands):

	December 31, 2013				December 31, 2012			
Counterparty	**Trade Receivables**	**Financial Receivables**	**Trade Payables**	**Financial Payables**	**Trade Receivables**	**Financial Receivables**	**Trade Payables**	**Financial Payables**
Continuing Operations								
BCV Investments S.C.A.	-	-	-	139,929	-	-	-	133,880
Cinven Limited	-	-	485	-	-	-	98	-
Controlling companies and Cinven Limited	**-**	**-**	**485**	**139,929**	**-**	**-**	**98**	**133,880**
Continuing Operations								
Finmeccanica S.p.A.	-	-	807	-	-	-	706	-
Company that has significant influence	**-**	**-**	**807**	**-**	**-**	**-**	**706**	**-**
Continuing Operations								
Servizi Colleferro – Società Consortile per Azioni	2	-	(24)	-	106	-	-	-
Non-consolidated controlled companies	**2**	**-**	**(24)**	**-**	**106**	**-**	**-**	**-**
Continuing Operations								
ASPropulsion Capital N.V.	-	-	-	-	-	4,454	-	-
Consorzio Servizi Acqua Potabile	131	-	-	-	257	-	-	-
Termica Colleferro S.p.A.	2	6,129	1,917	-	943	4,110	2,591	-
Europropulsion S.A. (1)	-	-	-	13.845	708	-	1,175	20,685
Discontinued Operations								
ASPropulsion Capital N.V.	n/a	n/a	n/a	n/a	-	-	-	358,299
Eurojet Turbo G.m.b.H.	n/a	n/a	n/a	n/a	14,609	-	125	-
Isi Geie	n/a	n/a	n/a	n/a	1,507	-	-	-
Turbo-Union Ltd.	n/a	n/a	n/a	n/a	7,203	61	1	-
Associated and jointly controlled companies	**133**	**6,129**	**1,917**	**13,845**	**25,227**	**8,625**	**3,892**	**378,984**
Other related parties (1)	-	-	-	-	**10,819**	**-**	**1,537**	**-**
Total related parties	**135**	**6,129**	**3,185**	**153,774**	**36,152**	**8,625**	**6,233**	**512,864**
Total (2)	**13,580**	**1,285,341**	**57,701**	**153,774**	**351,188**	**32,413**	**360,074**	**1,645,977**
Effect on Total (%)	1.0%	0.5%	5.5%	100.0%	10.3%	26.6%	1.7%	31.2%

(1) The Item includes transactions pertaining to Discontinued operations for year 2012.
(2) On December 31, 2012 the item includes transactions related to both to Continuing and Discontinued operations.

The main effects on profit and loss of the transactions between the Group and related parties for 2013 and 2012, for both Continuing operations and for Discontinued operations, were as follow (€ thousands):

	Year 2013				Year 2012			
Counterparty	**Operating revenues** (4)	**Operating costs** (5)	**Financial income**	**Financial expenses** (6)	**Operating revenues** (4)	**Operating costs** (5)	**Financial income**	**Financial expenses**
Continuing Operations								
BCV Investments S.C.A.	-	-	-	7,301	-	-	-	697
Cinven Limited	-	1,029	-	-	-	65	-	-
Discontinued Operation								
BCV Investments S.C.A.	-	-	-	-	-	-	-	6,278
Controlling companies and Cinven Limited	**-**	**1,029**	**-**	**7,301**	**-**	**65**	**-**	**6,975**
Continuing Operations								
Finmeccanica S.p.A.	-	167	-	-	-	166	-	-
Company that has significant influence	**-**	**167**	**-**	**-**	**-**	**166**	**-**	**-**
Continuing Operations								
Servizi Colleferro – Società Consortile per Azioni	63	543	-	-	243	541	-	-
Non-consolidated controlled companies	**63**	**543**	**-**	**-**	**243**	**541**	**-**	**-**
Continuing Operations								
ASPropulsion Capital N.V.	-	-	-	-	-	-	7	-
Consorzio Servizi Acqua Potabile	30	239	-	-	88	173	-	-
Termica Colleferro S.p.A.	15	8,378	205	-	915	8,424	70	-
Europropulsion S.A. (1)	56,295	4,710	-	36	51,395	5,887	-	58
Discontinued Operation								
ASPropulsion Capital N.V.	n/a	n/a	n/a	n/a	-	-	-	40,771
Eurojet Turbo G.m.b.H.	n/a	n/a	n/a	n/a	209.528	734	-	-
Isi Geie	n/a	n/a	n/a	n/a	1.448	-	-	-
Turbo-Union Ltd.	n/a	n/a	n/a	n/a	20.932	3	-	-
Associated and jointly controlled companies	**56,340**	**13,327**	**205**	**36**	**284.306**	**15,221**	**77**	**40,829**
Other related parties (2)	**-**	**-**	**-**	**-**	**44.100**	**2,897**	**-**	**-**
Total related parties	**287,649**	**272,619**	**1,844**	**4,013**	**328.649**	**18,890**	**77**	**47,804**
Total (3)	19.6%	5.5%	11.1%	89.3%	**2.352.660**	**2,035,885**	**85,331**	**216,940**
Effect on total (%)	**56,340**	**13,327**	**205**	**36**	14.0%	0.9%	0.1%	22.0%

(1) The Item includes relationship pertaining to Continuing operations for year 2013 (related party transactions relating to Discontinued operations have not been represented as they are considered not significant with regard to the structure of the Company as at December 31, 2013).
(2) The Item includes relationship related to Discontinued operations for year 2012.
(3) For year 2012 the item includes the part related both to Continuing and Discontinued operations.
(4) The item includes revenues from sales of goods and from services.
(5) The item includes raw materials consumption, cost of services and personnel costs.
(6) The item includes only financial costs allocated to Continuing operations.

Furthermore, we note that with reference to work in progress, or of long-term contracts, most transactions, whose effects are exposed to other items in the "Statement of Financial Position" such as "Contract work in progress" and "Advances for contract work in progress", are held with related parties represented in the tables above.

Transactions with controlling companies and Cinven Limited

Transactions with the BCV Group Investments S.C.A. and Cinven Limited, mainly attributable to Continuing operations, are identifiable in transactions summarized below:

- financial transactions with BCV Investments S.C.A. in connection with the loan "Intercompany Loan Agreement";
- transactions with Cinven Limited for consultancy and assistance.

Transactions with companies exercising significant influence

Transactions with the Company exercises significant influence, attributable to Continuing operations, are represented by assistance services and consultancy.

Transactions with non-consolidated controlled companies

Transactions with non-consolidated controlled companies, attributable to Continuing operations, are identified within the ordinary management activities and concluded under normal market conditions.

Transactions with associated and jointly controlled companies.
Transactions with associated and jointly controlled companies are identifiable in transactions summarized below:

- trade receivables related to revenues arising from sales of goods related core business of the Group, within the ordinary activities of operations and concluded under normal market conditions. In particular, with reference to the company Europropulsion S.A., are included revenues arising from sales of goods related core business of the Group, attributable to Continuing operations, within the ordinary activities of management and concluded under normal market conditions;
- financial receivables, due, in relation to Continuing operations, to the surplus in the treasury account of ASPropulsion International B.V. towards the associate ASPropulsion Capital N.V., incorporated as part of central treasury arrangement between the Dutch Group companies, and to Avio S.p.A. non-current financial receivables towards Termica Colleferro S.p.A.;
- trade payables, related to costs incurred in the ordinary management activities and transactions concluded under normal market conditions; moreover, with reference to the company Europropulsion S.A., are included costs related to ordinary management activities, attributable to Continuing operations, and concluded under normal market conditions;
- financial payables, attributable to Continuing operations, are included intercompany short-term financial payables of Avio S.p.A. to Europropulsion S.A.
- operating revenues, related to the transactions described above in the context of trade receivables;
- operating costs, related to the transactions described above in the context of trade payables;
- financial income, related to interest income on financial receivable previously reported;
- financial expenses, related to interests on the loan "Subordinated TreasuryCo Loan Agreement No. 2" above reported and to interest expenses on financial payables related to the ASPropulsion Capital N.V. loans, described above, granted to certain foreign companies of the Group (classified as *Discontinued operations*). They also include finance expenses related to interests on intercompany financial payables of Avio S.p.A. to Europropulsion S.A.

Transactions with other related parties
Transactions with other related parties are identifiable in transactions summarized below:

- trade receivables related to revenues arising from sales of goods related core business of the Group, within the ordinary management activities and concluded under market conditions;
- trade payables resulting from the costs incurred by transactions, within the ordinary management activities and concluded under market conditions;
- operating revenues related to the transactions described above in the context of trade receivables;
- operating costs relating to the transactions described above in the context of trade payables.

Salaries paid to top and key management are in-line with the market. In addition, the Group grants incentive plans to its employees, linked to the achievement of company and personal targets, as well as supplemental payments related to the achievement of certain seniority level.

Investments in associated and jointly controlled companies are consolidated at cost.
The following table reports main figures related to associated and jointly controlled companies, among which ASPropulsion Capital N.V. (49% owned, incorporated in The Netherlands, and operating financial and treasury activities), Termica Colleferro S.p.A. (40% owned, incorporated in Italy, and operating in the erection and management of a thermoelectric power plant).

Reported book values were determined in accordance with Dutch and Italian accounting principles, respectively, utilised by these companies in preparing their statutory financial statements (€ thousands):

	Year 2013	Year 2012
ASPropulsion Capital N.V.		
Statement of financial position		
Total assets	2,287	368,998
Total liabilities	41	364,666
Stockholders' equity	2,246	4,332
of which attributable to the Group	1,101	2,123
Income statement		
Revenues	-	-
Net financial income (expenses)	212	555
Other expenses	(300)	(344)
Net profit (loss) for the year	(88)	211
of which attributable to the Group	(43)	103
Termica Colleferro S.p.A.		
Statement of financial position		
Total assets	66,970	63,133
Total liabilities	60,409	54,181
Stockholders' equity	6,561	8,952
of which attributable to the Group	2,624	3,581
Income statement		
Revenues	24,729	21,976
Expenses and other income, net	(27,120)	(19,997)
Net profit for the year	(2,391)	(291)
of which attributable to the Group	(956)	(116)

In accordance with the requirements of IAS 31, the amounts of the main statement of financial position and income statement items of the jointly controlled companies are shown in the following table, reported at 50% of the total values resulting from their financial statements, in consideration of the adoption of the proportionate consolidation method, and corresponding to the amounts included in the consolidated financial statements among to the Continuing operations (€ thousands):

	Year 2013	Year 2012
Europropulsion S.A.		
Current assets	199,872	219,523
Non-current assets	1,437	1,474
Current liabilities	197,610	217,378
Non-current liabilities	715	737
Net revenues	115,713	117,071
Operating expenses	(112,066)	(113,836)

8. SUBSEQUENT EVENTS AFTER YEAR-END

On April 29, 2014, at 10:35 pm local time in French Guiana, Arianespace successfully launched the third Veda (first launch) from the Guiana Space Center (CSG), orbiting the KazEOSat-1 (DZZ-HR), satellite for government of Kazakhstan, made by Airbus Defence and Space.

The complete success of the mission and the great punctuality and precision have consolidated the success of Vega further strengthening its prospects.

As for the new contracts, in February 2014 is signed of the contract Europropulsion Ariane 5 PB + for the supply of 18 additional launchers to be delivered in the period 2017-2019 for an amount of € 236 million (for the Avio portion).
The corresponding contract for the complete engine between Europropulsion and the final customer Airbus Defence & Space was signed in December 2013 for a total amount of € 555 million.
Avio is then added to the signature of the corresponding contract with Safran to produce 18 Booster pumps for liquid oxygen of the Vulcain engine, for an amount of € 15 million.

It's to be remarked, finally, that Avio, following the invitation to tender issued by ESA, has been selected to lead the development of carbon fibre casings of the new solid-propellant motors for the new European launcher Ariane 6, successor to Ariane 5.
In that event was signed the contract with Airbus Defence & Space for the preliminary development (Phase B1) of Engine Solid propellant for Ariane 6, which covers the activities planned in the current year, 2014, preparatory to the decision pending the next Conference Minister of Space which will be held later this year to fund the complete development of this new launcher.

On May 16, 2014 Avio S.p.A. and its parent BCV Investments SCA signed a supplementary agreement ("Amendment Agreement") to the Intercompany Loan Agreement, whit the aim to regulate the change in the contract's terms, by reducing, effective January 1, 2014, the interest rate applied to a value substantially aligned with the one (based on EONIA rate) applicable to the short–term floating rate notes subscribed using part of the proceeds generated from the sale of the investment in GE Avio S.r.l.

9. GROUP COMPANIES AS OF DECEMBER 31, 2013

Company	Registered Office	Currency	Capital Stock	% Owned by Group	Participating Companies	% Owned
Continuing operations						
Controlled companies consolidated on a line-by-line basis						
ASPropulsion International B.V.	Amsterdam (NL)	Euro	18,000	100%	Avio S.p.A.	100%
SE.CO.SV.IM. S.r.l.	Rome	Euro	53,929,691	100%	ASPropulsion International B.V.	100%
ELV S.p.A.	Rome	Euro	4,680,000	70%	Avio S.p.A.	70%
Regulus S.A.	Kourou (French Guyana)	Euro	640,000	60%	Avio S.p.A.	60%
Avio India Aviation Aerospace Private Limited	New Delhi (India)	Indian Rupees	16.060.000	100%	Avio S.p.A. ASPropulsion International B.V.	95% 5%
Controlled companies not consolidated						
Servizi Colleferro – Società consortile per azioni	Colleferro (Rome)	Euro	120,000	52% (*)	Avio S.p.A. SE.Co.SV.IM. S.r.l.	33% 20%
Companies consolidated on a proportionate basis						
Europropulsion S.A.	Suresnes (France)	Euro	1,200,000	50%	Avio S.p.A.	50%
Associated and jointly controlled companies (carried at cost)						
Consorzio Servizi Acqua Potabile	Colleferro (Rome)	Euro	-	50%	Avio S.p.A. SE.CO.SV.IM. S.r.l.	25% 25%
ASPropulsion Capital N.V.	Amsterdam (NL)	Euro	2,200,000	49%	Avio S.p.A.	49%
Termica Colleferro S.p.A.	Bologna	Euro	120,000	40%	Avio S.p.A.	40%
Consorzio Sitab	Rome	Euro	25,823	20%	Avio S.p.A.	20%

(*)An additional share at group level of 2% is indirectly owned by Thermal Colleferro SpA, a company affiliated non-consolidated basis.

10. INFORMATION REQUIRED BY ART. No. 2427, PARAGRAPH 16 BIS, OF THE ITALIAN CIVIL CODE

The following table, required by art. No. 2427, paragraph 16 bis, of the Italian Civil Code, reports fees related to 2013 for audit and other services provided by the independent auditors and members of their network (€ thousands):

Kind of services	Service provider	2013 fees
Audit	Deloitte & Touche S.p.A.	223
	Deloitte Network	-
Attestation	Deloitte & Touche S.p.A. (1)	5
Other services	Deloitte & Touche S.p.A. (2)	99
Total		**327**

(1) For the subscription of tax returns.
(2) Non-recurring activities with regard to the extraordinary contribution in-kind and sale operation and other supporting activities in favour of Finance department of the Group.

* * *

May 30, 2014

for the Board of Directors
Chief Executive Officer
Pier Giuliano Lasagni

Deloitte.

Deloitte & Touche S.p.A.
Galleria San Federico, 54
10121 Torino
Italia

Tel: +39 011 55971
Fax: +39 011 544756
www.deloitte.it

AUDITOR'S REPORT
PURSUANT TO ART. 14 OF LEGISLATIVE DECREE
No. 39 OF JANUARY 27, 2010

To the Sole Shareholder of
AVIO S.p.A.

1. We have audited the consolidated financial statements of Avio S.p.A. and subsidiaries (the "Avio Group") as of and for the year ended December 31, 2013, which comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholder's equity, the statement of cash flows and the related notes to financial statements. These consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union are the responsibility of the Avio S.p.A.'s Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's consolidated financial statements, whose data are presented for comparative purposes, reference should be made to our auditor's report issued on May 10, 2013.

3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Avio Group as of December 31, 2013, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

4. For a better comprehension of the consolidated financial statements, we refer to the fact that, as indicated in the report on operations and in the notes, on August 1, 2013, after obtaining the necessary antitrust authorizations required under European Union and United States of America regulations, as well as regulatory authorizations from the Italian Government, the following operations were completed:

   (a) contribution in kind, by Avio S.p.A., of the AeroEngine business related to the design and manufacturing of components for aeronautical engines, aeroderivative and MRO – Maintenance, Repair & Overhaul – services for both civil and military use – to a wholly owned company newly incorporated, named GE Avio S.r.l.; and

   (b) subsequent sale of 100% of the share capital of GE Avio S.r.l. to GE Italy Holding S.p.A. (formerly Nuovo Pignone Holding S.p.A.), a subsidiary of General Electric Group. The transaction resulted in a gain, gross of related tax effect, of € 1,103 million, emerging as the difference between the selling value of the investment in GE Avio S.r.l. and the book values recorded by the conferrer.

   Following the above described transfer operation, Avio S.p.A. has therefore maintained ownership of the business relating to Space Sector as well as certain other assets and liabilities which, on the basis of contractual agreements, were not included in the perimeter of the operation. Assets and liabilities involved in the sale ("disposal group") were qualified, in accordance with *IFRS 5*, as "Discontinued Operations" and therefore presented as such in the consolidated financial statements (with effects on the income statement's presentation).

5. The Directors of Avio S.p.A. are responsible for the preparation of the report on operations in accordance with the applicable law. Our responsibility is to express an opinion on the consistency of the report on operations with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by Consob. In our opinion the report on operations is consistent with the consolidated financial statements of the Avio Group as of and for the year ended December 31, 2013.

DELOITTE & TOUCHE S.p.A.

Signed by
Franco Chiavazza
Partner

Turin, Italy,
June 9, 2014

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

STATUTORY FINANCIAL STATEMENTS

Avio S.p.A. STATEMENT OF FINANCIAL POSITION	Note	December 31, 2013	December 31, 2012 Restated (*)	January 1, 2012 Restated (*)
(Euros)				
Assets				
Non-current assets				
Property, plant and equipment	3.1	22,643,968	24,234,025	209,779,768
Investment Property		-	-	-
Goodwill	3.2	219,100,000	219,100,000	1,956,530,200
Intangible assets with a definite life	3.3	95,050,009	99,878,109	1,032,673,538
Investments	3.4	67,813,408	84,697,408	191,218,728
Non-current financial assets	3.5	6,040,000	4,040,000	2,211,355
Deferred tax assets	3.6	52,203,288	-	-
Other non-current assets	3.7	13,767,958	16,279,520	36,026,030
Total non-current assets		**476,618,631**	**448,229,062**	**3,428,439,619**
Current assets				
Inventories	3.8	51,936,185	52,901,836	286,315,211
Contract work in progress	3.9	40,438,787	48,620,062	144,487,116
Trade receivables	3.10	6,247,447	6,843,264	288,313,939
Current financial assets	3.11	1,275,858,187	12,958,423	33,667,938
Cash and cash equivalents	3.12	48,540,968	-	41,044,588
Current tax assets	3.13	10,126,604	4,557,733	3,516,161
Other current assets	3.14	19,595,349	7,521,081	24,697,690
Total current assets		**1,452,743,527**	**133,402,399**	**822,042,643**
Assets classified as held for sale and Discontinued operations	3.15	**-**	**3,750,657,741**	**-**
TOTAL ASSETS		**1,929,362,158**	**4,332,289,202**	**4,250,482,262**

(*) The comparative figures for 2012 have been restated to include the retrospective application of the IAS 19 revised and the amendments made to IAS 1, as explained in the notes.

As more fully illustrated in the Note 1.1, following the signing of the preliminary sale and purchase agreement with New Pignone Holding S.p.A., which took place on December 21, 2012, the assets and liabilities related to the *aeroengine* business are classified in the consolidated statement of financial position at December 31, 2012, respectively in the items Assets and Liabilities classified as held for sale and Discontinued operations, in accordance with IFRS 5. By the completion of the transfer of the business and the subsequent sale of the transferee company (GE Avio S.r.l.), at December 31, 2013, the statement of financial position includes the residual balances of the Group following the implementation of the effects of the transactions described.

Avio S.p.A. STATEMENT OF FINANCIAL POSITION	Note	December 31, 2013	December 31, 2012 Restated (*)	January 1, 2012 Restated (*)
(Euros)				
EQUITY				
Share capital	3.16	40.000.000	40.000.000	40.000.000
Share premium reserve	3.17	73.575.782	726.400.000	726.400.000
Legal reserve		8.000.000	1.207.435	1.207.435
Other reserves	3.18	78.800.272	329.357	10.264.826
Retained earnings/(losses)		-	(108.278.809)	(127.270.462)
Profit/(Loss) for the year		1.258.010.990	29.667.656	(3.691.263)
TOTAL EQUITY		**1.458.387.044**	**689.325.639**	**646.910.535**
LIABILITIES				
Non-current liabilities				
Non-current financial liabilities	3.19	139.928.864	133.879.720	1.568.522.677
Provisions for employee benefits	3.20	9.539.553	8.968.498	75.882.638
Provisions for risks and charges	3.21	12.390.936	29.662.283	78.564.999
Deferred tax liabilities	3.6	-	109.044.353	233.856.902
Other non-current liabilities	3.22	56.243.440	56.603.486	506.939.058
Total non-current liabilities		**218.102.792**	**338.158.340**	**2.452.143.822**
Current liabilities				
Current financial liabilities	3.23	57.463.975	74.109.884	103.601.531
Current portion of non-current borrowings	3.24	-	-	72.568.414
Provisions for risks and charges	3.21	13.766.828	46.093.840	38.851.662
Trade payables	3.25	53.058.523	48.171.742	265.379.987
Advances on contract work in progress	3.9	51.739.659	76.584.408	503.491.423
Current tax payables	3.26	46.022.883	8.340.477	8.384.083
Other current liabilities	3.27	30.820.454	27.053.927	150.724.527
Total current liabilities		**252.872.323**	**280.354.278**	**1.143.001.627**
Liabilities classified as held for sale and Discontinued operations	3.15	**-**	3.024.450.945	**-**
TOTAL LIABILITIES		**470.975.114**	**3.642.963.563**	**3.595.145.449**
TOTAL LIABILITIES AND EQUITY		**1.929.362.158**	**4.332.289.202**	**4.250.482.262**

(*) The comparative figures for 2012 have been restated to include the retrospective application of the IAS 19 revised and the amendments made to IAS 1, as explained in the notes.

As more fully illustrated in the Note 1.1, following the signing of the preliminary sale and purchase agreement with New Pignone Holding S.p.A., which took place on December 21, 2012, the assets and liabilities related to the *aeroengine* business are classified in the consolidated statement of financial position at December 31, 2012, respectively in the items Assets and Liabilities classified as held for sale and Discontinued operations, in accordance with IFRS 5. By the completion of the transfer of the business and the subsequent sale of the transferee company (GE Avio S.r.l.), at December 31, 2013, the statement of financial position includes the residual balances of the Group following the implementation of the effects of the transactions described.

Avio S.p.A. INCOME STATEMENT	Note	Year 2013	Year 2012 Restated (*)
(Euros)			
Revenues	3.28	202,459,375	198,065,665
Change in inventory of finished and semi-finished goods		(624,587)	850,886
Other operating income	3.29	4,667,218	8,681,287
Consumption of raw materials	3.30	(55,867,680)	(64,577,384)
Cost of services	3.31	(104,479,421)	(82,306,019)
Personnel costs	3.32	(34,224,629)	(32,447,054)
Depreciation and amortization	3.33	(14,819,380)	(14,711,527)
Impairment losses and reversals of impairment		-	-
Other operating costs	3.34	(5,022,790)	(917,389)
Capitalized costs for internally generated assets	3.35	5,474,259	3,379,327
OPERATING PROFIT		**(2,437,634)**	**16,017,792**
Financial income	3.36	1,834,433	890,460
Financial expenses	3.37	(3,874,242)	(1,239,525)
NET FINANCIAL INCOME/(EXPENSES)		**(2,039,809)**	**(349,065)**
Share of income/(expenses) in investments in associated companies accounted for using the equity method		-	-
Other income/(expenses) from financial investments	3.38	8,908,632	9,773,249
NET INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS		**8,908,632**	**9,773,249**
PROFIT/(LOSS) BEFORE TAXES AND DISCONTINUED OPERATIONS		**(13,386,075)**	**25,441,976**
INCOME TAXES	3.39	**(1,842,695)**	**(11,666,164)**
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		**(15,228,770)**	**13,775,812**
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS NET OF TAXES	3.15	**1,273,239,760**	**15,891,844**
PROFIT/(LOSS) FOR THE YEAR		**1,258,010,990**	**29,667,656**

(*) The comparative figures for 2012 have been restated to include the retrospective application of the IAS 19 revised and the amendments made to IAS 1, as explained in the notes.

As more fully illustrated in the Note 1.1, following the signing of the preliminary sale and purchase agreement with Nuovo Pignone Holding S.p.A., which took place on December 21, 2012, the revenues and costs related to the *aeroengine* business are presented in the consolidated income statement for the 2012 and 2011 financial years, in the item "Profit/(Loss) from Discontinued operations net of taxes", in accordance with IFRS 5. By the completion of the transfer of business unit and the subsequent sale of the transferee company (GE Avio S.r.l), at December 31 2013, revenues and costs related to the transferred business are classified in the consolidated income statement for the year 2013 under the heading "Income / (Loss) from Discontinued operations net of taxes, together with the gain, net of related tax effects accounted for as a result of the sale of the assets and liabilities of the Discontinued operations in accordance with IFRS 5.

Avio S.p.A. STATEMENT OF COMPREHENSIVE INCOME	Year 2013	Year 2012 Restated (*)
(Euros)		
PROFIT/(LOSS) FOR THE YEAR (A)	**1,245,356,180**	**29,667,656**
Gains (losses) included directly in equity (which are not subsequently reclassified to income statement)		
- Actuarial gains and losses-reserve Actuarial gains/losses	(2,302,721)	(18,692,633)
Gains (losses) included directly in equity (which will be subsequently reclassified to income statement)		
- Gains/(Losses) on hedging derivative instruments recognized directly in cash flow hedge reserve *(*)*:		
- currency	-	22,047,431
- interest rate	-	(2,699,428)
- commodities	-	(201,083)
Income tax relating to components of Other comprehensive income *(*)*	633,248	(124,929)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX (B)	**(1,669,473)**	**329,358**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR (A+B)	**1,243,686,707**	**29,997,014**

(*) The comparative figures for 2012 have been restated to include the retrospective application of the IAS 19 revised and the amendments made to IAS 1, as explained in the notes.

(**) The gains and losses, net of the related tax effect on cash flow hedging instruments recognized directly in the cash flow hedge reserves and those arising from the translation of financial statements of companies in currencies other than the euro are entirely attributable to Discontinued operations.

Avio S.p.A.

STATEMENT OF CHANGES IN EQUITY

(€ thousands)

	Share capital	Additional paid-in capital	Legal reserve	Other reserves: Reserve art. 2426 n.8-bis Civil Code	Other reserves: Cash flow hedge currency reserve	Other reserves: Cash flow hedge interest rate reserve	Other reserves: Cash flow hedge commodities reserve	Other reserves: Actuarial profit/losses reserve	Other reserves: Capital gain reserve from the transfer	Carry forward profit / losses	Profit/loss for the year	Total equity
Equity December 31, 2012	**40,000**	**726,400**	**1,207**	**22,941**	**(2,395)**	**(2,063)**	**66**	**-**	**-**	**(126,836)**	**(3,983)**	**655,337**
Effects of the retrospective application of IAS 19 revised	-	-	-	-	-	-	-	(8,284)	-	(434)	292	(8,426)
Net Equity at December 31,2011 restated (*)	**40,000**	**726,400**	**1,207**	**22,941**	**(2,395)**	**(2,063)**	**66**	**(8,284)**	**-**	**(127,270)**	**(3,691)**	**646,911**
Allocation of prior year profit/loss	-	-	-	-	-	-	-	-	-	(3,691)	3,691	-
Profit/(Loss) for the year 2013	-	-	-	-	-	-	-	-	-	-	29,668	29,668
Other comprehensive income / (losses):												
- Changes in fair value of hedging derivatives, net of related tax effect	-	-	-	-	18,380	106	(212)	-	-	-	-	18,274
-Actuarial profit/ losses, net of related tax effect	-	-	-	-	-	-	-	(5,269)	-	-	-	(5,269)
Comprehensive income/losses for the year 2013	-	-	-	-	18,380	106	(212)	(5,269)	-	-	29,668	42,673
Other movements in equity												
Other movements	-	-	-	(22,941)	-	-	-	-	-	22,682	-	(259)
Equity at Dicember 31, 2012 restated (*)	**40,000**	**726,400**	**1,207**	**-**	**15,985**	**(1,957)**	**(146)**	**(13,553)**	**-**	**(108,279)**	**29,668**	**689,325**
Allocation of prior year profit/losses	-	-	1,467	12,934	-	-	-	-	-	15,267	(29,668)	-
Profit/losses for the year 2012	-	-	-	-	-	-	-	-	-	-	1,245,356	1,245,356
Other comprehensive income / (losses):												
- Changes in fair value of hedging derivatives, net of related tax effect fiscale	-	-	-	-	423	1,123	(286)	-	-	-	-	1,260
- Actuarial profit/ losses, net of related tax effect	-	-	-	-	-	-	-	(487)	-	-	-	(487)
Comprehensive income/losses for the year 2013	-	-	-	-	423	1,123	(286)	(487)	-	-	1,245,356	1,246,129
Other movements in equity												
Transfeer efects	-	-	-	-	(16,408)	834	432	12,371	80,469	(12,353)	-	65,345
Effects of reserve distribution	-	(652,824)	5,325	(12,934)	-	-	-	-	-	105,358	-	(555,074)
other changes	-	-	-	-	-	-	-	-	-	7	-	7
Equity at December 31, 2013	**40,000**	**73,576**	**8,000**	**-**	**-**	**-**	**-**	**(1,669)**	**80,469**	**-**	**1,245,356**	**1,445,731**

(*) The figures as at January 1, 2012 and December 31, 2012, as well as movements of 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

Avio S.p.A.

STATEMENT OF CASH FLOWS

(€ thousands)

	2013 (*)	2012 (**)
OPERATING ACTIVITIES		
Profit/(Loss) for the year from Continuing and Discontinued operations	(27,884)	29,344
Adjustments for:		
- income taxes	14,498	59,191
- net (income)/expenses from financial investments	8,909	(4,091)
- net financial (income)/expenses not inherent to operating activities	6,538	114,583
- depreciation and amortisation	14,818	138,557
- write-down and impairment/(reversal)	-	-
- (gains)/losses from sales of fixed assets and other (gains)/losses	(7)	(286)
Changes in equity reserves:		
- currency, interest rate and commodities cash flow hedge reserves (gross of the related tax effect)	1,737	25,206
Net changes in exchange rate and commodities derivatives assets and liabilities	-	(21,714)
Net changes in provisions for risks	(49,598)	7,797
Net changes in provision for employee benefits	618	948
Cash provided by operating activities before changes in working capital	**(30,371)**	**349,533**
Changes in:		
- Inventories	966	(13,473)
- Contract work in progress and advances for contract work in progress	(16,663)	(69,010)
- Trade receivables	596	(26,191)
- Trade payables	4,887	46,186
- Other current and non-current assets	(15,132)	5,267
- Other current and non-current liabilities	(7.721)	(11,988)
	(33,068)	(69,209)
Cash provided by operating activities	**(63.439)**	**280,324**
Income taxes paid	(17,819)	(21,212)
Interest paid	-	(74,992)
Net cash provided by operating activities	**(81,357)**	**184,120**
INVESTING ACTIVITIES		
Capital expenditures for:		
- Property, plant, equipment and investment property	(2,167)	(38,558)
- Intangible assets with finite useful lives	(6,237)	(125,420)
- Net change in payables related to the participation in international collaboration agreements Note A		56,843
- Goodwill	-	-
- Investments	-	(15,043)
- Short-term floating rate notes	1,150,000	-
Proceeds from sale of fixed assets	1,923,191	233
Dividends from financial investments	8,089	8,682
Other variations in Assets classified as held for sale and related liabilities	2,019	
Net cash used in investing activities	**774,895**	**(113,263)**
FINANCING ACTIVITIES		
Proceeds from long-term borrowings	-	210,878
Payment of transaction costs related to the amendment and extension of long term borrowings	-	(21,272)
Repayments of long-term borrowings	(820)	(252,205)
Share capital and additional paid-in capital	(100)	-
Reserve distribution to Shareholders	(555,074)	-
Financing given	(2,000)	(4,040)
Funds transferred to Escrow accounts to guarantee the GE Avio S.r.l. investment's sale operation	(115,000)	
Other changes in financial assets and liabilities	(14,216)	(3,050)
Net cash provided by financing activities	**(687,210)**	**(69,689)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,329**	**1,168**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**42,212**	**41,044**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**48,541**	**42,212**

(*) In order to provide a representation more consistent to the actual operating structure of the Company on a standalone basis, the 2013 cash-flow includes only cash flows related to Continuing operations.

(**) 2012 cash flows represent the real operating structure of the Company of that period and include both Continuing and Discontinue Operation.

Note A: In order to provide a better representation of the cash flow used in investing activities, the change in payables related to the participation in international collaboration agreements, for which payment is contractually deferred in more than one financial period, is exposed in reduction of the related capital expenditures included in the intangible assets with finite useful life.

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Avio S.p.A. (the "Company", until July 29, 2011 referred to as AVIO S.p.A.) is a limited liability company with sole shareholder, regulated under the laws in force in Italy and registered at the Register of Companies of Italy, with registered office in Turin, Route 145 Drosso.

The Company was incorporated on December 11, 2006 under the name of Avio Investments S.p.A., which is owned by the sole member BCV Investments SCA, a Luxembourg company currently owned primarily by institutional investors and funds managed and controlled primarily by Cinven Limited (for a share of about 81%) and Finmeccanica S.p.A. (for a share of about 14%).

On December 14, 2006, the Company acquired all of the shares of AvioGroup S.p.A., parent company of the group Avio, from subsidiaries of The Carlyle Group and Finmeccanica S.p.A., which held respectively 70% and 30 % (the "Acquisition").

Following the resolution of the extraordinary shareholders' meeting of May 15, 2007, the Company has, by deed dated 25 July 2007 and with legal, accounting and tax from August 1, 2007, to the merger of AvioGroup S.p.A., Aero Invest 2 Ltd., Avio Holding S.p.A. and Avio S.p.A., all directly or indirectly owned subsidiaries (the "Acquisition"). In addition, following the resolution of the same extraordinary general meeting of shareholders, the Company changed, with effect from August 1, 2007, its corporate name to AVIO S.p.A. Subsequently, following resolution of the extraordinary actions held on 29 July 2011, the Company changed its name to Avio S.p.A. instead AVIO S.p.A.

The Company holds investments in subsidiaries, associates and joint ventures and therefore prepares its consolidated financial statements, prepared in accordance with international accounting standards and filed in accordance with the Legislative Decree no. 127/91 at the Company Register – Turin Office.

The Company is a leader, along with other companies in the Avio Group (the "Group"), in the space propulsion sector, in particular with reference to the design, development and production of propulsion systems for solid and liquid propellant launchers, solid-propellant propulsion systems for tactical missiles, for the development and complete integration of space launchers (Vega), research and development of new propulsion systems with low environmental impact, engine trim control for satellites.

This activity is performed as part of the major European Space programs such as Ariane 5, Vega and Aster, through the provision of systems to national (ASI-Italian Space Agency) and international (ESA-European Space Agency) space agencies.

The Company and the Group are active in the design, development and production of propulsion systems for Space launchers of different categories needed for the launch of GEO satellites, both geostationary orbits-Geostationary Earth Orbit (usually established by Ariane at about 36,000 km altitude through the release of the satellite into transfer orbit GTO) for both low orbits (LEO between about 300 and 1,700 km altitude), and for tactical missiles, through participation in major national and international programs.

Historically, the Company and the Avio Group have participated, from the starting, to the European Space programs through the provision of solid propulsion motors (SRM) and currently provide the engine side (booster) solid propellant for the European launch vehicle Ariane 5, which is the main satellite launch system for geostationary orbits.

With the start of the program Vega, the Group, through its subsidiary ELV, has signed a contract with ESA with prime contractor role for the design, development, integration and production of the new European launcher for satellites in low orbits (non-geostationary).
In the field of tactical propulsion, the Company designs and manufactures propulsion systems for tactical missiles in Europe, among which the Aster missile hypersonic European air and missile defense.

The financial statements are expressed in Euro (€) as this is the currency in which they conduct most of the operations of the Company. The statements of the statement of financial position, income statement and statement of comprehensive income are expressed in euros; the statement of changes in equity and cash flow statement and these notes are expressed in thousands of Euro, unless otherwise indicated.

1.1. DISCONTINUED OPERATIONS

On December 21, 2012, Avio S.p.A., as seller, together with its shareholder BCV Investments S.C.A., and Nuovo Pignone Holding S.p.A. (a company belonging to the General Electric Group, "NPH") signed a preliminary sale and purchase agreement (hereinafter referred to as the "Agreement") which contemplates, among other things, (i) the contribution-in-kind of the Company's AeroEngine business (related to the design and manufacturing of components for aeronautical engines, aeroderivative and MRO – Maintenance, Repair & Overhaul – services for both civil and military use and, according to the Agreement, defined as "Aviation business") by Avio S.p.A. to a wholly owned company newly incorporated for this purpose, and (ii) the subsequent sale of the entire share capital of this new company to NPH.

The fulfilment of this contract, following the occurrence of conditions contemplated in the Agreement (including obtaining the necessary authorizations from the antitrust authorities of the European Union and of the United States of America, as well as the regulatory authorizations required from the Italian government), was finalized on August 1, 2013: at that date was therefore carried out the operation of the transfer of the assets and liabilities pertaining to the operations of the AeroEngine Sector and related corporate structures, as well as the net financial debt originally contracted by the Parent Company against third parties, in a newly established company (GE Avio S.r.l., 100% owned by Avio S.p.A.) as conferee.

This transaction qualified as "business combination of entities under common control" occurred, in accordance with the relevant accounting standards (OPI 1), based on the "continuity of values" criterion (referred, as indicated by the accounting standard, to the values reflected in the consolidated financial statements of the entity that controls transaction parts).

In particular, assets being contributed to a carrying value included in the consolidated financial statements, that differs from the one included in the statutory financial statements were:
- Goodwill (considered as part of the contributed business, as specifically allocated in previous business combinations), whose book value recorded in the consolidated financial statements, with reference to the AeroEngine business, is higher than statutory financial statement value (about 11.5 million) as a result of the Merger, which has had different effective dates (retrospective application for the consolidated financial statements and perspective application for the statutory financial statements, as permitted by OPI 2);
- Investments in subsidiaries (considered, as indicated by OPI 1, as single assets included in the business contribution and not subject to such a specific contribution): the value included in the statutory financial statements of Avio (in which the investments were stated at cost) has been adjusted (by applying, in facts, the equity method valuation) to the corresponding value of the net assets and liabilities (net of consolidation adjustments) included in the consolidated financial statements. This approach produces an increase in the value of investments of approximately € 69.0 million.

The effects of the contribution aligned to consolidated financial statements values, for a total of € 80.5 million, determined, in accordance with the provisions of the relevant accounting standards (OPI 1), in the context of a business combination carried out between entities under common control, as counterpart of the capital increase in GE Avio S.r.l., the recording, in Avio S.p.A. statutory financial statement, of an equity reserve indicated as "Contribution surplus reserve".

The above mentioned book values of assets and liabilities being transferred have been confirmed as results of the evaluation activities included in a specific appraisal report ("Relazione di Stima"), prepared in accordance with art. 2465 of the Italian Civil Code, of the value of the "Aviation" branch conferred by Avio S.p.A. to GE Avio S.r.l., signed by Professor Alessandro Nova (Professor of Corporate Finance at Bocconi University, chartered accountant and member of Statutory

Auditors of Milan), who certified the value of the business unit being contributed not less the value of the capital, including the related additional paid-in capital, made in the conferee.

After the conclusion of contribution in-kind operation, investments held by Avio S.p.A. in GE Avio S.r.l. was sold to Nuovo Pignone Holding S.p.A., a subsidiary of General Electric, on the basis of an evaluation of the transferring company's assets and liabilities of € 1,923,180 thousand. The transaction therefore produced a gain of € 1,102,528 thousand, as result of the difference between the sale value of the investment held in GE Avio S.r.l. and the accounting value recorded by the conferee, as subsequently adjusted.

After the above transfer operation, the Company has therefore maintained ownership of the management of the business unit related to Space sector, as well as some assets and liabilities that, on the basis of contractual agreements, were not included in transferred perimeter.

The business unit transferred (disposal group) was qualified for Avio Group in accordance with IFRS 5 as "Discontinued operations" and as such was represented in these consolidated financial statements (with effects on the presentation of the income statement).
Such representation was consistent with what already carried out with respect to the financial statement related to the year ended December 31, 2012, in which, being the contribution and the sale operation considered to be highly probable (in relation to the signing of the Agreement on December 21, 2012), the Aviation business had already been accounted for as Discontinued operations. Thus, occurred no need to make changes to the representation of the comparative figures of the financial statements compare to those included in the consolidated financial statements for the year ended 31 December 2012 (except for the effects of the retrospective application of IAS 19 revised accounting principle, as described in the following paragraphs).

In accordance with IFRS 5, the following basis of presentation has consequently been adopted:
- For both 2013 (for the period between January 1, 2013 and August 1, 2013) and, for comparative purposes, for 2012 (for the whole period) all revenues and costs relating to *Discontinued operations* have been reported as a single amount in the statutory income statement under "Profit /(Loss) from *Discontinued operations*";
- All current and non-current assets relating to *Discontinued operations* as at December 31, 2012, included in the financial statements for comparative purposes, have been reported as a single amount in the statutory statement of financial position as "Assets Held for Sale and Discontinued operations";
- All liabilities (excluding equity) relating to *Discontinued operations* as at December 31, 2012, included in the financial statements for comparative purposes, have been reported as a single amount in the statutory statement of financial position as "Liabilities Held for Sale and Discontinued operations".
- All 2013 and 2012 cash flows arising from *Discontinued operations* have been presented in the statement of cash flows as separate line items under cash flows from operating, investing and financing activities.

Discontinued operations assets and liabilities have been identified as follows:
(i) by including assets and liabilities related to the AeroEngine Sector, on a basis consistent with the allocation criteria used for the segment reporting as at December 31, 2012; and
(ii) by allocating other assets and liabilities related to Corporate activities at December 31, 2012 on the basis of the terms of the Agreement referred to above, that define the parties agreement regarding the other specific assets and liabilities to be contributed and therefore disposed of by the Company.

In particular, assets and liabilities classified as Discontinued operations exclude, at December 31, 2012, the following:
a. items related to rights and obligations whose legal ownership remained, in 2013, with the contributing or transferring entity (including mainly receivables and payables relating to tax and social security matters, tax-related provisions and reserves for benefit plans qualifying as "cash-settled share-based payment" plans);
b. deferred tax assets and deferred tax liabilities arising from temporary differences whose reversal, even if related to assets and liabilities contributed, remained with the

contributing entity (mainly the effect of the portion of goodwill allocated to the AeroEngine CGU that is deductible for tax purposes);

c. financial payables due to the shareholder, BCV Investments S.C.A.

The classification of income statement items (costs, revenues, income and expense) to Discontinued operations (that, as indicated, for the financial year 2012 covered the entire accounting period, while for 2013 only refers to the period from January 1, 2013 to August 1, 2013) has been determined as follows:

(i) operating costs and revenues related to the AeroEngine Sector have been attributed on a basis consistent with the allocation criteria used for the segment reporting;

(ii) other costs and revenues related to Corporate activities have been allocated on the basis of the following assumptions:

  a. allocation of all personnel costs (and related costs) of Corporate functions related to staff then included in the disposal group;
  b. allocation of other Corporate operating costs and expenses on the basis of the ratio of revenues of the AeroEngine business to total Company's revenues;
  c. allocation of all financial interest expense related to the contributed financial payables and of a portion of financial interest expenses related to financial payables to the controlling company BCV Investments S.C.A., determined on the same basis as for Corporate operating costs and expenses, up to August 1, 2013, considering all the subsequent financial charges pertaining to Continuing operations;
  d. allocation of current and deferred income tax effects on the basis of the Company's effective tax rate for the period applied to the profit or loss before tax of the AeroEngine Sector (except for some specific allocation as described below);
  e. allocation of other tax charges related to the provision for tax risks (as pertaining to the aggregate structure of the Company, being referred to the period before the contribution) on the basis of the ratio of revenues of the AeroEngine business to total Company's revenues.

(iii) some income and expense, primarily related to corporate structures of the Company, as referring to the effects on the income statement of Avio S.p.A., both in the period before August 1, 2013 and on that date, as a direct consequence of the contribution and sale operation have been attributed to Discontinued operations.

  In particular, has been considered as part of the Discontinued operations for 2013, the following main elements:

  a. the capital gain arising from the sale of the shares in GE Avio S.r.l. and the related tax effect (determined with regard to the tax value of assets and liabilities transferred);
  b. the effects of the reversal to the income statement of the amounts entered in the reserves of cash flow hedges to manage exchange rates risk, interest rates risk and commodity prices risk, with related tax effect;
  c. the income related to the reversal in the income statement of deferred tax liabilities recorded on difference between tax and accounting value of the portion of the goodwill allocated to AeroEngine Sector, whose tax benefits (related to the future deductibility of amortization) will impact the conferring company, Avio S.p.A.

Refer to Note 3.16 below for details of amounts classified to Discontinued operations in the statement of financial position (relating only to year ended December 31, 2012) and in the consolidated income statement (both for 2013 and for comparative data).

In order to give a more complete level of information, the explanatory notes included in section 3 of these Notes include disclosures related not only to Continuing operations, but also to Discontinued operations, when relevant, taking into consideration their significance.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Principles for the preparation of the financial statements

According to Art. No. 3 of Legislative Decree No. 38 of February 28, 2005, the Company, starting from its first financial year ended at December 31, 2007, decided to adopt, on a voluntary basis, the international accounting principles (hereinafter referred to as "IFRS") issued by the International Accounting Standards Board ("IASB") and adopted by the European Commission for the preparation of its consolidated financial statements.

The designation "IFRS" includes the IFRS, all revised International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Standard Interpretations Committee ("IFRS IC" formerly "IFRIC"), formerly the Standing Interpretations Committee ("SIC").

As mentioned above, on August 1, 2007 the Company executed the merger by incorporation of AvioGroup S.p.A., Aero Invest 2 S.r.l., Avio Holding S.p.A. and Avio S.p.A., all directly or indirectly wholly owned subsidiaries. At that date the assets and liabilities of the merged companies were accounted for in the Company's financial statements on the basis of the IFRS balances included in the consolidated financial statements at the same date, in compliance with the principle of continuity of values ("Balances resulting from the Merger"). The difference between the carrying value of the investments and the relevant equity of the merged companies ("Goodwill arising from Merger") was accounted for at the same balances resulting from the consolidated financial statements, except for different allocations prudentially allowed. Investments were accounted for at values corresponding to their contribution in the consolidated financial statements at that date, considered the acquisition date.

The financial statements in accordance with IFRS are prepared under the historical cost convention, modified as required for the fair value valuation of certain financial instruments and of other assets and liabilities, as well as on the going concern assumption.

The preparation of the financial statements that conform to IFRS requires management to make estimates and assumptions. In addition, management is requested to assess the Company's implementation process of accounting policies. Items for which a higher level of attention or complexity is involved, and those for which assumptions and estimates are significant for the preparation of the consolidated financial statements, are analyzed in a subsequent note.

2.2. Financial statements

The financial statements for the year ended December 31, 2012, include the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

The format used by the Company shows:
- For the statement of financial position, the classification between current and non-current assets and liabilities, generally adopted by industrial and commercial groups, with separate evidence of assets and liabilities related to Discontinued operations;
- For the income statement, the classification by nature of expenses, with separate evidence of the profit/(loss) of Discontinued operations;
- For the statement of comprehensive income, the adoption of the "two-statement" approach with the presentation of other comprehensive income gross of the related tax effect;
- For the cash flows statements, the indirect method is presented, with specific information of flows related to Discontinued operations.

2.3. Comparative information

As requested by IAS 1, the financial statements for the year ended December 31, 2013 disclose comparative information related to prior period. Some balances related to December 31, 2012 have been reclassified in order to obtain a full comparison with the financial statements at December 31, 2013. In particular, following the retrospective application of the revised IAS 19 and the amendment to IAS 1, some balances set out in this document, have been subject to some adjustments and additions compared to those previously published, as more fully explained below.

In addition, as required by accounting standards, as a result of the retrospective application of revised IAS 19, also the balance sheet data as at January 1, 2012 (corresponding to the data published at 31 December 2011, net of adjustments necessary) have been included in this document.

2.4. Accounting principles

Property, plant and equipment

Property, plant and equipment are recorded at their purchase price or construction cost, less accumulated depreciation and accumulated impairment losses, if any.
The purchase price corresponds to the price paid, including related expenses, to bring the asset to its location and condition necessary for it to be capable of operating in the manner intended by management, gross of third party contributions, if any, and the initial estimate of costs of dismantling and removing of the asset and restoring the site on which it is located, if needed and recognisable in accordance with IAS 37. For contributed assets, cost corresponds to the value attributed in the expert's appraisal report. Included in the value of internally constructed assets are all construction costs incurred up to the moment in which these assets enter into operation, whether relating directly and specifically to the specific asset or, in general, to the construction activities involved and thus common to more than one asset. Borrowing costs, if any, which are directly attributable to the acquisition, construction or production of qualifying assets (as defined under IAS 23 *Borrowing costs*), which are assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised and amortised over the useful life of the class of assets to which they refer. All other borrowing costs are expensed when incurred.

Costs incurred subsequent to the acquisition (mainly repair, maintenance and overhaul expenses) are capitalised only if they increase the future economic benefits associated with the related item of property, plant and equipment. Repairs, maintenance and overhaul expenses that do not meet requirements to be recorded as assets are expensed as incurred.

The gross book value of the assets is depreciated on a straight-line basis over the years in which the assets are utilised, by providing depreciation rates, determined according to their estimated useful life and residual value. Depreciation starts when the asset is available and ready to enter into operations. As for the contributed assets, related depreciation is calculated based on the residual useful life at the contribution date.

The depreciation rates used by the Company are deemed to represent the economic-technical life of the assets to which they refer and are the following:

Category	Depreciation rate
Buildings	3-10%
Plants and machinery	7-30%
Industrial and commercial equipment	25-40%
Other assets:	
- Furniture, office machinery and equipment	12-20%
- Transportation vehicles	20-25%
- Other assets	12-25%

The depreciation rate for the first year of depreciation is proportionate to the period of effective utilisation. Useful life of assets is reviewed annually and changes, if any, are accounted for prospectively.

Costs for improvement works on assets belonging to third parties and used by the Company are capitalised, classified in the category of Property, plant and equipment to which they refer and amortised during the lower period between the residual length of the rental or licence agreement and the residual useful life of the asset to which the improvement refers.

Each part of an item of property, plant and equipment, with different useful lives and with a cost that is significant in relation to the total cost of the item, is depreciated separately (component approach*).*

Assets relating to financial lease contracts, for which all risks and benefits connected to the ownership are substantially transferred to the Company in accordance with IAS 17 are recognised as Company assets at their fair value, or, if lower, at present value of future lease payments. The corresponding liability to the lessor is included among the financial payables.
The contracts, which do not have the legal form of a lease contract but include a lease according to the provision of IFRIC 4, are accounted for as a financial lease.

Land is not depreciated.

In case of impairment in value, regardless of the depreciation already provided, the asset is written-down accordingly. If in subsequent periods, the reasons for the write-down cease to apply, the original value is reinstated. The increased carrying amount of the asset attributable to a reversal of an impairment loss, will never exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years.

Gains and losses arising from de-recognition of property, plant and equipment are determined by the difference between the selling price and the net book value and are recorded in the income statement.

Intangible assets

An intangible asset is an asset without physical substance and is recorded only if it is identifiable, the Company has control over it, it is probable that expected future economic benefits will be realised by the Company and can be measured reliably.
Among intangible assets, the goodwill acquired in a business combination is included.

Intangible assets with finite useful life are recorded at their purchase or production cost, less accumulated amortisation and impairment losses, if any. Amortisation rates reflect expected useful life and the amortisation process begins when the asset is available for use. The useful life is reviewed annually and changes in original estimates, if any, are accounted for prospectively.
Intangible assets with indefinite useful life are not amortised but tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.
Intangible assets recognised because of a business combination are recorded separately from goodwill, if their fair value can be reliably identified.

Intangible assets with indefinite useful lives

Goodwill
Goodwill arises from the 2007 Merger, as allocation of the residual difference between the carrying value of the investments and the relevant net equity of the merged companies, from the goodwill included at the Merger date in the financial statements of the merged company Avio S.p.A. arising from the 2003 contribution and from the acquisitions of branches of business occurred in 2004 and 2005, representing the difference between the value attributed to the branches of business contributed or purchased and the fair value of assets, liabilities and contingent liabilities contributed or purchased. In addition, the caption includes the goodwill paid arising from the acquisition of branches of business.

Goodwill is recognised as an intangible asset with an indefinite useful life and is not amortised but tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Impairment losses, if any, are immediately recorded in the income statement and are not reversed in subsequent periods. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

To execute the impairment test, goodwill is allocated at the cash-generating unit (CGU) level, identified, at December 31, 2013, in the two operating Sectors (AeroEngine and Space), which represents a unit largely independent of the cash inflows from other assets or groups of assets.

Intangible assets with finite useful lives

Costs of participating in international collaboration agreements
Costs for participating in international collaboration agreement programmes for the development and production of commercial aircraft engines are incurred by the Company. These costs are generally paid through deferred payments and are recognised as intangible assets with finite useful lives under the requirements of IAS 38 considering, in particular, the Company's control over the assets, which allows the valuation and determination of the related useful lives, and the identifiability and evidence that, from those assets, future economic benefits will flow to the Company. Intangible assets arising from the participation in international collaboration agreements are measured at the fair value of the consideration, determined, in case of deferred payment plans, as the sum of the present value of future payments. The corresponding entry is a liability, classified in the item "Other Current Liabilities" or "Other Non-Current Liabilities", which is then adjusted to reflect the adoption of the amortised cost using the effective interest method. Amortisation rates are determined according to the expected useful life and the amortisation process begins when the commercial production of the related programme starts. Amortisation rates are proportioned, for the first year, to the actual utilisation period. Useful lives are determined with reference to a prudential estimate of the length of the programmes from which related economic benefits arose and are initially stated at 5, 10 or 15 years, according to the specifications of the programmes to which they refer. Capitalised costs related to programmes for which production has not yet started are not amortised; they are recorded among intangible assets after having been tested for impairment based on the expected profitability of the programmes to which they refer. Subsequent to the initial measurement of these assets, additional costs are generally recognised, which are added to the original amount and amortised based on the residual useful life of the programme to which they refer. The recognition of these additional intangible assets occurs in the year in which they can be measured reliably.

Development costs
Development costs are recognised as assets if, and only if, the cost can be measured reliably, related development activities are clearly identifiable, there is evidence that from these costs future economic benefits will flow to the Company, and it can be demonstrated: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) the Company's intention to complete the intangible asset and use or sell it; (iii) the availability of adequate technical and financial resources to complete the development and use or sell the intangible asset; (iv) the Company's ability to reliably measure the expenditure attributable to the intangible asset during its development. Amortisation is recorded on a straight-line basis beginning from the time commercial production of the related programmes starts. Amortisation rates are proportioned, for the first year, to the actual utilisation period. Useful lives are determined with reference to a prudential estimate of the length of the programmes from which related economic benefits arose and are initially stated at 5, 10 or 15 years, according to the specifications of the programmes to which they refer. Capitalised development costs related to programmes for which production has not yet started are not amortised; they are recorded among intangible assets after having been tested for impairment based on the expected profitability of the programmes to which they refer.

The costs of research and development for those who do not meet the above conditions are expensed when incurred and cannot be capitalized in subsequent years.

Intangible assets for customer relationships
Intangible assets for customer relationships are accounted for based on Balances resulting from the Merger used in 2007, corresponding to the same balances resulting from the consolidated financial statements at that moment. More specifically, the carrying amounts included in the consolidated financial statements were originally driven by the process of allocation of the Acquisition cost, made in 2007, according to which the Company recognised assets, liabilities and contingent liabilities of the acquired subsidiaries at their fair value.

Following this allocation, certain intangible assets deriving from customer relationships for participation in programmes were identified as being separately recognised in accordance with IFRS 3 and IAS 38. These assets were recognised at their fair value by applying an income approach valuation methodology, based upon the present value of future cash flows generated by assets over the expected remaining useful lives, determined by applying a rate of return, which discounts for the relevant risks associated with the assets and the time value of money. Moreover, the benefit attributable to the tax saving obtainable by a potential purchaser, deriving from the amortisation of the recognised intangible assets, was considered in determining the fair value of the assets (tax amortisation benefits).

The customer relationships intangible assets are amortised, in connection with the weighted average remaining useful lives of the programmes to which they refer, in a period of 15 years. With respect to the recorded intangible assets, the relative deferred taxes were also recognised, determined by applying the tax rate expected to be in force at the moment the relevant amortisation is charged to income.

Other intangible assets
Other intangible assets with finite useful lives are recognised as assets if, and only if, they can be reliably measured and there is evidence that from these costs future economic benefits will flow to the Company. When these requirements are met, the intangible assets are recorded at their purchase price, including related expenses. For contributed assets, the cost corresponds to the value attributed in the expert's appraisal report.

The gross book value of the assets is amortised systematically over the years in which the assets are utilised, by providing constant amortisation rates, determined according to the estimated useful life. The amortisation process begins when the asset is available for use and amortisation rates are proportioned, for the first year, to the real utilisation period. As for the assets received in contribution, amortisation is calculated based on the residual useful life at contribution date. The amortisation rates used by the Company are the following:

Categories	Amortisation rate
Licences	20%
Trademarks	10%
Software	20-33%

Investments

Investments in controlled companies, associated companies and jointly controlled associated companies are recorded at their purchase price, less accumulated impairment losses, if any. The purchase price corresponds to the price paid or, for investments contributed in the Merger, to the value resulting from the consolidated financial statements at the acquisition date.

Any excess of the cost of the acquisition over the fair values of the Company's interest in the net equity is recognised as goodwill. Goodwill is included in the carrying value of related investment and is tested for impairment annually, comparing its carrying value with its recoverable value (the higher between its value in use and its fair value less cost to sell).

Impairment losses are immediately recorded in the income statement. When the Company's share of losses of an investment, if any, exceeds the carrying amount of the investment in the Company's statement of financial position, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred obligations, legal or constructive, in respect of the investment. If in subsequent periods, the reasons for the write-down cease to apply, the original value is reinstated. The increased carrying amount of the investment attributable to a reversal of an impairment loss, will never exceed the carrying amount that would have been determined had no impairment loss been recognised for the assets in prior years.

Investments in other companies classified as non-current financial assets and not held for trading (available for sale investments), whose fair value is not easy to determine as they are non-listed companies, are recorded at their purchase or underwriting price, less accumulated impairment losses, if any. When the Company's share of losses of an investment, if any, exceeds the carrying amount of the investment in the Company's statement of financial position, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred obligations, legal or constructive, in respect of the investment.

Impairment of assets

The Company reviews, at least annually, the recoverability of the carrying amount of tangible and intangible assets and investments, in order to determine whether there is any indication that those assets have suffered an impairment loss. If indication of impairment is present, the carrying amount of the asset is reduced to its recoverable amount. In addition, intangible assets with indefinite useful lives are tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired. The impairment loss of an asset is equal to the difference between its carrying amount over its recoverable amount. The recoverable amount is the higher of its fair value less cost to sell and its value in use, which is the present value of estimated future operational cash flows, excluding cash flows arising from financing activities. Cash flow projections are based on financial plans and reasonable and supportable assumptions related to the Company's future expected economic results and general economic conditions. The discount rate takes into consideration time value of money and specific industry risks.
If it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the Cash-Generating Unit (CGU) to which the asset belongs.

In particular, in reviewing the recoverability of investments, as they relate to non-listed companies for which it is not possible to determine reliable market values (fair value less costs to sell), according to IAS 28 (paragraph 33) the recoverable value (equity value) is the value in use, defined as the sum of a) the present value of estimated future cash flows expected to be generated by the company, b) the proceeds on the ultimate disposal of the investment and c) the net financial position at the date in which the test is performed.

When the recoverable amount of an asset (or of a cash-generating unit) is less than its carrying amount, the carrying amount of the asset is reduced to the recoverable amount and the impairment loss is immediately recognised in the income statement. Then, when there is any indication that an impairment loss recognised in prior periods for an asset (or for a cash-generating unit) other than goodwill may no longer exist, the carrying amount of the asset (or of the cash-generating unit) will be increased to the new estimate of its recoverable amount. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. The reversal of the impairment is immediately recognised in the income statement.

Financial assets

Financial assets comprise, with regard to the maturity date within or beyond 12 months from the balance sheet date:
assets arising from financial transactions other than derivative financial instruments, with fixed maturity and fixed or determinable payments;
the initial fair value of the derivative financial instruments;
the effect of subsequent fair value adjustments of derivative financial instruments, except for changes of hedging values of foreign exchange derivatives,
Gains and losses related to such assets are recorded in the income statement.

Impairment tests are performed in order to determine whether there is any indication that non-current financial assets, other than derivative financial assets, have suffered an impairment loss. In the case that impairment is identified, an impairment loss is immediately expensed to the income statement. Then, when there is indication that an impairment loss recognised in prior periods for an asset may no longer exist, the previously recognised impairment loss will be reversed. The reversal will not result in a carrying amount of the financial non-current asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

Derivative financial instruments

The Company's operations are exposed until August 1, 2013, mainly to financial risks related to changes in currency and interest rates, and, to a lesser extent, in commodity prices. To hedge such risks, the Company entered into derivative financial instrument contracts. The use of such instruments is regulated by Group policies, which define procedures for the use of such derivative contracts, in accordance with the Company's risk *management strategy.*

All derivative financial instruments (including those embedded that are separated from the host contract) are measured at fair value. The split accounting method requires that derivative financial instruments, and originating risks or benefits not directly linked to the item hedged, must be accounted for separately in the balance sheet.

Non-embedded derivative financial instruments are only used for hedging purposes. In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when, at the inception of the hedge: (i) there is formal designation and documentation of the hedging relationship; (ii) the hedge is expected to be highly effective; (iii) its effectiveness can be reliably measured; (iv) it is highly effective throughout the financial reporting periods for which the hedge is designated.

When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:
Fair value hedge: where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of a recognised asset or liability, which is attributable to a particular risk, and could affect the income statement, the gain or loss for re-measuring the hedging instrument at fair value is recognised in the income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in the income statement;
Cash flow hedge: where a derivative financial instrument is designated as a hedge of the exposure to variability in future cash flow of a recognised asset or liability or a highly probable forecasted transaction and could affect the income statement, the effective portion of any gain or loss on the derivative financial instrument is recognised directly to equity. The cumulative gain or loss is removed from equity and recognised in the income statement at the same time in which the hedged transaction affects the income statement. The gain or loss associated with a hedge or part of a hedge that has become ineffective is recognised in the income statement immediately. When a hedging instrument or hedge relationship is terminated but the hedge transaction is still expected to occur, the cumulative gain or loss realised to the point of termination remains in equity and is recognised in the income statement at the same time as the related transaction occurs. If the hedge transaction is no longer probable, the cumulative unrealised gain or loss held in equity is recognised in the income statement immediately.

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

It should be noted, however, that, as of 31 December 2013, following the completion of the conferment and transfer of assets belonging to the AeroEngine business (to which derivative instruments outstanding were related), the Company does not have any derivative instrument in place.

Inventories

Inventories are valued at the lower of purchase or production cost or net realisable value, which is defined as the estimated selling price less expected completion costs and selling expenses.
Specifically, raw materials, semi-finished goods and work in progress are initially recorded at purchase or production cost. Purchase cost includes costs paid to suppliers and other costs incurred in bringing the inventories to their present location, net of discounts and allowances. Production cost includes costs incurred in bringing the inventories in the place and condition in which they are at the balance sheet date, including direct costs and recharges of indirect and general production costs. Inventories are generally valued adopting the FIFO method. This method is deemed the

most appropriate for a true, fair and consistent representation of the financial and economic position of the Company.

The inventories value is, if necessary, adjusted by providing appropriate reserves in order to consider obsolete and slow-moving materials, with respect to their possible use and future recoverability.

Contract work in progress

Contract work in progress (or construction contracts) refers to specifically negotiated contracts for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. These contracts are mainly related to development and production activities for space and military engine programmes.

When the outcome of a construction contract can be estimated reliably, construction contracts are recognised based on the percentage of completion method applied to the overall contractual price. According to this method, costs, revenues and related profit are accounted for taking into consideration the proportion of work completed. For the computation of the percentage of completion, the economic method of the ratio between production costs already occurred and total budgeted costs of the whole contract (cost-to-cost) is adopted, using up-to-date estimates at the balance sheet date. Assumptions used for the evaluations are revised on a periodic basis. Variations, price adjustments and incentive payments are subsequently included in contract revenues only if they have been agreed with the customer and related adjustments, if any, are accounted for in the accounting period in which they become known.

When the outcome of a construction contract cannot be estimated reliably, revenues are recognised only to the extent of contract costs incurred that will probably be recovered and costs are recognised as expenses in the period in which they are incurred.
Future costs expected to be incurred after the closing of the contract and expected losses are considered by recording a provision, classified as a liability in the item “Provisions for risks”. In particular, the expected losses are recognised as expenses immediately at the moment they become known.

The Company shows the balance of contract work in progress as an asset net of progress billing. The following analysis is conducted for each contract: if the gross amount of a specific contract work exceeds progress-billing amount, the positive difference is classified in the item “Contract work in progress”; on the contrary, the net negative difference is classified in the item “Advances for contract work in progress”.

Trade receivables

Trade receivables are initially recorded at fair value, which corresponds to their nominal value, adjusted to the estimated realisable value by means of a provision for doubtful accounts. The reserve is related both to the risks on specific receivables and to the general risk of not collecting the trade receivables, which is estimated taking into account historical experience and solvency of debtors.

Receivables for which the collection is deferred beyond the average payment terms are adjusted to their present values and then measured at the amortised cost using the effective interest rate method.

Sales of receivables, if any, occur through factoring transactions, which may be with or without recourse; certain without-recourse transactions imply continuing significant exposure to the cash flows deriving from the receivables sold. These kinds of transactions do not meet IAS 39 requirements for assets derecognition, since the risks and rewards have not been substantially transferred. Consequently, receivables sold through factoring transactions that do not meet IAS 39 derecognition requirements, are recognised as such in the financial statements, even though they have been legally sold. A corresponding financial liability is recorded for the same amount included in “Current financial liabilities”.

Cash and cash equivalents

This item includes cash on hand, in bank accounts and other current financial assets with a high level of negotiability that can be promptly converted into cash and that are subject to non-significant risk of reduction in value. Bank overdrafts are classified in reduction of cash and cash equivalents in the cash flow statement only.

Financial liabilities

This item includes financial liabilities, classified as non-current, and bank overdrafts, classified as current, as well as current and non-current liabilities that, even if related to commercial or non-financial transactions, have been negotiated with terms that modify the original non-financial liability into a financial liability. Current and non-current financial liabilities are initially measured at fair value, net of related transaction costs and then measured at the amortised cost using the effective interest rate method.

The portion of non-current financial liabilities that is due within 12 months after the balance sheet date is classified in the item "Current portion of non-current financial liabilities".

Employee benefit provisions

Employees of the Company are beneficiaries of post-employment benefit plans, which may be defined benefit or defined contribution plans, and other long-term benefit plans.

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

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into a separate entity on a mandatory, contractual or voluntary basis and will have no legal or constructive obligation to pay further contributions if the entity does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions are expensed to the income statement on an accrual basis and are classified within personnel expenses.

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The Company's obligation to fund defined benefit pension plans and the annual cost recognised in the income statement are determined based on independent actuarial valuations using the projected unit credit method, taking into consideration certain factors such as, age, service years, and expected future level of salary/wage.

Gains and losses relating to defined benefit plans arising from changes in actuarial assumptions and experience adjustments are immediately recognized in the period in which they arise in other comprehensive income / (loss) and are never included in income statement in subsequent periods. The post-employment benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses, unrecognized and reduced by the fair value of the plan assets, if any. Any net asset resulting from this calculation is recognised to the extent of unrecognised past service costs related to previous years plus the present value of available refunds and reductions in future contributions to the plan.

Costs related to defined benefit plans are classified among personnel expenses, except for costs related to the increase of the present value of the obligation, arising from the approach of the moment of benefits payment, which are classified among financial expenses.

The TFR (severance indemnity payment) pertaining to Italian companies, was considered until December 31, 2006 a defined benefit plan. Law No. 296 of December 27, 2006 (the so-called "*Legge Finanziaria 2007*" – 2007 Budget Law) and subsequent Decrees and Regulations, substantially modified the relevant rules. As a consequence, and particularly with reference to companies employing not less than 50 employees, this type of benefit should now be considered as a defined benefit plan exclusively regarding the portion accrued until January 1, 2007 (and not paid at the balance sheet date), while afterwards it was considered as a defined contribution plan. Therefore, the TFR portion maturing after the above-said date is assumed to be a contribution plan, thus excluding the actuarial estimate components from determining the relevant cost. The TFR portion matured up to December 31, 2006 continues to be valued as a defined benefit plan according to actuarial methods, but excluding the component related to future salary increases.

Other long-term benefits
Other long-term benefits have the same accounting treatment of defined benefit plans, except for the fact that related actuarial gains and losses are immediately recognised in the income statement.

Share-based compensation plans

Cash-settled share-based compensation plans, that may be settled in cash or by the delivery of other financial assets, are accounted for as liabilities, among "Provisions for risks", and are measured at fair value at the end of each reporting period until the date of settlement, with any changes in fair value recognised in profit or loss for the period.
Equity-settled share-based compensation plans, that may be settled by the delivery of shares of the controlling company, are measured at the grant date. The fair value is expensed over the vesting period of the benefit with a corresponding increase in equity. Periodically, the Group reviews its estimate of the benefits expected to vest through the plan and recognises any difference in estimate in profit or loss, with a corresponding increase or decrease in equity.

Provisions for risks

The Company records provisions when it has a present obligation, legal or constructive, as a result of a past event to a third party, when it is probable that an outflow of Company resources will be required to settle the obligation and when a reliable estimate of the amount can be made. Provisions are recorded based on the best estimate of costs needed to discharge the obligation at the balance sheet date. If the effect is significant, provisions are recorded at discounted present value and the increase due to the passage of time is subsequently recorded in the income statement and classified among financial expenses.

Provisions related to lawsuits are determined based on estimates made to determine probability, terms and amounts involved.

Provisions for future dismantling, removal and clean-up costs related to assets are classified as a reduction of the same assets. Related cost is recognised in the income statement through the depreciation process of the asset.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Changes in estimate, if any, are accounted for in the accounting period in which changes occur.

No provision is recorded, but only disclosed in the notes, when the obligation is only possible or the likelihood of an outflow of resources is remote.

Trade payables

Trade payables with an average payment term are not adjusted to their present value. They are measured at nominal value deemed representative of their settlement value.
Trade payables are classified among current liabilities, except for those payables for which the Company has a contractual right to fulfil the obligation beyond 12 months after the balance sheet date.

Revenue recognition

Revenue is recognised if it is probable that the economic benefits associated with the transaction will flow to the Company and its amount can be measured reliably. Revenue is recognised at fair value of the amount received or due on an accrual basis, net of VAT, returns, discounts, allowances and rebates. Revenue from sales of goods is recognised when the Company transfers significant risks and rewards of ownership of the goods to the customers, which is generally at the time of shipment.

Revenue from services is recorded by applying the stage of completion method of the transaction at the balance sheet date, using the same criteria adopted for contract work in progress. In addition, when the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised to match the costs that have been incurred, only if the costs incurred are recoverable.

Revenues also include changes in contract work in progress, which are accounted for using the percentage of completion method (as more fully described in the related note).

Interest income is accounted for on an accrual basis, taking into consideration the financed amount and the applicable effective interest rate, representing the rate used to discount future expected income generated by the financial asset in order to adjust the carrying value of the financial asset.

Dividends received

Dividends are accounted for in the period in which the shareholders have the right to receive the payment.

Grants

Grants are recognised in the financial statements when there is reasonable assurance that the Company will comply with the conditions foreseen and the grants will be received. Grants are generally recognised as income over the periods necessary to match them with the related costs, which they are intended to compensate, on a systematic basis. In particular, grants obtained relating to capital expenditure in property, plant and equipment and development costs are recorded as liabilities in the items "Other non-current liabilities" or "Other current liabilities" and are recognised as income over the useful life of the assets to which they relate. If grants are obtained in periods subsequent to those in which the amortisation process of the asset started, the portion of grants related to previous periods is credited to the income statement among other revenues. The benefit of a government loan at a below-market rate of interest is treated as a public grant. The benefit of a government loan at a below-market rate of interest is measured as the difference between the initial carrying value of the loan (fair value plus transaction costs) and of proceeds received, and is accounted for in accordance with the policies already used for the recognition of public grants.

Tax credits for R&D activities

Tax credits for R&D activities (Law No. 296/2007 and subsequent modifications) are accounted for in the financial statements to the extent that the tax credit is considered as recoverable and usable. These credits are initially recorded against the item "Other non-current liabilities" or "Other current liabilities" and charged to the income statement, depending on different types of costs being the subject of the intervention, in relation to the percentage of completion of contract work in progress to which the costs that formed the basis for calculating the credit were contributing or to the recognition in the income statement of R&D expenses.

Expenses

Expenses are accounted for on an accrual basis in respect of the going-concern assumption of the Company, net of VAT, returns, discounts, allowances and rebates. Provisions are recorded in accordance with the terms provided in the note related to Provisions for risks.

Interest expenses are accounted for on an accrual basis, taking into consideration the financed amount and the applicable effective interest rate.

Taxes

Income taxes represent the sum of current taxes and prepaid/deferred taxes.

Current income tax is calculated on the estimated taxable income in accordance with the legislation currently in force.

Taxable profit differs from the result arising from the income statement as it excludes positive or negative items that are taxable or deductible in the next accounting periods, and other items that will never be taxable or deductible. The liability for current taxes is determined applying the tax rate enacted at the balance sheet date.

In 2012, the Company and certain Italian subsidiaries decided to renew, starting from 2012 and for a three-year period, the adherence to the Italian Tax Consolidation Programme, as allowed by art. 117/129 of the Italian Tax Law (*Testo Unico delle Imposte sul Reddito - T.U.I.R.*). Avio S.p.A. acts as the consolidating company, presenting a sole tax basis for all the companies adhering to the Programme. Consequently, it is possible to offset taxable income with tax losses in a sole income return.

Each company adhering to the Programme transfers to the consolidating company its taxable income or tax loss. Avio S.p.A. accounts for a receivable, equal to IRES to be paid, from the companies that transfer taxable income, according to the consolidation agreement signed by the parties. On the other hand, Avio S.p.A. accounts for a payable, equal to IRES determined on the tax loss and offset at group level, to companies that transfer tax loss, according to the consolidation agreement signed by the parties.
IRAP liability is classified in the caption “Current tax payables” net of advances paid, if any.
Deferred tax assets and liabilities are the taxes expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and they are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Tax benefits arising from the carry forward of tax losses are recorded when there is reasonable certainty of the existence of future taxable income in the period in which the losses may be utilised.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Prepaid and deferred income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred taxes are recognised in the income statement, except when they relate to items directly recognised to equity, in which case deferred taxes are also dealt with in equity. Deferred tax assets and liabilities are offset if there is a right to offset current tax assets and liabilities and if the Company decides to settle current tax assets and liabilities on a net basis. The net amount is recorded in the item “Deferred tax assets”, if positive, or in the item “Deferred tax liabilities”, if negative.

Payment of dividends

Dividends payable by the Company are reported as a movement in equity and classified as a current liability in the period in which the distribution is approved by the shareholders' meeting.

Exchange differences

Revenues and expenses relate to transactions occurred in currencies other than Euros are recognised at the exchange rate at the date of the transaction.
Monetary assets and liabilities denominated in currencies other than Euros are adjusted by applying the exchange rate at year-end; adjustments are accounted for in the income statement.
Non-monetary assets accounted for at historical cost denominated in currencies other than Euros are not adjusted by applying the exchange rate at year-end.
Any net profit arising from the year-end exchange rate adjustments for items denominated in currencies other than Euros, upon approval of the financial statements and proposal for the allocation of the profit/(loss), is accounted for in a non-distributable reserve until the profit is realised.
At every year-end, the total amount of the unrealised exchange gains or losses is determined. If gains are higher than the amount of the non-distributable reserve existing at the beginning of the year, the reserve is increased. On the contrary, if there is a loss or gains are lower than the amount of the non-distributable reserve existing at the beginning of the year, the non-distributable reserve is totally o partially allocated to a distributable reserve.

2.8. Risk management

Credit risk

Credit risk concentration of the Group, depending on the nature of transactions carried out and on the markets in which the Group operates. Considered from a global point of view, there is a concentration of credit risk in trade receivables in the European Union and, up to August 1, 2013, in the North American markets. Trade receivables are recognised net of write-downs for the risk that debtors will be unable to fulfil their contractual obligations, determined based on the available information as to the creditworthiness of the customer and historical data.

Liquidity risk

The Company is exposed to liquidity risk if there is difficulty in obtaining financing for operations at any given point in time. The two main factors affecting the Company's liquidity are cash flow provided by or used in operating and investment activities, and the maturity and renewal features of financial debts, liquidity and financial investments.

Cash flows, funding requirements and liquidity are monitored and managed on a centralised basis to ensure timely and effective funding of financial resources or appropriate investments of available cash.
The present context of the whole economy, of the markets the Company deals with and of financial markets requires a close liquidity risk management; focus is placed on operating activities generating financial resources and on the achievement of enough liquidity to contend with the Group's obligations.

Management considers that available cash and credit lines (evaluated taking into consideration the non-recurring nature – respect the normal course of operating business - of the financial assets related to the financial assets in place representing the investment of funds received from the sale of investment held in GE Avio S.r.l.), and those that are generated by the operations and, in case, from the redefinition of the current indebtedness structure, will allow the Company to face the financial needs arising from investment activities, working capital management, and debt repayment or renewal at maturity.

Interest rate risk and currency risk

The Company (with particular reference to the activities carried out within the AeroEngine business), was exposed to market risk from fluctuations in foreign currency exchange rates until August 1, 2013, as it operated in an international market in which transactions are carried out in many currencies, and interest rates. The exposure to foreign currency risk arises both in connection with the geographical distribution of the Company's industrial activities in which it sells products, and in relation to the use of financing sources denominated in foreign currencies. The exposure to interest rate risk arose substantially from financial liabilities bearing variable interest rates. The Company was exposed (until August 1, 2013) to the risk of interest rate in particular with regard to financial liabilities at variable rates (subject to contribution). Therefore, change in interest rates could have been the effect of either increasing or decreasing the Company's profit/(loss).

The Company regularly assesses its exposure to interest rate and foreign currency risk and, until August 1, 2013, managed these risks using derivative financial instruments in accordance with established risk management policies. The Company's policy permits derivatives to be used only for managing the exposure to fluctuation in exchange and interest rates connected to monetary flows, assets and liabilities, and not for speculative purposes.

The Company used, until August 1, 2013, derivative financial instruments designated as cash flow hedges, mainly to fix:
- the interest rate on a portion of the loans and borrowings at variable rate (financial instruments used mainly interest rate swaps);
- the exchange rate use to account for, or at least to fix the lower oscillation limit, expected transactions denominated in foreign currency (financial instruments used have been mainly forward sales and purchases).

Based on applicable Company's policies, when derivative financial instruments on foreign exchange risk and interest rate risk qualify for hedging, as provided by IAS 39, the Company provides, from the inception of the hedge, formal designation and documentation of the hedging relationship, the target of risk management and the hedging strategy. In addition, the Company assesses the effectiveness of hedging instruments to compensate for changes in the financial flows attributable to the hedged risk. This assessment is made at inception throughout the financial reporting periods for which the hedge is designated. Counterparties to these agreements have been major international financial institutions.

As indicated, at December 31, 2013 the Company did not have any derivative financial instruments in place.

Additional qualitative and quantitative information on financial risks to which the Group is exposed are reported in Note 5.

2.9. Use of estimates

The preparation of financial statements and related notes prepared in accordance with IFRS requires the use estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date, and revenues and expenses.

Actual results could differ from those estimates due to uncertainties on which assumptions are based. Estimates and assumptions are reviewed annually in order to verify they still reflect the best available knowledge of the Company's operations and of other factors deriving from actual circumstances. Changes, if any, are immediately accounted for in the income statement.

The present international macroeconomic context, whose effects are spread into some businesses in which the Company operates, determined the need to make assumptions related to future development with a high degree of uncertainty. For this reason, it is not possible to exclude that, in the next or in subsequent financial years, actual results may differ from estimated results. These differences, at present unforeseeable and unpredictable, may require adjustments to book values.

Estimates are used in many areas, including accounting for non-current assets, bad debt provisions on accounts receivable, inventory obsolescence, employee benefits, contingent liabilities and provisions for risks and contingencies and to determine contract work in progress costs and related stage of completion.

The following are the critical measurement processes and key assumptions used by the management in applying IFRS which may have significant effects on the amounts recognised in the financial statements or for which there is a risk that a significant difference may arise in respect to the carrying amounts of assets and liabilities in the future.

Recoverability of non-current assets

Non-current assets include Property, plant and equipment, Goodwill, Intangible assets with finite useful lives and Investments. The Company periodically reviews the carrying amount of non-current assets held and used and that of assets held for sale when events and circumstances warrant such a review. For goodwill such analysis is carried out at least annually and when events and circumstances warrant such a review. The analysis of the recoverable amount of non-current assets (impairment test) is usually performed using estimates of future expected cash flows from the use or disposal of the asset and a suitable discount rate in order to calculate present value. When the carrying amount of a non-current asset is impaired, the Company records an impairment loss for the amount by which the carrying amount of the asset exceeds its estimated recoverable amount from use or disposal determined by reference to the cash flows included in the most recent business plans prepared by the Company.

The estimates and assumptions used as part of that analysis reflect the current state of Company's available knowledge as to the expected future development of the business of the various sectors and are based on a realistic assessment of the future development of the markets and the aerospace industry, which remain subject to a high degree of uncertainty due to the continuation of the economic and financial crisis and its effect to the international macroeconomics context. Although current Company estimates do not indicate any other situations concerning possible impairment losses on non-current assets, any different developments in the economic environment or Company performance could result in amounts that differ from the original estimates, needing the carrying amount of certain non-current assets being adjusted.

Allowance for doubtful accounts

The allowance for doubtful accounts reflects management estimate of losses inherent in the credit portfolio of the Company. The allowance is based on the estimate of the losses to be incurred, which derives from past experience with similar receivables, current and historical past due amounts, write-offs and collections, the careful monitoring of portfolio credit quality and current and projected economic and market conditions.

Allowance for obsolete and slow-moving inventory

The inventory reserve reflects management's estimates of the loss in value expected by the Company and has been determined on the basis of past experience and historical and expected future trends in the related markets, for obsolete and slow-moving items, if any, related to technical or trading reasons.

Pension plans and other post-retirement benefits

Employee benefit liabilities, costs and net interest expense are measured on an actuarial basis which requires the use of estimates and assumptions to determine the net liability. Such method is based on periodic estimates made by actuarial consultants using a combination of statistical and actuarial factors, among which statistical data related to past financial years and of future costs forecast. In addition, the estimation process involves mortality and retirement rates, the assumptions related to the future trend of the discount rate, the growth rate of salaries and of inflation rate and the analysis of health care costs trend.
Changes in any of these assumptions may have an effect on future contributions to the plans. As a result of adopting the IAS 19 revised for the recognition of actuarial gains and losses arising from the valuation of employee benefit liabilities and assets, the effects resulting from revising the

estimates of the above parameters are not recognised in the Company's statement of financial position through the inclusion in a specific reserve of the Company's equity.

Provisions for risks and contingent liabilities

The Company makes a provision for pending disputes and legal proceedings when it is considered probable that there will be an outflow of funds and when the amount of the losses arising from such can be reasonably estimated. If an outflow of funds becomes possible but the amount cannot be estimated, the matter is disclosed in the notes.
The Company is the subject of legal and tax proceedings covering a range of matters which are subject to a different degree of uncertainty, including the facts and circumstances of each particular case, the jurisdiction and the different laws involved. In the normal course of business the Company monitors the stage of pending legal procedures and consults with legal counsel and experts on legal and tax matters. It is therefore possible that the provisions for the Company's legal proceedings and litigation may vary as the result of future developments of the proceedings in progress.
In additions, the Company's operations are carried out in industries and sectors in which some trading issues may be solved only after a long lapse of time. As a consequence, management is required to estimate the outcome of such issues, through the monitoring of contract conditions and of their progress.

Evaluation of contract work in progress

The Company operates in sectors and with contractual arrangements that are especially complex. Some of them are recognised on a percentage-of-completion basis. In such case, margins recognised in the income statement are a function of both the state of progress on contracts and the margins that are expected to be recognised for the completed contract. Accordingly, correct recognition of work in progress and margins on contracts that have not yet been completed requires management to make a careful estimate of the final costs and expected increases as well as delays, extra costs and penalties that could reduce the expected margin. In order to enhance support for this activity, the Company has adopted contract management and risk analysis tools designed to identify, monitor and quantify the risks associated with such contracts. The amounts posted in the financial statements represent management's best estimate at the reporting date.

Other

In addition to the items listed above, estimates were also used with regard to the valuation of certain financial assets and liabilities, of derivative financial instruments, of plans for compensation attributable to a certain number of managers and of the fair value measurement of assets acquired and liabilities assumed in business combinations.

2.10. New accounting principles

Accounting principles, amendments and interpretations effective from January 1, 2013

The following amendments, improvements and interpretations have been applied for the first time by the Group from January 1, 2013.

- On June 16, 2011, the IASB issued amendments to IAS 19 - Employee Benefits, which eliminates the option to defer the recognition of gains and losses, with the corridor method , requiring that all actuarial gains or losses are immediately recognised in the statement of Other comprehensive income, so that the full net amount of provisions for defined benefit plans (net of assets serving the plan) is included in the financial statement position. The amendment also provides that, between one year and the next, changes in the defined benefit fund and the activities of the service plan must be divided in three components: the cost components relating to service period shall be recorded in the income statement as "service costs"; net financial expense, calculated by applying the appropriate discount rate to the net defined benefit fund, net assets resulting at the beginning of the year , must be recorded in the income statement as such , actuarial gains and losses arising from the re-measurement of assets and liabilities must be recorded in the statement of " Other gains/(losses)". In addition, as stated above, the return on assets included in net financial expenses is calculated based on the discount rate of liabilities and no longer on the expected return on assets. Finally, the amendment introduces new supplementary information to be provided in the notes to the financial statements. The amendment is applicable retrospectively from the beginning of the year 2013. Introducing the new principle has the following effects on the consolidated financial statements of the Company:

Effects on financial position	**As at January 1, 2012**		
(amounts in thousands of Euro)	**Values previously reported**	**Effects of the revised IAS 19 application**	**Restated amounts**
Provisions for employee benefits	(64,260)	(11,622)	(75,883)
Deferred tax liabilities	(233,857)	3,196	(230,661)

Effects on financial position	**As at December 31, 2012**		
(amounts in thousands of Euro)	**Values previously reported**	**Effects of the revised IAS 19 application**	**Restated amounts**
Provisions for employee benefits	(6,950)	(2,019)	(8,969)
Deferred tax liabilities	(109,587)	543	(109,044)
Liabilites held for trading e Discontinued operations	(3,012,298)	(12,215)	(3,024,513)

Comprehensive income efects	**Year 2012**		
(amounts in thousands of Euro)	**Values previously reported**	**Effects of the revised IAS 19 application**	**Restated amounts**
PROFIT/(LOSS) FOR THE YEAR (A)	**29,344**	**324**	**29,668**
Gains (losses) included directly in equity (which are not subsequently reclassified to income statement)			
- Actuarial gains and losses-reserve Actuarial gains/losses	-	470	470
Gains (losses) included directly in equity (which will be subsequently reclassified to income statement)	25,206	-	25,206
Income tax relating to components of Other comprehensive income	(6,932)	(147)	(7,079)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX (B)	18,274	323	18,597
TOTAL COMPREHENSIVE INCOME FOR THE YEAR (A+B)	**47,618**	**647**	**48,265**

- On 17 May 2012, the IASB published the document Annual Improvements to IFRS, 2009-2011 Cycle, which incorporates the changes to the accounting policies, as part of the annual improvement of them focusing on changes that are deemed necessary but not urgent. Below summarizes changes that have led to a change in the presentation, recognition and measurement of assets and liabilities:
  - IAS 1 Presentation of financial statements - Comparative information: in case of additional comparative information are provided, they must be presented in accordance with IAS / IFRS. In case of an entity changes an accounting policy or makes a grinding / reclassified retrospectively, the same entity must submit a balance sheet also at the beginning of the comparative period ("third balance sheet" in the patterns of budget), while in the notes comparative disclosures are not required for such "third balance sheet", apart from the items concerned. This amendment has been applied on the occasion of the retrospective restatement of the balance sheet data in relation to the application of the amendment to IAS 19, the effects of which have been reflected in the tables above.

- On 16 June 2011, the IASB issued an amendment to IAS 1 - Presentation of Financial Statements require entities to group items presented in the statement of "Other gains / (losses)" ("Other comprehensive income") in two subgroups, depending on whether they can or cannot be reclassified subsequently to profit or loss. The Group adopted this amendment as of 1

January 2013, with no impact on the evaluation of the balance sheet, with limited effects on "information provided in this report.

Accounting principles, amendments and interpretations applicable as at January 1, 2013 and not relevant to the Company

The following amendments are effective from 1 January 2013, relate to matters that were not applicable to the Company at the reporting date, but which may have accounting effects on future transactions or arrangements:

- On May 12, 2011, the IASB issued IFRS 13 – *Fair Value Measurement*, clarifying the determination of the fair value for the purpose of the financial statements and applying to all IFRSs permitting or requiring a fair value measurement or the presentation of disclosures based on fair value. In addition the standard requires broader disclosures related to fair value measurement (fair value hierarchy) than those actually provided by IFRS 7. The standard is effective prospectively from January 1, 2013. The application of this new standard is not expected to have any significant effects on the Company's financial statements.
- In October 2011, was published the interpretation IFRIC 20 costs of excavation (stripping costs) at the production stage of an open pit mine which is applied to the cost of excavation (the process of removing the waste material to gain access to mineral deposits surface) incurred during the production phase of the mine. The interpretation clarifies when the costs of excavation should be capitalized and how this activity should be assessed, both initially and in subsequent periods. The interpretation, as relating to a situation not applicable for the Company, has not resulted in the recognition of any effect on these financial statements.
- On December 16, 2011, the IASB issued certain amendments to IFRS 7 – *Financial Instruments: Disclosures*. The amendments require information about the effect or potential effect of netting arrangements for financial assets and liabilities on an entity's financial position. Entities are required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The required disclosures should be provided retrospectively. The application of this new standard is not expected to have any significant effects on the Company's financial statements.
- March 13, 2012, the IASB published an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards - Government Loans that changes the accounting for government loans in the transition to IFRS. The amendments to IFRS 1 must be applied for annual periods beginning January 1, 2013, or later. Not being our first adopter group, this amendment has no effect on these financial statements.
- On May 17, 2012, the IASB issued the document *Annual Improvement to IFRS's: 2009-2011* including the amendments that are applicable retrospectively from January 1, 2013, with early application allowed. Set out below are those that may lead to changes in the presentation, recognition and measurement of financial statements items, excluding those that affect standards or interpretations that are not applicable to the Company:
    - IAS 16 *Property, plant and equipment* – Classification of servicing equipment: the amendment clarifies that spare parts and servicing equipment shall be recognised as Property, plant and equipment if they are used for more than one year, otherwise such items shall be classified as inventory.
    - IAS 32 *Financial instruments:* Presentation: the amendment eliminates an inconsistency between IAS 12 – *Income taxes* and IAS 32 concerning the recognition of taxation arising from distribution to shareholders, establishing that these shall be recognised in income statement to the extent the distribution refers to income generated by transactions originally recorded in income statement.
    - IAS 34 Interim Financial Reporting - Total assets for reportable segment: it is clarified that the total assets in the interim financial statements should be reported only if such information is regularly provided to the chief operating decision maker of the entity and there has been a material change in the total assets of the segment compared to what is reported in the last annual financial statements.

The implementation of the amendments had no impact in terms of measurement and has had limited impact in terms of reporting on the financial statements of the Company.

Accounting principles, amendments and IFRS and IFRIC interpretations endorsed by European Union but not yet applicable to the Company and not early applied

At the date of these consolidated financial statements, the European Union had not yet completed its endorsement process for these standards and amendments:

- On 12 May 2011, the IASB issued IFRS 10 - Consolidated Financial Statements replacing SIC-12 Consolidation - Special Purpose Entities (SPV) and parts of IAS 27 - Consolidated and Separate Financial Statements, what will be renamed Separate Financial Statements and addresses the accounting treatment of investments in the separate financial statements. The main changes established by the new standard are as follows:
  - According to IFRS 10 there is a single basic principle to consolidate all types of entities, and this principle is based on the control. This change removes the perceived inconsistency between the previous IAS 27 (based on monitoring) and SIC 12 (based on the transfer of risks and benefits);
  - It introduces a definition of control more robust than before, based on three elements: (a) power on the company acquired; (b) exposure, or rights, to variable returns from involvement with the same; (c) ability to use the power to influence the amount of such returns;
  - IFRS 10 requires an investor to assess whether it has control over the acquired enterprise and focuses on activities that significantly affect the returns of the same;
  - IFRS 10 requires that, in assessing whether control exists, considering only the substantive rights, in other words those which are exercised in practice when important decisions must be taken on the acquired company;
  - IFRS 10 provides practical guidance to aid in assessing whether control exists in complex situations, such as the de facto control, potential voting rights, the situations in which it is necessary to establish whether the person who has the power of decision is acting as an agent or main, and so on.

  In general terms, the application of IFRS 10 requires a significant level of judgment on a number of aspects of implementation. The amendment is applicable retrospectively from 1 January 2014. Adopting this new standard will not impact on the consolidation of the Company.

- On 12 May 2011, the IASB issued IFRS 11 - Joint Arrangements which will replace IAS 31 - Interests in Joint Ventures and SIC-13 - Jointly Controlled Entities - Contributions in kind by the venturers. The new principle, subject to the criteria for the identification of the presence of a jointly controlled entity, provides the criteria for the accounting treatment of joint arrangements by focusing on the rights and obligations arising from such agreements rather than its legal form, distinguishing between joint ventures and joint operations.
  According to IFRS 11, the existence of a separate vehicle is not a sufficient condition for classifying a joint arrangement as a joint venture. For joint ventures, where the parties have rights only on shareholders' equity Agreement the standard establishes a single method of accounting in the consolidated financial statements using the equity method. For joint operation, where the parties have rights to the assets and obligations for the liabilities of the agreement, the principle involves the direct inclusion in the consolidated financial statements (and Separate Financial Statements) of the pro-rata share of the assets, liabilities, expenses and revenues from the joint operation. The new standard is applicable retrospectively from 1 January 2014.
  Following the adoption of IAS 28 - Investments in Associates has been amended to include within its purpose of application, the effective date of the standard, accounting for investments in joint ventures. The application of this principle will not lead to new effects in the statutory financial statements of the Company, while it will impact consolidated financial statements of the Group, with reference to the consolidation of jointly controlled entities Europropulsion SA.
- On May 12, 2011, the IASB issued IFRS 12 – Disclosures of Interests in Other Entities, a new and comprehensive standard on disclosures requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other unconsolidated vehicles. The standard, endorsed on December 11, 2012 is effective retrospectively at the latest for annual reporting periods beginning on or after January 1, 2014.
- On December 16, 2011, the IASB issued certain amendments to IAS 32 – Financial Instruments: Presentation to clarify the application of certain offsetting criteria for financial

assets and financial liabilities in IAS 32. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively.

- On June 28, 2012 IASB issued the document *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)*. First, the document clarifies the Board intent in relation to transition rules reported in IFRS 10 Consolidated financial statements, particularly with reference to identification criteria of the date of initial application of IFRS 10 and related retrospective applications, if any. In addition, the Board modified IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* to limit the requirement to provide adjusted comparative information to the immediately preceding period (i.e. the comparative period reported in the financial statements). Changes occurred in IFRS 12 too, to eliminate the requirement to present comparative information for the disclosures related to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied.
- On October 31, 2012 were issued amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities" which introduce an exception to the consolidation of subsidiaries for an investing company, except in whose subsidiaries provide services that relate to the investment activities of such companies. Pursuant to these amendments, an investment company must evaluate its investments in subsidiaries at fair value.
  These amendments are applicable, together with the principles of reference, from periods beginning on or after 1 January 2014, unless earlier application.
- On May 29, 2013, the IASB issued amendments to IAS 36 - Impairment of assets - Additional information on the recoverable value of non-financial assets. The amendments are intended to clarify that the additional information to be provided about the recoverable amount of the assets (including goodwill) or cash-generating unit, in case their recoverable amount is based on fair value less costs of disposal, relate only to the assets or cash-generating unit to that has been recognized or reversed a loss in value during the financial year. The amendments shall be effective retrospectively for annual periods beginning on or after 1 January 2014.
- On June 27, 2013, the IASB issued narrow scope amendments to IAS 39 - Financial Instruments: Recognition and Measurement entitled "Novation of Derivatives and Continuation of Hedge Accounting". The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. Similar relief will be included in IFRS 9 - Financial Instruments. The amendments are effective retrospectively for annual periods beginning on or after January 1, 2014.

<u>Accounting principles, amendments and IFRS and IFRIC interpretations not yet endorsed by European Union</u>

At the date of these consolidated financial statements, the European Union had not yet completed its endorsement process for these standards and amendments:

- On 20 May 2013 was published the interpretation IFRIC 21 - Levies, which provides clarification on when recognition of a liability related to taxes set by a government agency, and for those that are recognized in the accounts in accordance with IAS 37 - provisions, Contingent Liabilities and Contingent Assets, both the timing and reliable amount of taxes.
- On November 12, 2009, the IASB issued a new standard IFRS 9 – Financial Instruments that was subsequently amended on December 16, 2011. This standard, having an effective date for mandatory adoption of January 1, 2015 retrospectively, represents the completion of the first part of a project to replace IAS 39 and introduces new requirements for the classification and measurement of financial assets and financial liabilities. The new standard uses a single approach to determine whether a financial assets is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. The most significant effect of the standard regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss. Under the new standard these changes are recognised in other comprehensive income and loss and are not subsequently reclassified to the income statement.
- On November 19, 2013, the IASB published the document "IFRS 9 Financial Instruments - Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39" for the new hedge

accounting model. The document aims to answer some of the critical requirements of IAS 39 for hedge accounting, often considered too aggressive and not suitable to reflect the risk management policies of the entity. The main new issues of document are:

- changes to the types of transactions eligible for hedge accounting, are extended in particular the risk of financial assets / financial liabilities not eligible for hedge accounting to be managed;
- change in the method of accounting for forward contracts and options when included in a report of hedge accounting in order to reduce the volatility of the income statement;
- changes to the effectiveness test by replacing the current procedures based on the parameter of '80-125% with the principle of "economic relationship" between the hedged item and the hedging instrument; In addition, you will not be prompted for a retrospective assessment of the effectiveness of the hedging relationship;
- greater flexibility of the new accounting rules is offset by additional requests for information on the risk management activities of the company.

- On December 12, 2013, the IASB published the document "Annual Improvements to IFRSs: 2010-2012 Cycle" which incorporates the changes to the standards as part of the annual process of improvement. The main changes include:
  - IFRS 2 Share Based Payments - Definition of vesting conditions. Changes have been made to the definition of "vesting condition" and "market condition" and added further definitions of "performance condition" and "service condition" (previously included in the definition of "vesting condition")
  - IFRS 3 Business Combinations - Accounting for contingent consideration. The amendment clarifies that a contingent consideration classified as an asset or a financial liability shall be re-measured at fair value at each balance sheet date and changes in fair value are recognized in the income statement or between the elements of comprehensive income on basis of the requirements of IAS 39 (or IFRS 9).
  - IFRS 8 Operating Segments - Aggregation of operating segments. The amendments require an entity to provide disclosures about the assessments made by management in applying the criteria of aggregation of operating segments, including a description of the operating segments and aggregate economic indicators considered in determining whether such operating segments have "economic characteristics similar. "
  - IFRS 8 Operating Segments - Reconciliation of total of the reportable segments' assets to the entity's assets. The amendments clarify that the reconciliation between the total assets of the operating segments and the total assets of the entity must be submitted only if the total assets of the operating segments are regularly reviewed by the chief operating decision maker more.
  - IFRS 13 Fair Value Measurement - Short-term receivables and Payables. You have changed the Basis for Conclusions of this principle in order to clarify that with the issuance of IFRS 13, and consequential amendments to IAS 39 and IFRS 9 remains valid, the possibility of accounting for receivables and trade payables without detecting the effects of an update where such effects result not material.
  - IAS 16 Property, plant and equipment and IAS 38 Intangible Assets - Revaluation method: proportionate restatement of accumulated depreciation / amortization. The changes have removed the inconsistencies in the recognition of depreciation when a tangible asset or intangible asset is re-valued. The new requirements clarify that the gross carrying value is appropriate to an extent consistent with the revaluation of the carrying value of the asset and the accumulated depreciation is equal to the difference between the carrying value and the gross carrying amount, net of losses value accounted for.
  - IAS 24 Related Party Disclosures - key management personnel. It is clarified that in case the services of key executives are provided by an entity (and not an individual), that entity is considered a related party.
- On December 12, 2013, the IASB issued the document *Annual Improvement to IFRS's: 2009-2011* including the amendments that are applicable retrospectively from July 1, 2014, with early application allowed. Set out below are those that may lead to changes in the presentation, recognition and measurement of financial statements items, excluding those that affect standards or interpretations that are not applicable to the Group:
  - IFRS 1 First-time Adoption of International Financial Reporting Standards - Meaning of "effective IFRS". It has been clarified that an entity adopts IFRS for the first time, as an alternative to the application of a principle currently in force on the date of the first IAS / IFRS, may opt for early application of a new standard intended to replace the principle in force. This option is allowed only when the new standard permits early application. It also

needs to be applied to the same version of the principle in all periods presented in the first IAS / IFRS.
- IFRS 3 Business Combinations - Scope exception for joint ventures. The amendment clarifies that paragraph 2 (a) of IFRS 3 excludes from the scope of IFRS 3 the formation of all types of joint arrangement, as defined by IFRS 11.
- IFRS 13 Fair Value Measurement - portfolio exception (para. 52). The amendment clarifies that the portfolio exception included in paragraph 52 of IFRS 13 applies to all contracts included within the purpose of IAS 39 (or IFRS 9) regardless of whether they meet the definition of financial assets and liabilities provided by IAS 32.
- IAS 40 Investment Properties – Interrelationship between IFRS 3 and IAS 40.
- The amendment clarifies that IFRS 3 and IAS 40 are not mutually exclusive and that, in order to determine whether the purchase of a property falls within the purpose of IFRS 3, it is necessary to refer to the specific instructions provided by 'IFRS 3; to determine, however, whether the purchase in question falls within the scope of IAS 40, it is necessary to refer to the specific instructions of IAS 40.

The amendments are effective for annual periods beginning on or after 1 July 2014 or after. Earlier application is permitted.

3. COMPOSITION, COMMENTS AND CHANGES IN THE MAIN ITEMS AND OTHER INFORMATION

As already mentioned, the explanatory notes below include disclosures related not only to Continuing operations, but also to Discontinued operations (however detailed in Note 3.14), when relevant, taking into consideration their significance.

NON-CURRENT ASSETS

3.1. PROPERTY, PLANT AND EQUIPMENT

The values of property, plant and equipment are stated in the balance sheet net of accumulated depreciation and impairment losses reserves, as shown in the following table (€ thousands):

	December 31, 2013			December 31, 2012		
	Gross values	Accumulated depreciation	Net values	Gross values	Accumulated depreciation	Net values
Land	-	-	-	-	-	-
Buildings	13.019	(3,730)	9.289	12,752	(3,276)	9,476
Plant and machinery	42.704	(30,427)	12.277	41,302	(27,495)	13,807
Industrial and commercial equipment	9.755	(9,600)	155	9,645	(9,444)	201
Other assets	2.358	(1,661)	697	2,357	(1,607)	750
Construction in progress and advances	226	-	226	-	-	-
Total	**68,062**	**(45,418)**	**22.644**	**66,056**	**(41,822)**	**24,234**

Construction in progress and advances refers to investments in the course of completion for € 226 thousand, mainly relating to plant and machinery.

The movements that occurred in the period, with reference to gross value, are detailed hereunder (€ thousands):

Gross Values	December 31, 2012	Additions	Disposals	Reclassifications and other changes	December 31, 2013
Land	-	-	-	-	-
Buildings	12,752	267	-	-	13,019
Plant and machinery	41,302	1,398	-	4	42,704
Industrial and commercial equipment	9,645	107	-	3	9,755
Other assets	2,357	185	(147)	(37)	2,358
Capital Work in progress		**226**	**-**		226
Total	**66,056**	**2,183**	**(147)**	**(29)**	68,062

The movements that occurred in the period, with reference to accumulated depreciation, are detailed hereunder (€ thousands):

Accumulated Depreciation	December 31, 2012	Depreciation	Disposals	Reclassifications	December 31, 2013
Land	-	-	-	-	-
Buildings	3,276	454	-	-	3,730
Plant and machinery	27,495	2,928	-	4	30,427
Industrial and commercial equipment	9,444	153	-	3	9,600
Other assets	1,607	218	(143)	(21)	1,661
Total	**41,822**	**3,753**	**(143)**	**(14)**	**45,418**

Depreciation charged in the period was calculated in relation to the estimated useful life and the economic-technical obsolescence of the assets. For assets arising from the contribution, the estimated remaining useful life at contribution date was considered. This assumption, in line with the substantial continuity of the business activities, was considered conservative, and represented the economic-technical life of the contributed assets.

The item Reclassifications and other changes also includes the effects of the reallocation of fixed assets (and the related accumulated depreciation) classified at 31 December 2012 as Discontinued operations and reclassified in 2013 as Continuing operations, after the completion of the process of the IT infrastructure allocation of the Parent Company as part of that transfer process.

In December 31, 2012 on the fixed assets of the Group, together with the property investment, were made up of the collateral, represented by mortgages on properties with a nominal value of € 181,500 thousand and a special privilege on plant and equipment with a nominal value of € 83,554 thousand, for the loans obtained from the banks; in addition, certain fixed assets were subject to some restrictions of availability in accordance with the provision of loan agreements or government grants. The warranties described have ceased to exist, on August 1, 2013, according to the repayment of financial debts, carried out following the transfer of the investment in GE Avio S.r.l., by the same conferee, through the use of the funds made available by the conferee.

3.2. GOODWILL

At December 31, 2013 goodwill related to Continuing operations amounted to €219,100 thousand unchanged compared to December 31, 2012) and referred to portion allocated in 2007 to the Space Sector.

As mentioned in Note 2.4. - Accounting Principles, goodwill is not amortised but in case written-off for impairment losses. The Group verifies the recoverability of the goodwill at least annually, or more frequently if events or changes in circumstances indicate that it might be impaired, with specific impairment test conducted on each CGU. The CGU designated by the Group for the impairment test on goodwill are the same units identified as operating segments as required by IFRS 8 – *Operating segments*.

Goodwill classified among Continuing operations

Goodwill allocated to the Space CGU (which is the only CGU in place at December 31, 2013, following the contribution and sale operation occurred) was tested for impairment with reference to the date of the 2013 financial statements, and as a result no impairment loss arose to be recognised on the carrying value of the goodwill recorded among Continuing operations at December 31, 2013.

The recoverability of the carrying value was tested by comparing the CGU net invested capital (carrying value) with related recoverable amount. The recoverable amount was represented by the present value of future operating cash flows arising from expectations included in the approved long-range plan of the Group, properly extrapolated, as indicated below, in order to consider the peculiarity of the Group’s business life cycle and by a normalised terminal value, used to estimate future results for periods exceeding the laps of time specifically considered. These cash flows were then discounted using interest rates, which were representative of the current market assessment of the time value of money and took into account the Group’s and CGU’s specific risks.

At December 31, 2013 expected cash flows of the Space CGU were determined, for 2014, based on the budget prepared by the Management and approved on May 5, 2014 (in a general way) and on May 30, 2014 (in a detailed version) by the Parent’s Board of Directors and for the subsequent period until 2017, on the basis of the long-range plan approved on May 28, 2013 by the Parent’s Board of Directors, also considering the most recently Directors forecast related to the CGU, which formalization is at present in process. For the subsequent period 2018-2021, in order to consider the peculiarity of the Group’s business life cycle and of the CGU, have been extrapolated other projections using growth rates of 3%. For the calculation of the terminal value, the cash flows foreseen for the last year of projection (2021) were normalised using the perpetuity method, and considering a 2% growth in the expected cash flows starting from 2021.
The average interest rate (weighted average cost of capital) used to discount expected cash flows was 10,3%, after tax (9,71%% last year).

It is important to mention that estimations and figures reported in the long-range plan used as a basis for the impairment test were determined by the management based on past experience and expectations on the development of markets the Group deals with. In respect to this, the current international macroeconomic context and its potential effects on the economy, particularly on governments' and supranational institutions' budget dedicated to the space industry, could present scenarios of uncertainty in reaching long-range plan targets, without resulting, however, in an impairment situation for goodwill.
The determination of the recoverable amount of goodwill requires, however, management to use estimates and as a consequence, considering that manufacturing and marketing cycles of the products are characterised by long-term periods, which allows a recovery in possible delays in achieving the targets forecasted in the plan, there is no assurance that in the future goodwill may not be impaired, as a result of changes in the global environment that are not foreseeable today. The circumstances and events that may require an additional impairment test on the value of goodwill are constantly monitored by Group management.

A sensitivity analysis was performed by simulating a change (considered representative) of the major parameters of the impairment test. In particular;
- a 100 basis point decrease was considered for the growth rate relating to the period of the long-range plan (until 2021);
- a 100 basis point decrease was considered for the growth rate relating to the period of the long-range plan (until 2021) and for the growth rate relating to the terminal value;
- a 50 basis point increase was considered in the discount interest rate for cash flows.

Based on the above assumptions (even if considering the total negative effect), the recoverable amount of the Space CGU resulted as being higher than the carrying value.

3.3. INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

The composition of this item is set out in the following table (€ thousands):

	December 31, 2013			December 31, 2012		
	Gross Values	Accumul. amortisa-tion	Net Values	Gross Values	Accumul. amortisa-tion	Net Values
Development costs – amortised	68,517	(21,945)	46,572	68,508	(15,503)	53,005
Development costs – not yet amortised	14,841	-	14,841	9,740	-	9,740
Total development costs	83,358	(21,945)	61,413	78,248	(15,503)	62,745
Customer relationships for participation in programmes	61,257	(28,587)	32,670	61,257	(24,503)	36,754
Concessions, licences, trademarks and similar rights	2,669	(1,882)	787	835	(497)	338
Other	901	(721)	180	762	(721)	41
Total	**148,185**	**(53,135)**	**95,050**	**141,102**	**(41,224)**	**99,878**

Development costs are mainly related to design and testing costs of the Vega launcher programme.

Development costs are amortised, commencing with the production start-up of each programme, on a straight-line basis over the estimated useful life of the programmes to which they refer (initially stated at 5, 10 or 15 years).

Development costs not yet amortised and some costs of participating in international collaboration agreements are not amortised as they refer to programmes whose production has not yet started. Their recognition as "Intangible assets with finite useful lives" is subject to impairment test and is based upon the estimated profitability of the programme to which they refer.

Intangible assets for customer relationships for participation in programs are related to the identification of such assets as a result of allocation of the Acquisition purchase price to the fair value based on the present value of expected future benefits from these assets and amortized over a period 15 years based on the average useful life of the programs to which they refer.

Concessions, licences, trademarks and similar rights, primarily include acquired software licences.

The movements that occurred in the period, with reference to gross values, are detailed as follows (€ thousands):

Gross values	December 31, 2012	Additions	Disposals	Reclassifications and other changes	December 31, 2013
Development costs – amortised	68,508	9	-	-	68,517
Development costs – not yet amortised	9,740	5,101	-	-	14,841
Total development costs	78,248	5,110	-	-	83,358
Customer relationships for participation in programmes	61,257	1,084	-	-	61,257
Concessions, licences, trademarks and similar rights	835	-	-	750	2,669
Other	762	138	-	-	900
Total	**141,102**	**6,332**	**-**	**750**	**148,184**

The increases during the year referred to development costs capitalized are mainly related to the Vega launcher development programme.

The investment in the items Concessions, licenses, trademarks and similar rights are related primarily to expenses linked to the Group technology infrastructure, also as a result of changes in the operational structure of the parent company, in relation to the transfer of most of the *Corporate* structures.

The movements that occurred in the period, with reference to accumulated amortisation, are detailed as follows (€ thousands):

Accumulated amortisation	December 31, 2012	Additions	Disposals	Reclassif. and other changes	Translation adjustments	December 31, 2013
Development costs – amortised	15,503	6,442	-	-	-	21,945
Development costs – not yet amortised	-	-	-	-	-	-
Total development costs	15,503	6,442	-	-	-	21,945
Customer relationships for participation in programmes	24,503	4,084	-	-	-	28,587
Concessions, licences, trademarks and similar rights	497	539	-	846	-	1,882
Other	-	-	-	-	-	-
Intangible assets in progress	721	-	-	-	-	721
Total	**41,224**	**11,065**	**-**	**846**	**-**	**53,135**

The item Reclassifications and other changes also includes the effects of the reallocation of a part of intangible assets with a definite useful life (and the related accumulated depreciation) classified at 31 December 2012 as *Discontinued operations* and reclassified in 2013 as Continuing operations, after the completion of the process of the IT infrastructure allocation of the parent company as part of that transfer process.

Certain assets relating to intellectual industrial properties (trademarks and patents), included in the item Concessions, licences, trademarks and similar rights, were pledged in connection with financing granted, and disposal of these assets is limited in compliance with the provisions of the financing agreements. On August 1, 2013 pledge described were removed according to the repayment of borrowings from banks, carried out following the transfer of business and the sale of the investment in GE Avio S.r.l., by the same assignee, through the use of the funds made available by the purchaser.

3.4. INVESTMENTS

The composition and book value of investments held as at December 31, 2013, with the information – related to the 2013 respective financial statements unless otherwise indicated – as required by art. 2427, no. 5) of the Civil Code and IAS 27, are shown in the following table (amounts in Euro):

Name	Office	Share capital	Equity	Profit/loss of the year	% of shares	Book value (Euro)
Subsidiaries						
ASPropulsion International B.V.	Amsterdam (The Netherlands)	Euro 18,000	Euro 57,994,385	Euro (213,750)	100 %	58,640,102
ELV S.p.A.	Roma	Euro 4,680,000	Euro 8,401,354	Euro 193,047	70 %	1,892,147
Regulus S.A.	Kourou (French Guyana)	Euro 640,000	Euro 15,416,834	Euro 2,978,836	60 %	492,064
Avio India Aviation AeroSpace Private Limited	New Delhi (India)	INR 16,060,000	INR 8,639,009	INR (2,475,288)	95 %	114,000
Total Subsidaries						**61,138,314**
Affiliated companies and joint ventures						
Europropulsion S.A. (*)	Suresnes (Francia)	Euro 1,200,000	Euro 5,967,503	Euro 4,622,871	50 %	1,521,162
ASPropulsion Capital N.V.	Amsterdam (The Netherlands)	Euro 2,200,000	Euro 2,245,711	Euro (88,270)	49 %	1,029,643
Termica Colleferro S.p.A.	Bologna	Euro 6,100,000	Euro 6,560,742	Euro 2,391,222	40 %	3,566,107
Servizi Colleferro-Società consortile per azioni	Colleferro (Rome)	Euro 120,000	Euro 120,000	Euro 0	32 %	38,400
Consorzio Sitab	Roma	Euro 25,823	Euro 20,897	Euro 0	20 %	5,164
Consorzio Servizi Acqua Potabile	Colleferro (Rome)	Euro 0	Euro 0	Euro 0	25 %	0
***Total* Affiliated companies and joint ventures**						**6,160,476**

(*) Jointly controlled company

The net book value of some investments in controlled and associated companies at December 31, 2013 is higher than the owned share of net equity. As a consequence of the impairment test performed at December 31, 2013 no impairment losses were recognised in the financial statements.

The movements that occurred in the period are detailed as follows (€ thousands):

	December 31, 2012	Additions	Disposals	Write-downs	Reclassification from Discontinued operations	December 31, 2013
Controlled companies	78,022	-	-	(16,998)	114	61,138
Associated companies	6,160	-	-	-	-	6,160
Other companies	515	-	-	-	-	515
Total	**84,697**	**-**	**-**	**(16,998)**	**114**	**67,813**

Movements that occurred in the period with reference to controlled companies are related to:

- a €16,998 thousand write-down related to the investment in ASPropulsion International BV, recognized in the income statement under "Other income / (expenses) from financial investments";
- the reallocation between Continuing operations of the investment in Avio India Aviation Aerospace Private Limited, which was classified, at December 31, 2012, as part of Discontinued operations, being part of the AeroEngine business; the company was not included between assets contributed on the basis of contractual amendment between the parties occurred during 2013 and consequently reallocated. It should be noted that the Indian subsidiary, as of December 31, 2013, is in liquidation.

3.5. NON-CURRENT FINANCIAL ASSETS

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Financial receivables from associated companies	6,040	4,040	61	4,101
Financial receivables subject to restrictions	-	-	2,150	2,150
Total	**6,040**	**4,040**	**2,211**	**6,251**

Financial receivables from associated companies are composed from shareholder loans (with renewable maturity date for each year until 2016) granted to the associated company Colleferro SpA, which increased during the year to € 2,000 thousand.

3.6. DEFERRED TAX ASSETS

The deferred tax assets recognized in the balance sheet amounted to € 39,548 thousand (December 31, 2012 were recognized deferred tax liabilities, classified as Continuing operations € 109,587 thousand and Discontinued operations for € 137,660 thousand):

	Al 31/12/2013	Al 31/12/2012 Restated (*)		
	Total	*Continuing operations*	*Discontinued operations*	Total
Deferred Tax Assets	39,548	-	-	-
Deferred Tax Liabilities	-	(109,044)	(133,069)	(242,113)
Net balance	**39,548**	**(109,044)**	**(133,069)**	**(242,113)**

(*)The comparative data for 2012 have been restated to include the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

The amount reported in the balance sheet represents the balance of deferred tax assets and liabilities calculated on the temporary differences between the carrying amounts of assets and liabilities assumed for purposes of preparing the financial statements and the corresponding amounts used for taxation purposes.

Deferred taxes are recognized for all temporary differences. Deferred tax assets have been recognized in the financial statements considering their probable future use.

Deferred tax assets and liabilities are calculated by applying the tax rates that are expected to apply when the temporary differences will reverse or the tax loss carry forwards are utilized.

Expectable taxable income in future years, based on the long-range plan approved by the management, is deemed to allow full recovery of recorded prepaid tax assets.

The analysis of temporary differences that led to the recognition of tax assets and deferred tax liabilities is presented in the following table (€ thousands):

	Al 31/12/2013 *Continuing operations*		Al 31/12/2012 Restated (*)	
	Temporary differences	Tax effect amount	Temporary differences	Tax effect amount
Positive variations:				
Depreciation in excess of statutory and impairment losses	17,083	5,021	15,427	4,604
Reversal of goodwill in respect of development costs capitalized	14,627	4,668	130,598	41,674
Inventory write-down	1,143	348	1,066	340
Allowance for Doubtful Accounts	113	31	39	11
Provision for employee-related liabilities	5,969	1,632	47,741	13,466
Provisions for liabilities and charges (non-recurring)	3,516	967	620	171
Provisions for liabilities and charges (others)	529	161	121	34
Maintenance and other expenses deferred deductibility	16,571	4,474	16,483	4,493
Financial expenses in excess of 30% ROL	251,380	69,130	218,882	60,193
Amortisation of goodwill for tax purposes only (AeroEngine portion – contributed – relevant for tax purposes)	266,437	84,727	-	-
Recovery of balance sheet deductions IRAP	168,887	7,032	314,737	13,880
Total	**746,255**	**178,191**	**745,714**	**138,866**
Negative variations:				
Allocation of goodwill to intangible assets	(32,168)	(10,591)	(36,252)	(11,568)
Development cost capitalisation and related amortisation	(30,458)	(9,767)	(34,413)	(10,981)
Accelerated depreciation for tax purposes only	(17,829)	(5,597)	(17,547)	(5,588)
Amortisation of goodwill for tax purposes only	(83,569)	(25,984)	(682,404)	(217,755)
Reversal of depreciation land	(3,042)	(1,303)	(3,043)	(1,342)
Work in progress reduction value	(2,117)	(673)	(2,117)	(676)
Total	**(169,183)**	**(53,916)**	**(775,776)**	**(247,910)**
Net deferred tax	**577,071**	**124,275**	**(30,062)**	**(109,044)**
Tax asset on tax loss of the year		-		-
Tax asset on tax losses of prior years		-		-
Evaluation allowance (**)		(84.727)		-
Net Deferred tax		**39,548**		**(109,044)**

(*) The comparative data for 2012 have been restated to include the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.
(**) Based on deferred tax assets recoverability evaluation on the basis of forecasted data consistent with those used for the impairment testing.

The following table shows the analysis of temporary differences that have led to the recognition of deferred tax assets and deferred tax liabilities classified as Discontinued operations, which have a negative net balance restated December 31, 2012 amounting to 133 069 thousand (amounts in thousands of euro):

	Al 31/12/2012 *Discontinued operations* *Restated (*)*	
	Temporary differences amount	Tax effect amount
Positive variations::		
Depreciation in excess of statutory and impairment losses	59,995	18,280
Reversal of goodwill in respect of development costs capitalized	-	-
Inventory write-down	11,592	3,699
Allowance for Doubtful Accounts	6,771	1,862
Provision for employee-related liabilities	30,046	11,112
Provisions for liabilities and charges (non-recurring)	33,211	9,133
Provisions for liabilities and charges (others)	55,532	17,543
Maintenance and other expenses deferred deductibility	-	-
Financial expenses in excess of 30% ROL	-	-
Fair value adjustment of rate derivative instruments	3,267	898
Fair value adjustment of derivative instruments exchange and *commodity*	-	-
Net profits from foreign exchange adjustment	-	-
Recovery of balance sheet deductions IRAP	-	-
Total	**200,414**	**62,527**
Negative variations:		
Allocation of goodwill to intangible assets	(366,551)	(116,966)
Capitalisation of development costs and related amortization	(108,973)	(34,773)
Non - accounting accelerated depreciation	(46,028)	(14,659)
Non – accounting depreciation (goodwill)	-	-
Reversal of intangible assets with a finite life amortization	(52,754)	(16,792)
Non - accounting discount of work in progress value	(6,466)	(2,853)
Capital gain to deferred taxation	-	-
Fair value adjustment of derivative instruments exchange and *commodity*	(21,396)	(5,884)
Net profits from foreign exchange adjustment	(13,343)	(3,669)
Total	**(615,511)**	**(195,596**
Net deferred tax	**(415,097)**	**(133,069)**
Deferred tax assets for tax losses		-
Deferred tax assets relating to tax losses from previous years		-
Net deferred tax		**(133,069)**

The amount recognized as deferred taxes at December 31, 2013 amounting to € 39,548 thousand was determined as follows (amounts in thousands of euro):

Balance as December 31,2012 (Continuing operations) (*)	**(109,044)**
Deferred tax assets and deferred income taxes recognized in the income statement and other changes	(2,600)
Deferred tax assets and deferred income taxes recognized in the income statement - Effects related to the transfer (recognized in the income statement as *Discontinued operations*)	151,027
Deferred tax assets and deferred income taxes recognized in Actuarial Profit/losses reserve	165
Balance as December 31, 2013	**39,548**

(*) The comparative data for 2012 have been restated to include the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

Deferred tax assets have been recognised as their future recovery is deemed probable. On the same basis, tax assets arising from tax losses carry forward have been recognised as, according to present tax law, they have no maturity, for the most part. Deferred tax assets were calculated at the tax rates that are expected to apply in the period when temporary differences will be recovered or the tax losses carried forward will be used. As resulting from the approved long-range plan, it is expected that positive taxable income, in order to allow the recovery in full of the deferred tax assets balance, will be reached in future financial years.

3.7. OTHER NON-CURRENT ASSETS

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Receivables for prepayment of tax withheld on employee severance indemnity	8	-	-	-
Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85	13,670	16,162	15,917	32,079
Cautionary deposits	91	118	758	867
Fair value (hedging) of foreign exchange derivatives (cash flow hedge – non-current portion)	-	-	19,075	19,075
Total	**13,768**	**16,280**	**35,750**	**52,030**

Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85 represent the present value of the non-current portion(corresponding to a nominal value of € 15,005 thousand) whose payment is deferred over a ten-year period, granted at December 31, 2013 by the Ministry of Economic Development subsequent to the approval of Resolution No. 28 of March 22, 2006, reporting guidance for the aerospace industry, by the Interministerial Committee for Economic Planning (CIPE).

These receivables relate to programmes classified as being functional to national security or to realising a project of common European interest and are recognised in the financial statements at their amortised cost using the effective interest rate method. This value will increase due to the effect of the cumulative amortisation of the difference between the initial amount and the amount actually received in cash, against the item "Financial income", and it is initially accounted for against the item "Other non-current liabilities" (Note 3.22).

The present value of the non-current portion to be cashed within five years amounted to €11,365 thousand, and this after five years of €3,696 thousand. The current portion of total funding to be collected within one year (amounted to €2,898 thousand) is classified in the item "Other current assets" (Note 3.14).

CURRENT ASSETS

3.8. INVENTORIES

The total value of the inventories at December 31, 2013 was €51,936 thousand. The composition of the item is shown in the following table (€ thousands):

		December 31, 2013			December 31, 2012		
		Gross value	Inventory reserve	Net value	Gross value	Inventory reserve	Net value
Raw materials and supplies	*Continuing*	14,980	(1,332)	13,648	10,737	(1,296)	9,441
	Discontinued	-	-	-	91,212	(10,819)	80,393
	Total	**14,980**	**(1,332)**	**13,648**	**101,949**	**(12,115)**	**89,834**
Work in progress	*Continuing*	1,144	(424)	719	3,603	(382)	3,221
	Discontinued	-	-	-	116,659	(6,350)	110,309
	Total	**1,144**	**(424)**	**719**	**120,262**	**(6,732)**	**113,530**
Finished goods	*Continuing*	242	(4)	238	811	(4)	807
	Discontinued	-	-	-	54,832	(10,613)	44,219
	Total	**242**	**(4)**	**238**	**55,643**	**(10,617)**	**45,026**
Advances to suppliers	*Continuing*	37,331	-	37,331	39,432	-	39,432
	Discontinued	-	-	-	11,966	-	11,966
	Total	**37,331**	**-**	**37,331**	**51,398**	**-**	**51,398**
				-			-
Total		**53,696**	**(1,760)**	**51,936**	**329,252**	**(29,464)**	**299,788**
Of which:							
- Continuing operations		53,696	(1,760)	51,936	54.583	(1,682)	52,901
- *Discontinued operations*		-	-	-	274.669	(27,782)	246,887

At December 31, 2012, a special lien was released on a certain amount of inventories, as security in connection with the financing agreements. On August 1, 2013, the mentioned line was removed, as a result of the contribution and the simultaneous sale of the share in GE Avio S.r.l., because of the repayment of debts to banks, through the use of funds made available by the purchaser.

3.9. CONTRACT WORK IN PROGRESS

Contract work in progress is classified as an asset if, based on the analysis made for each contract, the gross amount of work in progress is higher than advances received. On the contrary, the balance is classified as a liability.
At December 31, 2013 provisions on expected losses on contracts with negative margins were accrued for € 1,065 thousand and classified as a liability in the item "Provisions for risks". At December 31, 2012 no losses were expected.

The total amount of the gross value of contract work in progress and progress billing and advances cashed from customers is detailed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Contract work in progress (gross amount)	828,932	678,516	785,485	1,464,001
Progress billing	(840,233)	(706,480)	(1,047,515)	(1,753,995)
Advances (net amount)	**(11,301)**	**(27,964)**	**(262,030)**	**(289,994)**

The following table presents the balance of contract work in progress for which the gross amount of work in progress exceeds progress billing and which net value is therefore classified as an asset (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Contract work in progress (gross amount)	529,212	486,832	369,658	856,490
Progress billing	(488,773)	(438,212)	(284,268)	(722,480)
Contract work in progress (net amount)	**40,439**	**48,620**	**85,390**	**134,010**

The following table presents the balance of contract work in progress for which progress billing and advances exceed the gross value of work in progress and which net value is therefore classified as a liability (€ thousands):

	December 31, 2013	December 31, 2013		
	Total	Continuing operations	Discontinued operations	Total
Contract work in progress (gross amount)	299,720	191,684	415,827	607,511
Progress billing	(351,460)	(268,268)	(763,247)	(1,031,515)
Advances (net amount)	**(51,740)**	**(76,584)**	**(347,420)**	**(424,004)**

3.10. TRADE RECEIVABLES

Total trade receivables at December 31, 2013 amounted to € 6,247 thousand (at December 31, 2013, €6,843 thousand classified among Continuing operations and €307,662 thousand classified among Discontinued operations). The item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Trade receivables from third parties	2,150	2,822	159,967	162,789
Receivables from controlled companies	3,531	2,874	124,376	127,250
Receivables from associated companies	566	1,147	23,319	24,466
Total	**6,247**	**6,843**	**307,662**	**314,505**

The book value of trade receivables is deemed to approximate their fair value.

At December 31, 2012, a portion of trade receivables was pledged as security in connection with the financing agreements. On August 1, 2013, the mentioned pledge was removed as a result of the contribution and the simultaneous sale of the share in GE Avio S.r.l., because of the repayment of debts to banks, through the use of funds made available by the purchaser.

Trade receivables from third parties

The item is composed as follows (€ thousands):

	December 31, 2012	December 31, 2011		
	Total	Continuing operations	Discontinued operations	Total
Gross value	2,247	2,919	161,650	164,569
Less: allowance for doubtful accounts	(97)	(97)	(1,683)	(1,780)
Net value – within one year	2,150	2,822	159,967	162,789
Trade receivables – beyond one year	-	-	-	-
Total	**2,150**	**2,822**	**159,967**	**162,789**

No receivables with maturity date beyond five years exist.

Receivables from controlled companies

The item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Regulus S.A.	1,862	1,908	-	1,908
Avio Inc.	-	-	119,463	119,463
SE.CO.SV.IM. S.r.l.	26	289	-	289
Avio Polska Sp.z o.o.	-	-	2,459	2,459
ELV S.p.A.	1,643	677	-	677
DutchAero Services B.V.	-	-	54	54
DutchAero B.V.	-	-	104	104
Getti Speciali S.r.l.	-	-	1,308	1,308
Avioprop S.r.l.	-	-	982	982
O.A.V. S.r.l. (under winding-up)	-	-	3	3
A&E S.r.l.	-	-	3	3
Total	**3,531**	**2,874**	**124,376**	**127,250**

The receivables are deemed fully collectable within one year and therefore no adjustments in value were recorded.

Receivables from associated and jointly controlled companies

The item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Totale	Continuing operations	Discontinued operations	Total
Eurojet Turbo G.m.b.H.	-	-	14,609	14,609
Turbo-Union Ltd.	-	-	7,203	7,203
Europropulsion S.A.	431	905	-	905
Isi Geie	-	-	1,507	1,507
Consorzio Servizi Acqua Potabile	131	147	-	147
Servizi Colleferro - Società Consortile per Azioni	2	29	-	29
Termica Colleferro S.p.A.	2	66	-	66
Total	**566**	**1,147**	**23,319**	**24,466**

The receivables are deemed to be fully collectable within one year and therefore no adjustments in value were recorded.

3.11. CURRENT FINANCIAL ASSETS

The item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing Operation*	*Discontinued Operation*	Total
Current financial assets from controlled companies	10,402	12,888	16,300	29,188
Current financial assets from associated companies	119	70	-	70
Fair value (non-hedging) of foreign exchange derivatives (current portion)	-	-	79	79
Other financial receivables	7	-	487	487
Current financial assets from third parties - subject to restrictions	115,000	-	-	-
Current financial assets from third parties	1,150,000	-	-	-
Financial prepaid expenses	331	-	388	388
Total	**1,275,858**	**12,958**	**17,254**	**30,212**

At December 31, 2013, financial receivables from controlled companies are mainly related to the credit balance of the treasury account with ELV S.p.A. (€10,383 thousand).

Financial receivables from associated companies are related to the short-term financial receivables due from the associate Thermal Colleferro S.p.A., representing the interest accrued on the loan in place with the associate.

Financial assets from third parties mainly consist of the following:
- the present value of the short-term floating rate notes issued by Corsair Finance (Ireland) Limited - Series 119 ("Corsair") representing the investment made by the Parent company of proceeds deriving from the sale of the investment in GE Avio S.r.l. (€1,150,000 thousand);

the balance of restricted funds (up to August 1, 2014) included in specific escrow accounts, related to the sale operation described above (€115,000 thousand).

In particular, the use of part of the proceeds deriving from the transfer of the investment in GE Avio Srl (amounting to a total of 1,923,180 thousand) is detailed as follows:

- € 115,000 thousand were deposited at Citibank in three separate escrow accounts, SPA Escrow Account (€ 70,000 thousand), Business Warranty Escrow Account (€ 30,000 million) and General Warranty Escrow Account (€ 15,000), as a guarantee of any liability connected to potential claims arising in connection with the execution of the Contract and in relation to the completion of business transfer. These funds are subject to restriction in terms of availability for Avio S.p.A. up to date August 1, 2014, as contractually provided.

- €1,700,000 thousand have been used for a short-term investment (based on a contract signed on August 12, 2013 and expiring October 5, 2014) concerning 17 floating rate notes issued by Corsair, each with a denomination of € 100,000 thousand; the investment transaction in described notes is collateralized by an operation of repurchase agreement signed by Corsair with JP Morgan Securities Ltd. ("JPM"), to which Corsair has deposited the cash received by Avio S.p.A. against delivery (by JPM) of a basket of securities (securities of European issuers with a minimum AA rating, denominated in euro, held in custody by The Bank of New York Mellon SA / NV - London Branch) as security deposit. In order to ensure the value of the investment, the contract provides for the trading of securities, on a daily basis, carried out by Euroclear SA / NV - Brussels, third-party entity that manages the margining of securities as collateral.

  The investment guarantees to Avio SpA, on a quarterly basis (as of the date October 5, 2013, subsequent to the balance sheet date, on January 5, April 5, July 5 and October 5, 2014), the payment by Corsair of interest based on EONIA Flat rate (corresponding to the interest paid by JPM to Corsair).

Avio S.p.A. has the right to request from Corsair, with three months of notification, the early redemption of all or part of the investment to an amount equal to the notional amount invested (whose value is guaranteed based on the contractual mechanism described above) plus the accrued interest to the date.
In November 2013, the contract with Corsair was changed in order to redefine the minimum value of the notes, fixed at € 50,000 thousand, and, on November 29, 2013, following to a resolution of the Shareholders of Avio S.p.A., a number of notes equal to a value of € 550,000 thousand have been transferred to the parent BCV Investments SCA in the context of an equity reserves distribution totaling €555,074 thousand (as described in Note 3.18).

Following the described operation, the value of bonds outstanding as of the date of December 31, 2013 amounted to € 1,150,000 thousand;

€ 108,180 thousand were maintained as current liquidity of the parent company and used to manage current operations and the liquidation of liabilities recognized in the Avio S.p.A. accounts, based on the requirements of the Contract, including liabilities (in particular, related to tax and social security) pertaining to the AeroEngine business subject of the contribution.

3.12. CASH AND CASH EQUIVALENTS

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing Operations*	*Discontinued Operations*	Total
Bank and post-office accounts	48,541	-	4,.206	42,206
Cash on hand	-	-	6	6
Total	**48,541**	**-**	**42,212**	**42,212**

At December 31, 2012, certain bank accounts were pledged as security in connection with the financing received. On August 1, 2013, mentioned pledge has been removed as a result of the contribution and the simultaneous sale of the share in GE Avio S.r.l., because of the repayment of debts to banks, through the use of funds made available by the purchaser.

3.13. CURRENT TAX ASSETS

Current tax assets at December 31, 2013 amounted to €10,127 thousand (€4,558 thousand at December 31, 2013) entirely classified among Continuing operations. The item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing Operations*	*Discontinued Operations*	Total
VAT receivable	4,261	2,641	-	2,641
Receivables from Tax Authorities	5,565	702	-	702
EU VAT receivable	178	319	-	319
Various other taxes claimed for reimbursement	123	896	-	896
Total	**10,127**	**4,558**	**-**	**4,558**

The increase in tax receivables from Tax Authorities refers primarily to the credit balance in respect of tax IRAP, as a result of advances paid for an amount greater than the debt posted at year end.

Research and development tax credit provided by Italian Law No. 296/2007 (2007 Italian Budget Act), subsequently modified by Legislative Decree No. 185/2008, which became Law No. 2/2009, was accounted for, according to existing rules, for an amount reasonably expected to be used to offset income taxes on future expected taxable income. The decrease was a consequence of the utilisation, in the year 2013, of the credit to offset other taxes due.

3.14. OTHER CURRENT ASSETS

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Receivables from Social Security Institutions	-	193	-	193
Receivables from employees	362	349	1,693	2,042
Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85	2,898	2,898	2,864	5,762
Receivables for public grants to be collected	2,610	2,610	4,332	6,942
Receivables from controlled companies	25	399	29	429
Receivables from associated companies:				
- Servizi Colleferro – Società Consortile per Azioni	-	31	-	31
Receivables from other debtors	13,529	1,041	2,556	3,597
Allowance for doubtful accounts on receivables from other debtors	-	-	(2,996)	(2,996)
Fair value (hedging) of foreign exchange derivatives (cash flow hedge - current portion)	-	-	6,060	6,060
Prepaid and accrued expenses	172	-	4,727	4,727
Total	**19,595**	**7,521**	**19,265**	**26,786**

Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85 represent the present value (corresponding to a nominal value of €2,936 thousand for Continuing operations and of €2,904 thousand for Discontinued operations) of funding granted in 2009 by the Ministry of Economic Development subsequent to the approval of Resolution No. 28 of March 22, 2006, reporting guidance for the aerospace industry, by the Interministerial Committee for Economic Planning (CIPE), which are relative to programmes classified as being functional to national security and to realising a project of common European interest. The collection of these receivables is expected to occur within 12 months. The non-current portion is classified in the caption "Other non-current assets" (Note 3.7)

Receivables from other debtors include an amount of €10,877 thousand towards the former subsidiary Avio Inc. (pertaining to the business contributed to GE Avio S.r.l.) related to the recognition, occurred in late 2013, of a revenue adjustment for the period January 1, 2013 - August 1, 2013, resulting, as counterpart, in a negative price adjustment (adjusting the value of the gain related to the sale of investment in GE Avio S.r.l.) for the same amount (see Note 3.27).

3.15. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

In this note are reported the details of *Discontinued Operations'* balances related to the potential conferee and subsequent transfer (more fully described in previous Note 1.1, also regarding allocation principle to *Discontinued operations*) as shown in the Financial Statement, in the income statement and in the cash flows statement.

The detail of the assets classified among Discontinued operations at December 31, 2012 is the following (amounts in Euro):

Assets classified among Discontinued operations	Note	December 31, 2012 Restated (*)
(Euros)		
Non-current assets		
Property, plant and equipment	3.1	185,577,013
Investment property	-	-
Goodwill	3.2	1,737,430,200
Intangible assets with finite useful lives	3.3	954,046,959
Investments	3.4	116,973,134
Non-current financial assets	3.5	2,211,355
Deferred tax assets		-
Other non-current assets	3.6	35,750,260
Total non-current assets		**3,031,988,921**
Current assets		
Inventories	3.7	246,886,570
Contract work in progress	3.8	85,389,675
Trade receivables	3.9	307,661,626
Current financial assets	3.10	17,253,655
Cash and cash equivalents	3.11	42,211,745
Current tax assets	3.12	-
Other current assets	3.13	19,265,549
Total current assets		**718,668,820**
TOTAL DISCONTINUED OPERATIONS' ASSETS		**3,750,657,741**

(*)The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

The detail of the liabilities classified among Discontinued operations at December 31, 2012 is the following (amounts in Euro):

Liabilities classified among Discontinued operations	Nota	December 31, 2012 restated (*)
(Euros)		
Non-current liabilities		
Non-current financial liabilities	3.18	1,404,491,410
Provision for employee benefits	3.19	75,002,125
Provisions for risks	3.20	42,129,824
Deferred tax liabilities	3.21	133,069,279
Other non-current liabilities	3.22	478,241,973
Total non-current liabilities		**2,132,934,611**
Current liabilities		
Current financial liabilities	3.23	32,710,488
Current portion of non-current financial liabilities	3.24	78,108,972
Provisions for risks	3.20	35,827,393
Trade payables	3.25	262,905,905
Advances for contract work in progress	3.9	347,419,673
Current tax payables	3.26	-
Other current liabilities	3.27	134,543,903
Total current liabilities		**891,516,334**
TOTAL DISCONTINUED OPERATIONS' LIABILITIES		**3,024,450,945**

(*)The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

The breakdown of *Discontinued operations'* income statement balances is the following (amounts in Euro):

Revenues/(costs) and income/(expenses) classified among Discontinued operations	**Note**	**Year 2013 (01/01 – 01/08)**	**Year 2012 Restated (*)**
(Euros)			
Revenues	3.28	954,100,059	1,564,073,107
Change in inventory of finished and semi-finished goods		22,657,356	17,520,478
Other operating income	3.29	30,960,400	47,431,880
Raw material consumption	3.30	(380,808,816)	(595,828,710)
Costs of services	3.31	(264,403,313)	(454,913,702)
Personnel costs	3.32	(138,651,399)	(238,926,621)
Depreciation and amortisation	3.33	(75,059,969)	(123,844,740)
Write-down and impairment/reversal	3.34	-	-
Other operating expenses	3.35	(34,357,906)	(45,850,281)
Capitalisation of costs for internally generated assets	3.36	15,150,517	28,446,397
OPERATING PROFIT		**129,586,928**	**198,107,808**
Financial income	3.37	50,723,997	76,301,482
Financial expenses	3.38	(123,338,372)	(206,531,996)
NET FINANCIAL INCOME/(EXPENSES)		**(72,614,375)**	**(130,230,514)**
Share of income/(expenses) in investments in associated companies accounted for using the equity method		-	-
Other income/(expenses) from financial investments	3.39	1,108,268,987	(4,315,061)
NET INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS		**1,108,268,987**	**(4,315,061)**
PROFIT/(LOSS) BEFORE TAXES - DISCONTINUED OPERATIONS		**1,165,241,539**	**63,562,233**
INCOME TAXES	3.40	**107,998,221**	**(47,670,389)**
PROFIT/(LOSS) AFTER TAXES - DISCONTINUED OPERATIONS		**1,273,239,760**	**15,891,844**

(*)The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

With reference to the 2013 results from *Discontinued operations* (in particular the period between January 1, 2013 and August 1, 2013), it includes the following main components:

- €1,060,646 thousand related to the capital gain arising from the sale of investment in GE Avio S.r.l. to Nuovo Pignone Holding S.p.A., net of the related tax effect (for details please refer to the note on 3.42)
- € 157,585 thousand income related to the reversal of tax liabilities in the income statement recognized at 1 August 2013 representing the future tax effect of goodwill amortization attributable to the AeroEngine business (eliminated in the context of the contribution operation);
- € 14,327 thousand income emerging from the impact in the income statement, net of the related tax effect, of the reversal of *cash flow hedges* of exchange rate, interest rate and *commodity* reserves, due to the early termination of contracts (for instruments related to the interest rate and *commodity*) and to the transfer of the contracts and the underlying transactions (for instruments relating to exchange rate) in the context of the AeroEngine business contribution and consequent sale of the investment in GE Avio S.r.l.;
- € 40,682 thousand representing the positive result, net of the related tax effect, of the AeroEngine sector recurring activities for the period from 1 January 2013 to August 1, 2013.

The breakdown of cash flows, divided by nature, generated by the *Discontinued operations*, is the following:

Cash flow of Discontinued operations	**2013**
(€ thousands)	
Net cash provided by operating activities	77,288
Net cash used in investing activities	(44,464)
Net cash provided by financing activities	(29,125)

EQUITY

3.16. SHARE CAPITAL

The Company share capital as of December 31, 2013 was €40,000 thousand, fully issued and paid, and unchanged with respect to December 31, 2012. Share capital was paid entirely at the incorporation of the Company, on December 11, 2006.

At December 31, 2013, share capital consisted of 400,000,000 ordinary shares with a par value of €0.1 each, wholly owned by the sole shareholder BCV Investments S.C.A., and unchanged with respect to December 31, 2012.

Following a resolution of the extraordinary shareholders' meeting of July 29, 2011, resolved to increase share capital by cash, for an amount up to €20,000 thousand of par value, by issuing a maximum of 200,000,000 maximum new ordinary shares with a nominal value of €0.1 each, regular entitlement, to be offered in Italy for subscription to the general public under a public offer, and/or to Italian qualified investors and foreign institutional investors, in an institutional underwriting, aiming at the admission to listing of the Company's share on the Italian Stock Exchange (MTA – *Mercato Telematico Azionario*, organized and managed by Borsa Italiana S.p.A.).

Such resolution has been revoked by the shareholders' meeting of August 1, 2013, following MTA listing process interruption, due to the extraordinary contribution and sale operation.

The objectives identified by the Company for managing capital are to create value for shareholders, to preserve business continuity and support the growth of the Company.

Capital means both the value contributed by shareholders, represented by share capital and additional paid-in capital, and the value generated by the Company in terms of results achieved in operations, represented by retained earnings and other reserves, excluding gains and losses recognised directly in equity (cash flow hedge reserves).

3.17. ADDITIONAL PAID-IN CAPITAL

Additional paid-in reserve was €73,576 thousand at December 31, 2013 (€726,400 thousand at 31 December 2012).

The decrease in the reserve refers to the decisions taken by the shareholders' meeting during the month of November 2013, which resolved with reference to the impact on equity, as follows:

- on November 15, 2013, to cover Avio S.p.A. past losses (€ 143,242 thousand) through the use of retained earnings (for € 37,884 thousand), the reserve of foreign exchange gains (for € 12,933 thousand) and the share premium reserve (for € 92,425 thousand);
- on November 29, 2013, to execute a distribution in favor of the sole shareholder of an amount of € 555,074 thousand, by using the share premium reserve.

3.18. OTHER RESERVES

The item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012 Restated (*)
Exchange rate cash flow hedge reserve	-	15,985
Interest rate cash flow hedge reserve	-	(1,957)
Commodities cash flow hedge reserve	-	(146)
Actuarial gain/(losses) reserve	(1,669)	(13,553)
Contribution surplus reserve	80,469	-
Total	**78,800**	**329**

(*)The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes

The interest rate, exchange rate and commodities cash flow hedge reserves are recorded (unitl July 30, 2013 with regard to interest rates and commodity cash flow hedge reserves, and until August 1, 2013 with regard to exchange rate cash flow hedge reserve) to recognise in the equity the portion of gains and losses on hedging instruments (used to hedge exchange rate, interest rate and commodities risks) determined to be effective. When the forecasted transactions result in the recognition of a financial asset or a financial liability, the associated gains or losses previously recognised in equity are reversed to the income statement.

The movements of mentioned reserves, entirely related to Discontinued operations, are the following (€ thousands):

	Exchange rate cash flow hedge reserve			Interest rate cash flow hedge reserve			Commodities cash flow hedge reserve		
	Gross value	Deferred tax effect	Net value	Gross value	Deferred tax effect	Net value	Gross value	Deferred tax effect	Net value
At December 31, 2012	22,047	(6,062)	15,985	(2,699)	742	(1,957)	(201)	55	(146)
Changes due to measurement of hedging effectiveness	(2,637)	725	(1,912)	(24)	7	(17)	(394)	109	(285)
Reversal to income statement	3,220	(885)	2,335	1,573	(433)	1,140	-	-	-
Extraordinary reversal to income statement	(22,630)	6,222	(16,408)	1,150	(316)	834	595	(164)	431
At December 31, 2013	-	-	-	-	-	-	-	-	-

Changes due to measurement of hedging effectiveness and Reversal to income statement refer to the movements recognized by *cash flow hedges* reserves during the period from January 1, 2013 to July 30, 2013 (for the interest rates and commodities *cash flow hedge* reserve) and during the period from 1 January 2013 to August 1, 2013 (for the exchange rate *cash flow hedge* reserve).

The extraordinary reversal to the income statement of the reserves occurred on July 30, with reference to the interest rate and commodity *cash flow hedge* reserves, following the termination of respective derivative contracts, while regarding the exchange rate cash flow hedge reserve for, it was subject to reversal to income statement on August 1, 2013, following the effect of contribution, which included both derivatives and related underlying transactions, producing the elimination of the hedging conditions, with related recognition in the income statement of the effects suspended into reserves, in accordance with relevant accounting standards.

It should be noted that, following the contribution and sale operation, at 31 December 2013, the Company has no derivative financial instruments contract in place.

The actuarial profit / losses reserve, negative for € 1,669 thousand at 31 December 2013 includes gains and losses arising from the retrospective application, starting from January 1, 2013 of IAS 19 revised.

In this regard, with respect to financial information published in the consolidated financial statements at 31 December 2012, net actuarial losses amounted to € 13,553 thousand (refer both to the component that *Continuing Discontinued*), net of € 5,140 thousand tax effect (for further details refer to note 2.10 New accounting standards) were recognized in comparative data included in the present document.

Contribution surplus reserve includes the surplus value arising from the contribution, based on application, following OPI 1 requirements, of the "continuity of values" criterion for assets and liabilities value as recognized in the consolidated financial statements. In particular surplus value referred to:

- goodwill, for an amount of € 11,507 thousand, corresponding to the higher value, on consolidated financial statements, of the portion of goodwill included between assets transferred (pertaining to AeroEngine business);
- investments in controlled companies pertaining to AeroEngine business conferred, amounting to € 68 964 thousand and representing the adjustment, at the contribution reference date, of the same investments the corresponding pro-quota equity, net of respective consolidation adjustments (by valuating them in applying the equity method).

Given the nature of the contribution to GE Avio S.r.l. (then owned 100% by Avio S.p.A.), identified, in accordance with IFRS 3, as a business combinations under common control, the effect of application of higher values than those recognized in the statutory financial statements of the Company has been recognized directly in the equity reserve described.

To a certain number of Company managers was given the right to participate in an investment plan in the Company's parent company, which may be considered as an equity settled share-based payment under the provisions of IFRS 2, and the fair value of which resulted as not being material and therefore not accounted for.

The description of the nature, possible use and portion available for distribution for each item of net equity is set out below, together with information about the use in previous financial years (€ thousands):

Nature/description	Amount	Possible use	Portion available for distribution	Used in previous financial years	
				For loss replenishment	For other reasons
Share capital	40,000		-		
Capital Reserves:					
- Additional paid-in capital	73,576	A, B, C	73,576	92,425	560,400
Reserves from profits:					
- Legal reserve	8,000	B	-		
- Contribution surplus reserve	80,469	B, C	80,469		
- Actuarial gain/(losses) reserve	(1,669)	-			
Retained Earnings	-		-		
Total	**200,375**		**154,045**	**92,425**	**560,400**
Portion not available for distribution			(61,413)		
Portion available for distribution			92,632		

Note: A: for capital increase - B: for loss replenishment - C: for distribution to shareholders

The non-distributable reserve relates to the additional paid-in capital reserve, not distributable for an amount equal to the residual value of development costs capitalized.

NON-CURRENT LIABILITIES

3.19. NON-CURRENT FINANCIAL LIABILITIES

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Financial payables to banks (*Senior Facilities*)	-	-	1,049,958	1,049,958
Financial payables to associated companies	-	-	338,647	338,647
Financial payables to parent company	139,929	133,880	-	133,880
Easy-term financing from Ministry of Economic Development and Ministry of Education, University and Research	-	-	6,709	6,709
Financial lease payables	-	-	1,444	1,444
Fair value (non-hedging) of foreign exchange derivatives (non-current portion)	-	-	7,734	7,734
Total	**139,929**	**133,880**	**1,404,492**	**1,538,372**

At December 31, 2013, Non-current financial liabilities are made up of financial payables to parent company BCV Investments S.C.A.

Financial payables to banks

This item, classified at December 31, 2012 among Discontinued operations, is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Nominal value	-	-	1,116,185	1,116,185
Amortised cost adjustment	-	-	(66,227)	(66,227)
Total	**-**	**-**	**1,049,958**	**1,049,958**

Financial payables to banks classified as Discontinued operations at December 31, 2012 referred to the agreement named "Senior Facilities Agreement" signed on December 13, 2006 by BCV Investments S.C.A. (the sole shareholder of the Parent), also with accession on the same date by the Parent, as Original Obligors, with J.P.Morgan plc, Lehman Brothers International (Europe), The Royal Bank of Scotland plc - Milan Branch, Banca Intesa S.p.A., Bayerische Hypo-und Vereinsbank AG. - Milan Branch, and Citigroup Global Markets Limited as "Mandated Lead Arrangers", then, during the year 2012, subject to amendments.

Financial liabilities were recorded at the value resulting from the application of the amortized cost method, determined as the liability initial fair value net of costs incurred to obtain the loans, plus the cumulative amortization of the difference between the initial value and the maturity amount calculated using the effective interest rate.

With reference to the outstanding debt at December 31, 2012, relating to the amended *Senior Facilities Agreement,* it should be noted that, even considering the effects arising from the presence of a preliminary agreement for the contribution of the business including the loan agreement to GE Avio S.r.l. and subsequent sale of the investment held in the latter, the same liability was presented (in 2012 financial statement) as a non-current liability, based on the fact that any eventual refund would result (as confirmed by the events of 2013) be the responsibility of the buyer (thus not producing a change in payment flows expected for Avio S.p.A.) and, at the moment of preparation of financial statements at December 31, 2012, the validity of the Agreement was subject to the fulfillment of certain conditions precedent (including obtaining the necessary antitrust approval from the European Union and the United States of America, as well as regulatory approvals by the Italian Government).

As indicated, in response to the Agreement's requirements, on August 1, 2013, the loan agreement and related liabilities recognized in the accounts of Avio S.p.A. have been the subject of transfer to GE Avio S.r.l., producing, as provided by the relevant accounting standards (IAS 39), the recording, in the Avio's income statement, of € 16,564 thousand financial charges (recognized in *Discontinued operations*) representing the effect of liabilities value adjustment at their nominal value (amortized cost unwinding) at that date (to a value corresponding to the one provided by contract for the contribution).

It is also noted that the *Senior Facilities Agreement* provided for certain guarantees, including mortgages, liens and pledges set up special on certain assets of the Group, as well as the existence of restrictions on the granting of guarantees to third parties (negative pledge), the imposition of constraints for the execution of certain operations in excess of amounts established, the periodic reporting obligations and compliance with specific financial ratios calculated for each quarter. These constraints and obligations have ceased on August 1, 2013, according to the repayment of financial liabilities related to the *Senior Facilities Agreement*, carried out through the use of funds made available by the purchaser, in the context of Agreement provision.

Financial payables to associated companies

The balance is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing Operations*	*Discontinued Operations*	Total
Nominal value of the debt	-	-	359,409	359,409
Effect of application of the amortized cost method	-	-	(20,762)	(20,762)
Total	**-**	**-**	**338,647**	**338,647**

At December 31, 2012, financial payables to associated companies, classified among Discontinued operations, were represented by the loan agreement for the contract named *Subordinated TreasuryCo Loan Agreement No. 2*, granted at December 14, 2006 by the associated company ASPropulsion Capital N.V., a financial company controlled by the parent company BCV Investment S.C.A. within the framework of the financial transactions put in force at Group level in conjunction with the Acquisition.

This financial payable was accounted in the financial statement at the value resulting from the application of the amortized cost method determined as the payable initial fair value net of costs incurred to obtain the loans, plus the cumulative amortization of the difference between the initial value and the maturity amount calculated using the effective interest rate.

With reference to the debt outstanding at December 31, 2012 relating to the *Subordinated TreasuryCo Loan Agreement No. 2*, it should be noted that, even considering the effects arising from the presence of a preliminary agreement for the contribution of the business including the loan agreement to GE Avio S.r.l. and subsequent sale of the investment held in the latter, the same liability was presented (in 2012 financial statement) as a non-current liability, based on the fact that any eventual refund would result (as confirmed by the events of 2013) be the responsibility of the buyer (thus not producing a change in payment flows expected for Avio S.p.A.) and, at the moment of preparation of financial statements at December 31, 2012, the validity of the Agreement was subject to the fulfillment of certain conditions precedent (including obtaining the necessary antitrust approval from the European Union and the United States of America, as well as regulatory approvals by the Italian Government).

As indicated, in response to the Agreement's requirements, on August 1, 2013, the loan agreement and related liabilities recognized in the accounts of Avio S.p.A. have been the subject of transfer to

GE Avio S.r.l., producing, as provided by the relevant accounting standards (IAS 39), the recording, in the Avio's income statement, of € 5,743 thousand financial charges (recognized in *Discontinued operations*) representing the effect of liabilities value adjustment at their nominal value (amortized cost unwinding) at that date (to a value corresponding to the one provided by contract for the contribution).

It is also noted that the *Subordinated TreasuryCo Loan Agreement No. 2* provided for certain guarantees and the compliance with certain commitments. Such guarantees and commitments have ceased on August 1, 2013, according to the repayment of financial liabilities related to *Subordinated TreasuryCo Loan Agreement No. 2*, carried out through the use of funds made available by the purchaser, in the context of Agreement provision.

Financial payables to parent company

The balance is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing Operations*	*Discontinued Operations*	Total
Nominal value (principal amount)	96,964	97,784	-	97,784
Nominal value (capitalized interests)	54,054	46,694	-	46,694
Amortised cost adjustment	(11,089)	(10,598)	-	(10,598)
Total	**139,929**	**133,880**	**-**	**133,880**

The debt, classified among Continuing operations, is related to the loan granted by BCV Investments S.C.A. under the "*Intercompany Loan Agreement*" signed on December 13, 2006 by the Company, within the framework of the financing transactions connected to the Acquisition.

Based on the above *Intercompany Loan Agreement*, the loan, utilisable up to a maximum of €100,000 thousand, was drawn for €93,000 thousand on December 14, 2006. In the 2008 financial year a new €5,900 financing was granted. In 2011, 2012 and 2013 a partial repayment has been made for respectively €420, €696 and €820 thousand. The interest applicable over each drawing is 8%, payable with the reimbursement of the loan, which may be made partially or totally, at any time selected by the Group, provided that the loan is to be entirely repaid by December 13, 2021. The repayment of the loan was subordinated to the obligations due under the other financing related to the *Senior Facilities Agreement*, *Senior* Performance Bond Facility Agreement and Subordinated TreasuryCo Loan Agreement No. 2, until August 1, 2013. Mentioned obligations have ceased on 1 August 2013, according to the repayment of financial liabilities related to contract the Senior Facilities Agreement and Subordinated TreasuryCo Loan Agreement No. 2, which occurred subsequently to the contribution and sale of the investment in GE Avio S.r.l., made by the assignee, through the use of funds made available by the purchaser.

The financial payable is measured by applying the amortised cost method, using the effective interest rate.

Easy-term financing from Ministry of Economic Development and Ministry of Education, University and Research

The balance is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing operations*	*Discontinued operations*	Total
Financing from the Ministry of Education, University and Research	-	-	143	143
Financing from the Ministry of Economic Development pursuant to a programme general agreement Puglia Region	-	-	6,566	6,566
Total	-	**-**	**6,709**	**6,709**

Financial lease payables

This item, classified among *Discontinued operations*, at December 31, 2012, concerned the €1,444 thousand liability recognised as a financial payable counterpart to tangible fixed assets recorded in accordance with IFRIC 4 among *Discontinued operations*.

3.20. EMPLOYEE BENEFITS PROVISIONS

The item includes all obligations for post-employment benefits and other long-term benefits payable to employees.
The benefits are generally based on employees' remuneration and years of service. The obligations relate to active employees.

Post-employment benefits
The Company provides post-employment benefits for their employees, contributing to independently administered funds through defined contribution plans, and with defined benefit plans.

Defined contribution plans
In the case of defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory or contractual basis. Once the contributions are paid, the Company has no further payment obligations. Liabilities for contributions accrued but not paid are included in the item "Other current liabilities". The Company recognises the contribution cost when the employee has rendered his service and includes this cost in the item "Personnel costs".

Defined benefit plans
Defined benefit plans are unfunded and substantially relate to employee severance indemnity payment ("*Trattamento di Fine Rapporto* - TFR") and to the special long-term service indemnity, which is payable at the moment of retirement to employees who have matured certain length of service seniority requisites within the company. The amount of these obligations is determined on an actuarial basis using the projected unit credit method.

TFR is related to the obligation payable to employees at termination of employment, in accordance with the provision of Art. 2120 of the Italian Civil Code. The 2007 Budget Law and subsequent Decrees and Regulations, significantly modified the relevant rules. In particular, regarding companies employing an average of more than 50 employees, TFR maturing after January 1, 2007 is transferred because of a choice made by the employee, to a complementary pension fund or to the treasury fund managed by INPS (National Social Security Institute). Consequently, for the Companies' employing an average of more than 50 employees, the portion of TFR accrued after this date is assumed as a defined contribution plan, because the Company's obligation is represented exclusively by the payments to the complementary pension funds or INPS, while the past provision accrued at December 31, 2006 continues to represent a defined benefit plan, to be assessed based on actuarial methodologies.

Other long-term benefits
The Company grants certain other long-term benefits to its employees, generally paid when the employee attains a specific seniority in the company. In this case, the measurement of the obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. The amount of this obligation recorded in the balance sheet is calculated on an actuarial basis using the project unit credit method.

The detail of the defined benefit plans reserve as detailed is as follows (€ thousands):

	December 31, 2013	December 31, 2012 Restated (*)		
	Total	Continuing Operations	Discontinued Operations	Total
- Defined benefit plans:				
Employee severance indemnity (TFR)	6,406	6,197	49,558	55,755
Other defined benefit plans	1,648	1,430	12,491	13,921
	8,053	7,627	62,049	69,676
- Other long-term benefits:	1,487	1,342	12,953	14,295
Total	**9,540**	**8,969**	**75,002**	**83,971**

(*)The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19

Changes in employee benefits provisions for the year ended December 31, 2012 are as follows (€ thousands):

	Defined benefit plans	Other long-term benefits	Total employee benefits provisions
Balance at December 31, 2012 (published) (*)	**50,914**	**14,295**	**65,209**
Actuarial losses to be recorded according to IAS 19 revised	18,762	-	18,762
Balance at January 1, 2013 according to IAS 19 revised	**69,676**	**14,295**	**83,971**
Financial expenses/(income)	291	57	348
Recognised actuarial losses/(gains)	600	397	997
Current service costs	266	337	603
Benefits paid	(1,177)	(949)	(2,126)
Provisions for employee benefits conferred	(61,603)	(12,650)	(74,254)
Balance at December 31, 2013	**8,053**	**1,487**	**9,540**

(*) Including Continuing and Discontinued operations.

The amounts charged to the 2013 income statement related to the employees benefits provisions, are detailed in the following table (€ thousands):

	December 31, 2013			December 31, 2012				
	Defined benefit plans	Other long-term benefits	Total	Defined benefit plans		Other long-term benefits		Total
			Employee benefits provisions	*Continuing operations*	*Discontinued operations*	*Continuing operations*	*Discontinued operations*	Employee benefits provisions
Past service cost	-	-	-	1	44	-	-	45
Current service cost	266	337	603	51	476	65	623	1,215
Recognised actuarial losses/(gains)	600	397	997	(5)	5	132	1,272	1,404
Total personnel costs	866	734	1,600	47	525	197	1,895	2.664
Financial expenses/(income)	291	57	348	152	1,214	151	1,455	2.972
Total	**1,157**	**791**	**1,948**	**199**	**1,739**	**348**	**3,350**	**5,636**

Post-employment benefits and other long-term benefits are calculated based on the following actuarial assumptions:

	Year 2013	Year 2012
Discount rate	1.83%	2.34%
Expected salary increase	2.51%	2.45%
Inflation rate	2.00%	2.00%
Average rate of turnover	6.33%	6.09%

In order to calculate the present value, bonds issued by corporate issuers included in "AA" class rating have been considered, with the assumption that this class identifies a high level of credit ratings in the set of "Investment Grade" bonds and excluding in this way, riskier bonds. The market curve chosen is a market curve "Composite", which summarizes the market conditions at the date of valuation for bonds issued by companies belonging to different industries including Utilities, Telephone, Financial, Bank, Industrial . The geographical area considered was the Euro zone.

A 100 basis points increase or decrease in the discount rate would results as indicated in the following table in the estimated value of TFR and of long-term service indemnity:

	Increase 1,00% in the discount rate	Decrease 1,00% in the discount rate
Employee severance indemnity (TFR)	(334)	358
Long-term service indemnity	(112)	125

3.21. PROVISIONS FOR RISKS

The composition of the reserves for risks and charges is as follows (€ thousands):

	December 31, 2013			December 31, 2012						
	Current	Non - current	Total	Current			Non-current			Total
				Continuing operations	*Discont. Operation*	Total	*Continuing operations*	*Discont. Operation*	Total	
Reserve for costs of variable salaries and wages	9,469	-	9,469	46,075	12,853	58,928	-	-	58,928	58,928
Reserve for personnel expenses and restructuring	-	2,262	2,262	19	1,425	1,444	541	1,425	1,444	3,410
Reserve for legal and environmental risks	-	389	389	-	320	320	244	6,110	320	6,674
Reserve for contractual and commercial risks	-	1,141	1,141	-	21,229	21,229	333	34,505	21,229	56,157
Reserve for tax risks	4,298	8,599	12,897	-	12,853	-	28,544	-	-	28,544
Total	**13,767**	**12,391**	**26,158**	**46,094**	**35,827**	**81,921**	**29,662**	**42,130**	**71,792**	**153,713**

The reserves are summarised below:

- The reserve for costs of variable salaries and wages is related for the current portion to the amount to be paid to qualified employees contingent upon the achievement of company and individual results and (for a total amount of €7,743 thousand) for the provision related to a remuneration plan attributable to a certain number of manager. Such remuneration plan is subject to the occurrence of specific events related to the shareholding of the Company or its controlling company and is dependent on the achievement of the Company's specific level of equity evaluation. This plan is considered as a "cash settled share-based payment" according to the provision of IFRS 2 and the related fair value was determined through mathematical-actuarial models;

- The reserve for personnel expenses and restructuring is related to estimated costs, relevant to social security costs, to additional TFR and other costs arising from the agreements signed with the Trade Unions referring to the procedures for early retirement for redundancy of qualified personnel (for €1,894 thousand);
- The reserve for legal and environmental risks included provisions made for disputes and litigation in progress for the relevant quota at December 31, 2013;
- The reserve for contractual and commercial risks mainly refers to provisions for outstanding commercial litigation, penalties and contract termination costs and losses;
- The reserve for tax risks, related mainly to the accruals made for possible adverse results from tax audits conducted on the Company, also following to notification that occurred in December 2012 by the Government Tax Office ("*Agenzia delle Entrate*"), of some formal tax claims ("*avvisi di accertamento*");

The changes in total current and non-current provisions in 2013 are detailed as follows (€ thousands):

	December 31, 2012	Provisions	Non-recurring provisions	Reclass. to bad debt reserve	Utilization	Amounts reversed to income	Translation differences and other changes	December 31, 2013
Reserve for costs of variable salaries and wages	46,075	11,856	4,029	4,785	(57,276)	-	-	9,469
Reserve for personnel expenses and restructuring	560	-	1,399	-	(65)	-	-	1,894
Reserve for legal and environmental risks	244	645	-	-	(132)	-	-	757
Reserve for contractual and commercial risks	333	1,065	-	-	(257)	-	-	1,141
Reserve for tax risks	28,544	5,695	-	-	(21,342)	-	-	12,897
Reserve for risks related to investments	-	-	-	-	-	-	-	-
Total	**75,756**	**19,261**	**8,428**	**4,785**	**(79,072)**	**-**	**-**	**26,158**

The item "Reclassification" includes a portion of provisions classified, at December 31, 2012, among Discontinued operations and reclassified among Continuing operations in 2013 following to the definition of the underlying contractual relationship.

3.22. OTHER NON-CURRENT LIABILITIES

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing operations*	*Discontinued operations*	Total
Payables related to the participation in international collaboration agreements - portion due after one year	-	-	193,064	193,064
Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 - portion due after one year	39,230	37,775	259,441	297,216
Deferred income for funding pursuant to Law No. 808/85 – portion due after one year	16,347	18,051	17,332	35,383
Deferred income for grants related to assets - portion due after one year	38	70	3,233	3,303
Deferred income for tax credit related to R&D activities – portion due after one year	629	707	3,175	3,882
Fair value (hedging) of foreign exchange derivatives (cash flow hedge – non-current portion)	-	-	286	286
Fair value (hedging) of commodities derivatives (cash flow hedge – non-current portion)	-	-	84	84
Other non-current liabilities	-	-	1,627	1,627
Total	**56,244**	**56,603**	**478,242**	**534,845**

Payables related to the participation in international collaboration agreements – portion due after one year

This item was included, at December 31, 2012, among *Discontinued operations*, because it is related to payables to partners in international collaboration agreements for contractual charges associated with the development of commercial aircraft programmes in which original costs were capitalised and classified as intangible assets with finite useful life, pertaining to Discontinued operations.

The amount included in this item, being a long term debt not interest bearing, was valued with the amortised cost method (at December 31, 2012 the nominal value was of € 229,933 thousand).

Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 – portion due after one year

This item (€39,230 thousand at December 31, 2013) relates to the financing provided by the Ministry of Economic Development pursuant to Law No. 808/85, and subsequent legislation intended to promote research and development activities, including studies, tests and designs for new programmes and certain other activities, in the aerospace industry. This financing is interest free and is required to be repaid over the life of the related programmes. These payables are valued at their nominal value.

In 2006, the regulations for the implementation of Law No. 808/85 were modified. In particular, within the scope of programmes eligible for intervention under the above law, specific guidelines were carved out for programmes directed at national security and at realising a project of common European interest. According to these new guidelines, the payment of compensation on the sale of products developed within the above programmes is now provided for, superseding the current refunding of financing granted.
The obligation to refund the amount free of interest stands for programmes not included in the above categories.
These new guidelines are deemed not to be applicable for programmes eligible for intervention decided before the adoption of Resolution No. 28/2006 by the Interministerial Committee for Economic Planning (CIPE), as formally communicated to the Ministry of Economic Development in prior years, and following an in-depth analysis carried out also with the support of authoritative legal advisors, taking into consideration the specific situation of the programmes involved, and, therefore, no modifications to the current law having arisen in 2013, the accounting method presently utilised in recognising this financing was not modified.

Deferred income for funding pursuant to Law No. 808/85 – portion due after one year

This item (€16,347 thousand at December 31, 2013) represents the initial counterpart of the receivable from the Ministry of Economic Development for funding pursuant to Law No. 808/85 related to programmes classified as being functional to national security or to realising a project of common European interest (as explained in Note 3.7) for the portion to be credited to income statement of future periods, after one year, to match them with the related costs for which funding has been granted.

Deferred income for grants related to assets – portion due after one year

This item (€ 38 thousand) refers to capital grants related to property, plant and equipment, the portion of which is deferred to future years over the remaining depreciation period of the related assets.

Deferred income for tax credit related to R&D activities – portion due after one year

This item (€ 629 thousand) represents the portion of the tax credit recorded in the financial statements as provided for by Law No. 296/2007 (2007 Finance Act) subsequently modified by Law Decree No. 185/2008, converted into Law No. 2/2009, to be credited to the income statement in future financial years, after one year, depending on different types of costs being the subject of the intervention, in relation to both the year of charging to income statement R&D expenses, based on which the tax credit has been determined, and to the recognition of revenues related to contract work in progress, to the amount of which R&D expenses concurred.

CURRENT LIABILITIES

3.23. CURRENT FINANCIAL LIABILITIES

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Financial payables to controlled companies	29,774	32,741	28,790	61,531
Financial payables to jointly controlled companies	27,690	41,369	-	41,369
Fair value of interest rate derivatives (current portion)	-	-	2,795	2,795
Fair value (non-hedging) of foreign exchange derivatives	-	-	1,125	1,125
Total	**57,464**	**74,110**	**32,710**	**106,820**

Financial payables to controlled companies

The item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Avio Inc.	-	-	28,085	28,085
O.A.V. S.r.l. (under winding-up)	-	-	705	705
SE.CO.SV.IM. S.r.l.	29,774	32,741	-	32,741
Total	**29,774**	**32,741**	**28,790**	**61,531**

Payables to SE.CO.SV.IM. S.r.l. relate to the debit balance of the treasury account within the framework of the centralised treasury operations made by the Company effective for the Group companies, at market terms and conditions.

Financial payables to jointly controlled companies

These payables referred to the debit balance of the treasury account with Europropulsion S.A., a jointly controlled company, classified among Continuing operations, at market terms and conditions.

3.24. CURRENT PORTION OF NON-CURRENT FINANCIAL LIABILITIES

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing Operations*	*Discontinued Operations*	Total
Current portion of financial payables to banks (*Senior Facilities*)	-	-	46,085	46,085
Current portion of financial payables to associated companies	-	-	14,896	14,896
Current portion of easy-term financing from banks, Ministry of Economic Development and Ministry of Education, University and Research	-	-	953	953
Current portion of financial lease payables	-	-	648	648
Current portion of financial payables related to the participation in international collaboration agreements	-	-	15,355	15,355
Financial accrued interests	-	-	172	172
Total	**-**	**-**	**78,109**	**78,109**

At December 31, 2013 there are no current portion of non-current financial liabilities, as well as for Continuing operations at December 31, 2012.

The following comments refer to most significant items included among Discontinued operations at December 31, 2012 for a better understanding of the changes that have occurred in 2013 and because of the significance of the relative amounts.

Current portion of financial payables to banks

The item, classified at December 31, 2012among Discontinued operations, included the portion of financial payables borrowed under the *Senior Facilities Agreement* of December 2006, with contractual or expected maturity date within one year (as more fully described in Note 3.22 - "Non-current financial liabilities"). It included the share of short-term liabilities determined in relation to the application of amortized cost (equal to the discounted amounts at the effective interest rate of the flows of interest payments then planned for 2013).

Current portion of financial payables to associated companies

The item, classified at December 31, 2012 among Discontinued operations was related to the current portion of payables to associated companies for €14,896 thousand and was entirely related to the effect arising from the application of the amortized cost method to the loans granted by *Subordinated TreasuryCo Loan Agreement No. 2* to ASPropulsion Capital N.V.

Current portion of financial payables related to the participation in international collaboration agreements

The item, classified at December 31, 2012 among Discontinued operations, was made up of the portion due within one year of the financial payables, calculated under the amortized cost method, arising from the liability linked to the participation in international collaboration agreements for the development and production of commercial aircraft engines. Such liability calculated used the amortized cost method (from a nominal value of €9,049 thousand), was originated from the interest bearing deferral payment of a portion of amounts due for participating to a program for which deferral payment had been agreed upon.

3.25. TRADE PAYABLES

The item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing Operations*	Discontinued operations	Total
Trade payables to third parties	29,257	31,399	222,460	253,858
Trade payables to controlled companies	18,959	12,032	40,320	52,352
Trade payables to associated and jointly controlled companies	4,803	4,741	126	4,867
Trade payables to parent companies	-	-	-	-
Total	**53,059**	**48,172**	**262,906**	**311,077**

At December 31, 2013, this item amounted to €53,059 thousand (at December 31, 2012, €48,172 thousand classified among Continuing operations and €262,906 thousand classified among Discontinued operations). The caption includes trade payables to third party suppliers for €29,257 thousand (€31,399 thousand at December 31, 2012 relating to Continuing operations), trade payables to controlled companies for €19,048 thousand (€12,032 thousand at December 31, 2012 relating to Continuing operations) and trade payables to associated and jointly controlled companies for €4,803 thousand (€ 4,741 thousand at December 31, 2012 relating to Continuing operations).

Trade payables to controlled companies are detailed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Regulus S.A.	18,044	12,029	-	12,029
Avio Inc.	-	-	9,344	9,344
Avio Polska Sp.z o.o.	89	-	25,745	25,745
Getti Speciali S.r.l.	-	-	3,884	3,884
SE.CO.SV.IM. S.r.l.	915	3	-	3
DutchAero B.V.	-	-	349	349
Avioprop S.r.l.	-	-	569	569
Avio Beijing Ltd.	-	-	252	252
Avio do Brasil Ltda	-	-	177	177
Total	**19,048**	**12,032**	**40,320**	**52,352**

Trade payables to associated and jointly controlled companies are detailed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing Operations*	*Discontinued Operations*	Total
Eurojet Turbo G.m.b.H.	-	-	125	125
Europropulsion S.A.	4,803	2,150	-	2,150
Termica Colleferro S.p.A.	-	2,591	-	2,591
Servizi Colleferro – Società Consortile per Azioni	-	-	-	-
Turbo-Union Ltd.	-	-	1	1
Totale	**4,803**	**4,741**	**126**	**4,867**

3.26. CURRENT TAX PAYABLES

The composition of current tax payables is as follows (€ thousands):

	December 31, 2013	December, 31 2012		
	Total	*Continuing Operations*	*Discontinued Operations*	Total
Tax withholdings payable	835	6,581	-	6,581
Income tax payables – IRAP	-	1,517	-	1,517
Income tax payables – IRES	38,616	-	-	-
Other taxes and duties payables	6,572	242	-	242
Total	**46,023**	**8,340**	**-**	**8,340**

Tax withholdings payable referred to payables to the Italian Treasury for retention made by the Company as withholding agent on salary and other income.

3.27. OTHER CURRENT LIABILITIES

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	*Continuing Operations*	*Discontinued Operations*	Total
Advances from customers for supply of goods and services	2,133	3,332	45,244	48,576
Payables related to the participation in international collaboration agreements - portion due within one year	-	-	45,898	45,898
Social Security payables	1,916	14,823	-	14,823
Other payables to third parties	13,309	1,446	33,667	35,113
Other payables to controlled companies	10,909	4,734	1,714	6,448
Other payables to associated companies	-	-	11	11
Deferred income for grants related to assets - portion due within one year	111	33	1,503	1,536
Deferred income for funding pursuant to Law No. 808/85 – portion due within one year	1,704	1,945	2,545	4,490
Deferred income for tax credit related to R&D activities – portion due within one year	-	58	425	483
Other accrued expenses and deferred income	738	683	1,215	1,898
Fair value (hedging) of foreign exchange derivatives (cash flow hedge – non-current portion)	-	-	2,178	2,178
Fair value (hedging) of commodities (cash flow hedge – non-current portion)	-	-	144	144
Total	**30,821**	**27,054**	**134,544**	**161,598**

Payables related to the participation in international collaboration agreements – portion due within one year

This item was related to non-financial payables classified at December 31, 2012 among *Discontinued operations* to partners in international collaboration agreements for contractual charges associated with the development of commercial aircraft engine programmes. Original amounts were capitalised and classified among the intangible assets with finite useful lives.

Social Security payables

This item related to payables amounting to €1,916 thousand at December 31, 2013 (€14,823 thousand at December 31, 2012 entirely classified among Continuing operations), relevant to the amount payable by the Company and withheld from employees for contributions on salaries and wages, in accordance with current legislation.

Other payables

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Payables to employees	1,071	926	10,752	11,678
Sundry payables	12,238	520	6,609	7,129
Sundry payables to controlled companies	10,909	4,734	1,714	6,448
Sundry payables to associated companies	-	-	11	11
Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 – portion due within one year	-	-	16,306	16,306
Total	**24,218**	**6,180**	**35,392**	**41,572**

Payables to employees included certain payroll costs and deferred compensation accruals at year-end 2013.

Sundry payable include an amount of €10,877 thousand towards of Nuovo Pignone Holding S.p.A. (purchaser of the investment in GE Avio S.r.l.) related to a negative price adjustment of the gain on the sale of GE Avio S.r.l. (please also refer to what is stated in Note 3.15).

Sundry payables to controlled companies mainly include the remuneration due for tax losses transferred contributed by the Italian subsidiaries to the domestic tax consolidation.

Other accrued expenses and deferred income

This item is composed as follows (€ thousands):

	December 31, 2013	December 31, 2012		
	Total	Continuing operations	Discontinued operations	Total
Accrued expenses related to personnel	738	683	880	1,563
Other deferred income	-	-	335	335
Total	**738**	**683**	**1,215**	**1,898**

INCOME STATEMENTS

3.28. REVENUES

Revenues include sales of goods and services and change in contract work in progress, representing total revenues, and are composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations 01/01 – 31/12	Discontinued operations 01/01 – 01/08	Total	Continuing operations	Discontinued operations	Total
Revenues from sales of goods	50,667	710,269	760,936	228,941	1,138,872	1,367,813
Revenues from services and work in progress	1,376	294,007	295,383	1,188	534,299	535,487
	52,043	1,004,276	1,056,319	230,129	1,673,171	1,903,300
Change in contract work in progress	150,416	(50,176)	100,240	(32,063)	(109,098)	(141,161)
Total	**202,459**	**954,100**	**1,156,560**	**198,066**	**1,564,073**	**1,762,139**

The breakdown of revenues by business area is presented below (€ thousands):

	Year 2013	Year 2012
AeroEngine (Discontinued operations)	954,100	1,564,073
Space (Continuing operations)	202,459	198,066
Total	**1,156,560**	**1,762,139**

With reference to the breakdown of Company's revenues by geographical area (on the basis of the customers' country reference), those related to Continuing operations relate completely to Italy and other EU countries area, while, regarding to Discontinued operations, revenues are related approx. 40% to Italy and other EU countries area, approx. 60% to North America area and approx. 20% to other countries.

3.29. OTHER OPERATING INCOME

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations 01/01-31/12	Discontinued operations 01/01-01/08	Total	Continuing operations	Discontinued operations	Total
Revenue grants	-	2,596	2,596	155	3,681	3,836
Tax credit income related to R&D activities	78	248	326	102	422	524
Income related to amount credited to the income statement of funding pursuant to Law No. 808/85	1,945	1,485	3,430	2,069	2,716	4,785
Portion for the period of grants related to assets	98	1,139	1,237	33	1,924	1,957
Recovery of costs, compensation and other income	-	-	-	1,631	7,199	8,830
Reserves credited to income	302	14,014	14,316	4,554	23,627	28,181
Gains on disposal of property, plant and equipment	7	14	21	27	49	76
Gains on disposal of property, intangible assets	-	-	-	-	96	96
Income related to prior years	2,237	11,465	13,702	110	6,283	6,393
Non-recurring income	-	-	-	-	1,435	1,435
Total	**4,667**	**30,961**	**35,628**	**8,681**	**47,432**	**56,113**

Revenue grants related mainly to amounts received, within the framework of European Union support, for multi-national technology programmes relating to Discontinued operations.

The tax credit income related to research and development activities was made up of the portion of the tax credit (described in Note 3.13 – "Current tax assets") recorded on an accrual basis, determined upon both research and development costs charged to the 2013 income statement for which tax credit was determined (including the amortisation of development costs, purpose of the tax facilitation, capitalised among intangible assets with finite useful lives) and revenues related to contract work in progress whose amount includes costs for research and development activities subject to the tax concession.

Income related to the amount credited to the income statement of funding related to Law No. 808/85 are made up of the portion of the period of funding granted by the Ministry of Economic Development related to programmes classified as being functional to national security and to realising a project of common European interest. The portion credited to income statement was determined taking into consideration the nature of costs for which the funding was granted and the matching with expenses and depreciation of the assets to which they refer.

Reserves credited to income included the reversal of provisions made in prior years, relative to the utilisation of provisions for risks against costs incurred during the financial year and the release of the amount exceeding the provision accrued in previous years to provisions for risks.

3.30. RAW MATERIALS CONSUMPTION

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations 01/01-31/12	Discontinued operations 01/01-01/08	Total	Continuing operations	Discontinued operations	Total
Raw materials and supplies	60,533	397,517	458,050	62,711	595,089	657,800
Change in inventories	(4,665)	(16,709)	(21,374)	1,866	740	2,606
Total	**55,868**	**380,808**	**436,676**	**64,577**	**595,829**	**660,406**

3.31. COST OF SERVICES

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations 01/01-31/12	Discontinued operations 01/01-01/08	Total	Continuing operations	Discontinued operations	Total
Costs of outside services	100,282	261,490	361,772	78,158	448,963	527,121
Costs of leases and rentals	4,197	2,914	7,111	4,148	5,951	10,099
Total	**104,479**	**264,404**	**368,883**	**82,306**	**454,914**	**537,220**

The costs of outside services included in the 2013 financial year the total amount of fees due to the directors and statutory auditors which amounted to €115 thousand relating to the statutory auditors and €763 thousand relating to the directors.

Cost of services included, among others, costs and expenses for professional advices, professional and technical services, external processing, overhaul services, temporary labour supply and, for the most part, costs and expenses, classified among Discontinued operations, for services related to sales arising from international collaboration agreements. Such costs and expenses are made of both marketing and commercial expenses, to be paid in relation to the participation share, and common costs, bear and billed to the Company by the partners, made of technical and administrative costs to manage the programmes and to support related products. These service costs are recognized on an accrual basis at the time of recognition of sales revenues.

3.32. PERSONNEL COSTS

This item is composed as follows (€ thousands):

	Year 2013			Year 2012 Restated (*)		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Salaries and wages	23,939	88,110	112,049	22,587	142,816	165,403
Social security contributions	6,924	29,414	36,338	6,586	46,263	52,849
Defined contribution plan expenses	1,366	6,262	7,628	1,325	10,257	11,582
Other personnel expenses and provision for variable salaries and wages costs	1,524	10,332	11,856	1,505	13,038	14,543
Costs related to defined benefits plans and other long-term benefits:						
- Current service costs	140	464	604	116	1,099	1,215
- Actuarial (gains)/losses on employee benefit plans	332	40	372	175	1,676	1,851
- Past service costs	-	-	-	1	44	45
Cash settled share-based payment plan cost	-	4,029	4,029	200	24,155	24,355
Total	**34,225**	**138,651**	**172,876**	**32,495**	**239,348**	**271,843**

(*)The comparative data for 2012 have been restated to include the retrospective application of the revised IAS 19 and the amendment to IAS 1, as explained in the notes.

Cash settled share-based payment cost referred to the provision related to the adjustment in the evaluation of the liability for a remuneration plan attributable to a certain number of managers (for the most part belonging to Discontinued operations), as mentioned in Note 3.21 – "Provisions for risks". In addition, as mentioned in Note 3.17 – "Other reserves", a certain number of Company manager was given the right to participate in an investment plan in the parent company, which may be considered as an equity settled share-based payment under the provisions of IFRS 2, and the fair value of which resulted as not being material and therefore not accounted for.

The following table shows the average number of employees, divided by category, referred to the total Company:

	2013 Average (*)	2012 Average
Blue-collar workers	15	2,214
White-collar workers	260	1,835
Managers	239	107
Total	**514**	**4,156**

(*) La media dell'esercizio 2013 rappresenta il numero medio dei dipendenti relativi alle Continuing Operations

3.33. DEPRECIATION AND AMORTISATION

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations 01/01-31/12	Discontinued operations 01/01-01/08	Total	Continuing operations	Discontinued operations	Total
Property, plant and equipment	3,755	19,860	23,615	4,198	34,227	38,425
Intangible assets with finite useful lives	11,064	55,200	66,264	10,514	89,618	100,132
Total	**14,819**	**75,060**	**89,879**	**14,712**	**123,845**	**138,557**

Amortisation of intangible assets with finite useful lives included € 44,756 thousand (out of which €4,084 thousand classified among Continuing operations and € 23,726 thousand classified among Discontinued operations), which related to the amount charged to income for amortisation of customer relationships for participation in programmes intangible asset, recorded in 2007 as a result of the Acquisition cost allocation.

3.34. OTHER OPERATING EXPENSES

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations 01/01-31/12	Discontinued operations 01/01-01/08	Total	Continuing operations	Discontinued operations	Total
Provisions for risks	3,109	21,644	24,753	138	20,235	20,373
Write-down of trade receivables	-	261	261	5	222	227
Other operating expenses	1,553	10,598	12,151	716	18,479	19,195
Non-recurring expenses and provisions	361	1,855	2,216	58	6,914	6,972
Total	**5,023**	**34,358**	**39,381**	**917**	**45,850**	**46,767**

Provisions for risks

These provisions represented the amounts charged to income relative to the initial recording of, or addition to, reserves for risks and charges, and mainly related, for Continuing operations, to legal and environmental risks, to personnel and organizational restructuring risks and to fiscal risks, and, for Discontinued operations, to contractual and commercial risks, to tax risks and to variable remuneration risks.

Other operating expenses

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations 01/01-31/12	Discontinued operations 01/01-01/08	Total	Continuing operations	Discontinued operations	Total
Taxes and duties	518	1,704	2,222	223	3,399	3,622
Other expenses	297	2,480	2,777	446	8,889	9,335
Losses on disposal of property, plant and equipment	-	4	4	20	29	49
Expenses related to prior years	738	6,410	7,148	27	6,162	6,189
Total	**1,553**	**10,598**	**12,151**	**716**	**18,479**	**19,195**

Other expenses included mainly institutional public relations costs, association fees, contractual penalties, costs recharged by consortia and costs related to international collaboration agreements, mainly related to *Discontinued operations*.

Non-recurring expenses and provisions

The item included expenses that were either non-recurring or arising from exceptional events which are not related to the ordinary operating activities of the Company. This item is detailed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations 01/01-31/12	Discontinued operations 01/01-01/08	Total	Continuing operations	Discontinued operations	Total
Expenses:						
- for organisation restructuring and personnel expenses	27	802	829	52	6,091	6,143
- for other non-recurring items	334	1,053	1,387	6	233	239
	361	1,855	2,216	58	6,324	6,382
Provisions:						
- for organisation restructuring	-	-	-	-	-	-
- for legal and environmental risks	-	-	-	-	590	590
	-	-	-	-	590	590
Total	**361**	**1,855**	**2,216**	**58**	**6,914**	**6,972**

3.35. CAPITALISATION OF COSTS FOR INTERNALLY GENERATED ASSETS

This item represents the setoff of costs incurred for the internal production of tangible and intangible fixed assets, recorded in the consolidated statement of financial position.

In 2013, the item amounts to €20,625 thousand out of which €5,474 thousand classified among Continuing operations and €15,151 thousand classified among Discontinued operations and includes the following costs (€ thousands):

	Year 2013			Year 2012		
	Continuing operations 01/01-31/12	Discontinued operations 01/01-01/08	Total	Continuing operations	Discontinued operations	Total
Costs for the internal construction of tangible fixed assets	245	547	792	-	1,101	1,101
Costs for development activities	4,721	14,604	19,325	3,379	25,435	28,814
Costs for internal production of intangible assets	508	-	508	-	1,911	1,911
Total	**5,474**	**15,151**	**20,625**	**3,379**	**28,447**	**31,826**

3.36. FINANCIAL INCOME

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations 01/01-31/12	Discontinued operations 01/01-01/08	Total	Continuing operations	Discontinued operations	Total
Interest income from banks	1,033	-	1,033	-	45	45
Discounts and other financial income	443	292	735	479	1,074	1,553
Interest income on financial receivables towards controlled companies	95	100	195	166	256	422
Interest income on financial receivables towards associated companies	205	-	205	70	-	70
Income from interest rate derivative instruments	-	7,739	7,739	-	28,092	28,092
	1,776	8,131	9,907	715	29,467	30,182
Realised exchange gains	-	19,962	19,962	111	32,218	32,329
Unrealised exchange gains	58	-	58	64	14,617	14,681
Income from foreign exchange derivative financial instruments	-	22,631	22,631	-	-	-
	58	42,593	42,651	175	46,835	47,010
Total	**1,834**	**50,724**	**52,558**	**890**	**76,302**	**77,192**

Interest income on financial receivables towards controlled companies related to interest income on treasury positive balances for the Company.

The item related to the interest income on financial receivables towards associated companies included € 205 thousand towards Termica Colleferro S.p.A.

The realised exchange gains arose from the collection of receivables and the payment of payables denominated in foreign currencies.

The unrealised exchange gains related to the adjustment of receivables and payables denominated in foreign currencies to the exchange rate in effect at year-end 2012 and referred to trade items and, for the amount classified among Discontinued operations, to the US dollar portion of the financial liabilities *Senior Facilities Agreement* and *Subordinated TreasuryCo Loan Agreement No. 2.* In 2013, all exchange rate differences related to Discontinued operations were considered realised following the contribution of the assets and liabilities that generated these differences into GE Avio S.r.l. and subsequent sale of the investment held in the latter.

3.37. FINANCIAL EXPENSES

This item is composed as follows (€ thousands):

	Year 2013			Year 2012		
	Continuing operations 01/01-31/12	Discontinued operations 01/01-01/08	Total	Continuing operations	Discontinued operations	Total
Interest on financial payables to banks - *Senior Facilities Agreement*	-	48,045	48,045	-	51,193	51,193
Interest on financial payables to associated companies - *Subordinated TreasuryCo Loan Agreement No. 1 and No. 2*	-	24,532	24,532	-	40,656	40,656
Interest on financial payable to parent company - *Intercompany Loan Agreement*	3,547	3,754	7,301	697	6,277	6,974
Interest on financial payables to associated companies	326	-	326	115	-	115
Interest on easy-term financing from banks and the Ministry of Economic Development	-	2	2	-	2	2
Interest on financial payables to controlled companies	3	-	3	37		37
Interest on other payables	-	7,763	7,763	58	9,951	10,009
Discounts and other financial expenses/(income)	15	10,053	10,068	(94)	9,777	9,683
Interest costs on employee benefits	(39)	407	368	303	2,669	2,972
Expenses from interest rate derivative instruments	-	11,026	11,026	-	32,804	32,804
	3,852	105,582	109,434	1,116	153,329	154,445
Realised exchange losses	-	16,174	16,174	124	45,851	45,975
Unrealised exchange losses	22	-	22	-	1,747	1,747
Expenses from foreign exchange derivative instruments	-	1,582	1,582	-	5,605	5,605
	22	17,756	17,778	124	53,203	53,327
Total	**3,874**	**123,338**	**127,212**	**1,240**	**206,532**	**207,772**

The amount of interest relative to payables, mainly classified among *Discontinued operations*, recorded in the balance sheet at the value resulting from the amortised cost method, was determined using the effective interest rate.

The caption "Interest on financial payables to banks" included, among others, the effects (expenses for €16,564 thousand) arising from the effects of the reversal to profit & loss (unwinding) of the difference between the payable value accounted for in accordance with IAS at August 1, 2013 and the corresponding nominal value, in connection with the de-recognition of financial liabilities recorded in the context of the contribution an sale operation.

The realised exchange losses arose from the collection of receivables and the payment of payables denominated in foreign currencies.

The unrealised exchange losses were related to the adjustment of receivables and payables denominated in foreign currencies. In 2013, all exchange rate differences related to Discontinued operations were considered realised following the transfer of the business unit and the subsequent sale of the assets and liabilities that generated these differences.

The net balance between exchange gains and losses and income and expenses related to derivative financial instruments, mainly related to *Discontinued operations*, was positive at € 24,873 thousand. In 2012, the balance was negative at € 6,317 thousand.

Interest expenses on financial receivables to controlled and associated companies related to interest expenses on treasury negative balances for the Company.

3.38. INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS

The net income from financial investments (referred to Continuing operations and Discontinued operations - Note 1.1), presented in 2013 an overall positive balance of € 1,099,360 thousand (€ 5,458 thousand in 2012). The € 8,909 thousand negative balance of Continuing operations relate to the write-down of the investment in ASPropulsion International BV amounting to € 16,998 thousand, partially offset by dividends received during the period from the subsidiary Regulus S.A., from jointly controlled companies Europropulsion S.A. and from the associated company ASPropulsion Capital B.V. (for a total of 8,089 thousand). The result of *Discontinued operations* is a positive value equal to € 1,108,269 thousand, including the capital gain on the sale of the investment in GE Avio S.r.l. (for an amount of € 1,102,528 thousand) which took place on August 1, 2013, and dividends received from the subsidiary ASPropulsion International B.V (in the form of shares held by the latter in Avio do Brasil, Avio Polska and DutchAero) and from the associated company Eurojet Turbo GmbH (for a total of € 5,707 thousand).

The following table includes details of the data relating to the determination of the gain on the sale of the investment in GE Avio S.r.l. occurred on August 1, 2013 (amounts in thousands of Euro, referred to figures included in the statutory financial statements of Avio S.p.A., taken as base for the calculation of the gain, aligned with that recorded in the consolidated financial statements, due to on the use of the "continuity of values" criterion – applied to the consolidated financial statements' values - as provided by the relevant accounting standards):

	Avio S.p.A. August 1, 2013 (before contribution)	Transferred Assets and liabilities (values included in the statutory F/S)	Effect of GE Avio S.r.l. contribution (on statutory F/S)		Avio S.p.A. August 1, 2013 (after contribution)	GE Avio S.r.l. sale and subsequent adjustment		Avio S.p.A. August 1, 2013 (after GE Avio S.r.l. sale)
Tangible assets	201,589	(178,702)	-		22,887			22,887
Goodwill	1,956,530	(1,737,430)	-		219,100			219,100
Intangible assets with a finite life	1,031,107	(934,034)	-		97,073			97,073
Investments	206,703	(121,892)	-		84,811			84,811
Investments in GE Avio S.r.l.	100	-	809,675	(A)	809,775	(809,775)		-
Total Assets	**3,396,029**	**(2,972,058)**	**809,675**		**1,233,646**	**(809,775)**		**423,871**
Net working capital	(839,602)	627,970	-		(211,632)	(10,877)	(B)	(222,509)
Provision for risk and charges	(153,733)	79,135	-		(74,598)			(74,598)
Employee benefits provisions	(83,223)	74,254	-		(8,969)			(8,969)
Net invested capital	**2,319,471**	**(2,190,699)**	**809,675**		**938,447**	**(820,652)**		**117,795**
Net financial position (NFP)	**1,617,584**	**(1,461,493)**	**-**		**156,091**	**(1,923,180)**	(C)	**(1,767,089)**
Share Capital and reserves	690,405	-	80,469	(A)	770,874			770,874
Profit /(Loss) for the period	11,482	-	-		11,482	1,102,528	(C)	1,114,010
Equity	**701,887**	**-**	**80,469**		**782,356**	**1,102,528**		**1,884,884**
Equity + NFP	**2,319,471**	**(1,461,493)**	**80,469**		**938,447**	**(820,652)**		**117,795**
Imbalance	-	*(729,206)*	*729,206*		-	-		-

Note

(A) Capital increase, equal to net book value of the assets contributed, inclusive of the incremental portion, representative of the alignment of asset assets value to corresponding value included in consolidated financial statements (in accordance with the "continuity of values" criterion, based on OPI 1 provision), recording, in counterpart, the effect of surplus value directly into an equity reserve.

(B) It represents the adjustment to gain on the GE Avio S.r.l.'s sale due to the change in revenues for the period January 1, 2013 -1 August 2013, Avio S.p.A. against the subsidiary Avio Inc. (as described in Note 3.15).

(C) Gain (gross of tax effect) recorded in the consolidated income statement (included into Discontinued operations), in line with the value determined for the purposes of the statutory financial statements, depending on the application of the "continuity of values" criterion on the basis of the consolidated financial statements' value of assets and liabilities contributed, within the meaning of mentioned OPI 1.

3.39. INCOME TAXES

Income taxes (referred to Continuing operations and *Discontinued operations* - Note 1.1), presented in 2013 a net positive balance of € 93,501 thousand, composed of current income taxes for € 66,728 thousand and net deferred income taxes for € 160,230 thousand.

Current income taxes were made up of the provision for corporate income taxes on the taxable income of the financial year, IRES (€ 47,906 thousand), IRAP (€ 12,736 thousand), other tax charges (€6,206 thousand, mainly related to the provision for tax risks) and differences between taxes paid and accrued in the previous year (€120 thousand).

The following table summarises the income taxes for 2013 and for 2012, referred to Continuing operations and Discontinued operations (€ thousands):

	IRES	IRAP	Total
Current income taxes:			
- taxes for the year	47,906	12,736	60,642
- other tax charges	6,206	-	6,206
- difference between taxes accrued in previous year and paid in 2013	(1)	(119)	(120)
	54,111	12,617	66,728
Net deferred/(prepaid) income taxes	(143,692)	(16,537)	(160,229)
Total	**(89,581)**	**(3,920)**	**(93,501)**

On the basis of the allocation criteria for current and deferred taxes described in previous Note 1.1 - Discontinued operations, here following is reported the breakdown of the caption Income taxes for Continuing operations and Discontinued operations (€ thousands):

	Continuing Operations			*Discontinued Operations*			Total 2013		
	IRES	IRAP	Total	IRES	IRAP	Total	IRES	IRAP	Total
Current taxes:									
- taxes for the year	(2,835)	(5,994)	(8,829)	50,741	18,730	69,471	47,906	12,736	60,642
- other tax charges	385	-	385	5,821	-	5,821	6,206	-	6,206
- difference between taxes accrued in previous years and paid in 2013	-	-	-	(1)	(119)	(120)	(1)	(119)	(120)
	(2,450)	(5,994)	(8,444)	56,561	18,611	75,172	54,111	12,617	66,728
Net deferred/(prepaid) income taxes	20,570	2,372	22,942	(164,262)	(18,909)	(183,171)	(143,692)	(16,537)	(160,229)
	18,120	**(3,622)**	**14,498**	**(107,701)**	**(298)**	**(107,999)**	**(89,581)**	**(3,920)**	**(93,501)**

The reconciliation between the theoretical and effective tax rate, excluding IRAP because of its particular nature, and the accruals to the reserve for tax risks, is presented in the following table (€ thousands):

	Year 2013	Year 2012 Restated (*)
Profit/(Loss) before taxes (Continuing and Discontinued operations)	1,151,855	89,004
Ordinary IRES tax rate	27.50%	27.50%
Theoretical income taxes	316,760	24,476
Effect of adjustments:		
Non-taxable income (**)	(261,322)	-
Dividends	(1,763)	(2,268)
Permanent non-deductible costs	6,493	5,210
Goodwill amortization (relevant for tax purposes)	(17,397)	-
Reversal of temporary differences due the contribution-in-kind	(132,836)	-
Other permanent differences	(5,461)	(13,905)
Effect of tax rate change (including difference between ordinary and local tax rates)	(261)	-
Temporary differences not accounted for	-	(249)
Total	**(412,548)**	**(11,212)**
Effective income taxes	(95,787)	13,264
Effective tax rate	**-8.32%**	14.90%

(*) The comparative data for 2012 have been restated to accommodate the retrospective application of the revised IAS 19 and the amendment to IAS 1.
(**) Refers to the non-taxable portion of capital gains on the sale of the investment in GE Avio S.r.l.

4. GUARANTEES GRANTED AND COMMITMENTS

Guarantees granted and commitments are the following (€ thousands):

	December 31, 2013	December 31, 2012
Guarantees granted		
Unsecured guaranties		
Suretyships issued by third parties on behalf of the Company	5,353	105,335
Other	29,788	32,571
Secured guarantees	-	440,306
	35,141	578.212
Third party goods deposited with the Company	1,000	567,623
Goods belonging to the Company deposited with third parties	1,740	15,728
Suretyships and guarantees received	5,353	27,948
Total	**43,234**	**1,189,511**

Guarantees granted

Unsecured guarantees included suretyships issued from third parties on behalf of the Group and in favor of customers for the execution of contracts, and other guarantees represented by patronage letters issued on behalf of Group companies.

Secured guarantees at December 31, 2012, related to mortgages on real estate (out of which (€35,000 thousand related to Continuing operations) and special liens on machinery and inventories, in connection with the financing contracts Senior Facilities Agreement and Senior Performance Bond Facility Agreement, mainly related to Discontinued operations, that were eliminated as a result of the contribution and sale operation (with subsequent reimbursement, by the purchaser, of the loan related liabilities).

In addition, at December 31, 2012, certain Group companies, as parties in the financing agreements, classified among Discontinued operations, *Senior Facilities Agreement, Senior Performance Bond Facility Agreement* and *Subordinated TreasuryCo Loan Agreement No. 2,* acting as "Additional Guarantor" and "Borrower" and depending on the agreement, assumed guarantees for the obligations of other "Obligors" arising from financing agreements, and gave specific guarantees, represented by the pledge on shares of certain subsidiaries and associated companies, on intellectual property rights, on specific account receivables, bank accounts and receivables from insurance policies, in favor of the "Lenders". Also these guarantees were eliminated as a result of the contribution and sale operation (with subsequent reimbursement, by the purchaser, of the loan related liabilities).

Third party goods deposited with the Company

This item mainly includes equipment related to tactical propulsion activities owned by customers as well as material held on deposit.

Goods belonging to the Company deposited with third parties

Other than share certificates representing investments deposited with banks (for 113 thousand Euro related to investments as at December 31,2013), these relate to materials and equipment deposited with, or used by, suppliers.

Surety-ships and guarantees received

This item relates to surety-ships received from suppliers related to orders not yet completed.

Legal proceedings and contingent liabilities

The Company is exposed to certain legal risks arising from the variety and complexity of laws and regulations to which the industrial and commercial operations of the Company are subject, especially in relation to the environment, health & safety in the workplace, product liability, taxes and antitrust and commercial competition. Therefore, in the ordinary course of business, the Company is a party in certain civil, administrative and criminal judicial proceedings, as either a plaintiff or defendant. Although it is not possible to foresee or determine the outcome of these proceedings, the Company believes their final settlement will not significantly affect the Company's financial position negatively.

The Company records, however, provisions when it is probable that an outflow of Company resources will be required to satisfy the obligation, and when the amount can be reliably estimated.

The amounts accrued in the provisions for risks and those included in the estimated costs of long-term contracts are deemed adequate in order to face possible liabilities arising from pending or contingent litigations. In addition, costs arising from environmental proceedings are subject to a specific guarantee, provided that certain limits and conditions are satisfied, released by the seller and included in the purchase agreement executed in 2003, relative to the acquisition of Avio S.p.A. by Avio Holding S.p.A. (the two companies now merged into the Company).

A short description of the most significant proceedings is reported below, together with a short description of the most significant contingent liabilities.

The Municipality of Colleferro against Se.co.sv.im. S.r.l. and Avio S.p.A. (Sacco river contamination)
In June 2005, due to toxic substances found in milk produced in some farms of the Sacco river valley, the Municipality of Colleferro issued injunctions against Se.co.sv.im. S.r.l., Avio S.p.A., and other companies operating in the same area, ordering them to implement emergency safeguards and provide site clean-up activities. Secosvim and Avio S.p.A. appealed against the injunction before the TAR of Lazio, asking for a suspension of the injunction. However, at the same time, certain emergency safeguards were implemented. For these measures only, a specific provision for estimated future costs and within the limit of the on-charge costs was accrued. The appeal is been declared lapsed and therefore is considered to be permanently closed.
Meanwhile, on December 18, 2008 and July 29, 2011, the above-mentioned programme agreements were signed between the Office of the Commissioner for the Emergency in the Sacco Valley ("*Ufficio Commissariale per l'emergenza nella Valle del Sacco*") and Secosvim, regarding the clean-up of the ground and water table of the ARPA 1 site, the permanent clean-up measures of the site identified as "*ex Cava Pozzolana*" as well as the permanent clean-up measures of ARPA 2 site. The clean-up of the ground and further integration of the emergency measures of making safe the site are at the completion stage, although not yet received the authorization to discharge.

Tax inspection related to the 2007 fiscal year
On June 3, 2009, the *Guardia di Finanza* (the Italian Tax Police) began a tax audit at the Company relating to the 2007 fiscal year ended on December 17, 2009 with the issuance of preliminary report relative to the carry-forward of tax losses of Avio Holding S.p.A. following the merger of that entity into Avio S.p.A. in that year. At the same time, the *Guardia di Finanza* also communicated that they intended to request to establish a joint study group between the *Guardia di Finanza* and the Government Tax Office ("*Agenzia delle Entrate*") in order to achieve a conclusion on the accuracy of the tax treatment of the leveraged buy-out transaction carried out in 2006 (the Acquisition).
On May 20, 2010, the *Guardia di Finanza* returned to the Company to communicate the results of the additional analysis and discussion carried out jointly with the *Agenzia delle Entrate* for the transaction in question and to complete the related tax audit procedures. This activity was completed on July 15, 2010 with the issuance of a new report in which the *Guardia di Finanza* claimed that the Company had not re-charged to its controlling shareholder in Luxemburg, identified as the beneficiary of the transaction, financial charges incurred from the Acquisition date (December 14, 2006) to the audit date (May 20, 2010) on the portion of the loan agreement for the acquisition of the Avio Group.
On December 28, 2012 the Company received formal notice of a related tax claim ("*avviso di accertamento*") from the *Agenzia delle Entrate*, which confirmed this complaints, quantifying the

claim, inclusive to interest and penalties, in approximately €3.3 million compare to the 2007 fiscal year.

Company advanced, against the challenges described, a first instance for a tax settlement and , as a result of the un-successful conclusion of this procedure, subsequently presented an appeal (without payment of the provisional amounts) on 19 June 2013.
On 20 December 2013, the Guardia di Finanza notified to the Company tax claims related to tax period 2008, including the same objections recorded for the year 2007, quantifying a request, inclusive of interest and penalties, of approximately € 32.9 million with reference to the year 2008 with regard to the issues associated with the leveraged buy-out operation.
On January 29, 2014, a first court hearing was held at the Provincial Tax Commission ("CTP") of Turin for the discussion of the first stage of judgment on the appeal presented for the financial year 2007, and, with on April 16 2014, the CTP rejected the appeal of Avio S.p.A., confirming only the reasons set out in the preliminary tax claims, but, on the basis of interpretations of the Company's Management and its legal advisors , without specifically discussing the defensive arguments presented, concerning of legal profile of the claim. With reference to this first stage pronouncement, the Company is preparing to appeal, asking the total rejection of the claim presented.

For the purpose of the financial statement preparation, regarding the first issue described, related to the carry-forward of tax losses originating in the merged entity Avio Holding S.p.A., it has correctly applied the applicable tax rules, as corroborated by the position taken by the Italian Chartered Accountants Association (Associazione Italiana Dottori Commercialisti) in its Interpretation No. 176 of December 18, 2009.
With regard to the second issue, concerning the leveraged buy-out operation, the Company confirmed, also considering the first stage judgment occurred, its own assessment of the potential risk associated considering no currently identifiable a potential liability that is likely to generate outflows to the Group, based on the technical reasons provided during the court hearing, already included in the formal memoranda presented to the tax authorities in the course of the proceedings.

This position is further supported by specific tax opinions that the Company has obtained from authoritative Italian tax experts (as an update and integration of previously released opinions, in light of recent events described) and by the evidence of a number of judicial rulings favourable to the taxpayer in entirely similar cases.
On December 28, 2012, together with the mentioned notifications relating to the leveraged buy-out operation, Avio S.p.A. also received formal notice of an additional tax claim related to the alleged omission of a 27% withholding tax on interest paid to ASPropulsion Capital N.V., since not recognized as the beneficiary of the transaction, together with a related notice of penalties for the omitted payment of the same withholding taxes. On December 20, 2013 was notified to the Company a tax claim pertaining to the same issue, relating to the year 2008.

As regards the claim related to the omission of withholding taxes, the Company, based on the information in its possession and in light of a tax opinion received from Italian tax experts, has concluded that the contingent liability may generate outflows to the Company and therefore has accrued appropriate provisions in the financial statements at December 31, 2012, partially used during the year 2013, based on cash outflow related to the tax settlement concerning tax period 2007. Specific provisions recognized in the financial statements at December 31, 2013 are considered to be adequate, based on the information currently available, to cover future outflow related claim described.

Sale and Purchase Agreement - Communication received from the General Electric Group
On October 21, 2013, November 1, 2013 and then on April 21, 2014, the Company has received different communications from the General Electric Group, representing GE Holding S.p.A. Italy (already Nuovo Pignone Holding S.r.l., the "Buyer"), including the notification of certain facts and circumstances, identified by Buyer as potential causes of Business Warranty Claims, as defined in clause 6.2 of the Sale and Purchase Agreement ("SPA") contract.
In particular, mentioned communications refer to possible changes in the valuation of certain transferred assets and liabilities in connection with events that, based on Buyer's opinion, occurred prior to the sale itself. The Buyer itself specified in the text of the notices, that those communications do not constitute an event to be qualified as a claim pursuant to the SPA and

stated that the quantification of potential impacts is not definable on the basis of current available information, confirming that further analysis are pending of the cases reported.
On the basis of current available information, the Company, also supported by the evaluations of its legal advisors, has not identified, also considering the generic nature of the arguments provided by the counterparty, not supported by factual elements, the risk of incoming charges as probable and, also considering that, on the basis of available information, a reasonable quantification of the issues is, at moment, not possible, did not accrued any provision in the financial statements at 31 December 2013.

5. DISCLOSURES ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Categories and fair value of financial assets and liabilities

The allocation by category and the disclosure of the fair value evaluation of the financial instruments implemented at the balance sheet date, is shown in the following table (€ thousands).

	Non-current assets and liabilities	Current portion of non-current assets and liabilities	Current assets and liabilities	Total book value	Total fair value
FINANCIAL ASSETS					
Loans and receivables					
- Financial assets	6,040	-	1,275,858	1,281,898	1,281,898
- Trade receivables	-	-	6,247	6,247	6,247
- Other assets	13,768	-	19,595	33,363	33,363
- Cash and cash equivalents	-	-	48,541	48,541	58,049
- Investments	67,813	-	-	67,813	67,813
	87,621	-	1,350.241	1,437,862	1,447,370
FINANCIAL LIABILITIES					
Liabilities at amortised cost					
- Financial liabilities	139,929	-	57,464	197,393	164,991
- Other liabilities	56,243	-	30,820	87,063	87,063
- Trade payables	-	-	53,059	53,059	53,059
	196,172	-	141,343	337,515	305,113

The only item that present a *fair value* different from the book value refers to the non-current financial payables to the parent company on *Intercompany Loan Agreement* (classified among Continuing operations). The relative fair value was determined by applying the discounted cash flow method, or the discounting back of the expected cash flows at the interest rate and credit conditions prevailing at December 31, 2013. The definition of an appropriate credit risk indicator that characterised each debt instrument valued at fair value, was carried out based on the credit scoring methodologies commonly used, assigning a specific spread to every instrument, in function of certain balance sheet indicators of the issuer, contractual characteristics of the same instruments (level of capital recoverability and duration of the debt), and the trend of the credit spread of the sector issues.

For equity investments, whose fair value was not possible to be determined in a reliable way, the valuation was maintained at cost and in case reduced for loss of value.
For the other items, no differences were found with respect to the book value, as the same represented a reasonable approximation of the relative fair value.

Types of financial risks and related hedging activities

The Company is exposed to financial risks deriving from its operating activities, particularly regarding to:
- credit risks, relative to trade receivables and financing activities;
- liquidity risks, relative to the availability of financial resources and access to the credit market;
- market risks, related in particular until August 1, 2013 to Discontinued operations, mostly deriving from exposure to the variability of exchange rates with regard to transactions in

different currencies from that of consolidated financial statements, and interest rates regarding the use of financial instruments generating interest.

The Company constantly monitors the above-mentioned financial risks, adopting actions aimed at facing and mitigating the potential negative effects by means of appropriate policies and, for *Discontinued operations*, through special hedging instruments, until the date of contribution and sale of the related assets.
In this section, qualitative and quantitative information is supplied relative to the effect that these risks may have upon the Company.
The quantitative data reported in the following, do not have any value of a prospective nature and, in particular, the *sensitivity analysis* on market risks, related to *Discontinued operations*, is unable to reflect completely the complexity of the market and its related reactions, which may result from any change that may occur.

Credit risks

Credit risks represent the Company's exposure to potential losses deriving from the non-fulfilment of the obligations agreed upon by the counterparties.
The exposure to credit risk is essentially represented by the carrying amounts stated for receivables, particularly trade receivables, in the balance sheet, and the guarantees given in favour of third parties.
The maximum credit risk to which the Company was theoretically exposed as at December 31, 2013 was represented by the total carrying amount of trade receivables.
The main Company's customers, regarding space sector, are represented by governmental bodies and public authorities that, because of their nature, do not present any significant credit risks.
The trade receivables showed, as at December 31, 2013, an exposure for past due receivables of about €9.3 million (€17.2 million as at December 31, 2012, out of which €1.9 million related to Continuing operations and €15.3 million related to *Discontinued operations)*. With respect to these credits, an individual risk valuation was carried out and a specific allowance for doubtful accounts was recorded, taking into account an estimation of the recoverable amounts, any pending litigations, and possible rescheduling. Moreover, it is important to note that part of the past due amount was offset by liabilities subject to correlated "if–and-when" payment conditions, and relevant provisions for risks and charges were accounted for.

Liquidity risks

The risk of liquidity to which the Company is subject, is identifiable in the possible difficulties in obtaining, under economic conditions, the financial resources to support the operating activities. The two main factors that determine Company liquidity are, on one side, the resources generated or absorbed by the operating and investment activities and, on the other hand, the debt lending period and renewal characteristics or liquidity of the funds employed.

Cash flows, the need for financing, and liquidity, are monitored and managed centrally through the implementation of centralised treasury systems involving the main Italian and foreign companies of the Company, in order to promptly guarantee an effective raising of the financial resources or an adequate employment of the funds available, thus optimising the management of the liquidity and cash flows. The Company verifies the compliance of financial covenants and monitors expected and realised cash flows and updates projected future cash flows in order to optimise liquidity management and to define funds needed, if any.

The funds currently available (in particular with regard to the funds deriving from the sale of the investment in GE Avio S.r.l. and still available as at December 31, 2013, net of the distribution of dividends occurred in November 2013) in addition to those that will be generated by the operating and financing activities are deemed to enable the Company to meet its requirements resulting from its investment activities, working capital needs and reimbursement of debts at maturity.

Liquidity analysis
The following table represents an analysis by maturity of the future contractual flows arising from financial, trade and the principal other liabilities of the Company at December 31, 2013 (values in € thousand).

The analysis reports the cash flows not discounted back, inclusive of the principal amount and interest, calculated at the existing market conditions at the balance sheet date. More precisely, the analysis reflects the assumptions made for the expected cash outflows based on the reimbursement date contractually defined or, in some cases, estimated. In the absence of a predefined reimbursement date, the flows are considered taking into account the first date on which the payment might be requested. For this reason, the treasury accounts are included in the on-demand maturity. The item relating to non-current liabilities also includes the current portion of non-current borrowings.

Continuing operations	Book value	On-demand	1 to 6 months	7 to 12 months	1 to 5 years	Beyond 5 years	Total cash flows
Liabilities other than derivative financial instruments:							
Non-current financial liabilities:							
- Financial payables to parent company	139,929	-	-	-	-	212,734	212,734
- Easy-term financing from the Ministry of Economic Development and from the Ministry of Education, University and Research	-	-	-	-	-	-	-
	139,929	-	-	-	-	212,734	212,734
Current financial liabilities:							
- Financial payables to controlled companies	29,774	29,774	-	-	-	-	29,774
- Financial payables to associated companies	27,690	27,690	-	-	-	-	27,690
- Financial payables to third parties	-	-	-	-	-	-	-
	57,464	57,464	-	-	-	-	57,464
Trade payables	53,059	-	53,059	-	-	-	53,059
Other non-current liabilities:							
- Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85	39,230	-	-	-	-	39,230	39,230
Total	289,682	57,464	53,059	-	-	251,964	362,487

(*) With reference to Financial payables to parent company, the forecasted cash flow is based on the contractual conditions in place at December 31, 2013, not taking in to consideration changes occurred on the same financial agreement in 2014.

The difference between the book value and the total cash flows was essentially due to the interest calculation for the contractual duration of debts. Furthermore, as for liabilities measured at amortised cost, the calculation methodology of interest indicated above includes the use of the nominal rate (forward interest rates related to each maturity) instead of the effective rate, used to determine the values recorded in the balance sheet.

Market risks

With reference to the financial structure attributable to the Space sector operations and due to the fact that Euro is the prevailing currency, it is expected no significant market risk arising from currencies and from interest rates on financial receivables and payables fluctuations.

Discontinued operations were subject (until August 1, 2013) to market risk arising from the fluctuation of currencies, as they operate in an international environment in which transactions are made in different currencies, of interest rates on financial receivables and payables that generated interest and, to a lesser extent, and of the price of some commodities.

Therefore, here following are reported notes related to exchange rate, interest rate and commodity price risks related to Discontinued operations only applicable until the date of August 1, 2013.

Exchange rate risk

Company's Discontinued operations exposure to exchange rate risk arose both from the geographical distribution of its industrial activities with respect to the geographical distribution of the markets in which it sells its products, and from the use of external sources of financing in foreign currencies. The exposure to exchange rate risks was mainly determined by the surplus of

Company's Discontinued operations sales denominated in US dollars as regards the costs sustained in the same currency, and by the financing denominated in US dollars, held until the date of August 1 2013.

In addition, assets and liabilities of consolidated companies, whose currency of account is different from Euros, may be translated into Euros at different counter values, depending on the variations in exchange rates. Accordingly to the accounting principles, the effects of these changes were recognised directly in the item "Currency translation adjustment reserve" of companies consolidated whose currency of account is different from Euros, included in equity, almost entirely attributable to *Discontinued operations*.

The Company regularly valuates its own exposure to the risk of variations in exchange rates and managed it using derivative instruments, according to what is established in its own risk management policies. Within these policies, the use of derivative financing instruments the instruments used are mainly trades futures – *forward*) is reserved for the management of the exposure to exchange rate fluctuations of the monetary flows and the assets and liabilities, and activities of a speculative intention are not permitted.

Exchange rate risk management is regulated by specific policies that define the objectives of risk management. In particular:

- the Company's objective is to mitigate the effects induced by an unfavourable trend of the exchange rate on operating result and the cash flows expected and denominated in foreign currencies resorting, where necessary, to derivative instruments;
- the hedging activity is made based on the reliable forecasts of future transactions;
- the percentage of hedging of the cash flow in foreign currencies, resulting from the budget and long-term plan, are defined annually with respect to Company policy;
- the identified positions are hedged through the use of linear (forwards), exclusively aimed at hedging;
- the Company can resort to operations of roll-over and unwinding in order to guarantee the coherence between cash flows deriving from the commercial activities and those generated by the financial instruments.

Sensitivity analysis
As described above, the potential effects arising from changes in the exchange rate of the Euro against the U.S. dollar, are not significant in relation to assets and liabilities as at 31 December 2013.

Interest rate risk

The Company was exposed to interest rate risks essentially with reference to financial liabilities at variable rates attributable to Discontinued operations, in place until August 1, 2013. The variation of interest rates could have a positive or negative impact on the Company's economic result and consolidated net equity.

The Company regularly valuates its own exposure to the risk of interest rate variation and managed it, until the date of contribution, using derivative financial instruments, according to what is established in its own risk management policies and in line with the provisions of the *Senior Facilities Agreement*, classified among *Discontinued operations*. Within these policies, the use of derivative instruments is reserved for the management of the exposure to exchange rate fluctuations of the monetary flows and the assets and liabilities, and activities of a speculative intention are not permitted.
The Company used derivative instruments intended to hedge cash flows, aimed at predetermining the interest rate of financial and other liabilities at variable rates. The instruments used in the pursuit of this strategy are substantially the interest rate swaps.
The risk management objectives for the management of the interest rate risks may be summarised as follows:

- the Company's objective is to mitigate the effects of the risks of negative net result variance and cash flow as regards what is foreseen in the budget, and the long-term plan due to the unfavourable interest rate fluctuations, ensuring a fixed rate on part of its financial exposure, subject to variable rates;

- the identified positions (outstanding or expected financing, of which the high reliability is verifiable) are hedged through the use of derivative instruments, generally *interest rate swap plain vanilla* (also *forward starting)*;
- the use of derivative instruments for a speculative end are not permitted, namely, not to pursue the aforesaid objective.

Sensitivity analysis
As described above, the potential effects resulting from a change in the yield curve of interest are not significant with respect to assets and liabilities as at 31 December 2013.

Commodity price risk

The Company was exposed to a limited extent, until the date of August 1, 2013, at the risk of the price of certain raw materials, due to the structure of some contacts supply attributable to Discontinued operations.

The derivative financial instruments used to manage this risk are designated as hedges of expected future cash flows with the intent to pursue the objectives of stability of the costs of industrial supply, and in particular the tools in place until August 1, 2013 are were essentially commodity swaps, with the underlying price of nickel.

At 31 December 2013, there were no contracts in derivative financial instruments related to commodity price risk.

Hedging activities

As already indicated, the Group, as at December 31, 2013, does not have in place any derivative transactions to hedge exposure to variability in cash flows in relation to the variability of exchange rates, interest rates and commodity prices.

In the case of derivative hedging contracts of exchange rate risk, interest risk and price risk designated as hedging instruments under IAS 39, the Group formally documents, from inception of the hedge, the relationship coverage between the hedging instrument and the hedged item, its risk management objectives and strategy for undertaking the hedge. The Group also assesses the effectiveness of the hedging instrument in offsetting changes in cash flows attributable to the hedged risk.

The effectiveness of the hedge is recorded at the start of the operation and periodically (at least at each reporting date of the financial statements or interim financial statements) and is measured by comparing the changes in fair value (or *intrinsic value* in the event of use of optional instruments) of the derivative and the underlying asset, both measured on the balance sheet date on the basis of actual data (retrospective test) and determined in the event of shocks to market conditions (prospective test).

The amount recorded in the cash flow hedge reserve will be recognised in the statement of operations accordingly to the timing of the flows of the underlying bond. Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of recognised asset or liability or a highly probable forecasted transaction and could affect the income statement, the effective portion of any gain or loss on the derivative financial instrument is recognised directly in equity. The cumulative gain or loss is removed from equity and recognised in the income statement at the same time as the economic effect arising from the hedged item affects income. The gain or loss associated with a hedge or part of a hedge that has become ineffective is recognised in the income statement immediately. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss held in equity is recognised in the income statement immediately. When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss realised to the point of termination remains in equity and is recognised at the same time as the related transaction occurs.

During the year 2013 (in particular until the date of July 30, 2013 as regards reserves for interest rate risk and commodity and until the date of August 1, 2013 as regards the reserve for exchange currency risk), the Group reversed by equity and recognized in the income statement for a share of net losses previously recognized in reserves of cash flow hedges amounting to € 1.3 million (€ 0.8 million in the previous year), net of the related tax effect in relation to the theoretical 'current operations in derivatives and subsequently, due to the early termination of derivatives for interest rate risk and commodity, as well as the provision of foreign exchange contracts and all corresponding underlying transactions, has been recognized in income statement a portion of net losses previously recognized in reserves of cash flow hedges amounting to € 15.1 million.

Such amount has been recognized in the income statements lines as follows (amounts in thousands of Euro):

	2013	2012
Foreign exchange risk:		
Increase/(Decrease) of revenues	583	412
Financial income	-	-
Financial expenses	-	-
Interest rate risk:		
Financial income	3,708	23,538
Financial expenses	(2,160)	(25,042)
Commodities price risk:		
Income/(expenses)	(394)	(39)
Total	1,737	(1,131)
Theoretical income taxes	(478)	309
Total	**1,259**	**(822)**

6. TRANSACTIONS WITH RELATED PARTIES

Company's transactions with related parties mainly refer to transactions with subsidiaries, associated or jointly controlled companies, controlling companies and its subsidiaries and associated companies, companies that have a significant influence and other companies. These transactions are referred to commercial and financial transactions, conducted in the ordinary course of operations and concluded under market conditions. In particular, they relate to the sale and purchase of goods and services, mainly relative to finance and accounting, tax, IT, personnel management, and assistance and advisory services, and related receivables and payables at year-end and centralised treasury management and related income and expenses.

There is no guarantee that, if such transactions had been concluded between or with third parties, the same would have negotiated and signed the contracts, or performing the same transactions under the same conditions and in the same way.
Related parties of the Company are controlling companies, companies that could control the Company, subsidiaries, associated companies or jointly controlled companies and other companies.

The analysis of the financial statements data related to transactions between the Company and related parties is the following (€ thousands):

Counterparty	December 31, 2013 Trade Receiv.	Financial Receiv.	Trade Payab.	Financial Payab.	December 31, 2012 Trade Receiv.	Financial Receiv.	Trade Payab.	Financial Payab.
Continuing operations								
BCV Investments S.C.A.	-	-	-	139.929	-	-	-	133,880
Cinven Limited	-	-	485	-	-	-	98	-
Controlling companies and Cinven Limited	-	-	**485**	**139.929**	**-**	**-**	**98**	**133,880**
Continuing operations								
Finmeccanica S.p.A.	-	-	807	-	-	-	706	-
Company that has significant influence	-	-	**807**	-	**-**	**-**	**706**	**-**
Continuing operations								
Elv S.p.A.	1,643	10,383	-	-	677	12,888	-	-
Regulus S.A.	1,862	-	18,044	-	1,908	-	12,029	-
SE.CO.SV.IM. S.r.l.	26	-	915	29,774	289	-	3	32,741
Discontinued operations								
A&E Services S.r.l.	n/a	n/a	n/a	n/a	3	-	-	-
Avio Beijing Ltd.	n/a	n/a	n/a	n/a	-	-	252	-
Avio Inc.	n/a	n/a	n/a	n/a	119,463	-	9,344	28,085
Avio India Private Limited	n/a	n/a	n/a	n/a	-	-	-	-
Avio Polska Sp.z o.o.	n/a	n/a	n/a	n/a	2,459	-	25,745	-
Avioprop S.r.l.	n/a	n/a	n/a	n/a	982	3,876	569	-
DutchAero B.V.	n/a	n/a	n/a	n/a	104	-	349	-
DutchAero Services B.V.	n/a	n/a	n/a	n/a	54	-	-	-
Avio do Brasil Ltda	n/a	n/a	n/a	n/a	-	-	177	-
Getti Speciali S.r.l.	n/a	n/a	n/a	n/a	1,308	12,424	3,884	705
O.A.V. S.r.l. (under winding-up)	n/a	n/a	n/a	n/a	3	-	-	-
Controlled companies	**3,531**	**10,383**	**18,959**	**29,774**	**127,250**	**29,188**	**52,352**	**61,531**
Continuing operations								
Consorzio Servizi Acqua Potabile	131	-	-	-	147	-	-	-
Servizi Colleferro – Società Consortile per Azioni	2	-	(24)	-	29	-	-	-
Termica Colleferro S.p.A.	2	6,129	1,941	-	66	4,110	2,591	-
Europropulsion S.A.	431	-	2,886	27,690	905	-	2,150	41,369
Discontinued operations								
ASPropulsion Capital N.V.	n/a	n/a	n/a	n/a	-	-	-	353,543
Eurojet Turbo G.m.b.H.	n/a	n/a	n/a	n/a	14,609	-	125	-
Isi Geie	n/a	n/a	n/a	n/a	1,507	-	-	-
Turbo-Union Ltd.	n/a	n/a	n/a	n/a	7,203	61	1	-
Associated and jointly controlled companies	**566**	**6,129**	**4,803**	**27,690**	**24,466**	**4,171**	**4,867**	**394,912**
Other related parties (1)	**-**	**-**	**-**	**-**	**10,819**	**-**	**1,537**	**-**
Total related parties	**4,097**	**16,512**	**25,169**	**197,393**	**162,535**	**33,359**	**59,560**	**590,323**
Total (2)	**6,247**	**1,282,858**	**53,059**	**197,393**	**314,505**	**36,463**	**311,078**	**1,723,300**
Effect on total (%)	65.6%	1.3%	47.4%	100.0%	51.7%	91.5%	19.1%	34.3%

(1) The Item includes relationship related to Discontinued operations for year 2012.
(2) On December 31, 2012 the item includes the part related both to Continuing operations and to Discontinued operations.

The main effects on profit and loss of the transactions between the Company and related parties for 2013 and 2012, for both Continuing operations and Discontinued operations, were as follow (€ thousands):

	Year 2013				Year 2012			
Counterparty	**Operating revenues** (4)	**Operating costs** (5)	**Financial income**	**Financial expenses** (6)	**Operating revenues** (4)	**Operating costs** (5)	**Financial income**	**Financial expenses**
Continuing operations								
BCV Investments S.C.A.	-	-	-	3,547	-	-	-	697
Cinven Limited	-	1,029	-	-	-	65	-	-
Discontinued operations								
BCV Investments S.C.A.	n/a	n/a	n/a	n/a	-	-	-	6,278
Controlling companies and Cinven Limited	**-**	**1,029**	**-**	**3,547**	**-**	**65**	**-**	**6,975**
Continuing operations								
Finmeccanica S.p.A.	-	167	-	-	-	166	-	-
Company that has significant influence	-	**167**	-	-	**-**	**166**	**-**	**-**
Continuing operations								
Elv S.p.A.	13,953	-	95	-	3,590	-	166	-
Regulus S.A.	5,882	37,191	-	-	3,863	35,901	-	-
SE.CO.SV.IM. S.r.l.	194	3,571	-	3	184	26	-	37
Avio India Private Limited	-	-	-	-	n/a	n/a	n/a	n/a
Discontinued operations								
A&E Services S.r.l.	n/a	n/a	n/a	n/a	-	51	-	-
Avio Beijing Ltd.	n/a	n/a	n/a	n/a	-	1,072	-	-
Avio Inc.	n/a	n/a	n/a	n/a	540,556	16,381	-	-
Avio India Private Limited	n/a	n/a	n/a	n/a	-	524	-	-
Avio Polska Sp.z o.o.	n/a	n/a	n/a	n/a	1,862	101,196	-	-
Avioprop S.r.l.	n/a	n/a	n/a	n/a	850	732	61	-
DutchAero B.V.	n/a	n/a	n/a	n/a	39	582	-	-
Avio do Brasil Ltda (1)	n/a	n/a	n/a	n/a	-	625	-	-
Getti Speciali S.r.l.	n/a	n/a	n/a	n/a	-	17,446	195	-
O.A.V. S.r.l. (under winding-up)	n/a	n/a	n/a	n/a	-	-	-	-
Controlled companies	**20,029**	**40,762**	**95**	**3**	**550,944**	**174,536**	**422**	**37**
Continuing Operation								
Consorzio Servizi Acque Potabili	30	239	-	-	15	138	-	-
Servizi Colleferro – Società Consortile per Azioni	63	543	-	-	12	277	-	-
Termica Colleferro S.p.A.	15	8.378	205	-	77	8.370	70	-
Europropulsion S.A.	112,590	9.419	-	71	168,161	11,542	-	115
Discontinued Operation (1)								
ASPropulsion Capital N.V.	n/a	n/a	n/a	n/a	-	-	-	40.656
Eurojet Turbo G.m.b.H.	n/a	n/a	n/a	n/a	209,528	734	-	-
Isi Geie	n/a	n/a	n/a	n/a	1,448	-	-	-
Turbo-Union Ltd.	n/a	n/a	n/a	n/a	20,932	3	-	-
Associated and jointly controlled companies	**112,698**	**18,579**	**205**	**71**	**400,173**	**21,064**	**70**	**40,771**
Other related parties	-	-	-	-	**44,100**	**2,897**	**-**	**-**
Total related parties	**132,727**	**60,537**	**300**	**3,621**	**995,217**	**198,728**	**492**	**47,783**
Total (3)	**202,459**	**194,572**	**1,834**	**3,874**	**1,762,139**	**1,469,469**	**77,192**	**207,772**
Effect on total (%)	65.6%	31.1%	16.4%	93.5%	56.5%	13.5%	0.6%	23.0%

(1) The Item includes relationship related to Continuing operations for year 2013 (related party transactions relating to discontinued operations have not been represented as they are considered not significant with regard to the structure of the Company as at December 31, 2013).
(2) The Item includes relationship related to Discontinued operations for year 2012.
(3) For year 2012 the item includes the part related both to Continuing operations and to Discontinued operations.
(4) The item includes revenues from sales of goods and from services.
(5) The item includes raw materials consumption, cost of services and personnel costs.
(6) The item includes only financial costs allocated to Continuing operations.

Furthermore, we note that with reference to work in progress, or of long-term contracts, most transactions, whose effects are exposed to other items in the "Statement of Financial Position" such as "Contract work in progress" and "Advances for contract work in progress", are held with related parties represented in the tables above.

Transactions with controlling companies and Cinven Limited
Transactions with the BCV Group Investments S.C.A. and Cinven Limited, mainly attributable to Continuing operations, are identifiable in transactions summarized below:

- financial transactions with BCV Investments S.C.A. in connection with the loan "Intercompany Loan Agreement";
- transactions with Cinven Limited for consultancy and assistance.

Transactions with companies exercising significant influence
Transactions with the Company exercises significant influence, attributable to Continuing operations, are represented by assistance services and consultancy.

Transactions with controlled companies
Transactions with controlled Companies are identified are identifiable in transactions summarized below:

- trade receivables related to revenues arising within the ordinary activities of operations and concluded under normal market conditions;
- financial receivables, due to the surplus in the treasury account of Avio S.p.A. towards some controlled companies, as part of central treasury arrangement between the Company and some Group companies;
- trade payables, related to costs incurred in the ordinary management activities and transactions concluded under normal market conditions;
- financial payables, due to the negative balance in the treasury account of Avio S.p.A. towards some controlled companies, as part of central treasury arrangement between the Company and some Group companies;
- operating revenues, related to the transactions described above in the context of trade receivables;
- operating costs, related to the transactions described above in the context of trade payables;
- financial income, related to interest income on financial receivable previously reported;
- financial expenses, related to interests expense on financial payables previously reported.

Transactions with associated and jointly controlled companies
Transactions with associated and jointly controlled companies are identifiable in transactions summarized below:

- trade receivables related to revenues arising from sales of goods related core business of the Group, within the ordinary activities of operations and concluded under normal market conditions. In particular, with reference to the company Europropulsion S.A., are included revenues arising from sales of goods related core business of the Company, attributable to Continuing operations, within the ordinary activities of management and concluded under normal market conditions;
- financial receivables, due, in relation to Continuing operations, to non-current financial receivables towards Termica Colleferro S.p.A.;
- trade payables, related to costs incurred in the ordinary management activities and transactions concluded under normal market conditions; moreover, with reference to the company Europropulsion S.A., are included costs related to ordinary management activities, attributable to Continuing operations, and concluded under normal market conditions;
- financial payables, attributable to Continuing operations, are included intercompany short-term financial payables of Avio S.p.A. to Europropulsion S.A.
- operating revenues, related to the transactions described above in the context of trade receivables;
- operating costs, related to the transactions described above in the context of trade payables;
- financial income, related to interest income on financial receivable previously reported;
- financial expenses, related to interests on the loan "Subordinated TreasuryCo Loan Agreement No. 2" above reported and to interest expenses on financial payables related to the ASPropulsion Capital N.V. loans, described above, granted to certain foreign companies of the Group (classified as *Discontinued operations*). They also include finance expenses related to interests on intercompany financial payables of Avio S.p.A. to Europropulsion S.A.

Transactions with other related parties

Transactions with other related parties are identifiable in transactions summarized below:

- trade receivables related to revenues arising from sales of goods related core business of the Company, within the ordinary management activities and concluded under market conditions;
- trade payables resulting from the costs incurred by transactions, within the ordinary management activities and concluded under market conditions;
- operating revenues related to the transactions described above in the context of trade receivables;
- operating costs relating to the transactions described above in the context of trade payables.

Salaries paid to top and key management are in-line with the market. In addition, the Group grants incentive plans to its employees, linked to the achievement of company and personal targets, as well as supplemental payments related to the achievement of certain seniority level.

In addition, in 2013 it should be mentioned, in relation to transactions occurred with companies owning the direct controlling company or referable to the chain of management and control:

- transactions with certain companies belonging to the Finmeccanica Group related to trade operations, related to ordinary management activities and concluded under normal market conditions and with Finmeccanica S.p.A. for consultancy and assistance.
- transactions with Cinven Limited and with companies owned by Cinven Limited for consultancy and assistance.

7. INFORMATION BY GEOGRAPHICAL AREA

As already indicated, with reference to the breakdown of assets and liabilities by geographical area (based on counterpart's localization), all assets and liabilities at December 31, 2013 have counterpart localized in the Italy and EU countries area.

8. SUBSEQUENT EVENTS AFTER YEAR-END

On April 29, 2014, at 10:35 pm local time in French Guiana, Arianespace successfully launched the third Veda (first launch) from the Guiana Space Center (CSG), orbiting the KazEOSat-1 (DZZ-HR), satellite for government of Kazakhstan, made by Airbus Defence and Space.

The complete success of the mission and the great punctuality and precision have consolidated the success of Vega further strengthening its prospects.

As for the new contracts, in February 2014 is signed of the contract Europropulsion Ariane 5 PB + for the supply of 18 additional launchers to be delivered in the period 2017-2019 for an amount of € 236 million (for the Avio portion).
The corresponding contract for the complete engine between Europropulsion and the final customer Airbus Defence & Space was signed in December 2013 for a total amount of € 555 million.
Avio is then added to the signature of the corresponding contract with Safran to produce 18 Booster pumps for liquid oxygen of the Vulcain engine, for an amount of € 15 million.

It's to be remarked, finally, that Avio, following the invitation to tender issued by ESA, has been selected to lead the development of carbon fibre casings of the new solid-propellant motors for the new European launcher Ariane 6, successor to Ariane 5.
In that event was signed the contract with Airbus Defence & Space for the preliminary development (Phase B1) of Engine Solid propellant for Ariane 6, which covers the activities planned in the current year, 2014, preparatory to the decision pending the next Conference Minister of Space which will be held later this year to fund the complete development of this new launcher.

On May 16, 2014 Avio S.p.A. and its parent BCV Investments SCA signed a supplementary agreement ("Amendment Agreement") to the Intercompany Loan Agreement, whit the aim to regulate the change in the contract's terms, by reducing, effective January 1, 2014, the interest rate applied to a value substantially aligned with the one (based on EONIA rate) applicable to the short–term floating rate notes subscribed using part of the proceeds generated from the sale of the investment in GE Avio S.r.l.

9. INFORMATION REQUIRED BY ART. No. 2427, PARAGRAPH 16 BIS, OF THE ITALIAN CIVIL CODE

The following table, required by art. No. 2427, paragraph 16 bis, of the Italian Civil Code, reports fees related to 2013 for audit and other services provided by the independent auditors and members of their network (€ thousands):

Kind of services	Service provider	2013 fees
Audit	Deloitte & Touche S.p.A.	175
Attestation	Deloitte & Touche S.p.A. (1)	4
Other services	Deloitte & Touche S.p.A. (2)	99
Total		**268**

(1) For the subscription of tax returns.
(2) Non-recurring activities with regard to the extraordinary contribution in-kind and sale operation and other supporting activities in favour of Finance department of the Group.

* * *

May 30, 2014

for the Board of Directors
Chief Executive Officer
Pier Giuliano Lasagni

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SOLE SHAREHOLDER OF AVIO S.P.A. IN TERMS OF ARTICLE 2429 OF THE ITALIAN CIVIL CODE

To the Sole Shareholder of Avio S.p.A.

During the year ended 31 December 2012, we performed control activities in terms of Article 2403(1) of the Italian Civil Code, also taking account of the Principles of conduct recommended by the Italian Accounting Profession (*il Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili)* which we have considered in this Report.
In particular, we have checked observance of the law and the articles of association and compliance with principles of proper business management and have not identified any issues requiring disclosure.
The Company has voluntarily elected to adopt the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), in terms of Legislative Decree no 38 of 28 February 2005 to prepare both its separate statutory financial statements and its consolidated financial statements.
The financial statements as at 31 December 2013 were approved by the Board of Directors at the meeting held on 30 May 2014.
The Board of Statutory Auditors has receded the deadline, set in their favour, in terms of Article 2429(1) of the Italian Civil Code, for the preparation and filing of this report.

We attended the Shareholder's General Meeting and Meetings of the Board of Directors which were held in accordance with the articles of association and legal rules governing their functioning and noted that the resolutions approved were in accordance with the law and the articles of association and were not clearly imprudent or risky or such as to threaten the integrity of the Company's assets.
We obtained from the Directors, with the frequency required by Article 2381(5) of the Italian Civil Code, information on the general operating performance and on the business outlook as well as details of the most significant transactions – in terms of size or characteristics – carried out by the Company and its subsidiaries.
We have met with senior personnel from external auditors Deloitte & Touche S.p.A. in order to exchange data and information of use in completion of our respective duties. During these meetings, no significant data and information requiring disclosure in this Report came to our attention.
We gathered information on and checked the adequacy of the organisational structure and internal controls.
The Board of Statutory Auditors has also monitored the auditing activities approved by the Internal Control Committee and carried out by the Company's Internal Audit Department. The Board has regularly checked progress with the audit plan and the results of the various procedures carried out.
Based on the work done, also through the exchange of information with persons in charge of the various company departments and with the Internal Control Committee, the organisational structure seems adequate and reliable enough to achieve the Company's operating requirements.
No reports in terms of Article 2408 of the Italian Civil Code were received.
We have verified the adequacy of the administrative and accounting system with regard to its reliability in reporting accurately on operating activities. Based on the work done, by obtaining information from the internal control department and the external auditors and reviewing Company documents, the administrative and accounting system appears adequate and reliable enough to fulfil the Company's operating requirements.
The legal audit function in terms of Legislative Decree no 39 of 27 January 2010 has been entrusted to Deloitte & Touche S.p.A. Bearing this in mind, we have reviewed the financial statements as at 31 December 2012 and can report that we have confirmed only its conformity with legal requirements on its general form and structure. We have no specific observations to make in this regard.
We have checked that the Report on Operations which accompanies the statutory financial statements and the consolidated financial statements complies with legal requirements and, to the best of our knowledge, fully and clearly outlines the situation of the Group and the Company, their operating performance during 2013 and their business outlook. In terms of Article 2428 of the

Italian Civil Code, it also highlights the main risks and uncertainties to which the Company and the Group are exposed.
We have checked that the financial statements reflect facts and information known to us as a result of performance of our duties and have no comments to make in this regard.

On 1 August 2013, occurred the sale of the investment held in GE Avio S.r.l., a company in which it was contributed, with effect from the same date, assets and liabilities pertaining to the AeroEngine business. The operation produced the recognition of a € 1,102,528 thousand gain on disposal, as the difference between the sale value of the investment in GE Avio S.r.l. and the assets and liabilities book values recorded by the contributor.

Based on our supervisory activities as performed during the year ended 31 December 2013 and in light of the unqualified opinions issued on this date by the external auditors on both the statutory financial statements and the consolidated financial statements, we agree with the Directors' proposals regarding approval of the financial statements as at 31 December 2013 and the allocation of the net profit for the year.

Rivalta di Torino, 9 June 2014

THE BOARD OF STATUTORY AUDITORS
Raoul F. Vitulo
Maurizio Salom
Luigi Gaspari

Deloitte.

Deloitte & Touche S.p.A.
Galleria San Federico, 54
10121 Torino
Italia

Tel: +39 011 55971
Fax: +39 011 544756
www.deloitte.it

AUDITORS' REPORT
PURSUANT TO ART. 14 OF LEGISLATIVE DECREE
No. 39 OF JANUARY 27, 2010

To the Sole Shareholder of
AVIO S.p.A.

1. We have audited the statutory financial statements of Avio S.p.A. (the "Company") as of and for the year ended December 31, 2013, which comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholder's equity, the statement of cash flows and the related notes to financial statements. These financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these statutory financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's financial statements, whose data are presented for comparative purposes, reference should be made to our auditor's report issued on May 10, 2013.

3. In our opinion, the statutory financial statements give a true and fair view of the financial position of Avio S.p.A. as of December 31, 2013, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova
Palermo Parma Roma Torino Treviso Verona

Sede Legale: Via Tortona, 25 - 20144 Milano - Capitale Sociale: Euro 10.328.220,00 i.v.
Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239
Partita IVA: IT 03049560166

Member of Deloitte Touche Tohmatsu Limited

4. For a better comprehension of the statutory financial statements, we refer to the fact that, as indicated in the report on operations and in the notes, on August 1, 2013, after obtaining the necessary antitrust authorizations required under European Union and United States of America regulations, as well as regulatory authorizations from the Italian Government, the following operations were completed:

   (a) contribution in kind, by the Company, of the AeroEngine business related to the design and manufacturing of components for aeronautical engines, aeroderivative and related MRO – Maintenance, Repair & Overhaul – services for both civil and military use – to a wholly owned company newly incorporated, named GE Avio S.r.l.; and

   (b) subsequent sale of 100% of the share capital of GE Avio S.r.l. to GE Italy Holding S.p.A. (formerly Nuovo Pignone Holding S.p.A.), a subsidiary of General Electric Group. The transaction resulted in a gain, gross of related tax effect, of € 1,103 million, emerging as the difference between the selling value of the investment in GE Avio S.r.l. and the book values recorded by the conferrer.

   Following the above described transfer operation, Avio S.p.A. has therefore maintained ownership of the business relating to Space Sector as well as certain other assets and liabilities which, on the basis of contractual agreements, were not included in the perimeter of the operation. Assets and liabilities involved in the sale ("disposal group") were qualified, in accordance with *IFRS 5*, as "Discontinued Operations" and therefore presented as such in the statutory financial statements (with effects on the income statement's presentation).

5. The Directors of Avio S.p.A. are responsible for the preparation of the report on operations in accordance with the applicable law. Our responsibility is to express an opinion on the consistency of the report on operations with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by Consob. In our opinion the report on operations is consistent with the statutory financial statements of Avio S.p.A. as of and for the year ended December 31, 2013.

DELOITTE & TOUCHE S.p.A.

Signed by
Franco Chiavazza
Partner

Turin, Italy,
June 9, 2014

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

Avio

avio.com