



Avio S.p.A.

Registered Office: Strada del Drosso 145, Turin - Italy
Paid-in Capital 40,000,000 Euros
Company Register – Turin Office No. 05515080967

2014 ANNUAL REPORT

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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

Euro 224.5 million (-3.3% compared with 2013 data, corresponding to Euro 231.1 million)

Revenues by geographical area

Italy:	Euro 11.6 million or 5.2% of revenues (4% in 2013)
Europe (excluding Italy):	Euro 212.9 million or 94.8% of revenues (96% in 2013)

Adjusted EBITDA ²

Euro 39.4 million (+4.0% compared with 2013)

Net financial position

Euro 185 million. As of December 31, 2013 amounted to Euro 1,161 million, following the operation related to the sale of the aviation businesses

Order book

Euro 679 million (+102% compared with 2013). The considerable increase is related to acquisition of the new construction contracts for Ariane 5 (18 flights for 3 years) and VEGA productions (c.a. 10 flights for 4 years).

Research & Development

Euro 41.5 million, 18.5% of revenues, substantially in line with 2013 (Euro 43.9 million, 18.9% of revenues)

Employees:

706 at December 31, 2014, increase of 35 employees compared with December 31, 2013.

¹ Comparative data related to 2013 have been restated in order to include the effect of application of recently introduced IAS/IFRS accounting principles. In particular, a change in the jointly controlled company Europropulsion S.A. consolidation method occurred, modifying it from proportional method to equity method.

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,

2014 was an extremely important year for the Space industry in Europe, and particularly for the launchers sector. The preparation of the Inter-ministerial ESA Conference held in December determined a focus of the major project/study activities during the year. These activities, initially launched from European Space Agency in 2013, constituted in 2014, the basis for configurations and development programs of the new Ariane 6 and VEGA-C launchers, which will respectively replace the Ariane 5 and VEGA base version, for launches of the period 2020-2030.

2014 was at the same time impacted by some difficulties related to both Ariane 5 and VEGA launcher programmes. Regarding Ariane 5, the main difficulty was related to the delays in satellites' delivery, with subsequent difficulties in defining the optimal payload for every launch, both from the economic point of view and relating the total weight of transport. Referring to VEGA, instead, the launch forecasted in 2014 for the transport of the prototype ESAIXV spaceship, was postponed to February 11, 2015.

In both situations, the Avio's 2014 productions and deliveries were in line with the expectations of the budget. Nevertheless, during 2015, production activities may be negatively impacted because of potential limitation of storage capacity of propulsion modules managed by Avio subsidiaries operating in French Guyana.

In relation to backlog, estimates of the world satellites market outlook are confirmed, with a modest growth of the commercial orbits as well large networks as telecommunications satellites, using geostationary orbits and with the a strong growth for lower orbits (LEO, SSO) relating to satellites for scientific implementation, Earth observation and territory control. This allowed Arianespace, final launching responsible company, collecting a portfolio order that will ensure operations for the next three years, both for Ariane 5 and VEGA programmes, despite the tight competition with the US and Russian players (respectively Falcon 9 of Space X and Proton and Rocket).

Arianespace's order book increased by 35 orders for geostationary satellites and for 4 Ariane 5 launches dedicated to Galileo (representing more than 4 billion Euros portfolio for Ariane 5 launch services), and 10 additional Vega launches, (over 400 million Euro portfolio).

In order to confirm this eminent position on the markets, improving competitiveness and performance of European vectors, the ESA Ministerial Conference defined important decisions relating the launch of the two programs Ariane 6 and VEGA C, having in common an innovative engine, the solid propellant boosters P120. This engine will equip both programs, allowing significant synergies in production of three different versions: Ariane 6-2, Ariane 6-4 and VEGA C. The propulsion system P120 will be built with the same carbon fibre technology, already developed by our company for the P80 engine, now equipping VEGA launcher. The wealth of expertise accumulated in this product, confirmed by the success of all Vega launches, puts Avio in a privileged partnership position with new "european giant" Airbus Safran Launchers (ASL), either through special purpose subsidiaries jointly controlled with ASL, but also considering the Vega program prime contractor and system integrator role played by the controlled company ELV.

The 2014 Ministerial Conference of ESA participating countries, has identified technical objectives of the expected evolution for Ariane and Vega and obtained the consent of the Member States to the signing of the necessary funding agreements. Italy, via the ASI (National Space Agency), signed a commitment agreement covering approximately 50% of value of the development contract for Vega-C (approx. 110 million euro for the period 2015-2020) and 40% of the P120 engine program (approx. 250 million euro for the same period) respectively. These funds will be assigned to Avio and ELV through specific contracts awarded by ESA. Mentioned decision produced a collateral effect on P120 engine, with low economic impact during the year, represented by the suspension by ESA of Vega Evolution contracts already signed in the context of the 2012 Ministerial Conference, with consequent review of the booster 1st stage configuration (from P105 to P120), slowing down Vega's development activities of the year, off-set by the activities related to preliminary studies for Ariane 6.

Taking into consideration the increasing propulsion and system activity related to space launchers, Avio is becoming even more a company with great technological and innovative contents, offering high performance products, providing quality and reliability, having a workforce with unique

competencies and infrastructures, which place it in non-replaceable position in the European launchers sector.

During 2014 your company has continued and enforced its policies related to both customers and personnel. Great progress have been achieved in terms of environmental protection and of work safety and prevention. In this context, it should be noted that during the year we have obtained the renewal of ISO 140001 certifications, we completed the approval process of the safety report, prepared in accordance with the Legislative Decree nr. 334799 (Seveso II), obtaining the Fire Prevention Certificate for the whole Colleferro plant. In addition, the modification of the Integrated Environmental Authorization has been presented, and related concession was obtained in February 2015.

2014 ended with economic and financial positive results. Despite the fore mentioned events of the period, turnover was slightly lower compared to budget forecasts, registering a recover if compared with the expectations updated by mid-year, especially regarding gross profit, that allowed the Company reaching an EBITDA in line with budgeted figures.

Extremely positive results have been achieved in terms of operating cash flow and Net Financial position (positive and amounting to Euro 185 million as of December 31, 2014) after the distribution of dividends for Euro 949 million in the month of June.

The total Avio Group's order book reached an amount of more than Euro 670 million euros, which is the highest amount ever recorded. This amount guarantees approximately 3 years of Company's activity.

2015 started with good expectations in term of orders for new launches collected by Arianespace on both the Ariane 5 and Vega programs; Arianespace obtained in the first quarter 4 new orders for Ariane 5's launches, 3 of which for satellites of average weight, useful in order to rebalance the mix with large size ones; Vega, the first notable success in the US market has been reached, with the acquisition of 4 satellites in the Google Sky-Box constellation, with an addition option on subsequent satellites, along with 3 additional Earth observation satellites, to be launched in 2016 and 2017.

In order to face these expected favourable and, at the same time, challenging scenarios, your Company will have, with no doubt, to commit its resources in pursuing promptly the necessary industrial infrastructure, operational and business organization increasing plans, adapting and modifying its structure and attitude, in line with new market's objectives, with the purpose of maintaining and strengthening its relevant position in the international space launchers sector.

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. Experience and know-how matured in the course of more than 100 years of activity allow Avio excelling in space launchers, solid space propulsion, liquid, cryogenic and tactical propulsion sectors.

Actual Shareholders of the Group is composed by the primary international *private equity fund* Cinven Ltd. (81%), Finmeccanica Group (14%) and other minor shareholders (5%).

The Group directly employs in Italy and abroad 706 highly qualified employees, 15% of which involved in R&D activities.

The Group is present in Italy, with operational headquarter located near Rome and other sites in Campania and Piedmont (employing 615 people); other operational sites are located in France and in French Guyana.

Avio operates in the field of space propulsion, particularly in 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 space launcher (Vega), research and development of new propulsion systems with low environmental impact, engine control systems for satellites.

The Group operates in the context of different categories of space launchers (Ariane and Vega) based on the weight of loaded satellites (from 1,500 kilograms to 8,000 kilograms) and on satellites' positioning in both geostationary orbits GEO - *Geostationary Earth Orbit* (about 36,000 km altitude) and low orbits LEO - *Low Earth Orbit* (altitude between 300 km and 1,700 km), and for tactical missiles, through participation in main national and international programs.

Avio plays a strategic role in the global space sector, due to production of the VEGA launcher Ariane 5 and, in the context of the program related to Ariane 5 - the largest European satellites' launcher - for the development and implementation of solid propulsion engines. Since 2000, through its subsidiary ELV (owned by Avio - 70% - and by ASI - Italian Space Agency - 30%), Avio develops and manufactures VEGA, the European space launcher for satellites up to 1,500 kg, which carried out the successful qualification launch in February 2012 and, since then, has started its commercial production phase. The success of this product has allowed Italy to join the small group of countries in the world developing and producing its own space launcher.

Avio is present since 1984 with its production facilities at the European Space Centre in French Guiana, for the production of solid propellant, Ariane' and Vega's engines, for the assembly of the booster and their integration to the Ariane launcher and for the integration of the entire Vega launcher.

Avio is also engaged in tactical propulsion, in particular in the production of the Aster 30 engine provided to MBDA France.

In the field of satellites, Avio has manufactured and supplied to ESA and ASI propulsion subsystems for launching and controlling phases of over 30 satellites, including the most recent SICRAL and Small GEO.

AVIO operates in four primary business segments:

- **Space Launchers** - Avio has developed and manufactures VEGA, the most innovative space launcher currently in production in Europe in the context of ESA (European Space Agency) programs. Avio, through its subsidiary ELV is the prime contractor for the development, qualification and production of the launcher. Up to 65% of the production process is performed in Italy. VEGA, 30 meters high, is a launcher for satellites up to 1,500 kgs in orbit up to 1,700 km (LEO); its configuration includes three solid propellant stages and a final liquid propellant stage.
- **Solid Propulsion** - Avio is the leader in solid propulsion especially with Ariane 5 and VEGA launchers. In the framework of solid-propellant propulsion sector, Avio produces the Ariane 5

boosters, the related two large solid propellant engines, providing most part of the take-off's thrust. Boosters are 26.5 meters high, each one burning 237 tons of propellant in 130 seconds. Each booster is made with three metal segments. The first segment is loaded with about 30 tons of solid propellant in Colleferro (Rome); the second and third segments are loaded in the plant in Kourou, French Guyana, where the entire booster is also integrated to the launcher.

For Vega, Avio produces the P80, Zefiro 23 and Zefiro 9 solid propellant engines for the first three stages of the launcher, using high technology innovative processes, achieving industry-leading performance in terms of engine power and consumption costs. P80 is now the largest world carbon fiber produced solid propellant engine. Among the P80's main features we highlight the structural part entirely produced in carbon fiber, with specific machinery principally designed by Avio, and the insulating material inserted in the engine, made with a new conception low density rubber.

Avio will also develop, under the ESA's coordination, a new solid propellant engine, now called P120C, which will power the new European launcher Ariane 6 and the new, more powerful, version of the VEGA launcher. For the realization of this engine, together with the new Zefiro 40 engine (built and tested in Italy, that will replace the VEGA's second stage), Avio will use pre-impregnated carbon fiber, produced in its research laboratory in Campania.

- **Liquid Propulsion** - Avio produces one of the key components for the cryogenic engine implemented as Ariane 5 first stage (called Vulcain 2) and the turbopump flowing liquid oxygen into the combustion chamber. In the context of turbopump production, Avio also develops and manufactures the liquid oxygen pump included in the new engine (called Vinci) for the next European launcher Ariane 6's last stage.
The group is also involved in the development of LOX methane engine (already successfully tested in July of 2014 at the Russian space centre - KBKhA).
- **Tactical Propulsion** - Avio is engaged in the Italian-French-UK joint program for the development and production of Aster 30 engine. Avio used its best technologies in the development of the main components. The Aster 30 is considered one of the more powerful and technologically advanced tactical use solid propellant engines in the world.

Considering that 2014 revenues related to Space activities exceed 224 million euros and the gross profit margin of 17.5%³, the Group currently holds the top position in the Italian and European space industry, the competitiveness of which contributes the realization abroad of more than 95% of its revenues.

The strong technological content of its business has led Avio to invest, during 2014, more than 18% of its revenues in research and development, 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 centers.

³ Determined as Adjusted EBITDA

CORPORATE BODIES

Board of Directors ^(A)

Alan John Bowkett	Chairman
Sandro Ferracuti	Vice Chairman
Pier Giuliano Lasagni	Chief Executive Officer
Stefano Ratti	Director
Roberto Italia	Director
Simon Rowlands	Director
Luigi Pasquali	Director

Board of Statutory Auditors ^(B)

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 June 23, 2014 and will remain in office until the shareholder meeting approving the Financial Statements as of December 31, 2016.

(B) 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, 2015.

RECENT HISTORY

1994

The Group was founded as part of the Fiat Group in 1908, for the production of the first aircraft engine, and in 1994 acquired BPD Defence and Space, a company founded in 1912 operating in the development and production of ammunition for the Italian and foreign military corps, reaching a size of approximately 4000 people.

2000

In addition to the traditional aeronautics and space production activities, in 2000 the Group, in collaboration with the Italian Space Agency (ASI), set up ELV S.p.A., 70% owned, for the development and design of a whole new launcher and in that context, based on the agreement with the European Space Agency (ESA), assumes the important role of prime contractor for the European launcher Vega.

2006

The Group is acquired by BCV Investments, a company belonging to the primary international *private equity fund* Cinven Ltd. (81%), the Finmeccanica Group (14%) and other investors (5%).

2012

In February, Vega launcher, designed and manufactured by Avio, successfully performed its qualification maiden flight.

In December Avio announces the signing of an agreement for the sale to General Electric of its aeronautical business (so called Aviation business).

2013

In May, the new Vega launcher successfully completes its first commercial flight.

On 1 August 2013, the Aviation business was formally sold by Avio 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), Research and Development of new propulsion systems with low environmental impact and attitude control motors for satellites.

Main programs: Ariane, Vega, Aster.

Main customers: EADS (Airbus-Safran-Launchers), ISA (Italian Space Agency), ESA (European Space Agency), Arianespace and MBDA

Industrial plants: Colleferro (Rome), Kourou (French Guyana).

GEOGRAPHICAL PRESENCE

ITALY

(I) (II) (III) Colleferro (Rome), solid-space propulsion

EUROPE

(IV) Suresnes – France, Europropulsion S.A.
(IV) Evry-Courcouronnes – France, Arianespace S.A.

REST OF THE WORLD

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

Key to symbols

(I) Headquarters
(II) Industrial plants and offices
(III) Research laboratory
(V) Consortiums and participating companies

STRATEGY

Avio, the European leader in space propulsion and particularly in solid propulsion, consolidated, in 2014, its role of excellence, with the record of the 75th Ariane 5 flight (220th flight of the whole Ariane program) and of the 3rd successful flight of VEGA vector. The success obtained by the solid propellant engines of the two European launchers has led, in the context of the Ministerial Conference of the ESA's Member States, to the approval for the development of a solid propulsion engine, with joint application in both Ariane 6 and new evolved VEGA launchers. This engine, named P120C, derived from its predecessor P80, at the moment is the biggest solid propellant carbon fiber built monolithic engine in the world, already used for VEGA's missions.

The Ministerial Conference held in Luxembourg on December 2014 has, in fact, deliberated the final approval of the Development program of Ariane 6 vector, which foresees the qualification flight in 2020 and its definitive full-service entry in 2023, when the actual Ariane 5 vector will be dismissed. Alongside with this, the Conference has stated to continue the first step of the evolution program of VEGA (Vega-C), which will increase its useful capacity from the actual 1,500 kg to 1,800 kg starting from 2018.

The second Vega's evolution step, which should be approved in the following Ministerial Conferences, will enable to launch in orbit approximately a doubled capacity (compared to the actual one) starting from 2024.

Starting from 2025, representing the end of collaboration with Soyuz, autonomous access into Europe's space will be guaranteed by the two launchers Ariane 6 and VEGA for all the missions in geostationary orbit and in low orbit for Earth observation satellites.

On the basis of the success of the P80 engine used by Vega, the new solid propellant engine P120C will ensure the achievement of economic and industrial synergies that will guarantee the Ariane 6's requested competitiveness and both Ariane 6' and Vega C's industrial costs optimization.

Alongside with solid propulsion, Avio's strategic proposal is also based on the evolution of the liquid propulsion and in particular in the liquid oxygen/methane propulsion. Thanks to the collaboration with the Russian company KBKhA and from the successful 2014 bench test of the liquid oxygen/methane, Avio laid the basis to propose the development of an ultimate VEGA's motor version, which will be competitive with the current version in terms of ability, but above all, it will be compliance with the necessary environmental restrictions that the European politic of "clean space" will foresee in the future.

Avio's strategic approach is deeply based on the wealth of knowledge and experience the company has accumulated over the past decades of success in the space field. To name a few, Avio:

- 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 technological innovation in production techniques and product design;
- has proposed a new space sector governance model to face new economic and technical challenges related to the development of the Ariane 6 and Vega launchers, in their future versions;
- entered, with merit, the small group of companies capable, at world level, to develop and manufacture a launcher for low orbit LEO – Low Earth Orbit (between 300 and 1,700 km high), even multiple, missions.

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. On December 14, 2006, the Company acquired the entire share capital of Avio Group 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").

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, in order to improve the identification of the Company's brand name.

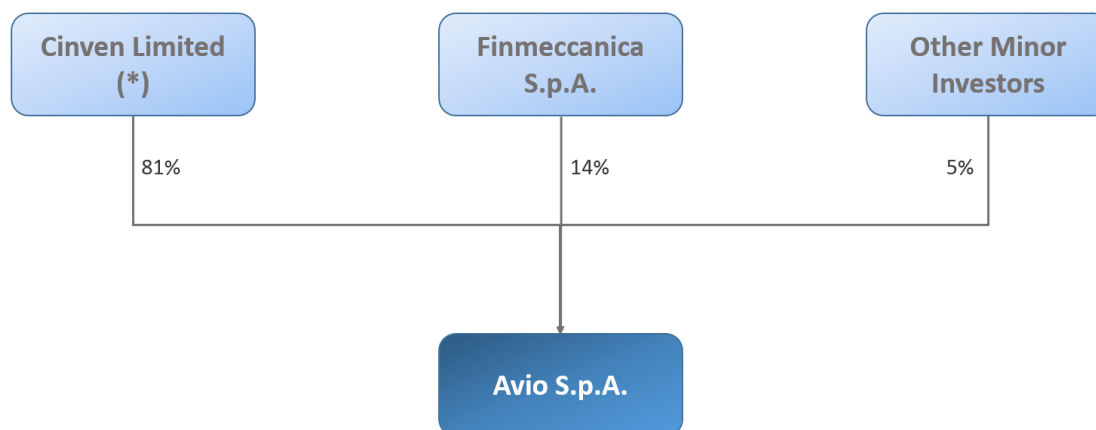
On December 31, 2013, Avio S.p.A.'s share capital was totally held by the sole shareholder BCV Investments S.C.A., a Luxembourg company, owned principally by investment funds and institutional investors managed and mainly controlled by the primary international *private equity fund* Cinven Ltd. (ca. 81%), and from Finmeccanica Group (ca. 14%), one of the global leaders in the aerospace and defence sectors.

On June 10, 2014, the extraordinary assembly of BCV Investments S.C.A. has decided the voluntary intention to liquidate the Company. Consequently BCV Investments S.C.A. itself changed its name in BCV Investments S.C.A. *in liquidation* and appointed as liquidator BCV Managements S.A.

In compliance with what stated in the same extraordinary assemble of June 10, 2014:

- On June 18, 2014, it was withdrawn and revoked the equity certificate n.2 of 400,000,000 shares with nominal value of Euro 0.10, representing the entire share capital of Avio S.p.A. and it was issued the certificates from n.3 to n.46;
- On June 19, 2014, the above certificates were transferred from BCV Investments S.C.A. *in liquidation* to its shareholders, in equal value as their respective portion of investments.

Consequently, on December 31, 2014, the shareholders of the Company are a plurality of investments funds mainly managed by Cinven Limited, which manage and control most of the investment funds (for a total portion of 81.15%), Finmeccanica S.p.A. (for about 14.32%) and other minority investors (4.53%) detailed as follows.



(*) Through a) the management of a plurality of investment funds (ca. 59.78%), and b) institutional investors whose rights to vote are exercised according to instructions given by Cinven Limited (ca. 21.37%)

In the following table are detailed the Company shareholders as of December 31, 2014 after the previously described transactions:

Nu. of Certificate	Shareholders	Ref.	Shares nu.	Shares value (Euro)	%
3	Fourth Cinven Fund 1 LP	A	43,101,710	4,310,171.00	10.78%
4	Fourth Cinven Fund 2 LP	A	45,593,578	4,559,357.80	11.40%
5	Fourth Cinven Fund 3 VCOC LP	A	45,204,522	4,520,452.20	11.30%
6	Fourth Cinven Fund 4 LP	A	43,139,899	4,313,989.90	10.78%
7	Forth Cinven Fund UBTI LP	A	24,271,862	2,427,186.20	6.07%
8	Fourth Cinven Fund Co-Inv. Partnership	A	2,217,382	221,738.20	0.55%
9	Fourth Cinven (Macif) LP	A	634,902	63,490.20	0.16%
10	Forth Cinven Fund FCPR	A	19,911,090	1,991,109.00	4.98%
11	Fourth Cinven Fund (Railpen) Co-Inv. LP	A	8,859,982	885,998.20	2.21%
12	Forth Cinven Fund (1133 West) Co-Inv. LP	A	6,201,032	620,103.20	1.55%
13	Finmeccanica S.p.A.	C	57,284,363	5,728,436.30	14.32%
14	Viasimo Sarl	D	18,104,246	1,810,424.60	4.53%
15	Limpart Holding Ltd	B	8,859,982	885,998.20	2.21%
16	ATP Private Equity Parters II k/s	B	6,644,986	664,498.60	1.66%
17	Almack Leveraged I LP	B	883,134	88,313.40	0.22%
18	Almack Unleveraged I LP	B	947,579	94,757.90	0.24%
19	Almack Unleveraged II LP	B	381,896	38,189.60	0.10%
20	Uberior Co-Inv. Ltd	B	8,859,982	885,998.20	2.21%
21	CPP Invest. Board Private Holding Inc.	B	12,404,451	1,240,445.10	3.10%
22	Direct Fund II LP	B	2,656,562	265,656.20	0.66%
23	GPE III LP	B	2,214,995	221,499.50	0.55%
24	Partners Group Direct Inv. 2006 LP	B	2,102,813	210,281.30	0.53%
25	Partners Group Mezzanine Finance I LP	B	131,277	13,127.70	0.03%
26	Partners Group Mezzanine Finance II LP	B	88,313	8,831.30	0.02%
27	ESP II Conduit LP	B	4,429,991	442,999.10	1.11%
28	ESP 2004 Conduit LP	B	3,986,037	398,603.70	1.00%
29	ESP 2006 Conduit LP	B	2,656,562	265,656.20	0.66%
30	HVB Capital Partners AG	B	4,429,991	442,999.10	1.11%
31	Harbour Vest International Private Equity Partners V-Direct	B	4,429,991	442,999.10	1.11%
32	Arthur Street Fund II LP	B	226,751	22,675.10	0.06%
33	Arthur Street Portfolio II LP	B	83,540	8,354.00	0.02%
34	Passage Portfolio II LP	B	167,079	16,707.90	0.04%
35	Vesey Street Fund II LP	B	474,983	47,498.30	0.12%
36	Vasey Street Portfolio II LP	B	506,012	50,601.20	0.13%
37	The Black Rock Private Opportunity Fund LP	B	2,415,491	241,549.10	0.60%
38	The Passage Private Opportunities Fund LP	B	548,975	54,897.50	0.14%
39	New York Life Capital Partners III LP	B	3,396,485	339,648.50	0.85%
40	New York Life Capital Partners III-A LP	B	3,246,114	324,611.40	0.81%
41	Pantheon Europe Fund IV LP	B	131,277	13,127.70	0.03%
42	Pantheon Europe Fund IV Ltd	B	1,816,392	181,639.20	0.45%
43	Pantheon Europe Fund V A LP	B	2,160,098	216,009.80	0.54%
44	Pantheon Europe Fund V B LP	B	319,838	31,983.80	0.08%
45	Partners Group Global Opportunities Subholding Ltd	B	2,102,813	210,281.30	0.53%
46	National Wide Mutual Insurance Company	B	1,771,042	177,104.20	0.44%
TOTAL			400,000,000	40,000,000.00	

Reference:

A - Cinven Limited Funds
B - Institutional Investors
C - Finmeccanica Group
D - Other Minor Investors

2014 FINANCIAL YEAR

MAIN EVENTS

FEBRUARY/MARCH

At the beginning of March, as part of the solid propulsion development process, it was successfully carried out, at the DGA (*Direction Générale de l'Armement*) site in Aquitaine (France), the bench test of static demonstrator POD-X, that reproduces in small-scale the Ariane 5 booster's behavior. Avio largely contributed to the execution of the test, both in terms of design and production of the mock-up. The test bench of the POD-X is part of a program funded by ESA for the study of the vibrations present in solid-propellant propulsion with the purpose of significant reduction of the effects in the engine under development.

On February 6, and March 22, the Flight VA217 and VA216's of the vector "Ariane 5" was successfully launched by the European space base in French Guyana.

As part of the development process of the new European launcher Ariane 6, in February Avio participated and won the competition held by ESA for the allocation of development of Phase A of the carbon fiber casings (Insulated Motor Case) for solid propellant engines. Avio was recognized as European leader for the realization of large engines, based on successes obtained in VEGA program.

As part of the Hyprob project managed by CIRA, the activities for the development of technological samples (next generation rocket fueled with methane and oxygen) for bench tests planned at the Colleferro plant named Fast 2 were continued.

Following the separation of Avio Aeroengine, which was sold to General Electric, it was necessary to find a new site (other than the pre-existing one located in Pomigliano d'Arco site, transferred to General Electric) for the installation of the carbon fibers pre-impregnation plant, for the production of engine casings for Vega and Ariane 6 launchers.

In view of a potential strategic collaboration between the parties, Avio and ADLER/TTA signed an co-operation agreement that provides, inter alia, the new Avio pre-impregnation plant (Centro Ricerche Materiali Compositi - CRMC) to be installed, in Campania, by the city of Airola, where one of the Adler Group company is located.

APRIL/MAY

The Company tested the first model of the engine for the new tactical defence missile called CAMM ER. The test used a reinforced metallic casing in order to verify the ballistic performance, but in the following phases, Avio will proceed using carbon fibre for the casings of the missile, as it was successfully done for Aster missile.

During April, Avio, with co-motorist role alongside with its partner Herakles, contracted the development of the A/B1 phase of the solid propellant engines for the Ariane 6 launcher; such activity started in 2013 based on ATP (Authorization to Proceed).

In April 29, the second commercial flight of VEGA (the third starting from the qualification flight) was successfully completed, bringing in orbit the satellite DZZ-HR, based on Government of Republic of Kazakhstan's mandate. The 900 kg satellite was positioned with extreme precision by the VEGA launcher in the eliosincrone orbit at 750 km altitude.

The Company started the setting-up phase of the Avio Centro Ricerche Materiali Compositi (CRMC) by the site of Airola, with the purpose of completing the transferring process by the beginning of 2015.

JUNE/JULY

In the context of liquid propulsion and particularly in the context of the Lyra programme financed by Italian Space Agency, the Company has successfully completed in Voronezh (Russia) the fire testing session of the italo-russian engine MIRA, equipped with liquid methane and oxygen.

MIRA is a new innovative engine powered with liquid methane and oxygen, which is able to push 7.5 tons and to manage multiple ignitions, developed and produced by Avio and the Russian company KBKhA.

The fire test campaign, which began in May, has shown that the engine has fully achieved the objectives of the project and further demonstrated the excellent performance, through the verification of the functionality of the methane turbo pump and of the injection plate developed by Avio for this type of propulsion. The conclusion of the fire test campaign, realized through international collaboration between Italy and Russia, can be considered a milestone in the development of liquid oxygen-methane propulsion for space applications.

The second copy of the CAMM ER engine with a reinforced metal cover, was successfully tested.

In June, Airbus Defence & Space announces the creation of a joint venture with Safran, a leader company in space propulsion sector. In the same month Airbus DS presents two proposals to ESA for the development of Ariane 6 launcher: the nominal proposal for the continuation of the development of the launcher in its configuration selected by ESA in 2013, based on the use of 4 solid propellant engines for the realization of the first and second stage, and an unsolicited proposal, presented on a jointly basis with Safran, for the development of a different launcher with only 2 solid propellant, privileging propellant engines. As a result, in July, respective ministers gave mandate to ESA and to respective industry sectors to reach, by September 2015, a joint proposal for a configuration for the Ariane 6 launcher consistent with the cost and performance objectives required.

In the June/July period, the first test campaign related to Technology Demonstrator Hyprob Project was successfully carried out in the Colleferro plant.

On July 29 Ariane 5 launcher identified by the number VA219, was successfully launched.

At the end of July, the mock-up assembling of the new VINCI engine's turbo pump, future upper stage of the new European launcher Ariane 6, was completed in Colleferro site. This preliminary activity permitted to start the transfer, scheduled in 2015, of the whole VINCI program activities in the Colleferro plant, in connection with the transfer of the aviation business sites, previously involved in this activity.

AUGUST / SEPTEMBER

In September 11, the fourth Ariane 5 launcher of the year, identified by the code VA218, was successfully launched from Kourou.

In September, a new proposal is presented to the Ministers of ESA Member States for the configuration of the Ariane 6 and Vega C launchers. This proposal, strongly supported by Avio and selected by the industrial environment and national agencies, provides a strong synergy between the two launchers that utilize a single solid propellant engine, the P120C. The expected production rate for this engine is 35 engines/year of which 32 for the Ariane 6 launcher and 3 for the VEGA C launcher. In order to maximize the synergies and the needs of the two launchers, a working group is formed for the definition of a specific joint requirement for both the engines. The working group includes Avio as co-engineer of the P120C and ELV as a Systems Engineer for the Vega C launcher together with Airbus-Safran Launchers (joint venture between Airbus and Defence & Space Safran).

OCTOBER / NOVEMBER

In the context of tactical propulsion, the third model of the CAMM ER engine, with reinforced metal casing, has been tested successfully. Following the successful laboratory testing, activities for the realization of the first thermo structural high performance shell, with wrapped carbon fiber, were initiated.

In October 16 was successfully launched VA220, the fifth Ariane 5 launcher of the year.

In October 29, 2014 the final contract, regarding the acquisition by Arianespace form ELV of n. 10 VEGA launchers (for an economic value of 257 M €), was signed in Rome.

The contract was signed at the presence of the Italian Education, Universities and Research (MIUR) Minister and of the French ambassador in Italy. The n. 10 launchers included in the contract will be operational from the end of 2015 and will cover more than three years of activity during which ELV will generate revenues of approximately 300 M €.

The second testing campaign of the technology demonstrator of the Hyprob Project started at the Colleferro plant. Alongside, an 18 months contract extension between CIRA and Avio regarding the Hyprob program activity on technological demonstrators was finalized.

DECEMBER

As part of the cryogenic propulsion, the assembly of the first liquid oxygen turbopump (TPO) of the Vulcain engine, performed in the white room of Colleferro site, reached its qualification. Subsequent TPO's production will take place in Colleferro.

Relating to Vulcain TPO, the assembly process was qualified in Colleferro, with the production of ARTA 10 TPO, to be allocated to engine testing. Since the completion of testing period, VULcain TPO assembly will take place in Rivalta site.

In December 6, the sixth and final Ariane 5 launcher of the year, VA221, was launched. With this flight, Ariane 5 launcher achieved a result of 63 consecutive successful launches, confirming the absolute reliability of the launcher.

At the beginning of the month of December, the meeting of Ministers of ESA Member States was held in Luxembourg. For the launchers sector were established the definitive agreement for the subscription of the new Ariane 6 development agreement, replacing the current Ariane 5, and the confirmation of VEGA evolution, with the VEGA C configuration. Both launchers will be equipped with the same solid propulsion engine, called P120 C, in accordance with the principles of synergy and cost reduction, that are the basis of the two programs requirements to maintain the competitiveness level achieved in the commercial satellites market, for both geostationary and low orbits.

IN December, the second testing campaign of the technology demonstrator of the Hyprob Project was successfully completed. At the same time, the construction phases of the Avio Centro Ricerche Materiali Compositi (CRMC) were completed at the Airola site.

MARKET DEVELOPMENTS AND BUSINESS PERFORMANCE

General situation

The global economic crisis that is gripping the Western countries from several years did not have a turning point in 2014. The economy of the European countries is not growing as expected although some recovery signs were evident during the year. The stagnation of the economy has not slowed the global space market, which continues to remain stable with good prospects for growth in the near future. Current forecasts confirm what shown in 2013 about a slight tendency of growth in the decade from 2014 to 2023.

In the period 2014-2023, for the launchers trading sector an annual average of approximately 30.1 launches is expected, with the peak of the decade stabilized between 2015 and 2016 (estimated approx. 40 launches). 1998 was the last year in which there was a similar trend, both for launches into geostationary orbit (GTO) and non-geostationary (NGTO) and it was reached a similar peak.

The trend related to the number for commercial satellites is almost stable for GTO satellites, while a strong increase for the satellites of the NGTO class is expected, with a growth of almost 70%, compared to the forecasts made in 2013. However, it is expected that most of the increase of launches will be absorbed through multiple load missions.

The commercial sector scenario is completed by the institutional launches forecasts: also in this sector, it is estimated a tendency to increase in the next decade.

Another key parameter in the market analysis of the satellites and launchers is related to the average mass released into orbit. Currently the opportunities offered by electric propulsion in reducing the overall mass of the satellites appear to have been only partially captured by Boeing, while other operators seem to prefer the use of this propulsion in the near future. Therefore, it is foreseen a continuous increase in global mass put into orbit on an annually basis, at least for the next three years.

In 2014 the start of the Horizon 2020 program was consolidated, based on funds made available by the European Commission for research and innovation, and simultaneously Galileo and Copernicus programs' continuity was confirmed.

Thanks to the provision of funds from the European Commission, to the active synergies with funds ensured by Member States to ESA and to the cooperation with the European Defence Agency, the independence of the autonomous access to Europe space not only is confirmed but gets a greater impulse, that allows the industry to maintain and strengthen the world leadership position both in the manufacturing of launchers and satellites, and also in services like telecommunications, navigation, earth monitoring.

Market launchers

2014 confirmed the Italian excellence in the launcher sector thanks to the successful launch of the third VEGA launcher on April 29, 2014 and the six launches that were perfectly managed of the Ariane 5 launcher, in which Avio participated with the construction of the solid propulsion engines and with the realization of the liquid oxygen turbopumps of the main engine, Vulcain.

In particular, the VEGA mission, of which the Company ELV (Avio 70% and 30% ASI) is the prime contractor, has reached with extreme precision all the mission occurred in 2014, demonstrating its fungibility and flexibility in different missions, even with multiple releases.

These successes guarantee to VEGA his position as world benchmark for putting in orbit Earth observation satellites and, in general, low orbit (LEO) satellites.

At the beginning of December 2014, the Ministerial Conference of the ESA Member States was held in Luxembourg; the main objective for the launchers sector was the confirmation of the approval of the development program of small launcher VEGA and the final signing of the development program of the new launcher destined to replace the Ariane 5 for GTO loads. After a period of disagreement between the major players, France and Germany, and having solved the financing problem in the Italian sector, the Conference concluded with the final signing of both programs. For Italy and Avio

in particular, this funding will allow to cover all strategic sector activities, with particular attention to the new P120C engine, in common for both the launchers and for Vega evolved versions.

The past year was also an important year for Arianespace (in which Avio holds 3% of the shares) that recorded, in addition to 11 launches, the signature of 14 launch contracts (including 11 for Ariane 5, 2 for Soyuz and 1 for Vega, the latter with dual payload). At the end of 2014 the global amount of orders for Arianespace reached Euro 4.1 billion for a coverage period exceeding three years. Globally, Arianespace has an order book including n. 22 Ariane 5 launches, n. 6 Soyuz launches and n. 9 Vega launches.

From the industrial point of view, 2014 registered a strong performance of Arianespace in the field of commercial launches. N. 6 Ariane 5, n. 4 Russian Soyuz, including one from Baikonur and n. 1 Vega were successfully launched.

From the competitors' point of view, it should be noted that during 2014 the most important competitor of Arianespace, US operator SpaceX, has consolidated its presence in the commercial market as a result of its aggressive policy in reducing launch costs. Chinese, Indians and Russians competitors continued their policy of keeping their market quote for launching services supporting institutional missions.

The great development of satellites for earth observation guarantees the Vega launcher excellent opportunities for positioning in the market even if competitors in this sector have demonstrated aggressiveness, mainly in terms of policy cost. Nevertheless, the prospects of achieving the maximum production rate of Vega with three launches per year and the choice to invest on the joint engine with Ariane 6 (P120C) will allow Vega to obtain great commercial results.

In the context of Avio tactical propulsion business, it should be noted the production stability of French-Italian Aster 30 missile defense program also in 2014. The program will be completed in 2016 and contacts are in progress to verify 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 expectation included in the preliminary sale contract (Sale and Purchase Agreement, hereinafter the "Agreement") signed on December 21, 2012, between Avio S.p.A. as the seller, the former parent company BCV Investments SCA and Nuovo Pignone Holding S.p.A. ("NPH", now GE Italia Holding S.p.A., part of General Electric Group), on August 1, 2013, was completed 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.) and the subsequent sale of the entire share capital of GE Avio S.r.l. to NPH.

In particular, the contribution-in-kind to the new company included all of 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.

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

With specific reference to the activities held by the Group, the new focus of the Group's operations in the Space Sector allowed and will allow Avio to bring increased financial resources to support the development plans for this business, while benefitting from a debt-free financial position.

The consolidated financial statements as of December 31, 2014 of the Avio Group is structured and therefore refers:

- from a financial point of view (with reference both to December 31, 2014 and to 31 December 2013, for comparative purposes), to the assets and liabilities resulting from the completion of the transactions described above;
- from an economic point of view, in accordance with the requirements of IFRS 5 - *Non-current Assets Held for Sale and Discontinued operations*, the following classifications have been considered:
 - o the 2014 financial statements figures refer to the space activities of the Group with the only exception of the inclusion, between the Discontinued Operation, of limited economic effects amounting to 1.3 million Euro related to the price adjustment resulting from the sale of the GE Avio S.r.l. investments arisen and defined in 2014 after the settlement of several contractual claims, while
 - o with reference to 2013 data, the Group proceeded by identifying the *business* sold as "*Discontinued Operation*" and then by representing it in the financial statements as such. Consequently, the 2013 Income Statement presented for comparative purposes in the 2014 consolidated financial statements includes, giving separated 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 pertaining the Space Sector (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 with particular reference to the gain arising from the selling of GE Avio S.r.l., net of the related tax effect) and those of the consolidated companies, until the date of July 31, 2013, subject to the separation on August 1, 2013 ("*Discontinued operations*").

This 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.

Moreover, it is noticed that the figures related to the comparative periods (as of December 31, 2013 related to balance sheet figures and for 2013 for the economic and financial figures) are reported in compliance with IFRS 11, adapted by the Group, with retrospective effects, starting from January 1, 2014, that included the jointly controlled company Europropulsion S.A. in the consolidated financial statements applying the Equity Method (compared to proportional method previously used).

Analysis of the results

The following table summarises the Group's result from operations for 2014 and 2013, which figures are restated applying the standard IFRS 11 (amount in thousands of Euro):

	2014	2013 (restated) [*]	Change
Revenues	224,460	232,070	(7,610)
Other operating income and change in inventory of finished and semi-finished goods	10,536	4,527	6,009
Costs for materials and services, for personnel, other operating expenses, net of costs capitalised	(203,991)	(220,483)	16,492
Effects of investments revaluation using the Equity Method – operative income/(expenses)	1,970	2,311	(341)
Operating results before depreciation and amortisation (EBITDA)	32,975	18,425	14,550
Depreciation, amortisation, write-down and impairment	(17,157)	(17,342)	185
Operating results (EBIT)	15,818	1,083	14,735
Interests and other financial income (expenses)	(9,993)	(2,238)	(7,755)
Financial results	(9,993)	(2,238)	(7,755)
Results from financial investments	48	979	(931)
Results before taxes	5,873	(176)	6,049
Income taxes – current and deferred	1,974	(12,224)	14,198
Net result – Continuing operations	7,847	(12,400)	20,247
Discontinued operations Result	(1,349)	1,290,062	(1,291,411)
Total Net Result	6,498	1,277,662	(1,271,164)

[*] The comparative data for 2013 have been restated due to the retrospective application of IFRS 11, as explained in the notes to the financial statements.

Revenues amounted to Euro 224,460 thousand in 2014, a decrease of Euro 7,610 thousand (3.3%) compared to 2013. In particular, sales volumes for the Ariane 5 programme decreased, (Euro -13.4 million compared to 2013), mostly compensated by the increase of revenues of Ariane 6 program (Euro +11 million), while, with regard to the Vega Launcher programme, 2014 revenues highlighted increasing results in comparison with 2013 (increase of 9.1%, amounting approximately to Euro 7 million), and in line with budget forecasts. Liquid propulsion programs decreased compared to 2013 mainly related to satellite programme (Small Geo registered a decrease of Euro 5.5 million), while for what concerns the tactical propulsion, it is affected by the cut in production of the Aster programme (Euro -9 million) and was just partially compensated by the beginning of the programme CAMM-ER.

In 2014, the operating income before depreciation and amortization and impairment of tangible and intangible assets (EBITDA) amounted to Euro 32,975 thousand, registering an increase of Euro 14,550 thousand (+79.0%) compared to the same period in 2013.

This performance was primarily attributable by the following factors:

- an increase in other income for Euro 2,893 thousand (mainly due to the release of provisions for risk and charges exceeding the amount recorded in 2013 and due to higher grants of this year), and by the positive change in inventories (effect of Euro 3,116 thousand, mainly related to the Avio's inventory trend);
- a decrease in costs of goods and services, personnel costs and other operating expenses net of capitalised costs (Euro 16,492 thousand), mainly due to fluctuations in the cost of services (decrease of Euro 7,046 thousand) and other operating expenses (decrease of Euro 8,817 thousand), which included in 2013 non-recurring costs related to the extraordinary operations linked to the restructuring of the group structure (about Euro 7.2 million), as well as accruals for environmental liabilities and the restructuring costs and staff incentives.

Operating results (EBIT) amounted to Euro 15,818 thousand, with an increase of Euro 14,735 thousand compared to 2013. This result was positively affected by the operating results before depreciation and amortisation trend (EBITDA) and by a minimal increase (Euro 185 thousand) in depreciation and amortisation in 2014 compared to the same period of the previous year due to the reduction of amortisation and depreciation processes based on the useful lives of the Group's assets.

For a more complete presentation of the Group's operating performance, the following table summarises *Adjusted EBITDA*, *Adjusted EBIT* and relative margin percentages for 2014 and 2013 (thousands of Euro):

	2014	2013 (restated) [*]	Change
Adjusted EBITDA	39,415	37,925	1,490
<i>Adjusted EBITDA</i> Margin (<i>Adjusted EBITDA/revenues</i>)	17.6%	16.3%	
Adjusted EBIT	26,342	24,667	1,675
<i>Adjusted EBIT</i> Margin (<i>Adjusted EBIT/revenues</i>)	11.7%	10.6%	

[*] The comparative data for 2013 have been restated due to the retrospective application of IFRS 11, as explained in the notes to the financial statements.

Adjusted EBITDA was Euro 39,415 thousand in 2014 (17.6% of revenues), increasing by Euro 1,138 thousand (3.0%) compared with Euro 37,925 thousand (16.3% of revenues) in 2013. *Adjusted EBITDA* is considered by *Management* a highly representative indicator for measuring the Group'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 of several periods.

Adjusted EBIT was Euro 26,342 thousand in 2014 (11.7% of revenues), increasing by Euro 1,675 thousand (6.8%) compared with Euro 24,667 thousand (10.6% of revenues) in 2013. *Adjusted EBIT* is also considered by *Management* a highly representative indicator for measuring the Group's financial results, and is measured by operating results (EBIT) excluding amortisation of costs capitalized in relation to customer relationships for participation in programmes (Euro 4,084 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 an increase compared with last year, in particular due to the costs trend that, even excluding non-recurring items, recorded a decrease compared to the revenue volumes.

The following table shows the reconciliation between EBIT, *Adjusted EBIT* and *Adjusted EBITDA* for 2014 and 2013 (amount in thousands of Euro):

	2014	2013 (restated) [*]	Change
A Operating profit/EBIT	15,818	1,083	14,735
Non-recurring or exceptional expenses/(income):			
- Restructuring costs	490	1,426	(936)
- Costs related to the Group reorganization (contribution in kind and sale operation)	1,735	7,211	(5,476)
- Expenses for environment restores and operations	104	3,700	(3,596)
- Costs for cash-settled share-based payment ⁽¹⁾	730	658	72
- Charges for tax provisions	221	-	221
- Other non-recurring expenses/(income) ⁽²⁾	1,471	1,022	449
B Total non-recurring or exceptional expenses/(income)	4,751	14,017	(9,266)
C Investor Fees	1,179	1,196	(17)
D Other adjustments for non-recurring expenses	510	4,287	(3,777)
E Amortisation of customer relationships for participation in programmes	4,084	4,084	-
F Adjusted EBIT	A+B+C+D+E	24,667	1,675
G Net depreciation/amortisation ⁽³⁾	13,073	13,258	(185)
Adjusted EBITDA	F+G	37,925	1,490

[*] The comparative data for 2013 have been restated due to the retrospective application of IFRS 11, 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 (17.2 million Euro in 2014), net of amortisation of customer relationships for participation in programmes arising from the purchase price carried out in 2007 (amounting to 4.1 million Euro in 2014).

Financial results went from a net negative value of Euro 2,238 thousand in the year ended December 31, 2013 to a net negative value of Euro 9,993 thousand in the year ended December 31, 2014. The increase in net financial expenses is related to the modifications, which was followed by the payment of the loan to the parent company (Intercompany Loan Agreement) occurred in the first half of 2014; the accounting of the effects of the contract codifications (related to the changes of the interest rate, effective from January 1, 2014) have produced financial expenses charged to 2014 income statement (for Euro 11,089 thousand) compared to those accounted as incurred as at December 31, 2013, applying the amortisation cost, as explained in the notes to the financial statements.

The results from financial investments in the year ended as of December 31, 2014 shows a net gain of Euro 48 thousand, compared to Euro 979 thousand of the same period of 2013; this amount refers to the recording of income received from the liquidation of the associate company ASPropulsion Capital NV occurred in 2014.

The net profit of the Group and non-controlling interest related to *Continuing Operations*, after the recording of current and deferred taxes with a positive balance of Euro 1,974 thousand, shows a 2014 profit of Euro 7,847 thousand, compared to a loss of Euro 12,400 thousand in 2013.

The net loss from *Discontinued Operation* in 2014 amounts to Euro 1,349 thousand arising from the price adjustments (Euro 1,368 thousand) related to the previous year sale of the investments in GE Avio S.r.l. to the General Electric Group, resulting from the definition of several contractual claims between counterparts, net of the related tax effect (Euro 19 thousand).

The net result from *Discontinued Operation* in 2013 amounted to Euro 1,290,062 thousand. Such result was strongly impacted by the effects (net income of Euro 1,233 million) related to the transfer of the *AeroEngine* business and the sale of GE Avio S.r.l., mainly related to the registration of the relative capital gain (Euro 1,061 million, net of the connected fiscal effect).

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

	December 31, 2014	December 31, 2013 (restated) [*]	Change
Property, plant and equipment and investment property	50,229	48,668	1,561
Goodwill	221,000	221,000	-
Intangible assets with finite useful lives	95,234	97,162	(1,928)
Investments	8,032	8,161	(129)
Total fixed assets	374,495	374,991	(496)
Net working capital	16,479	(15,258)	31,737
Provisions for risks	(39,299)	(40,242)	943
Provisions for employee benefits	(11,320)	(11,333)	13
Net invested capital	340,355	308,158	32,197
Net financial indebtedness – available share	(163,654)	(1,046,261)	882,607
Non-current financial assets subject to restrictions and non-current financial receivables	(21,313)	(115,000)	93,687
Net financial indebtedness - continuing operations	(184,967)	(1,161,261)	976,294
Net financial position	(184,967)	(1,161,261)	976,294
Equity	525,322	1,469,419	(944,097)

[*] The comparative data for 2013 have been restated due to the retrospective application of IFRS 11, as explained in the notes to the financial statements.

As of December 31, 2014, total fixed assets amounted to Euro 374,495 thousand, showing a decrease of Euro 496 thousand compared with December 31, 2013.

The net change in property, plant and equipment (increase of Euro 1,561 thousand) is primarily due to the excess of new investments (Euro 7,032 thousand) in relation to the depreciation and amortisation of the period (Euro 5,421 thousand), mostly in plant and machinery.

Intangible assets with finite useful lives decrease by Euro 1,928 thousand and this is primarily due to the excess of the depreciation and amortisation of the period (Euro 11,736 thousand) in relation to the new investments (Euro 9,808 thousand) mostly in development costs.

As of December 31, 2014, fixed assets include for Euro 221,000 thousand 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.

As of December 31, 2014, net working capital increases by Euro 31,737 thousand (due to assets exceeding liabilities for Euro 16,479 thousand).

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

	December 31, 2014	December 31, 2013 (restated) [*]	Change
Inventories	76,717	64,358	12,359
Contract work in progress, net of related progress billing and advances	(45,026)	(636)	(44,390)
Trade receivables	6,927	10,793	(3,866)
Trade payables	(51,641)	(48,623)	(3,018)
Other assets and liabilities, net	(24,736)	(83,428)	58,692
	(37,759)	(57,536)	19,777
Deferred tax assets and tax liabilities, net	54,238	42,278	11,960
Net working capital	16,479	(15,258)	31,737

[*] The comparative data for 2013 have been restated due to the retrospective application of IFRS 11, as explained in the notes to the financial statements.

The change in net working capital was determined mostly by the following items:

- change in the net balance of other assets (increased) and liabilities (decreased): net liabilities decreased for an amount of Euro 58,692 thousand mostly related to tax payables (which as at December 31, 2013 included the portion of IRES related to the taxation of the previously mentioned gain registered from the sale of GE Avio S.r.l.), to which the increase of VAT receivables and the increase of assets after the subscription of amounts derived from disputes from the 2007 *Leveraged Buy Out* transaction are added;
- improvement (for Euro 44,390 thousand) of the negative balance of the contract work in progress, net of related progress billing and advances, mostly due to the collections of invoices referred to the new production contracts of VEGA and Ariane 5 programs;
- increase (for Euro 11,960 thousand) of deferred tax assets, which as of December 31, 2014 amounted to Euro 54,238 thousand, mostly recorded for future fiscal benefits related to the goodwill of the *aviation business* (sold among the larger operation of sale of GE Avio S.r.l.), but whose fiscal benefits related to the deduction of amortisation pertain to Avio S.p.A., as well as the portion of payables interests on the previously mentioned shareholders loan (now totally reimbursed) non deducted in the previous periods.

As of December 31, 2014, provisions for risks and charges reported a total decrease, amounting to Euro 943 thousand compared with December 31, 2013, mainly due to the following effects:

- accruals for Euro 12,452 thousand mostly related to fiscal effects for 2007 LBO (Euro 8,730 thousand) and due to costs of variable salaries and wages (Euro 3,109 thousand);
- utilization of Euro 7,269 thousand mostly related to the provision for costs of variable salaries and wages (Euro 4,559 thousand) and for personnel expenses and restructuring (Euro 1,381 thousand) provided for;
- reversal to income for Euro 1,757 thousand, related to certain contractual and commercial risks which did not produced any outflow;
- reclassification for Euro 4,459 thousand, from provision for tax, legal and environment risks, mainly related to the 2007 LBO transaction to current liabilities following the formal notice ("*avviso di accertamento*") from the *Agenzia delle Entrate* of verification at year-end related to the risks already provisioned, and paid in January 2015.

As of December 31, 2014, provisions for employee benefits results basically unchanged from the previous financial statements.

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

	December 31, 2014	December 31, 2013 (restated) [*]	Change
Non-current financial assets	6,200	6,040	160
Current financial assets	21,454	1,265,457	(1,244,003)
Cash and cash equivalents	165,232	57,383	107,849
Total financial assets (A)	192,886	1,328,880	(1,135,994)
Non-current financial liabilities	-	139,929	(139,929)
Current financial liabilities	7,919	27,690	(19,771)
Current portion of non-current financial liabilities	-	-	-
Total financial liabilities (B)	7,919	167,619	(159,700)
Total net financial position (A) - (B)	184,967	1,161,261	(976,294)
(Less) Assets subject to restrictions	(21,313)	(115,000)	93,687
Total unrestricted net financial position	163,654	1,046,261	(882,607)

[*] The comparative data for 2013 have been restated due to the retrospective application of IFRS 11, as explained in the notes to the financial statements.

Net financial position as of December 31, 2014 shows a positive balance of Euro 184,967 thousand.

The significant positive balance as at December 31, 2013 and the decrease during the current year, are mainly due to the extraordinary events arising from the previously mentioned selling operation of GE Avio S.r.l.

The main changes arising from the above transaction impacting the current financial statements are described below:

- decrease of current financial assets (for Euro 1,244 million) following:
 - a. the liquidation of the investments in short-term bonds with variable interest rates, as of December 31, 2013 (Euro 1,150 million) and the subsequent distribution of a dividend to the Shareholders decided on the Shareholders' Meeting of June 23, 2014 amounting to Euro 949 million and the anticipated reimbursement, occurred in 2014, of the *Intercompany Loan Agreement* with the shareholders amounting to 151 million;
 - b. the partial release of the mentioned Escrow Account, for a total amount of Euro 94 million out of total Euro 115 million, which are reclassified in cash and cash equivalents;
- increase of the balance of cash and cash equivalents (Euro 108 million) related to the mentioned partial release of funds subject to restrictions related to the sale of GE Avio S.r.l. and to the operating cash flow and investments Group trends during 2014.
- non-current financial liabilities reduced to zero following the reimbursement of the Intercompany Loan Agreement.

With reference to the financial assets subject to restrictions (Euro 21,313 thousand as of December 31, 2014), we highlight that mentioned restrictions, following the definition of the last agreements with General Electric Group, occurred in December 2014, were cancelled starting from January 2015, for an amount of Euro 20,313 thousand, and the residual Euro 1,000 thousand amount was used for the payment GE Italia Holding S.p.A. of outflow connected with the settlement of contractual claims identified in 2013 and 2014.

As of December 31, 2014, Equity amounts to Euro 525,322 thousand (Euro 516,797 thousand of which attributable to the Group), with a decrease of Euro 944,097 thousand compared to the previous year, effected from the following combined factors:

- the decrease of Euro 949,000 thousand for the dividend distribution resolved by the Avio S.p.A. Shareholders's Meeting occurred on June 23, 2014 (paid to the Shareholders for Euro 803 million, net of the related withholding tax for Euro 146 million);
- the registration of the 2014 net result (amounting to Euro 6,498 thousand, Euro 5,554 thousand of which attributable to the Group);
- the net increase (for Euro 489 thousand) of the negative values of actuarial reserve, recorded as component of "other comprehensive income", with a direct impact in the Equity.

To complete the analysis, some economic and financial indicators are shown below with reference to the years ended December 31, 2014 and December 31, 2013:

	December 31, 2013	December 31, 2012	Change
Net financial indebtedness / <i>Adjusted</i> EBITDA	4.7	30.3	(25.6)
Net financial indebtedness / Equity	0.3	0.7	(0.4)

[*] The comparative data for 2013 have been restated due to the retrospective application of IFRS 11, as explained in the notes to the financial statements.

The 2014 economic performances of 2014 and the effects on net debt and shareholders' equity (the two latest impacted, with particular reference to December 31, 2013, by the effects of extraordinary transactions) have resulted in the ratio Net financial position / Adjusted EBITDA (Leverage ratio), standing at the end of 2014 to a positive value of 4.7x.

RESEARCH, INNOVATION AND ENVIRONMENT

In the space industry, Research & Development ("R&D") investment is a key factor to achieve and to maintain a consolidated 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 this framework, it works with national institutions such as the Italian Space Agency (ISA), 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: some of the most important institutions listed are the Italian Center for Aerospace Research (CIRA), ENEA, the first and second University of Rome, the "Politecnico" of Milan, the University of Naples "Federico II", University of Padua, University of Forlì and Aerospace District of Sardinia. The Group also participates in several associations of European industries and research institutions for the development of basic research mainly regarding energetic materials.

The total expenditure for R&D supported by Avio within the Space sector in 2014 amounted to € 41.5 million (Euro 43.9 million in 2013), corresponding to 18.5% of consolidated revenues (18.9% in 2013).

In 2014 the Group carries out R&D activities commissioned and financed by customers amounting to Euro 29.7 million (Euro 35.0 million in 2013) and other projects internally financed, for a total 2014 spend amounting to Euro 11.8 million (Euro 8.9 million in 2013).

In 2014, the self-financed activities include, Euro 8.8 million related to development costs capitalized in intangible assets with a definite life (Euro 5.1 million in 2013) and Euro 3.0 million relating to costs of research or development, not meeting capitalisation requirements and charged directly to the income statement (Euro 3.8 million in 2013).

The total amount of costs related to self-financing activities charged to the income statement in 2014 was Euro 9.9 million (Euro 10.6 million in 2013), consisting of Euro 3.0 million for costs not capitalized directly expensed (Euro 3.8 million in 2013) and Euro 6.9 million relating to the amortization of capitalized development costs in previous years (Euro 6.8 million in 2013).

During 2014 Avio led innovation activities on its main product lines, harmonizing activities of basic research, applied research and pre-competitive development.

Solid Propulsion

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). As of June, in support of the working groups for the preparation of the Ministerial Conference held in Luxembourg in December, Avio has conducted a large number of studies, suggesting possible configurations for Ariane 6 (including the PPH Express and PPPS) and Vega (in particular Vega C3, Vega D, Vega E and Vega EH). Many of Avio positions have been incorporated in the subsequent declaration of the European program: in particular the development of Vega C3 configuration with the first flight expected by the end of 2018 and the beginning of the preparatory activities for Vega E (first flight in 2024) as well as the development of the solid P120C stadium, common for the two launcher families Ariane 6 and Vega.

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 vehicles, Ariane 6, Vega C and Vega E.

During the first half of 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 C1 (P-CV), and feasibility studies of the first and second stage engine of the Ariane 6 (P145). The two programs P-CV and P 145 were oriented on the development of P120C stadium as at October 2014 in the context of ESA programs Vecep and Ariane 6. The activities for the development of the Z40 engine (for use at a second stage of the Vega C3 and E) continued. In this context should be mentioned the achievements related to the introduction of the new material for the composite casing, through the creation of a patfinder scale Z9A and a technological exemplary Z40 DM00, the development of materials (elastomer and prepreg high modulus in carbon and glass) for the flexible coupling with low elastic torque of movable nozzle, the realization of the first prototypes in small-scale components divergent nozzle for braiding and resin infusion carbon-phenolic, process validation layering automatic tape carbon (ATL) essential to reduce the cost and improve the quality of the skirt, the realization of a development and validation plan for the configuration of a skirt capable of withstanding very high flows (F1100). The introduction of Braggs fibers for health monitoring of casings composite technology considered to be critical in reducing the costs of control and acceptance of the products.

Besides the achievements previously outlined, in the materials context the research was primarily focused:

- to the study of new energy molecules and ligands, through participation in the consortium GRAEL under the Program Horizon 2020 of the European Union and through a self-funded program aimed at environmental compatibility.;
- to the extension of the application of the Avio resin system of several dry fibers of carbon (ie T800, IM7, T1000, IM10);
- to the introduction of a new class of solid propellant bimodal or trimodal, through the use of ammonium perchlorate with 20 microns average size;
- to the characterization of an external Thermal Protection based on phenolic composite cork, including the development of a low crosslinking time system of adhesives, through a self-funded activity;
- to the feasibility of a new class of UHTC materials for use as throat inserts for high performance nozzles, through the use of self-financing.
- to the preparation of a white book for controlling the pressure oscillations in large solid propellant engines, also on the basis of significant improvements in the understanding and simulation of the Aluminium combustion phenomena.

Within the development and tuning of technologies, including activities relating to the automation of the stratification of the composite tapes (Automated Tape Lay-up) on the skirt composite casing, studies for the construction of winding spindles with rapid integration and disassembly were initiated, to reduce the production cycle of composite casing. During 2014 the prototyping of a densification process for ceramic matrix composite materials has been attempted: the results obtained from the process demonstrate a TRL not sufficient for industrial application.

Tactical Propulsion

The activities were focused on the initial stages of the development of the propulsion 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 the system architecture that allows a high class intensity thruster. Important achievements have been demonstrated through the test of three reinforced casing engines and by the first winding to the sheath in the composite. The industrialization activities of low viscosity propellants were initiated, even though the modification of plant and equipment.

During the year the self-financed activities of pre-competitive development for the electromechanical Thrust Vector Control for tactical propulsion class Aster 30 continued. The activities for the development of an integrated controller in a unit of power management for flight standards started.

Storable Liquid Propulsion

Most of the development activities of this technologically mature industry have been directed to the Europeanisation of the fourth stage components of Vega, today of Russian or American production. In particular, studies have been performed to replace the Main Engine Assembly (MEA, of Ukrainian production) with a Western propeller and have been refocused the specifications for the new generation of propellant tanks in aluminum, to be developed with a European partner. It has been

launched a feasibility study for the construction of low-cost European components (pressure regulator and valves), with a German SME. The activities were funded by ESA under the Vecep contract.

In the self-financing context, the first prototype of a composite tank with a thin light-alloy (COPV) liner has been prepared and the realization of the same liner proved to be a low-cost technology.

Cryogenic Liquid Propulsion

Avio considers the cryogenic propulsion based on oxygen and liquid methane as the answer to the next generation of high-stage for launch vehicles, as well as for exploration spacecraft.

During 2014, there were completed the validation activities of the demonstrator LM10-MIRA, liquid oxygen methane engine of 10 ton thrust, in partnership with the Russian company Kbkha, under Lira of ASI contract. The fire tests were carried out from May to July 2014 showing results above expectations. The configuration of the engine, the choice of the cycle and of the adjustment system, and the choice of the pair of propellants has proven extremely robust and with a performance in line with the expectations, both at the level of the propulsion system and at the level of components: turbo machinery, injection plate, combustion chamber. The engine has also proven to be easily re-ignitable and provided encouraging data for a possible usability once boarded on a Reusable Launch Vehicle.

In parallel, the tests on the launcher Theseus of 250N thrust, developed in Avio under the ASI contract and tested in the second semester, have fully demonstrated the feasibility of the systems for attitude control and for ascent and orbital phases based on oxygen gas technology.

These achievements of Avio may have helped to draw attention on the technology-LOX LNG of other industries in Europe and worldwide, which recently announced their intentions for the development of the new engines.

Feasibility activities continued (through the partnership with Kbkha and self-financing) for the flight version of MIRA-F, that could provide the propulsion of the third stage of the future Vega E.

The Hyprob contract with CIRA activities on development continued with plate injection, to a liquid oxygen and methane combustion chamber and to the improvement of the Technology Readiness Level (TRL) for some enabling technologies (such as brazing between copper alloys and Inconel).

The Java program starts with the eponymous Japanese Space Agency to study the common combustion of chambers and of injection systems in technology LOX-LNG.

Some systems studied were performed to demonstrate the feasibility of low-stage reusable for future generations of launchers (for example in the family Ariane and Vega), based on clusters of thrusters LOX-LNG.

Avio has conducted a series of activities based on self-financing with the intent to develop potential breakthrough in terms of configuration, technology and materials for methane LOX combustion chambers. In 2014 these activities led to the preparation and the deposit of several patents, which may contribute to the competitiveness of Avio.

In regard with turbo machineries Avio continued, on self-financed basis, organizing its activities in partnership with the University of Florence for the numerical simulation of cavitation. It has also been completed the development of the system FAST-3 for bearing tests, which will be tested in the first months of 2015.

Hybrid Propulsion

In the context of the Theseus program under the aegis of the SIA, Avio has completed the construction of the test implant for the nitrous oxide and HTPB engine and has realized the main engine components. The prototype, designed in order to increase the TRL in the segment, will be integrated and bench tested after casting of solid combustible in early 2015. It is an intrinsically low environmental impact engine, and with reduced operational constraints on the ground and in air.

Space Transportation Systems

In the first part of the year Avio has undertaken preliminary activities of development of the Vega launcher C1 under Vecep contract (ESA), based on a first stage with total impulse of 20% higher than the current version and a fourth stage with the impulse 15% higher. The aim is inter alia a consolidation of the flexibility of the launcher through an increase of the payload in reference by more than 20%.

As reported in the previous paragraphs, in the second half Avio has refocused its activities first in studies of trade-off and the later in the development of the Vega C3 configuration, with a first stage of 50% more load than the current P80, the second stage (Z40) of 50% more load than the current Z23, with the goal of a reference payload of 2200kg in polar orbit at 700km (compared to the current version of 1430kg and to the 1800kg of the C1 version).

Avio has also done some system studies as a cross-check to the development activities of the industrial architecture of the launcher Ariane 6 for the selection of the configuration and of the staging.

Through ELV, Avio continued in activities precompetitive or pre-funded from contracts with ESA for the use of Vega in the context of the Active Debris Removal, as a platform for In Orbit Testing or In Orbit Demonstration, as a vector for geostationary satellites equipped with systems of electric propulsion for orbit raising. Also continued studies were carried out, to verify the feasibility and market interest for an electrical module to be integrated into the upper composite of Vega to allow for space exploration missions.

Avio has continued its activities based on self-financing, and in close coordination with the Defence Administration to verify the feasibility of a small Airborne launcher, compatible with platforms C130J and A400M.

Other applications

Avio continued the development of an oil reservoir in composite for use in the AeroEngine context, through an initiative of the POR Lazio, earning the realization of the first prototype and has launched the development of a low cost prepreg for any application in the automotive field.

It also further intensified its exploration of the Additive Layer Manufacturing technologies, generally oriented towards the liquid propulsion industry, both in terms of extension of the technology to new classes of materials (copper alloys) and that of achievable configurations. Several prototypes for liquid propulsion parts were manufactured and tested successfully during the year.

HUMAN RESOURCES

As of December 31, 2014, the number of Group employees totaled to 706 units, with an increase compared to the 682 units as of December 31, 2013. The number of employees does not include Europropulsion S.A. (91 units) included in consolidated financial statements with equity method. Most of the units are employed by the Parent Company Avio S.p.A. (538 units as of December 31, 2014, compared to 514 at December 31, 2013).

Starting from June 2014, the Company made some important organizational changes in top level of its structure, by creating the *Corporate General Coordination & Legal Affairs* Directory. Moreover, at December 2014, it has been appointed the new CFO, whose position was previously "ad interim" assigned to the Chief Executive Officer.

Industrial relations

During 2014, the Company has continued its engagement with local institutions and trade unions through constructive dialog and cooperation. In this context, the renewal process of the Participation Bonus (Premio di Partecipazione) started. During December 2014, the Redundancy Plan period involving 27 employees at the Colleferro site came to end, based on the union agreement signed on December 5, 2013.

Development and Training

With regard to recruiting activities, in 2014 the Italian entities of the Group hired a total of 65 employees, 26 of which (18 in Avio S.p.A., 7 in ELV S.p.A. and 1 in SE.CO.SV.IM S.r.l.) regarding recent graduates, and/or graduates and professionals with experience and specific skills and 39 regarding blue collar, with the purpose of giving always importance to the technical skills.

The processes of internal job mobility, which are configured as a strategic for professional growth, designed to ensure coverage of the roles crucial for the development of the *business*, contributed to a better professional positioning and involved, in 2014, 10 Professionals (representing about 6% of the category). Internal mobility finalized to the increase of competencies, has been used for both with and blue collars.

With regard to the staff development, 28 white collars (8% of all the employees) were involved in development activities; 25% of them qualified as middle managers ("Quadro"). A significant development activity involved the workers sector. In fact through the Assessment Center Evaluation System, the company identified 5 workmen as adequate to cover the white collar roles.

In support of learning paths, over 1,600 days of training were delivered on a Group level, with more than 1,300 participations and with the effective involvement of 450 people, investing more than 1.5 days of training per capita. Internal training activities amounted to 16% of total hours, with the use of a team composed of certified corporate trainers.

The main guidelines that characterized the 2014 training plan were:

- to update of specific technical competencies, required for security reasons;
- to support the development of people to achieve positions with greater responsibility (leadership curriculum);
- to develop managerial skills (participation to high-level inter-company events and international seminars);
- to support new certifications in safety, quality and environmental matters;
- to ensure internationalization process, with focus on foreign languages (English and French).

Regarding the learning method, in 2014 we continued with the structured model of learning organization, where:

- the organization learns through the active involvement of people in meeting spaces, where takes place, in a structured way, the exchange of knowledge, experiences and methods (workshops , focus groups with opinion leader);
- the e-learning platform was implemented, in particular for law training (i.e. Legislative Decrees 231 and 81/08) and for the institutional training "*welcome to space*" for new hired people.

COMMUNICATION AND SOCIAL RESPONSIBILITIES

Avio promotes its image and its products both through the participation in the most important international events and through the constant presence in the Italian and international aerospace context, in particular with reference to 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 new products development through the collaboration in the research field with universities and research institutes, both in Italy and abroad, focusing on the technical and operational collaboration with the most important European space agencies. In particular, it collaborates with the Italian Space Agency (ISA), the Centre National d'Études Spatiales (CNES), the European Space Agency (ESA).

Events and Manifestations

On October 28, 2014, the Science and Technical Museum of Milano (MUST) inaugurated, in collaboration with Avio, a new section dedicated to the Space. The main section was dedicated to the history of space launchers, illustrated with the presence of a segment of the original Z9, a third upgrade of VEGA vector and a complete vector model (1:6 scale). Among the visits occurred at the Colleferro site, it is important to note those of ASI's and Ariespace's presidents, Roberto Battiston and Stéphane Israël.

Collaboration with universities

Avio is a partner in several university's research departments of the main Italian universities and collaborates on research projects with leading international universities.

In the context of this 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 in regard with our activities for scientific, educational, institutional or territorial collaboration.

In particular, specific activities are developed for 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 on career fairs with young students and recent graduates during the *career day* and the "Rocket Race" in collaboration with the Mechanical Engineering and Aerospace's department of the La Sapienza University of Rome, held on May 24.

Social Responsibility

Avio considers its relationship with its employees and the territory as a priority and a great asset of 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; at the same time, Avio has been present, in the local communities where its sites are located, either through participation in local events as through the involvement of the local community itself in the most important events relating to the Group.

Avio maintains within its operational sites the involvement of the whole staff in preparing and updating campaigns regarding environmental, health and safety at work, in order to prevent accidents and to carry out working activities under safety conditions.

Such education aiming at preventing accidents and increasing attention toward risk factors, has a positive effect in individual behavior even outside of the working 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.

OUTLOOK

Significant events subsequent to year end

Business

On February 11, 2015, from the European space base in French Guyana successfully occurred the launch of the fourth flight of the VEGA launcher (VV04). The mission included the release in low orbit of the experimental model of European shuttle, called IXV (Intermediate eXperimental Vehicle), and its controlled return into atmosphere, with a splashdown in the Pacific Ocean. The small shuttle, funded within the ESA framework with the aim of verifying the technologies of reentry into the atmosphere, performed his maneuvers with considerable accuracy, confirming the degree of maturity reached also in the area of shuttles dedicated to transfer into orbit and return of human personnel. This launch confirmed the success of the Italian space technology, taking into account that 65% of the launcher is made by Avio and that the Prime contractor of the IXV shuttle is Thales Alenia Space Italy, another Italian company.

In 2015, two more VEGA launches are planned: the first is scheduled in June and the second by the end of the year.

Other significant events

It is expected in a short period the formalization with the Tax Authority of a settlement agreement regarding the composition of certain assessment acts issued following the access made, during the period 2009-2010, regarding 2007 tax period, by the tax police authority ("Guardia di Finanza"). The disputes occurred produced the non-recognition of some tax effects of the business acquisition of AVIO, culminated with the merger of some companies to the parent company Avio SpA (leveraged buy-out - MLBO). The agreement will cover aspects of direct taxation, the costs of which have been considered in the allocation of the specific risks and charges provisions; the amounts paid as provisional collection (6.9 million) will be repaid in a period consistent with State budget and related public accounting system.

With regard to the claim related to the qualification as withholding agent, not included in the mentioned transaction, Avio S.p.A. is proceeding to the payments required by the formal acts issued from time to time, the last of which occurred in January 2015, relating to year 2009 (EUR 4.5 million); the formal act related to penalties for year 2008 non-payment has been challenged at the Provincial Tax Commission in March 2015 and defensive deduction related to 2009 for the same challenge were already presented.

As regards the obligations in terms of VAT, it is in progress the contradictory phase related to the non-recognition of the tax deduction of VAT on some services purchased in 2007.

On April 1, 2015, Avio S.p.A. undersigned a 100 Euro million loan agreement with a pool of primary international banks ("Senior Term"), together with a 30 Euro million Revolving facility agreement. Senior Term is based on two different tranches, a 35 Euro million term to be repaid in a six years period and a 65 Euro million term to be repaid bullet after seven years.

The agreement is based on costs and interest rates defined on an arm's length basis, does not provide for the release of any guarantees and provides certain limits relating to investment, acquisition and dismissing operations, to subscribe additional borrowing or lending agreement, and to comply with certain financial covenants which are in line with the Company's medium-term business plan.

As of the date of this document, the funding related to the signed agreement did not occur yet and the contractual terms allow the funding up to May 31, 2015. The Company expect to access to agreed funding by the beginning of May 2015.

Business outlook

2015 forecasts indicate a growth of total volume of revenues, as compared to 2014, 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 (in terms of Adjusted EBITDA), mainly due to the improvement in gross profit (revenue less production and sales costs), 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 Group configuration and governance.

AVIO S.P.A. FINANCIAL REVIEW

Premise

With regard to the main effects previously described in the premise of the paragraph "Analysis of the Group's results of operation and financial position" related to the extraordinary operation of sale of the business *AeroEngine*, that mostly impact the Parent, there are reported the indications of the data referring to the financial statements of Avio S.p.A.

In particular, as indicated previously in the consolidated financial statements, the financial statements as at December 31, 2014 of the Avio S.p.A. at December 31, 2014 is structured and refers to as follows:

- from a financial point of view (referring both the figures of 2014 Financial Statements and those restated on 2013 Financial Statements), to the assets and liabilities resulting from the completion of the transactions described above;
- from an economic point of view, it was prepared, in accordance with 'IFRS 5 - *Non-current Assets Held for Sale and Discontinued operations*', are reported the following transactions:
 - o the figures of 2014 financial statements refers to the space activities of the Group with the only exception of including 1.3 million Euro derived by the adjustment of the price of sale of the investments GE Avio S.r.l. after the definition of several contractual claims during 2014,
 - o Referring to the financial statements of 2013, the Group proceeded by firstly identifying the *business* object for sale as "*Discontinued Operation*" and then representing it in the financial statements as such. Thence, the Income Statement of 2013 presented for comparative purposes in the consolidated financial statements of 2014 includes, showing separated evidence of:
 - (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, 2014 (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 to the separation ("Discontinued operations") on August 1, 2013.

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 results

In the following table, is represented the economic performance of the Company in the years 2014 and 2013 (amounts in thousands of Euro):

	2014	2013	Change
Revenues	211,615	202,459	9,156
Other operating income and change in inventory of finished and semi-finished goods	7,383	4,043	3,340
Costs for materials and services, for personnel, other operating expenses, net of costs capitalised	(196,031)	(194,121)	(1,910)
Operating results before depreciation and amortisation (EBITDA)	22,967	12,381	10,586
Depreciation, amortisation, write-down and impairment	(14,584)	(14,819)	235
Operating results (EBIT)	8,383	(2,438)	10,821
Interests and other financial income (expenses)	(9,635)	(2,040)	(7,595)
Financial results	(9,635)	(2,040)	(7,595)
Results from financial investments	3,978	(8,909)	12,887
Results before taxes	2,727	(13,387)	16,114
Income taxes – current and deferred	4,170	(14,498)	18,668
Net result – Continuing operations	6,897	(27,885)	34,782
Discounted Operations result	(1,349)	1,273,240	(1,274,589)
Net result	5,548	1,245,355	(1,239,807)

Revenues amounted to Euro 211,615 thousand in 2014, with a positive variance of Euro 9,156 thousand (4.5%) compared to 2013. In particular, sales volumes for the Ariane 5 programme decreased, (Euro -17.0 million compared to 2013), mostly compensated by the revenues of Ariane 6 programme (Euro +11 million). While, with regard to the Vega Launcher programme, 2014 revenues highlighted increasing results in comparison with 2013 (Euro +27 million). Liquid propulsion programs related to satellite programme decreased compared to 2013 (Small Geo registered a decrease of Euro 5.5 million), while for what concern the Tactical propulsion, has been affected by the cut in production of the Aster programme (– 9 million Euro) compared to 2013 and was just partially compensated by the beginning of the programme CAMM-ER.

In 2014, the operating income before depreciation and amortization and impairment of tangible and intangible assets (EBITDA) amounted to Euro 22,967 thousand, registering an increase of Euro 10,586 thousand (+85.5%) compared to the same period in 2013.

This performance was primarily attributable by the following factors:

- an increase in other income for Euro 1,675 thousand (mainly due to the release of provisions for risk and charges in excess to those registered in 2013 and due to higher grants), and by the positive change in inventories (effect of Euro 1,665 thousand);
- an increase of Euro 1,910 thousand in costs of goods and services, personnel costs and other operating expenses net of costs capitalised. Such increase is mainly due to the combined effect of the surge in the services and personnel cost (for a total of Euro 8.3 million), due to the decrease of other operating expenses (Euro 2.1 million), and due to the increase of capitalised costs, particularly concerning the development costs (arising to Euro 4.3 million compared to 2013).

Operating results (EBIT) amounted to Euro 8,383 thousand, presenting an increase of Euro 10,821 thousand compared to 2013. Such result was positively affected by the trend of operating results before depreciation and amortisation (EBITDA).

For a more complete representation of the performance of earnings of the Company, the following adjusted values are relative to EBITDA and to EBIT and to the margins achieved in 2014, and 2013 (amounts in thousands of euros):

	2014	2013	Change
Adjusted EBITDA	28,760	25,109	3,651
Adjusted EBITDA Margin (<i>Adjusted EBITDA/revenues</i>)	13.6%	12.4%	
Adjusted EBIT	18,260	14,374	3,886
Adjusted EBIT Margin (<i>Adjusted EBIT/revenues</i>)	8.6%	7.1%	

Adjusted EBITDA was Euro 28,760 thousand in 2014 (13.6% of revenues), showing an increase of Euro 3,651 thousand (14.5%) compared to Euro 25,109 thousand (12.4% of revenues) in 2013. *Adjusted EBITDA* is considered by *Management* a highly representative indicator for measuring the Group's financial results because besides offsetting 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, in order to increase the comparability of results of several periods.

Adjusted EBIT was Euro 18,260 thousand in 2014 (8.6% of revenues), showing an increase of Euro 3,886 thousand (27.0%) compared to Euro 14,374 thousand (12.4% of revenues) in 2013. *Adjusted EBIT* is also considered by *Management* a highly representative indicator for measuring the Group's financial results, and is measured by operating results (EBIT) excluding amortisation of costs capitalized relating to customer relationships for participation in programmes (Euro 4,084 thousand per year) and events considered to be nonrecurring or exceptional, already excluded from the calculation of *Adjusted EBITDA*.

Financial results went from a net negative value of Euro 2,040 thousand in the year ending December 31, 2013 to a net negative value of Euro 9,635 thousand in the year ending December 31, 2014. The net increase of financial expenses is related to the modifications, which led to the expire, of the loan to the controlled company (Intercompany Loan Agreement) during in the first six-months of 2014; the account of the effects of the indicated modifications (related to the changes of the interest rate of reference, effective from January 1, 2014) have produced future financial expenses charged to the income statement (for Euro 11,089 thousand) compared to those accounted as incurred as at December 31, 2013, applying the amortisation cost, as explained in the notes to the financial statements.

The result from financial investments in the year end December 31, 2014 recorded a net gain of Euro 3,978 thousand, recording an increase of Euro 8,909 thousand from the same period of 2013; the caption includes the dividends distributed from the jointly controlled company Europropulsion S.A. (Euro 2,310 thousand), from the controlled company Regulus S.A. (Euro 1,620 thousand) and for Euro 48 thousand referring to the recording of income received from the liquidation of the associate company ASPropulsion Capital NV during 2014.

The net profit competence of the Group and third parties related to *Continuing Operations*, after the recording of current and deferred taxes, that stated a positive balance of Euro 4,170 thousand, represents in 2014 a profit of Euro 6,897 thousand, compared to a loss of Euro 27.885 thousand recorded in the year ended December 31, 2013.

The net result from *Discontinued Operation* in 2014 amounted to Euro 1,349 thousand related to the adjustments (Euro 1,368 thousand) of the price of sale during the previous year, from the investments in GE Avio S.r.l. to the General Electric Group, resulted from the solution of several contractual claims between counterparts, net of the related tax effect (Euro 19 thousand).

The net result from *Discontinued Operation* in 2013 amounted to Euro 1,273,240 thousand. Such result is strongly impacted by the effects (Euro 1,233 million, of which the capital gain is Euro 1,061 million, net of the related tax effect) related to the transfer of the business *AeroEngine* and to GE Avio S.r.l. and its successive sale to third parties.

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

	December 31, 2014	December 31, 2013	Change
Property, plant and equipment and investment property	24,355	22,644	1,711
Goodwill	219,100	219,100	-
Intangible assets with finite useful lives	93,551	95,050	(1,499)
Investments	68,024	67,813	211
Total fixed assets	405,030	404,607	423
Net working capital	(6,554)	(56,223)	49,669
Provisions for risks	(26,901)	(26,158)	(743)
Provisions for employee benefits	(9,203)	(9,540)	337
Net invested capital	362,372	312,686	49,686
Net financial indebtedness	(118,168)	(1,018,046)	899,878
Non-current financial assets subject to restrictions and non-current financial receivables	(21,313)	(115,000)	93,687
Net financial position	(139,481)	(1,133,046)	993,565
Equity	501,853	1,445,732	(943,879)

As at December 31, 2014, total fixed assets amounted to Euro 405,030 thousand, recording an increase of Euro 423 thousand compared to December 31, 2013.

The net change in property, plant and equipment (increase of Euro 1,711 thousand) is primarily due to the excess of the period new investments (Euro 5,221 thousand) in relation to the depreciation and amortisation (Euro 3,510 thousand) mostly related to plant and machinery.

Intangible assets with finite useful lives decreased to Euro 1,499 thousand is primarily due to the excess of the period depreciation and amortisation (Euro 11,703 thousand) in relation to the new investments (Euro 9,575 thousand) mostly on development costs.

The amount of investments is increased by Euro 211 thousand due to the effect of the liquidation of ASPropulsion Capital N.V. (Euro 1,029 thousand) and due to the increase of the investment on Termica Colleferro S.p.A. (Euro 1,240 thousand) after the capitalisation of a financial receivable towards it.

At December 31, 2014, among fixed assets it is included an amount of Euro 219,100 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, 2014, net working capital decreased by Euro 49,669 thousand, equally Euro 6,554 thousand due to the excess of liabilities over assets.

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

	December 31, 2014	December 31, 2013	Change
Inventories	46,869	51,936	(5,067)
Contract work in progress, net of related progress billing and advances	(30,310)	(11,301)	(19,009)
Trade receivables	6,562	6,247	315
Trade payables	(47,935)	(53,059)	5,124
Other assets and liabilities	(33,388)	(89,594)	56,206
	(58,202)	(95,771)	37,569
Deferred tax assets and tax liabilities, net	51,648	39,548	12,100
Net working capital	(6,554)	(56,223)	49,669

The change in net working capital was determined mostly from the following issues:

- changes of the net other assets (increased) and net liabilities (decreased): the net liabilities decreased by an amount of Euro 56,206 thousand mostly related to Tax Payables (which as at December 31, 2013 included the portion of IRES related to the taxation of the previously cited gain registered from the sale of GE Avio S.r.l.), in which it is added the increase of VAT receivables and the increase of assets after the subscription of amounts deriving from the disputes from the Leveraged Buy Out transaction of 2007 accounted for among other receivables;
- increase (Euro 19,009 thousand) of the negative balance of the construction in progress net of advances and invoices received, from the collection of advances related to new contracts for the production of Vega and Ariane 5 programs;
- increase (of Euro 12,100 thousand) of Deferred Tax Assets, which as at December 31, 2014 amount at Euro 51,648 thousand, mostly recorded for future fiscal benefits related to the goodwill of *business aviation*, sold within the larger selling operation of GE Avio S.r.l.. Its fiscal benefits related to the deduction of amortisation pertain to Avio S.p.A., as well as the portion of interests payables of previously cited loan to shareholders (today totally reimbursed) were not deducted in the previous financial statements.

At December 31, 2014, provisions for risks and charges reported a total decrease amounted of Euro 743 thousand compared with December 31, 2013, mainly due to the following effects:

- provision for Euro 11,111 thousand mostly related to fiscal effects of LBO of 2007 (Euro 8,730 thousand) and due to costs of variable salaries and wages (Euro 2,586 thousand);
- use of Euro 6,235 thousand mostly related to the reserve for costs of variable salaries and wages (Euro 4,559 thousand) and due to reserve for personnel expenses and restructuring (Euro 1,381 thousand);
- reclassification (Euro 4,459 thousand) of reserve for risks related to the LBO transaction of 2007 to current liabilities following a notice of verification at year-end related to the risks already provisioned (which were paid in January 2015).

At December 31, 2014, provisions for employee benefits decreased by Euro 337 thousand compared with December 31, 2013 in order to adequate the liabilities, net of the amount in liquidation, particularly related provision for employee benefits, paid during 2014 to employee, who left the job.

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

	December 31, 2014	December 31, 2013	Change
Non-current financial assets	6,200	6,040	160
Current financial assets	21,454	1,275,858	(1,254,404)
Cash and cash equivalents	159,298	48,541	110,757
Total financial assets(A)	186,952	1,330,439	(1,143,487)
Non-current financial liabilities	-	139,929	(139,929)
Current financial liabilities	47,471	57,464	(9,993)
Current portion of non-current financial liabilities	-	-	-
Total financial liabilities(B)	47,471	197,393	(149,922)
Total net financial indebtedness (A-B)	139,481	1,133,046	(993,565)
(Less) Assets subject to restrictions and non-current positive financing	(21,313)	(115,000)	93,687
Total net financial position	118,168	1,018,046	(899,878)

The significant positive balance as at December 31, 2013 and the decrease during the current year, is mainly generated from the extraordinary events derived by the previously cited selling operation of the Company GE Avio S.r.l..

The Company describes the main changes due to the above transaction in the current financial statements:

- reduction of current financial assets (for Euro 1,254 million) following the:
 - a. liquidation of the investment short-term bond floating rate as at December 31, 2013 (Euro 1,150 million) and subsequent distribution of a dividend to the Shareholders, decided on June 23, 2014 in Shareholders' Assembly amounting to Euro 949 million anticipated reimbursement, occurred in 2014, of the *Intercompany Loan Agreement* with the shareholders equalling 151 million;
 - b. release from the shareholders of Escrow Account (for a total of Euro 94 million), the amounts which are reclassified in cash and cash equivalents;
- increase of the balance of cash and cash equivalents of (Euro 111 million) related to the fore mentioned release of funds from the sale operation of GE Avio S.r.l. and from the dynamics of operative cash flows and investments by the Group during 2014.
- non-current financial liabilities reduced to zero following the reimbursement of the Intercompany Loan Agreement.

Referring in particular to the financial assets under restrictions (Euro 21,313 thousand as at December 31, 2014), it is noticed that such funds, after the definition of the last agreement with General Electric Group, occurring in 2014, are no more under restrictions for Euro 20,313 thousand, in January 2015, and the residual amount Euro 1,000 thousand is recorded as charge for the subscription in favour of GE Italia Holding S.p.A. for closing the previous contractual claims between counterparts.

As at December 31, 2014, the Equity amounts to Euro 501,853 thousand decreasing from Euro 943,879 thousand of the previous year, due to the combination of the following reasons:

- The reduction of Euro 949,000 thousand related to the dividend distribution to Shareholders from the Shareholders Assembly decision on June 23, 2014 (paid Euro 803 million to the Shareholders net of the related withholding tax for Euro 146 million);
- By recording the net result of 2014 (amounting to Euro 5,548 thousand);
- The net increase (for Euro 427 thousand) of the negative values of actuarial reserve, recorded as component of "*other comprehensive income*", which made a direct impact in the Equity.

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 2014 related to these businesses is given in the notes to the financial statements.

OTHER INFORMATION

Pursuant to art. 40 of Legislative Decree no. 127/1991 it 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 2014, strengthening activity of the internal control system of Avio continued in the new organization after the transfer of the *AeroEngine* business held on August 1, 2013.

For such purpose, the Company effectuated two audit procedures (the provision process and the management of external companies) and a follow up verification in the action made after the conclusion of the Enterprise Risk Assessment released in the begging of the year. After identifying the improvements, the management started a correction action, implementation and adequacy of which will be verified in 2015.

With regard to the administrative responsibility of the Company (former Legislative Decree no. 231/2001), Company's Vigilance Organ (Organismo di Vigilanza) coordinated its activity to update the Organization, Management and Control Model in accordance with article 6 of Legislative Decree 231/2001, adapted to the new Company structure, after the contribution and sale operation, which started in February 2014 and terminated in September 2014 with the successful approval of the new Model of the Board of Directors on October 24, 2014.

It is forecasted for 2015, by the Vigilance Organ, a plan for vigilance and control for the "sensitive" activities with potential risk of crime classified as "medium-higher".

PROPOSAL FOR THE ALLOCATION OF 2014 NET RESULT OF AVIO S.p.A.

We hereby submit the Separated Financial Statement of Avio S.p.A. for the year ending December 31, 2014 for your approval, prepared in accordance with International Financial Reporting Standards IFRS, closed with a net income of Euro 5,548,080. We propose to carry forward the profit of the year.

* * *

April 21, 2015

for the BOARD OF DIRECTORS
Chief Executive Officer
Pier Giuliano Lasagni

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Note	December 31, 2014	December 31, 2013 Restated (*)	January 1, 2013 Restated (*)
<i>(amount in Euro)</i>				
ASSETS				
Non-current assets				
Property, plant and equipment	3.1	47,640,358	46,181,452	48,650,327
Investment property	3.2	2,588,978	2,486,315	2,526,143
Goodwill	3.3	221,000,000	221,000,000	221,000,000
Intangible assets with finite useful lives	3.4	95,234,493	97,162,380	102,551,925
Investments	3.5	8,031,693	8,161,684	8,060,249
Non-current financial assets	3.6	6,200,000	6,040,000	4,040,000
Deferred tax assets	3.7	54,489,669	42,580,251	1,845,981
Other non-current assets	3.8	11,397,455	13,941,102	16,435,247
Total non-current assets		446,582,646	437,553,184	405,109,872
Current assets				
Inventories	3.9	76,716,811	64,358,261	63,729,071
Contract work in progress	3.10	41,849,105	27,634,616	57,812,327
Trade receivables	3.11	6,927,217	10,793,197	7,160,484
Current financial assets	3.12	21,453,674	1,265,457,125	4,524,008
Cash and cash equivalents	3.13	165,232,447	57,383,218	2,200,128
Current tax assets	3.14	29,969,813	16,079,899	18,102,364
Other current assets	3.15	12,154,575	20,376,590	7,782,206
Total current assets		354,303,642	1,462,082,906	161,310,588
Assets classified as held for sale and Discontinued operations		-	-	3,969,869,134
TOTAL ASSETS		800,886,288	1,899,636,090	4,536,289,594

(*) The comparative data for December 31, 2013 and January 1, 2013 have been restated to include the retrospective application of the revised IFRS 11, as explained in the notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Note	December 31, 2014	December 31, 2013 Restated (*)	January 1, 2013 Restated (*)
<i>(amount in Euro)</i>				
EQUITY				
Share capital	3.16	40,000,000	40,000,000	40,000,000
Additional paid-in capital	3.17	73,575,782	73,575,782	726,400,000
Other reserves	3.18	(2,525,566)	(2,037,213)	(1,550,926)
Retained earnings/(losses)		400,192,522	72,523,992	(37,906,400)
Profit/(Loss) for the year of the Group		5,554,395	1,276,669,022	31,665,315
Total equity of the Group	3.19	516,797,133	1,460,731,583	758,607,989
Non-controlling interests	3.20	8,525,850	8,687,140	9,582,708
TOTAL EQUITY		525,322,983	1,469,418,723	768,190,697
LIABILITIES				
Non-current liabilities				
Non-current financial liabilities	3.21	-	139,928,864	133,879,720
Provision for employee benefits	3.22	11,320,437	11,332,553	11,045,643
Provisions for risks	3.23	19,341,819	23,754,002	35,197,652
Deferred tax liabilities	3.24	252,153	302,432	109,297,649
Other non-current liabilities	3.25	55,210,003	56,794,692	57,430,864
Total non-current liabilities		86,124,412	232,112,543	346,851,528
Current liabilities				
Current financial liabilities	3.26	7,918,564	27,689,640	41,369,108
Provisions for risks	3.23	19,957,509	16,488,212	48,744,835
Trade payables	3.27	51,640,750	48,622,830	52,880,238
Advances for contract work in progress	3.10	86,875,949	28,270,425	69,120,023
Current tax payables	3.28	6,619,732	46,831,300	9,377,555
Other current liabilities	3.29	16,426,389	30,202,417	23,499,972
Total current liabilities		189,438,893	198,104,824	244,991,732
Liabilities classified as held for sale and Discontinued operations		-	-	3,176,255,638
TOTAL LIABILITIES		275,563,305	430,217,367	3,768,098,898
TOTAL LIABILITIES AND EQUITY		800,886,288	1,899,636,090	4,536,289,594

(*) The comparative data for December 31, 2013 and January 1, 2013 have been restated to include the retrospective application of the revised IFRS 11, as explained in the notes.

CONSOLIDATED INCOME STATEMENT	Note	Year 2014	Year 2013 Restated (*)
<i>(amount in Euro)</i>			
Revenues	3.30	224,460,210	232,069,978
Change in inventory of finished and semi-finished goods		1,463,708	(1,652,369)
Other operating income	3.31	9,072,351	6,179,582
Raw material consumption	3.32	(64,680,470)	(63,241,298)
Costs of services	3.33	(92,426,345)	(99,472,090)
Personnel costs	3.34	(51,599,806)	(49,267,688)
Depreciation and amortisation	3.35	(17,156,935)	(17,342,182)
Write-down and impairment/reversal		-	-
Other operating expenses	3.36	(5,191,333)	(14,007,852)
Share of income/(expenses) in investments in associated companies accounted for using the equity method - Operating income/(expenses)	3.37	1,969,649	2,311,436
Capitalisation of costs for internally generated assets	3.38	9,907,119	5,505,724
OPERATING PROFIT		15,818,148	1,083,241
Financial income	3.39	2,452,609	1,809,149
Financial expenses	3.40	(12,445,718)	(4,047,337)
NET FINANCIAL INCOME/(EXPENSES)		(9,993,109)	(2,238,188)
Share of income/(expenses) in investments in associated companies accounted for using the equity method		-	-
Other income/(expenses) from financial investments	3.41	48,384	979,368
NET INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS		48,384	979,368
PROFIT/(LOSS) BEFORE TAXES AND DISCONTINUED OPERATIONS		5,873,423	(175,579)
INCOME TAXES	3.42	1,973,967	(12,223,799)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		7,847,390	(12,399,378)
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS NET OF TAXES	3.43	(1,349,172)	1,290,062,019
PROFIT/(LOSS) FOR THE YEAR		6,498,218	1,277,662,641
-- attributable to owners of the Parent		5,554,395	1,276,669,022
-- attributable to non-controlling interests		943,823	993,619

(*) The comparative data for 2013 have been restated to include the retrospective application of the revised IFRS 11, as explained in the notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Year	Year
	2014	2013 Restated (*)
<i>(amount in Euro)</i>		
PROFIT/(LOSS) FOR THE YEAR (A)	6,498,218	1,277,662,641
Gains (losses) included directly in equity (which are not subsequently reclassified to income statement)		
- Actuarial gains and losses-reserve Actuarial gains/losses	(708,230)	(808,570)
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	-	409,655
- interest rate	-	1,548,966
- commodities	-	(394,483)
- Gains/(Losses) on exchange differences on translating foreign operations	-	(4,281,000)
Income tax relating to components of Other comprehensive income (*)	194,763	(207,781)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX (B)	(513,467)	(3,733,213)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR (A+B)	5,984,751	1,273,929,428
-- attributable to owners of the Parent	5,066,041	1,272,979,246
-- attributable to non-controlling interests	918,710	950,182

(*) The comparative data for 2013 have been restated to include the retrospective application of the revised IFRS 11, as explained in the notes.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(€ thousands)

	Share Capital	Additional Paid-in Capital	Other reserves						Profit/ (Loss) of the Group	Total equity of the Group	Non-controlling interests	Total Equity
			Curren-cy Conversion reserve	Cash flow hedge cur-rency reserve	Cash flow hedge interest rate reser-ve	Cash flow hedge commo di-ties reserve	Actuarial profit/ (losses) reserve	Retain-ed ear-nings/ (losses)				
Equity as at 31/12/2012	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	-	-	-	-	-	-	-	-	1,276,669	1,276,669	993	1,277,662
- Other comprehensive 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
Contribution in kind 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	1,469,420
Allocation of prior year profit/(loss)	-	-	-	-	-	-	-	1,276,669	(1,276,669)	-	-	-
Profit/(Loss) for the year	-	-	-	-	-	-	-	-	5,554	5,554	944	6,498
Other income / (losses):												
- Gains / (Losses Actuarial, net of related tax effect	-	-	-	-	-	-	(489)	-	-	(489)	(25)	(515)
Other income / (losses):												
Total comprehensive income / (losses) for the year	-	-	-	-	-	-	(489)	-	5,554	5,065	919	5,984
Dividends distribution	-	-	-	-	-	-	-	(949,000)	-	(949,000)	(1,080)	(950,080)
Other changes	-	-	-	-	-	-	-	-	-	-	-	-
Equity as at 31/12/2014	40,000	73,576	-	-	-	-	(2,526)	400,193	5,554	516,797	8,526	525,332

CONSOLIDATED STATEMENT OF CASH FLOWS

(€ thousands)

	2014	2013 (*)
OPERATING ACTIVITIES		
Profit/(Loss) for the year from Continuing and Discontinued operations	6,903	(13,649)
Adjustments for:		
- Income taxes	(1,973)	13,353
- Net (income)/expenses from financial investments	(608)	(979)
- Net financial (income)/expenses not inherent to operating activities	11,135	6,538
- Depreciation and amortisation	12,370	17,616
- Write-down and impairment/(reversal)	-	-
- (Gains)/losses from sales and other (gains)/losses	(343)	(7)
Changes in equity reserves:		
- Currency, interest rate and commodities cash flow hedge reserves (gross of the related tax effect)	-	1,565
- Translation adjustments reserve (inherent to operating activities)	-	-
Net changes in provisions for risks	(943)	(43,701)
Net changes in provision for employee benefits	(687)	287
Cash provided by operating activities before changes in working capital	25,854	(18,977)
- Inventories	(12,359)	(629)
- Work in progress and advances for the work in progress	44,391	(10,672)
- Trade receivables	3,866	(3,633)
- Trade payables	3,018	(4,257)
- Other current and non-current assets	(3,123)	(8,078)
- Other current and non-current liabilities	(21,553)	(20,900)
	14,240	(48,169)
Cash provided by operating activities	40,094	(67,146)
Income taxes paid (**)	(43,801)	(18,742)
Interest paid	-	-
Net cash provided by operating activities (A)	(3,707)	(85,888)
INVESTING ACTIVITIES		
Capital expenditures for:		
- Property, plant, equipment and investment property	(7,018)	(3,360)
- Intangible assets with finite useful lives	(5,020)	(6,367)
- Investments in associated and other companies	-	(102)
- Short-term floating rate notes	-	(1,150,000)
Proceeds from sale of fixed assets	1,150,377	1,923,197
Dividends from financial investments	949	979
Other changes (***)	(1,368)	-
Other variations in Assets classified as held for sale and related liabilities	-	17,583
Net cash used in investing activities (B)	1,137,920	781,930
FINANCING ACTIVITIES		
Proceeds from long-term borrowings	-	-
Repayments of long-term borrowings	(151,064)	(820)
Share Capital and additional paid-in capital	1,030	-
Reserve distribution to Shareholders	(949,000)	(555,074)
Financing given	(1,400)	(2,000)
Funds transferred to Escrow accounts to guarantee the GE Avio S.,r.l., investment's sale operation	93,695	(115,000)
Net changes in non-controlling interests in equity	(161)	(896)
Other changes in financial assets and liabilities	(19,463)	(9,281)
Net cash provided by financing activities (C)	(1,026,363)	(683,071)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A)+(B)+(C)	107,849	12,971
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (****)	57,383	44,412
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	165,232	57,383

(*) In order to provide a representation more consistent to the actual operating structure of the Group, the 2013 cash-flow includes only cash flows related to Continuing operations,

(**) The caption includes cash flows relating to the payment of current taxes, included to prior year portion, paid with respect to tax claims,

(***) This caption relates to the adjustment of the prior year gain on GE Avio S.r.l.'s investment sale (classified as Discontinued Operations)

(****) Cash and equivalents as of January 1, 2013 are classified as follows: Euro 42,212 thousand as Discontinued Operations and Euro 2,200 thousand as Continuing Operations.

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 limited liability company (*società per azioni*) incorporated and organized under the Italian laws, 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 funds and institutional investors mainly managed and 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., holding 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 with 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.

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.

As of December 31, 2014, the Parent directly or indirectly holds shares in four controlled subsidiaries (AS Propulsion International BV, ELV S.p.A., Regulus S.A. and Avio India Aviation Aerospace Private Ltd in liquidation) and one jointly controlled (Europropulsion S.A.) included in the consolidation area (together the "Group" or the "Avio Group").

During the year 2014, no changes occurred in the consolidation area.

With particular reference to the consolidation of jointly controlled company Europropulsion SA, the same is included in the consolidated financial statements at December 31, 2014 under the equity method, in accordance with the requirements of IFRS 11. In relation to the application, effective January 1, 2014, with retrospective effect, of the aforementioned principle, financial and economic data for the year 2013, included for comparative purposes, have been restated (compared to those included in the consolidated financial statements at 31 December 2013, including Europropulsion SA under the proportional method previously applied) to take account of the effects of the equity method consolidation.

The Group is leader in space propulsion sector, operating with 5 locations and sites, located in three countries in Europe and South America. Main activities of the Group are described in the Report on Operations.

The consolidated financial statements are presented in Euro 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 following notes.

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 *International Financial Reporting Standards*, all revised International Accounting Standards ("IAS"), as well as all interpretations of the *International Financial Reporting Standard Interpretations Committee* ("IFRS IC" now "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 as at December 31, 2014, 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 a financial statement that conforms to IFRS requires Management to make estimates and assumptions. In addition, Management of the Group is requested to assess the right judgement on the process of Group's 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, 2014, 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 of the financial statements 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;
- For the consolidated income statement, the classification of costs by nature of expenses;
- 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 adopted.

2.3. Comparative information

As requested by IAS 1, the consolidated financial statements for the year ended December 31, 2014 disclose comparative information related to prior period.

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 - Consolidated and Separated financial statements.

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 separated 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 with the integration method 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. 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 the changes of 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 unrealised 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 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 (i) the consideration transferred, (ii) the amount of any non-controlling interest in the acquiree and (iii) the *fair value* of the acquirer previously held interest in the acquiree. Such 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 value of 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 funds (dividends, loans redemptions or advances) to the Parent.

Investments in jointly controlled entities

Jointly controlled entities, if the underlying arrangements are configurable as a joint venture (or where the parties have rights only on the equity of the agreement), are consolidated, based on the application of IFRS 11 requirements, under equity method, starting from the date they become operative.

Where related arrangements configure the presence of a joint operation (where the parties have rights to the assets and obligations for the liabilities of the agreement), assets, liabilities, costs and revenues of the joint operation are consolidated on a pro-rata basis.

Where necessary, adjustments are made to the financial statements of jointly controlled companies to align their accounting policies with those adopted by the Group.

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 test). 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 caption "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.

2.6. Consolidation Area

The consolidated financial statements as at December 31, 2014, include the financial statements of the Parent and its Italian and foreign subsidiaries in which it holds, directly or indirectly as at December 31, 2014, more than 50% of the share capital (included in the consolidation on a line-by-line basis) and the financial statements of Europropulsion S.A. 50% jointly controlled, which are consolidated under the equity method.

During 2014, no changes occurred in the consolidation area, which is showed in the following table:

Companies in consolidation area as of December 31, 2014	Investment portion
<i>The Parent Company</i>	
Avio S.p.A.	-
<i>Controlled companies consolidated on a line-by-line basis</i>	
ASPropulsion International B.V.	100%
SE.CO.SV.IM. S.r.l.	100% (**)
ELV S.p.A.	70%
Regulus S.A.	60%
Avio India Aviation Aerospace Private Limited (*)	100% (***)
<i>Companies consolidated on a proportionate basis</i>	
Europropulsion S.A.	50%

(*) It should be noted that, as of December 31, 2014, the Indian subsidiary is in liquidation.

(**) Investment portion held through ASPropulsion International B.V.

(***) Investment portion held partly through Avio S.p.A. (95%) and partly through ASPropulsion International B.V. (5%)

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 caption "Minority interest".

Consolidated companies at December 31, 2014 are analytically listed in Note 8 hereunder.

2.7. Accounting principles and measuring criteria

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 costs necessary to bring the asset to working conditions for its intended use and the estimated 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. In the value of internally constructed assets are included all construction costs incurred up to the moment in which these assets enter into use, 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 in the cost of the existing assets or as a separate one, only if they increase the future economic benefits associated with the related caption 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 use. 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 tangible assets:	
- Furniture, office machinery and equipment	12-20%
- Transportation vehicles	20-25%
- Other tangible assets	12-25%

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

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 are amortised during the lower period between the residual length of the rent or concession agreement and the residual useful life of the asset to which the improvement refers.

Each part of a caption 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.

Land is not depreciated.

In case of impairment loss, 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 the sale or disposal of property, plant and equipment are determined by the difference between the selling price and the net book value in the moment of de-recognition 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.

For the purposes of the impairment test at December 31, 2014, goodwill is allocated at the cash-generating unit (CGU) level, representing of financially independent business unit through which the Group operates. Based on actual Group's structure, as of December 31, 2014, only one CGU, corresponding to Space Sector, has been identified.

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

Development costs

Development costs are mainly related to the production of components and parts for aero-engines 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 statement.

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 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 amounts 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 *Cash-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

With regard to the maturity date within or beyond 12 months from the balance sheet date financial assets comprise:

- 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.

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.

Construction in progress

Construction 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 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 caption "Provisions for risks". In particular, the expected losses are recognised as expenses immediately at the moment they become known.

Construction in progress is presented in the Statement of Financial Position net from advances invoices to customers. The following analysis is conducted for each contract: if the gross amount of specific work contract exceeds the progress invoice amount, the positive difference is classified in the line at the Statement of Financial Position; otherwise, the net negative difference is classified in the caption "Advances for construction 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 caption 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 caption 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 caption "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 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, unrecognised 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 recognised completely in the income statement.

Share-based compensation plans

Cash-settled share-based compensation plans may be settled in cash or by the delivery of other financial assets, are accounted 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 of the period.

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 construction 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 construction in progress, which are accounted for using the percentage of completion method (as more fully described in the related note).

Interest income are accounted 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 in income statement 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 Research and Development activities

Tax credits for Research and Development activities (Law No. 296/2007 and subsequent modifications) are accounted in the financial statements to the extent that the tax credit is considered as recoverable and usable. These credits are initially recorded against the caption "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 construction 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 Research and Development expenses.

Expenses

Expenses are accounted 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 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 Group 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 caption "Deferred tax assets", if positive, or in the caption "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 depends 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 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 financial markets and of the markets the Group deals with 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, in addition to those generated by the normal course of operating business, will allow the Group to face the financial needs arising from investment activities, working capital management, and debt repayment at maturity.

Interest rate risk and exchange rate risk

Based on the actual financial structure of the Group (2014 net financial position as well as the December 31, 2014 one is essentially constituted by cash and cash equivalents and other current financial assets, connected to the utilization of funds made available in the recent extraordinary operation) and due to the fact that the Group operates almost exclusively in Euro, the Group is not significantly influenced by market risks derived by fluctuations on exchange rates or interest rates over its financial assets and liabilities.

Considering what indicated above about the non-significance of market risks related to changes in interests rates, as at December 31, 2014, the Group does not have derivative financial instruments in place in order to mitigate the exposure of cash flows fluctuations related the fore mentioned risks.

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 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 construction 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

As of December 31, 2014 the Group consolidated financial statements include 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 construction 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 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 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 IFRS INTERPRETATIONS APPLICABLE FROM JANUARY 1, 2014

The following accounting principles, amendments and IFRS interpretations were applied for the first time by the Group starting from 1 January 2014:

- 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*. The previous IAS - 27 was 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 the control) and SIC 12 (based on the transfer of risks and benefits);
 - It introduces a more robust control definition than before, based on three elements: (a) power over the investee; (b) exposure or rights to variable returns from involvement with the investee; (c) ability to use the power to impact the amount of such returns;
 - IFRS 10 requires an investor to assess whether it has control over the investee and focuses on activities that significantly affect the returns of the same;
 - IFRS 10 requires to consider only substantive rights, in other words those which are exercised in practice when important decisions must be taken on the investee, when assessing control;
 - 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 principal, and so on.

Generally, 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 made no impact on the consolidation of the Group.

- On 12 May 2011, the IASB issued IFRS 11 - *Joint Arrangements*, which replaces IAS 31 - *Investments in Joint Ventures* and SIC-13 - *Jointly Controlled Entities - Contributions in nature by the ventures*. 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 retrospectively applicable, from 1 January 2014.

Generally, the application of IFRS 11 requires a significant level of judgment on a number of aspects of companies sectors related to the difference between joint venture and joint operation. Following the amend of the new principle IFRS 11, IAS 28 - *Investments in Associates* has been amended to include within its purpose of application, from the effective date of the standard, accounting for investments in joint ventures.

The introduction of the new standard, based on the classification of the jointly controlled company Europropulsion SA agreement as a joint venture, and also considering the agreement between the parties and the nature of the vehicle activity, led to a change in the accounting method used for consolidation - passing from proportional method previously applied to the equity method. Mentioned change produced the following effects on the consolidated financial statement (amounts in thousands of Euros):

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	As of 31 December 2013			As of 1 January 2013		
	Published Data	IFRS 11 Changes	Restated Values	Published Data	IFRS 11 Changes	Restated Values
ASSETS						
Non-current assets						
Property, plant and equipment	47,597	(1,416)	46,181	50,076	(1,426)	48,650
Investment property	2,486	-	2,486	2,526	-	2,526
Goodwill	221,000	-	221,000	221,000	-	221,000
Intangible assets with finite useful lives	97,183	(21)	97,162	102,600	(48)	102,552
Investments	5,178	2,984	8,162	5,178	2,882	8,060
Non-current financial assets	6,040	-	6,040	4,040	-	4,040
Deferred tax assets	42,580	-	42,580	1,846	-	1,846
Other non-current assets	13,941	-	13,941	16,435	-	16,435
Total non-current assets	436,006	1,547	437,553	403,702	1,408	405,110
Current assets						
Inventories	169,601	(105,242)	64,358	166,311	(102,581)	63,729
Construction in progress	71,551	(43,917)	27,634	76,133	(18,321)	57,812
Trade receivables	13,580	(2,787)	10,793	13,442	(6,282)	7,160
Current financial assets	1,279,301	(13,844)	1,265,457	25,209	(20,685)	4,524
Cash and cash equivalents	58,032	(649)	57,383	2,715	(515)	2,200
Current tax assets	16,185	(105)	16,080	18,450	(348)	18,102
Other current assets	20,557	(180)	20,377	8,015	(233)	7,782
Total current assets	1,628,807	(166,724)	1,462,083	310,275	(148,964)	161,311
Assets classified as held for sale and Discontinued operations	-	-	-	3,969,869	-	3,969,869
TOTAL ASSETS	2,064,812	(165,177)	1,899,636	4,683,846	(147,556)	4,536,290

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	As of 31 December 2013			As of 1 January 2013		
	Published Data	IFRS 11 Changes	Restated Values	Published Data	IFRS 11 Changes	Restated Values
EQUITY						
Share capital	40,000	-	40,000	40,000	-	40,000
Additional paid-in capital	73,576	-	73,576	726,400	-	726,400
Other reserves	(2,037)	-	(2,037)	(1,551)	-	(1,551)
Retained earnings/(losses)	72,524	-	72,524	(37,906)	-	(37,906)
Profit/(Loss) for the year of the Group	1,276,669	-	1,276,669	31,665	-	31,665
Total Equity of the Group	1,460,732	-	1,460,732	758,608	-	758,608
Non-controlling interests	8,687	-	8,687	9,583	-	9,583
TOTAL EQUITY	1,469,419	-	1,469,419	768,191	-	768,191
LIABILITIES						
Non-current liabilities						
Non-current financial liabilities	139,929	-	139,929	133,880	-	133,880
Provision for employee benefits	11,617	(285)	11,333	11,318	(273)	11,046
Provisions for risks	24,184	(430)	23,754	35,662	(465)	35,198
Deferred tax liabilities	302	-	302	109,298	-	109,298
Other non-current liabilities	56,795	-	56,795	57,431	-	57,431
Total non-current liabilities	232,827	(715)	232,113	347,589	(737)	346,852
Current liabilities						
Current financial liabilities	13,845	13,845	27,690	20,685	20,685	41,369
Provisions for risks	16,488	-	16,488	48,745	-	48,745
Trade payables	57,701	(9,078)	48,623	56,728	(3,848)	52,880
Advances for construction in progress	18,829	9,441	28,270	22,771	46,349	69,120
Current tax payables	47,479	(648)	46,831	10,009	(631)	9,378
Other current liabilities	208,224	(178,021)	30,202	232,874	(209,374)	23,500
Total current liabilities	362,566	(164,462)	198,105	391,811	(146,819)	244,992
Liabilities classified as held for sale and Discontinued operations	-	-	-	3,176,256	-	3,176,256
TOTAL LIABILITIES	595,394	(165,177)	430,217	3,915,655	(147,556)	3,768,099
TOTAL LIABILITIES AND EQUITY	2,064,812	(165,177)	1,899,636	4,683,846	(147,556)	4,536,290
CONSOLIDATED INCOME STATEMENT						

		2013	
	Data published	IFRS 11 Changes	Restated Values
Revenues	287,649	(55,579)	232,070
Change in inventory of finished and semi-finished goods	7,832	(9,483)	(1,652)
Other operating income	6,752	(572)	6,180
Raw material consumption	(132,719)	69,478	(63,241)
Cost of services	(84,672)	(14,800)	(99,472)
Personnel costs	(55,228)	5,960	(49,268)
Depreciation and amortisation	(17,618)	276	(17,342)
Write-down and impairment loss & reversal	-	-	-
Other operating expenses	(15,357)	1,350	(14,008)
Effect of valuation investments with equity method	-	2,311	2,311
Capitalisation of costs for internally generated assets	5,506	-	5,506
OPERATING PROFIT	2,143	(1,060)	1,083
Financial income	1,844	(35)	1,809
Financial expenses	(4,013)	(34)	(4,047)
NET FINANCIAL INCOME/(EXPENSES)	(2,169)	(69)	(2,238)
Share of income/(expenses) in investments in associated companies accounted for using the equity method	-	-	-
Other income/(expenses) from financial investments	979	-	979
NET INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS	979	-	979
PROFIT/(LOSS) BEFORE TAXES AND DISCONTINUED OPERATIONS	954	(1,129)	(176)
INCOME TAXES	(13,353)	1,129	(12,224)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	(12,399)	-	(12,399)
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS NET OF TAXES	1,290,062	-	1,290,062
PROFIT/(LOSS) FOR THE YEAR	1,277,663	-	1,277,663
-- from which: Attributable to owners of the Parent	1,276,669	-	1,276,669
Attributable to non-controlling interests	994	-	994

- IFRS 12 – Disclosure 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 principle is effective retrospectively from January 1, 2014. Adopting this new standard made no impact on the information of the notes of the consolidated financial statements of the Group.
- Amendments to IAS 32 – “Financial assets and financial liabilities offsetting”, presented to clarify the application of certain offsetting criteria for financial assets and financial liabilities (for example, the entity has the legal right to compensate the carrying amount and the intention to write-off the net residual or realize the activity writing-off the liability in the same time). The amendments are effective from January 1, 2014 and are required to be applied retrospectively. The management anticipates that the adoption of this new standard has no impact on the consolidated financial statements of the Group.
- Amendments to IFRS 10, IFRS 12 and IAS 27 “Investment Entities” 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. The following criteria are introduced to determine if the Company is qualified as an Investment entity and, though to access to the exception:
 - o Obtaining funds from one or more investors in order to deliver them management services;
 - o Commencing to its investor(s) that its business purpose is to invest funds solely from returns capital appreciation, investment income or both;
 - o Measure and evaluates the performance of substantially all of its investments on fair value basis.

These amendments are applicable, together with the principles of reference, from January 1, 2014. The management anticipates that the adoption of this new standard has no impact on the consolidated financial statements of the Group.

- Amendments to IAS 36 – “Impairment of assets - Recoverable amount disclosure for non-financial assets”. The amendments are intended to clarify that the additional information provided for 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.

In this case, it is necessary to provide information for the level of fair value, which includes the recoverable amount and estimation techniques (in cases of level two or three). The amendments shall be effective retrospectively starting from January 1, 2014. The management anticipates that the adoption of this new standard has no impact on the consolidated financial statements of the Group.

- Amendments to IAS 39 - "Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting". The amendments relate to the introduction of several exemption to the requisition for hedge accounting according to IAS 39, in a situation where a derivative, designated as a hedging instrument, is novated to effect clearing with a central counterparty, because of the introduction of laws or regulation. The amendments shall be effective retrospectively starting from January 1, 2014. The management anticipates that the adoption of this new standard has no impact on the consolidated financial statements of the Group.

ACCOUNTING PRINCIPLES, AMENDMENTS AND IFRS & IFRIC INTERPRETATION ENDORSED BY EUROPEAN UNION, BUT NOT YET APPLICABLE FROM THE GROUP AS OF DECEMBER 31, 2014

- On 20 May 2013 was published the interpretation IFRIC 21 - Levies, which provides clarification on when recognition of a liability related to taxes (other than income taxes) set by a government agency. In addition the principle recognized the accounts in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, both with the timing and reliable amount of taxes. The amendments shall be effective retrospectively starting from June 17, 2014. The administrators believe that adopting this new interpretation will make no impact on the consolidated financial statements of the Group.
- 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:
 - o 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").
 - o 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).
 - o 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".
 - o 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 disclosed only if the total assets of the operating segments are regularly reviewed by the highest operational decision making authority of the Company.
 - o 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.
 - o 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.

The modification will be applied starting from the financial year, which includes February 1, 2015. The management anticipates that the adoption of this new standard will have no impact on the consolidated financial statements of the Group.

- On December 12, 2013, the IASB issued the document *Annual Improvements to IFRS's: 2011-2013* including the amendments of several principles related to the annual improvement. The main modification relate to:
 - 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 January 2015 or after. The management anticipates that the adoption of this new standard will have no impact on the consolidated financial statements of the Group.

- On November 21, 2013 the IASB issued amendments to IAS 19 - "Defined Benefits Plan: Employee Contributions" propose to present the contributions (related to the service delivered by the employee only within financial year) effectuated by employees or third parties to the Defined Benefits Plan and in the same time this reduce the cost for service as incurred. The necessity of such proposal arose after the introduction of the new IAS 19 (2011), where it is stated that contributions are part of post-employment benefit, other than a short-term benefit and, therefore, such contribution should be extended to the entire years of service by the employee. The amendments are effective for annual periods beginning on or after February 1, 2015 or after. The management anticipates that the adoption of this new standard will have no impact on the consolidated financial statements of the Group.

ACCOUNTING PRINCIPLES, AMENDMENTS AND IFRS INTERPRETATION NOT YET ENDORSED BY THE EUROPEAN UNION.

At the date of reference of the Separated Financial Statements, competent authorities of the European Union have not concluded the process of endorsement in order to adopt the following amendment and principles.

- On January 30, 2014, the IASB published the standard IFRS 14 - Regulatory Deferral Accounts, which permits an entity that is first-time adopter of IFRS to continue to account for regulatory deferral account balances in accordance with their previous accounting principles. The Company/the Group is not a first-time adopter, thus this principle is not available.
- On May 6, 2014, the IASB issued several amendments to the principle IFRS 11 "Joint Arrangements - Accounting for acquisitions of interests in joint operations" related to the accounting for acquisitions of interests in joint operations, whose activity constitutes a business as required by IFRS 3. Amendments require that for relevant principles for business combination in IFRS 3 to be applied for these companies. The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The management anticipates that the adoption of this new standard will have no impact on the consolidated financial statements of the Group.

- On May 12, 2014, the IASB issued amendments to IAS 16 Property, plant and Equipment and IAS 38 Intangibles Assets - "Clarification of acceptable methods of depreciation and amortization." The amendments to IAS 16 require that depreciation criteria determined from those revenues are not appropriate, since, according to the amendment, the revenue generated by an activity that includes the use of amortized generally reflect different factors only from consumption of economic benefits of the asset. The amendments to IAS 38 introduce a rebuttable presumption, that a depreciation method based on revenues is considered generally inappropriate for the same reasons set out by the amendments made to IAS 16. In the case of intangible assets, however, this presumption can be overcome, but only in limited and specific circumstances. The changes will apply from 1 January 2016 but early application is allowed. The directors do not expect a significant impact in the consolidated financial statements from the adoption of these changes.
- On May 28, 2014, the IASB published the standard IFRS 15 – Revenue from Contracts with Customers, which will replace IAS 18 – Revenue, IAS 11 – Construction Contracts, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services. The principle establishes a new model of recognising the revenues, which will be applicable in all the contracts with customers, except for those, which have the right to use another IAS/IFRS such as leasing contracts, insurance contracts and financial instruments. The main steps for recording the revenues in accordance with the new model are as follows:
 - o Identify the contract with a customer;
 - o Identify the performance obligations in the contract;
 - o Determine the transaction price;
 - o Allocate the transaction price to the performance obligations in the contract;
 - o Recognise revenues when the entity satisfies a performance obligation.
 The amendments are effective for annual periods beginning on or after 1 January 2017.
- On July 24, 2014, the IASB published the final version of IFRS 9 - Financial Instruments. The document includes the results of the phases related to Classification and measurement, Impairment and Hedge accounting, of the IASB's project designed to replace IAS 39. The new principle, which substitutes to the previous version of IFRS 9, must be applicable from January 1, 2018 or thereafter.

Following the Financial crisis of 2008, as a request of the main financial and political institutions, the IASB initiated the project to the replace of IFRS 9 and has proceeded in different phases. In 2009, the IASB published the first version of IFRS 9, which treated only the classification and measurement of the financial assets; followed in 2010 by publishing the criteria of classification and measurement of the financial liabilities and unrecognition (it was transposed without changes from IAS 39). In 2013, the IFRS 9 was modified including the general model of hedge accounting. After the current publishing, which includes the impairment, the IFRS 9 is considered as completed, except for the criteria related to the macro hedging, on which the IASB has undertaken an independent project.

The standard introduces new criteria for classification and measurement of financial assets and liabilities. Particularly, for the financial assets the new standard uses a single approach based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets, in order to define the measurement criteria, replacing the many different rules in IAS 39. Instead, for financial liabilities, the most significant effect of the standard regarding the classification and measurement relates to the accounting for changes in fair value attributable to changes in the credit risk of financial liabilities designated at fair value through profit or loss. Under the new standard, these changes are recognised in "Other comprehensive income statement" and not anymore in the income statement.

With reference to the impairment model, the new standard requires that the estimates of credit losses should be based on the model of the expected losses (and not in the model of incurred losses) using supporting information, available without charges or irrational efforts, which should include historic, actual and forecasted data. The standard requires that the impairment model will be applicable to all financial instruments, which are financial assets measured at amortized cost or those measured at fair value through other comprehensive income, receivables deriving from leasing contracts and trade receivables. Lastly, the standard introduces a new model of hedge accounting, aiming 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 amendments of document are:

- increase of the types of transactions eligible for hedge accounting, including risks of non financial assets / liabilities eligible for hedge accounting;
- 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 caption and the hedging instrument; In addition, it is not required a retrospective assessment of the effectiveness of the hedging relationship;

The greater flexibility of the new accounting rules is balanced by disclosure requirements on risk management activities of the Company. The management anticipates that the adoption of this new standard will have no impact on the consolidated financial statements of the Group.

- On August 12, 2014, the IASB published the amendment of IAS 27 - Equity Method in Separate Financial Statements. The document introduces the option to use in the entity's separated financial statements the equity method for the evaluation of Investments in controlled subsidiaries, jointly controlled entities and in associated companies. Consequently, followed by the introduction of the amendment, an entity may measure these investments in its separated financial statements as follows:

- At cost; or
- As intended by IFRS 9 (or IAS 39); or
- Using the Equity Method.

The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The management anticipates that the adoption of this new standard will have no impact on the consolidated financial statements of the Group.

- On September 11, 2014, the IASB issued the amendment of IFRS 10 and IAS 28 - Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. The document was published in order to solve the actual conflict between IAS 28 and IFRS 10. According to IAS 28, the gain or loss resulting from the sale or contribution of a non-monetary asset to a Joint venture or Associate in exchange for share capital is limited in the portion held in Joint venture or Associate from other investors unrelated to the transaction. On the other side, IFRS 10, requires accounting for the entire gain or loss in the case of loss of control of a subsidiary, even when the entity continues to hold a non-controlling interests over the investee including the sale or contribution of a subsidiary from the investor to its associate or Joint Venture. The amendments determine that the extent of gain or loss recognised in investor's financial statements from sale or contribution of assets to an associate or joint venture depend on whether the assets sold or contributed constitute a business according to IFRS 3. Full gain or loss recognition is required for transactions between investors and associates only where a sale of contribution of assets constitutes a business; otherwise, the gain or loss from the transaction should be eliminated only to the extent that it does not exceed the carrying amount of the entity's investment in the joint venture. The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The management anticipates that the adoption of this new standard will have no impact on the consolidated financial statements of the Group.

- On September 25, 2014, the IASB published the document "Annual Improvements to IFRS: 2012-2014 Cycle". The amendments are effective for annual periods beginning on or after 1 January 2016.

The document introduce amendments to the following standards:

- IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations. The amendment includes specific guidance to the standard for cases in which an entity reclassifies an asset from held for sale (or disposal group) to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued. The amendments define that (i) these reclassifications should not be considered as change in the selling or distribution plan and that are still valid the same classification and measurement criteria; (ii) assets, which do not meet the classification criteria for held-for-distribution, should be treated in the same way as the ones which do not meet the classification criteria for held-for-sale;
- IFRS 7 - Financial Instruments: Disclosure. The amendment includes additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for determining the disclosures required. Clarifies the applicability of the amendments on

- offsetting disclosures to condensed interim financial statements. However, this information might be necessary to fulfil the requirement of IAS 34, if it is a significant information;
- IAS 19 – Employee Benefits. The amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. It clarifies that the depth of the market for high quality corporate bonds should be assessed at currency level;
- IAS 34 – Interim Financial Reporting. The document introduces amendments in order to clarify the requirement to fulfil when the requested disclosure present in interim financial report, but outside the interim financial statements. The amendments precise that the information should be included through a cross-reference from the interim financial statements to other parts of interim financial report and that this document should be available to stakeholders in the same modality and the same time as of interim financial statements.

The management anticipates that the adoption of this new standard will have no impact on the consolidated financial statements of the Group.

- On December 18, 2014, the IASB published the amendment of IAS1 – Disclosure Initiative. The object of the amendments is to clarify to some disclosures that could be seen as obstacles to a fair and intelligible redaction of financial statements. The amendments are the following:
 - Materiality and aggregation: clarifies that an entity should not obscure useful information by aggregating or disaggregating information; and that materiality considerations apply to primary financial statements, notes and any specific disclosure requirements in IFRSs. The disclosures specifically required by IFRSs need to be provided only if the information is material;
 - Statement of financial position and statement of profit or loss and other comprehensive income: clarifies that the list of items specified by IAS 1 for these statements can be aggregated and disaggregated as relevant. Additional guidance has been added on the presentation of subtotals in these statements.
 - Presentation of items of “Other Comprehensive Income (“OCI”): clarifies that an entity’s share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.
 - Notes: clarifies that entities have flexibility when designing the structure of the notes and provides guidance on how to determine a systematic order of the notes, for example:
 - Giving importance to those that are most relevant in order to understand the financial position (assorting information in specific assets);
 - Assorting elements measured with the same criteria (assets measured with fair value);
 - Following the order of the element presented in the prospects.

The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The management anticipates that the adoption of this new standard will have no impact on the consolidated financial statements of the Group.

On December 18, 2014, the IASB published “Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)”, containing amendments related to topics emerged from the application of consolidation exception conceded to the investments entities. The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The management anticipates that the adoption of this new standard will have no impact on the consolidated financial statements of the Group, which is not define as an investment entity.

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

The balance sheet data at December 31, 2013 and the 2013 Income Statement data included in the following paragraphs are qualified as "restated" to indicate they are modified, compared to the corresponding data included in the consolidated financial statements as at December 31, 2013, in order to include the effects of the adoption of IFRS 11, retrospectively applied by the Group, effective from January 1, 2014. For more details about the effects of this accounting principle adoption, please refer to previous paragraph "2.10. New accounting principles - Accounting principles, amendments and IFRS interpretations applicable from January 1, 2014".

NON-CURRENT ASSETS

3.1. PROPERTY, PLANT AND EQUIPMENT

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

	31/12/2014			31/12/2013 restated		
	Gross Values	Accumul. depreciation	Net Values	Gross values	Accumul. depreciation	Net values
Land	7,565	-	7,565	7,189	-	7,189
Buildings	31,526	(11,679)	19,847	31,107	(10,572)	20,535
Plant and machinery	56,348	(40,680)	15,668	51,657	(37,616)	14,041
Plant and machinery in leasing	-	-	-	-	-	-
Industrial and commercial equipment	15,237	(12,982)	2,255	14,723	(12,393)	2,330
Other assets	6,212	(4,432)	1,780	5,491	(3,813)	1,678
Work in progress and advances	525	-	525	408	-	408
Total	117,413	(69,773)	47,640	110,575	(64,394)	46,181

At December 31, 2014, construction in progress and advances (Euro 525 thousand) refers to investments in progress, mainly related to plant and machinery.

Gross value movements occurred during 2014 are detailed as follows (amounts in thousands of Euro):

Gross Vales	31/12/2013 restated	Increase	Impairment losses	Reclass. and other changes	31/12/2014
Land	7,189	376	-	-	7,565
Buildings	31,107	419	-	-	31,526
Plant and machinery	51,657	4,691	-	-	56,348
Industrial and commercial equipment	14,723	495	2	16	15,237
Other assets	5,491	642	(18)	97	6,212
Work in progress and advances	408	248	(18)	(113)	525
Total	110,575	6,871	(34)	-	117,413

Accumulated depreciation movements occurred during 2014 are detailed as follows (amounts in thousands of Euro):

Accumulated depreciation	31/12/2013 restated	Depreciation	Impairment loss	Reclass. and other changes	31/12/2014
Land	-	-	-	-	-
Buildings	10,572	1,107	-	-	11,679
Plant and machinery	37,616	3,064	-	-	40,680
Industrial and commercial equipment	12,393	589	-	-	12,982
Other assets	3,813	619	-	-	4,432
Work in progress and advances	-	-	-	-	-
Total	64,394	5,379	-	-	69,773

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

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 (amounts in thousands of Euro):

	31/12/2014			31/12/2013 restated		
	Gross values	Accumulated depreciation	Net values	Gross values	Accumulated depreciation	Net values
Land	1,832	-	1,832	1,847	-	1,847
Industrial buildings	1,488	(731)	757	1,328	(689)	639
Total	3,320	(731)	2,589	3,175	(689)	2,486

Investment property relates to certain land and buildings in the Colleferro (Rome) area owned by the controlled company SE.CO.SV.IM S.r.l., (whose main activity is real estate management in favour of Group companies and third parties), rented to third parties.

Gross value movements occurred during 2014 are detailed as follows (amounts in thousands of Euro):

Gross values	31/12/2013 restated	Additions	Impairment losses	Reclassification	31/12/2014
Land	1,847	-	(16)	-	1,831
Industrial buildings	1,328	161	-	-	1,489
Total	3,175	161	(16)	-	3,320

Accumulated depreciation movements occurred during 2014 are detailed as follows (amounts in thousands of Euro):

Accumulated depreciation	31/12/2013 restated	Depreciation	Utilisation	Reclassification	31/12/2014
Land	-	-	-	-	-
Industrial buildings	689	42	-	-	731
Total	689	42	-	-	731

3.3. GOODWILL

As at December 31, 2014 goodwill amounted to Euro 221,000 thousand (unchanged compared to December 31, 2013) and is related to portion allocated, in 2007, to the Space Sector.

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

Goodwill allocated to the Space CGU was tested for impairment at reporting date and as a result no impairment loss should be recognised on the carrying value of the goodwill as at December 31, 2014.

The recoverability of the carrying value was tested by comparing the CGU net invested capital (carrying value) with its recoverable amount. The recoverable amount was represented by the present value of future operating cash flows arising from forecasts included in the approved long-term plan of the Company, properly extrapolated, as indicated below, in order to consider the peculiarity of the Company's business life cycle and by a normalised terminal value, used to estimate future results for periods exceeding the timeframe 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 Company's and CGU's specific risks.

As at December 31, 2014 expected cash flows for 2015 of the Space CGU were determined based on the budget prepared by the Management and approved on March 26, 2015 by the Parent's Board of Directors and, for the subsequent period until 2018, on the basis of the long-range plan approved on October 24, 2014 by the Parent's Board of Directors. For the subsequent period 2019-2021, in order to consider the peculiarity of the Group's and CGU's *business* life cycle, data related to 2018 have been extrapolated and projected using a 2.5% growth rate. For the calculation of the *terminal value*, the cash flows forecasted for the last year of projection (2021) were normalised using the *perpetuity* method, and considering a 2.8% growth in the forecasted cash flows starting from 2022.

The described assessments of the *business'* life-cycle, considered as base of extrapolation of explicit forecasts of the long-range plan, are also confirmed by the agreements reached and future strategies developed by European States involved in the development of the space sector, and in particular of launchers' sector, as part of the recent meeting of Ministers of ESA Member States, held in Luxembourg during the month of December 2014; in that context the definitive agreement for the signing of contracts for the development of new Ariane 6 – replacing the current Ariane 5 – was established, and confirmation of the evolution of the VEGA launcher in the newly configured VEGA C was defined, regarding programs involving the Avio Group as a primary actor.

The average interest rate (weighted average cost of capital) used to discount expected cash flows was 8.79%, after tax (10.31% prior year).

It is important to mention that estimations and figures reported in the long-term 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 with which 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. However, the determination of the recoverable amount of goodwill requires by the 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 goodwill may not be impaired in the future, 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 Company's *Management*.

Taking into account described factors, the Group carried out a sensitivity analysis simulating a change considered representative of the significant parameters of the impairment test.

In particular:

- with regard to the growth rate for the explicitly projected period (2019-2021) and the growth rate of the terminal value (since 2022), a 50 basis point decrease has been simulated; alternately
- with regard to the discount rate of the cash flows, a 50 basis points increase has been considered.

On the basis of these sensitivities, the recoverable amount of the CGU exceeds the corresponding carrying amount recorded in the financial statements.

Even considering on a jointly basis the above mentioned negative variations of the main parameters, the recoverable amount of the Space CGU exceeds the corresponding carrying amount recorded in the consolidated financial statements.

3.4. INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

The composition of this caption is set out in the following table (amounts in thousands of Euro):

	31/12/2014			31/12/2013 restated		
	Gross Values	Accumulated amortisation	Net Values	Gross Values	Accumulated amortisation	Net Values
Development costs – amortised	71,189	(29,578)	41,611	71,189	(22,630)	48,558
Development costs – not yet completed	23,656	-	23,656	14,841	-	14,841
Total development costs	94,845	(29,578)	65,267	86,030	(22,630)	63,400
Customer relationships for participation in programmes	61,257	(32,671)	28,586	61,257	(28,587)	32,670
Concessions, licences, trademarks and similar rights	4,352	(3,564)	788	3,763	(2,860)	903
Other	1,335	(848)	487	1,027	(848)	179
Intangible assets in progress	106	-	106	10	-	10
Total	161,895	(66,661)	95,234	152,087	(54,925)	97,162

Development costs mainly include costs of designing and testing of the Vega launcher's 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.

Intangible assets for customer relationships for participation in programs are related to the identification of such assets as a result of the acquisition purchase price allocation. 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 costs of acquisition of licences for software utilization.

Gross value movements occurred during 2014 are detailed as follows (amounts in thousands of Euro):

Gross values	31/12/2013 restated	Increase	Disposals	31/12/2014
Development costs – amortised	71,189	-	-	71,189
Development costs – not yet amortised	14,841	8,815	-	23,656
Total development costs	86,030	8,815	-	94,845
Customer relationships for participation in programmes	61,257	-	-	61,257
Concessions, licences, trademarks and similar rights	3,763	589	-	4,352
Other	1,027	308	-	1,335
Intangible assets in progress	10	96	-	106
Total	152,087	9,808	-	161,895

The increases occurred during the year refer to development costs capitalized by the Parent company are mainly related to the Vega launcher development programme.

The investment in the caption Concessions, licenses, trademarks and similar rights mainly refer to expenses related to the Group's technology infrastructure, also as a result of changes in the operational structure of the Parent company, in relation to the contribution of most of the *Corporate* structures.

Accumulated amortisation movements occurred during 2014 are detailed as follows (amounts in thousands of Euro):

Accumulated amortisation	31/12/2013 restated	Depreciation	Impairmen t loss	31/12/2014
Development costs – amortised	22,630	6,948	-	29,578
Development costs – not yet amortised	-	-	-	-
Total development costs	22,630	6,948	-	29,578
Customer relationships for participation in programmes	28,587	4,084	-	32,671
Concessions, licences, trademarks and similar rights	2,860	704	-	3,564
Other	848	-	-	848
Intangible assets in progress	-	-	-	-
Total	54,925	11,736	-	66,661

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

3.5. INVESTMENTS

As at December 31, 2014, the caption amounts to 8,031 thousands Euro and shows a Euro 129 thousand reduction compared to December 31, 2013. The composition of investments and their breakdown with the related amount is as follows (amounts in thousands of Euro):

	31/12/2014		31/12/2013 restated	
	Group share	Total	Group share	Total
<u>Controlled companies not consolidated</u>				
- Servizi Colleferro – Soc. Consortile per Az.	52.00%	63	52.00%	63
Total controlled companies not consolidated		63		63
<u>Associated and jointly controlled companies</u>				
- Europropulsion	50.00%	2,643	50.00%	2,984
- ASPropulsion Capital N.V.	-	-	49.00%	1,030
- Termica Colleferro S.p.A.	40.00%	4,806	40.00%	3,566
- Other Consortiums		5		5
Total associated and jointly controlled companies		7,454		7,585
<u>Other companies</u>				
- Other Companies		514		514
- Other Consortiums		-		-
Total other companies		514		514
Total		8,031		8,162

The changes occurred during 2014 are detailed as follows: (amounts in thousands of Euro):

	31/12/2013 restated	Increase	Disposals	Other changes	31/12/2014
Controlled companies	-	-	-	-	-
Associated and jointly controlled companies	7.648	1.240	(1.030)	(341)	7.517
Other companies	514	-	-	-	514
Total	8.162	1.240	(1.030)	(341)	8.031

Investments in associated and in jointly controlled companies (other than Europropulsion S.A.) are valued at cost of acquisition or underwriting, as they are not significant for the representation in the consolidated financial statements. However, the equity method valuation of these investments does not differ significantly from the valuation at cost.

There are not significant restrictions in transferring resources to the Parent, as dividends, redemptions or advances.

Investments in other companies are valued at cost.

Increase occurred in 2014 amount to Euro 1,240 thousand and relates to the partial conversion into equity of the financial receivables towards Termica Colleferro.

It should be noted that during the year the liquidation process of the associate AS Propulsion Capital N.V. (Euro 1,030 thousand) was completed.

The "Other changes" caption include the effect of the application, in the consolidated financial statements, of the equity method for the investment held in the jointly controlled company Europropulsion S.A. (accounted for in accordance with IFRS 11), represented by the pro-rata share (50%) of the positive result gained by the company in 2014 (equal to Euro 1,969 thousand), net of dividends paid to Avio S.p.A (Euro 2,310 thousand).

3.6. NON-CURRENT FINANCIAL ASSETS

The caption amounts to Euro 6,200 thousand (Euro 6,040 thousand as of December 31, 2013) and refers to the loan, interest bearing, granted to the associated Termica Colleferro S.p.A., finalized to support its operating activity. The net increase, amounting to Euro 160 thousand, is due to the additional funding of Euro 1,400 thousand and the decrease of Euro 1,240 thousand related to the conversion of mentioned loan, with corresponding effect on investment value.

3.7. DEFERRED TAX ASSETS

The deferred tax assets recorded in the financial statements amount to Euro 54,490 thousand (Euro 42,580 thousand at December 31, 2013) and refer to consolidated companies having a positive net balance between deferred tax assets and deferred tax liabilities (mainly Avio S.p.A. and Secosvim S.r.l.), as well as the tax effects of consolidation adjustments. The amount related to Group's companies, where the net balance between deferred tax assets and deferred tax liabilities is negative, are recognized in the caption "Deferred Tax Liabilities" in the Liabilities' section of the Consolidated Statement of Financial Position.

The net balances between deferred tax assets (recorded as non-current assets) and deferred tax liabilities (recorded as non-current liabilities) are as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated
Deferred Tax Assets	54,490	42,580
Deferred Tax Liabilities	(252)	(302)
Net balance	54,238	42,278

The net balance represents the balance of deferred tax assets and liabilities calculated both on consolidation adjustments and on the temporary differences between the carrying amounts of assets and liabilities assumed for purposes of preparing the consolidated financial statements and the corresponding tax amounts.

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

The analysis of temporary differences and tax losses that led to the recognition of deferred tax assets and deferred tax liabilities, which refers to a net balance of Euro 54,238 thousand as at December 31, 2014 (compared to the net balance of Euro 42,278 thousand as at December 31, 2013) is presented in the following table (amounts in thousands of Euro):

	31/12/2014		31/12/2013 restated	
	Temporary differences	Tax effect amount	Temporary differences	Tax effect amount
<i>Positive variations:</i>				
Amortisation of "Aviation" goodwill (tax purposes only)	491,150	97,035	266,437	84,727
Financial expenses in excess of 30% EBIT	195,130	53,661	251,380	69,130
Provision for risk and charge and employee-related liabilities	25,062	7,365	20,759	6,166
Maintenance and other expenses with deferred deductibility	10,031	2,758	17,115	4,626
Inventory write-down	1,800	582	1,183	361
Allowance for doubtful accounts	650	186	667	191
Statutory exceeding tax depreciation and impairment losses	118	32	17,199	5,053
Recovery of previous IRAP tax deductions (*)	-	-	168,887	7,032
Intercompany gains eliminated and other consolidation adjustments	1,307	332	1,307	330
Total	725,248	161,951	744,934	177,616
<i>Negative variations:</i>				
Amortisation of "Space" goodwill (tax purposes only)	(77,248)	(23,600)	(68,942)	(21,589)
Allocation of "Space" goodwill to intangible assets	(28,587)	(9,239)	(32,168)	(10,591)
FTA R&D cost capitalisation and related amortisation	(29,808)	(8,197)	(30,458)	(9,767)
Accelerated depreciation (tax purposes only)	(3,398)	(982)	(17,829)	(5,597)
Construction in progress reduction value (tax purposes)	(1,956)	(538)	(4,866)	(1,805)
Gain with deferred taxability	(5)	(1)	(2,197)	(695)
Land depreciation reversal	(2,021)	(653)	(2,021)	(653)
Net unrealised exchange rate gains	-	-	(32)	(9)
Total	(143,023)	(43,211)	(158,513)	(50,707)
Net deferred tax	582,225	118,740	586,420	126,909
Deferred tax assets for tax losses		151		-
Deferred tax assets for previous years tax losses		96		96
Evaluation allowance (**)		(64,729)		(84,727)
Net Deferred tax		54,238		42,278

(*) As of December 31, 2014, the caption "Recovery of previous IRAP tax deductions" is attributed to its pertaining caption "Amortisation of "Space" goodwill (tax purposes only)" and "Accelerated depreciation (tax purposes only)" between negative variations.

(**) Recoverability assessment of DTA is based on the forecasted figures consistent with those used for the impairment test of goodwill, also taking into account a reversal timing aligned with those of the life cycle of the business, as confirmed by the outcome emerged in the recent meeting of Ministers of ESA Member States, held in Luxembourg during the month of December 2014.

Movements that determined the asset balance as at December 31, 2014 are detailed as follows (amounts in thousands of euro):

Balance of DTA/DTL as at December 31, 2013	42,278
Deferred tax assets and deferred income taxes recognized in the income statement and other changes	11,766
Deferred tax assets and deferred income taxes recognized in Actuarial Profit/losses reserve	194
Balance of DTA/DTL as at December 31, 2014	54,238

Deferred tax assets have been recognised as their future recovery is deemed probable, considering the future fiscal taxable amounts determined on the basis of the coherent results with those used for the *impairment test*, related to the recoverable value of the non-current assets.

Moreover, in the assessment of the time horizon used for the evaluation of recoverability, it has been taken into account the characteristics of the life cycle of the Group's business, as supported and confirmed by the agreements reached and future strategies developed by European States involved in the development of the space sector, and in particular of launchers' sector, as part of the recent

meeting of Ministers of ESA Member States, held in Luxembourg during the month of December 2014; in that context the definitive agreement for the signing of contracts for the development of new Ariane 6 – replacing the current Ariane 5 - was established, and confirmation of the evolution of the VEGA launcher in the newly configured VEGA C was defined, regarding programs involving the Avio Group as a primary actor.

Deferred tax assets were calculated based on the tax rates that are expected to be applied in the period when temporary differences will be recovered or the tax losses carried forward will be used. As resulting from the approved long-term plan, for the purpose of the recovery of the deferred tax assets balance, positive taxable income are expected to be achieved in future financial years.

3.8. OTHER NON-CURRENT ASSETS

This caption is detailed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85	11,119	13,670	(2,551)
Other non-current receivables	2	-	2
Cautionary deposits	276	271	5
Total	11,397	13,941	(2,544)

Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85, amounts to Euro 11,119 thousands, refers to the present value of the non-current portion (whose nominal value amounts to Euro 12,069 thousands), granted on December 31, 2014 by the Inter-ministerial Committee for Economic Planning (CIPE) of the Ministry of Economic Development subsequent to the approval of Resolution No. 28 of March 22, 2006, reporting guidance for the aerospace industry, whose payment is deferred over a ten-year period.

The present value of the non-current portion to receive within five years amounts to Euro 8,856 thousands and the present value of the non-current portion to be received beyond five years amounts to Euro 2,263 thousands.

These receivables are stated 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 3.25) .

For complete information about funding pursuant to Law No. 808/85, the current portion of the grant related within one year amounts to Euro 5,739 thousands and it is classified in the caption "Other current assets" (Note 3.15).

CURRENT ASSETS

3.9. INVENTORIES

The total value of the inventories at December 31, 2014 amounts at Euro 76,716 thousands. The composition of the caption is in the following table (amounts in thousands of Euro):

	31/12/2014			31/12/2013 restated		
	Gross value	Inventory reserve	Net value	Gross value	Inventory reserve	Net value
Raw materials and supplies	24,637	(1,497)	23,140	18,776	(1,419)	17,357
Work in progress	3,393	(424)	2,969	1,611	(425)	1,186
Finished goods	8,254	(4)	8,250	8,485	(4)	8,481
Advances to suppliers	42,357	-	42,357	37,334	-	37,334
	78,641	(1,925)	76,716	66,206	(1,848)	64,358

Finished goods include (for Euro 8,243 thousands, unchanged compared to the previous year) lands owned by the controlled company Secosvim, that are intended to be sold in the course of the ordinary business of this company.

The caption advances from suppliers includes amounts paid in advance by suppliers based on the conditions agreed on the related purchasing contracts.

3.10. CONSTRUCTION IN PROGRESS

Construction in progress are classified as an asset if, based on the analysis made for each contract, the gross amount of construction in progress is higher than advances received from the customers. Otherwise, the amount is classified as a liability.

The total gross value of construction in progress and progress billing and advances cashed from customers is detailed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Construction in progress (gross amount)	1,339,529	1,194,716	144,813
Progress billing and advances	(1,384,556)	(1,195,352)	(189,204)
Advances (net)	(45,027)	(636)	(44,391)

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 (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Construction in progress (gross amount)	880,265	948,466	(68,201)
Progress billing and advances	(838,416)	(920,831)	82,415
Work in progress (net)	41,849	27,635	14,214

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 (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Construction in progress (gross amount)	459,263	246,250	213,013
Progress billing and advances	(546,139)	(274,520)	(271,619)
Advances (net)	(86,876)	(28,270)	(58,606)

As at December 31, 2014, the Group has provisioned funds to cover expected losses on contracts with negative balance, amounting to Euro 718 thousand, classified in the Liabilities' section of the Consolidated Statement of Financial Position in the caption "Provision for risks and charges"; as at December 31, 2013, these funds were equaled to Euro 1,065 thousand.

3.11. TRADE RECEIVABLES

Trade receivables at December 31, 2014 amount to Euro 6,927 thousand (Euro 10,793 thousand at December 31, 2013). The caption is detailed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Trade receivables from third parties	5,007	9,206	(4,199)
Receivables from associated companies	1,668	1,474	194
Receivables from non-consolidated controlled companies	252	113	139
Total	6,927	10,793	(3,866)

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

Trade receivables from third parties

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Gross value	4,747	8,918	(4,171)
Less: allowance for doubtful accounts	(500)	(500)	-
Net value – within one year	5,247	8,418	(4,171)
Trade receivables – beyond one year	760	788	(28)
Total	5,007	9,206	(4,199)

There are no receivables with maturity date beyond five years.

Receivables from non-consolidated controlled companies

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Europropulsion	467	442	25
Servizi Colleferro S.c.p.A.	252	113	139
Consorzio Servizi Acqua Potabile	343	242	101
Termica Colleferro S.p.A.	858	790	68
Total	1,920	1,587	333

The receivables are deemed as fully collectable within one year and therefore no provision for doubtful account is recorded.

3.12. CURRENT FINANCIAL ASSETS

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Current financial assets from associated companies	141	119	22
Current financial assets from third parties	-	1,150,008	(1,150,008)
Current financial assets from third parties - Portion subject to restrictions	21,313	115,000	(93,687)
Financial prepaid expenses and deferred incomes	-	331	(331)
Total	21,454	1,265,458	(1,244,004)

Financial assets from associated companies are related to the short-term portion of financial receivables towards the associated company Termica Colleferro S.p.A. and represent the accrued interest on the loan granted to the associate.

Financial assets from third parties – Portion subject to restrictions (amounting to Euro 21,313 thousand) include the residual balance of the restricted funds transferred, in the previous year, in specific *escrow accounts*, related to the contribution of aviation business and subsequent disposal of investments in GE Avio S.r.l. occurred during the previous financial year.

As at December 31, 2013 mentioned escrow accounts amounted to Euro 115,000 thousand and were partly reclassified during 2014 (for a total amount of Euro 93,687 thousand) to Cash and cash equivalents; in particular, Euro 70,000 thousand were reclassified on August 2014, based on the expiring dates defined in the Sale and Purchase Agreement (SPA), stipulated with GE Italia Holding S.p.A. for the disposal of the investments in GE Avio S.r.l. and the remaining part - Euro 23,687 thousand - on November 2014 based on the additional agreement occurred between counterparts, in the context of the settlement of claims raised by General Electric, with reference to the SPA contract.

In particular, the amount recorded on *escrow accounts* as at December 31, 2014, refers to the residual restricted amount, following the described agreements, which has been reclassified in 2015, based on the signature of the *Settlement Agreement and Release*, occurred with GE Italia Holding S.p.A. on December 30, 2014, that has completed the settlement of the previously mentioned claims; a Euro 20,313 thousand amount was recognized to Avio S.p.A. (corresponding to the reclassification in cash and cash equivalents occurred, consistently with related bank operation, on January 2015), while the residual amount of Euro 1,000 thousand was used for the net payment recognized in favor of GE Italia Holding S.p.A. (recorded with counterpart an expenses from financial investments – Note 3.36) following the definitive settlement of claims occurred.

The decrease by Euro 1,150,008 thousand of the caption “financial assets from third parties” is related to the transaction occurred in June 9, 2014, relating to the sale of the short-term floating rate notes issued by Corsair Finance (Ireland) Limited - Series 119 ("Corsair"), in which the Parent had invested the proceeds deriving from the disposal of the investment in GE Avio S.r.l.; the related cash-in included the entire nominal value (Euro 1,150,000 thousand) and related interests matured in 2014 second quarter (Euro 508 thousand).

3.13. CASH AND CASH EQUIVALENTS

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Bank and post-office accounts	165,232	57,381	107,851
Cash on hand	-	2	(2)
Total	165,232	57,383	107,849

The variation during the financial year is mostly related to the cash flows described below:

- Cash-in (occurred on June 9, 2014) related to the Euro 1,150,000 thousand amount representing the nominal value of the Corsair short-term floating rate notes (described in the previous paragraph 3.11);
- Cash-out related to the dividends payment (Euro 949,000 thousand) deliberated by the Parent's Shareholder's Meeting on June 23, 2014, in favour of the Avio S.p.A.'s shareholders. Related payment to shareholders occurred for an amount equal of the nominal value of the decided dividends portion, net of related withholding tax (Euro 146,251 thousand) paid to Tax Authorities.
- Cash-out (on June 25, 2014,) due to the anticipated reimbursement (Euro 151,064 thousand) of loan related to the "Intercompany Loan Agreement", following the agreement between the Parent and its shareholders (sub entered to BCV Investments S.C.A. after its liquidation). The cash outflows occurred for the nominal value of the loan (including interest accrued at the reimbursement date), net of Euro 8,823 thousand withholding tax, paid to Tax Authorities.
- Cash-in due to the partial reclassification described in paragraph 3.12 (Euro 93,687 thousand) of funds included in escrow accounts related to the contribution of Aviation business and subsequent sale of the GE Avio S.r.l. investment occurred in previous year.

3.14. CURRENT TAX ASSETS

Current tax assets as at December 31, 2014 amount to Euro 29,970 thousand (Euro 16,080 thousand as at December 31, 2013) and it is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
VAT receivables	16,490	7,712	8,778
Receivables from Tax Authorities	11,987	5,820	6,167
Research and development tax credit	1,260	2,248	(988)
EU VAT receivable	233	300	(67)
Total	29,970	16,080	13,890

VAT receivables refers (Euro 16,490 thousand) to (a) VAT credit generated by the invoices flows related to the Group's activity (characterised by the significant presence of transactions not subject to VAT and by the progressive reduction of the available plafond for non VAT taxable purchases, based on applicable VAT laws) and (b) to the recognition of 2008 VAT receivables (Euro 6,000 thousand), previously requested for reimbursement and factorized to IFITALIA (and consequently de-recognized at that date), following the Tax Authority decision of mentioned VAT reimbursement blocking, based on the existence of pending tax claims on Avio S.p.A..

Receivables from Tax Authorities refers primarily to amounts paid for pending litigations (Euro 6,888 thousand, corresponding to reduced - 1/3 - penalties and accrued interest) related to claims pertaining MLBO operation and to excess of advance payments for IRAP tax (Euro 3,716 thousand).

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 according to existing rules, for an amount reasonably expected to be used to offset income taxes on future expected taxable income. The decrease resulted from the utilisation, occurred in 2014, of described credit to offset other taxes due.

3.15. OTHER CURRENT ASSETS

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Receivables from Social Security Institutions	30	9	21
Other receivables from associates	28		28
Receivables from employees	690	542	148
Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85	5,739	2,898	2,841
Receivables for public grants to be collected	2,610	2,610	-
Receivables from controlled companies: -Servizi Colferro – Società Consortile per Azioni	-	-	-
Receivables from other debtors	2,635	14,193	(11,558)
Allowance for doubtful accounts on receivables from other debtors	(150)	(150)	-
Prepaid expenses and accrued income	572	275	297
Total	12,154	20,377	(8,223)

Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85, amounts to Euro 5,739 thousands, represent the present value (corresponding to a nominal value of Euro 5,872 thousand on December 31, 2014) of funding granted 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 Inter-ministerial 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.

For complete information related to the funding pursuant to Law No. 808/85, the non-current portion of described receivables amounts to Euro 11,119 thousand and it is classified in the caption "Other non-current assets" (Note 3.8)

Receivables from other debtors include an amount of Euro 1,939 thousand towards Fiat Partecipazioni S.p.A. related to the portion – contractually defined - of environmental clean-up costs related to lands owned by the controlled company SE.CO.SV.IM. S.r.l., recoverable by AVIO S.p.A. through reimbursement request. The reduction of the amount compared to the previous year refers to the settlement of corresponding Euro 10,877 thousand receivables and payables (the last one is included in current liabilities as of December 31, 2013 – Nota 3.25) arisen in the context of the Aviation business sale to the General Electric group through GE Avio S.r.l.. During current year, based on agreements between counterparts, mentioned amounts (corresponding receivable and payable) have been compensated.

EQUITY**3.16. SHARE CAPITAL**

The Parent's share capital as of December 31, 2014 amounts to Euro 40,000 thousand, fully issued and paid, and it is unchanged with respect to December 31, 2013. Share capital was paid entirely at the incorporation of the Parent, on December 11, 2006.

As at December 31, 2014, share capital consist of 400,000,000 ordinary shares with nominal value of Euro 0.1 each.

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

Capital means both the value contributed by shareholders, represented by share capital and additional paid-in capital and both from 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.

3.17 ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital amounts to Euro 73,576 thousand at December 31, 2014 and it is unchanged with respect to December 31, 2013.

3.18. OTHER RESERVES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Actuarial gain/losses reserve	(2,526)	(2,037)	(489)
Total	(2,526)	(2,037)	(489)

The actuarial gains/losses reserve, negative for Euro 2,526 thousand at December 31, 2014, includes gains and losses arising from the application of the IAS 19 revised rules.

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

The reconciliation of Equity as at December 31, 2014 and the profit/(loss) for the year 2014 resulting from the separated financial statements of the Parent and the corresponding values resulting from the consolidated financial statements, is presented in the table below (amounts in thousands of Euro):

	Equity at 31/12/2014	Profit/(Loss) for the year 2014	Equity at 31/12/2013	Profit/(Loss) for the year 2013
Avio S.p.A. separated financial statements	501,854	5,548	1,445,731	1,245,356
Elimination of the carrying amount of investments recorded in the statutory financial statements	(118,881)	-	(120,402)	-
Equity and results of consolidated subsidiaries	131,778	1,967	134,481	21,454
Elimination of inter-company dividends	-	(1,621)	-	(12,615)
Elimination of gains and losses on inter-company transactions and other consolidation adjustments	2,046	(340)	922	22,474
Consolidated financial statements (Group portion)	516,797	5,554	1,460,732	1,276,669

3.20. NON-CONTROLLING INTERESTS

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

Subsidiary	31/12/2014			31/12/2013		
	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%	2,496	(78)	30.00%	2,463	58
Regulus S.A.	40.00%	5,086	1,022	40.00%	4,975	1,192
		7,582	944		7,438	1,250
Discontinued operations						
Polonia Aero Sp.z o.o.	-	-	-	40.85%	-	(164)
Avioprop S.r.l.	-	-	-	16.00%	-	(92)
		-	-		-	(256)
Total		7,582	944		7,438	994

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

3.21. NON-CURRENT FINANCIAL LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Financial payables to Parent company	-	139,929	(139,929)
Total	-	139,929	(139,929)

Financial payables to Parent company

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

	31/12/2014	31/12/2013 restated	Variation
Nominal value (principal amount)	-	96,964	(96,964)
Nominal value (capitalized interests)	-	54,054	(54,054)
Amortised cost adjustment	-	(11,089)	11,089
Total	-	139,929	(139,929)

On December 31, 2013, financial payables 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.

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

On May 16, 2014, Avio S.p.A. signed with the (at that date) controlling company BCV Investments S.C.A., an "*Amendment Agreement*" related to the "*Intercompany Loan Agreement*", defining certain modifications on contract's terms; in particular, starting from January 1, 2014, the applicable interest

rate was reduced to a rate aligned (based on EONIA rate) to the one defined for the investments made in financial instruments (Corsair short term floating rate notes) using the proceeds generated by the GE Avio S.r.l. investment sale.

Described contractual modification represented a material discontinuity and produce, in accordance with IAS 39 requirements, an accounting treatment corresponding to the effect of de-recognition of the liability and new registration of the contract under the modified terms; this approach led to the recognition (in the first half of 2014) of financial charges amounting to Euro 11,089 thousand, representing the reversal of the effect of the amortized cost adjustment applied as of December 31, 2013.

Thereafter, on June 2014, based on agreements between the Parent and its shareholders (sub-entered to BCV Investments S.C.A. after its liquidation), the financial payables related to the contract "Intercompany Loan Agreement" has been fully paid in advance.

3.22. EMPLOYEE BENEFITS PROVISIONS

The caption 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 the Group companies operate, with 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 caption "Other current liabilities". The Group recognises the contribution cost when the employee has rendered the service and includes this cost in the caption "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 any specific decisions 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 Group has mainly defined benefits plan as “unfunded”, constituted significantly by employee severance indemnity payment of the Italian companies.

Defined benefit plans reserve is detailed as follow (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Defined benefit plans:			
Employee severance indemnity (TFR)	6,671	7,259	(588)
Other defined benefit plans	2,153	1,892	261
	8,824	9,151	(327)
Other long-term benefits	2,496	2,182	314
Total	11,320	11,333	(13)
of which:			
- Italy	10,627	10,817	(190)
- Other countries	693	516	177
Total	11,320	11,333	(13)

Changes in employee benefits provisions are as follows (amounts in thousands of Euro):

	Defined benefit plans	Other long-term benefits	Total employee benefits provisions
Balance at December 31, 2013 (Restated)	9,151	2,182	11,333
Financial expenses/(income)	34	7	41
Recognised actuarial losses/(gains)	4	225	229
Current service costs	92	310	402
Other changes	646		646
Benefits paid	(1,103)	(228)	(1,331)
Change in consolidation area			-
Balance at December 31, 2014	8,824	2,496	11,320

The amounts charged to the 2014 income statement relate to the employees’ benefits provisions, which are detailed in the following table (amounts in thousands of Euro):

	December 31, 2014			December 31, 2013		
	Defined benefit plans	Other long-term benefits	Total Employee benefits provisions	Defined benefit plans	Other long-term benefits	Total Employee benefits provisions
Past service cost	-	-	-	-	-	-
Current service cost	92	310	402	284	365	649
Recognised actuarial losses/(gains)	4	225	229	610	362	972
Total personnel costs	96	535	631	894	727	1,621
Financial expenses/(income)	34	7	41	309	60	369
Total	130	542	672	1,203	787	1,990

Main actuarial assumptions used are detailed as follows:

	Year 2014	Year 2013
Discount rate	0.62%	1.69%
Expected salary increase	2.00%	2.71%
Inflation rate	1.50%	2.00%
Average rate of staff turnover	5.67%	7.95%

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 an high level of credit

rating 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, and Industrial. The geographical area considered was the Euro zone.

A 50 basis points increase or decrease in the discount rate would have the results indicated in the following table in the estimated value of TFR and of long-term service indemnity:

	Increase 0,50% in the discount rate	Decrease 0,50% in the discount rate
TFR	(189)	177
Long-term service indemnity	(88)	90

3.23. PROVISIONS FOR RISKS

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

	December 31, 2014			December 31, 2013 restated			Variation
	Current	Non -current	Total	Current	Non -current	Total	
Reserve for costs of variable salaries and wages	8,018	-	8,018	9,868	-	9,868	(1,850)
Reserve for personnel expenses and restructuring	-	574	574	-	1,894	1,894	(1,320)
Reserve for legal and environmental risks	1,377	7,759	9,136	2,322	7,295	9,617	(481)
Reserve for contractual and commercial risks	1,561	794	2,355	-	3,947	3,947	(1,592)
Reserve for fiscal risks	9,000	10,216	19,216	4,298	10,618	14,916	4,300
Total	19,956	19,343	39,299	16,488	23,754	40,242	(943)

The reserves are detailed below:

- The reserve for costs of variable salaries and wages is related to the current portion of the amounts to be paid to qualified employees contingent upon the achievement of company and individual results (for a total amount of Euro 5,140 thousand) and to 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, including social security costs, 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 Euro 574 thousand) and to other restructuring costs;
- The reserve for legal and environmental risks includes 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, is mainly related to 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 2014 are detailed as follows (amounts in thousands of Euro):

	31/12/2013 restated	Provisions	Non-recurring provisions	Utilization	Reclassi- fication and amounts reversed to income	31/12/2014
Reserve for costs of variable salaries and wages	9,868	3,109	-	(4,958)	-	8,019
Reserve for personnel expenses and restructuring	1,894	-	61	(1,381)	-	574
Reserve for legal and environmental risks	9,617	25	542	(930)	(117)	9,137
Reserve for contractual and commercial risks	3,947	46	-	-	(1,640)	2,353
Reserve for fiscal risks	14,916	8,730	29	-	(4,459)	19,216
Total	40,242	11,910	632	(7,269)	(6,216)	39,299

The caption "Reclassification" includes the amount of Euro 4,459 thousand related to reclassifications to the caption "Payables to Tax Authorities", following after receipt, on December 2014, of a formal tax claim ("*avviso di accertamento*") related to 2009 claimed interest expense in the context of MLBO tax claim.

3.24. DEFERRED TAX LIABILITIES

As at December 31, 2014, deferred tax liabilities amounted to Euro 252 thousand (Euro 302 thousand as at December 31, 2013) and refer to the consolidated subsidiaries in which the net balance between deferred 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 3.7 - "Deferred tax assets".

3.25. OTHER NON-CURRENT LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 - portion due after one year	39,230	39,230	-
Deferred income for funding pursuant to Law No. 808/85 - portion due after one year	14,947	16,347	(1,400)
Deferred income for grants related to assets - portion due after one year	7	38	(31)
Deferred income for tax credit related to R&D activities - portion due after one year	792	1,180	(388)
Deferred income for grants related to operating costs	234	-	-
Total	55,210	56,795	(1,585)

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

This caption equals to Euro 39,230 thousand and 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 Inter-ministerial 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 have arisen in 2014, 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 caption, amounting to Euro 14,947 thousand, 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 for 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 caption (equal to Euro 7 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 caption (equal to Euro 792 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, as due 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 research and development expenses, based on which the tax credit has been determined, and to the recognition of revenues related to construction in progress, to the amount of which research and development expenses concurred.

Deferred income for grants related to operating costs

This caption amounting to Euro 234 thousand, refers to the European Community contribution received within the framework of European Union support, for multi-national technology programmes, charged in the future accounting periods, consistently with the programmes progression.

CURRENT LIABILITIES

3.26. CURRENT FINANCIAL LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Financial payables to jointly controlled companies	7,919	27,690	(19,771)
Financial payables to third parties	-	-	-
Total	7,919	27,690	(19,771)

Financial payables to jointly controlled companies related to the portion of 50% of the financial intercompany debt of Avio S.p.A. towards Europropulsion S.A..

3.27. TRADE PAYABLES

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Trade payables to third parties	46,351	43,793	2,558
Trade payables to associated and jointly controlled companies	5,290	4,830	460
Trade payables to controlled companies	-	-	-
Total	51,641	48,623	3,018

Trade payables to associated and jointly controlled companies are detailed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Consorzio Servizi Acqua Potabile	64	-	64
Servizi Colleferro S.c.p.A.	42	(24)	66
Europropulsion S.A.	5,059	2,937	2,122
Termica Colleferro S.p.A.	125	1,917	(1,792)
Totale	5,290	4,830	460

3.28. CURRENT TAX PAYABLES

The composition of current tax payables is as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Withholding tax payable	1,333	1,014	319
Income tax payables – IRES	-	38,615	(38,615)
Income tax payables – IRAP	14	104	(90)
VAT payables	519	-	519
Other taxes and duties payables	4,754	7,098	(2,344)
Total	6,620	46,831	(40,211)

Withholding tax payable refers to liabilities towards Tax Authorities for retention made by the Group as withholding agent on salary (IRPEF tax) and other income.

Other taxes and duties payables mainly comprised (for Euro 4,460 thousand) liabilities related to tax claim ("avviso di accertamento") received, in December 2014, and related to 2009 interest expense in the context of MLBO operation. During 2014, the amount has been reclassified from the caption "Tax risk provision" to current tax payables. The portion of "other taxes and duties payable" related to abroad payable taxes amount to Euro 290 thousand.

3.29. OTHER CURRENT LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Advances from customers for supply of goods and services	3,828	3,517	311
Social Security payables	3,351	3,054	297
Other payables to third parties	6,709	20,626	(13,917)
Deferred income for grants related to assets – portion due within one year	31	33	(2)
Deferred income for funding pursuant to Law No. 808/85 – portion due within one year	1,400	1,704	(304)
Deferred income for tax credit related to R&D activities – portion due within one year	58	58	-
Other accrued expenses and deferred income	1,049	1,210	(161)
Total	16,426	30,202	(13,776)

Advances from customers for supply of goods and services

This caption mainly includes advances recognised by final customers for supply of goods and services for Euro 3,828 thousand (Euro 3,517 thousand as at December 31, 2013).

Social Security payables

This caption refers to payables amounting to Euro 3,351 thousand as at December 31, 2014 (Euro 3,054 thousand as at December 31, 2013) related to the amount payable by the companies and withheld from employees for contributions on salaries and wages, in accordance with current legislation.

Other payables to third parties

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Payables to employees	5,372	4,683	689
Other payables to third parties	1,337	15,943	(14,606)
Total	6,709	20,626	(13,917)

Payables to employees include certain payroll costs and deferred compensation accruals at year-end 2014.

The reduction of the amount compared to the previous year refers to the settlement of corresponding Euro 10,877 thousand receivables (included in current assets as of December 31, 2013 – Note 3.15) and payables, arisen in the context of the Aviation business sale to the General Electric group through GE Avio S.r.l.. During current year, based on agreements between counterparts, mentioned amounts (corresponding receivable and payable) have been compensated.

Moreover, other payables to third parties include an amount equal to Euro 1,000 thousand due to GE Avio S.r.l., deriving from the definition of claims regarding amounts of assets and liabilities included in the Aviation business, contributed in 2013. Such settlement produced a negative adjustment of the sale price of the GE Avio S.r.l. investment, which benefitted from the contribution.

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

This caption (equal to Euro 31 thousand) includes capital grants related to property, plant and equipment, a 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 caption (equal to Euro 1,400 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 caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013 restated	Variation
Accrued expenses related to personnel	923	1,135	(212)
Accrued sundry expenses	69	219	(150)
Other deferred income	57	74	(17)
Total	1,049	1,428	(379)

3.30. REVENUES

Revenues include sales of goods and services and change in construction in progress, representing total consolidated revenues, and are composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Revenues from sales of goods	93,888	64,136	29,752
Revenues from services and work in progress	3,357	2,913	444
	97,245	67,049	30,196
Change in construction in progress	127,215	165,021	(37,806)
Total	224,460	232,070	(7,610)

With reference to the geographical breakdown of revenues (defined on the basis of the country of customers), Group's revenues are totally referred to Italy and Europe.

3.31. OTHER OPERATING INCOME

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Revenue grants	818	-	818
Tax credit income related to R&D activities	388	78	310
Income related to amount credited to the income statement of funding pursuant to Law No. 808/85	1,703	1,945	(242)
Portion for the period of grants related to assets	33	98	(65)
Recovery of costs, compensation and other income	5,286	2,220	3,066
Reserves credited to income statement	1,786	352	1,434
Gains on disposal of property, plant and equipment	361	7	354
Income related to prior years	667	1,480	(813)
Total	11,042	6,180	4,862

Revenue grants are related mainly to community benefits received, within the framework of European Union support, for multi-national technology programmes.

The tax credit income related to research and development activities include the portion of the tax credit recorded on an accrual basis, determined upon both research and development costs charged to the 2014 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 construction 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 include the portion of funding granted by the Ministry of Economic Development related to programmes classified as being functional to national security and for realising a project of common European interest. The portion credited to income statement is determined taking into consideration the nature of costs for which the funding was granted and matching it with expenses and depreciation of the assets to which they refer.

The caption "Recovery of costs, compensation and other income" includes the recovery of costs incurred by the Company during the year, mainly related to the Group's activities in favour of subsidiaries not included in the scope of consolidation and of the jointly controlled company Europropulsion SA, as well as other income of a different nature.

The caption also includes the amount contractually recoverable from Fiat Partecipazioni S.p.A. related to a portion of environmental clean-up costs sustained for owned sites.

Reserves credited to income included the reversal of provisions made in prior years and the release of the amount exceeding the provision accrued in previous years to provisions for risks.

Gains on disposal of property, plant and equipment relates specifically to the disposals of a land.

3.32. RAW MATERIALS CONSUMPTION

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Raw materials and supplies	58,820	67,610	(8,790)
Change in inventories	5,861	(4,369)	10,230
Total	64,681	63,241	1,440

3.33. COST OF SERVICES

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Cost of Services	91,231	98,609	(7,378)
Lease and rentals	1,195	863	332
Total	92,426	99,472	(7,046)

In 2014, the caption "cost of services" includes 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 Euro 178 thousand relating to the statutory auditors and Euro 585 thousand relating to the directors of the Parent.

Cost of services include, among others, costs and expenses for activities conducted with Co-producers, for professional/technical advices and services, external processing, overhaul services, temporary labour supply (Internal personnel).

3.34. PERSONNEL COSTS

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Salaries and wages	33,835	34,605	(770)
Social security contributions	11,903	10,531	1,372
Defined contribution plan expenses	2,055	1,629	426
Other personnel expenses and provision for variable salaries and wages costs	3,385	1,977	1,408
Costs related to defined benefits plans and other long-term benefits:			
Current service costs	198	230	(32)
Actuarial (gains)/losses on employee benefit plans	224	296	(72)
Total	51,600	49,268	2,332

The following table shows the average number of employees, divided by category, referred to the companies included in the consolidation area:

	2014 Average	2013 Average
Blue-collar workers	311	291
White-collar workers	383	372
Managers	18	17
Total	712	680

3.35. DEPRECIATION AND AMORTISATION

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Property, plant and equipment	5,378	5,574	(196)
Investment property	42	40	2
Intangible assets with finite useful lives	11,736	11,728	8
Total	17,156	17,342	(186)

Amortisation of intangible assets with finite useful lives mainly includes the amount of Euro 6,766 thousand for the amortisation of development cost and the amount of Euro 4,084 thousand for amortisation of customer relationships for participation in programmes intangible asset, recorded in 2007, as a result of the Acquisition cost allocation.

3.36. OTHER OPERATING EXPENSES

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Provisions for risks	112	9,684	(9,572)
Other operating expenses	3,326	3,560	(234)
Non-recurring expenses and provisions	1,523	764	759
Total	4,961	14,008	(9,047)

Provisions for risks

These provisions represent the amounts charged to income statement related to the initial recording or additions to reserves for risks and charges, and mainly related to legal and environmental risks, to personnel and organizational restructuring risks and to tax risks.

Other operating expenses

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Taxes and duties	1,934	2,107	(173)
Other expenses	753	659	94
Losses on disposal of property, plant and equipment	18	-	18
Expenses related to prior years	621	794	(173)
Total	3,326	3,560	(234)

Other operating expenses mainly includes public relation and hospitality costs, association fees, contractual penalties, consortium contributions and donations to third parties.

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

Non-recurring expenses and provisions

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

	Year 2014	Year 2013	Variation
Expenses:			
- for organisation restructuring and personnel expenses	939	27	912
- for other non-recurring items	-	737	(737)
	939	764	175
Provisions:			
- for organisation restructuring	814	-	814
	814	-	814
Total	1,753	764	989

3.37. SHARE OF INCOME/(EXPENSES) IN INVESTMENTS IN ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD – OPERATING INCOME/(EXPENSES)

The caption includes the effects of the equity method application for the valuation of the investment (under the equity method) in the jointly controlled company Europropulsion S.A. These effects are recorded, in accordance with IFRS 11, in the Group's operative income/expense, taking into consideration the operative nature of the investment of Avio Group in the company. The effect recorded in 2014 amounts to Euro 1,970 thousand (Euro 2,311 thousand in 2013) and it is related to the profit registered by the jointly controlled company during the same period, net of dividends paid to the Parent.

3.38. CAPITALISATION OF COSTS FOR INTERNALLY GENERATED ASSETS

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

During 2014, it presents a total amount of Euro 9,907 thousand (Euro 5,506 thousand as of December 31, 2013) and it include the following costs (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Costs for the internal construction of tangible fixed assets	688	277	411
Costs for development activities	8,815	4,721	4,094
Costs for internal production of intangible assets	404	508	(104)
Total	9,907	5,506	4,401

3.39. FINANCIAL INCOME

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Interest income from banks	1,293	1,035	258
Discounts and other financial income	283	444	(161)
Interest income on financial receivables	27	-	27
Interest income on financial receivables from associated companies	272	205	67
	1,875	1,684	191
Realised exchange gains	573	35	538
Unrealised exchange gains	5	90	(85)
	578	125	453
Total	2,453	1,809	644

The caption Interest income on financial receivables from associated companies includes Euro 272 thousand relate to loan granted to Termica Colleferro S.p.A.

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

The unrealised exchange gains are related to the adjustment of receivables and payables denominated in foreign currencies with the exchange rates at period end 2014 and they refer to trade items.

3.40. FINANCIAL EXPENSES

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Interest on financial payable to Parent company - <i>Intercompany Loan Agreement</i>	11,135	3,547	7,588
Interest on financial payables to associated companies	29	326	(297)
Interest on other payables	147	12	135
Discounts and other financial expenses	195	154	41
Interest costs on employee benefits	41	(30)	71
	11,547	4,009	7,538
Realised exchange losses	764	16	748
Unrealised exchange losses	135	22	113
	899	38	861
Total	12,446	4,047	8,399

The caption financial expenses amounts to Euro 12,446 thousand and shows a Euro 8,399 thousand increase compared to previous year. This is mainly due to the effect of financial expenses (Euro 11,089 thousand), related to the *Intercompany Loan Agreement* signed with the former controlling company BCV Investments S.C.A., following the "Amendment Agreement" signed on May 16, 2014, defining certain modifications on contract's terms; in particular, starting from January 1, 2014, the applicable interest rate was reduced to a rate aligned (based on EONIA rate) to the one defined for the investments made in financial instruments (Corsair short term floating rate notes) using the proceeds generated by the GE Avio S.r.l. investment sale.

As it was previously described in the Note 3.21, this contractual modification represented a material discontinuity and produce, in accordance with IAS 39 requirements, an accounting treatment corresponding to the effect of de-recognition of the liability and new registration of the contract under the modified terms; this approach led to the recognition (in the first half of 2014) of financial charges amounting to Euro 11,089 thousand, representing the reversal of the effect of the amortized cost adjustment applied as of December 31, 2013.

Starting from January 1, 2014, interests related to the amended *Intercompany Loan Agreement* have been accounted for using the nominal interest rate, considering it as coincident with the effective one (determined with the amortized cost method), on the basis of the new contractual conditions set.

The caption interest on financial payables to associated companies refers to the payables related to the existing loan contract with Europropulsion S.A.

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

The unrealised exchange gains are related to the adjustment of receivables and payables denominated in foreign currencies to the exchange rates effective at period end and they refer to trade items.

3.41. OTHER INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS

Net income from financial investments presents a balance of Euro 1,320 thousand (Euro 1,103,710 thousand in 2013, including the positive gain from the sale of the investment in GE Avio S.r.l.) and are detailed as follows:

- Gains of Euro 48 thousand, recorded in the *Continuing Operations*, after the finalization of ASPropulsion Capital B.V. liquidation process;
- Expenses of Euro 1,368 thousand, recorded in the *Discontinuing Operations*, related to the price adjustments impacting the sale price of the investment in GE Avio S.r.l. to General Electric Group, occurred in the previous financial year. This adjustment refers, for Euro 941 thousand, to charges connected to the claim settlement described in Note 3.29 and, for Euro 427 thousand, to tax charges, defined during 2014, related to the fore mentioned transaction.

3.42. INCOME TAXES

Income taxes for the year 2014 resulting from *Continuing Operations* presents a net positive balance amounting to Euro 1,974 thousand. This balance is the result of current taxes charges amounting to Euro 9,791 thousand and deferred tax net amounting to Euro 11,765 thousand.

Current taxes arising from *Continuing Operations* amounted to Euro 9,791 thousand and include IRAP tax for Euro 241 thousand, foreign subsidiaries income tax for Euro 1,436 thousand, the accrual to tax risk reserve for Euro 8,730 thousand and prior years positive differences for Euro 616 thousand.

The following table summarizes the tax for the year 2014 (amounts in thousands of Euro):

	IRES and other taxes	IRAP	Total
Current income taxes:			
- taxes for the year	1,436	241	1,677
- other tax charges	8,730	-	8,730
- difference between taxes accrued in previous year and paid in 2013	(361)	(255)	(616)
	9,805	(14)	9,791
Net deferred/(prepaid) income taxes	(11,207)	(558)	(11,765)
Total	(1,402)	(572)	(1,974)

Income taxes for the year 2014 resulting from *Discontinued Operations* amounted to Euro 19 thousand and refers to the theoretical tax effect on charges connected to the settlement of contractual claims (see Note 3.41) during 2014.

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 (Euro thousands):

	Year 2014	Year 2013
Profit/(Loss) before taxes (Continuing and Discontinued operations)	4.505	1.196.766
Ordinary IRES tax rate	27,50%	27,50%
Theoretical income taxes	1.239	329.111
Effect of adjustments:		
Non-taxable income (*)	-	(261.869)
Dividends	(1.027)	(1.763)
Permanent non-deductible costs	3.908	7.933
Unrecorded deferred tax (assets)/liabilities	(15.053)	(16.909)
Reversal of temporary differences due the contribution-in-kind	-	(132.836)
Other permanent differences	(81)	(9.172)
Effect of tax rate change (including difference between ordinary and local tax rates)	1.225	
Prior Year taxes	(361)	26
Total	(11.389)	(412.473)
Effective income taxes	(10.150)	(83.362)
Effective tax rate	(225,3%)	(7,0%)

(*) Euro 261,322 thousand relating to the non-taxable portion of the gain on the disposal of the investment in GE Avio S.r.l.

3.43 PROFIT/(LOSS) FROM DISCONTINUED OPERATION NET OF TAXES

In the following table are reported the income statement components that were classified as *Discontinued Operation* during 2014 and 2013, as described in the previous paragraphs (amounts in thousands of Euro):

	Year 2014
Gain adjustment from the sale of GE Avio S.r.l. (<i>claims settlement</i>)	(1.368)
Theoretical tax effect	19
Total	(1.349)
	Year 2013
Gain from the sale of the investment in GE Avio S.r.l.	1.102.528
Tax effect of gain	(41.882)
Reversal of deferred tax liabilities related to Aviation Goodwill	157.585
Reversal <i>Cash flow hedge</i> reserves to the Income Statement	20.885
Tax effect of <i>Cash flow hedge</i> reserves reversal	(6.558)
Net Result of <i>Discontinued Operation</i> (January 1, 2013 – July 31, 2013)	57.504
Total	1.290.062

4. SEGMENT AND GEOGRAPHICAL AREA REPORTING

Information by industry segment

Operating segment information for Avio Group, disclosed in accordance with IFRS 8, is shown below, with a structure consistent with description included in Note 1.1.

Therefore, referring to 2014, during which the Group operated in continuity only in the Space sector, the entire assets and liabilities, costs and revenues refer exclusively to the sole sector, which corresponds to the Group's consolidation area.

With reference to 2013 income statement data, the segments of activity in accordance with IFRS 8 coincide with Space sector, represented as *Continuing Operations* and AeroEngine sector, represented as *Discontinued Operation*, while the financial data as at December 31, 2013 includes only assets and liabilities not contributed, representative of the Space Sector.

The following table presents the described segment information for the 2013 consolidated financial statements (amounts in millions of Euro):

	Continuing operations (01/01/2013 – 31/12/2013)			Discontinued operations (01/01/2013 – 01/08/2013)		
	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			1.0			1,195.8
Income taxes			(0.7)			94.2
Profit/(loss) for the year			0.3			1,290.6
Consolidated Statement of Financial Position as at December 31, 2013						
Sector assets	2,026.8	-	2,026.8			
Unallocated assets	-	50.7	50.7			
Total assets	2,026.8	50.7	2,077.5			
Sector liabilities	1,765.0	-	1,765.0			
Unallocated liabilities	-	312.5	312.5			
Total liabilities	1,765.0	312.5	2,077.5			

The number of employees of the Group as at 31 December 2014 is equal to 797 (of which 91 are related to Europropulsion S.A., consolidated under the equity method). As at December 31, 2013 the number of employees was 773 (91 pertaining to Europropulsion S.A.).

Information by geographical area

With reference to the information by geographical area, the whole amount of the Group's revenue, equal to Euro 224 million, in 2013 and 2014 was related to Italy and Europe (classified on the basis of the country of customers).

The Group's assets, as well as current year investments, are completely located in Italy and Europe, qualified on the basis of the same criteria described for revenues.

5. GUARANTEES GRANTED AND COMMITMENTS

The main guarantees granted and commitments of the Group are detailed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013
Guarantees granted		
Personal guaranties		
Sureties issued by third parties on behalf of the Group	12,452	16,904
Other	29,788	29,788
Secured guarantees	-	-
Total Guarantees granted	42,240	46,692
Goods owned by third parties held by the Group	1,000	1,000
Goods owned by the Group held by third parties	3,476	1,740
Guarantees and received guarantees	901	450
Total	47,617	49,882

Guarantees granted

Unsecured guarantees include sureties issued by third parties on behalf of the Parent in favour of customers for the execution of contracts and other guarantees represented by *patronage* letters issued on behalf of the Group.

Goods owned by third parties held by the Group

This caption mainly includes equipment related to tactical propulsion activities owned by customers as well as material held on deposit.

Goods owned by the Group held by third parties

It refers to materials and equipment under processing and storage, or used by vendors.

Sureties and guarantees received

This mainly includes sureties 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 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, specific 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, relating to the acquisition of Avio S.p.A. by Avio Holding S.p.A. (both companies now merged into the Parent).

A short description of the most significant proceedings is reported below, 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 the 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 an end and 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 bid for ARPA 2 site has been completed by Lazio regional authority, with a winner identified; next expected step regards the formal assignment and the start of clean-up procedures.

The Municipality of Colleferro against Se.co.sv.im. S.r.l. - Avio S.p.A. (Sacco river contamination)

In June 2005, due to the toxic substances found in milk produced in some farms along the Sacco river valley, the Municipality of Colleferro issued injunctions against Secosvim S.r.l., Avio S.p.A., and other companies operating in the area, enforcing them to implement emergency safeguards and provide site clean-up activities. Secosvim and Avio S.p.A. appealed against the injunction before at 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 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 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 the authorization to discharge is not yet received.

It was also completed the construction of a hydraulic barrier of ARPA 1 site, ARPA 2 site, Benzoin and OCR which constitutes the tempering system of the area.

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. and since September 2009, it was put into extraordinary administration proceeding. In order to collect debts owed by Caffaro, Secosvim submitted a request for the admission of its liabilities at the Udine Court.

At the same time, the emergency commissary office of Sacco Valley issued an injunction against Caffaro for an estimated cost of about Euro 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 the owner of the property. For the moment, Secosvim requested before the Velletri Court a technical preventive 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 together with the Office of the Commissioner for the Emergency in the Sacco Valley undertook the clean-up interventions on the water-bearing stratum of the "*benzoino and derivatives*" area. The construction of facilities for the cleaning up of the aquifer is in progress.

In the early months of 2014, work is in progress for the finalization of some aspects of environmental activities.

Tax inspection of the Parent Company Avio S.p.A.

Following the verification performed in multiple actions during 2009-2010 by *Guardia di Finanza* (the Italian Tax Police) related to the 2007 fiscal year, culminating with the claim that the Parent Company had not re-charged to its controlling shareholder in Luxemburg financial charges related to the portion of the loan agreement for the acquisition of the Avio Group, and more generally, denying various fiscal effects of its acquisition that was completed with the fusion of several companies in the Parent AVIO S.p.A. (*leveraged buy-out*), the Agency notified to the last:

- in December 2012, the formal notice of a related tax claim ("*avviso di accertamento*") referred to the 2007 fiscal year, confirmed the complaints, quantifying the claim, inclusive to interest and penalties, in approximately Euro 3.3 million. After the instance advanced by the Parent through the provisional payment of a third for the required taxes without penalties, in January 2014, the Provincial Tax Commission ("CTP") of Turin rejected the appeal of the Parent, confirming only the reasons set out in the preliminary tax claims on the basis of interpretations of the Group's Management and its legal advisors, without specifically discussing the defensive arguments presented, concerning the 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 in the Regional Tax Commission ("RTC") of Piedmont in December 2014;
- in December 2013, the formal notice of a related tax claim related to the tax period 2008, included the same objections recorded for the year 2007, quantifying a request, inclusive of interest and penalties, of approximately Euro 32.9 million with reference to the year 2008 regarding the issues associated with the leveraged buy-out operation. The decision is still pending after the appeal made in June 2014 to the CTP of Turin;
- in December 2013, the formal notice of a related tax claim related to 2008 utilization of reposted losses denied from the previous tax claim. It relates to the reported losses for IRES purposes of the incorporated Avio Holding S.p.A. after the fusion that occurred in 2007 with the Parent (for not exceeding the vitality test), quantifying the claim, inclusive to interest and penalties, in approximately Euro 3.5 million. The decision is still pending after the appeal made in March 2014 to the CTP of Turin;

- in December 2014, the formal notice of a related tax claim related to 2007 VAT non-deductibility on invoices not related to the *leveraged buy-out* operation, quantifying the claim, inclusive to interest and penalties, in approximately Euro 7.2 million, is being heard by the CTP of Turin.
- in December 2014, the formal notice of a related tax claim related to the denial of additional reposted losses of Avio Holding S.p.A. (deriving from the reimbursement form of IRES and IRAP, amounting Euro 0.1 million) effected by contents of the claim in December 2012.

Regarding *leveraged buy-out* operation claims, the Parent confirmed, also considering the unfavourable first stage judgment, its own assessment of non-existence of liabilities susceptible of outflows to the Group, based on the technical reasons provided during the court hearing. 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 related to the recent events described) and by the evidence of a number of judicial rulings favourable to taxpayers in similar cases.

Euro 6.888 million paid in provisional account (referred exclusively to 2007-2008 fiscal years) are recorded as receivable in the balance sheet.

In December 2012, together with the mentioned notifications relating to the leveraged buy-out operation, the Parent also received i) a formal notice, related to 2007 fiscal year, of an additional tax claim related to the alleged omission of withholding tax on interest paid to a Dutch associated company, since it was not recognized as the beneficiary of the transaction (Euro 7.895 million required, paid on June 2013) (ii) the related notice of penalties for the omitted payment of the same withholding taxes.

In December 2013 and 2014, the Group has been formally notified for the same claim with reference to period 2008-2009. Related amounts were paid in January 2014 and 2015, by using funds accrued between "Provision for risks and charges" for the same amount (respectively Euro 6.572 and 4.459 million).

In February 2014 and 2015, acts of penalties for non-payment related to years 2007 and 2008 were notified (required amounts respectively of Euro 1.513 million and Euro 1.450 million); against such notifications, the Parent Company has appealed to the CTP of Turin, considering them having no legal substance. In December 2014 act of penalties regarding the period 2009 was notified (amount of Euro 1 million): the related act of penalty will also be challenged in the event of non-acceptance of defensive deductions.

As anticipated, referring to the above described claims, and considering the settlement covering years 2011, 2012 and 2013 (through integrative declaration for 2011 related corrections for subsequent years), the Parent has proceeded to the allocation of a specific provision for risks and charges, partly used in 2013 and in 2014 for the above mentioned payments related to the withholdings omitted; the consistency of the provision included in the balance sheet as at December 31, 2014 is considered adequate to face future disbursements related to expenses for the years still to be defined, as well as for the penalties (challenged by the parent company) on the already defined tax periods.

Please note that as of today, an agreement with the Italian Tax Office is under definition; such agreement provides, on one hand, a substantial re-definition and reduction of the above described claims relating to tax periods 2007 and 2008 for the LBO operation and, on the other hand, the maintenance of claims relating to (a) the omitted calculation and payment of withholding tax on interest from financing, (b) the carry forward of losses of the merged company Avio Holding S.p.A. and (c) the deduction of VAT on purchases in 2007: the quantification of the fore mentioned risks and charges provision included in the consolidated financial statement as at December 31, 2014 takes into account the available information about the described agreement under definition.

SE.CO.SV.IM. S.r.l. - Tax audit Fiscal Year 2009-2010-2011-2012

In October of the same year following the tax audit conducted in 2013 at the subsidiary SE.CO.SV.IM. SpA, the Company as well as the Parent company considered jointly liable for the consolidation, have been notified twice on the assessment for IRES for the tax years 2009 and 2010, involving the disavowal of an agreement for fiscal consolidation with recovery of related tax (amounts including penalties and interest, at equal Euro 3.265 and 1.764 million). Considering the aforesaid charges without foundation, the Company brought the case to the CTP of Rome in March 2014, which is now pending.

On the same date, two other notices were reported on the assessment for VAT for the years 2010 and 2011, relating to the alleged failure to apply the tax on the remediation costs whose cost is passed to the parent company Avio SpA (respectively, including penalties and interest, to 2.009 million and 0.511 million euros) and another notice on the assessment for IRAP purposes for the tax year 2011 on a complaint of failure to account for revenues (amount, including penalties and interest,

Euro 25 thousand). Even concerning such reliefs, deemed unfounded, the Company has proposed relevant appeals and complaints to the CTP of Rome in March and April 2014. The case is still pending.

Sale and Purchase Agreement - Communication received from the General Electric Group

Following the notifications that occurred in 2013 and 2014 with the General Electric Group, representing GE Italia Holding S.p.A. (already Nuovo Pignone Holding S.p.A., or the "Buyer"), relating to the notification by the latter of certain facts and circumstances identified by Buyer as *Business Warranty Claims*, as defined in the clause 6.2 of the contract Sale and Purchase Agreement ("SPA"), as a result of changes in the valuation of certain assets and liabilities to be sold in relation to events that occurred prior to the sale thereof, the Parties, finalized the analysis of the cases discussed and formalized, on December 30, 2014 a specific definitive agreement (*Settlement Agreement and Release*).

The Agreement provides for the full and final settlement of respective claims, a payment by the Parent company of Euro 1 million to GE Italia Holding S.p.A., allocated as a price adjustment impacting with respect to the gain on sale of shares GE Avio S.r.l. completed in 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	6,200	-	21,454	27,654	27,654
- Trade receivables	-	-	6,927	6,927	6,927
- Other assets	11,398	-	12,155	23,553	23,553
- Cash and cash equivalents	-	-	165,232	165,232	165,232
- Investments	8,031	-	-	8,031	8,031
	25,629	-	205,768	231,397	231,397
FINANCIAL LIABILITIES					
Liabilities at amortised cost					
- Financial liabilities	-	-	7,919	7,919	7,919
- Other liabilities	55,210	-	16,426	71,636	71,636
- Trade payables	-	-	51,641	51,641	51,641
	55,210	-	75,986	131,196	131,196

For assets and liabilities other than investments, no differences were found compared to the book value, as the same is considered a reasonable approximation of *fair value*.

For investments, for which it is not possible to determine reliably the *fair value*, the valuation was maintained at cost, less any impairment loss in value, with the exception of the investment in jointly controlled company Europropulsion S.A., accounted for using the equity method net, in application of IFRS 11.

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.

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, if deemed appropriate, through hedging instruments.

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 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, 2014 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, 2014, an exposure for past due receivables of approximately Euro 10.5 million, excluding receivables towards Europropulsion S.A. (Euro 10.0

million as at December 31, 2013). 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 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, 2014 (values in Euro 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.

	Book value	On-demand	1 to 6 months	7 to 12 months	1 to 5 years	Beyond 5 years	Total cash flows
Current financial liabilities							
- Financial payables to jointly controlled companies	7,919	7,919	-	-	-	-	7,919
	7,919	7,919	-	-	-	-	7,919
Trade payables	51,641	-	51,641	-	-	-	51,641
	51,641	-	51,641	-	-	-	51,641
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
	39,230	-	-	-	-	39,230	39,230
Other current liabilities:							
- Tax Payables	6,620	-	6,620	-	-	-	6,620
- Payables to Social Security Inst.	3,351	-	3,351	-	-	-	3,351
- Payables to employees	5,372	-	5,372	-	-	-	5,372
	15,343	-	15,343	-	-	-	15,343
Total flow	114,133	7,919	66,984	-	-	39,230	114,133

As the above table report, according to the nature of the liabilities recorded in the balance sheet as at December 31, 2014, there are no difference compared to the cash flow previously reported.

Market risks

Based on the actual financial structure of the Group (2014 net financial position as well as the December 31, 2014 one is essentially constituted by cash and cash equivalents and other current financial assets, connected to the utilization of funds made available in the recent extraordinary operation) and due to the fact that the Group operates almost exclusively in Euro, the Group is not significantly influenced by market risks derived by fluctuations on exchange rates or interest rates over its financial assets and liabilities.

Considering what indicated above about the non-significance of market risks related to changes in interests rates, as at December 31, 2014, the Group does not have derivative financial instruments in place in order to mitigate the exposure of cash flows fluctuations related the fore mentioned risks.

7. TRANSACTIONS WITH RELATED PARTIES

As at December 31, 2014, the Parent is fully owned by a plurality of investment funds managed by Cinven for 59.78%, institutional investors whose rights to vote are exercised according to instructions given by Cinven, approximately for 21.37% and Finmeccanica S.p.A. for 14.32%, as well as other minor investors for 4.53%.

The Parent carries out, on a regular basis, commercial and financial transactions with subsidiaries and jointly controlled companies, 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, which are 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 third parties, they would have negotiated and signed the contracts, or performed 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 associated companies.

The tables below show the quantified data for transactions with related parties not included in the consolidation of the Avio Group Statement of Financial Position and Income Statement as at 31 December 2014 and as at December 31, 2013 (amounts in thousands of Euro):

Counterparty	31/12/2014				31/12/2013			
	Trade Receivables	Financial Receivables	Trade Payables	Financial Payables	Trade Receivables	Financial Receivables	Trade Payables	Financial Payables
BCV Investments S.C.A.	-	-	-	-	-	-	-	139,929
Cinven Limited	-	-	255	-	-	-	485	-
Controlling companies and Cinven Limited	-	-	255	-	-	-	485	139,929
Finmeccanica S.p.A.	-	-	170	-	-	-	807	-
Company that has significant influence	-	-	170	-	-	-	807	-
Servizi Colleferro – Società Consortile per Azioni	252	-	42	-	113	-	(24)	-
Non-consolidated controlled companies	252	-	42	-	113	-	(24)	-
Consorzio Servizi Acqua Potabile	343	-	64	-	242	-	-	-
Termica Colleferro S.p.A.	858	6,341	125	-	790	6,129	1,917	-
Europropulsion S.A. ⁽¹⁾	467	-	5,059	7,919	442	-	2,937	13,845
Associated and jointly controlled companies	1,668	6,341	5,248	7,919	1,474	6,129	4,854	13,845
Other related parties	-	-	-	-	-	-	-	-
Total related parties	1,920	6,341	5,715	7,919	1,587	6,129	4,830	153,774
Total ⁽²⁾	6,927	27,654	51,641	7,919	13,580	1,285,341	57,701	153,774
Effect on Total (%)	27.8%	22.9%	11.0%	100.0%	11.7%	0.5%	8.4%	100.0%

The main effects on profit and loss of the transactions between the Group and related parties for 2014 and 2013 are as follow (amounts in thousands of Euro):

Counterparty	Year 2014				Year 2013			
	Operating revenues (1)	Operating costs (2)	Financial income	Financial expenses	Operating revenues (1)	Operating costs (2)	Financial income	Financial expenses
BCV Investments S.C.A.	-	-	-	-	-	-	-	7,301
Cinven Limited	-	1,012	-	-	-	1,029	-	-
Controlling companies and Cinven Limited	-	1,012	-	-	-	1,029	-	7,301
Finmeccanica S.p.A.	-	167	-	-	-	167	-	-
Company that has significant influence	-	167	-	-	-	167	-	-
Servizi Colleferro – Società Consortile per Azioni	272	956	-	-	63	543	-	-
Non-consolidated controlled companies	272	956	-	-	63	543	-	-
Consorzio Servizi Acqua Potabile	63	280	-	-	30	239	-	-
Termica Colleferro S.p.A.	15	8,373	141	-	15	8,378	205	-
Europropulsion S.A. ⁽¹⁾	3,459	23,038	-	29	56,295	4,710	-	36
Associated and jointly controlled companies	3,537	31,691	141	29	56,340	13,327	205	36
Other related parties	-	-	-	-	-	-	-	-
Total related parties	3,809	33,826	141	29	56,403	15,066	205	7,337
Total	233,532	213,898	2,452	12,446	287,649	272,619	1,844	7,337
Effect on total (%)	1.6%	15.8%	5.7%	0.2%	19.6%	5.5%	11.1%	100%

⁽¹⁾ The item includes revenues from sales of goods and from services and does not include the construction in progress (not yet completed).

⁽²⁾ The item includes raw materials consumption, cost of services and personnel costs.

Furthermore, it is noted that in the caption construction in progress, the long-term contracts, most of the exposed transactions whose effects are reflected in other captions in the Statement of Financial Position such as "Construction in progress" and "Advances for construction in progress", are held with related parties represented in the tables above.

Transactions with controlling companies and Cinven Limited

Transactions between the Group and Cinven Limited are constituted by consultancy and assistance services.

Transactions with companies exercising significant influence

Transactions with the Company, which exercises significant influence, are represented by assistance and consultancy services.

Transactions with non-consolidated controlled companies

Transactions between the Group and non-consolidated controlled companies include operation part of ordinary management activities, which are performed 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 from revenues arising from sales of goods, which are related to the core business of the Group, from the ordinary management activities, concluded under normal market conditions. In particular, with reference to the company Europropulsion S.A., there are included revenues arising from sales of goods related to the core business of the Company, attributable to Continuing operations, from the ordinary management activities and concluded under normal market conditions;
- short and long term financial receivables of Avio S.p.A. towards Termica Colleferro S.p.A.;
- trade payables, related to costs incurred during 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 and concluded under normal market conditions;
- financial payables, related to intercompany short-term financial payables of Avio S.p.A. towards Europropulsion S.A.

- 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 the transactions previously described as financial receivable;
- financial expenses, related to interests on intercompany financial payables of Avio S.p.A. towards Europropulsion S.A.

Transactions with other related parties

Transactions with other related parties are identified in the summarized transactions shown below:

- trade receivables related to revenues arising from sales of goods related to the core business of the Company, from the ordinary management activities, 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 conditions applied for the remuneration of equally qualified staff. 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 not-consolidated associates, are accounted using the cost method.

The following table shows, where available, the main balance sheet figures of not-consolidated associates and joint ventures including Termica Colleferro SpA (40% owned), headquartered in Italy, which activity consist in the construction and operation of a thermal power plant, Europropulsion SA (50% owned) headquartered in France and ASPropulsion Capital NV (49%, based in the Netherlands), whose business liquidation was completed during the year.

Reported book values were determined in accordance with Dutch and Italian accounting principles, respectively, utilised by these companies in preparing their statutory financial statements (amount in thousands of Euro):

	Year 2014	Year 2013
<u>ASPropulsion Capital N.V.</u>		
<i>Statement of financial position</i>		
Total assets	-	2,287
Total liabilities	-	41
Stockholders' equity	-	2,246
of which attributable to the Group	-	1,101
<i>Income statement</i>		
Revenues	-	-
Net financial income (expenses)	-	212
Other expenses	-	(300)
Net profit (loss) for the year	-	(88)
of which attributable to the Group	-	(43)
<u>Termica Colleferro S.p.A.</u>		
<i>Statement of financial position</i>		
Total assets	59,011	66,970
Total liabilities	51,382	60,409
Stockholders' equity	7,629	6,561
of which attributable to the Group	3,052	2,624
<i>Income statement</i>		
Revenues	16,852	24,729
Expenses and other income, net	17,397	(27,120)
Net profit for the year	(2,032)	(2,391)
of which attributable to the Group	(813)	(956)

Below are reported the main financial and economic figures of the jointly controlled company Europropulsion S.A. consolidated using the equity method (amounts in thousands of Euro):

	Year 2014	Year 2013
<u>Europropulsion S.A.</u>		
Current assets	332,704	403,418
Non-current assets	3,365	3,240
Current liabilities	329,386	399,183
Non-current liabilities	1,352	1,430
Net revenues	215,285	250,165
Operating expenses	(208,977)	(242,924)

8. GROUP COMPANIES AS AT DECEMBER 31, 2014

Company	Registered Office	Currency	Capital Stock	% Owned by Group	Participating Companies	% Owned
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.	32% 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%
Termica Colleferro S.p.A.	Bologna	Euro	6,100,000	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 Termica Colleferro SpA, a non-consolidated affiliated company.

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 2014 for audit and other services provided by the independent auditors and members of their network (amounts in thousands of Euro):

Kind of services	Service provider	2014 fees
Audit	Deloitte & Touche S.p.A. Deloitte Network	206 -
Attestation	Deloitte & Touche S.p.A. ⁽¹⁾	4
Other services	Deloitte & Touche S.p.A. ⁽²⁾	34
Total		244

(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.

* * *

April 21, 2015

for the BOARD OF DIRECTORS
Chief Executive Officer
Pier Giuliano Lasagni

**REPORT OF THE INDEPENDENT AUDITORS ON THE 2014 CONSOLIDATED
FINANCIAL STATEMENTS OF AVIO S.P.A. AND ITS SUBSIDIARIES**

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**AUDITOR'S REPORT
PURSUANT TO ART. 14 OF LEGISLATIVE DECREE
No. 39 OF JANUARY 27, 2010****To the Shareholders 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, 2014, 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.

The consolidated financial statements present, for comparative purposes, prior year data. As explained in the notes to the consolidated financial statements and in order to take account of the application, effective from January 1, 2014 of International Financial Reporting Standard 11 (IFRS 11), the Directors have re-presented certain comparative data related to prior year with respect to the data presented and audited by us, on which we issued the auditor's report dated June 9, 2014. These modifications to comparative data and related disclosures included in the notes to the consolidated financial statements have been audited by us only for the purpose of expressing our opinion on the consolidated financial statements as of December 31, 2014.

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

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, 2014, 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, Group's net equity recorded in the period a Euro 943.9 million decrease, mainly due to the distribution, approved by the Parent Company Avio S.p.A.'s extraordinary shareholders' meeting, of dividends, for a total amount of Euro 949 million, related to 2013 profit. Aforementioned dividends were paid to Shareholders, net of related withholding taxes paid to Italian tax authorities (Euro 146.3 million).
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, 2014.

DELOITTE & TOUCHE S.p.A.

Signed by
Franco Chiavazza
Partner

Turin, Italy,
April 24, 2015

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, 2014	December 31, 2013
<i>(amount in Euro)</i>				
Assets				
Non-current assets				
Property, plant and equipment	3.1		24,354,923	22,643,968
Investment Property			-	-
Goodwill	3.2		219,100,000	219,100,000
Intangible assets with a definite life	3.3		93,551,227	95,050,009
Investments	3.4		68,023,766	67,813,408
Non current financial assets	3.5		6,200,000	6,040,000
Deferred tax assets	3.6		51,648,339	39,548,479
Other non-current assets	3.7		11,209,662	13,767,958
Total non-current assets			474,087,917	463,963,822
Current assets				
Inventories	3.8		46,868,985	51,936,185
Contract work in progress	3.9		45,415,075	40,438,787
Trade receivables	3.10		6,561,804	6,247,447
Current financial assets	3.11		21,453,674	1,275,858,187
Cash and cash equivalents	3.12		159,298,421	48,540,968
Current tax assets	3.13		17,477,153	10,126,604
Other current assets	3.14		11,737,520	19,595,349
Total current assets			308,812,632	1,452,743,527
TOTAL ASSETS			782,900,549	1,916,707,349

Avio S.p.A.		Note	December 31, 2014	December 31, 2013
STATEMENT OF FINANCIAL POSITION				
(amount in Euro)				
EQUITY				
Share capital	3.15	40,000,000	40,000,000	
Share premium reserve	3.16	73,575,782	73,575,782	
Legal reserve		8,000,000	8,000,000	
Other reserves	3.17	78,409,291	78,800,272	
Retained earnings/(losses)		296,320,439	-	
Profit/(Loss) for the year		5,548,080	1,245,356,180	
TOTAL EQUITY		501,853,592	1,445,732,234	
LIABILITIES				
Non-current liabilities				
Non current financial liabilities	3.18	-	139,928,864	
Provisions for employee benefits	3.19	9,203,330	9,539,553	
Provisions for risks and charges	3.20	10,674,980	12,390,936	
Other non-current liabilities	3.21	54,988,685	56,243,440	
Total non-current liabilities		74,866,995	218,102,792	
Current liabilities				
Current financial liabilities	3.22	47,470,825	57,463,975	
Provisions for risks and charges	3.20	16,225,860	13,766,828	
Trade payables	3.23	47,934,675	53,058,523	
Advances on contract work in progress	3.9	75,725,007	51,739,659	
Current tax payables	3.24	6,113,535	46,022,883	
Other current liabilities	3.25	12,710,060	30,820,454	
Total current liabilities		206,179,962	252,872,323	
TOTAL LIABILITIES		281,046,957	470,975,115	
TOTAL LIABILITIES AND EQUITY		782,900,549	1,916,707,349	

Avio S.p.A.			
INCOME STATEMENT	Note	Year 2014	Year 2013
<i>(amount in Euro)</i>			
Revenues	3.26	211,615,965	202,459,375
Change in inventory of finished and semi-finished goods		1,041,132	(624,587)
Other operating income	3.27	6,342,205	4,667,218
Consumption of raw materials	3.28	(58,949,044)	(55,867,680)
Cost of services	3.29	(108,291,247)	(104,479,421)
Personnel costs	3.30	(35,630,546)	(34,224,629)
Depreciation and amortization	3.31	(14,584,060)	(14,819,380)
Impairment losses and reversals of impairment		-	-
Other operating costs	3.32	(2,942,294)	(5,022,790)
Capitalized costs for internally generated assets	3.33	9,781,387	5,474,259
OPERATING PROFIT		8,383,498	(2,437,634)
Financial income	3.34	2,379,046	1,834,433
Financial expenses	3.35	(12,013,859)	(3,874,242)
NET FINANCIAL INCOME/(EXPENSES)		(9,634,813)	(2,039,809)
Share of income/(expenses) in investments in associated companies accounted for using the equity method		-	-
Other income/(expenses) from financial investments	3.36	3,978,358	(8,908,632)
NET INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS		3,978,358	(8,908,632)
PROFIT/(LOSS) BEFORE TAXES AND DISCONTINUED OPERATIONS		2,727,043	(13,386,075)
INCOME TAXES	3.37	4,170,209	(14,497,505)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		6,897,252	(27,883,580)
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS NET OF TAXES	3.38	(1,349,172)	1,273,239,760
PROFIT/(LOSS) FOR THE YEAR		5,548,080	1,245,356,180

Avio S.p.A.		
	Year 2014	Year 2013
STATEMENT OF COMPREHENSIVE INCOME		
<i>(amount in Euro)</i>		
PROFIT/(LOSS) FOR THE YEAR (A)	5,548,080	1,245,356,180
Gains/(losses) included directly in equity (which are not subsequently reclassified to income statement)		
- Actuarial gains and losses-reserve Actuarial gains/losses	(588,583)	(671,724)
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	-	583,448
- interest rate	-	1,548,966
- commodities	-	(394,483)
Gains (losses) included directly in equity (which are subsequently reclassified to income statement)	-	-
Tax effect related to gains/(losses)	161,860	(293,207)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX (B)	(426,723)	773,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR (A+B)	5,121,357	1,246,129,180

Avio S.p.A.

STATEMENT OF CHANGES IN EQUITY

(€ thousands)

	Share capital	Additional paid-in capital	Legal reserve	Other reserves					Capital gain reserve from the transfer	Carry forward profit / losses	Profit/loss for the year	Total equity
				Reserve art. 2426 n.8-bis Civil Code	Cash flow hedge curr-ency reserve	Cash flow hedge interest rate reserve	Cash flow hedge commodities reserve	Actuarial profit/losses reserve				
Net Equity at December 31, 2012	40,000	726,400	1,207	-	15,985	(1,957)	(146)	(13,553)	-	(108,279)	29,668	689,325
Allocation of prior year profit/loss	-	-	1,467	12,934	-	-	-	-	-	15,267	(29,668)	-
Profit/(Loss) for the year	-	-	-	-	-	-	-	-	-	-	1,245,356	1,245,356
Other comprehensive income / (losses):												
- Changes in fair value of hedging derivatives, net of related tax effect	-	-	-	-	423	1,123	(286)	-	-	-	-	1,260
- Actuarial profit/ losses, net of related tax effect	-	-	-	-	-	-	-	(487)	-	-	-	(487)
Comprehensive income/losses for the year	-	-	-	-	423	1,123	(286)	(487)	-	-	1,245,356	1,246,129
Transfeer effects	-	-	-	-	(16,408)	834	432	12,371	80,469	(12,353)	-	65,345
Effects of reserve distribution	-	(652,824)	5,326	(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	1,445,732
Allocation of prior year profit/losses	-	-	-	36	-	-	-	-	-	1,245,320	(1,245,356)	-
Distribution dividends	-	-	-	-	-	-	-	-	-	(949,000)	-	(949,000)
Profit/losses for the year	-	-	-	-	-	-	-	-	-	-	5,548	5,548
Other comprehensive income / (losses):												
- Changes in fair value of hedging derivatives, net of related tax effect fiscale	-	-	-	-	-	-	-	-	-	-	-	-
- Actuarial profit/ losses, net of related tax effect	-	-	-	-	-	-	-	(427)	-	-	-	(427)
Comprehensive income/losses for the year	-	-	-	-	-	-	-	(427)	-	-	5,548	5,121
Other movements in equity												
Transfeer effects	-	-	-	-	-	-	-	-	-	-	-	-
Effects of reserve distribution	-	-	-	-	-	-	-	-	-	-	-	-
other changes	-	-	-	-	-	-	-	-	-	-	-	-
Equity at December 31, 2014	40,000	73,576	8,000	36	-	-	-	(2,096)	80,469	296,320	5,548	501,853

Avio S.p.A.

STATEMENT OF CASH FLOWS

(€ thousands)

	2014	2013 (*)
OPERATING ACTIVITIES		
Profit/(Loss) for the year from Continuing and Discontinued operations	6,897	(27,884)
Adjustments for:		
- income taxes	(4,189)	14,498
- net (income)/expenses from financial investments	(3,978)	8,909
- net financial (income)/expenses not inherent to operating activities	11,135	6,538
- depreciation and amortisation	14,583	14,818
- write-down and impairment/(reversal)	-	-
- (gains)/losses from sales of fixed assets and other (gains)/losses	-	(7)
Changes in equity reserves:		
- currency, interest rate and commodities cash flow hedge reserves (gross of the related tax effect)	-	1,737
Net changes in exchange rate and commodities derivatives assets and liabilities	-	-
Net changes in provisions for risks	743	(49,598)
Net changes in provision for employee benefits	(929)	618
Cash provided by operating activities before changes in working capital	24,262	(30,371)
Changes in:		
- Inventories	5,067	966
- Contract work in progress and advances for contract work in progress	19,009	(16,663)
- Trade receivables	(315)	596
- Trade payables	(5,124)	4,887
- Other current and non-current assets	3,066	(15,132)
- Other current and non-current liabilities	(49,082)	(7,721)
	(27,379)	(33,067)
Cash provided by operating activities	(3,117)	(63,438)
Income taxes paid	(17,918)	(17,919)
Interest paid	-	-
Net cash provided by operating activities	(A) (21,035)	(81,357)
INVESTING ACTIVITIES		
Capital expenditures for:		
- Property, plant, equipment and investment property	(5,221)	(2,167)
- Intangible assets with finite useful lives	(9,574)	(6,237)
- Net change in payables related to the participation in international collaboration agreements	-	-
- Goodwill	-	-
- Investments	-	-
- Short-term floating rate notes	-	(1,150,000)
Proceeds from sale of fixed assets	1,151,078	1,923,191
Dividends from financial investments	3,930	8,089
Other changes (***)	(1,368)	-
Other variations in Assets classified as held for sale and related liabilities	-	2,020
Net cash used in investing activities	(B) 1,138,845	774,896
FINANCING ACTIVITIES		
Proceeds from long-term borrowings	-	-
Payment of transaction costs related to the amendment and extension of long term borrowings	-	-
Repayments of long-term borrowings	(151,064)	(820)
Share capital and additional paid-in capital	-	(100)
Reserve distribution to Shareholders	(949,000)	(555,074)
Financing given	(1,400)	(2,000)
Funds transferred to Escrow accounts to guarantee the GE Avio S.r.l. investment's sale operation	93,694	(115,000)
Other changes in financial assets and liabilities	717	(14,216)
Net cash provided by financing activities	(C) (1,007,053)	(687,210)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(A)+(B)+(C) 110,757	6,329
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (****)	48,541	42,212
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	159,298	48,541

(*) In order to provide a representation more consistent to the actual operating structure of the Company, the 2013 cash-flow includes only cash flows related to Continuing operations,

(**) The caption includes cash flows relating to the payment of current taxes, even for the portion relating to previous years, paid with respect to tax claims,

(***) This caption relates to the adjustment of the prior year gain on GE Avio S.r.l.'s investment (classified as Discontinued Operations)

(****) Cash and equivalents as of January 1, 2013 were as *Discontinued Operations*.

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Avio S.p.A. (the "Company", whose legal name was AVIO S.p.A. until July 29, 2011) is a limited liability company (*società per azioni*) incorporated and organized under the Italian laws, 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 BCV Investment S.p.A., a company with headquarters in Luxembourg. The latter is owned by funds and institutional investors managed and mainly controlled by Cinven Limited (approx. 81%) and by Finmeccanica S.p.A. (approx. 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 part of The Carlyle Group and Finmeccanica S.p.A., which held respectively 70% and 30% stakes of the Company (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 with 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 the resolution adopted by the same extraordinary shareholders' meeting, effective August 1, 2007, the Company changed its name to AVIO S.p.A.

Following the decision of the extraordinary Shareholders' Assembly held on July 29, 2011, the Company modified its name in Avio S.p.A. instead of the previous name 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 of Avio Group ("the Group"), in the space propulsion sector, in particular in the design, development and production of propulsion systems for solid and liquid propellant launchers, solid-propellant propulsion systems for tactical missiles, development and complete integration of space launchers (Vega), research and development of new propulsion systems with low environmental impact and 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 (ISA-Italian Space Agency) and international (ESA-European Space Agency) space agencies.

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

Since the beginning, the Company and Avio Group have historically participated to the European Space programs through the provision of solid propulsion motors (SRM) and currently, they provide the side engine (booster) of solid propellant for the European launch vehicle Ariane 5, which is the main satellite launch system for geostationary orbits.

With the initial of the program Vega, the Group, through its subsidiary ELV, has signed a contract with ESA as a prime contractor 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 figures of the Consolidated Statement of Financial Position, the Income Statement and the 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.

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. "IFRS" refers to the *International Financial Reporting Standards*, all revised International Accounting Standards ("IAS"), as well as all interpretations of the *International Financial Reporting Standard Interpretations Committee* ("IFRS IC" now "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 values corresponding to their contribution in the consolidated financial statements at the date, considered as 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 a financial statement that conforms to IFRS, requires the Management to make estimates and assumptions. In addition, Management of the Company is requested to use its own judgement on the application of Company's accounting policies. Items for which a higher level of attention or complexity is required, 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. Financial statements

The financial statements for the year ended December 31, 2014, include the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in the equity, the statement of cash flows and the notes to the financial statements.

The format of the financial statements used by the Company provide:

- For the statement of financial position, the classification between current and non-current assets and liabilities, generally adopted by industrial and commercial groups;
- For the income statement, the classification of costs by nature of expenses;
- 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 adopted.

2.3. Comparative information

As requested by IAS 1, the financial statements for the year ended December 31, 2014 disclose comparative information related to prior period.

2.4. Accounting principles and measuring criteria

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 costs necessary to bring the asset to working conditions for its intended use and the estimated 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. In the value of internally constructed assets are included all construction costs incurred up to the moment in which these assets enter into use, 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 in the cost of the existing assets or as a separate one, only if they increase the future economic benefits associated with the related caption 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 use. 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 for the first year is calculated proportionally to the period of effective utilisation. Useful life of assets is reviewed annually and changes are accounted for prospectively, if any.

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

Each part of a caption 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 – *Determining whether an arrangement contains a lease*, are accounted as a financial lease.

Land is not depreciated.

In case of impairment loss, 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 deriving from the sale or disposals of property, plant and equipment are defined as the difference between the revenues and its own net book value in the moment of sale or disposal and they are charged in the Income Statement as incurred.

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.

For the purposes of the impairment test at December 31, 2014, goodwill is allocated at the cash-

generating unit (CGU) level, representing of financially independent business unit through which the Company operates. Based on actual Company's structure, as of December 31, 2014, only one CGU, corresponding to Space Sector, has been identified.

Intangible assets with finite useful lives

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 to 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 the 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 and 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 (which in any case cannot exceed the net carrying value that the asset would have had if it had never been written down for impairment). The reversal of the impairment is immediately recognised in the income statement.

Financial assets

Under this category are included the following, 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.

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.

Construction in progress

Construction in progress 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 caption "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 construction 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 caption "Construction in progress"; on the contrary, the net negative difference is classified in the caption "Advances for construction 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 caption 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 caption 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 caption "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 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 may be settled in cash or by the delivery of other financial assets, are accounted 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 of the period.

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.

Deferred income for funding pursuant to Law No. 808/85

This payables are recorded in the balance sheet at their nominal value and are classified in the captions "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 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 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 construction 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 construction 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 a 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 captions "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 caption "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 construction 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 captions that are taxable or deductible in the next accounting periods, and other captions 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 captions 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 caption "Deferred tax assets", if positive, or in the caption "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 rates differences

Revenues and expenses related 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 captions 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 or partially allocated to a distributable reserve.

2.5. Risk management

Credit risk

Credit risk concentration of the Company depends on the nature of transactions carried out and on the markets in which the Company operates. Considered from a global point of view, there is a concentration of credit risk in trade receivables in the European Union 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 flows 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 financial markets and of the markets the Company deals with 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 Company's obligations.

Management considers that available cash and credit lines, in addition to those generated by the normal course of operating business, will allow the Company to face the financial needs arising from investment activities, working capital management, and debt repayment at maturity.

2.6. 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 Company's operations and of other factors deriving from actual circumstances. Changes, if any, are immediately accounted in the income statement.

The present international macroeconomic context, whose effects are spread into some businesses in which the Company operates, have 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 construction 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 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 captions, 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 revised IAS 19 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 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 addition, 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 construction 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 captions listed above, estimates were also used with regard to the valuation of certain financial assets and liabilities, of plans for compensation attributable to a certain number of Company 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, 2014

The following amendments, improvements and interpretations have been applied for the first time by the Company from January 1, 2014.

- **IFRS 12 – Disclosure 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 principle is effective retrospectively from January 1, 2014. The adoption of this new standard had no impact on the separated financial statements of the Company.
- Amendments to **IAS 32 – "Financial assets and financial liabilities offsetting"**, presented to clarify the application of certain offsetting criteria for financial assets and financial liabilities (for example, the entity has the legal right to compensate the carrying amount and the intention to write-off the net residual or realize the activity and write the liability at the same time). The amendments are effective from January 1, 2014 and are required to be applied retrospectively. The adoption of this new standard had no impact on the separated financial statements of the Company.
- On October 31, 2013, 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 when these 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. The following criteria are introduced to determine if the Company is qualified as an Investment entity and, though part of the exception:
 - Obtaining funds from one or more investors in order to deliver them management services;
 - Commencing to its investor(s) that its business purpose is to invest funds solely from returns capital appreciation, investment income or both;
 - Measuring and evaluating the performance of substantially all of its investments on fair value basis.

These amendments are applicable, together with the principles of reference, from January 1, 2014. The adoption of these new amendments had no impact on the separated financial statements of the Company.
- Amendments to **IAS 36 – "Impairment of assets - Recoverable amount disclosure for non-financial assets"**. The amendments are intended to clarify that the additional information provided for 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 which that have been recognized or reversed a loss in value during the financial year. In this case, it is necessary to provide information for the level of fair value, which includes the recoverable amount and estimation techniques (in cases of level two or three). The amendments shall be effective retrospectively starting from January 1, 2014. The adoption of this new standard had no impact on the separated financial statements of the Company.
- Amendments to **IAS 39 - "Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting"**. The amendments relate to the introduction of several exemptions to the requisition for hedge accounting according to IAS 39, in a situation where a derivative, designated as a hedging instrument, is novated to effect clearing with a central counterparty, because of the introduction of laws or regulation. The amendments shall be effective retrospectively starting from January 1, 2014. The adoption of this new standard had no impact on the separated 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 as of December 31, 2014.

- On May 20, 2013, was published the interpretation **IFRIC 21 - Levies**, which provides clarification on when recognizing a liability related to taxes (other than income taxes) set by a government agency. In addition the principle recognized the accounts in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, both with the timing and reliable amount of taxes. The amendments shall be effective retrospectively starting from June 17, 2014.

The management anticipates that the adoption of this new standard will have no impact on the separated financial statements 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 disclosed only if the total assets of the operating segments are regularly reviewed by the highest operational decision making authority of the Company.
 - IFRS 13 *Fair Value Measurement - Short-term receivables and Payables*. It has been 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.

The modification will be applied starting from the financial year, which includes February 1, 2015. The management anticipates that the adoption of this new standard will have no impact on the separated financial statements of the Company.

- On December 12, 2013, the IASB issued the document **"Annual Improvements to IFRSs: 2011-2013"** including the amendments of several principles related to the annual improvement. The main modification relate to:
 - 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 January 2015 or after. The management anticipates that the adoption of this new standard will have no impact on the separated financial statements of the Company.

- On November 21, 2013 the IASB issued amendments to IAS 19 – **"Defined Benefits Plan: Employee Contributions"** propose to present the contributions (related to the service delivered by the employee only within financial year) effectuated by employees or third parties to the Defined Benefits Plan and in the same time this to reduce the cost for service as incurred. The necessity of such proposal arose after the introduction of the new IAS 19 (2011), where it is stated that contributions are part of post-employment benefit, other than a short-term benefit and, therefore, such contribution should be extended to the entire years of service by the employee. The amendments are effective for annual periods beginning on or after February 1, 2015 or after. The management anticipates that the adoption of this new standard will have no impact on the separated financial statements of the Company.

Accounting principles, amendments and IFRS interpretation not yet endorsed by the European Union.

At the date of reference of the Statutory Financial Statements, competent authorities of the European Union have not concluded the process of endorsement in order to adopt the following amendment and principles.

- On January 30, 2014, the IASB published the standard **IFRS 14 – Regulatory Deferral Accounts**, which permits on an entity that is first-time adopter of IFRS to continue to account for regulatory deferral account balances in accordance with their previous accounting principles. The Company is not a first-time adopter, thus this principle is not available.
- On May 6, 2014, the IASB issued several amendments to the principle **IFRS 11 "Joint Arrangements – Accounting for acquisitions of interests in joint operations"** related to the accounting for acquisitions of interests in joint operations, whose activity constitutes a business as required by IFRS 3. Amendments require that for relevant principles for business combination in IFRS 3 to be applied for these companies. The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The management anticipates that the adoption of this new standard will have no impact on the separated financial statements of the Company.
- On May 12, 2014, the IASB published amendments to **IAS 16 Property, plant and equipment** and to **IAS 38 Intangibles Assets – "Clarification of acceptable methods of depreciation and amortisation"**. The amendment of IAS 16 clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment of IAS clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.
The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The management anticipates that the adoption of this new standard will have no impact on the separated financial statements of the Company.
- On May 28, 2014, the IASB published the standard **IFRS 15 – Revenue from Contracts with Customers**, which will replace IAS 18 – *Revenue*, IAS 11 – *Construction Contracts*, IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* and SIC 31 – *Revenues-Barter Transactions Involving Advertising Services*. The principle establishes a new model of recognising the revenues, which will be applicable in all the contracts with customers, except for those, which have the right to use another IAS/IFRS such as leasing contracts, insurance contracts and financial instruments. The main steps for recording the revenues in accordance with the new model are as follows:
 - Identify the contract with a customer;
 - Identify the *performance obligations* in the contract;
 - Determine the transaction price;
 - Allocate the transaction price to the *performance obligations* in the contract;

- Recognise revenues when the entity satisfies every *performance obligations*.

The amendments are effective for annual periods beginning on or after 1 January 2017. Earlier application is permitted. It is still unclear the significant impact in the moment of application, related to the amounts registered as revenues and to the related disclosure in the Company's Separated Financial Statements.

- On July 24, 2014, the IASB published the final version of **IFRS 9 - Financial Instruments**. The document includes the results of the phases related to Classification and measurement, Impairment and Hedge accounting, of the IASB's project designed to replace IAS 39. The new principle, which substitutes the previous version of IFRS 9, must be applicable from January 1, 2018 or thereafter.

Following the Financial crisis of 2008, as a request of the main financial and political institutions, the IASB initiated the project to the replace of IFRS 9 and has proceeded in different phases. In 2009, the IASB published the first version of IFRS 9, which treated only the classification and measurement of the financial assets; followed in 2010 by publishing the criteria of classification and measurement of the financial liabilities and unrecognition (it was transposed without changes from IAS 39). In 2013, the IFRS 9 was modified including the general model of hedge accounting. After the current publishing, which includes the impairment, the IFRS 9 is considered as completed, except for the criteria related to the macro hedging, on which the IASB has undertaken an independent project.

The standard introduces new criteria for classification and measurement of financial assets and liabilities. Particularly, for the financial assets, the new standard uses a single approach based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets, in order to define the measurement criteria, replacing the many different rules in IAS 39. Instead, for financial liabilities, the most significant effect of the standard regarding the classification and measurement, relates to the accounting for changes in fair value attributable to changes in the credit risk of financial liabilities designated at fair value through profit or loss. Under the new standard, these changes are recognised in "Other comprehensive income statement" and not anymore in the income statement.

With reference to the impairment model, the new standard requires that the estimates of credit losses should be based on the model of the expected losses (and not in the model of incurred losses) using supporting information, available without charges or irrational efforts, which should include historic, actual and forecasted data. The standard requires that the impairment model will be applicable to all financial instruments, which are financial assets measured at amortized cost or those measured at fair value through other comprehensive income, receivables deriving from leasing contracts and trade receivables. Lastly, the standard introduces a new model of hedge accounting, aiming 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 amendments of document are:

- increase of the types of transactions eligible for hedge accounting, including risks of non-financial assets / liabilities eligible for hedge accounting;
- 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 caption and the hedging instrument; In addition, it is not required a retrospective assessment of the effectiveness of the hedging relationship;

The greater flexibility of the new accounting rules is balanced by disclosure requirements on risk management activities of the Company. The management anticipates that the adoption of this new standard will have no impact on the separated financial statements of the Company.

- On August 12, 2014, the IASB published the amendment of **IAS 27 - Equity Method in Separate Financial Statements**. The document introduces the option to use in the entity's separated financial statements the equity method for the evaluation of Investments in controlled subsidiaries, jointly controlled entities and in associated companies. Consequently, followed by the introduction of the amendment, an entity may measure these investments in its separated financial statements as follows
 - At cost; or
 - As intended by IFRS 9 (or IAS 39); or
 - Using the Equity Method.

The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The management anticipates that the adoption of this new standard will have no impact on the separated financial statements of the Company.

- On September 11, 2014, the IASB issued the amendment of **IFRS 10 and IAS 28 - Sales or Contribution of Assets between an Investor and its Associate or Joint Venture**. The document was published in order to solve the actual conflict between IAS 28 and IFRS 10. According to IAS 28, the gain or loss resulting from the sale or contribution of a non-monetary asset to a Joint venture or Associate in exchange for share capital is limited in the portion held in Joint venture or Associate from other investors unrelated to the transaction. On the other side, IFRS 10, requires accounting for the entire gain or loss in the case of loss of control of a subsidiary, even when the entity continues to hold a non-controlling interests over the investee including the sale or contribution of a subsidiary from the investor to its associate or Joint Venture. The amendments determine that the extent of gain or loss recognised in investor's financial statements from sale or contribution of assets to an associate or joint venture depend on whether the assets sold or contributed constitute a business according to IFRS 3. Full gain or loss recognition is required for transactions between investors and associates only when a sale or contribution of assets constitutes a business; otherwise, the gain or loss from the transaction should be eliminated only to the extent that it does not exceed the carrying amount of the entity's investment in the joint venture. The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The management anticipates that the adoption of this new standard will have no impact on the separated financial statements of the Company.
- On September 25, 2014, the IASB published the document **"Annual Improvements to IFRS: 2012-2014 Cycle"**. The amendments are effective for annual periods beginning on or after 1 January 2016.

The document introduce amendments to the following standards:

- IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*. The amendment includes specific guidance to the standard for cases in which an entity reclassifies an asset from *held-for-sale* (or *disposal group*) to *held-for-distribution* or vice versa and cases in which held-for-distribution accounting is discontinued. The amendments define that (i) these reclassifications should not be considered as change in the selling or distribution plan and that are still valid the same classification and measurement criteria; (ii) assets, which do not meet the classification criteria for *held-for-distribution*, should be treated in the same way as the ones which do not meet the classification criteria for *held-for-sale*;
- IFRS 7 - *Financial Instruments: Disclosure*. The amendment includes additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for determining the disclosures required. It clarifies the applicability of the amendments on offsetting disclosures to condensed interim financial statements. However, this information might be necessary to fulfil the requirement of IAS 34, if it is a significant information;
- IAS 19 - *Employee Benefits*. The amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. It clarifies that the depth of the market for high quality corporate bonds should be assessed at currency level;
- IAS 34 - *Interim Financial Reporting*. The document introduces amendments in order to clarify the requirement to fulfil when the requested disclosure present in *interim financial report*, but outside the *interim financial statements*. The amendments precise that the information should be included through a cross-reference from the *interim financial statements* to other parts of *interim financial report* and that this document should be available to stakeholders in the same modality and the same time as of *interim financial statements*.

The management anticipates that the adoption of this new standard will have no impact on the separated financial statements of the Company.

- On December 18, 2014, the IASB published the amendment of **IAS1 – Disclosure Initiative**. The object of the amendments is to clarify some disclosures that could be seen as obstacles to a fair and intelligible redaction of financial statements. The amendments are the following:
 - Materiality and aggregation: clarifies that an entity should not obscure useful information by aggregating or disaggregating information; and that materiality considerations apply to primary financial statements, notes and any specific disclosure requirements in IFRSs. The

- disclosures specifically required by IFRSs need to be provided only if the information is material;
- Statement of financial position and statement of profit or loss and other comprehensive income: clarifies that the list of items specified by IAS 1 for these statements can be aggregated and disaggregated as relevant. Additional guidance has been added on the presentation of subtotals in these statements.
 - Presentation of items of "Other Comprehensive Income ("OCI")": clarifies that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.
 - Notes: clarifies that entities have flexibility when designing the structure of the notes and provides guidance on how to determine a systematic order of the notes, for example:
 - Giving importance to those that are most relevant in order to understand the financial position (assorting information in specific assets);
 - Assorting elements measured with the same criteria (assets measured with fair value);
 - Following the order of the element presented in the prospects.

The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The management anticipates that the adoption of this new standard will have no impact on the separated financial statements of the Company.

- On December 18, 2014, the IASB published **"Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)"**, containing amendments related to topics emerged from the application of consolidation exception conceded to the investments entities. The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The management anticipates that the adoption of this new standard will have no impact on the consolidated financial statements of the Group, which is not define as an investment entity.

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

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 (amounts in thousands of Euro):

	31/12/2014				31/12/2013			
	Gross values	Accumulated depreciation	Write-offs	Net values	Gross values	Accumulated depreciation	Write-offs	Net values
Land	-	-	-	-	-	-	-	-
Buildings	13,049	(4,185)	-	8,864	13,019	(3,730)	-	9,289
Plant and machinery	47,178	(33,105)	-	14,073	42,704	(30,427)	-	12,277
Industrial and commercial equipment	10,021	(9,725)	-	296	9,755	(9,600)	-	155
Other assets	2,720	(1,913)	-	807	2,358	(1,661)	-	697
Work in progress and advances	315	-	-	315	226	-	-	226
Total	73,283	(48,928)	-	24,355	68,062	(45,418)	-	22,644

As at December 31, 2014, the caption construction in progress and advances refers to investments in the course of completion for Euro 315 thousand, mainly relating to plant and machinery.

Gross value movements occurred during the period are detailed as follows (amounts in thousands of Euro):

Gross Values	31/12/2013	Increase	Disposals	Reclassifications and other changes	31/12/2014
Land	-	-	-	-	-
Buildings	13,019	30	-	-	13,049
Plant and machinery	42,704	4,474	-	-	47,178
Industrial and commercial equipment	9,755	266	-	-	10,021
Other assets	2,358	361	-	-	2,719
Work in progress	226	90	-	-	316
Total	68,062	5,221	-	-	73,283

Accumulated depreciation movements occurred during the period are detailed as follows (amounts in thousands of Euro):

Accumulated Depreciation	31/12/2013	Depreciation	Disposals	Reclassifications and other changes	31/12/2014
Land	-	-	-	-	-
Buildings	3,730	455	-	-	4,185
Plant and machinery	30,427	2,678	-	-	33,105
Industrial and commercial equipment	9,600	125	-	-	9,725
Other assets	1,661	252	-	-	1,913
Capital Work in progress	-	-	-	-	-
Total	45,418	3,510	-	-	48,928

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 it was considered the estimated remaining useful life at contribution date. This assumption, in line with the substantial continuity of the business activities, was considered conservative and represent the economic-technical life of the contributed assets.

3.2. GOODWILL

As at December 31, 2014 goodwill amounted to Euro 219,100 thousand (unchanged compared to December 31, 2013) and is related to portion allocated in 2007 to the Space Sector.

As mentioned in Note 2.4. - Accounting Principles and measuring criteria, goodwill is not amortised but in case written-off for impairment losses. The Company verifies the recoverability of goodwill at least annually, or more frequently if events or changes in circumstances indicate that it might be impaired, with a specific impairment test conducted on each CGU. The CGU designated by the Company for the impairment test on goodwill is the same unit identified, at Group level, as operating segment as required by IFRS 8 – *Operating segments*, corresponding to Space *business*.

Goodwill allocated to the Space CGU was tested for impairment at reporting date and as a result no impairment loss should be recognised on the carrying value of the goodwill as at December 31, 2014.

The recoverability of the carrying value was tested by comparing the CGU net invested capital (carrying value) with its recoverable amount. The recoverable amount was represented by the present value of future operating cash flows arising from forecasts included in the approved long-term plan of the Company, properly extrapolated, as indicated below, in order to consider the peculiarity of the Company's business life cycle and by a normalised terminal value, used to estimate future results for periods exceeding the timeframe 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 Company's and CGU's specific risks.

As at December 31, 2014 expected cash flows for 2015 of the Space CGU were determined based on the budget prepared by the Management and approved on March 26, 2015 by the Company's Board of Directors and for the subsequent period until 2018, on the basis of the long-range plan approved on October 24, 2014 by the Company's Board of Directors. For the subsequent period 2019-2021, in order to consider the peculiarity of the Company's and CGU's *business* life cycle, data related to 2018 have been extrapolated and projected using a 2.5% growth rate. For the calculation of the *terminal value*, the cash flows forecasted for the last year of projection (2021) were normalised using the *perpetuity* method, and considering a 2.8% growth in the forecasted cash flows starting from 2022.

The described assessments of the *business'* life-cycle, considered as base of extrapolation of explicit forecasts of the long-range plan, are also confirmed by the agreements reached and future strategies developed by Europeans States involved in the development of the space sector, and in particular of launchers' sector, as part of the recent meeting of Ministers of ESA Member States, held in Luxembourg during the month of December 2014; in that context the definitive agreement for the signing of contracts for the development of new Ariane 6 – replacing the current Ariane 5 – was established, and confirmation of the evolution of the VEGA launcher in the newly configured VEGA C was defined, regarding programs involving the Avio Group as a primary actor.

The average interest rate (weighted average cost of capital) used to discount expected cash flows was 8.79%, after tax (10.31% prior year).

It is important to mention that estimations and figures reported in the long-term 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 with which 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. However, the determination of the recoverable amount of goodwill requires by the *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 goodwill may not be impaired in the future, 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 Company's *Management*.

Taking into account described factors, the Company carried out a sensitivity analysis simulating a change considered representative of the significant parameters of the impairment test.

In particular:

- with regard to the growth rate for the explicitly projected period (2019-2021) and the growth rate of the terminal value (since 2022), a 50 basis point decrease has been simulated; alternately
- with regard to the discount rate of the cash flows, a 50 basis points increase has been considered.

On the basis of these sensitivities, the recoverable amount of the CGU exceeds the corresponding carrying amount recorded in the financial statements.

Even considering on a jointly basis the above mentioned negative variations of the main parameters, the recoverable amount of the Space CGU exceeds the corresponding carrying amount recorded in the statutory financial statements.

3.3. INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

The composition of this caption is set out in the following table (amounts in thousands of Euro):

	31/12/2014				31/12/2013			
	Gross values	Accumulated depreciation	Write-offs	Net values	Gross values	Accumulated depreciation	Write-offs	Net values
Development costs – amortised	68,517	(28,359)	-	40,158	68,517	(21,945)	-	46,572
Development costs – not yet amortised	23,656	-	-	23,656	14,841	-	-	14,841
Total development costs	92,173	(28,358)	-	63,814	83,358	(21,945)	-	61,413
Investments costs for international programmes	-	-	-	-	-	-	-	-
Customer relationships for participation in programmes	61,257	(32,670)	-	28,587	61,257	(28,587)	-	32,670
Concessions, licences, trademarks and similar rights	3,122	(2,459)	-	663	2,669	(1,882)	-	787
Other	1,208	(721)	-	487	901	(721)	-	180
Total	157,760	(64,209)	-	93,551	148,185	(53,135)	-	95,050

Development costs mainly include costs of designing and testing 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 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.

Gross value movements occurred during the period are detailed as follows (amounts in thousands of Euro):

Gross values	31/12/2013	Additions	Disposals	Reclassifications and other changes	31/12/2014
Development costs – amortised	68.517	-	-	-	68.517
Development costs – not yet amortised	14.841	8.815	-	-	23.656
Total development costs	83.358	8.815	-	-	92.173
Customer relationships for participation in programmes	61.257	-	-	-	61.257
Concessions, licences, trademarks and similar rights	2.669	453	-	-	3.122
Other	901	307	-	-	1.208
Total	148.185	9.575	-	-	157.760

The increases during the year refer to development costs capitalized are mainly related to the Vega launcher development programme.

The investment in the captions Concessions, licenses, trademarks and similar rights are related primarily to expenses related to the Company's technology infrastructure.

Accumulated depreciation movements occurred during the period are detailed as follows (amounts in thousands of Euro):

Accumulated amortisation	31/12/2013	Additions	Disposals	Reclassifications and other changes	31/12/2014
Development costs – amortised	21,945	6,414	-	-	28,359
Development costs – not yet amortised	-	-	-	-	-
Total development costs	21,945	6,414	-	-	28,359
Customer relationships for participation in programmes	28,587	4,083	-	-	32,670
Concessions, licences, trademarks and similar rights	1,882	577	-	-	2,459
Other	721	-	-	-	721
Total	53,135	11,074	-	-	64,209

3.4. INVESTMENTS

The composition and book value of investments held as at December 31, 2014, with the information – related to the 2014 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 (Netherlands)	Euro 18,000	Euro 57,949,445	Euro (36,377)	100 %	58,640,102
ELV S.p.A.	Roma	Euro 4,680,000	Euro 8,059,004	Euro (258,640)	70 %	1,892,147
Regulus S.A.	Kourou (French Guyana)	Euro 640,000	Euro 15,270,373	Euro 2,553,540	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 Subsidiaries						61,138,313
Associated companies and joint ventures						
Europropulsion S.A. (*)	Suresnes (Francia)	Euro 1,200,000	Euro 5,286,800	Euro 4,622,871	50 %	1,521,162
Termica Colleferro S.p.A.	Bologna	Euro 6,100,000	Euro 7,628,909	Euro 2,031,834	40 %	4,806,147
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 43,205	Euro 22,308	20 %	5,165
Consorzio Servizi Acqua Potabile	Colleferro (Rome)	Euro 0	Euro 0	Euro 0	25 %	0
Total Associated companies and joint ventures						6,370,834

(*) Jointly controlled company

The net book value of some investments in controlled and associated companies as at December 31, 2014 is higher than the owned share of net equity. However, from the impairment test performed as at December 31, 2014 no impairment losses were recognised in the financial statements.

The movements that occurred in the period are detailed as follows (amounts in thousands of Euro):

	31/12/2013	Increase	Disposals	Write-downs	31/12/2014
Controlled companies	61,138	-	-	-	61,138
Associated and jointly controlled companies	6,160	1,240	(1,029)	-	6,371
Other companies	515	-	-	-	515
Total	67,813	1,240	(1,029)	-	68,024

The changes in associated and jointly controlled companies during 2014, relate to:

- the increase of the value of the investment held in Termica Colleferro S.p.A., due to the partial conversion into equity of financial receivables;
- the disposal of the investment held in ASPropulsion Capital N.V., following the liquidation of the company.

The foreign controlled company Avio India Aviation Aerospace is still in liquidation as at December 31, 2014.

3.5. NON-CURRENT FINANCIAL ASSETS

The caption amounts to Euro 6,200 thousand (Euro 6,040 thousand as at December 31, 2013) and refers to loan granted to the associated Termica Colleferro S.p.A finalized to support its operating activity. The net increase, amounting to Euro 160 thousand, is due to the additional funding of Euro 1,400 thousand and the decrease of Euro 1,240 thousand related to the conversion of mentioned loan into equity (with corresponding effect on investment value).

3.6. DEFERRED TAX ASSETS

The deferred tax assets recognized in the balance sheet amount to Euro 51,648 thousand (Euro 39,548 thousand as at December 31, 2013):

	31/12/2014	31/12/2013	Variation
Deferred Tax Assets	51,648	39,548	12,100
Deferred Tax Liabilities	-	-	-
Net balance	51,648	39,548	12,100

The net balance 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 be applicable when the temporary differences will reverse or the tax losses carry forwards will be utilized.

Expectable taxable income in future years, based on the long-term 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 (amounts in thousands of Euro):

	31/12/2014		31/12/2013 (*)	
	Temporary differences	Tax effect amount	Temporary differences	Tax effect amount
<i>Positive variance:</i>				
Amortisation of goodwill for "Aviation" for tax purposes only	491,150	97,035	266,437	84,727
Financial expenses in excess of 30% ROL	195,130	53,661	251,380	69,130
Provision for employee-related liabilities	10,141	2,789	5,969	1,632
Maintenance and other expenses deferred deductibility	9,721	2,673	16,571	4,474
Provisions for risk and charges (recurring)	3,299	953	529	161
Inventory write-down	1,760	569	1,143	348
Provisions for risk and charges (non-recurring)	1,294	356	3,516	967
Allowance for doubtful accounts	96	26	113	31
Statutory exceeding tax depreciation and impairment losses	-	-	17,083	5,021
Recovery of previous IRAP tax deductions (**)	-	-	168,887	7,032
Total	712,591	158,062	731,628	173,523
<i>Negative variations:</i>				
Amortisation of "Space" goodwill (tax purposes only)	(76,039)	(23,210)	(68,942)	(21,316)
Allocation of "Space" goodwill to intangible assets	(28,587)	(9,239)	(32,168)	(10,591)
FTA R&D cost capitalisation and related amortisation	(29,808)	(8,197)	(30,458)	(9,767)
Accelerated depreciation (tax purposes only)	(3,398)	(982)	(17,829)	(5,597)
Construction in progress reduction value (tax purposes)	(132)	(36)	(3,042)	(1,303)
Gain with deferred taxability	-	-	(2,117)	(673)
Total	(137,964)	(41,665)	(154,556)	(49,248)
Net deferred tax	574,627	116,397	577,071	124,275
DTA not recognised (***)		(64,749)		(84,727)
Net Deferred tax		51,648		39,548

(*) As of December 31, 2014, the caption "Recovery of previous IRAP tax deductions" is attributed to its pertaining caption "Amortisation of "Space" goodwill (tax purposes only)" and "Accelerated depreciation (tax purposes only)" between negative variations.

(**) Recoverability assessment of DTA is based on the forecasted figures consistent with those used for the impairment test of goodwill, also taking into account a reversal timing aligned with those of the life cycle of the business, as confirmed by the outcome emerged in the recent meeting of Ministers of ESA Member States, held in Luxembourg during the month of December 2014.

The amount recognized as deferred taxes as at December 31, 2014 amounting to Euro 51,648 thousand was determined as follows (amounts in thousands of euro):

Balance of DTA/L as at December 31, 2013	39,548
Deferred tax assets and deferred income taxes recognized in the income statement and other changes	11,938
Deferred tax assets and deferred income taxes recognized in Actuarial Profit/losses reserve	162
Balance of DTA/L as at December 31, 2014	51,648

Deferred tax assets have been recognized as likely considering their future recovery, taking into account future taxable income determined on the basis of results consistent with those used for the impairment test on the recoverable amount of non-current assets.

Moreover, in the assessment of the time horizon used for the evaluation of recoverability, it has been taken into account the characteristics of the life cycle of the Company's business, as supported and confirmed by the agreements reached and future strategies developed by European States involved in the development of the space sector, and in particular of launchers' sector, as part of the recent meeting of Ministers of ESA Member States, held in Luxembourg during the month of December 2014; in that context the definitive agreement for the signing of contracts for the development of new Ariane 6 – replacing the current Ariane 5 – was established, and confirmation of the evolution of the VEGA launcher in the newly configured VEGA C was defined, regarding programs involving the Company as a primary actor.

Deferred tax assets were calculated based on the tax rates that are expected to be applied in the period when temporary differences will be recovered or the tax losses carried forward will be used. As resulting from the approved long-term plan, for the purpose of the recovery of the deferred tax assets balance, positive taxable income are expected to be achieved in future financial years.

3.7. OTHER NON-CURRENT ASSETS

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Receivables for prepayment of tax withheld on employee severance indemnity	2	8	(6)
Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85	11,112	13,669	(2,557)
Cautionary deposits	96	91	5
Total	11,210	13,768	(2,558)

Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85 refers to the present value of the non-current portion (whose nominal value amounts to Euro 12,069 thousands), granted on December 31, 2014 by the Inter-ministerial Committee for Economic Planning (CIPE) of the Ministry of Economic Development subsequent to the approval of Resolution No. 28 of March 22, 2006, reporting guidance for the aerospace industry, whose payment is deferred over a ten-year period.

These receivables are stated 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 of cash received with offset caption "Financial income". It is initially accounted as an offset of the caption "Other non-current liabilities" (Note 3.21).

The present value of the non-current portion to receive within five years amounts to Euro 14,588 thousands and the present value of the non-current portion to be received beyond five years amounts to Euro 2,263 thousands. The current portion of the grant related within one year, amounts to Euro 5,739 thousands and it is classified in the caption "Other current assets" (Note 3.14).

CURRENT ASSETS**3.8. INVENTORIES**

The total value of the inventories as at December 31, 2014 was Euro 46,869 thousand. The composition of the caption is shown in the following table (amounts in thousands of Euro):

	31/12/2014			31/12/2013		
	Gross value	Inventory reserve	Net value	Gross value	Inventory reserve	Net value
Raw materials and supplies	21,409	(1,332)	20,077	14,980	(1,332)	13,648
Work in progress	2,416	(424)	1,992	1,144	(424)	719
Finished goods	11	(4)	7	242	(4)	238
Advances to suppliers	24,793	-	24,793	37,331	-	37,331
	48,629	(1,760)	46,869	53,696	(1,760)	51,936

The caption advances from suppliers includes amounts paid in advance by suppliers based on the conditions agreed on the related purchasing contracts.

3.9. CONSTRUCTION IN PROGRESS

Construction in progress are classified as an asset if, based on the analysis made for each contract, the gross amount of construction in progress is higher than advances received from the customers. Otherwise, the amount is classified as a liability.

As at December 31, 2014, provisions on expected losses on contracts with negative margins were accrued for Euro 718 thousand and classified as a liability in the caption "Provisions for risks". As at December 31, 2013, the caption amounted at Euro 1,065 thousand.

The total gross value of construction in progress and progress billing and advances cashed from customers is detailed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Construction in progress (gross amount)	790,779	828,932	(38,153)
Progress billing and advances	(821,089)	(840,233)	19,144
Advances (net)	(30,310)	(11,301)	(19,009)

The following table summarize the balance of construction in progress, for which progress billing and advances exceed the gross value of construction in progress and thus, the net value is classified as an asset (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Construction in progress (gross amount)	692,018	529,212	162,806
Progress billing and advances	(646,603)	(488,773)	(157,830)
Work in progress (net)	45,415	40,439	4,976

The following table summarize the balance of construction in progress, for which progress billing and advances exceed the gross value of construction in progress and thus, the net value is classified as a liability (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Construction in progress (gross amount)	98,761	299,720	(200,959)
Progress billing and advances	(174,486)	(351,460)	176,974
Work in progress (net)	(75,725)	(51,740)	(23,985)

3.10. TRADE RECEIVABLES

Total trade receivables as at December 31, 2014 amount to Euro 6,562 thousand (Euro 6,247 thousand as at December 31, 2013). The caption is detailed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Trade receivables from third parties	1,230	2,150	(920)
Receivables from parent companies	4,491	3,531	960
Receivables from associated companies	841	566	275
Total	6,562	6,247	315

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

Trade receivables from third parties

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Gross value	1,326	2,246	(920)
Less: allowance for doubtful accounts	(96)	(96)	-
Net value – within one year	1,230	2,150	(920)
Trade receivables – beyond one year	-	-	-
Total	1,230	2,150	(920)

There are no receivables with maturity date beyond five years.

Receivables from controlled companies

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Regulus S.A.	2,199	1,862	337
SE.CO.SV.IM. S.r.l.	-	26	(26)
ELV S.p.A.	2,292	1,643	649
Total	4,491	3,531	960

The receivables are deemed fully collectable within one year and therefore no provision for doubtful account is recorded.

Receivables from associated and jointly controlled companies

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Europropulsion S.A.	467	431	36
Consorzio Servizi Acque Potabili	226	131	95
Consorzio Servizi Colleferro	80	2	78
Termica Colleferro S.p.A.	68	2	66
Total	841	566	275

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 caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Current financial assets from controlled companies	-	10,402	(10,402)
Current financial assets from associated companies	141	119	22
Current financial assets from third parties - subject to restrictions	21,313	115,006	(93,693)
Current financial assets from third parties	-	1,150,000	(1,150,000)
Financial prepaid expenses	-	331	(331)
Total	21,454	1,275,858	(1,254,404)

Financial assets from associated companies are related to the short-term portion of financial receivables towards the associated company Termica Colleferro S.p.A. and represent the accrued interest on the loan granted to the associate.

Financial assets from third parties – Portion subject to restrictions (amounting to Euro 21,313 thousand) include the residual balance of the restricted funds transferred, in the previous year, in specific *escrow accounts*, related to the contribution of aviation business and subsequent disposal of investments in GE Avio S.r.l. occurred during the previous financial year.

As at December 31, 2013 mentioned escrow accounts amounted to Euro 115,000 thousand and were partly reclassified during 2014 (for a total amount of Euro 93,687 thousand) to Cash and cash equivalents; in particular, Euro 70,000 thousand were reclassified on August 2014, based on the expiring dates defined in the Sale and Purchase Agreement (SPA), stipulated with GE Italia Holding S.p.A. for the disposal of the investments in GE Avio S.r.l. and the remaining part - Euro 23,687 thousand - on November 2014 based on the additional agreement occurred between counterparts, in the context of the settlement of claims raised by General Electric, with reference to the SPA contract.

In particular, the amount recorded on *escrow accounts* as at December 31, 2014, refers to the residual restricted amount, following the described agreements, which has been reclassified in 2015, based on the signature of the *Settlement Agreement and Release*, occurred with GE Italia Holding S.p.A. on December 30, 2014, that has completed the settlement of the previously mentioned claims; a Euro 20,313 thousand amount was recognized to Avio S.p.A. (corresponding to the reclassification in cash and cash equivalents occurred, consistently with related bank operation, on January 2015), while the residual amount of Euro 1,000 thousand was used for the net payment recognized in favor of GE Italia Holding S.p.A. (recorded with counterpart an expenses from financial investments – Note 3.36) following the definitive settlement of claims occurred.

The decrease by Euro 1,150,008 thousand of the caption “financial assets from third parties” is related to the transaction occurred in June 9, 2014, relating to the sale of the short-term floating rate notes issued by Corsair Finance (Ireland) Limited - Series 119 ("Corsair"), in which the Parent

had invested the proceeds deriving from the disposal of the investment in GE Avio S.r.l.; the related cash-in included the entire nominal value (Euro 1,150,000 thousand) and related interests matured in 2014 second quarter (Euro 508 thousand).

3.12. CASH AND CASH EQUIVALENTS

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Bank and post-office accounts	159,298	48,541	110,757
Cash on hand	-	-	-
Total	159,298	48,541	110,757

The caption "Cash and cash equivalents" include Bank and post-office accounts and Cash on hand. At December 31, 2014, it amounts to Euro 159,298 thousand, represented by Bank and post-office account, which recorded an increase of Euro 110,757 thousand compared with the previous year.

The variation during the financial year is mostly related to the cash flows described below:

- Cash-in (occurred on June 9, 2014) related to the Euro 1,150,000 thousand amount representing the nominal value of the Corsair short-term floating rate notes (described in the previous paragraph 3.12);
- Cash-out related to the dividends payment (Euro 949,000 thousand) deliberated by the Shareholder's Meeting on June 23, 2014, in favour of the Company's shareholders. Related payment to shareholders occurred for an amount equal of the nominal value of the decided dividends portion, net of related withholding tax (Euro 146,251 thousand) paid to Tax Authorities.
- Cash-out (on June 25, 2014,) due to the anticipated reimbursement (Euro 151,064 thousand) of loan related to the "Intercompany Loan Agreement", following the agreement between the Company and its shareholders (sub entered to BCV Investments S.C.A. after its liquidation). The cash outflows occurred for the nominal value of the loan (including interest accrued at the reimbursement date), net of Euro 8,823 thousand withholding tax, paid to Tax Authorities.
- Cash-in due to the partial reclassification described in paragraph 3.12 (Euro 93,687 thousand) of funds included in escrow accounts related to the contribution of Aviation business and subsequent sale of the GE Avio S.r.l. investment occurred in previous year.

3.13. CURRENT TAX ASSETS

Current tax assets as at December 31, 2014 amount to Euro 17,477 thousand (at December 31, 2013 amounted to Euro 10,127 thousand). The caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
VAT receivable	6,000	4,261	1,739
Receivables from Tax Authorities	11,075	5,473	5,602
EU VAT receivable	233	224	9
Various other taxes claimed for reimbursement	169	169	-
Total	17,477	10,127	7,350

VAT receivables refers to the recognition of 2008 VAT receivables (Euro 6,000 thousand), previously requested for reimbursement and factorized to IFITALIA (and consequently de-recognized at that date), following the Tax Authority decision of mentioned VAT reimbursement blocking, based on the existence of pending tax claims on Avio S.p.A..

Receivables from Tax Authorities refers primarily to amounts paid for pending litigations (Euro 6,888 thousand, corresponding to reduced – 1/3 – penalties and accrued interest) related to claims pertaining MLBO operation and to excess of advance payments for IRAP tax (Euro 3,716 thousand).

3.14. OTHER CURRENT ASSETS

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Receivables from Social Security Institutions	26	-	26
Receivables from employees	572	362	210
Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85	5,739	2,898	2,841
Receivables for public grants to be collected	2,610	2,610	-
Receivables from controlled companies	351	25	326
Receivables from associate companies:			
-Servizi Colleferro – Società Consortile per Azioni	28	-	28
Receivables from other debtors	2,002	13,529	(11,527)
Prepaid expenses and accrued income	410	172	238
Total	11,738	19,595	(7,857)

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 Euro 5,872 thousand on December 31, 2014) of funding granted 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 Inter-ministerial 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 Euro 1,939 thousand towards Fiat Partecipazioni S.p.A. related to the portion – contractually defined – of environmental clean-up costs related to lands owned by the controlled company SE.CO.SV.IM. S.r.l., recoverable by AVIO S.p.A. through reimbursement request. The reduction of the amount compared to the previous year refers to the settlement of corresponding Euro 10,877 thousand receivables and payables (the last one is included in current liabilities as of December 31, 2013 – Nota 3.25) arisen in the context of the Aviation business sale to the General Electric group through GE Avio S.r.l.. During current year, based on agreements between counterparts, mentioned amounts (corresponding receivable and payable) have been compensated.

EQUITY**3.15. SHARE CAPITAL**

The Company's share capital as of December 31, 2014 amounts to Euro 40,000 thousand, fully issued and paid, and it is unchanged with respect to December 31, 2013. Share capital was paid entirely at the incorporation of the Company, on December 11, 2006.

As at December 31, 2014, share capital consist of 400,000,000 ordinary shares with nominal value of Euro 0.1 each.

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

Capital means both the value contributed by shareholders, represented by both share capital and additional paid-in capital and from 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.

3.16. ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital amounts to Euro 73,576 thousand at December 31, 2014 and it is unchanged with respect to December 31, 2013.

3.17. OTHER RESERVES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Actuarial gain/(losses) reserve	(2,096)	(1,669)	(427)
Contribution surplus reserve	80,469	80,469	-
Exchange adjustment reserve	36	-	36
Total	78,409	78,800	(391)

The actuarial gains/losses reserve, negative for Euro 2,096 thousand as at December 31, 2014, includes gains and losses arising from the retrospective application, starting from January 1, 2013 of the revised IAS 19.

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. Particularly it is related to the goodwill portion and to the investments value contributed.

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 (amounts in thousands of Euro):

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	(2,096)	-	-		
- Exchange adjustment reserve	36		-		
Retained Earnings	296,320		296,320		
Total	496,305		450,365	92,425	560,400
Portion not available for distribution			(63,815)		
Portion available for distribution			386,550		

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

3.18. NON-CURRENT FINANCIAL LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Financial payables to Parent Company	-	139,929	(139,929)
Total	-	139,929	(139,929)

Financial payables to Parent Company

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

	31/12/2014	31/12/2013	Variation
Nominal value (principal amount)	-	96,964	(96,964)
Nominal value (capitalized interests)	-	54,054	(54,054)
Amortised cost adjustment	-	(11,089)	11,089
Total	-	139,929	(139,929)

As at December 31, 2013, the liability 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 related to the Acquisition.

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

On May 16, 2014, Avio S.p.A. signed with the (at that date) controlling company BCV Investments S.C.A., an "Amendment Agreement" related to the "Intercompany Loan Agreement", defining certain modifications on contract's terms; in particular, starting from January 1, 2014, the applicable interest rate was reduced to a rate aligned (based on EONIA rate) to the one defined for the investments

made in financial instruments (Corsair short term floating rate notes) using the proceeds generated by the GE Avio S.r.l. investment sale.

Described contractual modification represented a material discontinuity and produce, in accordance with IAS 39 requirements, an accounting treatment corresponding to the effect of de-recognition of the liability and new registration of the contract under the modified terms; this approach led to the recognition (in the first half of 2014) of financial charges amounting to Euro 11,089 thousand, representing the reversal of the effect of the amortized cost adjustment applied as of December 31, 2013.

Thereafter, on June 2014, based on agreements between Avio S.p.A. and its shareholders (sub-entered to BCV Investments S.C.A. after its liquidation), the financial payables related to the contract "Intercompany Loan Agreement" has been fully paid in advance.

3.19. EMPLOYEE BENEFITS PROVISIONS

The caption includes obligations for post-employment benefits and other long-term benefits payable to employees.

The benefits generally being based on employees' remuneration and years of service. The obligations relate to active employees.

Post-employment benefits

The Company 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 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 caption "Other current liabilities". The Company recognises the contribution cost when the employee has rendered the service and includes this cost in the caption "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.

Defined benefit plans reserve is detailed as follow (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Defined benefit plans:			
Employee severance indemnity (TFR)	5,789	6,406	(617)
Other defined benefit plans	1,827	1,647	180
	7,616	8,053	(437)
Other long-term benefits	1,587	1,487	100
Total	9,203	9,540	(337)

Changes in employee benefits provisions are as follows (amounts in thousands of Euro):

	Defined benefit plans	Other long-term benefits	Total employee benefits provisions
Balance at December 31, 2013	8,053	1,487	9,540
Financial expenses/(income)	30	6	36
Recognised actuarial losses/(gains)	-	195	195
Current service costs	77	91	168
Benefits paid	(1,074)	(192)	(1,266)
Transfers to companies within the Company	(58)	-	(58)
Actuarial losses/(gains) from equity's reserve	588	-	588
Balance at December 31, 2014	7,616	1,587	9,203

The amounts charged to the 2014 income statement related to the employees benefits provisions, are detailed in the following table (amounts in thousands of Euro):

	31/12/2014			31/12/2013		
	Defined benefit plans	Other long-term benefits	Total Employee benefits provisions	Defined benefit plans	Other long-term benefits	Total Employee benefits provisions
Past service cost	77	91	168	266	337	603
Recognised actuarial losses/(gains)	0	195	195	600	397	997
Total personnel costs	77	286	363	866	734	1,600
Financial expenses/(income)	30	6	36	291	57	348
Total	107	292	399	1,157	791	1,948

Main actuarial assumptions used are detailed as follows:

	Year 2014	Year 2013
Discount rate	0.62%	1.83%
Expected salary increase	2.00%	2.51%
Inflation rate	1.50%	2.00%
Average rate of staff turnover	5.67%	6.33%

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 rating 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, and Industrial. The geographical area considered was the Euro zone.

A 50 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 0,50% in the discount rate	Decrease 0,50% in the discount rate
TFR	(165)	155
Long-term service indemnity	(74)	76

3.20. PROVISIONS FOR RISKS

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

	31/12/2014			31/12/2013			Variation
	Current	Non - current	Total	Current	Non - current	Total	Total
Reserve for costs of variable salaries and wages	7,496	-	7,496	9,469	-	9,469	1,973
Reserve for personnel expenses and restructuring	-	574	574	-	1,894	1,894	1,320
Reserve for legal and environmental risks	-	870	870	-	757	757	(113)
Reserve for contractual and commercial risks	-	794	794	-	1,141	1,141	347
Reserve for fiscal risks	8,730	8,438	17,168	4,298	8,599	12,897	(4,271)
Total	16,226	10,676	26,902	13,767	12,391	26,158	(744)

The reserves are detailed below:

- The reserve for costs of variable salaries and wages is related to the current portion of the amounts to be paid to qualified employees contingent upon the achievement of company and individual results (for a total amount of Euro 5,140 thousand) and for the provision related to a remuneration plan attributable to a certain number of managers. 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 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, including to social security costs, additional TFR, other costs arising from the procedures for early retirement for redundancy of qualified personnel;
- The reserve for legal and environmental risks relates to the legal disputes and other legal issues still in pending as of December 31, 2014;
- 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, is mainly related to the accruals made for possible adverse results from tax audits conducted on the Company and following some formal tax claims ("avvisi di accertamento").

The changes in total current and non-current provisions in 2014 are detailed as follows (amounts in thousands of Euro):

	31/12/2013	Provisions	Non-recurring provisions	Utilization	Reclassification and amounts reversed to income	31/12/2014
Reserve for costs of variable salaries and wages	9,469	2,356	230	(4,559)	-	7,496
Reserve for personnel expenses and restructuring	1,894	-	61	(1,381)	-	574
Reserve for legal and environmental risks	757	25	500	(295)	(117)	870
Reserve for contractual and commercial risks	1,141	-	-	-	(347)	794
Reserve for fiscal risks	12,897	8,730	-	-	(4,459)	17,168
Total	26,158	11,111	791	(6,235)	(4,923)	26,902

The caption "Reclassification" includes the amount of Euro 4,459 thousand related to reclassifications to the caption "Payables to Tax Authorities", following after receipt, on December 2014, of a formal tax claim ("avviso di accertamento") related to 2009 claimed interest expense in the context of MLBO tax claim.

3.21. OTHER NON-CURRENT LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 - portion due after one year	39,230	39,230	-
Deferred income for funding pursuant to Law No. 808/85 - portion due after one year	14,947	16,347	(1,400)
Deferred income for grants related to assets - portion due after one year	7	38	(31)
Deferred income for tax credit related to R&D activities - portion due after one year	571	629	(58)
Deferred income for grants toward operating costs	234	-	234
Total	54,989	56,244	(1,255)

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

This caption equals to Euro 39,230 thousand and 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 Inter-ministerial 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 have arisen in 2014, 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 caption, amounting to Euro 14,947 thousand, 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 for 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 caption (equal to Euro 7 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 caption (equal to Euro 571 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, as due 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 research and development expenses, based on which the tax credit has been determined, and to the

recognition of revenues related to construction in progress, to the amount of which research and development expenses concurred.

Deferred income for grants related to operating costs

This caption amounting to Euro 234 thousand, refers to the European Community contribution received within the framework of European Union support, for multi-national technology programmes, charged in the future accounting periods, consistently with the programmes progression.

CURRENT LIABILITIES

3.22. CURRENT FINANCIAL LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Financial payables to jointly controlled companies	39,552	29,774	9,778
Financial payables to associate companies	7,919	27,690	(19,771)
Total	47,471	57,464	(9,993)

Financial payables to controlled companies

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
SE.CO.SV.IM. S.r.l.	28,988	29,774	(786)
Elv S.p.A	10,564	-	10,564
Total	39,552	29,774	9,778

Payables to controlled companies relate to the debit balance of the treasury account within the framework of the centralised treasury operations made by the Group effective for the Company, at market terms and conditions.

Financial payables to jointly controlled companies

Financial payables to jointly controlled companies referred to the debit balance of the treasury account with Europropulsion S.A..

3.23. TRADE PAYABLES

The caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Trade payables to third parties	26,183	29,297	(3,114)
Trade payables to controlled companies	16,639	18,959	(2,320)
Trade payables to associated and jointly controlled companies	5,113	4,803	310
Total	47,935	53,059	(5,124)

Trade payables to controlled companies are detailed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Regulus S.A.	16,639	18,044	(1,405)

Avio Polska Sp.z o.o.	-	89	(89)
SE.CO.SV.IM. S.r.l.	-	915	(915)
Totale	16,639	19,048	(2,409)

Trade payables to associated and jointly controlled companies are detailed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Europropulsion S.A.	4,925	2,886	2,039
Termica Colleferro S.p.A.	124	1,941	(1,817)
Servizi Colleferro S.c.p.A.	-	(24)	24
Consorzio Servizi Acqua Potabile	64	-	64
Total	5,113	4,803	310

3.24. CURRENT TAX PAYABLES

The composition of current tax payables is as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Tax withholdings payable	1,135	835	300
VAT payables	519	-	519
Income tax payables – IRES	-	38,616	(38,616)
Other taxes and duties payables	4,460	6,572	(2,112)
Total	6,114	46,023	(39,909)

Withholding tax payable refers to liabilities towards Tax Authorities for retention made by the Company as withholding agent on salary (IRPEF tax) and other income.

Other taxes and duties payables mainly comprised (for Euro 4,460 thousand) liabilities related to tax claim (“*avviso di accertamento*”) received, in December 2014, and related to 2009 interest expense in the context of MLBO operation. During 2014, the amount has been reclassified from the caption “Tax risk provision” to current tax payables. The portion of “other taxes and duties payable” related to abroad payable taxes amount to Euro 290 thousand.

3.25. OTHER CURRENT LIABILITIES

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Advances from customers for supply of goods and services	2,072	2,133	(61)
Social Security payables	1,999	1,916	83
Other payables	6,364	24,218	(17,854)
Other payables to controlled companies	2,567	10,909	(8,342)
Deferred income for grants related to assets – portion due within one year	31	111	(80)
Deferred income for funding pursuant to Law No. 808/85 – portion due within one year	1,400	1,704	(304)
Deferred income for tax credit related to R&D activities – portion due within one year	58	-	58
Other accrued expenses and deferred income	786	738	48
Total	12,710	30,820	(18,110)

Social Security payables

This caption amounts to Euro 1,999 thousand as at December 31, 2014 (Euro 1,916 thousand as at December 31, 2013), and refers 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 caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Payables to employees	2,744	1,071	1,673
Payables to third parties	1,053	12,238	(11,185)
Payables to controlled companies	2,567	10,909	(8,342)
Total	6,364	24,218	(17,854)

Payables to employees include certain payroll costs and deferred compensation accruals at year-end 2014.

Moreover, other payables to third parties include an amount equal to Euro 1,000 thousand due to GE Avio S.r.l., deriving from the definition of claims regarding amounts of assets and liabilities included in the Aviation business, contributed in 2013. Such settlement produced a negative adjustment of the sale price of the GE Avio S.r.l. investment, which benefitted from the contribution.

The reduction of the amount compared to the previous year refers to the settlement of corresponding Euro 10,877 thousand receivables (included in current assets as of December 31, 2013 – Note 3.14) and payables, arisen in the context of the Aviation business sale to the General Electric group through GE Avio S.r.l.. During current year, based on agreements between counterparts, mentioned amounts (corresponding receivable and payable) have been compensated.

Other accrued expenses and deferred income

This caption is composed as follows (amounts in thousands of Euro):

	31/12/2014	31/12/2013	Variation
Accrued expenses related to personnel	786	738	48
Total	786	738	48

This caption relates to the accrued expenses due to the current year's portion of charges for retributions and contributions to employees.

INCOME STATEMENTS**3.26. REVENUES**

Revenues include sales of goods and services and change in construction in progress, representing total revenues, and are composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Revenues from sales of goods	249,347	50,667	198,680
Revenues from services and work in progress	423	1,376	(953)
	249,770	52,043	197,727
Change in construction in progress	(38,154)	150,416	(188,570)
Total	211,616	202,459	9,157

With reference to the geographical breakdown of revenues (defined on the basis of the country of customers), Company's revenues are totally referred to Italy and Europe.

3.27. OTHER OPERATING INCOME

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Revenue grants	818	-	818
Tax credit income related to R&D activities	58	78	(20)
Income related to amount credited to the income statement of funding pursuant to Law No. 808/85	1,703	1,945	(242)
Portion for the period of grants related to assets	33	98	(65)
Recovery of costs, compensation and other income	2,623	2,108	515
Reserves credited to income	465	302	163
Gains on disposal of property, plant and equipment	-	7	(7)
Income related to prior years	642	129	513
Non-recurring income	-	-	-
Total	6,342	4,667	1,675

Revenue grants are related mainly to community benefits received, within the framework of European Union support, for multi-national technology programmes.

The tax credit income related to research and development activities include the portion of the tax credit recorded on an accrual basis, determined upon both research and development costs charged to the 2014 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 construction 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 include the portion of funding granted by the Ministry of Economic Development related to programmes classified as being functional to national security and for realising a project of common European interest. The portion credited to income statement is determined taking into consideration the nature of costs for which the funding was granted and matching it with expenses and depreciation of the assets to which they refer.

The caption Recovery of costs, compensation and other income includes the recovery of costs incurred by the Company during the year, mainly related to the Company's activities in favour of subsidiaries and other income of a different nature.

Reserves credited to income included the reversal of provisions made in prior years and the release of the amount exceeding the provision accrued in previous years to provisions for risks.

3.28. RAW MATERIALS CONSUMPTION

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Raw materials and supplies	65,378	60,533	4,845
Change in inventories	(6,429)	(4,665)	(1,764)
Total	58,949	55,868	3,081

3.29. COST OF SERVICES

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Cost of Services	103,558	100,282	3,276
Lease and rentals	4,733	4,197	536
Total	108,291	104,479	3,812

In 2014, the caption cost of services includes the total amount of fees due to the Corporate bodies of the Company, respectively they amounted to Euro 112 thousand relating to the statutory auditors and Euro 223 thousand relating to the directors.

Cost of services include, among others, costs and expenses for activities conducted with Co-producers, for professional/technical advices and services, external processing, overhaul services, temporary labour supply (Internal personnel).

3.30. PERSONNEL COSTS

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Salaries and wages	23,173	23,939	(766)
Social security contributions	7,711	6,924	787
Defined contribution plan expenses	1,575	1,366	209
Other personnel expenses and provision for variable salaries and wages costs	2,808	1,524	1,284
Costs related to defined benefits plans and other long-term benefits:			
Current service costs	169	140	29
Actuarial (gains)/losses on employee benefit plans	195	332	(137)
Total	35,631	34,225	1,406

The following table shows the average number of employees, divided by category, referred to the Company:

	2014 Average	2013 Average
Blue-collar workers	260	260
White-collar workers	269	239
Managers	15	15
Total	544	514

3.31. DEPRECIATION AND AMORTISATION

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Property, plant and equipment	3,511	3,755	(244)
Intangible assets with finite useful lives	11,073	11,064	9
Total	14,584	14,819	(235)

Amortisation of intangible assets with finite useful lives included Euro 4,084 thousand, 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.

3.32. OTHER OPERATING EXPENSES

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Provisions for risks	25	3,109	(3,084)
Write-down of trade receivables	-	-	-
Other operating expenses	1,698	1,553	145
Non-recurring expenses and provisions	1,219	361	858
Total	2,942	5,023	(2,081)

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 to legal and risks.

Other operating expenses

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Taxes and duties	473	518	(45)
Other expenses	657	297	360
Losses on disposal of property, plant and equipment	-	-	-
Expenses related to prior years	568	738	(170)
Total	1,698	1,553	145

Other expenses included mainly institutional public relations costs, association fees, contractual penalties, costs recharged by consortia and donations to third parties.

Non-recurring expenses and provisions

The caption includes expenses that were either non-recurring or arising from exceptional events which are not related to the ordinary operating activities of the Company. This caption is detailed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Expenses:			
- for organisation restructuring and personnel expenses	421	27	394
- for other non-recurring items	-	334	(334)
	421	361	60
Provisions:			
- for organisation restructuring	792	-	792
- for legal and environmental risks	6	-	6
	798	-	798
Total	1,219	361	858

The caption expenses for organisation restructuring and personnel expenses refers to non recurring expenses related to incentives paid in the context of redundancy plan.

The caption provisions refers the provision made for organization restructuring and those related to a remuneration plan attributable to a certain number of manager.

3.33. CAPITALISATION OF COSTS FOR INTERNALLY GENERATED ASSETS

This caption 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 2014, the caption amounts to Euro 9,781 thousand and includes the following costs (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Costs for the internal construction of tangible fixed assets	659	245	414
Costs for development activities	8,815	4,721	4,094
Costs for internal production of intangible assets	307	508	(201)
Total	9,781	5,474	4,307

3.34. FINANCIAL INCOME

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Interest income from banks	1,292	1,033	259
Discounts and other financial income	283	443	(160)
Interest income on financial receivables towards controlled companies	1	95	(94)
Interest income on financial receivables towards associated companies	272	205	67
Income from interest rate derivative instruments	-	-	-
	1,848	1,776	72
Realised exchange gains	526	-	526
Unrealised exchange gains	5	58	(53)
Income from foreign exchange derivative financial instruments	-	-	-
	531	58	473
Total	2,379	1,834	545

Interest income on financial receivables towards controlled companies relates to interest income on treasury positive balances of Company.

The caption relates to the interest income on financial receivables towards associated companies Termica Colleferro S.p.A.

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

The unrealised exchange gains are related to the adjustment of receivables and payables denominated in foreign currencies with the exchange rates at period end 2014 and they refer to trade items.

3.35. FINANCIAL EXPENSES

This caption is composed as follows (amounts in thousands of Euro):

	Year 2014	Year 2013	Variation
Interest on financial payable to parent company - <i>Intercompany Loan Agreement</i>	11,135	3,547	7,588
Interest on financial payables to associated companies	29	326	(297)
Interest on easy-term financing from banks and the Ministry of Economic Development	-	-	-
Interest on financial payables to controlled companies	4	3	1
Interest on other payables	135	-	135
Discounts and other financial expenses	46	15	31
Interest costs on employee benefits	36	(39)	75
Expenses from interest rate derivative instruments	-	-	-
	<u>11,385</u>	<u>3,852</u>	<u>7,533</u>
Realised exchange losses	543	-	543
Unrealised exchange losses	86	22	64
	<u>629</u>	<u>22</u>	<u>607</u>
Total	<u>12,014</u>	<u>3,874</u>	<u>8,140</u>

The caption financial expenses amounts to Euro 12,014 thousand, shows an increase compared to previous year (Euro 8,140 thousand). This is mainly due to the effect of financial expenses (Euro 11,089 thousand), related to the *Intercompany Loan Agreement* signed with the former controlling company BCV Investments S.C.A., following the "*Amendment Agreement*" signed on May 16, 2014, defining certain modifications on contract's terms; in particular, starting from January 1, 2014, the applicable interest rate was reduced to a rate aligned (based on EONIA rate) to the one defined for the investments made in financial instruments (Corsair short term floating rate notes) using the proceeds generated by the GE Avio S.r.l. investment sale.

As it was previously described in the Note 3.19, this contractual modification represented a material discontinuity and produce, in accordance with IAS 39 requirements, an accounting treatment corresponding to the effect of de-recognition of the liability and new registration of the contract under the modified terms; this approach led to the recognition (in the first half of 2014) of financial charges amounting to Euro 11,089 thousand, representing the reversal of the effect of the amortized cost adjustment applied as of December 31, 2013.

Starting from January 1, 2014, the interests related to the amended *Intercompany Loan Agreement* are defined using the nominal interest rate, which have coincided with the effective one, based on the new conditions set (determined with the method of amortising costs).

The caption interest on financial payables to associated companies refers to the payables related to the existing loan contract with Europropulsion S.A.

Interest expenses on payables to controlled companies related to interest matured on treasury negative balances of the Company.

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

The unrealised exchange gains are related to the adjustment of receivables and payables denominated in foreign currencies to the exchange rates effective at period end and they refer to trade items.

3.36. INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS

The net income from financial investments presented in 2014 resulting from Continuing operations amounts Euro 3,978 thousand and they are detailed as follows:

- Euro 1,620 thousand dividends received, during the period, from the subsidiary Regulus S.A.;
- Euro 2,310 thousand dividends received, during the period, from the jointly controlled company Europropulsion S.A.;
- Gains of Euro 48 thousand, following the completion of the liquidation process of ASPropulsion Capital B.V..

3.37. INCOME TAXES

Income taxes resulting from *Continuing Operations* show a net positive balance of Euro 4,170 thousand, composed of current income taxes charges for Euro 8,730 thousand and net deferred income taxes income for Euro 11,938 thousand.

Current income taxes include income related to tax consolidation effect (IRES tax) equal to Euro 327 thousand, other tax charges for Euro 8,730 thousand (mainly related to the provision for tax risks, of which Euro 442 thousand for withholding tax for non-resident subject) and d prior years positive differences for Euro 635 thousand.

The following table summarises the income taxes for 2014:

	IRES	IRAP	Total
Current income taxes:			
- taxes for the year (*)	(327)	-	(327)
- other tax charges	8,730	-	8,730
- difference between taxes accrued in previous year and paid in 2013	(382)	(253)	(635)
	8,021	(253)	7,768
Net deferred/(prepaid) income taxes	(11,335)	(606)	(11,938)
Total	(3,314)	(856)	(4,170)

Income taxes for the year 2014 resulting from *Discontinued Operations* amounted to Euro 19 thousand and refers to the theoretical tax effect on charges connected to the settlement of contractual claims (see Note 3.48) during 2014.

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 (amounts in thousands of Euro):

	Year 2014	Year 2013
Profit/(Loss) before taxes (Continuing and Discontinued operations)	1,359	1,151,855
Ordinary IRES tax rate	27.50%	27.50%
Theoretical income taxes	374	316,760
Effect of adjustments:		
Non-taxable income (*)	-	(261,322)
Dividends	(1,027)	(1,763)
Permanent non-deductible costs	4,094	6,493
Unrecorded deferred tax (assets)/liabilities	(15,053)	(17,397)
Reversal of temporary differences due the contribution-in-kind	-	(132,836)
Other permanent differences	(69)	(5,461)
Effect of tax rate change (including difference between ordinary and local tax rates)	(382)	(261)
Total	(12,437)	(412,548)
Effective income taxes	(12,063)	(95,787)
Effective tax rate	(887.64%)	-8.32%

(*) Refers to the non-taxable portion of capital gains on the sale of the investment in GE Avio S.r.l.

3.42 PROFIT/(LOSS) FROM THE DISCONTINUED OPERATION NET OF TAXES

In the following table are reported the income statement components that were classified as *Discontinued Operation* during 2014 and 2013, as described in the previous paragraphs (amounts in thousands of Euro):

	Year 2014
Gain adjustment from the sale of GE Avio S.r.l. (<i>claims settlement</i>)	(1.368)
Theoretical tax effect	19
Total	(1.349)
	Year 2013
Gain from the sale of the investment in GE Avio S.r.l.	1.102.528
Tax effect of gain	(41.882)
Reversal of deferred tax liabilities related to Aviation Goodwill	157.585
Reversal <i>Cash flow hedge</i> reserves to the Income Statement	20.885
Tax effect of <i>Cash flow hedge</i> reserves reversal	(6.558)
Net Result of <i>Discontinued Operation</i> (January 1, 2013 – July 31, 2013)	57.504
Total	1.290.062

4. GUARANTEES GRANTED AND COMMITMENTS

Guarantees granted and commitments are the following (Euro thousands):

	31/12/2014	31/12/2013
Guarantees granted:		
Unsecured guaranties:		
Sureties issued by third parties on behalf of the Company	6,335	5,353
Other guarantees	29,788	29,788
Secured guarantees	-	-
Total guarantees granted	36,123	35,141
Goods owned by third parties held in the Company	1,000	1,000
Goods owned by the Company held in third parties	3,476	1,740
Sureties and guarantees received	874	450
Total	41,473	38,331

Guarantees granted

Unsecured guarantees includes sureties issued by third parties on behalf of the Company in favour of customers for the execution of contracts and other guarantees represented by *patronage* letters issued on behalf of the Company.

Goods owned by third parties held in the Company

This caption mainly includes equipment related to tactical propulsion activities owned by customers as well as material held on deposit.

Goods owned by the Company held in third parties

It refers to materials and equipment under processing and storage, or used by vendors.

Sureties and guarantees received

This mainly includes sureties 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 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, specific 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, 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 the toxic substances found in milk produced in some farms along the Sacco river valley, the Municipality of Colleferro issued injunctions against Secosvim. S.r.l., Avio S.p.A.,

and other companies operating in the area, enforcing them to implement emergency safeguards and provide site clean-up activities. Secosvim and Avio S.p.A. appealed against the injunction before at 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 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 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 the authorization to discharge is not yet received.

It was also completed the construction of a hydraulic barrier of ARPA 1 site, ARPA 2 site, Benzoin and OCR which constitutes the tempering system of the area.

Tax inspection of Avio S.p.A.

Following the verification performed in multiple actions during 2009-2010 by *Guardia di Finanza* (the Italian Tax Police) related to the 2007 fiscal year, culminating with the claim that the Company had not re-charged to its controlling shareholder in Luxembourg financial charges related to the portion of the loan agreement for the acquisition of the Avio Group, and more generally, denying various fiscal effects of its acquisition that was completed with the fusion of several companies in the Parent AVIO S.p.A. (*leveraged buy-out*), the Agency notified to the last:

- in December 2012, the formal notice of a related tax claim (*"avviso di accertamento"*) referred to the 2007 fiscal year, confirmed the complaints, quantifying the claim, inclusive to interest and penalties, in approximately Euro 3.3 million. After the instance advanced by the Parent through the provisional payment of a third for the required taxes without penalties, in January 2014, the Provincial Tax Commission ("CTP") of Turin rejected the appeal of the Parent, confirming only the reasons set out in the preliminary tax claims on the basis of interpretations of the Group's Management and its legal advisors, without specifically discussing the defensive arguments presented, concerning the 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 in the Regional Tax Commission ("RTC") of Piedmont in December 2014;
- in December 2013, the formal notice of a related tax claim related to the tax period 2008, included the same objections recorded for the year 2007, quantifying a request, inclusive of interest and penalties, of approximately Euro 32.9 million with reference to the year 2008 regarding the issues associated with the leveraged buy-out operation. The decision is still pending after the appeal made in June 2014 to the CTP of Turin;
- in December 2013, the formal notice of a related tax claim related to 2008 utilization of reposted losses denied from the previous tax claim. It relates to the reported losses for IRES purposes of the incorporated Avio Holding S.p.A. after the fusion that occurred in 2007 with the Parent (for not exceeding the vitality test), quantifying the claim, inclusive to interest and penalties, in approximately Euro 3.5 million. The decision is still pending after the appeal made in March 2014 to the CTP of Turin;
- in December 2014, the formal notice of a related tax claim related to 2007 VAT non-deductibility on invoices not related to the *leveraged buy-out* operation, quantifying the claim, inclusive to interest and penalties, in approximately Euro 7.2 million, is being heard by the CTP of Turin.
- in December 2014, the formal notice of a related tax claim related to the denial of additional reposted losses of Avio Holding S.p.A. (deriving from the reimbursement form of IRES and IRAP, amounting Euro 0.1 million) effected by contents of the claim in December 2012.

Regarding *leveraged buy-out* operation claims, the Parent confirmed, also considering the unfavourable first stage judgment, its own assessment of non-existence of liabilities susceptible of outflows to the Group, based on the technical reasons provided during the court hearing. 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 related to the recent events described) and by the evidence of a number of judicial rulings favourable to taxpayers in similar cases.

Euro 6.888 million paid in provisional account (referred exclusively to 2007-2008 fiscal years) are recorded as receivable in the balance sheet.

In December 2012, together with the mentioned notifications relating to the leveraged buy-out operation, the Parent also received i) a formal notice, related to 2007 fiscal year, of an additional tax

claim related to the alleged omission of withholding tax on interest paid to a Dutch associated company, since it was not recognized as the beneficiary of the transaction (Euro 7.895 million required, paid on June 2013) (ii) the related notice of penalties for the omitted payment of the same withholding taxes.

In December 2013 and 2014, the Company has been formally notified for the same claim with reference to period 2008-2009. Related amounts were paid in January 2014 and 2015, by using funds accrued between "Provision for risks and charges" for the same amount (respectively Euro 6.572 and 4.459 million).

In February 2014 and 2015, acts of penalties for non-payment related to years 2007 and 2008 were notified (required amounts respectively of Euro 1.513 million and Euro 1.450 million); against such notifications, the Company has appealed to the CTP of Turin, considering them having no legal substance. In December 2014 act of penalties regarding the period 2009 was notified (amount of Euro 1 million): the related act of penalty will also be challenged in the event of non-acceptance of defensive deductions.

As anticipated, referring to the above described claims, and considering the settlement covering years 2011, 2012 and 2013 (through integrative declaration for 2011 related corrections for subsequent years), the Parent has proceeded to the allocation of a specific provision for risks and charges, partly used in 2013 and in 2014 for the above mentioned payments related to the withholdings omitted; the consistency of the provision included in the balance sheet as at December 31, 2014 is considered adequate to face future disbursements related to expenses for the years still to be defined, as well as for the penalties (challenged by the parent company) on the already defined tax periods.

Please note that as of today, an agreement with the Italian Tax Office is under definition; such agreement provides, on one hand, a substantial re-definition and reduction of the above described claims relating to tax periods 2007 and 2008 for the LBO operation and, on the other hand, the maintenance of claims relating to (a) the omitted calculation and payment of withholding tax on interest from financing, (b) the carry forward of losses of the merged company Avio Holding S.p.A. and (c) the deduction of VAT on purchases in 2007: the quantification of the fore mentioned risks and charges provision included in the consolidated financial statement as at December 31, 2014 takes into account the available information about the described agreement under definition.

Sale and Purchase Agreement - Communication received from the General Electric Group

Following the notifications that occurred in 2013 and 2014 with the General Electric Group, representing GE Italia Holding S.p.A. (already Nuovo Pignone Holding S.p.A., or the "Buyer"), relating to the notification by the latter of certain facts and circumstances identified by Buyer as *Business Warranty Claims*, as defined in the clause 6.2 of the contract Sale and Purchase Agreement ("SPA"), as a result of changes in the valuation of certain assets and liabilities to be sold in relation to events that occurred prior to the sale thereof, the Parties, finalized the analysis of the cases discussed and formalized, on December 30, 2014 a specific definitive agreement (*Settlement Agreement and Release*).

The Agreement provides for the full and final settlement of respective claims, a payment by the Parent company of Euro 1 million to GE Italia Holding S.p.A., allocated as a price adjustment impacting with respect to the gain on sale of shares GE Avio S.r.l. completed in 2013.

5. 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					
- Financial assets	6,200	-	21,454	27,654	27,654
- Trade receivables	-	-	6,562	6,562	6,562
- Other assets	11,210	-	11,738	22,948	22,948
- Cash and cash equivalents	-	-	159,298	159,298	159,298
- Investments	68,024	-	-	68,024	68,024
	85,434	-	199,052	284,486	284,486
FINANCIAL LIABILITIES					
- Financial liabilities	-	-	47,471	47,471	47,471
- Other liabilities	54,989	-	12,710	67,699	67,699
- Trade payables	-	-	47,935	47,935	47,935
	54,989	-	108,116	163,105	163,105

For assets and liabilities other than investments, no differences were found compared to the book value, as the same is considered a reasonable approximation of *fair value*.

For investments, for which it is not possible to determine reliably the *fair value*, the valuation was maintained at cost, less any impairment loss in 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.

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 through special hedging instruments.

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 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, 2014 was represented by the total carrying amount of trade receivables.

The main Company 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, 2014, an exposure for past due receivables (exposed gross of corresponding liabilities related to uncashed advances) of approximately Euro 13.3 million (Euro 5.3 million as at December 31, 2013). 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 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 as at December 31, 2014 (values in Euro 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.

	Book value	On-demand	1 to 6 months	7 to 12 months	1 to 5 years	Beyond 5 years	Total cash flows
Current financial liabilities							
- Financial payables to controlled companies	39,552	39,552	-	-	-	-	39,552
- Financial payables to jointly controlled companies	7,919	7,919	-	-	-	-	7,919
	47,471	47,471	-	-	-	-	47,471
Trade payables	47,935	-	47,935	-	-	-	47,935
	47,935	-	47,935	-	-	-	47,935
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
	39,230	-	-	-	-	39,230	39,230
Other current liabilities:							
- Tax Payables	6,114	-	6,114	-	-	-	6,114
- Payables to Social Security Inst.	1,999	-	1,999	-	-	-	1,999
- Payables to employees	2,744	-	2,744	-	-	-	2,744
	10,857	-	10,857	-	-	-	10,857
Total flow	145,493	47,471	58,792	-	-	39,230	145,493

Market risks

Based on the actual financial structure of the Company (2014 net financial position as well as the December 31, 2014 one is essentially constituted by cash and cash equivalents and other current financial assets, connected to the utilization of funds made available in the recent extraordinary operation) and due to the fact that the Company operates almost exclusively in Euro, the Company is not significantly influenced by market risks derived by fluctuations on exchange rates or interest rates over its financial assets and liabilities.

Considering what indicated above about the non-significance of market risks related to changes in interests rates, as at December 31, 2014, the Company does not have derivative financial instruments in place in order to mitigate the exposure of cash flows fluctuations related the fore mentioned risks.

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 are not able to 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 in 2014 and 2013 is the following (amounts in thousands of Euro):

Counterparty	31/12/2014				31/12/2013			
	Trade Receivables	Financial Receivables	Trade Payables	Financial Payables	Trade Receivables	Financial Receivables	Trade Payables	Financial Payables
BCV Investments S.C.A.	-	-	-	-	-	-	-	139,929
Cinven Limited	-	-	255	-	-	-	485	-
Controlling companies and Cinven Limited	-	-	255	-	-	-	485	139,929
Continuing operations								
Finmeccanica S.p.A.	-	-	170	-	-	-	807	-
Company that has significant influence	-	-	170	-	-	-	807	-
Elv S.p.A.	2,292	-	-	10,564	1,643	10,383	-	-
Regulus S.A.	2,199	-	16,639	-	1,862	-	18,044	-
SE.CO.SV.IM. S.r.l.	-	-	-	28,988	26	-	915	29,774
Controlled companies	4,491	-	16,639	39,552	3,531	10,383	18,959	29,774
Consorzio Servizi Acqua Potabile	226	-	64	-	131	-	-	-
Servizi Colleferro – Società Consortile per Azioni	108	-	-	-	2	-	(24)	-
Termica Colleferro S.p.A.	68	6,341	124	-	2	6,129	1,941	-
Europropulsion S.A.	467	-	4,925	7,919	431	-	2,886	27,690
Associated and jointly controlled companies	869	6,341	5,113	7,919	566	6,129	4,803	27,690
Total related parties	5,360	6,341	22,177	47,471	4,097	16,512	25,169	197,393
						1,282,85		
Total	6,561	27,654	47,935	47,471	6,247	8	53,059	197,393
Effect on total (%)	81.7%	22.9%	42.3%	100.0%	65.6%	1.3%	47.4%	100.0%

The main effects on profit and loss of the transactions between the Company and related parties for 2014 and 2013 are as follow (amounts in thousands of Euro):

Counterparty	Year 2014				Year 2013			
	Operating revenues (1)	Operating costs (2)	Financial income	Financial expenses	Operating revenues (1)	Operating costs (2)	Financial income	Financial expenses
BCV Investments S.C.A.	-	-	-	11,135	-	-	-	3,547
Cinven Partners LLP	-	1,041	-	-	-	1,029	-	-
Controlling companies and Cinven Partners LLP	-	1,041	-	11,135	-	1,029	-	3,547
Finmeccanica S.p.A.	-	170	-	-	-	167	-	-
Company that has significant influence	-	170	-	-	-	167	-	-
Elv S.p.A.	152,026	-	1	-	13,953	-	95	-
Regulus S.A.	3,466	31,517	-	-	5,882	37,191	-	-
SE.CO.SV.IM. S.r.l.	35	3,600	-	3	194	3,571	-	3
Controlled companies	155,527	35,117	1	3	20,029	40,762	95	3
Consorzio Servizi Acque Potabili	1	237	-	-	30	239	-	-
Servizi Colferro – Società Consortile per Azioni	11	559	-	-	63	543	-	-
Termica Colferro S.p.A.	13	8,373	141	-	15	8,378	205	-
Europropulsion S.A.	2,704	22,000	-	29	112,590	9,419	-	71
Associated and jointly controlled companies	2,729	31,169	141	29	112,698	18,579	205	71
Total related parties	158,256	67,497	142	11,167	132,727	60,537	300	3,621
Total	211,616	205,812	2,379	12,014	202,459	194,572	1,834	3,874
Effect on total (%)	74.8%	32.8%	6.0%	92.9%	65.6%	31.1%	16.4%	93.5%

(1) The item includes revenues from sales of goods and from services.

(2) The item includes raw materials consumption, cost of services and personnel costs.

Furthermore, it is noted that in the caption construction in progress, the long-term contracts, most of the exposed transactions whose effects are reflected in other captions in the Statement of Financial Position such as "Construction in progress" and "Advances for construction in progress", are held with related parties represented in the tables above.

Transactions with controlling companies and Cinven Partners LLP

Transactions between the BCV Group Investments S.C.A. and Cinven Partners LLP are identified in the summarized transactions shown below:

- Existing financial transactions with BCV Investments S.C.A. related to the loan denominated "Intercompany Loan Agreement";
- Transactions with Cinven Partners LLP for consultancy and assistance services.

Transactions with companies exercising significant influence

Transactions with the Company, which exercises significant influence, are represented by assistance and consultancy services.

Transactions with controlled companies

Transactions with controlled Companies are identified 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;
- 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 from revenues arising from sales of goods, which are related to the core business of the Group, from the ordinary management activities, concluded under normal market conditions. In particular, with reference to the company Europropulsion S.A., there are included revenues arising from sales of goods related to the core business of the Company, attributable to Continuing operations, from the ordinary management activities and concluded under normal market conditions;
- short and long term financial receivables of Avio S.p.A. towards Termica Colleferro S.p.A.;
- trade payables, related to costs incurred during 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 and concluded under normal market conditions;
- financial payables, related to intercompany short-term financial payables of Avio S.p.A. towards Europropulsion S.A.
- 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 the transactions previously described as financial receivable;
- financial expenses, related to interests on the loan "Subordinated TreasuryCo Loan Agreement No. 2" above reported and finance expenses related to interests on intercompany financial payables of Avio S.p.A. towards Europropulsion S.A.

Transactions with other related parties

Transactions with other related parties are identified in the summarized transactions shown below:

- trade receivables related to revenues arising from sales of goods related to the core business of the Company, from the ordinary management activities, 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 conditions applied for the remuneration of equally qualified staff. 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 2014 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 services.

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, 2014 have counterpart localized in the Italy and EU countries area.

8. 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 2014 for audit and other services provided by the independent auditors and members of their network (amounts in thousands of Euro):

Kind of services	Service provider	2014 fees
Audit	Deloitte & Touche S.p.A.	177
Attestation	Deloitte & Touche S.p.A. ⁽¹⁾	3
Other services	Deloitte & Touche S.p.A. ⁽²⁾	34
Total		214

(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 Company.

* * *

April 21, 2015

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 Shareholders of Avio S.p.A.

During the year ended 31 December 2014, we performed control activities in terms of Article 2403, *comma* 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 date February 28, 2005 to prepare both its separate statutory financial statements and its consolidated financial statements.

The financial statements as at 31 December 2014 were approved by the Board of Directors during the meeting held on April 21 2015 and shows a net profit amounting to Euro 5,548,080.

The Board of Statutory Auditors has receded the deadline, set in their favour, in terms of Article 2429, *comma* 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, *comma* 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 framework.

The Board of Statutory Auditors has also monitored the auditing activities and those carried out in the context of Legislative Decree no 231/2001 agreed by the Internal Control Committee and carried out by the Company's Internal Audit Department.

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 communication referred to into the 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 by reviewing Company's documents, the administrative and accounting system appears adequate and reliable enough to fulfil the Company's operating requirements.

The legal audit function under provision of Legislative Decree no 39 dated January 27, 2010 has been entrusted to Deloitte & Touche S.p.A. Bearing this in mind, we have reviewed the financial statements

as at December 31, 2014 and can report that we have verified its conformity with legal requirements on its general form and structure. We have no specific observations to report in this regard.

The consolidated financial statements has been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by European Union and additional requirements provided by Article 9 of Legislative Decree no 38 date February 28, 2005.

The Board of Statutory Auditors reviewed also controlled companies' financial statement, to the extent necessary for the preparation of this report and with the purpose of expressing an opinion on the statutory financial statements of Avio S.p.A.. We clarify that our opinion is not referred to the mentioned controlled companies' standalone financial statement.

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 2014 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.

Based on our supervisory activities as performed during the year ended December 31, 2014 and considering the unqualified opinions issued on this date by the external auditors on both the statutory financial statements and the consolidated financial statements (including an emphasis paragraph related to the Euro 949 million dividend distribution made by Avio S.p.A. during 2014), we agree with the Directors' proposals regarding the approval of the statutory financial statements as at December 31, 2014 and the allocation of the net profit for the year.

April 24, 2015

THE BOARD OF STATUTORY AUDITORS

Raoul F. Vitulo

Maurizio Salom

Luigi Gaspari

**REPORT OF THE INDEPENDENT AUDITORS ON THE
2014 STATUTORY FINANCIAL STATEMENTS OF AVIO S.P.A.**

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**AUDITORS' REPORT
PURSUANT TO ART. 14 OF LEGISLATIVE DECREE
No. 39 OF JANUARY 27, 2010****To the Shareholders 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, 2014, 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 June 9, 2014.

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, 2014, 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

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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, Company's net equity recorded in the period a Euro 943.9 million decrease, mainly related to the distribution, approved by the Company's extraordinary shareholders' meeting, of dividends, for a total amount of Euro 949,0 million, related to 2013 profit. Aforementioned dividends were paid to Shareholders, net of related withholding taxes paid to Italian tax authorities (Euro 146.3 million).
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, 2014.

DELOITTE & TOUCHE S.p.A.

Signed by
Franco Chiavazza
Partner

Turin, Italy,
April 24, 2015

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