



# **Avio S.p.A.**

Registered office: via Antonio Salandra, 18, Rome Italy  
Paid in Capital 40.000.000 Euros  
Company Register – Rome Office No. 05515080967

## **2015 ANNUAL REPORT**

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## HIGHLIGHTS

### **Revenues**

Euro 279,2 milion (+24,4% compared with 2014 data, corresponding to Euro 224,5 milion).

### **Revenue by geographical area**

Italy: Euro 5,1 milion or 1,8% of revenues (5,2% in 2014).  
Europe (excluding Italy): Euro 274,2 milion or 98,2% of revenues (94,8% in 2014).

### **Adjusted EBITDA <sup>(1)</sup>**

Euro 35,5 milion (- 9,8% compared with 2014).

### **Net financial position**

Euro -27,6 milion (Euro 185,0 milion in December 31, 2014).

### **Order book**

Euro 905 milion (+33% compared with 2014). The significant increase is mainly related to the acquisition of the new development contract of the engine "P120" and to the new launcher VEGA C within VECEP program.

### **Research & Development**

Euro 102,9 milion or 37% of revenues, (Euro 41,5 milion or 18,5% of revenues in 2014).

### **Employees**

763 at December 31, 2015, an increase of 57 employees compared with December 31, 2014.

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<sup>1</sup>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,

2015 was an extremely important year for the Space industry in Europe, and particularly for the launchers sector. The outcome of the Inter-ministerial ESA Conference held in December 2014 were converted into important development contracts for Vega-C and Ariane 6 launchers. This new spacecraft class represents the future of business space in Europe for the next 25-30 years. An important role has been recognized to Avio because of its participation in the P120 development program (first stage engine both in Vega-C and Ariane 6) and because of its leading role in the VECEP program, related to the Vega-C development program.

2015 was also very positive considering the launchers activities. For the first time in the Kourou Space Center's history, 12 launches have taken place in a year (of which 6 related to Ariane and 3 to Vega). This exceptional result also allowed to demonstrate the full maturity of Vega from the industrial point of view: in 2015 it has been completed VERTA program. With this program Vega operated its transition from the technological development to the full industrialization.

In relation to backlog, Arianespace maintained a significant portfolio in the geostationary orbits, with a coverage at least until 2018 and the opportunity to operate more than 6 launches in 2016. Considering Vega, in 2015 important orders have been acquired. In particular, these ones have substantially covered the first commercial batch of 10 launchers sold to Arianespace in 2014, confirming the positive growth's trend of the low earth orbit market (LEO-SSO) and the positive feedback of Vega launchers if compared with the competitors.

Your Company has acquired new development contracts amounting to 400M€. These contracts also define the realization of new plants (both in Colleferro and in Kourou, at the controlled company Regulus), which are preparatory to the manufacturing of P120 engines.

The construction works of the first plant in Colleferro started in autumn 2015 and will continue throughout 2016. These new plants will be characterized by significant improvements in production efficiency and will be equipped with advanced technology machinery. The new contracts also strengthen the role of Avio as prime contractor for the Vega system, increasingly dominant role in the mix of activities.

Your Company continued and refined during 2015 its policies of serious attention both to customer and to personnel. Many important improvements have been made in the environment protection and in the occupational safety: it has to be underlined the renewal, during 2015, of ISO 14001 certification and the conclusion of the approval's process relating to the safety report in accordance with D.Lgs. 334/99 Seveso II, obtaining the Fire Prevention Certificate (Certificato Prevenzione Incendi) for the whole Colleferro's plant. It has also been presented the change's request for the Integrated Environmental Authorization (Autorizzazione Integrata Ambientale), obtaining the grant in February 2015.

2015 closed with highly positive economic and financial results. The turnover was slightly lower than the budget's forecasts, while the economic result (Adjusted EBITDA) was broadly in line with expectations thanks to a favorable sales mix.

It is worth to underline the excellent financial results, in terms of operating cash flow and net financial position, which amounted to a negative figure of EUR 27 million after the distribution of dividends of EUR 220 million in the month of June.

During 2015 it was concluded a loan agreement with a syndicate of banks for a total of EUR 100 million in order to ensure Your Company full availability of financial resources to face future investment challenges related to the new investment development commitments contracted during 2015.

Avio's total order backlog reached a value of over EUR 900 million, by far the highest ever. This value guarantees to the Company approximately three years of activities.

2016 began with a good outlook considering Ariane 5's launches (with the opportunity to operate more than 6 launches in this year) while only two launches are expected in 2016 for Vega, due to

delays in the implementation of the satellites. On the other side, considering Vega flights 2016 started with further orders' acquisitions (eg. The Ceres French satellites) and more requests from customers already known.

In October 2015 I was appointed by you Chief Executive Officer and Managing Director, succeeding to Ing. Lasagni who has been named Vice President, continuing to give his contribution to the Company's development thanks to his significant experience and his industry knowledge.

In order to face these future scenarios, favorable and challenging at the same time, there is no doubt that Your Company will have to strongly commit its resources to promptly pursue the necessary plans of industrial infrastructure growth and business and operational organization, adapting and modifying itself in line with the new market objectives, in order to enable it to maintain, consolidate and develop, even in new markets, the prominent position occupied in the international space launchers sector.

Giulio Ranzo  
Chief Executive Officer and Managing Director  
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 50 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. (81,15%), FINMECCANICA Group (14,32%) and other minor shareholders (4,53%).

The Group directly employs in Italy and abroad 763 highly qualified employees, 30% of which involved in Research & Development activities.

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

The Group 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), liquid-propellant propulsion systems for satellites, research and development of new propulsion systems with low environmental impact.

The space launchers with AVIO products are the following:

- Ariane 5, for the positioning of the satellites (up to 10 t) in *Geostationary Earth Orbit – GEO* (approximately a height of 36.000 km);
- *VEGA*, for the positioning of the satellites (up to 2 t) in *Low Earth Orbit – LEO* (altitude between 300 and 2000 km).

Regarding tactical missiles, AVIO takes part to the principal national and international programs.

Since the late 80's AVIO participates in Ariane 5 program, supplying the boosters and the oxygen turbo pump of Vulcan engine. Since 2000, through its subsidiary ELV (Avio - 70%, Italian Space Agency - 30%), Avio develops and manufactures VEGA, the European space launcher for satellites up to 2.000 kg, which carried out the successful qualification launch in February 2012 and concluded successfully in December 2015 the 5 launches required from the contract VERTA in order to complete the qualification. 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 with 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:

- **Ariane**

Ariane is a spacial programme for GEO missions, sponsored by ESA where Airbus Sfran Launchers (ASL) is prime contractor and Avio operates as subcontractor for the production of Ariane-s's components, and in particular for the realisation of the solid propultion booster

P230 and of the liquid oxygene turbo pompe (LOX) for Vulcain 2. Avio is also subcontractor for the new generation launcher, Ariane 6, which is predicted to be launched in 2020. For this launcher Avio is developing and will produce (i) the solid propellant engine P120C and (ii) the liquid oxygene Turbo-pompe (LOX) for Vinci engine, besides continuing to produce the liquid oxygene turbo pompe (LOX) for the engine Vulcain 2 of Ariane 6.

- **Vega**

Vega is a spacial programme for LEO missions, sponsored by ESA of which the Group is prime contractor through the subsidiary ELV, for the production of Vega launcher and Avio is subcontractor for the realisation of the solid propulsion engine P80, Zefiro 23 and Zefiro 9 and of the populsive module AVUM. Also, the Group is prime contractor for the new generation launchers Vega Consolidated ("Vega-C") and Vega Evolution ("Vega-E"), whose qualification launch is planned to happen respectively in 2018 and 2024.

For these latter the Group, through its subsidiary ELV is responsible for the development and subsequent production of the entire space launchers, while Avio is responsible for the development of solid propellant engine Z40 for Vega-C and Vega-E and the cryogenic engine of liquid oxygen-methane Myra for the high stage of Vega-E.

Moreover, Avio will produce the solid propellant engine P120C for Vega-C and Vega-E and the engine Z9 and AVUM Vega-C.

- **Tactical Propulsion**

Avio is engaged in the Italian-French-UK joint program for the development and production of Aster 30 engine, more specifically the development and production of the propulsion components (booster and sustainer), the guide (TVC) and the aerodynamics (wings). The Aster 30 is considered one of the more powerful and technologically advanced tactical use solid propellant engines in the world.

With 2015's revenues related to its activities amounting to about 279 million euros and a gross profit margin of 13,8%<sup>(2)</sup>, the Group currently holds the top position in the Italian and European space industry, to the competitiveness of which contributes realizing abroad more than 95% of its revenues.

The strong technological content of its business has led Avio to invest, during 2015, more than 37% 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.

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<sup>2</sup> Determined as Adjusted EBITDA.

## CORPORATE BODIES

### *Board of Directors <sup>(A)</sup>*

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|                       |                         |
|-----------------------|-------------------------|
| Alan John Bowkett     | Chairman                |
| Pier Giuliano Lasagni | Vice Chairman           |
| Giulio Ranzo          | Chief Executive Officer |
| Stefano Ratti         | Director                |
| Roberto Italia        | Director                |
| Simon Rowlands        | Director                |
| Luigi Pasquali        | Director                |

### *Board of Statutory Auditors <sup>(B)</sup>*

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

### *External Auditors*

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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 by the following Shareholders' meeting held on 28 October 2015. The Board of Directors 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.

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.

### 2014

In December, Ministerial Conferences of the countries members of European Space Agency decided to finance the programme of development and consolidation of Vega launcher until it is concluded, which includes a first stage joint (P120C) with the future launcher Ariane 6 that is also financed up to its qualification.

## BUSINESS AREAS

Main Activities: design, development and manufacturing 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 2015 its role of excellence with the seventh launch of Vega and the 83<sup>rd</sup> launch of Ariane 5 vector (the 226<sup>th</sup> of Ariane line). The success obtained by the solid propellant engines of the two European launchers Ariane and VEGA has led, during the Ministerial Conference of the ESA's Member States (Luxemburg, December 2, 2014), to the approval of the program 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 that is used as first stage of the current VEGA launcher, is until now the biggest solid propellant carbon fiber built monolithic engine in the world, already used for VEGA's missions. 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.

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, also the consequent complete disposal of the current vector Ariane 5. Alongside with this, the Conference has stated to continue the evolution program of VEGA (Vega-C), which will increase its useful capacity from the current 1,500 kg in polar orbit to 1,800 kg in the same polar orbit starting from 2018. In continuation to this decisions related to European launcher's sector, in August 2015 ELV and ESA signed the VECEP contract for the development of VEGA C and P120 considered as "common element" of VEGA C and Ariane 6.

The second Vega's evolution step (called Vega E), which should be approved in the following Ministerial Conferences of European countries members of ESA 2016, 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, the two launchers Ariane 6 and VEGA will guarantee autonomous access into Europe's space for all the missions in geostationary orbit and in low orbit for Earth observation satellites.

Alongside with the consolidation and evolution of the solid propulsion, Avio's strategic proposal is also based on the development of the liquid propulsion and in particular of the liquid oxygen/methane propulsion. Through the collaboration with the company KBKha and following the successful 2014 bench test of the liquid oxygen/methane, Avio created the basis to propose the development of a liquid oxygen/methane engine for the last stage of the future VEGA versions, which will be competitive both in terms of performance and in terms of compliance with the "clean space" parameters that European politics will foresee in the next future.

Avio's strategic approach is strongly based on the knowledge and experience that 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 systems (included the Guide Software Development, Navigation and Control of the launcher), in aerodynamic analysis and in mechanical and thermal properties, necessary for the development of advanced and reliable launch systems;
- thanks to VEGA, has expanded successfully its competence perimeter, becoming the generator of a space transport system; this also includes the execution of ground operations in the launcher and in the launching base structure, such as mechanical, electrical and fluidic operations.
- is a critical actor in the European value chain for Space, thanks to the countless contributes for the technological innovation of production techniques, product design and development;
- has proposed a new governance model for the European space sector 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 into the small world's group of companies capable 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.

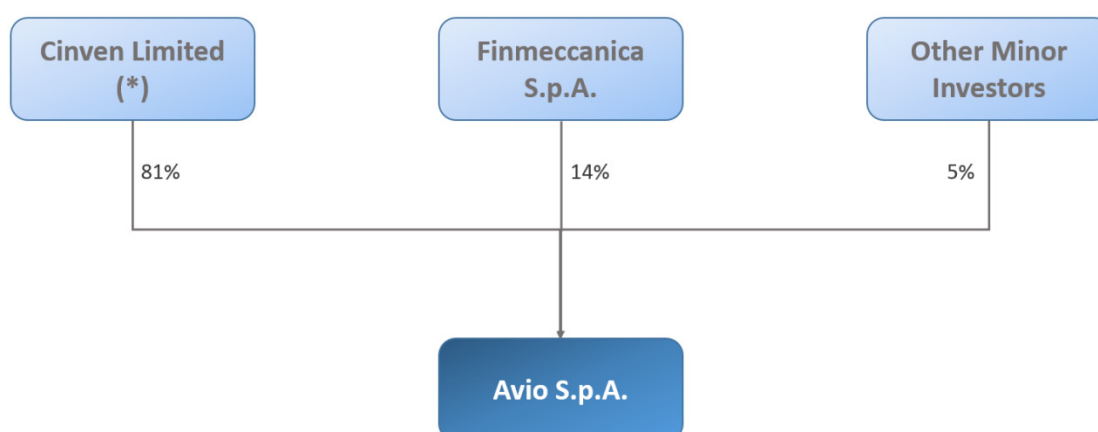
On December 31, 2013, Avio S.p.A.'s share capital was totally held by the sole shareholder BCV Investments S.C.A., a Luxembourg company, owned principally by investment funds and institutional investors managed and mainly controlled by the primary international *private equity fund* Cinven Ltd. (ca.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

On June 10, 2014, the extraordinary board 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 board 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, 2015, 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 of Cinven Group (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, 2015 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%  |
| <b>TOTAL</b>       |   |      | <b>400.000.000</b> | <b>40.000.000,00</b> |        |

**Reference:**

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



## 2015 FINANCIAL YEAR

## MAIN EVENTS

### VEGA'S LAUNCHES

2015 has been an important year for VEGA since after the first three launches, one each year (Maiden Flight in 2012, a launch in 2013 and a launch in 2014) in 2015 VEGA effectuated successfully 3 launches reaching the optimal rhythm that allows to balance costs/revenue during this first operational phase. The sequence of the launches has been the following:

- in February, VEGA performs a flight in very low orbit in order to send the European technological demonstrator (developed with ESA funds) to an altitude of approximately 400 km where it will follow the re-entry by its own means until splash down in the Pacific Ocean;
- In June, VEGA places in orbit, in about 800 km the second of Earth's Observation satellites of the Copernicus fleet, named SENTINEL 2A, developed with European's Commission funds;
- In December achieves the record of mass transported in orbit with LISA Pathfinder, a satellite developed with ESA's funds, of 1900 kg. This satellite that will reach with its own means the LaGrange point L1 is a scientific satellite for the study of gravitational waves.

Therefore, in 2015 there was not only the important achievement of reaching 3 launches/year, but there was also the demonstration of flexibility and versatility of VEGA launcher, which effectuated institutional missions with technological, scientific and Observational means, in very different orbits( starting from 200 to 800 km), with satellites of mass up to 2 tons.

### ARIANE'S LAUNCHES

2015 confirmed as a positive year for the launcher ARIANE 5 that successfully performed 6 flights, all commercial, putting in orbit 12 satellites variable in mass between 3 and 6 tons. As a result, ARIANESPACE confirms its position as the world's leader in commercial satellite transportation in the GEO orbit, as during the same period the competitors (the historical one PROTON of ILS and the most recent FALCON 9 of SPACE X) have not performed more than 4 launches each.

The sale of the aeronautic business to General Electric led to necessary transferring of the following activities:

- The Turbo Pump LOx of Vinci engine (that will construct the Upper Stage of future ARIANE 6) continues its development and qualification programs with an additional phase of Farm Out, meant to identify alternative suppliers in order to reduce product costs and face market's challenges.
- with TP LOx of Vinci being used as pilot, the TP LOx of Vulcan 2 (currently in its production phase) is also subject of the same Farm Out process; Moreover 2015 is the year of beginning integration activities of TP LOx in Colleferro's site( previously performed in Rivalta's site), now formally qualified.
- In the context of satellite propulsion, Avio executes the activities on the propulsive module CPPS (Chemical Propulsion Subsystem) of the geostationary satellite EDRS-C ((OHB is the Prime Contractor).

### TATTIC PROPULSION

In the context of ASTER program continues the production of the boosters ASTER 30, of the subsidiaries and of the wings ASTER 15 and 30.

In October was successfully carried out in Colleferro (Centro Prove 3C) the bench launch of the ASTER 30's booster (production sample), that confirms the high quality standard of a product that in 2015 got to about 90 units (a little less than the 1000 total units manufactured in our establishments in Colleferro).

At the system level, MBDA (AVIO's client for these engines) has performed successfully 2 tests of the rocket ASTER 30's naval version.

In the contexts of Avio's business related to tactic propulsion, it has to be underlined the stability of the Italian-French defense program Aster 30 production. The program will be completed in 2016 and contacts are in progress in order to verify its foreseeable evolution in the next future.

Regarding the CAMM-ER program, have been successfully performed:

- the bench launch of one unit with reinforced involucre
- the hydraulic test on a motor involucre.

Attesting the progress obtained during the development phase that is still in progress. The delivery of the first unit for level system tests at MBA is foreseen in 2016.

## CONTRACTUAL PRINCIPAL EVENTS

An important milestone in the history of European Space Agency's launching segment was reached in August 2015: In fact it's the month when were signed the contracts that authorize the start of development activities for the launchers VEGA C and ARIANE 6, destined to start operating (respectively in 2019 and 2012) and finally after a transition phase replace the current VEGA and ARIANE 5.

AVIO, through its subordinate ELV, signed the VECEP contract with the European Space Agency for the consolidation of the actual VEGA and the development of P120C, the joint element that will form the first stage of VEGA C and the booster of ARIANE 6.2's (2 *boosters*) and ARIANE 6.4's (4 *boosters*) versions.

With this contract, AVIO will have the possibility to optimize its fixed costs by producing the same engine for both launchers with an annual rhythm of 35 units.

The value of VECEP is approximately 390 M Euro (with an activity interval until 2019 for VEGA C and until 2023 for P120) of which 160 M Euro are related to the activities until VEGA C gets qualified and around 230 M Euro for the development of P120 (included the cadence investments that will be concluded in 2021/2022).

In the context of ESA's Programme LEAP for the support of the recurrent production, in 2015 was signed a Contract of about 12 M Euro related to the bench launching's activities in scale 1:1 of a ARIANE 5 booster, named ARTA 6 (production sample), which is foreseen to be executed in 2017.

In the context of VEGA, in September 2015 was finalized the contractual agreement between ELV and ESA that for the biennium 2015-2016 extended the contribution for the Launch System to 42 M Euro, including also important consolidation activities for the productivity cadence 3/year.

## Other Business

In 2015 Avio and ASL (Prime Contractor of ESA for the development of launcher ARIANE 6) signed an agreement that arranges the programmatic and organizational rules of co-development of engine P120C that is destined to both VEGA and ARIANE 6. With this agreement is substantially established the Design Authority technique of EUROPROPULSION (50% Avio AND 50 % ASL) for the co-development.

Regarding the carbon fibers pre-impregnation plant (particularly for the production of engine casings P120 C of VEGA and Ariane 6), the collaboration between Avio and ADLER TTA until now is concretized in the following events:

- ADLER TTA granted in location to Avio an area in its Ariola establishment in order for it to use it as a laboratory for the conduction of research and development of composite materials activates;
- the installation in this laboratory of the following plants:
  - o Chemical and Chemical-Physical Laboratory
  - o Technological and CND Laboratory

- Pilot Implant for the resin formulation research and impregnation of carbon fiber supports through hot melt technology using paper wrapping
- Implants and accessories.

Now, Avio manages the above-mentioned laboratory with its own staff and conducts, by the requests of ADLER TTA, chemical and mechanical tests on Raw Material provided by the customer. During a visit in Colleferro of the ADLER PLASTIC Group's CEO it has been reaffirmed once more the will to have a stronger partnership between the two companies, a will that can be soon consolidated with Research and Development activities related to a prepreg in automotive and helicopter field.

Regarding Hyprob project, managed by CIRA, the activities for the implementation of the technological demonstrations (Rockets powered with new generation oxygen and methane) for bench tests planned to be performed at Colleferro's implant called Fast 2 are in progress

Always in the context of actual Business Development, Avio intends to make use of the expertise acquired regarding VEGA in order to extend the value chain of this launcher. Discussion meetings with ESA have been taking place concerning:

- the development of a *dispenser* that would make VEGA capable of transporting in low orbits small satellites simultaneously with the principal load (a market that is foreseen to be expanding quickly).
- the development of an alteration of the actual liquid 4<sup>th</sup> stage in order to equip it with an electric propulsion system, so the satellites that require a "direct injection" in GEO orbit can reach it by setting in function such electric module in a LEO parking orbit and not anymore by using an apogee engine.

Both projects are today in their feasibility stage.

## MARKET DEVELOPMENTS AND BUSINESS PERFORMANCE

### General situation

The global economic crisis that persists from several years did not have a turning point in 2015. The economy of the European countries is not growing as expected: the growth in 2015 amounted around 3% (in comparison with the prediction of 3.4%) and it is forecasted a similar growth for the year 2016. The World Bank has lowered its provisions of global growth in 2016 in particular due to the disappointing economical perspective in the euro zone, in Japan and in other principal emerging economies which have offset the benefit of lower oil prices.

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. In 2015, this market (that includes 4 segments: satellites, launchers, earth segment and at last client service) was worth 324 B \$, in constant growth from 2004 with good perspective for further growth in the decade 2015-2024.

In 2015 a total of 86 launches were globally performed, with launch services secured in 7 countries, generating in launcher's sector a revenue of approximately 6 B \$. The majority of these launches have been of institutional nature (2/3 of the total) and consequently funded by government budgets (whether those for civil or military purposes), the remaining part have been commercial (1/3). These launches have sent in orbit around 120 primary satellites (of which 40 in GEO) and an analog number of small mass satellites (the so-called SmallSats that have exploited "a rideshare" in the launch paid for the primary satellite).

In the decade 2015-2024 the trend related to the number of satellites that require a launch service is almost stable for GTO satellites (are satellites almost exclusively commercial, dedicated to broadcasting services), while a strong increase for the satellites of the NGTO class is expected, including the institutional and the commercial ones, these last being mainly applicable in Earth's observation and navigation field, but also in the future in the expansion of broadband services, Internet, mobile telephony, etc etc. With regard to these services, there is reason to believe that we will witness the affirmation of the so-called constellations of low-mass satellites, typically in the order of 100 kg and in a number of units that may vary from a few dozen to thousands. Therefore

becomes obvious that most of the launches increase will thus be absorbed by launchers which, at that time, will have the possibility of multiple load missions and high production rates.

Another key parameter in the market analysis of the satellites and launchers is related to the average mass released into orbit: in 2015, the total mass of satellites remained invariable compared with the previous years (about 350 ton).

Actually the opportunities offered by electric propulsion in reducing the overall mass of the satellites seem to have been only partially captured by Boeing, while other operators seem to prefer the use of this propulsion in the near future. It is probable that this kind of propulsion will become a game changer: what will cause the decreasing of the bus satellite mass, and finally, the decreasing of the satellite total mass or, in terms of the total mass equal to an increase of the useful mass (transponders, cameras, antennas, etc.).

## Market launchers

2015 confirmed once more the global trend of these last years:

- only a few nations in the world are able to offer a launch service capable of responding to a captive institutional market that always remains supported: Russia, USA, China, Europa, India and Japan.
- a number even more restricted of nations respond to a commercial demand: first of all Europe with ARIANE 5, VEGA and SOYUZ range of launchers offered by Arianespace, but also USA with the affirmation of launcher FALCON 9, commercialized by Space X, Russia with Proton, commercialized by ILS and India with the launchers operated by ISRO (PSLV e GSLV).

In the market's equilibrium that tends to be settled between these nations (with the commercial part, as already mentioned, dominated by Arianespace) it is possible to notice a low "failure" rate of the European launchers range (1.5% if included launchers which are now still in service, against rates at least twice for the other nations): in this context we point out that ARIANE 5 has recently made its consecutive 70<sup>th</sup> launch without failure and VEGA has a score of 6 launches obtained with 6 attempts (from the European productions, only Soyuz, moreover made in Russia, has failed a launch in 2014)

In 2015 5 failures were globally registered, whose 3 Russian launchers (Proton, Soyuz e Soyuz 2.1) and 2 related to USA's launchers Falcon 9 and Super Strypi (the last one during the Maiden Flight). The reliability of European launchers has fostered Arianespace to maintain in these last years its market share even with prices above those of the competitors, thanks to its contents in terms of quality service offered.

In the meantime, always in 2015, China has registered the debut of two new launchers (LM-6 and LM-11, the latter with solid propellant, both flown successfully and intended to carry small loads in LEO) and 1 new launcher for the US, the Super Strypi that instead, failed its first sub-orbital launch. While the launchers that made their debut in the years before, have had either problems (Soyuz 2.1) or have not flown at all (Japanese Epsilon), this confirms that the business of launch services in addition to economic and political barriers can also have intrinsic difficulties.

Therefore, when all the space powers registered problems of technical mater or of commercial market penetration, 2015 has confirmed the European excellence particularly in the Italian sector, thanks to:

- the three institutional launches of VEGA vector, developed and produced by Avio, effectuated with extreme precision, demonstrating in the different missions its versatility and flexibility.
- the 6 successful launches of the vector ARIANE 5 where Avio participates by manufacturing the liquid oxygen solid propulsion turbo-pump for principal engine Vulcain.

These successes guarantee to VEGA his position as world benchmark for putting in orbit Earth observation satellites and, in general, low orbit (LEO) satellites, even though the sector competitors (the Indian PSLV, the Russian-German Rokot, the Russian Dnepr) have been very competitive in political and price terms.

The year ended has been an important one for Arianespace (of which Avio holds 3% of shares) not only operatively but also commercially, since the company further consolidated its own backlog that until now has reached 24 launches with ARIANE 5 and 9 with VEGA.

2015 was the starting year for the development activity decided at the end of 2014 in Luxembourg, at the Ministerial Conference of ESA Members, where it was confirmed the evolution program of VEGA launcher and the acceptance of the final agreement for the development program of the new launcher destined to replace Ariane 5 for GTO carriages. The proposal of ELV towards ESA was prepared in the first months of the year and issued in May 2015. Then, it was formalized in August with the VECP contract that includes both the development of the joint element between the two launchers (the solid motor P120C) and other elements of VEGA launcher (2<sup>nd</sup> stage Z40 of Avionics components, inter-stage structures, tanks of higher capacity for the 4<sup>th</sup> stage, ground segment in French Guyana). In the second half of 2015 it started the Preliminary Design Review of the major subsystems of VEGA and it was also performed the kick off Review in system level.

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

### Analysis of the results

The following table summarises the Group's result from operations for 2015 and 2014 (amount in thousands of Euro):

|   | 2015           | 2014           | Change         |
|---|----------------|----------------|----------------|
| Revenues  | 279,227        | 224,460        | 54,767         |
| of which: <i>pass-through</i> Revenues  | 21,822         | -              | 21,822         |
| <b>Net Revenues (net of <i>pass-through</i>)</b>  | <b>257,405</b> | <b>224,460</b> | <b>32,945</b>  |
| Other operating income and change in inventory of finished and semi-finished goods  | 9,883          | 10,536         | (653)          |
| Costs for materials and services, for personnel, other operating expenses, net of costs capitalised and <i>pass-through</i> | (241,275)      | (203,991)      | (37,284)       |
| Effects of investments revaluation using the Equity Method – operative income/(expenses)                                    | 1,893          | 1,970          | (77)           |
| <b>Operating results before depreciation and amortisation (EBITDA)</b>  | <b>27,906</b>  | <b>32,975</b>  | <b>(5,069)</b> |
| Depreciation, amortisation, write-down and impairment   | (17,399)       | (17,157)       | (242)          |
| <b>Operating results (EBIT)</b>   | <b>10,508</b>  | <b>15,818</b>  | <b>(5,310)</b> |
| Interests and other financial income (expenses)   | (3,332)        | (9,993)        | 6,661          |
| <b>Financial results</b>  | <b>(3,332)</b> | <b>(9,993)</b> | <b>6,661</b>   |
| Results from financial investments  | (2,799)        | 48             | (2,847)        |
| <b>Results before taxes</b>   | <b>4,378</b>   | <b>5,873</b>   | <b>(1,495)</b> |
| Income taxes – current and deferred   | 986            | 1,974          | (988)          |
| <b>Net result – Continuing operations</b>   | <b>5,364</b>   | <b>7,847</b>   | <b>(2,483)</b> |
| Discontinued operations Result  | -              | (1,349)        | 1,349          |
| <b>Total Net Result</b>   | <b>5,364</b>   | <b>6,498</b>   | <b>(1,134)</b> |

The "*Pass-through*" revenues derive from the contractual agreements subscribed between the subsidiary ELV S.p.A. and European Space Agency in August 2015, concerning the development and realization of the new propeller "P120" for the new launcher Vega C, as well as the sharing of Vega C's new propeller "P120" also with Ariane 6. Because of the implementation of these new agreements, the consolidated revenues of Avio Group include the following double invoicing:

- the first invoicing between the parent company Avio S.p.A as a sub-supplier and the non-consolidated *joint-venture* Europropulsion S.A;
- the second invoicing between the subsidiary ELV S.p.A as prime contractor and the final client, European Space Agency. In this case, there is only a re-invoicing of costs without any margin coming from the non-consolidated joint venture Europropulsion S.A. - not eliminated in the consolidation process of the Avio Group because of being realized with third parties - and referred in this report as "Pass-through".

Net "*Pass-through*" revenues amounted to Euro 257,405 thousand, showing an increase of Euro 32,945 thousand (14,7%) compared to 2014. Such increase in revenue is mainly related to the increase of sales volume for VEGA's launcher Research and Development programs.

The following table summarises the composition of revenue according to business areas:

| Bussiness Lines                       | 2015           | 2014           | Change        |
|---------------------------------------|----------------|----------------|---------------|
| Ariane                                | 122.765        | 118.619        | 4.146         |
| Vega                                  | 120.869        | 92.426         | 28.443        |
| Tactical Propulsion                   | 11.132         | 9.591          | 1.541         |
| Other Revenue                         | 2.639          | 3.824          | (1.185)       |
| <b>Revenue at net of pass-through</b> | <b>257.405</b> | <b>224.460</b> | <b>54.767</b> |

In 2015, the operating income before depreciation and amortization and impairment of tangible and intangible assets (EBITDA) amounted to Euro 27,906 thousand, registering a decrease of Euro 5,069 thousand (-15,4%) compared to the same period in 2014. Such decrease is mainly attributable to the reduction of the average sales prices recorded during the year, in relation to Ariane 5 and VEGA's propellers.

Operating results, (EBIT) amounted to Euro 10,508 thousand, with a decrease of Euro 5,310 thousand compared to 2014. Such result substantially reflects the operating results before depreciation and amortisation trend (EBITDA).

For a more complete presentation of the Group's operating performance, the following table summarises Adjusted EBITDA, Adjusted EBIT and relative margin percentages for 2015 and 2014 (thousands of Euro):

|  | 2015          | 2014          | Change         |
|--|---------------|---------------|----------------|
| <b>Adjusted EBITDA</b>   | <b>35,538</b> | <b>39,415</b> | <b>(3,877)</b> |
| <i>Adjusted EBITDA Margin (Adjusted EBITDA/Net Revenues<sup>1</sup>)</i> | 13,80%        | 17,60%        |                |
| <b>Adjusted EBIT</b>   | <b>22,223</b> | <b>26,342</b> | <b>(4,119)</b> |
| <i>Adjusted EBIT Margin (Adjusted EBIT/Net Revenues<sup>1</sup>)</i>     | 8,60%         | 11,70%        |                |

(1) Revenues net of pass-through.

Adjusted EBITDA is considered by Management as a representative indicator for measuring the Group's financial results, since aside from not considering the effects of amortization and depreciation's policies, of the amounts and types of invested capital financing sources and eventual taxation variations (components already excluded in EBITDA), in order to increase the comparability of operational results in the comparison periods, it also excludes components of non-recurring nature or not related to the Group's operations. Adjusted EBITDA was Euro 35,538 thousand in 2015 (13.8% of net revenues). There was a decrease of Euro 3,877 thousand in comparison with Euro 39,415 thousand (17.6% of net revenues) in 2014. Such decrease is mainly related to the decline of marginality coming as a result of the sales price reduction and by the strengthening of the corporate structure following the "spin-off" from the previous group of belonging (now GE).

The lower decrease of Adjusted EBITDA compared with the decrease registered in EBITDA can be associated to the effect of non-recurring costs which have been higher compared to the previous year.

Adjusted EBIT is also considered by Management a representative indicator for measuring the Group's financial results, and is measured by operating results (EBIT) excluding events considered as non-recurring or not related to the Group's operations, already excluded from the calculation of



Adjusted EBITDA and also removing amortization of costs capitalized in relation to customer relationships for participation in programs, recorded at the moment of the Group's acquisition by Cinven, equal to Euro 4,084 thousand per year, that will run out in 2021.

Adjusted EBIT was Euro 22,223 thousand in 2015 (8.6% of net revenues). In comparison with the amount of 2014 that reached Euro 26,342 thousand (11.7% of revenues) there was a decrease of Euro 4,119 thousand, which is mainly related to the same components, previously mentioned that also affected the Adjusted EBITDA.

The following table shows the reconciliation between EBIT, *Adjusted EBIT* and *Adjusted EBITDA* for 2015 and 2014 (amount in thousands of Euro):

|  | 2015          | 2014          | Change         |
|--|---------------|---------------|----------------|
| <b>A Operating profit/EBIT</b>   | <b>10,508</b> | <b>15,818</b> | <b>(5,310)</b> |
| Non-recurring or exceptional expenses/(income):  |               |               |                |
| - Grants/staff incentives <sup>(1)</sup>   | 2,703         | 490           | 2,213          |
| - Costs related to non-recurring events (tax, legal, etc.) <sup>(2)</sup>                      | 2,154         | 1,735         | 419            |
| - Expenses for environment restores and operations   | -             | 104           | (104)          |
| - Costs for cash-settled share-based payment <sup>(3)</sup> and other personnel costs          | 1,015         | 730           | 285            |
| - Charges for tax provisions   | 167           | 221           | (54)           |
| - Other non-recurring expenses/(income) <sup>(4)</sup>   | 425           | 1,471         | (1,046)        |
| <b>B Total non-recurring or exceptional expenses/(income)</b>                                  | <b>6,464</b>  | <b>4,751</b>  | <b>1,713</b>   |
| <b>C Investor Fees</b>   | <b>1,167</b>  | <b>1,179</b>  | <b>12</b>      |
| <b>D Other adjustments for non-recurring expenses</b>  | <b>-</b>      | <b>510</b>    | <b>(510)</b>   |
| <b>E Amortisation of customer relationships for participation in programmes <sup>(5)</sup></b> | <b>4,084</b>  | <b>4,084</b>  | <b>-</b>       |
| <b>F Adjusted EBIT</b>   | <b>22,223</b> | <b>26,342</b> | <b>(4,119)</b> |
| <b>A+B+C+D+E</b>   |               |               |                |
| <b>G Net depreciation/amortisation <sup>(6)</sup></b>  | <b>13,315</b> | <b>13,073</b> | <b>242</b>     |
| <b>Adjusted EBITDA</b>   | <b>35,538</b> | <b>39,415</b> | <b>(3,877)</b> |
| <b>F+G</b>   |               |               |                |

<sup>(1)</sup> Costs incurred during the year and accruals to provisions for charges related to staff, including among others, the costs related to the activation of mobility and retirement procedures, as well as exodus.

<sup>(2)</sup> One time external consultings related to corporate reorganization projects and fiscal and legal litigations.

<sup>(3)</sup> 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, besides other supplementary personnel costs.

<sup>(4)</sup> Other non-recurring expenses/(income) include: other expenses or income considered as non-recurring, as, i.e., non-recurring provision, expenses for Due Diligences (in 2014) and other non-recurring operations.

<sup>(5)</sup> Total depreciation/amortisation of the financial year of customer relationships for participation in programmes, deriving from acquired and consolidated relations with numerous partners from the commercial clientele, arising from the purchase price allocation carried out in 2007 from the acquisition cost in 2006 of the actual property following the acquisition of society quotes. The amortization will be over in 2021.

<sup>(6)</sup> Depreciation/amortisation of the year net of depreciation/amortization of intangible assets for customer relationships mentioned in the preceding footnote (5).

### Financial results analysis

In April 1, 2015 Avio S.p.A. signed a financing contract with a group of primary international banks for Euro 100 million ("Senior Term") as well as for the availability of a Revolving credit line of Euro 30 million.

The Senior Term is divided in two tranches, the former ("Loan A") of Euro 35 million is subject to a 6 year reimbursement plan and the latter ("Loan B") of Euro 65 million is to be reimbursed in a single payment in a 7 year period.

The contract is subject to expenses and interest rates aligned to the market, it is not featured by any collateral and defines some limits in terms of investment, acquisition, disposal, other funding (active or passive), as well as the compliance with several Financial Covenants in line with the pluriennial plan's forecast of the Company.

The above mentioned loan agreement was submitted on 1<sup>st</sup> April, 2015.

Therefore financial result of 2015, reflects the cost of such financing. In particular the financial expenses are composed as follows: Loan A's interests of Euro 938 thousand, Loan B's interests of Euro 1.958 thousand, non utilization fees relative to credit line "Revolving" of Euro 279 thousand and the amortization of arrangement fees of Euro 521 thousand.

The higher net financial expenses of 2014 were affected by the *one-off* effect related to the so-called "Intercompany Loan Agreement" with the previous Parent Company BCV Investments S.C.A., anticipatedly expired during 2014.

With regard to the modification of several contractual clauses (related to the changes of the interest rate, effective from January 1, 2014), the application of accounting principle IAS 39 led to identifying such contract modification as a discontinuity that causes the liabilities write-off and the subsequent re-recording of liabilities on the terms of the new conditions.

This accounting led to the recognition of financial expenses of Euro 11,089 thousand, represented by the recognition in the income statement of the amortized cost application effect in December, 2013. Subsequently, in June 2014, such *Intercompany Loan Agreement* anticipatedly expired.

Income and expenses from financial investments have a negative result of Euro 2.799 thousand, relative to the adjustments of the investment in the associate Termica Colleferro S.p.A. to the corresponding share of equity.

The net profit of the Group and non-controlling interest, after the recording of current and deferred taxes with a positive balance of Euro 986 thousand, shows a 2015 profit of Euro 5.364 thousand, compared to a profit of Euro 6,498 thousand in 2014.

In 2015 there were not *Discontinued Operation*. The net result from *Discontinued Operation* in 2014 negatively affected for Euro 1,349 thousand and was relative to the price adjustments (Euro 1,368 thousand) related to the sale of the investments held by GE Avio S.r.l. to General Electric Group in 2013, following the settlement of several contractual claims between counterparts, net of the related tax effect (Euro 19 thousand).

#### Analysis of the Group's consolidated statement of financial position

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

|   | December<br>31,<br>2015 | December 31,<br>2014 | Change         |
|---|-------------------------|----------------------|----------------|
| Property, plant and equipment and investment property | 52,917                  | 50,229               | 2,688          |
| Goodwill  | 221,000                 | 221,000              | -              |
| Intangible assets with finite useful lives            | 88,786                  | 95,234               | (6,448)        |
| Investments   | 5,161                   | 8,032                | (2,871)        |
| Total fixed assets                                    | 367,864                 | 374,495              | (6,631)        |
| Net working capital                                   | 6.785                   | 16,479               | (9,694)        |
| Provisions for risks                                  | (27.447)                | (39,299)             | 11,852         |
| Provisions for employee benefits                      | (10.804)                | (11,320)             | 516            |
| <b>Net invested capital</b>                           | <b>336,398</b>          | <b>340,355</b>       | <b>(3,957)</b> |

|  |                |                  |                  |
|--|----------------|------------------|------------------|
| Net financial position– available share  | 27,570         | (163,654)        | 191,224          |
| Non-current financial assets subject to restrictions and non-current financial receivables | -              | (21,313)         | 21,313           |
| <b>Net financial position</b>  | <b>27,570</b>  | <b>(184,967)</b> | <b>212,537</b>   |
| <b>Equity</b>  | <b>308,828</b> | <b>525,322</b>   | <b>(216,494)</b> |

The total of fixed assets in 2015 that amounted to Euro 367.864 thousand has decreased in comparison with the previous year (Euro 6.631 thousand) of which Euro 2,799 thousand related to the alignment of the investment held in the associate Termica Colleferro S.p.A. to the relative share of equity. Such account includes in it the amount, invariant in two years, of Euro 221,000 thousand of goodwill recognized for Space Sector in 2007, the value of which is not subject to amortization.

Tangible assets and property investments had a net increase of Euro 2,688 thousand, mainly affected by the investments (Euro 8,286 thousand) exceeding the ammonization and depreciation of the year (Euro 5,584 thousand) which are relative mainly to plant machinery and equipment.

Intangible assets with finite useful lives decreased by Euro 6,448 thousand and this derived from the excess of the depreciation and amortization of the period (Euro 11,815 thousand) in relation to the new investments (Euro 5,367 thousand) mostly in development costs.

Net working capital decreases by Euro 9,694, with the assets exceeding the liabilities by Euro 6,785 thousand. Its principal components are illustrated in the following table:

|   | <b>December 31, 2015</b> | <b>December 31, 2014</b> | <b>Change</b>   |
|---|--------------------------|--------------------------|-----------------|
| Inventories   | 109,147                  | 76,717                   | 32,430          |
| Contract work in progress, net of related progress billing and advances | (108,316)                | (45,026)                 | (63,290)        |
| Trade receivables   | 8,344                    | 6,927                    | 1,417           |
| Trade payables  | (46,872)                 | (51,641)                 | 4,769           |
| Other assets and liabilities, net                                       | (12,311)                 | (24,736)                 | 12,425          |
|   | <b>(50,008)</b>          | <b>(37,759)</b>          | <b>(12,249)</b> |
| Deferred tax assets and tax liabilities, net                            | 56,793                   | 54,238                   | (303)           |
| <b>Net working capital</b>  | <b>6,785</b>             | <b>16,479</b>            | <b>(9,694)</b>  |

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

- improvement (for Euro 63,290 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 program;
- increase (for Euro 32,430 thousand) of inventories, mainly due to purchases, planned and effectuated in particular favorable market conditions;
- decrease of the net balance (Euro 12,425 thousand) of other assets and liabilities mainly due to the increase of VAT receivables arising from the subsidiary ELV, related to export sales.

As of December 31, 2015, provisions for risks and charges reported a total decrease, amounting to Euro 11,852 thousand compared with December 31, 2014, mainly due the resolution by means of transaction of the two main disputes arising from the "Leverage Buy-Out" operation occurred in 2007 concerning the acquisition of Avio business, related to the derecognition of some tax effects deriving from such acquisition as well as to the claim concerning the deduction of the financial interests arising from the above mentioned "Intercompany Loan Agreement", anticipatedly expired in 2014.

Such charges for tax claims were entirely covered during the previous periods by the accrual of a risk provision.

The provisions for employee benefits of Euro 10,804 thousand in December 31, 2015 decreased by Euro 516 thousand compared with December 31, 2014, as a result of the disbursements, particularly of (TFR), paid during 2015 in favor of retired employees, net of actuarial and inflationary adjustments.

### Financial position Analysis

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

|   | 31/12/2015      | 31/12/2014     | Change           |
|---|-----------------|----------------|------------------|
| Cash and cash equivalent (1)                                    | 70,378          | 165,232        | (94,854)         |
| <b>(A) Liquidity</b>  | <b>70,378</b>   | <b>165,232</b> | <b>(94,854)</b>  |
| (B) Current financial assets                                    | 130             | 21,454         | (21,324)         |
| <b>(C) Total financial assets (A+B)</b>                         | <b>70,508</b>   | <b>186,686</b> | <b>(116,178)</b> |
| Fair value of interest rate derivatives                         | (368)           | -              | (368)            |
| Financial liabilities to jointly controlled companies           | (8,399)         | (7,919)        | (480)            |
| <b>(D) Current financial liabilities</b>                        | <b>(8,767)</b>  | <b>(7,919)</b> | <b>(848)</b>     |
| Current portion of non-current financial bank loans             | (4,439)         | -              | (4,439)          |
| <b>(E) Current portion of non-current financial liabilities</b> | <b>(4,439)</b>  | <b>-</b>       | <b>(4,439)</b>   |
| <b>(F) Net current Financial Indebtedness (D+E)</b>             | <b>(13,206)</b> | <b>(7,919)</b> | <b>(5,287)</b>   |
| <b>(G) Net current Financial Position (C+F)</b>                 | <b>57,302</b>   | <b>178,767</b> | <b>(121,466)</b> |
| Non current portion of financial bank loans                     | (91,272)        | -              | (91,272)         |
| <b>(H) Non current financial liabilities</b>                    | <b>(91,272)</b> | <b>-</b>       | <b>(91,272)</b>  |
| <b>(I) Net non current Financial Indebtedness (H)</b>           | <b>(91,272)</b> | <b>-</b>       | <b>(91,272)</b>  |
| <b>(J) Net Financial Position (G-I) Note 1</b>                  | <b>(33,970)</b> | <b>178,767</b> | <b>(212,737)</b> |
| <b>Net Financial Position (G-I)</b>                             | <b>(33,970)</b> | <b>178,767</b> | <b>(212,737)</b> |
| Non current financial assets                                    | 6,400           | 6,200          | 200              |
| <b>Adjusted Net Financial Position</b>                          | <b>(27,570)</b> | <b>184,967</b> | <b>(212,537)</b> |

(Note 1): Net financial position is aligned to the definition stated by the Recommendation CESR of 10th February 2005 "Raccomandazioni per l'attuazione uniforme del regolamento della Commissione Europea sui prospetti informativi".

The net consolidated financial position changed from a positive balance of thousand 184,967 Euro in December 31, 2014, to a negative balance of Euro 27,570 thousand in December 31, 2015. The variation of Euro 212,537 thousand is mainly attributed to the dividends of Euro 220,000 thousand approved by the Board of Directors in May 11, 2015 and distributed during the year, (paid to the Shareholders for Euro 176 million, net of the related withholding tax for Euro 44 million).

Regarding the variation of some components of financial net position:

- the reduction in "Current financial assets", amounting to Euro 21,324 thousand, is mainly due to the release occurred in January 2015 of the *escrow account* recognized in 2013 following the *Settlement Agreement ad Release* signed in December 30, 2014 with GE Italia Holding S.p.A. This has also affected the elimination of the balance of "Financial Assets (in 2014) subject to restrictions" that was present in December 31, 2014.
- the increase of "noncurrent Liabilities" and "Current portion of non-current financial liabilities", absent in 2014, is entirely attributed to the bank financing of Euro 100 million, signed in 1<sup>st</sup> April 2015 by Avio S.p.A. and previously commented.

### Equity Analysis

As of December 31, 2015, Equity amounts to Euro 308,828 thousand, with a decrease of Euro 216,494 thousand compared to December 31, 2014 affected mainly from the following combined factors:

- the decrease of Euro 220,000 thousand for the dividend distribution resolved by the Avio S.p.A. Shareholders' Meeting occurred on May 11, 2015.
- the increase of Euro 5.364 thousand arising from 2015's net result.
- the net decrease (for Euro 794 thousand) of the negative values of actuarial reserve and cash flow hedge reserve, recorded as component of "other comprehensive income", with a direct impact in the Equity.

To complete the analysis, some economic financial and equity indicators are shown below with reference to the years ended December 31, 2015 and December 31, 2014 (thousands of Euro):

|   | December 31,<br>2015 | December 31,<br>2014 | Change |
|---|----------------------|----------------------|--------|
| Net financial indebtedness / <i>Adjusted</i> EBITDA | 0,8                  | 4,7                  | (3,9)  |
| Net financial indebtedness / Equity                 | 0,1                  | 0,3                  | (0,2)  |

The 2015 economic performances and the effects on net debt and shareholders' equity, mainly related to the dividend distribution to the shareholders, have resulted in the ratio Net financial position / *Adjusted* EBITDA (Leverage ratio) of value 0.8x, while the ratio Net financial indebtedness / Equity resulted 0,1x.

## 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 in 2015 amounted to Euro 102.9 million (Euro 41.5 million in 2014), corresponding to 37% of consolidated revenues (18.5% in 2014).

In 2015 the Group carries out R&D activities commissioned and financed by customers amounting to Euro 95,5 million (Euro 29.7 million in 2014) and other projects internally financed, for a total 2015 spend amounting to Euro 14,4 million (Euro 9,9 million in 2014).

In 2015, the self-financed activities include, Euro 4,5 million related to development costs capitalized in intangible assets with a definite life (Euro 8.8 million in 2014) and Euro 2,9 million relating to costs of research or development, not meeting capitalisation requirements and charged directly to the income statement (Euro 3 million in 2014).

The total amount of costs related to self-financing activities charged to the income statement in 2015 was Euro 9.8 million (Euro 9.9 million in 2014), consisting of Euro 2,9 million for costs not capitalized directly expensed (Euro 3.0 million in 2014) and Euro 6.9 million relating to the amortization of capitalized development costs in previous years (Euro 6.9 million in 2014).

During 2015 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).

In addition to the development activities concerning the new launcher in common between Vega and Ariane (P120C) programs, Avio has conducted a large number of studies and configurations in order to optimize the positioning of Vega C in its market place, proposing moreover the Vega configuration C3.3 suitable for competitively accessing the segment of big satellites SAR for Earth observation.

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 year Avio, pursuant to the statements of the Inter-ministerial Committee for Economic Planning (CIPE) of 2014, focused the development activities on the preliminary project of the

propulsion system P120C, being adopted, as anticipated, by the next generation of launchers Ariane and Vega. Such effort led to freeze the preliminary configuration of the propulsion system through a sequence of project reviews occurred between July and December and reach the "detailed project" phase carrying with itself the prototypes production of the main engine elements (for instance the technological shell scale 3m). During the preliminary phase of the project, following the optimization cycles of Ariane 6, the first-stage performances increased by approximately 15%, with subsequent adaptation of the P120C configuration through an increase of the propellant load and an improvement of the inert mass.

The development of the engine Z40 was carried on (to be used as the second stage of Vega C3 and E). In this context it should be mentioned the achievements related to the introduction of new material for the shell in composite, through the implementation of the technological exemplary Z40 DM00, and DM1; the former, subject to static tests, revealed to support structural compression flows of 2KN / mm, maximum achieved by a propeller in composite belonging to this segment.

Furthermore the feasibility of a low torque flexible coupling for the exhaust nozzle was demonstrated by the realization and two test campaigns involving the technological exemplary TM. The prototype has generated encouraging information about the project which will be further optimized in DM and QM models.

During the year, it has been extended to P120C the process validation layering automatic tape carbon (ATL) essential to reduce the cost and improve the quality of the skirt, the introduction of Braggs fibers for health monitoring of composite casings, deemed critical technology in reducing the costs of control and acceptance of the artifacts and the first steps of a technology based on commercial fiber optics, very promising from the point of view of a further reduction in control costs. Some of the new technologies developed for the new generation launchers (such as ATL, health monitoring based on optic fiber and prepreg AVIO materials applied on the current generation of launchers Vega (P80, Z23 and Z9) with the conclusion of the qualification process planned between late 2016 and early 2017.

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 introduction of a new class of solid propellant bimodal or trimodal, through the use of new materials;
- 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 characterization of a new source of C / C for the application of nozzles, and the feasibility of industrial production in Avio.
- 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;
- to the feasibility of ab initio simulation methods for the study of new energy molecules.

#### 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 (Evacuation & Venting Valve), with a German SME and are ongoing feasibility studies of an electric Gas Pressure Regulator with an elevated integration level with the launcher's avionics. 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 2015 there were carried on several feasibility studies, based on the encouraging achievements obtained by LM10D-MIRA and Theseus Thruster, for the realization and adaptation to the requirements of Vega E of low cost propulsion systems and high performance.

Avio has introduced a new architecture for a reusable stage LOX-LNG common for a future generation of Ariane and Vega SRLV 7.

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, even within work groups with European partners (particularly German).

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 Jaxa program starts with the eponymous Japanese Space Agency to study the common combustion of chambers and of injection systems in technology 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 2015 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.

Avio has launched a task of development environment suitable resins for LOX cryogenic and LNG in order to achieve a new generation of large composite tanks without liner.

### 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 through a new implant and the prototype Theseus-1. The prototype made possible the increase of Avio's TRL in hybrid technology. 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 the stage "B" in relation to the development of the Vega launcher C3, in the context of the contract Vecep (ESA), based on a first stage with total impulse of 50% 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 50%. By collaborating with ELV, Avio has completed the preliminary design cycles for the launch vehicle with the start of the System Preliminary Design Review in December 2015.

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 Italian Defence Administration to verify the feasibility of a small Airborne launcher (Salto), compatible with platforms C130J and A400M.

### 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 ended up with the finalization of the phase "A" for the power distribution unit.

#### 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, achieving encouraging results from its test campaign on the first prototype and launching 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, 2015, the number of Group employees totaled to 763 units, with an increase compared to the 706 units as of December 31, 2014. The number of employees does not include Europropulsion S.A. (85 units) included in consolidated financial statements with equity method. Most of the units are employed by the Parent Company Avio S.p.A. (593 units as of December 31, 2015, compared to 538 at December 31, 2014).

During 2015 it have been applied organizational changes involving the first-tier structure: in July, following a more integrated and effective action in the current and future lead of the business, the function of Marketing and strategy of the Group has also been assigned to the Department Business Unit, and thus renamed "Business Unit and Group Strategies".

Starting from the same date, the Purchase Department has been configured to step up the management of the supply chain, even in relation to the enlargement of suppliers perimeter; the "Infrastructure and Planning" Department has been created for the construction of major new equipments and the implementation of a system for planning and logistical control of industrial processes in order to support the growth of expected volumes.

Furthermore in October, Avio Board of Directors appointed a new Chief Executive Officer and General Manager of the Company, and assigned to the previous one the role of Vice President of Avio S.p.A.

### Industrial relations

During 2015, the Company has continued its engagement with local institutions and trade unions through constructive dialog and cooperation. In this context, the Participation Bonus Agreement (Premio di Partecipazione) was renewed on a three years duration basis (the last payment will take place in July 2018 and will be based on 2017 results). In October the Redundancy Plan involving 20 employees (10 blue collars and 10 white collars) was finally signed. Such agreement is allowed to be effective until 31<sup>st</sup> December 2016.

### Development and Training

With regard to recruiting activities, in 2015 the Italian entities of the Group hired a total of 81 employees, 33 of which (27 in Avio S.p.A., 6 in ELV S.p.A.) regarding recent graduates, and/or graduates (6) and professionals (27) with experience and specific skills and 48 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 23 Professionals (10 in 2014), representing about 8,5% of the category (that was 6% in 2014). Internal mobility finalized to the increase of competencies, has been used for both with and blue collars.

With regard to the staff development, 15 white collars (4,32% of all the employees) were involved in professional development activities; 53% of them qualified as middle managers ("Quadro"). A significant development activity involved the workers sector. In fact through the Assessment Center Evaluation System that initiated the previous year, the company identified 2 workmen as adequate to cover the white collar roles.

In support of learning paths, over 1,910 days of training were delivered on a Group level, with more than 1,425 participations and with the effective involvement of 535 people, investing more than 3.5 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 2015 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 2015 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 and leaders, increasing the use of the platform for the delivery of courses by 6% in comparison with the previous year.

## COMMUNICATION AND SOCIAL RESPONSIBILITY

AVIO promotes its image and its products through the participation in major international events and the steady participation to the Italian and international most relevant bodies in the aerospace field for the research and development of new technologies in the specific field of space propulsion and launchers.

AVIO strengthens its own network of scientific exchange and development of new products through the collaboration in the research with universities and other Italian and foreign research institutes and through the partnership, both from the technical and the operative side, with the most important European Space Agency, among which the Italian Space agency (ASI), the Centre National d'Etudes Spatiales (CNES) and the European Space agency (ESA).

### Events and Manifestations

On June 15<sup>th</sup>, Avio unveiled its new logo. Consistently with the new mission and the new scope of activity, AVIO wanted to communicate its evolution with the rebranding of its own corporate image. A project born from the desire to visually convey the commitment to the spatial nature projects and the awareness of its own leadership. The new identity starts from the creation of the symbol that represents and synthesizes its own payoff and acronym: Advanced Vision Into Orbit.

From June 15<sup>th</sup> to June 21<sup>th</sup> AVIO took part to the International aerospace salon in Le Bourget (Paris) with a stand entirely devoted to space activities. As a matter of fact it has been AVIO to open the show on Monday, 15<sup>th</sup> June with a press conference which took place in its stand. During the conference, the former CEO Pier Giuliano Lasagni, unveiled the new logo of the company. In the stand has been exhibited: a 1:10 scale model of the launcher VEGA C, a 1:5 model scale of the P120C, the new engine that will constitute the first stage of the VEGA C and that will also be the side booster of the Ariane 6. Moreover it has been shown three industrial products: the nozzle of the Z23 engine, the second stage of VEGA, the liquid oxygen turbopump of the Vulcain 2 cryogenic engine and MIRA, a liquid oxygen engine developed by Avio together with ASI and the Russian KBKhA. Finally the Company presented examples of production of carbon fiber made with particular resins patented by AVIO itself, and components in ALM (Additive Layer Manufacturing), realized thanks to projects and AVIO properties drawings.

On October 2<sup>nd</sup> Giulio Ranzo took over as Chief Executive Officer succeeding Pier Giuliano Lasagni, elected Vice President of the Company and, during two meetings he introduced himself to all the employees.

On November 24<sup>th</sup>, AVIO's CEO Ranzo and the Mayor of Colleferro Pierluigi Sanna inaugurated the building site for the construction of the new industrial plants that will host the production of the new launchers Ariane and VEGA C 6.

On December 3<sup>rd</sup> it took place the sixth flight of the VEGA launcher, the flight that ended the stage of development called VERTA. In this circumstance, compared to the previous flights, AVIO has obtained a higher level of visibility, even hosting some Italian journalists and starting a praxis that has to repeat on each flight of the VEGA.

### 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 steady 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 23, 2013 in the city of Segni.

#### 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

### Macroeconomic risks

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 the budgeting strategies of European states and as a result 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 continues 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 and for the new research and development programs, with a consequent negative impact on the economic and financial position of the Group.

### Risks related to our specific business

Space programs, by their own nature, complexity, strategic importance and sources of funding, are generally dependent on plans and decisions taken at government level in Europe, either single nation level and in the context of international agreements, implemented through the intervention of specific institutions and national and supranational agencies. They aim to ensure independent access to space by European nations.

Changes in access to space policies, both at national and at European/international level, and unfavorable economic conditions impacting on expenditure devoted to them by national governments and supranational institutions, might affect the volumes of activities of the Group with negative effects on business and economic, equity and financial position of the Group.

The Group's business depends on a limited number of programs, and so limited customers. Any interruption, temporary suspension or cancellation of one or more major programs represent a risk that might imply negative effects on the volumes of activities and the economic and financial situation of the Group. Therefore, the backlog might be subject to unexpected adjustments and not be indicative of future revenues or results of operations.

The Group operates in the space sector, to a significant extent by long-term contracts usually with fixed prices or eventually with revisal price related to the inflation. Fixed price contracts introduce the risk that any additional costs may not be reimbursed or be partially reimbursed by the client, with negative effects in the business and economic, equity and financial position of the Group.

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.

The Group generally does not act as *Prime Contractor* for the sale of launch services, as a result not always can rely on market information related to launch services and is not always able to control market aspects. If the Launch Service Provider does not correctly play its role or adopt commercial practices not in line with the interests of the Group, this could have negative effects on the economic, equity and financial position.

Our customers are responsible for ensuring the compliance of the products before being accepted and sold and can reject them totally or partially in the event of non-compliance with all the requirements. In that case, the guarantee clauses require the Group to replace or repair the non-compliant component by supporting the associated costs as well as any additional charge necessary to the understanding of the problem. If such associated costs were not covered by insurance policies, this might have a negative impact on Group results. Once accepted by the customers, the group is no longer responsible for product failure.

The Group's industrial activities involve the use and processing of explosives or chemically dangerous materials. Although these activities are conducted in accordance with regulations in force, following a specific Safety Management System to prevent accidents and to ensure vehicles are used by highly qualified staff, it is possible that one may incur in accidents that can generate interruptions of industrial activities with negative effects on the Group's results.

## OUTLOOK

### Significant events subsequent to year end

#### *Business*

In January 27, 2016, vector ARIANE 5 successfully delivered in GTO orbit a Eutelsat commercial telecommunications satellite, one of the historic Arianespace customers.

On March 9, 2016 Ariane 5 launcher successfully finished its 85<sup>th</sup> mission, but sending in GTO orbit the satellite EUTELSAT 65 WEST A.

In the following months of 2016 are planned other 5 launches of vector ARIANE 5 and at least 2 launches for VEGA.

#### *Other relevant facts.*

In the first Quarter of 2016, The Anti-Trust European Commission extended the already ongoing investigation to the acquisition of Arianespace by ASL, by deciding to move to a Phase 2. As known, Arianespace launchers use products from three different companies, among these, in addition to the ELV VEGA and TsSKB for SOYUZ, also ASL should be considered in a position of advantage over competitors if it became owner of Arianespace. The Commission will issue a final decision regarding the deal by 16 July 2016.

During the first months of 2016, the Chemical Propulsion Subsystem (CPPS) of the geostationary satellite EDRS-C, was completed and sent to the client OHB. A committee composed by OHB, satellite's *prime contractor*, ESA (European Space Agency) and Airbus DS, both final clients, verified the conformity of the propellant module and authorized the launch. The launch is expected in 2017 with ARIANE 5 the launcher.

On March 8, 2016, in the context of a tax inspection still ongoing, the Italian tax Authority "*Guardia di Finanza*" notified to Avio S.p.A. a formal notice of assessment (*Processo Verbale di Constatazione*, "PVC") concerning the operations who led in 2013 to the sale of the business Aeroengine to the Group General Electric.

Moreover, Guardia di Finanza requalified the branch's disposal (Aeroengine) from Avio S.p.A. to GE Avio S.r.l. and the subsequent transfer of shares of the latter as a direct branch's disposal and, consequently, subject to indirect taxation applied to branch's disposals.

Particularly it relates to the registration tax ("*imposta di registro*") amounting to Euro 134,622 thousand, as well as a mortgage tax ("*imposta ipotecaria*") amounting to Euros 1,719 thousand and land registry fees ("*imposta catastale*") for Euro 860 thousand, for a total major expense of Euro 137,201 thousand.

As of today, the tax authorities have not notified yet any definitive statement; however, since the three-year term for proceedings against the findings arisen from PVC will expire on July 31, 2016, the notification of a liquidation act is expected within that period.

Considering the extent of the possible contingent liability related to the relief in question, it is conceivable that any notice of assessment presents amounts different from those indicated in the PVC ("*Processo Verbale di Constatazione*"), for example because of a different tax base determination and the application of differentiate rates.

Referring to the substance of the relief lifted up in PVC ("*Processo Verbale di Constatazione*"), it is part of a complex context of case law, which has to be considered in the light of some recent regulatory changes that could interfere on the scope of the framework on which the *Guardia di Finanza* has founded its notification. In addition, in consideration of the factual circumstances of the aeroengine branch transfer's operation, it is believed that, if the tax authorities had notified a settlement notice, Avio S.p.A. would have the opportunity to spend several defensive reasons in litigation.

Finally, it is worth to underline that, pursuant to specific contractual provisions, the Group General Electric is required to indemnify Avio S.p.A. with respect to any liabilities that may arise over indirect taxes related to the transfer of the aeroengine industry as well as to make available to Avio S.p.A. any sums eventually required by the tax authorities by the due dates for payment.

Considering what above mentioned (and therefore the absence of a formal tax notification, the circumstance that the tax notification may differ from PVC's representations, the fact that any tax notification could be opposed with several defensive reasons and with the agreements contained in contracts for compensation), it is not considered necessary to provide for a provision in the financial statements for potential liabilities that may arise as a result of the PVC received on March 8, 2016.

#### Business outlook

The forecast for the year 2016 suggest growing volumes of net revenue (excluded the Pass-through), compared with 2015, principally related to the development activities of Ariane 6's programme, only partially compensated from the reduction of Ariane 5's production revenue as a result of a predicted pressure on sales prices.

Over 90% of such predicted revenue are covered by backlog.

Mainly as a result of the predictions for the revenue quote deriving from the realization of financed implants for Ariane 6 programme, that are characterized by a low marginality as well as a for the pressure of sales prices of Ariane 5, the growing of revenue is not expected to improve the overall operating profitability.



## AVIO S.P.A. FINANCIAL REVIEW

### Analysis of results

In the following table, is represented the economic performance of the Company in the years 2015 and 2014 (amounts in thousands of Euro):

|   | 2015           | 2014           | Change         |
|---|----------------|----------------|----------------|
| Revenues  | 232,558        | 211,615        | 20,943         |
| of which: <i>pass-through revenues</i>  | 18,650         | -              | 18,650         |
| <b>Net Revenues (net of <i>pass-through revenues</i>)</b>   | <b>213,908</b> | <b>211,615</b> | <b>2,293</b>   |
| Other operating income and change in inventory of finished and semi-finished goods                  | 6,403          | 7,383          | (980)          |
| Costs for materials and services, for personnel, other operating expenses, net of costs capitalized | (200,485)      | (196,031)      | (4,454)        |
| <b>Operating results before depreciation and amortisation (EBITDA)</b>                              | <b>19,826</b>  | <b>22,967</b>  | <b>(3,141)</b> |
| Depreciation, amortisation, write-down and impairment   | (14,807)       | (14,584)       | (223)          |
| <b>Operating results (EBIT)</b>   | <b>5,019</b>   | <b>8,383</b>   | <b>(3,364)</b> |
| Interests and other financial income (expenses)   | (2,720)        | (9,635)        | 6,915          |
| <b>Financial results</b>  | <b>(2,720)</b> | <b>(9,635)</b> | <b>6,915</b>   |
| Results from financial investments  | 791            | 3,978          | (3,187)        |
| <b>Results before taxes</b>   | <b>3,090</b>   | <b>2,727</b>   | <b>363</b>     |
| Income taxes – current and deferred   | 2,316          | 4,170          | (1,854)        |
| <b>Net result – Continuing operations</b>   | <b>5,406</b>   | <b>6,897</b>   | <b>(1,491)</b> |
| Discounted Operations result  | -              | (1,349)        | 1,349          |
| <b>Net result</b>   | <b>5,406</b>   | <b>5,548</b>   | <b>(142)</b>   |

The “*Pass-through*” revenues are related to the contractual agreements between the subsidiary ELV S.p.A. and European Space Agency in August 2015, concerning the development and realization of the new propeller “P120” for the new launcher Vega C, as well as the sharing of Vega C’s new propeller “P120” also with Ariane 6. Because of the implementation of these new agreements, the consolidated revenues of Avio Group include the following double invoicing:

- the first invoicing from the parent company Avio S.p.A as a sub-supplier to the non-consolidated *joint-venture* Europropulsion S.A;
- the second invoicing from the subsidiary ELV S.p.A, as prime contractor of the programme, to the final customer European Space Agency. In this case, there is a simple re-invoicing of costs without any margin coming from the non-consolidated joint venture Europropulsion S.A. - not eliminated in the consolidation process of the Avio Group because of being realized with third parties - and referred in this report as “Pass-through”.

Net “*Pass-through*” revenues amounted to Euro 213.908 thousand, showing an increase of Euro 2.293 thousand (1,1%) compared to 2014. Such increase in revenue is related particularly to the increase of sales volume for VEGA’s launcher Research and Development programs.

In 2015, the operating income before depreciation and amortization and impairment of tangible and intangible assets (EBITDA) amounted to Euro 19.826 thousand, registering a decrease of Euro 3.141 thousand (13,7%) compared to the same period in 2014. Such decrease was primarily attributable to the reduction of the average sales prices recorded during the year, in relation to Ariane 5 and VEGA’s propellers.

Operating results, (EBIT) amounted to Euro 5.019 thousand, with a decrease of Euro 3.364 thousand compared to 2014. Such result substantially reflects the operating results before depreciation and amortisation trend (EBITDA).

For a more complete presentation of the Group's operating performance, the following table summarises Adjusted EBITDA, Adjusted EBIT and relative margin percentages for 2015 and 2014 (thousands of Euro):

|   | 2015          | 2014          | Change         |
|---|---------------|---------------|----------------|
| <b>Adjusted EBITDA</b>  | <b>26.392</b> | <b>28.760</b> | <b>(2.368)</b> |
| <i>Adjusted EBITDA Margin (Adjusted EBITDA/ Net of pass-through revenues)</i> | 12,30%        | 13,60%        |                |
| <b>Adjusted EBIT</b>  | <b>15.669</b> | <b>18.260</b> | <b>(2.591)</b> |
| <i>Adjusted EBIT Margin (Adjusted EBIT/ Net of pass-through revenues)</i>     | 7,30%         | 8,60%         |                |

Adjusted EBITDA is considered by Management as a representative indicator for measuring the Company's financial results, since aside from not considering the effects of eventual taxation variations, of the amounts and types of invested capital financing sources and of amortization and depreciation's policies (components not included in EBITDA), in order to increase the comparability of operational results in the comparison periods, it also excludes components of non-recurring nature or not related to the Company's operations.

Adjusted EBITDA was Euro 26.392 thousand in 2015 (11.3% of net revenues). There was a decrease of Euro 2.368 thousand (-8% Adjusted EBITDA margin) in comparison with Euro 28.760 thousand (13.6% of net revenues) in 2014. Such decrease is mainly related to the decline of marginality coming as a result of the sales price reduction and by the strengthening of the corporate structure following the "spin-off" from the previous group of belonging (now GE).

The more moderate decrease of Adjusted EBITDA compared with the decrease of EBITDA can be associated to the effect of non-recurring costs which have been higher compared to the previous year.

Adjusted EBIT is also considered by Management a representative indicator for measuring the Company's financial results, and is measured by operating results (EBIT) excluding events considered as nonrecurring or not related to the Group's operations, already excluded from the calculation of Adjusted EBITDA and also removing amortization of costs capitalized in relation to customer relationships for participation in programs, recorded at the moment of the Group's acquisition by Cinven, equal to Euro 4,084 thousand per year, that will run out in 2021.

Adjusted EBIT was Euro 15.669 thousand in 2015 (6,7 % of net revenues). In comparison with the amount of 2014 that reached Euro 18.260 thousand (8,6 % of revenues) there was a decrease of Euro 2.591 thousand (-14% Adjusted EBIT margin), which is mainly related to the same components, previously mentioned that also affected the Adjusted EBITDA.

The following table presents the reconciliation of EBIT, Adjusted EBIT and Adjusted EBITDA for 2015 and 2014 (thousands)

|   | 2015         | 2014         | Change         |
|---|--------------|--------------|----------------|
| <b>A Operating profit/EBIT</b>  | <b>5,019</b> | <b>8,383</b> | <b>(3,364)</b> |
| Non-recurring or exceptional expenses/(income):                           |              |              |                |
| - Grants/staff incentives <sup>(1)</sup>                                  | 2,681        | 490          | <b>2,191</b>   |
| - Costs related to non-recurring events (tax, legal, etc.) <sup>(2)</sup> | 2,154        | 1,735        | <b>419</b>     |

|   |                  |               |               |                |
|---|------------------|---------------|---------------|----------------|
| - Costs for cash-settled share-based payment <sup>(3)</sup> and other personnel costs   | 464              | 730           | (266)         |                |
| - Charges for tax provisions  | -                | 221           | (221)         |                |
| - Other non-recurring expenses/(income) <sup>(4)</sup>                                  | 100              | 929           | (829)         |                |
| B Total non-recurring or exceptional expenses/(income)                                  | 5,399            | 4,105         | 1,294         |                |
| C <i>Investor Fees</i>  | 1,167            | 1,178         | (11)          |                |
| D Other adjustments for non-recurring expenses  | -                | 510           | (510)         |                |
| E Amortisation of customer relationships for participation in programmes <sup>(5)</sup> | 4,084            | 4,084         | -             |                |
| F <b>Adjusted EBIT</b>  | <b>A+B+C+D+E</b> | <b>15,669</b> | <b>18,260</b> | <b>(2,591)</b> |
| G Net depreciation/amortisation <sup>(6)</sup>  | 10,723           | 10,500        | 223           |                |
| <b>Adjusted EBITDA</b>  | <b>F+G</b>       | <b>26,392</b> | <b>28,760</b> | <b>(2,368)</b> |

- <sup>(1)</sup> Costs incurred during the year and accruals to provisions for charges related to staff, including among others, the costs related to the activation of mobility and retirement procedures, as well as exodus.
- <sup>(2)</sup> One time external consultings related to corporate reorganization projects and fiscal and legal litigations.
- <sup>(3)</sup> 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, besides other supplementary personnel costs.
- <sup>(4)</sup> Other non-recurring expenses/(income) include: other expenses or income considered as non-recurring, as, i.e., non-recurring provision, expenses for Due Diligences (in 2014) and other non-recurring operations.
- <sup>(5)</sup> Total depreciation/amortisation of the financial year of customer relationships for participation in programmes, deriving from acquired and consolidated relations with numerous partners from the commercial clientele, arising from the purchase price allocation carried out in 2007 from the acquisition cost in 2006 of the actual property following the acquisition of society quotes. The amortization will be over in 2021.
- <sup>(6)</sup> Depreciation/amortisation of the year net of depreciation/amortization of intangible assets for customer relationships mentioned in the preceding footnote (5).

### Financial results analysis

In April 1, 2015 Avio S.p.A. signed a financing contract with a group of primary international banks for Euro 100 million ("Senior Term") as well as for the availability of a Revolving credit line of Euro 30 million.

The Senior Term is divided in two trenches, the first ("Loan A") of Euro 35 million is subject to a 6 year reimbursement plan and the second ("Loan B") of Euro 65 million is to be repaid in a single payment in 7 years.

The contract is dependent on costs and market interests, is not sustained by any real guarantee and contemplates some limits in terms of investment, acquisition, disposal, other funding (active or passive), as well as compliance with certain Financial Covenants that are in line with the pluriennial plan's forecast of the Company.

The above mentioned financing started in 1 April, 2015.

Therefore financial result of 2015, reflects the cost of such financing. In particular the financial expenses are composed as follows: Loan A's interests of Euro 938 thousand, Loan B's interests of Euro 1.958 thousand, non utilization fees relative to credit line "Revolving" of Euro 279 thousand and the amortisation of arrangement fees of Euro 521 thousand.

The higher net financial expenses of 2014 were affected by the *one-off* effect related to the so-called "Intercompany Loan Agreement" with the previous Parent Company BCV Investments S.C.A., anticipatedly expired during 2014.

With regard to the modification of several contractual clauses (related to the changes of the interest rate, effective from January 1, 2014), the application of accounting principle IAS 39 led to identifying such contract modification as a discontinuity that causes the liabilities write-off and the subsequent re-recording of liabilities on the terms of the new conditions.

This accounting led to the recognition of financial expenses of Euro 11.089 thousand, represented by the recognition in the income statement of the amortized cost application effect in December, 2013. Subsequently, in June 2014, such *Intercompany Loan Agreement* anticipatedly expired.

The result from financial investments in the year end December 31, 2015 recorded a net gain of Euro 791 thousand, with a reduction of Euro 3.187 thousand compared to the net gain of 3,978

thousand from the same period of 2014; the caption includes the dividends distributed from the jointly controlled company Europropulsion S.A. (Euro 1,970 thousand) and from the controlled company Regulus S.A. (Euro 1,620 thousand), and the write-off of the investment in the associate Termica Colleferro S.p.A. of Euro 2.799 thousand.

The net profit competence of the Company, after the recording of current and deferred taxes, that stated a positive balance of Euro 2,316 thousand, represents in 2015 a profit of Euro 5,406 thousand, compared to a profit of Euro 6,897 thousand recorded in the year ended December 31, 2014.

There were not *Discontinued Operation* as of 31<sup>st</sup> December 2015, while the net result from *Discontinued Operation* in 2014 negatively impacted for 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 analysis of the Group's consolidated statement of financial position is shown in the following table (amounts in thousands of Euro):

|  | December 31,<br>2015 | December 31,<br>2014 | Change           |
|--|----------------------|----------------------|------------------|
| Property, plant and equipment and investment property                                      | 26,945               | 24,355               | 2,590            |
| Goodwill   | 219,100              | 219,100              | -                |
| Intangible assets with finite useful lives   | 87,695               | 93,551               | (5,856)          |
| Investments  | 65,231               | 68,024               | (2,793)          |
| Total fixed assets   | 398,971              | 405,030              | (6,059)          |
| Net working capital  | (22,411)             | (6,554)              | (15,857)         |
| Provisions for risks   | (15,305)             | (26,901)             | 11,596           |
| Provisions for employee benefits   | (8,716)              | (9,203)              | 487              |
| <b>Net invested capital</b>  | <b>352,539</b>       | <b>362,372</b>       | <b>(9,833)</b>   |
| Net financial position   | 66,077               | (118,168)            | 184,245          |
| Non-current financial assets subject to restrictions and non-current financial receivables | -                    | (21,313)             | 21,313           |
| Net financial position - continuing operations   | 66,077               | (139,481)            | 205,558          |
| <b>Net financial position</b>  | <b>66,077</b>        | <b>(139,481)</b>     | <b>205,558</b>   |
| <b>Equity</b>  | <b>286,462</b>       | <b>501,853</b>       | <b>(215,391)</b> |

As of December 31, 2015, total fixed assets amounted to Euro 398,971 thousand, showing a decrease of Euro 6,059 thousand compared with December 31, 2014.

The net change in property, plant and equipment (increase of Euro 2,590 thousand) is primarily due to the excess of new investments (Euro 6,197 thousand) in relation to the depreciation and amortisation of the period (Euro 3,608 thousand), mostly in plant and machinery.

Intangible assets with finite useful lives decrease by Euro 5,856 thousand and this is primarily due to the excess of the depreciation and amortisation of the period (Euro 11,199 thousand) in relation to the new investments (Euro 5,343 thousand) mostly in development costs.

As of December 31, 2015, fixed assets include for Euro 219,100 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, 2015, net working capital decreases by Euro 15,857 thousand (due to liabilities exceeding assets for Euro 22,411 thousand).

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

|   | December<br>31, 2015 | December<br>31, 2015 | Change          |
|---|----------------------|----------------------|-----------------|
| Inventories   | 64.421               | 46.869               | 17.552          |
| Contract work in progress, net of related progress billing and advances | (69.528)             | (30.310)             | (39.218)        |
| Trade receivables   | 8.887                | 6.562                | 2.325           |
| Trade payables  | (43.010)             | (47.935)             | 4.925           |
| Other assets and liabilities  | (37.307)             | (33.388)             | (3.919)         |
|   | <b>(76.537)</b>      | <b>(58.202)</b>      | <b>(18.335)</b> |
| Deferred tax assets and tax liabilities, net                            | 54.126               | 51.648               | 2.478           |
| <b>Net working capital</b>  | <b>(22.411)</b>      | <b>(6.554)</b>       | <b>(15.857)</b> |

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

- improvement (for Euro 39,218 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 program;
- increase (for Euro 17,552 thousand) of inventories, due to higher volumes of purchases as a result of favorable market conditions applied by suppliers;

As of December 31, 2015, provisions for risks and charges reported a total decrease, amounting to Euro 11,596 thousand compared with December 31, 2014, mainly due to the final resolution (and payment) of the two main tax litigations arising from the 2007 LBO transaction concerning the acquisition of Avio business, related from one hand to the derecognition of some tax effects deriving from such acquisition, from the other hand to the claim concerning the deduction of the financial interests arising from the above mentioned "Intercompany Loan Agreement" (anticipately expired in 2014). Such charges for tax claims were entirely covered during the previous periods by the accrual of a risk provision.

As of December 31, 2015, provisions for employee benefits decrease by Euro 487 thousand compared with 31<sup>st</sup> December 2014, as a result of the disbursements, particularly TFR, paid during 2015 in favor of retired employees, net of actuarial and inflationary adjustments.

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

| <i>in migliaia di Euro</i>                                      | 31/12/2015     | 31/12/2014     | Change           |
|---|----------------|----------------|------------------|
| Cash and cash equivalent (1)                                    | 67,505         | 159,298        | (91,793)         |
| <b>(A) Liquidity</b>  | <b>67,505</b>  | <b>159,298</b> | <b>(91,793)</b>  |
| (B) Current financial assets                                    | 130            | 21,454         | (21,324)         |
| <b>(C) Total financial assets (A+B)</b>                         | <b>67,634</b>  | <b>180,752</b> | <b>(113,118)</b> |
| Fair value of interest rate derivatives                         | (368)          | -              | (368)            |
| Financial liabilities to jointly controlled companies           | (35,634)       | (39,552)       | 3,918            |
| <b>(D) Current financial liabilities</b>                        | <b>(8,399)</b> | <b>(7,919)</b> | <b>(480)</b>     |
| (D) Current portion of non-current financial liability          | (44,401)       | (47,471)       | 3,070            |
| Current portion of non-current financial bank loans             | (4,439)        | -              | (4,439)          |
| <b>(E) Current portion of non-current financial liabilities</b> | <b>(4,439)</b> | <b>-</b>       | <b>(4,439)</b>   |

|   |                 |                 |                  |
|---|-----------------|-----------------|------------------|
| <b>(F) Net current Financial Indebtedness (D+E)</b>   | <b>(48,840)</b> | <b>(47,471)</b> | <b>(1,369)</b>   |
| <b>(G) Net current Financial Position (C+F)</b>       | <b>18,794</b>   | <b>133,281</b>  | <b>(114,487)</b> |
| Non current portion of financial bank loans           | (91,272)        | -               | (91,272)         |
| <b>(H) Non current financial liabilities</b>          | <b>(91,272)</b> | <b>-</b>        | <b>(91,272)</b>  |
| <b>(I) Net non current Financial Indebtedness (H)</b> | <b>(91,272)</b> | <b>-</b>        | <b>(91,272)</b>  |
| <b>(J) Net Financial Position (G-I) Note 1</b>        | <b>(72,478)</b> | <b>133,281</b>  | <b>(205,759)</b> |
| <b>Net Financial Position</b>                         | <b>(72,478)</b> | <b>133,281</b>  | <b>(205,759)</b> |
| Non current financial assests                         | 6,400           | 6,200           | 200              |
| <b>Adjusted Avio Net Financial Position</b>           | <b>(66,078)</b> | <b>139,481</b>  | <b>(205,559)</b> |

(Note 1): Net financial position is aligned to the definition stated by the Recommendation CESR of 10th February 2005 "Raccomandazioni per l'attuazione uniforme del regolamento della Commissione Europea sui prospetti informativi".

Net consolidated financial position as of December 31, 2015 shows a negative balance of Euro 66,078 thousand. Such negative balance is mainly due to the investments in fixed assets and payments related to the settlement agreement with the italian tax authority *Agenzia delle Entrate*, in addition to the dividends of Euro 220 million distibuted during 2015.

The reduction in current financial assets, amounting to Euro 21.324 thousand, is mainly due to the release occurred in january 2015 of the *escrow account* recognized in 2013 following the *Settlement Agreement ad Release* signed on 30<sup>th</sup> December 2014 with GE Italia Holding S.p.A.

As of December 31, 2015, Equity amounts to Euro 286.462 thousand, with a decrease of Euro 215.391 thousand compared to the previous year, effected from the following combined factors:

- the decrease of Euro 220,000 thousand for the dividend distribution resolved by the Avio S.p.A. Shareholders's Meeting occurred on May 11, 2015 (paid to the Shareholders for Euro 176 million, net of the related withholding tax for Euro 44 million);
- the registration of the 2015 net result (amounting to Euro 5.406 thousand);
- the net decrease (for Euro 797 thousand) of the negative values of actuarial reserve, recorded as component of "other comprehensive income", with 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 2015 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 2015, strengthening activity of the internal control system of Avio continued.

With regard to the administrative responsibility of the Company (former Legislative Decree no. 231/2001), Company's Vigilance Organ (Organismo di Vigilanza) in June and November 2015 made inspections regarding activities potentially subject to the risk of offense foreseen by the Vigilance and Control Plan of the year. Furthermore, starting from June 2015 the updating process of the Management and Control Model in accordance with the Legislative Decree 231/2001 of the Company kicked off in order to be concluded at the end of 2015 and approved by the Board of Directors of the first quarter of 2016.

## **PROPOSAL FOR THE ALLOCATION OF 2015 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, 2015 for your approval, prepared in accordance with International Financial Reporting Standards IFRS, closed with a net income of Euro 5,406,278. We propose to carry forward the profit of the year.

\* \* \*

31<sup>st</sup> March 2016

for the BOARD OF DIRECTORS  
Chief Executive Officer  
Giulio Ranzo

# CONSOLIDATED FINANCIAL STATEMENTS



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2015      December 31, 2014

(Amount in Euro)

### ASSETS

#### Non-current assets

|  |     |                    |                    |
|--|-----|--------------------|--------------------|
| Property, plant and equipment              | 3.1 | 50,224,454         | 47,640,358         |
| Investment property                        | 3.2 | 2,692,747          | 2,588,978          |
| Goodwill                                   | 3.3 | 221,000,000        | 221,000,000        |
| Intangible assets with finite useful lives | 3.4 | 88,786,326         | 95,234,493         |
| Investments                                | 3.5 | 5,161,478          | 8,031,693          |
| Non-current financial assets               | 3.6 | 6,400,000          | 6,200,000          |
| Deferred tax assets                        | 3.7 | 56,793,007         | 54,489,669         |
| Other non-current assets                   | 3.8 | 8,633,043          | 11,397,455         |
| <b>Total non-current assets</b>            |     | <b>439,691,055</b> | <b>446,582,646</b> |

#### Current assets

|                             |      |                    |                    |
|-----------------------------|------|--------------------|--------------------|
| Inventories                 | 3.9  | 109,146,768        | 76,716,811         |
| Contract work in progress   | 3.10 | 64,562,200         | 41,849,105         |
| Trade receivables           | 3.11 | 8,343,657          | 6,927,217          |
| Current financial assets    | 3.12 | 129,701            | 21,453,674         |
| Cash and cash equivalents   | 3.13 | 70,378,061         | 165,232,447        |
| Current tax assets          | 3.14 | 43,270,484         | 29,969,813         |
| Other current assets        | 3.15 | 9,696,631          | 12,154,575         |
| <b>Total current assets</b> |      | <b>305,527,502</b> | <b>354,303,642</b> |

### TOTAL ASSETS

**745,218,557      800,886,288**

| CONSOLIDATED STATEMENT OF FINANCIAL POSITION         |      | December 31,<br>2015 | December 31,<br>2014 |
|--|------|----------------------|----------------------|
| (Amount in Euro)                                     |      |                      |                      |
| <b>EQUITY</b>  |      |                      |                      |
| Share capital  | 3.16 | 40,000,000           | 40,000,000           |
| Additional paid-in capital                           | 3.17 | 73,575,782           | 73,575,782           |
| Other reserves                                       | 3.18 | (3,319,377)          | (2,525,566)          |
| Retained earnings                                    |      | 185,759,594          | 400,192,522          |
| Profit for the year of the Group                     |      | 4,588,812            | 5,554,395            |
| <b>Total equity of the Group</b>                     | 3.19 | <b>300,604,811</b>   | <b>516,797,133</b>   |
| <b>Non-controlling interests</b>                     | 3.20 | <b>8,223,251</b>     | <b>8,525,850</b>     |
| <b>TOTAL EQUITY</b>                                  |      | <b>308,828,062</b>   | <b>525,322,983</b>   |
| <b>LIABILITIES</b>                                   |      |                      |                      |
| <b>Non-current liabilities</b>                       |      |                      |                      |
| Non-current financial liabilities                    | 3.21 | 91,271,632           | -                    |
| Provision for employee benefits                      | 3.22 | 10,803,523           | 11,320,437           |
| Provisions for risks                                 | 3.23 | 19,277,766           | 19,341,819           |
| Deferred tax liabilities                             |      | -                    | 252,153              |
| Other non-current liabilities                        | 3.24 | 55,907,702           | 55,210,003           |
| <b>Total non-current liabilities</b>                 |      | <b>177,260,623</b>   | <b>86,124,412</b>    |
| <b>Current liabilities</b>                           |      |                      |                      |
| Current financial liabilities                        | 3.25 | 8,767,235            | 7,918,564            |
| Current portion of non-current financial liabilities | 3.26 | 4,439,167            |                      |
| Provisions for risks                                 | 3.23 | 8,169,673            | 19,957,509           |
| Trade payables                                       | 3.27 | 46,871,971           | 51,640,750           |
| Advances for contract work in progress               | 3.10 | 172,878,015          | 86,875,949           |
| Current tax payables                                 | 3.28 | 2,050,162            | 6,619,732            |
| Other current liabilities                            | 3.29 | 15,953,649           | 16,426,389           |
| <b>Total current liabilities</b>                     |      | <b>259,129,872</b>   | <b>189,438,893</b>   |
| <b>TOTAL LIABILITIES</b>                             |      | <b>436,390,495</b>   | <b>275,563,305</b>   |
| <b>TOTAL LIABILITIES AND EQUITY</b>                  |      | <b>745,218,557</b>   | <b>800,886,288</b>   |

| CONSOLIDATED INCOME STATEMENT  |      | Year 2015          | Year 2014          |
|--|------|--------------------|--------------------|
| (Amount in Euro)   |      |                    |                    |
| Revenues   | 3.30 | 279,227,451        | 224,460,210        |
| Change in inventory of finished and semi-finished goods                                    |      | 764,264            | 1,463,708          |
| Other operating income   | 3.31 | 9,119,138          | 9,072,351          |
| Raw material consumption   | 3.32 | (83,460,951)       | (64,680,470)       |
| Costs of services  | 3.33 | (123,140,259)      | (92,426,345)       |
| Personnel costs  | 3.34 | (53,893,609)       | (51,599,806)       |
| Depreciation and amortisation  | 3.35 | (17,398,504)       | (17,156,935)       |
| Write-down and impairment/reversal   |      | -                  | -                  |
| Other operating expenses   | 3.36 | (9,160,346)        | (5,191,333)        |
| Share of profit in investments in joint ventures accounted for using the equity method     | 3.37 | 1,892,877          | 1,969,649          |
| Capitalisation of costs for internally generated assets                                    | 3.38 | 6,558,031          | 9,907,119          |
| <b>OPERATING PROFIT</b>  |      | <b>10,508,092</b>  | <b>15,818,148</b>  |
| Financial income   | 3.39 | 2,271,831          | 2,452,609          |
| Financial expenses   | 3.40 | (5,603,553)        | (12,445,718)       |
| <b>NET FINANCIAL INCOME/(EXPENSES)</b>   |      | <b>(3,331,722)</b> | <b>(9,993,109)</b> |
| Share of loss in investments in associated companies accounted for using the equity method | 3.41 | (2,798,601)        | -                  |
| Other income/(expenses) from financial investments   |      | -                  | 48,384             |
| <b>NET INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS</b>                                    |      | <b>(2,798,601)</b> | <b>48,384</b>      |
| <b>PROFIT BEFORE TAXES AND DISCONTINUED OPERATIONS</b>                                     |      | <b>4,377,769</b>   | <b>5,873,423</b>   |
| <b>INCOME TAXES</b>  | 3.42 | <b>986,102</b>     | <b>1,973,967</b>   |
| <b>PROFIT FROM CONTINUING OPERATIONS</b>   |      | <b>5,363,871</b>   | <b>7,847,390</b>   |
| <b>PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS NET OF TAXES</b>                             |      |                    |                    |
|  | 3.43 | -                  | (1,349,172)        |
| <b>PROFIT FOR THE YEAR</b>   |      | <b>5,363,871</b>   | <b>6,498,218</b>   |
| -- attributable to owners of the Parent  |      | 4,588,812          | 5,554,395          |
| -- attributable to non-controlling interests   |      | 775,059            | 943,823            |

| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME   | Year 2015        | Year 2014        |
|--|------------------|------------------|
| (Amount in Euro)   |                  |                  |
| <b>PROFIT FOR THE YEAR (A)</b>   | <b>5,363,871</b> | <b>6,498,218</b> |
| Gains (losses) included directly in equity (which will not be reclassified subsequently to income statement) |                  |                  |
| - Actuarial gains and losses-reserve Actuarial gains/losses  | (44,187)         | (708,230)        |
| Gains (losses) included directly in equity (which will be reclassified subsequently to income statement)     |                  |                  |
| - Gains/(losses) on hedging derivative instruments recognized directly in cash flow hedge reserve            |                  |                  |
| - interest rate  | (367,990)        | -                |
| Income tax relating to components of Other comprehensive income  | (381,634)        | 194,763          |
| <b>TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX (B)</b>  | <b>(793,811)</b> | <b>(513,467)</b> |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR (A+B)</b>   | <b>4,570,060</b> | <b>5,984,751</b> |
| -- attributable to owners of the Parent  | <b>3,795,001</b> | <b>5,066,041</b> |
| -- attributable to non-controlling interests   | <b>775,059</b>   | <b>918,710</b>   |
| <b>Earning per share – basic and diluted</b>   | <b>0,01</b>      | <b>0,02</b>      |
| <b>Earning per share of <i>continuing operation</i> – basic and diluted</b>                                  | <b>0,01</b>      | <b>0,02</b>      |
| <b>Earning per share of <i>discontinued operation</i> – basic and diluted</b>                                | <b>0,00</b>      | <b>0,00</b>      |

## STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(€ thousands)

|   | Other reserves |                            |                                       |                                    | Profit/ (Loss) of the Group | Total equity of the Group | Non-controlling interests | Total Equity |           |
|---|----------------|----------------------------|---------------------------------------|------------------------------------|-----------------------------|---------------------------|---------------------------|--------------|-----------|
|   | Share Capital  | Additional Paid-in Capital | Cash flow hedge interest rate reserve | Actuarial profit/ (losses) reserve | Retained earnings/ (losses) |                           |                           |              |           |
| 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)                     | (26)         | (515)     |
| Other income / (losses):  |                |                            |                                       |                                    |                             |                           |                           |              |           |
| Total comprehensive income / (losses) for the year                        | -              | -                          | -                                     | (489)                              | -                           | 5,554                     | 5,065                     | 918          | 5,983     |
| 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        | 525,323   |
| Allocation of prior year profit/(loss)                                    | -              | -                          | -                                     | -                                  | 5,554                       | (5,554)                   | -                         | -            | -         |
| Profit/(Loss) for the year  | -              | -                          | -                                     | -                                  | -                           | 4,589                     | 4,589                     | 775          | 5,364     |
| Other income / (losses):  |                |                            |                                       |                                    |                             |                           |                           |              |           |
| - Changes in fair value of hedging derivatives, net of related tax effect | -              | -                          | (368)                                 | -                                  | -                           | -                         | (368)                     | -            | -         |
| - Gains / (Losses Actuarial, net of related tax effect                    | -              | -                          | -                                     | (426)                              | -                           | -                         | (426)                     | -            | (426)     |
| Other income / (losses):  |                |                            |                                       |                                    |                             |                           |                           |              |           |
| Total comprehensive income / (losses) for the year                        | -              | -                          | (368)                                 | (426)                              | -                           | 4,589                     | 3,795                     | 775          | 4,570     |
| Dividends distribution  | -              | -                          | -                                     | -                                  | (220,000)                   | -                         | (220,000)                 | (1,080)      | (221,080) |
| Other changes   | -              | -                          | -                                     | -                                  | 13                          | -                         | 13                        | 2            | 15        |
| Equity as at 31/12/2015   | 40,000         | 73,576                     | (368)                                 | (2,952)                            | 185,760                     | 4,589                     | 300,605                   | 8,223        | 308,828   |

## CONSOLIDATED STATEMENT OF CASH FLOWS

(€ thousands)

|  | 2015             | 2014 (*)           |
|--|------------------|--------------------|
| <b>OPERATING ACTIVITIES</b>  |                  |                    |
| Profit for the year from Continuing operations   | 5,363            | 7,847              |
| Adjustments for:   |                  |                    |
| - Income taxes   | (986)            | (1,973)            |
| - Share of loss in investments in associated companies and joint ventures                        | 906              | (608)              |
| - Net financial (Income)/expenses  | 3,332            | 11,135             |
| - Depreciation and amortisation  | 17,399           | 17,157             |
| - (Gains)/losses from sales and other (Gains)/losses   | -                | (343)              |
| Net changes in provisions for risks  | (5,067)          | (943)              |
| Dividends from investments in joint ventures   | 1,980            | 949                |
| Net changes in provision for employee benefits   | (472)            | (687)              |
| <b>Cash provided by operating activities before changes in working capital</b>                   | <b>22,454</b>    | <b>32,534</b>      |
| - Inventories  | (32,430)         | (12,359)           |
| - Contract work in progress and advances for the Contract work in progress                       | 63,289           | 44,391             |
| - Trade receivables  | (1,417)          | 3,866              |
| - Trade payables   | (4,769)          | 3,018              |
| - other current and non-current assets   | (8,078)          | (3,123)            |
| - other current and non-current liabilities  | (4,346)          | (21,553)           |
|  | 12,249           | 14,240             |
| <b>Cash provided by operating activities</b>   | <b>34,703</b>    | <b>46,774</b>      |
| Income taxes paid (**)   | (8,486)          | (43,801)           |
| Interest paid  | (3,057)          | -                  |
| <b>Net cash provided by operating activities</b>   | <b>23,160</b>    | <b>2,973</b>       |
|  | (A)              |                    |
| <b>INVESTING ACTIVITIES</b>  |                  |                    |
| Capital expenditures for:  |                  |                    |
| - Property, plant, equipment and investment property   | (8,286)          | (7,018)            |
| - Intangible assets with finite useful lives   | (5,367)          | (9,808)            |
| Proceeds from disposal of financial assets   | -                | 1,150,377          |
| Cash flow used in discontinued operations  | -                | (1,393)            |
| <b>Net cash provided /(used in) investing activities</b>   | <b>(13,653)</b>  | <b>1,132,158</b>   |
|  | (B)              |                    |
| <b>FINANCING ACTIVITIES</b>  |                  |                    |
| Proceeds from long-term borrowings   | 100,000          | -                  |
| Payment of transaction costs related to the amendment and extension of long term borrowings      | (4,875)          |                    |
| Repayments of long-term borrowings   | -                | (151,064)          |
| Share Capital and additional paid-in capital   | -                | 1,030              |
| Dividend to Shareholders   | (220,000)        | (949,000)          |
| Dividends to minorities  | (1,080)          | (1,080)            |
| Loan granted to associated companies   | (200)            | (1,400)            |
| Funds transferred to Escrow accounts to guarantee the GE Avio S.r.l. investment's sale operation | 21,313           | 93,695             |
| Other changes in financial assets and liabilities  | 480              | (19,463)           |
| <b>Net cash provided/(used) in financing activities</b>  | <b>(104,362)</b> | <b>(1,027,282)</b> |
|  | (C)              |                    |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                      | <b>(94,854)</b>  | <b>107,849</b>     |
|  | (A)+(B)+(C)      |                    |
| <b>NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>                                | <b>165,232</b>   | <b>57,383</b>      |
| <b>NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>                                      | <b>70,378</b>    | <b>165,232</b>     |

(\*) For a better representation and comparability certain comparative data have been reclassified. (\*\*) The item contains the cash flows related to the payments of income taxes, included the portion related to prior years, paid in connection to tax disputes.

## 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 Rome Company Register and with its registered office in Via Antonio Salandra 18, Rome, 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, 2015, 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 2015, no changes occurred in the consolidation area.

The Group is leader in space propulsion sector, operating with 5 locations and sites, located in the geographical areas of Europe and South America. The main activities of the Group are the design, development and manufacturing 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. The Group conducts the business through three business lines: (i) Ariane, (ii) Vega and (iii) Tactical Systems. The products can be classified as solid propulsion systems and liquid propulsion systems, which are used at various stages of the programs in which the Group is involved..

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 ninth 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, 2015, are those in force on December 1, 2015.

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, 2015, include the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in 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, 2015 disclose comparative information related to prior period.

Whereas for a better representation in the current year changes have been made to some classification criteria, which was reclassified consistently also in the comparative figures of the previous year.



## 2.4. Basis of consolidation

The consolidated financial statements include the financial statements of the Parent, of directly or indirectly controlled companies (companies for which the Group has the power to govern the financial and operating policies in order to obtain benefits from their activities) and of the companies over which the Group exercises joint control with other shareholders, as specified below and as defined in IFRS 10 - Consolidated financial statements, IFRS 11 - Joint arrangements and IAS 28 - Investments in associated and joint venture.

### *Controlled subsidiaries*

A company is considered a subsidiary when the Group has the control as defined in IFRS 10 - Consolidated financial statements. Control is achieved when the Group has power over the investee, when it is exposed to, or has rights to, variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investor's returns. The exercise of power over the subsidiary arises from the existence of rights that give the Parent's current ability to manage the relevant activities of the investee company in its own interest. To evaluate whether the Group controls another entity we consider the existence and effect of potential voting rights, exercisable or convertible.

Subsidiaries are consolidated on a line by line basis from the date which control is achieved by the Group until the date the control ceases.

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 acquisition 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 the income statement as if the interest had been disposed of.

If the initial accounting value for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete in the consolidated financial statements. Those provisional amounts are adjusted during the measurement period to reflect new information obtained about facts and circumstances that existed at the acquisition date which, if known, would have affected the amounts recognised at that date.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

No significant restrictions exist in transferring 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, using equity method.

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 and joint venture, 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 the 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 in the 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 as a part of the investment carrying value. The accounting of goodwill at the acquisition date complies with the accounting principle reported in the previous paragraph related to Business combinations. The carrying value 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 Parent'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, 2015, include the financial statements of the Parent and its Italian and foreign subsidiaries (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 2015, no changes occurred in the consolidation area, which is showed in the following table:

| <b>Companies in consolidation area as of December 31, 2015</b>          | <b>Investment portion</b> |
|---|---------------------------|
| <b><i>Parent Company</i></b>  |                           |
| Avio S.p.A.   | -                         |
| <b><i>Controlled companies consolidated on a line-by-line basis</i></b> |                           |
| 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% (***)                |

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**Joint venture consolidated using the equity method**


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|                     |     |
|---------------------|-----|
| Europropulsion S.A. | 50% |
|---------------------|-----|

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**Associated Companies consolidated using the equity method**


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|                           |     |
|---------------------------|-----|
| Termica Colleferro S.p.A. | 40% |
|---------------------------|-----|

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(\*) It should be noted that, as of December 31, 2015, 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 "Non-controlling interest".

## 2.7. Accounting principles and measurement 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, 2015, goodwill is allocated at the cash-generating unit (CGU) level, representing financially independent business unit through which the Group operates. Based on the Group's structure, as of December 31, 2015, only one CGU, corresponding to the Space Sector, has been identified.

#### 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:

#### *- Loans and receivables*

Assets arising from transactions involving financial derivative assets with fixed maturities and which have fixed or determinable payments that are not quoted in an active market and for which you do not want to be traded. The valuation of these instruments are recognized in the amortized cost, using the effective interest rate and taking into account any discounts or premiums obtained or paid at the time of acquisition and recognizing them throughout the whole period of time to maturity of the instruments themselves.

Negative goodwill arising from acquisitions is directly recognized in the income statement.

*- Financial assets available for sale (available for sale - AFS)*

This is a "residual" category which includes financial assets that are designated as available for sale and are not classified in any of the previous categories.

Gains and losses on financial assets available for sale are recognized directly in equity until the financial asset is sold or written down; when the asset is sold, the cumulative gains or losses, including those previously recognized in equity are included in the income statement for the period; when the asset is impaired, the accumulated losses are included in the income statement. Gains and losses arising from changes in fair value of financial instruments classified as held for trading are recognized in the income statement for the period.

Fair value is the amount for which an asset could be exchanged, or a liability settled in an arm's length transaction between knowledgeable, willing parties.

In the case of securities listed on regulated markets, fair value is determined by reference to the stock market price (bid price) at the close of trading on the closing date.

In the event that no market prices, the fair value is either not available or determined based on the current value of a substantially similar financial instrument or by using appropriate financial techniques (for example, the discounted cash flow).

Investments in financial assets can be derecognised only when they are past due contractual rights to receive their cash flows or when transferring to third parties of the financial asset and all the related risks and benefits.

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. Cost is calculated using 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 "Se.Co.Sv.Im.") 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 net realisable value.

Contract work in progress

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

When the outcome of a contract work in progress 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 are probable, 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.

Contract work 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 contract work in progress".

#### Trade receivables

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

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

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

#### Cash and cash equivalents

This 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.

#### 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".

#### Derivative financial instruments

Derivative financial instruments are used for hedging purposes, in order to reduce the risk of interest rate. Consistent with IAS 39, derivative financial instruments can be booked according to the methods established for hedge accounting only when, at the beginning of the hedge there is formal designation and documentation of the hedging relationship, it is presumed that the hedge is highly effective, its effectiveness can be reliably measured and the hedge is highly effective throughout the financial reporting periods for which it is designated.

Derivative financial instruments are measured at fair value, as required by IAS 39.

When financial instruments have the characteristics to be recorded under hedge accounting, the following accounting treatment:

*Fair value hedge* - Where a derivative financial instrument is designated as a hedge against changes in the fair value of an asset or liability attributable to a particular risk and could affect the income statement, the gain or loss arising from remeasurement of the fair value of the hedging instrument is recognized in the income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying value of the hedged item and are recognized in the income statement.

*Cash flow hedge* - Where a derivative financial instrument is designated to hedge the variability of future cash flows of an asset or liability recorded in the financial statements or of a highly probable and could affect the income statement, the effective portion of the gain or loss on the derivative financial instrument is recognized in other comprehensive income / (loss). The cumulative gain or loss is removed from comprehensive income and recognized in the income statement in the period in which it detected the relative economic effect hedged.

The gain or loss associated with a hedge (or part of a hedge) which has become ineffective is recognized in the income statement immediately. When a hedging instrument or hedge relationship is terminated but the hedged transaction has not yet been realized, gains and losses accumulated up to that moment recorded in comprehensive income is recognized in the income statement in connection with the detection the economic effects of the hedged transaction. If the hedged transaction is no longer considered probable, the profits or losses not yet realized recorded in other comprehensive income are recognized immediately in the income statement.

If hedge accounting can not be applied, the gains or losses arising from measurement at fair value of derivative financial instruments are recognized immediately in the income statement.

#### 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 liability and included in the carrying amount of 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.

#### 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 fair 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 is 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

Public 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 the 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 in the caption "Current tax assets", against the caption "Other non-current liabilities" or "Other current liabilities" and credited 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 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 meet 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

The Group is exposed to interest rate risk primarily with reference to floating-rate financial liabilities attributable to the "Senior Term and Revolving Facilities Agreement" signed with Banca IMI and other leading banks on April 1, 2015. The change in rates of interest could have a positive or negative impact on the income statement and shareholders' equity of the Group. This risk is mitigated by the use of derivative financial instruments.

The Group is not currently exposed to significant risks arising from fluctuations in exchange rates of currencies in relation to the fact that the currency in which it operates is almost exclusively the Euro. In view of this, the Group has no transactions specifically intended to hedge exposure to fluctuations in foreign currency cash flows.

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 the 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, 2015 the Group consolidated financial statements include deferred tax assets on deductible temporary differences and on tax benefits from tax loss carry-forward where 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 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 other comprehensive income.

#### 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 a result of future developments of the proceedings in progress.

In addition, the Group's operations are carried out in industries and sectors in which some trading issues may be solved only after a long lapse of time. As a consequence, management is required to estimate the outcome of such issues, through the monitoring of contract conditions and of their progress.

#### Evaluation of contract work in progress

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



## 2.10. New accounting principles

### **ACCOUNTING PRINCIPLES, AMENDMENTS AND INTERPRETATIONS EFFECTIVE FROM JANUARY 1, 2015**

The following amendments, improvements and interpretations have been applied for the first time by the Company from January 1, 2015:

- On May 20, 2013, IFRIC interpretation 21 – Levies was issued. The interpretation clarifies when a liability for levies (other than income taxes) imposed by government agencies should be recognised. This standard addresses both levies that are accounted for in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, and those for which the settlement timing and amount are certain. The interpretation applies retrospectively to reporting periods beginning on or after June 17, 2014. The adoption of this new interpretation had no impact on the consolidated financial statements of the Company.
- On December 12, 2013, the IASB issued document “Annual Improvements to IFRSs: 2011-2013 Cycle” implementing the amendments to some principles within the yearly improvement process (including IFRS 3 Business Combinations – Scope exception for joint ventures, IFRS 13 Fair Value Measurement – Scope of portfolio exception, IAS 40 Investment Properties – Interrelationship between IFRS 3 and IAS 40). The amendments apply to reporting periods beginning on or after January 1, 2015. The adoption of these amendments had no impact on the consolidated financial statements of the Company.

### **IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPROVED BY THE EUROPEAN UNION BUT NOT YET MANDATORY APPLICABLE AND NOT EARLY ADOPTED BY THE COMPANY AS AT DECEMBER 31, 2015**

The Group has not adopted the following new and amended standards, that have been issued but are not mandatory applicable.

- Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions” (issued on November 21, 2013) concerning the recognition of contributions from employees or third parties to defined benefit plans. The amendment applies at the latest for reporting periods beginning on February 1, 2015 or at a later date.
- Amendment to IFRS 11 Joint Arrangements – “Accounting for acquisitions of interests in joint operations” (issued on May 6, 2014) concerning the accounting for acquisitions of interests in a joint operation when the operation constitutes a business. The amendments apply as of January 1, 2016, though early adoption is allowed.
- Amendments to IAS 16 Property, plant and Equipment and IAS 38 Intangibles Assets – “Clarification of acceptable methods of depreciation and amortisation” (issued on May 12, 2014) establishing that a depreciation or amortisation method that is based on revenue is not appropriate, because the revenue arising from the operation of a business of which the asset under depreciation or amortisation is part reflects a different pattern from the mere use of the economic benefits arising from the asset, which is a pre-requisite for depreciation or amortisation. The amendments apply as of January 1, 2016, though early adoption is allowed.
- Amendment to IAS 1 – “Disclosure Initiative” (issued on December 18, 2014): the goal of the amendments is to provide some clarifications on disclosures and other elements that may be perceived as hindrance to a clear and intelligible presentation of financial statements. The amendments apply as of January 1, 2016, though early adoption is allowed.

Management does not expect any significant effect on the consolidated financial statements of the Group when these amendments are adopted.

On December 12, 2013, the IASB published documents “Annual Improvements to IFRSs: 2010-2012 Cycle” (including IFRS 2 Share Based Payments – Definition of vesting condition, IFRS 3 Business Combination – Accounting for contingent consideration, IFRS 8 Operating segments –

Aggregation of operating segments and Reconciliation of total of the reportable segments' assets to the entity's assets, IFRS 13 Fair Value Measurement – Short-term receivables and payables) and – on September 25, 2014 – “Annual Improvements to IFRSs: 2012-2014 Cycle” (including: IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 – Financial Instruments: Disclosure and IAS 19 – Employee Benefits) partly amending existing standards. The amendments apply at the latest to the reporting periods on or after February 1, 2015 and reporting periods starting on or after January 1, 2016.

Directors do not expect any significant effect on the consolidated financial statements of the Group when these amendments are adopted.

## **IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION**

The European Union has not yet completed its endorsement process for the standards and amendments below reported at the date of these Financial Statements.

- IFRS 15 – Revenue from Contracts with Customers (issued on May 28, 2014) bound to replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as the interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services, The standard provides for a new revenue recognition model, which will be applicable to all agreements made with customers, with the exception of those falling under the scope of other IFRSs such as leases, insurance contracts and financial instruments. The main steps for revenue recognition according to the new model are:
  - o identifying the agreement in place with the customer;
  - o identifying the performance obligations under the agreement;
  - o defining the transaction price;
  - o price allocation to the performance obligations under the agreement;
  - o revenue recognition criteria when the entity satisfies each performance obligation,

This standard is applicable as of January 1, 2018, though early adoption is allowed. Directors expect that the adoption of IFRS 15 will have an impact on the revenue recognition and the relevant disclosure included in the Group's consolidated financial statements. Still, it will be impossible to provide a reasonable estimate as to the effects until the Group completes a detailed analysis of the agreements in place with the customers.

- Final version of IFRS 9 – Financial instruments (issued on July 24, 2014). The standard includes the results of the classification, valuation, impairment and hedge accounting phases relating to the IASB project pending the replacement of IAS 39:
  - o it introduces new criteria to classify and measure financial assets and liabilities,
  - o With reference to the impairment model, the new standard requires the losses on receivables to be estimated based on the expected losses model (instead of the incurred losses model of IAS 39) using information that can be evidenced, available free of charge or without unreasonable effort and including historic, current and forecast data,
  - o A new hedge accounting model is introduced (additional types of transactions can be designated for hedge accounting, different accounting method for forward contracts and options when they are included in a hedge accounting transaction, changes to effectiveness test),

The new standard, which supersedes the previous versions of IFRS 9, must be applied to reporting period beginning on January 1, 2018 and thereafter.

Management expect IFRS 9 to have a significant impact on the balances and the relevant disclosures in the Consolidated Financial Statements of the Group. Still, it will be impossible to provide a reasonable estimate as to the effects until the Group completes a detailed analysis.

- On January 13, 2016, the IASB issued IFRS 16 – Leases which is to replace IAS 17 – Leases, as well as IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to differentiate between lease and service agreements according to: asset identification, right to replacement of the asset, right to obtain all economic benefits arising out of use of the asset and right to control the use of the asset underlying the agreement.

The standard introduces a single lessee accounting model for recognising and measuring lease agreements, which provides for the underlying asset – including assets underlying operating leases – to be recognised in the statement of financial position as assets and lease financial liability. Lessees may elect to not recognise agreements for low-value assets or with a term of up to 12 months within the scope of this standard. No significant changes are introduced for lessor accounting.

The standard applies for reporting period beginning on or after January 1, 2019. Early application is only allowed for early adopters of IFRS 15 - Revenue from Contracts with Customers. Directors expect that the adoption of IFRS 16 will have a significant impact on lease accounting and the relevant disclosures included in the Group's Consolidated Financial Statements. Still, it will be impossible to provide a reasonable estimate as to the effects until the Group completes a detailed analysis of the relevant agreements.

- Document "Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)" (issued on December 18, 2014) introduces certain changes to address issues arisen after the application of the consolidation exception granted to investment entities. The amendments apply at the latest as of the reporting period beginning on January 1, 2016 or at a later date. Early adoption is allowed. Directors do not expect any significant effect on the consolidated financial statements of the Group when these amendments are adopted, as the Company does not meet the definition of investment entity.

On September 11, 2014 the IASB issued an amendment to IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. The purpose of these amendments were to resolve the conflict between IAS 28 and IFRS 10 concerning the measurement of profit or loss arising from transfers or assignments of a non-monetary asset to a joint venture or associate in return for its shares. The IASB has suspended the application of these amendments for the time being.

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

#### **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):

|                                     | 31/12/2015     |                          |               | 31/12/2014     |                          |               |
|-------------------------------------|----------------|--------------------------|---------------|----------------|--------------------------|---------------|
|                                     | Gross values   | Accumulated depreciation | Net value     | Gross values   | Accumulated depreciation | Net value     |
| Land                                | 7,565          |                          | 7,565         | 7,565          | -                        | 7,565         |
| Buildings                           | 32,201         | (12,804)                 | 19,397        | 31,526         | (11,679)                 | 19,847        |
| Plant and machinery                 | 62,312         | (43,759)                 | 18,553        | 56,348         | (40,680)                 | 15,668        |
| Industrial and commercial equipment | 16,235         | (13,623)                 | 2,612         | 15,237         | (12,982)                 | 2,255         |
| Other assets                        | 6,647          | (4,946)                  | 1,701         | 6,212          | (4,432)                  | 1,780         |
| Work in progress and advances       | 396            | -                        | 396           | 525            | -                        | 525           |
| <b>Total</b>                        | <b>125,356</b> | <b>(75,132)</b>          | <b>50,224</b> | <b>117,413</b> | <b>(69,773)</b>          | <b>47,640</b> |

At December 31, 2015, work in progress and advances (Euro 396 thousand) refers to investments in progress, mainly related to plant and machinery.

Gross value movements occurred during 2015 are detailed as follows (amounts in thousands of Euro):

| Gross values                        | 31/12/2014     | Additions    | Disposal     | Reclassification and other changes | 31/12/2015     |
|-------------------------------------|----------------|--------------|--------------|------------------------------------|----------------|
| Land                                | 7,565          | -            | -            | -                                  | 7,565          |
| Buildings                           | 31,526         | 682          | (7)          | -                                  | 32,201         |
| Plant and machinery                 | 56,348         | 5,964        | -            | -                                  | 62,312         |
| Industrial and commercial equipment | 15,237         | 711          | (66)         | 353                                | 16,235         |
| Other assets                        | 6,212          | 500          | (100)        | 35                                 | 6,647          |
| Work in progress and advances       | 525            | 279          | (20)         | (388)                              | 396            |
| <b>Total</b>                        | <b>117,413</b> | <b>8,136</b> | <b>(193)</b> | <b>-</b>                           | <b>125,356</b> |

Accumulated depreciation movements occurred during 2015 are detailed as follows (amounts in thousands of Euro):

| Accumulated depreciation | 31/12/2014 | Depreciation | Reversal for disposal | Reclassification and other changes | 31/12/2015 |
|--------------------------|------------|--------------|-----------------------|------------------------------------|------------|
| Land                     | -          |              |                       |                                    | -          |
| Buildings                | 11.679     | 1.131        | (6)                   | -                                  | 12.804     |
| Plant and machinery      | 40.680     | 3.079        | -                     | -                                  | 43.759     |

|                                     |               |              |              |          |               |
|-------------------------------------|---------------|--------------|--------------|----------|---------------|
| Industrial and commercial equipment | 12.982        | 714          | (73)         | -        | 13.623        |
| Other assets                        | 4.432         | 613          | (99)         | -        | 4.946         |
| Work in progress and advances       | -             | -            | -            | -        | -             |
| <b>Totale</b>                       | <b>69.773</b> | <b>5.537</b> | <b>(178)</b> | <b>-</b> | <b>75.132</b> |

Depreciation charged during current financial year was calculated in relation to the estimated useful life and the economic-technical obsolescence of the 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):

|                      | 31/12/2015   |                          |              | 31/12/2014   |                          |              |
|----------------------|--------------|--------------------------|--------------|--------------|--------------------------|--------------|
|                      | Gross values | Accumulated depreciation | Net value    | Gross values | Accumulated depreciation | Net value    |
| Land                 | 1,832        | -                        | 1,832        | 1,832        | -                        | 1,832        |
| Industrial buildings | 1,639        | (778)                    | 861          | 1,488        | (731)                    | 757          |
| <b>Total</b>         | <b>3,471</b> | <b>(778)</b>             | <b>2,693</b> | <b>3,320</b> | <b>(731)</b>             | <b>2,589</b> |

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 2015 are detailed as follows (amounts in thousands of Euro):

|                      | Gross values | 31/12/2014   | Additions  | Disposal | Reclassification | 31/12/2015   |
|----------------------|--------------|--------------|------------|----------|------------------|--------------|
| Land                 |              | 1,832        |            |          |                  | 1,832        |
| Industrial buildings |              | 1,489        | 150        |          |                  | 1,639        |
| <b>Total</b>         |              | <b>3,321</b> | <b>150</b> | <b>-</b> | <b>-</b>         | <b>3,471</b> |

Accumulated depreciation movements occurred during 2015 are detailed as follows (amounts in thousands of Euro):

| Accumulated depreciation | 31/12/2014 | Depreciation | Utilisation | Reclassification | 31/12/2015 |
|--------------------------|------------|--------------|-------------|------------------|------------|
| Land                     | -          |              |             |                  | -          |
| Industrial buildings     | 731        | 47           |             |                  | 778        |
| <b>Total</b>             | <b>731</b> | <b>47</b>    | <b>-</b>    | <b>-</b>         | <b>778</b> |

The revenues related to the rental of these investment properties amount to Euro 732 thousand.

### 3.3. GOODWILL

As at December 31, 2015 goodwill amounted to Euro 221,000 thousand (unchanged compared to December 31, 2014) 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*.

The goodwill allocated to the CGU "Space" was tested referring to the balance sheet date and this test did not reveal any need to write-down the carrying amount of the goodwill recorded in the financial statements at 31 December 2015.

The recoverability of the recorded amounts is verified by comparing the CGU's net invested capital (book value) of the CGU with its recoverable value. The recoverable value is given by the determination of the value in use, which is the present value of the discounted cash flows arising from expectations included in the business plan approved by the Group, properly extrapolated in order to consider the characteristics of the lifecycle of the Group's business, and a standardized terminal value, used to express a synthetic estimate of future results over the time period explicitly considered.

These cash flows are then discounted using discount rates which are representative of the current market assessments of the time value of money and which consider the specific risks of the Group and the CGU.

At December 31, 2015, the cash flows of the CGU "Space" are determined based on the last Business Plan prepared by the Management of the Company and declined in the 2016-2018 triennium. The terminal value has been determined normalizing the expected cash flows relating to the last year of projection (2018) according to the perpetuity method and assuming a growth rate of 2% of the cash flows expected from 2019.

The average discount rate (weighted average cost of capital) used for the discounting of cash flows amounted to 8.16%, net of taxes (8.79% in the previous year).

It is worth to underline that the abovementioned parameters are applied to estimates and data which are determined by management based on past experience and expectations on the development of the markets in which the Group operates. In a more detailed way, the current international macroeconomic situation and the possible effects on economy, in particular on expenditure levels defined by national governments and supranational institutions relating to space access policies, could present scenarios of uncertainty in achieving objectives and levels of activities considered in the plan, although without the rise of situation which could led to goodwill impairment. However, the estimate of the recoverable amount requires discretion and use of estimates by management and, even considering that the production and marketing cycles of products are characterized by time periods of significant duration which allow the recovery of any slippage of the objectives defined in the plan, it can not be excluded a loss of value in the goodwill in future periods due to changes in the scenario which are currently unforeseeable. The

circumstances and the events that could require further testing of impairment losses are constantly monitored by the Group management.

Considering what above-mentioned, the Group carried out a sensitivity analysis simulating a variation which can be considered representative of the impairment test's significant parameters.

In particular:

- relating to the terminal value's growth rate, it was assumed a decrease of 25 basis point; alternately
- relating to the cash flows discount rate it was assumed an increase of 50 basis point.

Based on these sensitivities, the recoverable value of the CGU "Space" exceeds the recorded net book value.

Even considering a negative simultaneous variation of all the above-mentioned parameters, the recoverable value of the CGU "Space" results higher than the recorded net book value.

### 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):

|  | 31/12/2015     |                          |               | 31/12/2014     |                          |               |
|--|----------------|--------------------------|---------------|----------------|--------------------------|---------------|
|  | Gross value    | Accumulated Depreciation | Net value     | Gross value    | Accumulated Depreciation | Net value     |
| Development costs – amortised                          | 71,189         | (36,525)                 | 34,664        | 71,189         | (29,578)                 | 41,611        |
| Development costs – not yet completed                  | 28,189         | -                        | 28,189        | 23,656         | --                       | 23,656        |
| Total development costs                                | 99,378         | (36,525)                 | 62,853        | 94,845         | (29,578)                 | 65,267        |
| Customer relationships for participation in programmes | 61,257         | (36,754)                 | 24,503        | 61,257         | (32,671)                 | 28,586        |
| Concessions, licences, trademarks and similar rights   | 4,912          | (4,326)                  | 586           | 4,352          | (3,564)                  | 788           |
| Other  | 1,588          | (869)                    | 719           | 1,335          | (848)                    | 487           |
| Intangible assets in progress                          | 125            | -                        | 125           | 106            | -                        | 106           |
| <b>Total</b>   | <b>167,260</b> | <b>(78,474)</b>          | <b>88,786</b> | <b>161,895</b> | <b>(66,661)</b>          | <b>95,234</b> |

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.

With reference to the costs of development not yet completed, which are not depreciated as they relate to programs for which has not yet started production and marketing, the relative for recognition as intangible assets with a finite life (after verification of the absence of impairment conditions) is supported by the expected profitability of reference programs.

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. The amortized period will be completed in 2021.

Concessions, licences, trademarks and similar rights, primarily include costs of acquisition of licences for software utilization.

Gross value movements occurred during 2015 are detailed as follows (amounts in thousands of Euro):

| Gross value | 31/12/2014 | Additions | Disposals | 31/12/2015 |
|-------------|------------|-----------|-----------|------------|
|-------------|------------|-----------|-----------|------------|

|  |                |              |            |                |
|--|----------------|--------------|------------|----------------|
| Development costs – amortised                          | 71,189         | -            | -          | 71,189         |
| Development costs – not yet completed                  | 23,656         | 4,533        | -          | 28,189         |
| Total development costs                                | 94,845         | 4,533        | -          | 99,378         |
| Customer relationships for participation in programmes | 61,257         | -            | -          | 61,257         |
| Concessions, licences, trademarks and similar rights   | 4,352          | 560          | -          | 4,912          |
| Other  | 1,335          | 255          | (2)        | 1,588          |
| Intangible assets in progress                          | 106            | 19           |            | 125            |
| <b>Total</b>   | <b>161,895</b> | <b>5,367</b> | <b>(2)</b> | <b>167,260</b> |

The increases occurred during the year refer to development costs capitalized by the Parent company are mainly related to the engine “Z40” and “P120” in the VEGA and ARIANE 6 development programme.

The increase of the year includes a total of Euro 4,603 thousand of capitalized costs for internally generated activities, divided between development costs (Euro 4,533 thousand) and others (Euro 70 thousand).

The investment in the caption Concessions, licenses, trademarks and similar rights mainly refer to expenses related to the Group’s technology infrastructure.

Accumulated amortisation movements occurred during 2015 are detailed as follows (amounts in thousands of Euro):

| Accumulated depreciation                               | 31/12/2014    | Depreciation  | Reversal for disposal | 31/12/2015    |
|--|---------------|---------------|-----------------------|---------------|
| Development costs – amortised                          | 29,578        | 6,947         | -                     | 36,525        |
| Development costs – not yet completed                  | -             | -             | -                     | -             |
| Total development costs                                | 29,578        | 6,947         | -                     | 36,525        |
| Customer relationships for participation in programmes | 32,671        | 4,084         | -                     | 36,755        |
| Concessions, licences, trademarks and similar rights   | 3,564         | 762           | -                     | 4,326         |
| Other  | 848           | 22            | (2)                   | 868           |
| Intangible assets in progress                          | -             | -             | -                     | -             |
| <b>Total</b>   | <b>66,661</b> | <b>11,815</b> | <b>(2)</b>            | <b>78,474</b> |

### 3.5. INVESTMENTS

As at December 31, 2015, the caption amounts to Euro 5,161 thousands and shows a Euro 2,870 thousand reduction compared to December 31, 2014. The composition of investments and their breakdown with the related amount is as follows (amounts in thousands of Euro):

|  | 31/12/2015  |           | 31/12/2014  |           |
|--|-------------|-----------|-------------|-----------|
|  | Group Share | Total     | Group Share | Total     |
| <u>Controlled companies not consolidated</u>         |             |           |             |           |
| - Servizi Colleferro - Società Consortile per Azioni | 52,00%      | 63        | 52,00%      | 63        |
| <b>Total controlled companies not consolidated</b>   |             | <b>63</b> |             | <b>63</b> |
| <u>Jointly controlled companies</u>                  |             |           |             |           |



|   |        |              |        |              |
|---|--------|--------------|--------|--------------|
| - Europropulsion S.A.                     | 50,00% | 2,566        | 50,00% | 2,463        |
| <b>Total jointly controlled companies</b> |        | <b>2,566</b> |        | <b>2,463</b> |
| <u>Associated companies</u>               |        |              |        |              |
| - Termica Colleferro S.p.A.               | 40,00% | 2,007        | 40,00% | 4,806        |
| - Other Consortiums                       |        | 5            |        | 5            |
| <b>Total associated companies</b>         |        | <b>2,012</b> |        | <b>4,811</b> |
| <u>Other companies</u>                    |        |              |        |              |
| - Other Companies                         |        | 520          |        | 514          |
| <b>Total other companies</b>              |        | <b>520</b>   |        | <b>514</b>   |
| <b>Total</b>                              |        | <b>5,161</b> |        | <b>8,031</b> |

The changes occurred during 2015 are detailed as follows: (amounts in thousands of Euro):

|                              | 31/12/2014   | Additions    | Disposals      | Other variations | 31/12/2015   |
|------------------------------|--------------|--------------|----------------|------------------|--------------|
| Controlled companies         | 63           | -            | -              | -                | 63           |
| Jointly controlled companies | 2,463        | 1,893        | (1,970)        | -                | 2,566        |
| Associated companies         | 4,811        | -            | (2,799)        | -                | 2,012        |
| Other companies              | 514          | 6            | -              | -                | 520          |
| <b>Total</b>                 | <b>8,031</b> | <b>1,889</b> | <b>(4,769)</b> | <b>-</b>         | <b>5,161</b> |

Investments in jointly controlled companies and in associated, respectively, Europropulsion S.A. and Termica Colleferro S.p.A., are evaluated with the equity method.

The increase of Euro 1,893 thousand is related to the profit of Europropulsion S.A.

The decrease is related to:

- dividend received from Europropulsion S.A. of Euro 1,970 thousand;
- equity adjustment to the equity of Termica Colleferro S.p.A., which has led to a loss of Euro 2,799 thousand.

Investments in other companies (essentially consortia) 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 evaluation would not produce significant effects in comparison with the cost method.

There are no significant restrictions in transferring resources to the Parent, as dividends, redemptions or advances.

Investments in other companies (essentially consortia) are valued at cost of acquisition.

The increase of Euro 5 thousand is referred to the purchase of a minority investments in the Distretto Aerospaziale della Sardegna.

### 3.6. NON-CURRENT FINANCIAL ASSETS

The caption amounts to Euro 6,400 thousand (Euro 6,200 thousand as of December 31, 2014) 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 200 thousand, is due to the additional funding of the loan.

### 3.7. DEFERRED TAX ASSETS

The deferred tax assets recorded in the financial statements amount to Euro 56,793 thousand (Euro 54,238 thousand at December 31, 2014) 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:

|                          | 31/12/2015    | 31/12/2014    | Variation    |
|--------------------------|---------------|---------------|--------------|
| Deferred Tax Assets      | 56,793        | 54,490        | 2,303        |
| Deferred Tax Liabilities | -             | (252)         | 252          |
| <b>Net balance</b>       | <b>56,793</b> | <b>54,238</b> | <b>2,555</b> |

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 losses.

Deferred tax assets have also been calculated by applying the tax rates that are expected to be applicable when the temporary differences will be reversed or the benefits of tax losses will be usable.

The analysis of temporary differences and carry forward tax losses that led to the recognition of deferred tax assets and deferred tax liabilities is presented in the following table (amounts in thousands of Euro):

|  | 31/12/2014     | Amounts recognised to profit and loss | Amounts recognised in other comprehensive income | 31/12/2015     |
|--|----------------|---------------------------------------|--|----------------|
| <b>Gross Deferred Tax Assets on Temporary Differences</b>  |                |                                       |  |                |
| <b>Temporary Differences from past transactions</b>  |                |                                       |  |                |
| Amortisation of goodwill for "Aviation" for tax purposes only  | 97,035         | (23,547)                              |  | 73,488         |
| Financial expenses exceeding 30% of EBITDA   | 53,661         | (7,382)                               |  | 46,278         |
| <b>Temporary Differences from current transactions</b>   |                |                                       |  |                |
| Maintenance and other expenses with deferred deductibility   | 2,650          | (1,170)                               |  | 1,480          |
| Provision for employee-related liabilities   | 2,789          | 96                                    | (380)  | 2,505          |
| Other taxable Temporary Differences  | 5,561          | 24                                    |  | 5,585          |
| <b>Gross Deferred Tax Assets</b>   | <b>161,695</b> | <b>(31,979)</b>                       | <b>(380)</b>                                     | <b>129,336</b> |
| <b>Gross Deferred Tax Liabilities on Temporary Differences</b>   |                |                                       |  |                |
| <b>Temporary Differences from past transactions</b>  |                |                                       |  |                |
| Amortisation of goodwill for "Space" for tax purposes only   | (23,212)       | 616                                   |  | (22,595)       |
| Amortisation of intangible assets for tax purposes only (Customer relationships for participation in programmes) | (9,239)        | 2,035                                 |  | (7,205)        |

|  |         |       |         |
|--|---------|-------|---------|
| FTA R&D cost capitalisation and related amortization         | (8,197) | 1.662 | (6,535) |
| Subsidiaries fiscal amortization and other minor differences | (967)   | (431) | (1,398) |

**Temporary Differences from current transactions**

|                                     |         |     |       |
|-------------------------------------|---------|-----|-------|
| Other taxable Temporary Differences | (1,673) | 845 | (828) |
|-------------------------------------|---------|-----|-------|

|                                       |                 |              |          |                 |
|---------------------------------------|-----------------|--------------|----------|-----------------|
| <b>Gross Deferred Tax Liabilities</b> | <b>(43,288)</b> | <b>4,727</b> | <b>-</b> | <b>(38,560)</b> |
|---------------------------------------|-----------------|--------------|----------|-----------------|

|                         |                |                 |              |               |
|-------------------------|----------------|-----------------|--------------|---------------|
| <b>Net Deferred Tax</b> | <b>118,408</b> | <b>(27,252)</b> | <b>(380)</b> | <b>90,776</b> |
|-------------------------|----------------|-----------------|--------------|---------------|

|   |     |        |  |        |
|---|-----|--------|--|--------|
| <b>Deferred tax assets recorded on tax losses</b>                 | 247 | 27,990 |  | 28,237 |
| <b>Deferred tax assets arising from consolidation adjustments</b> | 332 | -      |  | 332    |

|                                |          |       |  |          |
|--------------------------------|----------|-------|--|----------|
| <b>Unrecorded Deferred Tax</b> | (64,749) | 2,197 |  | (62,552) |
|--------------------------------|----------|-------|--|----------|

|                                  |               |              |              |               |
|----------------------------------|---------------|--------------|--------------|---------------|
| <b>Net Recorded Deferred tax</b> | <b>54,238</b> | <b>2,935</b> | <b>(380)</b> | <b>56,793</b> |
|----------------------------------|---------------|--------------|--------------|---------------|

Deferred tax assets on temporary differences and on carry forward tax losses have been recognized to the extent of future taxable income estimated over a period consistent with the business cycle of the Group. Future taxable income has been determined based on the most recent business plan approved by the Board of Directors for the period 2016-2018 and based on projections for periods starting from 2018 onward.

The period considered for the recoverability analysis, consistent with the business cycle, has been determined taking into consideration the recent meeting of Ministers of ESA members in December 2014 and the following agreement executed with ESA on August 2015 concerning the development of the new launcher Ariane 6, to the further development of VEGA regarding the VEGA C launcher and to the development and implementation of the new propeller "120".

### 3.8 OTHER NON-CURRENT ASSETS

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

|  | 31/12/2015   | 31/12/2014    | Variation      |
|--|--------------|---------------|----------------|
| Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85 | 8,373        | 11,112        | (2,739)        |
| Other non-current receivables  | 15           | 9             | 6              |
| Cautionary deposits  | 245          | 276           | (31)           |
| <b>Total</b>   | <b>8,633</b> | <b>11,397</b> | <b>(2,764)</b> |

Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85, amounts to Euro 8,373 thousands, refers to the present value of the non-current portion (whose nominal value amounts to Euro 9,018 thousands), granted on December 31, 2015 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 received in cash, against the item "Financial income", and it is initially accounted for against the item "Other non-current liabilities" (Note 3.24) .

The present value of the non-current portion to receive within five years amounts to Euro 9,983 thousands and the present value of the non-current portion to be received beyond five years amounts to Euro 1,401 thousands. The current portion of the grant related within one year amounts to Euro 3,011 thousands and it is classified in the caption "Other current assets", since the collection is expected within 12 months (Note 3.15).

## **CURRENT ASSETS**

### **3.9. INVENTORIES**

The total value of the inventories at December 31, 2015 amounts at Euro 109,146 thousands. The composition of the caption is in the following table (amounts in thousands of Euro):

|                            | 31/12/2015     |                   |                | 31/12/2014    |                   |               |
|----------------------------|----------------|-------------------|----------------|---------------|-------------------|---------------|
|                            | Gross value    | Inventory reserve | Net value      | Gross value   | Inventory reserve | Net value     |
| Raw materials and supplies | 38,051         | (1,453)           | 36,598         | 24,637        | (1,497)           | 23,140        |
| Work in progress           | 6,304          | (424)             | 5,880          | 3,393         | (424)             | 2,969         |
| Finished goods             | 8,254          | (4)               | 8,250          | 8,254         | (4)               | 8,250         |
| Advances to suppliers      | 58,418         |                   | 58,418         | 42,357        | -                 | 42,357        |
|                            | <b>111,027</b> | <b>(1,881)</b>    | <b>109,146</b> | <b>78,641</b> | <b>(1,925)</b>    | <b>76,716</b> |

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

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

### **3.10. CONTRACT WORK IN PROGRESS**

Contract work 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 received from customers is detailed as follows (amounts in thousands of Euro):

|  | 31/12/2015       | 31/12/2014      | Variation       |
|--|------------------|-----------------|-----------------|
| Contract work in progress              | 64,562           | 41,849          | 22,713          |
| Advanced for contract work in progress | (172,878)        | (86,876)        | (86,002)        |
| <b>Advances (net)</b>                  | <b>(108,316)</b> | <b>(45,027)</b> | <b>(63,291)</b> |

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):

|  | 31/12/2015    | 31/12/2014    | Variation     |
|--|---------------|---------------|---------------|
| Contract work in progress (gross amount) | 1,079,382     | 880,265       | 199,117       |
| Advanced for contract work in progress   | (1,014,820)   | (838,416)     | (176,404)     |
| <b>Contract Work in progress (net)</b>   | <b>64,562</b> | <b>41,849</b> | <b>22,713</b> |

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):

|   | 31/12/2015       | 31/12/2014      | Variation       |
|---|------------------|-----------------|-----------------|
| Contract work in progress (gross amount)            | 458,024          | 459,263         | (1,239)         |
| Advanced for contract work in progress              | (630,902)        | (546,139)       | (84,763)        |
| <b>Advances for contract work in progress (net)</b> | <b>(172,878)</b> | <b>(86,876)</b> | <b>(86,002)</b> |

As at December 31, 2015, 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, 2014, these funds were equaled to Euro 718 thousand.

### 3.11. TRADE RECEIVABLES

Trade receivables at December 31, 2015 amount to Euro 8,344 thousand (Euro 6,927 thousand at December 31, 2014). The caption is detailed as follows (amounts in thousands of Euro):

|  | 31/12/2015   | 31/12/2014   | Variation    |
|--|--------------|--------------|--------------|
| Trade receivables from third parties                         | 7,442        | 5,007        | 2,435        |
| Receivables from non-consolidated controlled companies       | 78           | 252          | (174)        |
| Receivables from associated and jointly controlled companies | 824          | 1,668        | (844)        |
| <b>Total</b>   | <b>8,344</b> | <b>6,927</b> | <b>1,417</b> |

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):

|                                       | 31/12/2015   | 31/12/2014   | Variation    |
|---------------------------------------|--------------|--------------|--------------|
| Gross value                           | 7,195        | 4,747        | 2,448        |
| Less: allowance for doubtful accounts | (483)        | (500)        | 17           |
| Net value – within one year           | 6,712        | 4,247        | 2,465        |
| Trade receivables – beyond one year   | 730          | 760          | (30)         |
| <b>Total</b>                          | <b>7,442</b> | <b>5,007</b> | <b>2,435</b> |

There are no receivables with maturity date beyond five years.

### Receivables from associated and jointly controlled companies and non-consolidated controlled companies

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

|                                  | 31/12/2015 | 31/12/2014   | Variation      |
|----------------------------------|------------|--------------|----------------|
| Europropulsion S.A.              | 605        | 467          | 138            |
| Servizi Colleferro S.c.p.A.      | 78         | 252          | (174)          |
| Consorzio Servizi Acqua Potabile | 173        | 343          | (170)          |
| Termica Colleferro S.p.A.        | 46         | 858          | (812)          |
| <b>Total</b>                     | <b>902</b> | <b>1.920</b> | <b>(1.018)</b> |

The receivables are deemed as fully collectable within one year.

### 3.12. CURRENT FINANCIAL ASSETS

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

|   | 31/12/2015 | 31/12/2014    | Variation       |
|---|------------|---------------|-----------------|
| Current financial assets from associated companies                            | 130        | 141           | (11)            |
| Current financial assets from third parties - Portion subject to restrictions | -          | 21,313        | (21,313)        |
| <b>Total</b>  | <b>130</b> | <b>21,454</b> | <b>(21,324)</b> |

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.

The caption as of December 31, 2014 included the residual restricted amount referred to the escrow accounts recognized based on the signature of the Settlement Agreement ad Release, occurred with GE Italia Holding S.p.A. on December 30, 2014. Such agreement finally settled all pending claims, by determining the release of the restricted accounts for a total amount of Euro 20.313 thousand in favour of Avio S.p.A. reclassified to the caption "cash and cash equivalents" in January 2015. The residual amount of Euro 1.000 thousand was deducted by the counterpart as a result of such settlement agreement.

### 3.12. CASH AND CASH EQUIVALENTS

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

|                               | 31/12/2015    | 31/12/2014     | Variation       |
|-------------------------------|---------------|----------------|-----------------|
| Bank and post-office accounts | 70,377        | 165,232        | (94,855)        |
| Cash on hand                  | 1             | -              | 1               |
| <b>Total</b>                  | <b>70,378</b> | <b>165,232</b> | <b>(94,854)</b> |

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

- Cash-out related to the dividends payment (Euro 220,000 thousand) deliberated by the Shareholder's Meeting on May 11, 2015, 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 paid to Tax Authorities;
- Cash-in due to the reclassification of funds included in escrow accounts following the Settlement Agreement and Release signed with GE Italia Holding S.p.A. on December 30, 2014. Following this agreement the escrow account (Euro 20,313 thousand) was released in favor of Avio S.p.A. and reclassified into "cash and cash equivalents", in January, 2015. At the same time the remaining amount of Euro 1,000 thousand was paid to the counterparty as a net recognition for the definitive closure of the claims;
- Cash-in due to the *Senior Term Loan* for a total amount of Euro 100,000 thousand granted in the first half of 2015 by IMI bank, as previously disclosed.

### 3.14. CURRENT TAX ASSETS

Current tax assets as at December 31, 2015 amount to Euro 43,270 thousand (Euro 29,970 thousand as at December 31, 2014) and it is composed as follows (amounts in thousands of Euro):

|                                     | 31/12/2015    | 31/12/2014    | Variation     |
|-------------------------------------|---------------|---------------|---------------|
| VAT receivables                     | 37,983        | 16,490        | 21,493        |
| Receivables from Tax Authorities    | 4,493         | 11,987        | (7,494)       |
| Research and development tax credit | 550           | 1,260         | (710)         |
| EU VAT receivable                   | 244           | 233           | 11            |
| <b>Total</b>                        | <b>43,270</b> | <b>29,970</b> | <b>13,300</b> |

VAT receivables refers for Euro 37,983 thousand to the 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 ceiling for non VAT taxable purchases, based on applicable VAT laws.

Receivables from Tax Authorities refers primarily to excess of advance payments for IRAP tax (Euro 3,016 thousand) and to payments disbursed to the Tax Authorities as provisional deposit for pending litigations (Euro 553 thousand).

The balance significantly decreased compared to December 31, 2014 following the repayment of the amounts previously advanced and pending for judgment (Euro 6,888 thousand) with reference to the disputes connected with the operation of Leveraged Buy-Out (LBO) subject of the settlement in April 2015.

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 2015, of described credit to offset other taxes due.

### 3.15. OTHER CURRENT ASSETS

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

|   | 31/12/2015 | 31/12/2014 | Variation |
|---|------------|------------|-----------|
| Receivables from Social Security Institutions | 55         | 30         | 25        |
| Other receivables from associates             | 38         | 28         | 10        |
| Receivables from employees                    | 705        | 690        | 15        |

|  |              |               |                |
|--|--------------|---------------|----------------|
| Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85 | 3,011        | 5,739         | (2,728)        |
| Receivables for public grants to be collected  | 2,610        | 2,610         | -              |
| Receivables from controlled companies:   |              |               | -              |
| Receivables from other debtors   | 3,148        | 2,635         | 513            |
| Allowance for doubtful accounts on receivables from other debtors                            | (150)        | (150)         | -              |
| Prepaid expenses and accrued income  | 281          | 572           | (291)          |
| <b>Totale</b>  | <b>9,698</b> | <b>12,154</b> | <b>(2,456)</b> |

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 3,051 thousand on December 31, 2015) 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 8,373 thousand and it is classified in the caption "Other non-current assets" (Note 3.8)

Receivables from other debtors include an amount of Euro 1,204 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.



## **EQUITY**

### **3.16. SHARE CAPITAL**

The Parent's share capital as of December 31, 2015 amounts to Euro 40,000 thousand, fully issued and paid, and it is unchanged with respect to December 31, 2014. Share capital was paid entirely at the incorporation of the Parent, on December 11, 2006.

As at December 31, 2015, 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, 2015 and it is unchanged with respect to December 31, 2014.

### **3.18. OTHER RESERVES**

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

|   | 31/12/2015     | 31/12/2014     | Variation    |
|---|----------------|----------------|--------------|
| Actuarial gain/losses reserve                 | (2,952)        | (2,526)        | (426)        |
| Cash flow hedge reserve (interests rate risk) | (367)          | -              | (367)        |
| <b>Totale</b>                                 | <b>(3,319)</b> | <b>(2,526)</b> | <b>(793)</b> |

The other reserve, negative for Euro 3,319 thousand as at December 31, 2015, includes gains and losses, net of tax effect, arising from the application of the revised IAS 19 and the effect of the mark-to-market adjustments deriving from the interest rate swaps (IRS) signed on June 30, 2015, for hedging purposes in relation to the volatility of the interest rates stated and applied by the Senior Term and Revolving Facilities Agreement.

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

The reconciliation of Equity as at December 31, 2015 and the profit/(loss) for the year 2015 resulting from the separate 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<br>31/12/2015 | Profit (Loss) for<br>the Year 2015 | Equity at<br>31/12/2014 | Profit (Loss)<br>for the Year<br>2014 |
|---|-------------------------|------------------------------------|-------------------------|---------------------------------------|
| <b>Avio S.p.A. separate financial statements</b>  | <b>286,462</b>          | <b>5,406</b>                       | <b>501,854</b>          | <b>5,548</b>                          |
| Elimination of the carrying amount of investments<br>recorded in the statutory financial statements | (118,880)               |                                    | (118,881)               | -                                     |

|   |                |              |                |              |
|---|----------------|--------------|----------------|--------------|
| Equity and results of consolidated subsidiaries   | 131,053        | 880          | 131,778        | 1,967        |
| Elimination of inter-company dividends  | 0              | -1,620       | -              | -1,621       |
| Elimination of gains and losses on inter-company transactions and other consolidation adjustments | 1,970          | -77          | 2,046          | -340         |
| <b>Consolidated financial statements (Group portion)</b>  | <b>300,605</b> | <b>4,589</b> | <b>516,797</b> | <b>5,554</b> |

The equity decreased by Euro 216.2 million mainly as a result of the distribution of dividends related to reserves of retained earnings and profit for the year 2014, approved by the Board of Directors of the company. The payment of the above dividend to the shareholders was at the net of withholding taxes paid to the tax authorities (Euro 43.5 million).

### 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   | 31/12/2015                  |                                   |                              |                           |                             | 31/12/2014                        |                              |                           |
|--------------|-----------------------------|-----------------------------------|------------------------------|---------------------------|-----------------------------|-----------------------------------|------------------------------|---------------------------|
|              | Non-controlling interests % | Share capital and equity reserves | Profit/(Loss) for the period | Non-controlling interests | Non-controlling interests % | Share capital and equity reserves | Profit/(Loss) for the period | Non-controlling interests |
| ELV S.p.A.   | 30.00%                      | 2,420                             | (427)                        | 1,993                     | 30.00%                      | 2,496                             | (78)                         | 2,418                     |
| Regulus S.A. | 40.00%                      | 5,028                             | 1,202                        | 6,230                     | 40.00%                      | 5,086                             | 1,022                        | 6,108                     |
|              |                             | <b>7,448</b>                      | <b>775</b>                   | <b>8,223</b>              |                             | <b>7,582</b>                      | <b>944</b>                   | <b>8,526</b>              |

with no

### **NON-CURRENT LIABILITIES**

#### 3.21 NON CURRENT FINANCIAL LIABILITIES

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

|  | 31/12/2015    | 31/12/2014 | Variation     |
|--|---------------|------------|---------------|
| Financial payables to Banks (Senior Loan e Entry Fees) | 91,272        | -          | 91,272        |
| <b>Totale</b>  | <b>91,272</b> | <b>-</b>   | <b>91,272</b> |

The caption as of December 31, 2015 amounts to Euro 91,272 thousand and registered an increase as compared with the previous year, related to a financial loan granted to Parent Company on April 1, 2015 by a consortium of reputed credit institute amountin to Euro 100,000 thuosand ("Senior Term"), in addition to the availability of a credit line ("Revolving") amounting to Euro 30 million.

Senior Term Agreement is divided into two tranches, the former amounting to Euro 35 million and to be reimbursed by six years and the latter amounting to Euro 65 million and with a "bullet" reimbursement plan after seven years.

The loan is not covered by any collateral, defines some limits in terms of investments, acquisitions, disposals, other funding (active or passive), as well as the compliance with several financial covenants, in line with the future plan's forecast of the Company, referred to:

- Leverage Ratio;
- Interest Cover Ratio;
- Capital Expenditure.

The financial covenants as at December 31, 2015, are fulfilled.

The agreement defines interest rates in line with market trends as following:

- in relation to the tranche of 35 milion and to the revolving credit line (if used) it is applied an interest rate corresponding to the Euribor 6M + spread 4%;
- in relation to the tranche of 65 milion, it is applied an interest rate corresponding to the Euribor 6M + spread 4.5%.

Such spreads may be reduced up to 2.5% (for the tranche of Euro 35 milion and the revolving credit line) and up to 4% (for the tranche of Euro 65 milion) depending on certain range defined for the leverage ratio. Based on the measurement of such covenants as at 31 December 2015, the Group will achieve a reduction in the spread, respectively, up to 3% and 4% starting from the period interest commencing on July 1, 2016.

In relation to both tranches and revolving line the Euribor to be considered for determining the interest rate is zero, even if negative.

Furthermore the financing is covered by specific derivative contracts to mitigate the interest rate risk, as reported in the disclosures relating to "financial instruments and risk management policies" (Note 6).

### 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" (Note 3.34).

##### *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 completed 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 defined benefits plan as "unfunded", comprising significantly by employee severance indemnity payment of the Italian companies.

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

|                                    | 31/12/2015    | 31/12/2014    | Variation    |
|------------------------------------|---------------|---------------|--------------|
| Defined benefit plans:             |               |               |              |
| Employee severance indemnity (TFR) | 5,966         | 6,671         | (705)        |
| Other defined benefit plans        | 2,352         | 2,153         | 199          |
|                                    | 8,318         | 8,824         | (506)        |
| Other long-term benefits           | 2,486         | 2,496         | (10)         |
| <b>Total</b>                       | <b>10,804</b> | <b>11,320</b> | <b>(516)</b> |
| of which:                          |               |               |              |
| - Italy                            | 10,079        | 10,627        | (548)        |
| - other countries                  | 725           | 693           | 32           |
| <b>Total</b>                       | <b>10,804</b> | <b>11,320</b> | <b>(516)</b> |

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

|   | Defined benefit plans | Other long-term benefits | Provision for employee benefits |
|---|-----------------------|--------------------------|---------------------------------|
| <b>Balance at December 31, 2014</b>                       | <b>8,824</b>          | <b>2,496</b>             | <b>11,320</b>                   |
| Financial expenses  | 12                    | 2                        | 14                              |
| Recognised actuarial losses in profit loss                | -                     | 133                      | 133                             |
| Recognised actuarial losses in other comprehensive income | 44                    | -                        | 44                              |
| Current service costs                                     | 96                    | 135                      | 231                             |
| Benefits paid   | (658)                 | (280)                    | (938)                           |
| <b>Balance at December 31, 2015</b>                       | <b>8,318</b>          | <b>2,486</b>             | <b>10,804</b>                   |

The amounts charged to the 2015 income statement relate to the employees' benefits provisions, which are detailed in the following table (amounts in thousands of Euro):

| 31/12/2015 | 31/12/2014 |
|------------|------------|
|------------|------------|

|                             | Defined benefit plans | Other long-term benefits | Total      | Defined benefit plans | Other long-term benefits | Total      |
|-----------------------------|-----------------------|--------------------------|------------|-----------------------|--------------------------|------------|
| Current service cost        | 96                    | 135                      | 231        | 92                    | 310                      | 402        |
| Past actuarial losses       | -                     | 133                      | 133        | 4                     | 225                      | 229        |
| Total personnel costs       | 96                    | 268                      | 408        | 96                    | 535                      | 631        |
| Financial expenses/(income) | 12                    | 2                        | 14         | 34                    | 7                        | 41         |
| <b>Total</b>                | <b>108</b>            | <b>270</b>               | <b>422</b> | <b>130</b>            | <b>542</b>               | <b>672</b> |

Main actuarial assumptions used are detailed as follows:

|                                | Year 2015 | Year 2014 |
|--------------------------------|-----------|-----------|
| Discount rate                  | 0.97%     | 0.62%     |
| Expected salary increase       | 2.11%     | 2.00%     |
| Inflation rate                 | 1.50%     | 1.50%     |
| Average rate of staff turnover | 4.78%     | 5.67%     |

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 discount rate is based on bonds denominated in Euro that is currency in which the liability is payable.

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:

|                          | 31/12/2015                            |                                       | 31/12/2014                            |                                       |
|--------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
|                          | Increase (0.50%) in the discount rate | Decrease (0.50%) in the discount rate | Increase (0.50%) in the discount rate | Decrease (0.50%) in the discount rate |
| Defined benefit plan     | (162)                                 | 158                                   | (189)                                 | 177                                   |
| Other long-term benefits | (89)                                  | 91                                    | (88)                                  | 90                                    |

### 3.23. PROVISIONS FOR RISKS

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

|  | 31/12/2015 |             |       | 31/12/2014 |             |       |        |
|--|------------|-------------|-------|------------|-------------|-------|--------|
|  | Current    | Non-current | Total | Current    | Non-current | Total | Change |
| Reserve for costs of variable salaries and wages | 8,169      | -           | 8,169 | 8,018      | -           | 8,018 | 151    |

|  |   |              |               |               |               |               |                        |
|--|---|--------------|---------------|---------------|---------------|---------------|------------------------|
| Reserve for personnel expenses and restructuring | - | 804          | 804           |               | 574           | 574           | 230                    |
| Reserve for legal and environmental risks        | - | 8,005        | 8,005         | 1,377         | 7,759         | 9,136         | (1.131)                |
| Reserve for contractual and commercial risks     | - | 3,029        | 3,029         | 1,561         | 794           | 2,355         | 674                    |
| Reserve for fiscal risks                         | - | 7,440        | 7,440         | 9,000         | 10,216        | 19,216        | (11.776)               |
| <b>Total</b>                                     |   | <b>8,169</b> | <b>19,278</b> | <b>27,447</b> | <b>19,956</b> | <b>19,343</b> | <b>39,299 (11.852)</b> |

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 5,178 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 (as IPO and change of control) 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 804 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 fiscal 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 2015 are detailed as follows (amounts in thousands of Euro):

|  | 31/12/2014    | Provisions   | Utilization     | Amounts reversed to income | 31/12/2015    |
|--|---------------|--------------|-----------------|----------------------------|---------------|
| Reserve for costs of variable salaries and wages | 8,018         | 3,029        | (2,606)         | (272)                      | 8,169         |
| Reserve for personnel expenses and restructuring | 574           | 983          | (231)           | (522)                      | 804           |
| Reserve for legal and environmental risks        | 9,136         | 155          | (1,152)         | (134)                      | 8,005         |
| Reserve for contractual and commercial risks     | 2,355         | 2,224        | -               | (1,550)                    | 3,029         |
| Reserve for fiscal risks                         | 19,216        | 518          | (12,294)        | -                          | 7,440         |
| <b>Total</b>                                     | <b>39,299</b> | <b>6,909</b> | <b>(16,283)</b> | <b>(2,478)</b>             | <b>27,447</b> |

The decrease of the provision is mainly referred to the reserve for fiscal risk, relating to the establishment, and consequent payment, of the two main disputes arising from the Leveraged-by-

out (LBO) occurred in 2007 as part of the acquisition of Avio business, related on the one hand to denial of certain tax consequences of such acquisition, the other to challenge the imposition of withholding tax on interest income from "Intercompany Loan Agreement" extinct in 2014 and disclosed in note 3.40.

### 3.24. OTHER NON-CURRENT LIABILITIES

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

|  | 31/12/2015    | 31/12/2014    | Variation  |
|--|---------------|---------------|------------|
| Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 - portion due after one year | 41,217        | 39,230        | 1,987      |
| Deferred income for funding pursuant to Law No. 808/85 - portion due after one year                                  | 13,801        | 14,947        | (1,146)    |
| Deferred income for grants related to assets - portion due after one year  | -             | 7             | (7)        |
| Deferred income for tax credit related to R&D activities - portion due after one year                                | 654           | 792           | (138)      |
| Deferred income for grants toward operating costs  | 236           | 234           | 2          |
| <b>Total</b>   | <b>55,908</b> | <b>55,210</b> | <b>698</b> |

#### **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 41,217 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 grant 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 grant 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 2015, 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 14,037 thousand, represents the initial corresponding amount 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 3.8) for the portion to be credited to income

statement of future periods, after one year, to match them with the related costs for which funding has been granted.

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

This caption (equal to Euro 654 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.

## CURRENT LIABILITIES

### 3.25. CURRENT FINANCIAL LIABILITIES

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

|  | 31/12/2015   | 31/12/2014   | Variation  |
|--|--------------|--------------|------------|
| Financial payables to jointly controlled companies | 8,399        | 7,919        | 480        |
| Fair value of Interest Rate Derivative             | 368          | -            | 368        |
| <b>Total</b>                                       | <b>8,767</b> | <b>7,919</b> | <b>848</b> |

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

### 3.26. CURRENT PORTION OF NON-CURRENT FINANCIAL LIABILITIES

The caption, amounting to Euro 4,439 thousand, is related to the current portion the financial loan Senior Term and Revolving Facilities Agreement, as more widely disclosed in paragraph 3.21.

### 3.27. TRADE PAYABLES

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

|   | 31/12/2015    | 31/12/2014    | Variation      |
|---|---------------|---------------|----------------|
| Trade payables to third parties   | 45,461        | 46,351        | (890)          |
| Trade payables to jointly, associated and non-consolidated controlled companies | 1,411         | 5,290         | (3,879)        |
|   | <b>46,872</b> | <b>51,641</b> | <b>(4,769)</b> |

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

|                                  | 31/12/2015 | 31/12/2014 | Variation |
|----------------------------------|------------|------------|-----------|
| Servizi Colferro S.c.p.A.        | 11         | 42         | (31)      |
| Consorzio Servizi Acqua Potabile |            | 64         | (64)      |



|                           |              |              |                |
|---------------------------|--------------|--------------|----------------|
| Europropulsion            | 1,081        | 5,059        | (3,978)        |
| Termica Colleferro S.p.A. | 319          | 125          | 194            |
| <b>Total</b>              | <b>1,411</b> | <b>5,290</b> | <b>(3,879)</b> |

### 3.28. CURRENT TAX PAYABLES

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

|  | 31/12/2015   | 31/12/2014   | Variation      |
|--|--------------|--------------|----------------|
| Withholding tax payable                                    | 1,660        | 1,333        | 327            |
| Income tax payables – IRAP (Regional Income Corporate Tax) | -            | 14           | (14)           |
| VAT payables   | -            | 519          | (519)          |
| Other taxes and duties payables                            | 390          | 4,754        | (4,364)        |
| <b>Total</b>   | <b>2,050</b> | <b>6,620</b> | <b>(4,570)</b> |

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.

The caption “other taxes and duties payables” in 2014 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 LBO operation. On January, 14, 2015, the Company has paid the total liability recorded in the previous year.

### 3.29. OTHER CURRENT LIABILITIES

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

|  | 31/12/2015    | 31/12/2014    | Variation    |
|--|---------------|---------------|--------------|
| Advances from customers for supply of goods and services                               | 4,879         | 3,828         | 1,051        |
| Social Security payables   | 3,308         | 3,351         | (43)         |
| Other payables to third parties  | 5,124         | 6,709         | (1,585)      |
| Deferred income for grants related to assets – portion due within one year             | 6             | 31            | (25)         |
| Deferred income for funding pursuant to Law No. 808/85 – portion due within one year   | 1,149         | 1,400         | (251)        |
| Deferred income for tax credit related to R&D activities – portion due within one year | 58            | 58            | -            |
| Other accrued expenses and deferred income   | 1,429         | 1,049         | 380          |
| <b>Total</b>   | <b>15,953</b> | <b>16,426</b> | <b>(473)</b> |

#### Advances from customers for supply of goods and services

This caption mainly includes advances received from final customers for supply of goods and services for Euro 4,879 thousand (Euro 3,828 thousand as at December 31, 2014).

#### Social Security payables

This caption refers to payables amounting to Euro 3,308 thousand as at December 31, 2015 (Euro 3,351 thousand as at December 31, 2014) 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):

|                                 | 31/12/2015   | 31/12/2014   | Variation      |
|---------------------------------|--------------|--------------|----------------|
| Payables to employees           | 4,688        | 5,372        | (684)          |
| Other payables to third parties | 436          | 1,337        | (901)          |
|                                 | <b>5,124</b> | <b>6,709</b> | <b>(1.585)</b> |

Payables to employees include certain payroll costs and deferred compensation accruals at year-end 2015.

Other payables to third parties amount to Euro 436 thousand and significantly decrease compared to the previous year following the payment of Euro 1,000 thousand in favour of GE Avio S.r.l. in relation to the price adjustment of the disposal of the business Aviation occurred in 2013.

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

This caption (equal to Euro 6 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 1,149 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):

|                                       | 31/12/2015   | 31/12/2014   | Variation  |
|---------------------------------------|--------------|--------------|------------|
| Accrued expenses related to personnel | 1,081        | 923          | 158        |
| Accrued sundry expenses               | -            | 69           | (69)       |
| Other deferred income                 | 348          | 57           | 291        |
| <b>Totale</b>                         | <b>1,429</b> | <b>1,049</b> | <b>380</b> |

## **INCOME STATEMENT**

### **3.30. REVENUE**

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 2015      | Year 2014      | Variation     |
|-------------------------------------|----------------|----------------|---------------|
| Revenues from sales of goods        | 67,004         | 93,888         | (26,884)      |
| Revenues from services              | 3,012          | 3,357          | (345)         |
|                                     | 70,016         | 97,245         | (27,229)      |
| Change in contract work in progress | 209,211        | 127,215        | 81,996        |
| <b>Totale</b>                       | <b>279,227</b> | <b>224,460</b> | <b>54,767</b> |

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 (Euro 5,100 thousand, 1.8%) and Europe (Euro 274,200 thousand, 98.2%).

Hereinafter the figures showing the breakdown of revenues for business lines:

| Business line                                     | 2015           | 2014           | Variation     |
|---|----------------|----------------|---------------|
| Ariane  | 122.765        | 118.619        | 4.146         |
| Vega  | 120.869        | 92.426         | 28.443        |
| Propulsione tattica                               | 11.132         | 9.591          | 1.541         |
| Altri ricavi                                      | 2.639          | 3.824          | (1.185)       |
| <b>Revenues net of pass-through<sup>(1)</sup></b> | <b>257.405</b> | <b>224.460</b> | <b>54.767</b> |

(1) The "Pass-through" revenues derive from the contractual agreements subscribed between the subsidiary ELV S.p.A. and European Space Agency in August 2015, concerning the development and realization of the new propeller "P120" for the new launcher Vega C, as well as the sharing of Vega C's new propeller "P120" also with Ariane 6. Because of the implementation of these new agreements, the consolidated revenues of Avio Group include the following double invoicing:

- the first invoicing between the parent company Avio S.p.A. as a sub-supplier and the non-consolidated joint-venture Europropulsion S.A.;
- the second invoicing between the subsidiary ELV S.p.A. as prime contractor and the final client, European Space Agency. In this case, there is only a re-invoicing of costs without any margin coming from the non-consolidated joint venture Europropulsion S.A. - not eliminated in the consolidation process of the Avio Group because of being realized with third parties - and referred in this report as "Pass-through".

### **3.31. OTHER OPERATING INCOME**

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

|   | Year 2015 | Year 2014 | Variation |
|---|-----------|-----------|-----------|
| Revenue grants  | 224       | 818       | (594)     |
| Tax credit income related to R&D activities   | 138       | 388       | (250)     |
| Income related to amount credited to the income statement of funding pursuant to Law No. 808/85 | 1,400     | 1,703     | (303)     |
| Portion for the period of grants related to assets  | 31        | 33        | (2)       |
| Recovery of costs, compensation and other income  | 4,185     | 3,316     | 869       |
| Reserves credited to income statement   | 2,006     | 1,786     | 220       |

|  |              |              |           |
|--|--------------|--------------|-----------|
| Gains on disposal of property, plant and equipment | -            | 361          | (361)     |
| Other revenues                                     | 1.135        | 667          | (468)     |
| <b>Total</b>                                       | <b>9,119</b> | <b>9,072</b> | <b>47</b> |

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 2015 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 essential 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 the periods of recognition in the income statement of the expenses (as raw materials, external expenses, depreciation and other expense).

The caption "Recovery of costs, compensation and other income" includes the recovery of costs incurred by the Group 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 invoiced to 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, related to the use of provisions for risks for the costs incurred during the year and the release of the amount exceeding the provisions accrued.

### 3.32. RAW MATERIALS CONSUMPTION

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

|                                      | Year 2015     | Year 2014     | Variation     |
|--------------------------------------|---------------|---------------|---------------|
| Raw materials and supplies purchased | 96,876        | 58,820        | 38,056        |
| Change in inventories                | (13,415)      | 5,861         | (19,276)      |
| <b>Total</b>                         | <b>83,461</b> | <b>64,681</b> | <b>18,780</b> |

### 3.33. COST OF SERVICES

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

|                           | Year 2015 | Year 2014 | Variation |
|---------------------------|-----------|-----------|-----------|
| Cost of external services | 121,886   | 91,231    | 30,655    |

|                   |                |               |               |
|-------------------|----------------|---------------|---------------|
| Lease and rentals | 1,254          | 1,195         | 59            |
| <b>Total</b>      | <b>123,140</b> | <b>92,426</b> | <b>30,714</b> |

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

The increase of the year is partially attributable to costs invoiced by the joint venture Europropulsion in relation to the development and implementation contract of the new propellant "P120" and related to the portion of "pass-through revenues", as more specifically described in the management report.

In 2015, the caption "cost of external 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 177 thousand relating to the statutory auditors and Euro 542 thousand relating to the Directors of the Parent.

### 3.34. PERSONNEL COSTS

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

|  | Year 2015     | Year 2014     | Variation    |
|--|---------------|---------------|--------------|
| Salaries and wages   | 35,590        | 33,835        | 1,755        |
| Social security contributions  | 12,881        | 11,903        | 978          |
| Defined contribution plan expenses   | 2,067         | 2,055         | 12           |
| Other personnel expenses and provision for variable salaries and wages costs | 2,992         | 3,385         | (393)        |
| Costs related to defined benefits plans and other long-term benefits:        | -             | -             | -            |
| Current service costs  | 231           | 198           | 33           |
| Actuarial (gains)/losses on employee benefit plans                           | 133           | 224           | (91)         |
| <b>Totale</b>  | <b>53,894</b> | <b>51,600</b> | <b>2,294</b> |

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

|              | 2015 Average | 2014 Average |
|--------------|--------------|--------------|
| Blue-collar  | 314          | 311          |
| White-collar | 385          | 383          |
| Managers     | 19           | 18           |
| <b>Total</b> | <b>718</b>   | <b>712</b>   |

### 3.35. DEPRECIATION AND AMORTISATION

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

|  | Year 2015 | Year 2014 | Variation |
|--|-----------|-----------|-----------|
| Property, plant and equipment              | 5,537     | 5,378     | 159       |
| Investment property                        | 46        | 42        | 5         |
| Intangible assets with finite useful lives | 11,816    | 11,736    | 79        |

**Total**
**17,399**
**17,156**
**243**

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.

### 3.36. OTHER OPERATING EXPENSES

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

|                                 | Year 2015    | Year 2014    | Variation    |
|---------------------------------|--------------|--------------|--------------|
| Provisions for risks            | 2,379        | 112          | 2,267        |
| Write-down of trade receivables | -            | -            | -            |
| Other operating expenses        | 3,001        | 3,326        | (325)        |
| Other expenses and provisions   | 3,780        | 1,753        | 2,027        |
| <b>Total</b>                    | <b>9,160</b> | <b>5,191</b> | <b>3,969</b> |

#### Provisions for risks

These provisions represent the amounts charged to income statement related to the creation or integration of 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 2015    | Year 2014    | Variation    |
|---|--------------|--------------|--------------|
| Taxes and duties                                    | 1.916        | 1.934        | (18)         |
| Expenses and other operating expenses               | 626          | 753          | (127)        |
| Losses on disposal of property, plant and equipment | 14           | 18           | (4)          |
| Contingent liabilities                              | 445          | 621          | (176)        |
| <b>Total</b>  | <b>3.001</b> | <b>3.326</b> | <b>(325)</b> |

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.

#### Other 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 2015 | Year 2014 | Variation |
|---|-----------|-----------|-----------|
| Expenses:   |           |           |           |
| - for organisation restructuring and personnel expenses | 2,697     | 939       | 1,758     |
|   | 2,697     | 939       | 1,758     |

Provisions:

|                                  |              |              |              |
|----------------------------------|--------------|--------------|--------------|
| - for organisation restructuring | 1,083        | 808          | 275          |
| - for legal risks                | -            | 6            | (6)          |
|                                  | 1,083        | 814          | 269          |
| <b>Total</b>                     | <b>3,780</b> | <b>1,753</b> | <b>2,027</b> |

### 3.37. SHARE OF PROFIT IN INVESTMENTS IN JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

The caption includes the effects of the equity method application for the valuation of the investment in the jointly controlled company Europropulsion S.A. These effects are recorded, in accordance with IFRS 11, in the Group's profit or loss. The effect recorded in 2015 amounts to Euro 1,893 thousand (Euro 1,970 thousand in 2014) and it is related to the profit registered by the jointly controlled company during the same period (in absence of consolidation adjustments with impact on the profit of the jointly controlled company).

### 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 2015, it presents a total amount of Euro 6,558 thousand (Euro 9,907 thousand as of December 31, 2014) and it include the following costs (amounts in thousands of Euro):

|  | Year 2015    | Year 2014    | Variation      |
|--|--------------|--------------|----------------|
| Costs for the internal construction of tangible fixed assets | 1,955        | 688          | 1,267          |
| Costs for development activities                             | 4,533        | 8,815        | (4,282)        |
| Costs for internal production of intangible assets           | 70           | 404          | (334)          |
| <b>Total</b>   | <b>6,558</b> | <b>9,907</b> | <b>(3,349)</b> |

### 3.39. FINANCIAL INCOME

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

|  | Year 2015    | Year 2014    | Variation    |
|--|--------------|--------------|--------------|
| Interest income from banks   | 121          | 1,293        | (1,172)      |
| Discounts and other financial income                               | 405          | 283          | 122          |
| Interest income on financial receivables                           |              | 27           | (27)         |
| Interest income on financial receivables from associated companies | 258          | 272          | (14)         |
|  | 784          | 1,875        | (1,091)      |
| Realised exchange gains  | 1,462        | 573          | 889          |
| Unrealised exchange gains  | 26           | 5            | 21           |
|  | 1,488        | 578          | 910          |
| <b>Totale</b>  | <b>2,272</b> | <b>2,453</b> | <b>(181)</b> |

The caption Interest income on financial receivables from associated companies includes Euro 258 thousand (Euro 272 thousand in 2014) 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 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.

### 3.40. FINANCIAL EXPENSES

The main components of this caption are the following (amounts in thousands of Euro):

|  | Year 2015    | Year 2014     | Variation       |
|--|--------------|---------------|-----------------|
| Interest on financial payable on Intercompany Loan Agreement | -            | 11,135        | (11,135)        |
| Interest on Senior Term Loan Agreement                       | 3,697        | -             |                 |
| Interest on financial payables to associated companies       | -            | 29            | (29)            |
| Interest on other payables                                   | 215          | 147           | 68              |
| Discounts and other financial expenses                       | -            | 195           | (195)           |
| Interest costs on employee benefits                          | 14           | 41            | (27)            |
| Expenses from interest rate derivative instruments           | 103          |               |                 |
|  | 4,029        | 11,547        | (11,318)        |
| Realised exchange losses                                     | 1,558        | 764           | 794             |
| Unrealised exchange losses                                   | 17           | 135           | (118)           |
|  | 1,575        | 899           | 676             |
| <b>Totale</b>  | <b>5,604</b> | <b>12,446</b> | <b>(10,642)</b> |

The caption financial expenses amounts to Euro 5,604 thousand and shows a Euro 10,642 thousand decrease compared to previous year.

The higher net financial expenses of 2014 were affected by the *one-off* effect related to the anticipated expiration of "Intercompany Loan Agreement" with the previous Parent Company BCV Investments S.C.A.

With regard to the modification of several contractual clauses related to the changes of the interest rate, effective from January 1, 2014, the application of accounting principles contained in IAS 39 led to identifying such contract modification as an extinguishment that causes the liabilities to be derecognised and the subsequent recognition of liabilities on the new terms and conditions.

This accounting led to the recognition in 2014 of financial expenses of Euro 11,089 thousand, represented by the recognition in the income statement. In June 2014, such *Intercompany Loan Agreement* expired in advance.

The interests on *Senior Term Loan Agreement* of Euro 3,697 thousand, derive from the financing contract subscribed during the year 2015, previously commented in Note 3.21.

The Expenses from interest rate derivative instruments and commodities of Euro 103 thousand are referred to economical effects starting from June 30, 2015 on derivative finance instruments stipulated to cover the volatility of interest rates of credit lines provided by the Senior Term and Revolving Facilities Agreement.

The realized exchange losses realized are related to the collection of receivables and the payment of liabilities in foreign currencies.

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

### 3.41. SHARE OF LOSS IN INVESTMENTS IN ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

This caption amounts to Euro 2,799 thousand and includes the effects of application of equity method for the accounting of the investment held in the associate company Termica Colleferro S.p.A.

### 3.42. INCOME TAXES



Income taxes for the year 2015 present a net positive balance amounting to Euro 986 thousand. This balance is the result of current taxes charges amounting to Euro 1,949 thousand and deferred tax net amounting to Euro 2,935 thousand.

The following table summarizes the tax for the year 2015 and 2014 (amounts in thousands of Euro):

|  | Year 2015            |              |              | Year 2014            |              |                |
|--|----------------------|--------------|--------------|----------------------|--------------|----------------|
|  | IRES and other taxes | IRAP         | Total        | IRES and other taxes | IRAP         | Total          |
| Current income taxes:  |                      |              |              |                      |              |                |
| - taxes for the year   | 1,380                | 54           | 1,434        | 1,436                | 241          | 1,677          |
| - other tax charges  | 515                  | -            | 515          | 8,730                | -            | 8,730          |
| - difference between taxes accrued in previous year and paid in 2013 | -                    | -            | -            | (361)                | (255)        | (616)          |
|  | 1,895                | 54           | 1,949        | 9,805                | (14)         | 9,791          |
| Net deferred/(prepaid) income taxes                                  | (1,911)              | (1,024)      | (2,935)      | (11,207)             | (558)        | (11,765)       |
| <b>Total</b>   | <b>(16)</b>          | <b>(970)</b> | <b>(986)</b> | <b>(1,402)</b>       | <b>(572)</b> | <b>(1,974)</b> |

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 2015      | Year 2014       |
|---|----------------|-----------------|
| Profit/(Loss) before taxes  | 5.364          | 4.505           |
| Ordinary IRES tax rate  | 27,50%         | 27,50%          |
| Theoretical income taxes  | 1.475          | 1.239           |
| Effect of adjustments:  |                |                 |
| Non-taxable income  | -              | -               |
| Dividends   | (3.411)        | (1.027)         |
| Impairment of equity investments  | 2.799          | -               |
| Permanent non-deductible costs  | 1.440          | 3.908           |
| Added amortisations (super amortisation 140%)   | (353)          | -               |
| Unrecorded deferred tax (assets)/liabilities  | (2.858)        | (15.053)        |
| Other permanent differences   | (718)          | (81)            |
| Effect of tax rate change (including difference between ordinary and local tax rates) | 640            | 1.225           |
| Prior Year taxes  | -              | (361)           |
| <b>Total</b>  | <b>(2.461)</b> | <b>(11.389)</b> |
| Effective income taxes  | (986)          | (10.150)        |
| Effective tax rate  | <b>-18,4%</b>  | <b>-225,3%</b>  |

### 3.43 PROFIT/(LOSS) FROM DISCONTINUED OPERATION

In December 31, 2015, there was no profit or loss from discontinued operation.

Regarding the previous year, 2014, this caption was composed by an amount of Euro 1,349 thousand (Euro 1,368 thousand, net of the theoretical tax effect of Euro 19 thousand), related to the adjustment of sales price of the share in GE Avio S.r.l. to the General Electric Group, that happened in 2013. The mentioned adjustment referred, to expenses relating to resolution of claims for Euro 941 thousand, and to tax expenses associated with the operation for 427 thousand, established in 2014.

### 3.44 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of outstanding shares. Diluted earnings per share is calculated by dividing net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary outstanding shares during the period adjusted for the dilutive effects of outstanding options. There are no dilutive effects and, therefore, the diluted earnings per share coincide with the basic earnings per share.

In the table below are shown the data related to earnings per share (from continuing and discontinued operations) and to earnings per share from continuing operation:

|   | Year 2015    | Year 2014      |
|---|--------------|----------------|
| Profit for the Year attributable to shareholders of the Parent (Euro thousands)                                     | 4,559        | 5,554          |
| Weighted average number of outstanding shares   | 400,000,000  | 400,000,000    |
| <b>Earnings per share – basic and diluted (Euro)</b>  | <b>0.011</b> | <b>0.014</b>   |
| Profit for the Year from <i>continuing operations</i> attributable to shareholders of the Parent (Euro thousands)   | 4,559        | 6,904          |
| Weighted average number of outstanding shares   | 400,000,000  | 400,000,000    |
| <b>Earnings per share from <i>continuing operations</i> – basic and diluted (Euro)</b>                              | <b>0.011</b> | <b>0.017</b>   |
| Profit for the Year from <i>discontinued operations</i> attributable to shareholders of the Parent (Euro thousands) | -            | (1,349)        |
| Weighted average number of outstanding shares   | 400,000,000  | 400,000,000    |
| <b>Earnings per share from <i>discontinued operations</i> – basic and diluted</b>                                   | <b>-</b>     | <b>(0.003)</b> |

The Parent Company's share capital is composed by 400,000,000 ordinary shares with a nominal value of Euro 0.10 each and results to be invariable from 31 December 2014.

## 4. SEGMENT AND GEOGRAPHICAL AREA REPORTING

### Information by industry segment

With reference to the years 2015 and 2014, the Group has operated in continuity exclusively in the Space business context. Consequently, all assets and liabilities, costs and revenues relate to the only activity sector, which corresponds to the Group's consolidation perimeter.

The number of Group's employees in December 31, 2015 is 763. In December 31, 2014 the Group's employees were 706.

### Information by geographical area

With reference to the information by geographical area, the whole amount of the Group's revenue, in 2014 and 2015 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 (the country of customers).

## 5. GUARANTEES GRANTED AND COMMITMENTS

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

|   | 31/12/2015    | 31/12/2014    |
|---|---------------|---------------|
| Guarantees granted                                      |               |               |
| Personal guaranties                                     |               |               |
| Sureties issued by third parties on behalf of the Group | 13,229        | 12,452        |
| Other   | 29,788        | 29,788        |
| Total Guarantees granted                                | 43,017        | 42,240        |
| Goods owned by third parties held by the Group          | 1,000         | 1,000         |
| Goods owned by the Group held by third parties          | 2,030         | 3,476         |
| Guarantees and received guarantees                      | 114           | 901           |
| <b>Total</b>  | <b>46,161</b> | <b>47,617</b> |

### 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.

### Other memorandum accounts

The caption includes mainly guarantees received from suppliers for unfinished supply orders.

## 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 each contract are deemed adequate in order to face possible liabilities arising from pending or contingent litigations. In addition, costs arising from environmental proceedings are mainly 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, active and passive, with a short description of the most significant contingent liabilities.

### *The Municipality of Colleferro / Se.Co.Sv.Im (ARPA 1 and ARPA 2)*

In March 2004, the extraordinary commissary of the Municipality of Colleferro issued an injunction against Se.Co.Sv.Im. 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. Se.Co.Sv.Im. appealed against the injunction to 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, Se.Co.Sv.Im. 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 Se.Co.Sv.Im., 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, Se.Co.Sv.Im. 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 Se.Co.Sv.Im. 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, Se.Co.Sv.Im. 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 Se.Co.Sv.Im. 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.

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 Se.Co.Sv.Im.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. Se.Co.Sv.Im. 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 Se.Co.Sv.Im., 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.

*Se.Co.Sv.Im./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, Se.Co.Sv.Im. submitted a request for the admission of its liabilities at the Udine Court and was admitted.

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 Lazio Regional Administrative Court ("*TAR - Tribunale Amministrativo Regionale*") the damage so that Se.Co.Sv.Im. appeared before a judge. Caffaro appealed to the TAR of Lazio against the claim for damages and Se.Co.Sv.Im. appeared before the Court. The case is currently pending. There is the possibility that Caffaro will claim the above costs from Se.Co.Sv.Im. as the owner of the property. For the moment, Se.Co.Sv.Im. 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), Se.Co.Sv.Im. 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. These works have been completed.

*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 merger 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 4.797 thousand. After the instance advanced by the AVIO through the provisional payment of a third for the required taxes without interests, 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 proposed by the same parent company, which had therefore appealed to the Regional Tax Commission 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 32.905 thousand with reference to the year 2008 regarding the issues associated with the leveraged buy-out, against which appealed at the CTP in June, 2014;
- 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 merger that occurred in 2007 with the Parent (for not exceeding the vitality test), quantifying the claim, inclusive to interest and penalties, in approximately Euro 3.485 thousand. Against which appealed in the CTP of Turin in march, 2014.
- 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 105 thousand) 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 for the year 2007, its own assessment of non-existence of liabilities susceptible of its outflows, based on the 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 are recorded as receivable in the balance sheet, and referred exclusively to 2007-2008 fiscal years.

Following contacts over time occurred with the Inland Revenue Avio S.p.A., despite the belief of the regularity of their actions, it considered it appropriate to reach a settlement agreement, summoned to comment the previous financial year 2014, which it was formalized April 22, 2015; under the terms of the agreement the parties abandoned the previous litigation, defining the amount paid by AVIO of Euro 8,153 thousands, paid during 2015 and in January 2016 in adherence to acts accordingly issued; on the other hand, the amount paid as a provsory recovery (as specified, Euro 6,888 thousand) were reimbursed by the end of 2015.

However, with respect the findings not subject to definition of the above transaction, we recall the circumstance that in December 2014 was notified the notice of assessment for the year 2007 concerning the non-deductibility of VAT on bills qualified as non-inherent related to the same leveraged buy-out transaction, quantifying requests, inclusive of interest and penalties, in the amount of Euro10,954 thousand; regarding this finding are in progress contacts for the eventual agreed definition before the hearing at the Provincial Tax Commission.

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 thousand

required, paid on June 2013) (ii) the related notice of penalties for the omitted payment of the same withholding taxes.

In December 2013, 2014 and 2015 the Group has been formally notified for the same claim with reference to the years 2008, 2009 e 2010 . Related amounts were paid by using funds accrued between "Provision for risks and charges" for the same amount (respectively Euro 6.572, 4.459 4.221 thousand).

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 thousand and Euro 1.450 thousand); against such notifications, the Parent Company has appealed to the CTP of Turin, considering them having no legal substance. it should be noted that the appeal for the year 2007 was accepted in June 2015 with past measure deemed.

In December 2014 and 2015 were finally notified the acts of penalties regarding the period 2009 (amount of Euro 983 thousand and Euro 932 thousand): the related act of penalty will also be challenged in the event of non-acceptance of defensive deductions.

Avio S.p.A. It has also appealed to the Provincial Tax Commission of Turin against two demands for payment issued in May 2015 for the application of penalties and interests for late payment, relating to the same case of withholding tax, concerning the year 2011 (total amount Euro 1,194 thousand, in addition to recovery premiums). Such appeals were received in November 2015.

As anticipated, with reference to the above findings and the arrangement of the situation of the years 2011, 2012 and 2013 under the supplementary return for 2011 and performance of ravvedimenti industrious for subsequent years, the Parent Company has proceeded to the allocation of a specific risks and charges, partly used in 2013, 2014 and 2015 for the above mentioned payments related withholdings omitted; the consistency of that provision recognized in the financial statements at 31.12.2015 is considered adequate to the fulfillment of future payments related to the expenses for the years still to be defined and penalties dissenting object on already defined years.

About Assessment Report received on 8 March 2016 by the Guardia di Finanza, please refer to what is already stated in the paragraph " *Significant events subsequent to year end* " in the Management Report.

#### *SE.CO.SV.IM.S.r.l. - Tax audit*

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 thousand and Euro 1.764 thousand). Considering the above groundless findings, the two companies have proposed joint appeals to the CTP of Rome, received during the month of October 2015.

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 Euro 2.009 thousand and Euro 511 thousand) 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; the relief regarding VAT for both 2010-2011 fiscal years has been canceled by the latter in July 2015, while the claim on IRAP's matter is still pending for discussion.

#### *Tax inspection ELV S.p.A.*

In June 2015 was completed a controlling activity conducted at the head office, related only to VAT of 2013 by the "Agenzia delle Entrate" - DP1 Rome and on which has not yet been notified any act of application of sanctions; ELV company S.p.A. nevertheless registered in its financial statements, on 31 December 2015, a provision of purely formal nature, considered appropriate in relation to the type of reliefs.



## 6. DISCLOSURES ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

### Categories and fair value of financial assets and liabilities

The following tables show the different valuation methods for each class of financial instruments at December 31, 2015 and 2014 in accordance with IAS 39 and IFRS 7.

Amounts as of December 31, 2015:

| Amounts in Euro thousands                              | Balance as of<br>December 31,<br>2015 | Class of<br>financial<br>instruments<br>(IAS 39) |   |  | Fair<br>value* |
|--|---------------------------------------|--|---|--|----------------|
|  |                                       | <i>Loan and<br/>Receivables</i>                  | <i>Financial<br/>liabilities<br/>recognized at<br/>amortized cost</i> | <i>Derivatives<br/>financial<br/>instruments</i> |                |
| FINANCIAL ASSETS                                       |                                       |  |   |  |                |
| - Non-current financial assets                         | 6,400                                 | 6,400  |   |  | 6,400          |
| - Other non-current assets                             | 8,633                                 | 8,633  |   |  | 8,633          |
| - Current financial assets                             | 130                                   | 130  |   |  | 130            |
| - Trade receivables                                    | 8,344                                 | 8,344  |   |  | 8,344          |
| - Other current assets                                 | 9,697                                 | 9,697  |   |  | 9,697          |
| - Cash and cash equivalents                            | 70,378                                | 70,378   |   |  | 70,378         |
|  |                                       | <b>103,582</b>                                   |   |  |                |
| FINANCIAL LIABILITIES                                  |                                       |  |   |  |                |
| - Non-current financial liabilities                    | 91,272                                | 91,272   |   |  | 91,272         |
| - Current financial liabilities                        | 8,767                                 | 8,399  | 368   |  | 8,767          |
| - Current portion of non-current financial liabilities | 4,439                                 | 4,439  |   |  | 4,439          |
| - Other non-current liabilities                        | 41,217                                | 41,217   |   |  | 41,217         |
| - Other current liabilities                            | 8,432                                 | 8,432  |   |  | 8,432          |
| - Trade payables                                       | 46,872                                | 46,872   |   |  | 46,872         |
|  |                                       | <b>200,631</b>                                   | <b>368</b>  |  |                |

\* Where not available the fair value, the data included the table is related to cost.

Amounts as of December 31, 2014:

| Amounts in Euro thousands | Balance as of<br>December 31,<br>2014 | Class of<br>financial<br>instruments<br>(IAS 39) |   |  | Fair<br>value* |
|---------------------------|---------------------------------------|--|---|--|----------------|
|                           |                                       | <i>Loan and<br/>Receivables</i>                  | <i>Financial<br/>liabilities<br/>recognized at<br/>amortized cost</i> | <i>Derivatives<br/>financial<br/>instruments</i> |                |
| FINANCIAL ASSETS          |                                       |  |   |  |                |



|                                 |         |                |         |
|---------------------------------|---------|----------------|---------|
| - Non-current financial assets  | 6,200   | 6,200          | 6,200   |
| - Other non-current assets      | 11,397  | 11,397         | 11,397  |
| - Current financial assets      | 21,454  | 21,454         | 21,454  |
| - Trade receivables             | 6,927   | 6,927          | 6,927   |
| - Other current assets          | 12,155  | 12,155         | 12,155  |
| - Cash and cash equivalents     | 165,232 | 165,232        | 165,232 |
|                                 |         | <b>223,365</b> |         |
| FINANCIAL LIABILITIES           |         |                |         |
| - Other non-current liabilities | 39,230  | 39,230         | 39,230  |
| - Current financial liabilities | 7,919   | 7,919          | 7,919   |
| - Other current liabilities     | 10,060  | 10,060         | 10,060  |
| - Trade payables                | 51,641  | 51,641         | 51,641  |
|                                 |         | <b>108,850</b> |         |

\* Where not available the fair value, the data included the table is related to cost

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

### Fair value of financial assets and liabilities: calculation methods

In relation to financial instruments recognized at fair value in the statement of financial position, IFRS 7 requires that financial instruments stated at fair value in the financial statements be classified based on a hierarchy with three levels that reflect the level of input used in determining the fair value. The following levels must be shown:

- level 1 – quoted prices on an active market for the asset or liability being measured;
- level 2 – input other than the quoted prices per level 1 that may be observed directly (prices) or indirectly (derived from prices) on the market;
- level 3 – inputs not based on observable market data.

Derivative financial instruments (interest rate swaps) related to "Senior Term and Revolving Facilities Agreement" granted by Banca IMI and other leading financial institutions on April 1, 2015, are recognized at fair value and are included in the financial assets and liabilities.

The following table shows assets and liabilities measured at fair value at 31 December 2015 by hierarchical level of fair value measurement.

| Amounts in Euro thousands        | Level 1 | Level 2 | Level 3 |
|----------------------------------|---------|---------|---------|
| Derivative financial instruments | -       | 368     | -       |

### Financial charges and income identified pursuant to IAS 39

The tables reported below show an analysis of the amounts relative to financial charges and income broken down pursuant to the categories set out in IAS 39 for fiscal years 2015 and 2014.

#### Year 2015

|  | Financial income/(expenses) recognized to income statement |                            | Financial income/(expenses) recognized to other comprehensive income |
|--|--|----------------------------|--|
| Amounts in Euro thousands                          | From interest  | From changes in fair value | From changes in fair value   |
| Loan and receivables                               | 784  | -                          | -  |
| Financial liabilities recognized at amortized cost | (3,912)  | -                          | -  |
| Derivative financial instruments                   | (103)  | -                          | (368)  |

|       |         |   |       |
|-------|---------|---|-------|
| Total | (3.231) | - | (368) |
|-------|---------|---|-------|

#### Year 2014

|  | Financial income/(expenses) recognized to income statement |                            | Financial income/(expenses) recognized to other comprehensive income |
|--|--|----------------------------|--|
|  | From interest  | From changes in fair value | From interest  |
| Amounts in Euro thousands                          |  |                            |  |
| Loan and receivables                               | 1,875  | -                          | -  |
| Financial liabilities recognized at amortized cost | (11,506)   | -                          | -  |
| Derivative financial instruments                   | -  | -                          | -  |
| Total  | (9,631)  | -                          | -  |

### Classes of financial risks and relevant 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 risk**

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, 2015 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, 2015, an exposure for past due receivables of approximately Euro 6,033 thousand, excluding receivables towards Europropulsion S.A. (Euro 10.500 thousand as at December 31, 2014). 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 risk**

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 optimize 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, 2015 (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.

Amounts as of December 31, 2015:

| Amounts in Euro thousands  | Balance as of December 31, 2015 | On-demand | within 12 months | From 1 to 2 years | From 2 to 3 years | From 3 to 4 years | From 4 to 5 years | Over 5 years | Total   |
|--|---------------------------------|-----------|------------------|-------------------|-------------------|-------------------|-------------------|--------------|---------|
| Financial liabilities recognized at amortized cost:  |                                 |           |                  |                   |                   |                   |                   |              |         |
| Current financial liabilities:   |                                 |           |                  |                   |                   |                   |                   |              |         |
| - Financial liabilities from joint venture   | 8,399                           | 8,399     | -                | -                 | -                 | -                 | -                 | -            | 8,399   |
| Financial liabilities:   |                                 |           |                  |                   |                   |                   |                   |              |         |
| - Financial liabilities Senior Term and Revolving Facilities Agreement   | 95,711                          | -         | 8,736            | 9,404             | 10,923            | 12,371            | 12,901            | 68,998       | 123,333 |
|  | 104,110                         | 8,399     | 8,736            | 9,404             | 10,923            | 12,371            | 12,901            | 68,998       | 131,732 |
| Trade payables   | 46,872                          | -         | 46,872           | -                 | -                 | -                 | -                 | -            | 46,872  |
|  | 46,872                          | -         | 46,872           | -                 | -                 | -                 | -                 | -            | 46,872  |
| Other non-current liabilities:   |                                 |           |                  |                   |                   |                   |                   |              |         |
| - Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 - portion due after one year | 41,217                          | -         | -                | -                 | -                 | -                 | -                 | 41,217       | 41,217  |
|  | 41,217                          | -         | -                | -                 | -                 | -                 | -                 | 41,217       | 41,217  |
| Other current liabilities:   |                                 |           |                  |                   |                   |                   |                   |              |         |
| - Social security payables   | 3,308                           | -         | 3,308            | -                 | -                 | -                 | -                 | -            | 3,308   |
| - Other payables to third parties  | 5,124                           | -         | 5,124            | -                 | -                 | -                 | -                 | -            | 5,124   |
|  | 8,432                           | -         | 8,432            | -                 | -                 | -                 | -                 | -            | 8,432   |

|       |         |       |        |       |        |        |        |         |         |
|-------|---------|-------|--------|-------|--------|--------|--------|---------|---------|
| Total | 200,631 | 8,399 | 64,040 | 9,404 | 10,923 | 12,371 | 12,901 | 110,215 | 228,253 |
|-------|---------|-------|--------|-------|--------|--------|--------|---------|---------|

Amounts as of December 31, 2014:

| Amounts in Euro thousands  | Balance as of December 31, 2014 | On-demand | within 12 months | From 1 to 2 years | From 2 to 3 years | From 3 to 4 years | From 4 to 5 years | Over 5 years | Total   |
|--|---------------------------------|-----------|------------------|-------------------|-------------------|-------------------|-------------------|--------------|---------|
| Financial liabilities recognized at amortized cost:  |                                 |           |                  |                   |                   |                   |                   |              |         |
| Current financial liabilities:   |                                 |           |                  |                   |                   |                   |                   |              |         |
| - <i>Financial liabilities from joint venture</i>  | 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 - portion due after one year | 39,230                          | -         | -                | -                 | -                 | -                 | -                 | 39,230       | 39,230  |
|  | 39,230                          | -         | -                | -                 | -                 | -                 | -                 | 39,230       | 39,230  |
| Other current liabilities:   |                                 |           |                  |                   |                   |                   |                   |              |         |
| - Social security payables   | 3,351                           | -         | 3,351            | -                 | -                 | -                 | -                 | -            | 3,351   |
| - Other payables to third parties  | 6,709                           | -         | 6,709            | -                 | -                 | -                 | -                 | -            | 6,709   |
|  | 10,060                          | -         | 10,060           | -                 | -                 | -                 | -                 | -            | 10,060  |
| Total  | 108,850                         | 7,919     | 61,701           | -                 | -                 | -                 | -                 | 39,230       | 108,850 |

## Market risk

### Foreign currency risk

The Group also operates on markets where transactions are denominated in currencies other than the Euro. In such cases, goods for sale are mainly purchased from foreign suppliers in Euros while sales are made on the relevant domestic markets in the local currency. Therefore, whenever possible, forward contracts for currency purchases are entered into to mitigate the negative effects deriving from exchange rate fluctuation.

### Interest rate risk

The Group is exposed to the risk of interest rate essentially with reference to the floating rate financial loan "*Senior Term and Revolving Facilities Agreement*" granted by a pool of reputed international credit institutes on April 1, 2015. Interest rate fluctuations may have a negative or positive impact on the income of the Group and might indirectly affect the costs and performance of borrowing and investment operations.

The Group periodically assesses its exposure to the interest rate risk and manages the risk using financial derivative instruments in accordance with the established risk management policies. Under these policies, financial derivative instruments are solely used to the manage exposure to interest rate fluctuations correlated with future cash flows and balance sheet assets and liabilities; speculative activities are neither envisaged nor allowed.

The only instruments used for this purpose are interest rate swaps (IRS).

In relation to some of its loans, the Group uses financial derivative instruments for cash flow hedge purposes with the aim of pre-determining interest payable on loans in order to obtain an ideal pre-defined floating and fixed rate mix for its borrowings. The other parties to these contracts are leading financial institutions.

Derivatives are recognised at fair value.

### Accounting for hedging transactions

The Group uses derivative contracts to safeguard the loan agreement "*Senior Term and Revolving Facilities Agreement*" against the risk of interest rate fluctuations, on the basis of a cash flow hedge strategy.

Consequently, when reporting on hedging transactions in the financial statements, the Group checks whether or not the requirements of IAS 39 on the application of hedge accounting are met.

### Hedging contracts in place

Details of the instruments that were effective at 31 December 2015 are provided below (amounts in Euro thousands):

| Credit institution | Trading date | Final maturity date | Notional amount | Fair Value |
|--------------------|--------------|---------------------|-----------------|------------|
| Société Générale   | 30/06/2015   | 29/06/2018          | 8,943           | (48)       |
| BPM                | 30/06/2015   | 29/06/2018          | 16,260          | (89)       |
| UniCredit          | 30/06/2015   | 30/06/2018          | 8,943           | (49)       |
| Intesa Sanpaolo    | 30/06/2015   | 29/06/2018          | 32,520          | (182)      |
|                    |              |                     | 66,666          | (368)      |

The aim of interest rate hedges is to fix the cost relating to the floating rate long term loan agreements being hedged by entering into a related derivative contract that allows the floating rate interest to be collected in return for payment of interest at a fixed rate.

Derivatives for which the conditions laid down by IAS 39 for application of hedge accounting (formal designation of a hedging relationship; documented, measurable and highly effective hedging relationship) are respected are accounted for on a cash flow hedge basis. This means that, when a hedge agreement is entered into, the related "fair value", regarding the effective portion only, is recorded under an equity reserve. Subsequent changes in "fair value" resulting from movements in the interest rate curve – again only in relation to the effective portion of the hedge – are also recorded under an equity reserve.

During 2015, no events of over-hedging have occurred about future cash outflows being hedged.

The table below shows the following information on derivatives:

- the notional amount at 31 December 2015;
- the fair value of the contracts at the reporting date and the changes in fair value recognized to OCI;
- the ineffective portion or the change in time value recorded in the income statement under Financial expenses.

| Amounts in Euro thousands | Notional amount | Fair Value | Effect recognized to profit and loss | Effect recognized to OCI |
|---------------------------|-----------------|------------|--------------------------------------|--------------------------|
| Interest rate swap        | 66,667          | (368)      | -                                    | (368)                    |
|                           | 66,667          | (368)      | -                                    | (368)                    |

Financial expenses occurred in 2015 related to interest rate swap and recognized to income statement amount to Euro 103 thousand.

There not were any hedging transactions in 2014 and, accordingly, no comparative information have been reported.

## 7. TRANSACTIONS WITH RELATED PARTIES

As at December 31, 2015, 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 2015 and as at December 31, 2014 (amounts in thousands of Euro):

| December 31, 2015  |                   |                           |                       |                |  |                    |
|--|-------------------|---------------------------|-----------------------|----------------|--|--------------------|
| Conunterparty  | Trade receivables | Contract work in progress | Financial receivables | Trade Payables | Advanced for contract work in progress | Financial payables |
| Cinven   | -                 | -                         | -                     | 259            | -                                      | -                  |
| <b>Controlling companies</b>   | -                 | -                         | -                     | <b>259</b>     | -                                      | -                  |
| Finmeccanica S.p.A.  | -                 | -                         | -                     | 342            | -                                      | -                  |
| MBDA Italia S.p.A.   | -                 | 751                       | -                     | -              | 48                                     | -                  |
| MBDA France S.A.   | -                 | 9.774                     | -                     | 42             | 5.918                                  | -                  |
| Thales Alenia Space Italia S.p.A.  | -                 | -                         | -                     | 10             | -                                      | -                  |
| Telespazio S.p.A.  | -                 | -                         | -                     | -              | -                                      | -                  |
| Selex ES S.p.A.  | -                 | -                         | -                     | 321            | -                                      | -                  |
| <b>Companies that have significant influence and related investments</b> | -                 | <b>10.525</b>             | -                     | <b>715</b>     | <b>5.966</b>                           | -                  |
| Servizi Colleferro – Società Consortile per Azioni                       | 194               | -                         | -                     | 11             | -                                      | -                  |
| <b>Not consolidated controlled companies</b>                             | <b>194</b>        | -                         | -                     | <b>11</b>      | -                                      | -                  |
| Consorzio Servizi Acqua Potabile   | 338               | -                         | -                     | -              | -                                      | -                  |
| Termica Colleferro S.p.A.  | 806               | -                         | 6.530                 | 319            | -                                      | -                  |
| Europropulsion S.A.  | 605               | 29.025                    | -                     | 1.097          | 32.576                                 | 8.399              |
| <b>Associated and jointly controlled companies</b>                       | <b>1.749</b>      | <b>29.025</b>             | <b>6.530</b>          | <b>1.416</b>   | <b>32.576</b>                          | <b>8.399</b>       |
| <b>Totale related parties</b>  | <b>1.943</b>      | <b>39.550</b>             | <b>6.530</b>          | <b>2.401</b>   | <b>38.542</b>                          | <b>8.399</b>       |
| <b>Total</b>   | <b>8.344</b>      | <b>64.562</b>             | <b>6.530</b>          | <b>46.872</b>  | <b>86.876</b>                          | <b>104.478</b>     |
| Effect on total  | 23,3%             | 61,3%                     | 100,0%                | 5,1%           | 44,4%                                  | 8,0%               |

December 31, 2014

| Counterparty   | Trade receivables/<br>Other | Contract work in progress | Financial receivables | Trade payables | Advanced for contract work in progress | Financial payables |
|--|-----------------------------|---------------------------|-----------------------|----------------|--|--------------------|
| Cinven   | -                           | -                         | -                     | 255            | -                                      | -                  |
| <b>Controlling companies</b>   | <b>-</b>                    | <b>-</b>                  | <b>-</b>              | <b>255</b>     | <b>-</b>                               | <b>-</b>           |
| Finmeccanica S.p.A.  | -                           | -                         | -                     | 170            | -                                      | -                  |
| MBDA Italia S.p.A.   | -                           | 1.026                     | -                     | -              | 590                                    | -                  |
| MBDA France S.A.   | 31                          | 4.401                     | -                     | -              | -                                      | -                  |
| Thales Alenia Space Italia S.p.A.  | -                           | -                         | -                     | 10             | -                                      | -                  |
| Telespazio S.p.A.  | -                           | -                         | -                     | -              | -                                      | -                  |
| Selex ES S.p.A.  | -                           | -                         | -                     | 218            | -                                      | -                  |
| <b>Companies that have significant influence and related investments</b> | <b>31</b>                   | <b>5.427</b>              | <b>-</b>              | <b>398</b>     | <b>590</b>                             | <b>-</b>           |
| Servizi Colferro – Società Consortile per Azioni                         | 252                         | -                         | -                     | 42             | -                                      | -                  |
| <b>Non consolidated controlled companies</b>                             | <b>252</b>                  | <b>-</b>                  | <b>-</b>              | <b>42</b>      | <b>-</b>                               | <b>-</b>           |
| Consorzio Servizi Acqua Potabile   | 343                         | -                         | -                     | 64             | -                                      | -                  |
| Termica Colferro S.p.A.  | 858                         | -                         | 6.341                 | 125            | -                                      | -                  |
| Europropulsion S.A.  | 467                         | 2.323                     | -                     | 5.059          | 18.019                                 | 7.919              |
| <b>Associated and jointly controlled companies</b>                       | <b>1.668</b>                | <b>2.323</b>              | <b>6.341</b>          | <b>5.248</b>   | <b>18.019</b>                          | <b>7.919</b>       |
| <b>Total related parties</b>   | <b>1.951</b>                | <b>7.750</b>              | <b>6.341</b>          | <b>5.943</b>   | <b>18.609</b>                          | <b>7.919</b>       |
| <b>Total</b>   | <b>6.927</b>                | <b>64.562</b>             | <b>27.654</b>         | <b>51.641</b>  | <b>41.849</b>                          | <b>7.919</b>       |
| Effect on total  | 28,2%                       | 12,0%                     | 22,9%                 | 11,5%          | 44,5%                                  | 100,0%             |

The main effects on profit and loss of the transactions between the Group and related parties for 2015 and 2014 are as follow (amounts in thousands of Euro):

| Year 2015  |                                   |                                     |                                |                  |                    |
|--|-----------------------------------|-------------------------------------|--------------------------------|------------------|--------------------|
| Counterparty   | Operating revenues <sup>(1)</sup> | Change in contract work in progress | Operating costs <sup>(2)</sup> | Financial income | Financial expenses |
| Cinven   | -                                 | -                                   | 1.054                          | -                | -                  |
| <b>Controlling companies</b>   | <b>-</b>                          | <b>-</b>                            | <b>1.054</b>                   | <b>-</b>         | <b>-</b>           |
| Finmeccanica S.p.A.  | -                                 | -                                   | 167                            | -                | -                  |
| MBDA Italia S.p.A.   | 3.495                             | (1.979)                             | -                              | -                | -                  |
| MBDA France S.A.   | 8.789                             | 408                                 | -                              | -                | -                  |
| Thales Alenia Space Italia S.p.A.  | 1.884                             | -                                   | -                              | -                | -                  |
| Selex ES S.p.A.  | -                                 | -                                   | 487                            | -                | -                  |
| Telespazio S.p.A.  | -                                 | -                                   | 77                             | -                | -                  |
| <b>Companies that have significant influence and related investments</b> | <b>14.168</b>                     | <b>(1.571)</b>                      | <b>731</b>                     | <b>-</b>         | <b>-</b>           |
| Servizi Colferro – Società Consortile per Azioni                         | 222                               | -                                   | 918                            | -                | -                  |
| <b>Non consolidated controlled companies</b>                             | <b>222</b>                        | <b>-</b>                            | <b>918</b>                     | <b>-</b>         | <b>-</b>           |
| Consorzio Servizi Acqua Potabile   | 71                                | -                                   | 276                            | -                | -                  |
| Termica Colferro S.p.A.  | 88                                | -                                   | 6.963                          | 258              | -                  |
| Europropulsion S.A.  | 9.142                             | 98.096                              | 35.039                         | 1                | -                  |
| <b>Associated and jointly controlled companies</b>                       | <b>9.301</b>                      | <b>98.096</b>                       | <b>42.278</b>                  | <b>259</b>       | <b>-</b>           |
| <b>Total related parties</b>   | <b>23.691</b>                     | <b>96.525</b>                       | <b>44.981</b>                  | <b>259</b>       | <b>-</b>           |

|                 |               |                |                |              |              |
|-----------------|---------------|----------------|----------------|--------------|--------------|
| <b>Total</b>    | <b>70.016</b> | <b>209.211</b> | <b>269.617</b> | <b>2.272</b> | <b>5.603</b> |
| Effect on total | 33,8%         | 46,1%          | 16,7%          | 11,4%        | 0,0%         |

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

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

| Conunterparty  | Year 2014                         |                                     |                                |                  |                    |
|--|-----------------------------------|-------------------------------------|--------------------------------|------------------|--------------------|
|  | Operating revenues <sup>(1)</sup> | Change in contract work in progress | Operating costs <sup>(2)</sup> | Financial income | Financial expenses |
| Cinven   | -                                 |                                     | 1.012                          | -                | -                  |
| <b>Controlling companies</b>   | <b>-</b>                          |                                     | <b>1.012</b>                   | <b>-</b>         | <b>-</b>           |
| Finmeccanica S.p.A.  | -                                 |                                     | 167                            | -                | -                  |
| MBDA Italia S.p.A.   | 491                               | 3.294                               | -                              | -                | -                  |
| MBDA France S.A.   | 77                                | 5.414                               | -                              | -                | -                  |
| Thales Alenia Space Italia S.p.A.  | -                                 |                                     | -                              | -                | -                  |
| Selex ES S.p.A.  | -                                 |                                     | 269                            | -                | -                  |
| Telespazio S.p.A.  | -                                 |                                     | 436                            | -                | -                  |
| <b>Companies that have significant influence and related investments</b> | <b>568</b>                        | <b>8.708</b>                        | <b>872</b>                     | <b>-</b>         | <b>-</b>           |
| Servizi Colferro - Società Consortile per Azioni                         | 272                               |                                     | 956                            | -                | -                  |
| <b>Not consolidated controlled companies</b>                             | <b>272</b>                        | <b>-</b>                            | <b>956</b>                     | <b>-</b>         | <b>-</b>           |
| Consorzio Servizi Acqua Potabile   | 63                                |                                     | 280                            | -                | -                  |
| Termica Colferro S.p.A.  | 17                                |                                     | 8.373                          | 141              | -                  |
| Europropulsion S.A.  | 3.459                             | 91.202                              | 23.038                         | -                | 29                 |
| <b>Associated and jointly controlled companies</b>                       | <b>3.539</b>                      | <b>91.202</b>                       | <b>31.691</b>                  | <b>141</b>       | <b>29</b>          |
| <b>Total related parties</b>   | <b>4.379</b>                      | <b>99.910</b>                       | <b>34.531</b>                  | <b>141</b>       | <b>29</b>          |
| <b>Total</b>   | <b>97.245</b>                     | <b>127.215</b>                      | <b>213.898</b>                 | <b>2.452</b>     | <b>12.446</b>      |
| Effect on total  | 4,5%                              | 78,5%                               | 16,1%                          | 5,8%             | 0,2%               |

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

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

#### Transactions with controlling companies

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

#### Transactions with companies exercising significant influence

Transactions with Finmeccanica S.p.A., which exercises significant influence, are represented by assistance and consultancy services. Transactions with affiliates Finmeccanica S.p.A. are commercial.

#### 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;

#### *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;
- operating revenues related to the transactions described above in the context of trade receivables;

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.

The following tables show the main balance sheet figures of joint ventures and associates including respectively Europropulsion S.A. (50% owned) headquartered in France and Termica Colleferro S.p.A. (40% owned), headquartered in Italy, which activity consists in the construction and operation of a thermal power plant,

#### Europropulsion S.A.

|                                       | 2015      | 2014      |
|---------------------------------------|-----------|-----------|
| Current assets                        | 343.353   | 332.704   |
| Non current assets                    | 3.079     | 3.365     |
| Current liabilities                   | 341.133   | 329.386   |
| Non-current liabilities               | 964       | 1.352     |
| Revenues and other operating revenues | 221.421   | 215.285   |
| Operating costs                       | (217.324) | (208.977) |
| Profit for the year                   | 3.786     | 3.939     |
| of which share of the Group           | 1.893     | 1.970     |

#### Termica Colleferro S.p.A.

|                      | 2015   | 2014   |
|----------------------|--------|--------|
| <i>Balance Sheet</i> |        |        |
| Total assets         | 55.440 | 59.011 |
| Total liabilities    | 50.421 | 51.382 |
| Equity               | 5.019  | 7.629  |

|                             |         |         |
|-----------------------------|---------|---------|
| of which share of the Group | 2.008   | 3.052   |
| <i>Income Statement</i>     |         |         |
| Revenues                    | 17.084  | 16.852  |
| Costs and other income, net | 18.095  | 17.397  |
| Loss for the year           | (2.610) | (2.032) |
| of which share of the Group | (1.044) | (813)   |

## 8. GROUP COMPANIES AS AT DECEMBER 31, 2015

| Company  | Registered office      | Currency     | Capital stock | % Owned by Group | Participating companies                        | % Owned    |
|--|------------------------|--------------|---------------|------------------|--|------------|
| <b>Controlled companies consolidated on a line-by-line basis</b>     |                        |              |               |                  |  |            |
| ASPropulsion International B.V.                                      | Amsterdam (NL)         | Euro         | 18.000        | 100%             | Avio S.p.A.                                    | 100%       |
| SE.CO.SV.IM. S.r.l.  | Roma                   | Euro         | 53.929.691    | 100%             | ASPropulsion International B.V.                | 100%       |
| ELV S.p.A.   | Roma                   | 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 Rupee | 16.060.000    | 100%             | Avio S.p.A.<br>ASPropulsion International B.V. | 95%<br>5%  |
| <b>Controlled companies not consolidated</b>                         |                        |              |               |                  |  |            |
| Servizi Colleferro - Società Consortile per Azioni                   | Colleferro (Rome)      | Euro         | 120.000       | 52% (*)          | Avio S.p.A.<br>SE.CO.SV.IM. S.r.l.             | 32%<br>20% |
| <b>Companies consolidated using equity method</b>                    |                        |              |               |                  |  |            |
| Europropulsion S.A.  | Suresnes (France)      | Euro         | 1.200.000     | 50%              | Avio S.p.A.                                    | 50%        |
| Termica Colleferro S.p.A.  | Bologna                | Euro         | 6.100.000     | 40%              | Avio S.p.A.                                    | 40%        |
| <b>Associated and jointly controlled companies (carried at cost)</b> |                        |              |               |                  |  |            |
| Consorzio Servizi Acqua Potabile                                     | Colleferro (Rome)      | Euro         | -             | 50%              | Avio S.p.A.<br>SE.CO.SV.IM. S.r.l.             | 25%<br>25% |
| Consorzio Sitab in liquidazione                                      | Roma                   | 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 2015 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                        | 2015 fees  |
|------------------|---|------------|
| Audit            | Deloitte & Touche S.p.A.                | 94         |
|                  | Deloitte Network                        | -          |
|                  | Others                                  | 38         |
| Attestation      | Deloitte & Touche S.p.A. <sup>(1)</sup> | 6          |
| <b>Total</b>     |   | <b>160</b> |

(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.

\* \* \*

March 31, 2016

for the BOARD OF DIRECTORS  
Chief Executive Officer  
*Giulio Ranzo*



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**INDEPENDENT AUDITORS' REPORT  
PURSUANT TO ART. 14 OF  
LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010**

**To the Shareholders of  
AVIO S.p.A.**

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Avio S.p.A. and its subsidiaries (the "Avio Group"), which comprise the statement of financial position as at December 31, 2015, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and the explanatory notes.

*Management's Responsibility for the Consolidated Financial Statements*

The Company's Directors are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11, no. 3, of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Avio Group as at December 31, 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Report on Other Legal and Regulatory Requirements**

*Opinion on the consistency of the report on operations with the consolidated financial statements*

We have performed the procedures indicated in the Auditing Standard (SA Italia) no. 720B in order to express, as required by law, an opinion on the consistency of the report on operations, which is the responsibility of the Directors of Avio S.p.A., with the consolidated financial statements of the Avio Group as at December 31, 2015. In our opinion the report on operations is consistent with the consolidated financial statements of the Avio Group as at December 31, 2015.

DELOITTE & TOUCHE S.p.A.

Franco Chiavazza  
Partner

Turin, Italy  
April 1<sup>st</sup>, 2016

*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        |      | December 31,<br>2015 | December 31,<br>2014 |
| (amount in Euro)                       |      |                      |                      |
| <b>ASSETS</b>                          |      |                      |                      |
| <b>Non-current assets</b>              |      |                      |                      |
| Property, plant and equipment          | 3.1  | 26,944,634           | 24,354,923           |
| Investment Property                    |      | -                    | -                    |
| Goodwill                               | 3.2  | 219,100,000          | 219,100,000          |
| Intangible assets with a definite life | 3.3  | 87,695,432           | 93,551,227           |
| Investments                            | 3.4  | 65,230,664           | 68,023,766           |
| Non current financial assets           | 3.5  | 6,400,000            | 6,200,000            |
| Deferred tax assets                    | 3.6  | 54,126,223           | 51,648,339           |
| Other non-current assets               | 3.7  | 8,468,932            | 11,209,662           |
| <b>Total non-current assets</b>        |      | <b>467,965,885</b>   | <b>474,087,917</b>   |
| <b>Current assets</b>                  |      |                      |                      |
| Inventories                            | 3.8  | 64,421,151           | 46,868,985           |
| Contract work in progress              | 3.9  | 82,501,015           | 45,415,075           |
| Trade receivables                      | 3.10 | 8,887,203            | 6,561,804            |
| Current financial assets               | 3.11 | 129,701              | 21,453,674           |
| Cash and cash equivalents              | 3.12 | 67,504,660           | 159,298,421          |
| Current tax assets                     | 3.13 | 13,859,354           | 17,477,153           |
| Other current assets                   | 3.14 | 7,906,397            | 11,737,520           |
| <b>Total current assets</b>            |      | <b>245,209,481</b>   | <b>308,812,632</b>   |
| <b>TOTAL ASSETS</b>                    |      | <b>713,175,366</b>   | <b>782,900,549</b>   |

| AVIO S.P.A.  |      |                      |                      |
|--|------|----------------------|----------------------|
| STATEMENT OF FINANCIAL POSITION                    |      | December 31,<br>2015 | December 31,<br>2014 |
| (amount in Euro)                                   |      |                      |                      |
| <b>EQUITY</b>                                      |      |                      |                      |
| 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 | 77,611,801           | 78,409,291           |
| Retained earnings/(losses)                         |      | 81,868,519           | 296,320,439          |
| Profit/(Loss) for the year                         |      | 5,406,278            | 5,548,080            |
| <b>Totale Equity</b>                               |      | <b>286,462,380</b>   | <b>501,853,592</b>   |
| <b>TOTAL EQUITY</b>                                |      | <b>286,462,380</b>   | <b>501,853,592</b>   |
| <b>LIABILITIES</b>                                 |      |                      |                      |
| <b>Non-current liabilities</b>                     |      |                      |                      |
| Non current financial liabilities                  | 3.18 | 91,271,632           | -                    |
| Provisions for employee benefits                   | 3.19 | 8,716,485            | 9,203,330            |
| Provisions for risks and charges                   | 3.20 | 7,646,665            | 10,674,980           |
| Deferred tax liabilities                           |      | -                    | -                    |
| Other non-current liabilities                      | 3.21 | 55,530,424           | 54,988,685           |
| <b>Total non-current liabilities</b>               |      | <b>163,165,206</b>   | <b>74,866,995</b>    |
| <b>Current liabilities</b>                         |      |                      |                      |
| Current financial liabilities                      | 3.22 | 44,401,261           | 47,470,825           |
| Current share of non current financial liabilities | 3.23 | 4,439,167            | -                    |
| Provisions for risks and charges                   | 3.24 | 7,657,586            | 16,225,860           |
| Trade payables                                     | 3.25 | 43,010,009           | 47,934,675           |
| Advances on contract work in progress              | 3.8  | 152,028,830          | 75,725,006           |
| Current tax payables                               | 3.25 | 1,497,835            | 6,113,535            |
| Other current liabilities                          | 3.26 | 10,513,092           | 12,710,061           |
| <b>Total current liabilities</b>                   |      | <b>263,547,780</b>   | <b>206,179,962</b>   |
| <b>TOTAL LIABILITIES</b>                           |      | <b>426,712,986</b>   | <b>281,046,957</b>   |
| <b>TOTAL LIABILITIES AND EQUITY</b>                |      | <b>713,175,366</b>   | <b>782,900,549</b>   |



| AVIO S.P.A. - INCOME STATEMENT  |      | Year<br>2015       | Year<br>2014       |
|---|------|--------------------|--------------------|
| (amount in Euro)  |      |                    |                    |
| Revenues  | 3.27 | 232,558,382        | 211,615,965        |
| Change in inventory of finished and semi-finished goods   |      | 462,263            | 1,041,132          |
| Other operating income  | 3.28 | 5,940,912          | 6,342,205          |
| Consumption of raw materials  | 3.29 | (65,658,376)       | (58,949,044)       |
| Cost of services  | 3.30 | (117,493,568)      | (108,291,247)      |
| Personnel costs   | 3.31 | (37,230,593)       | (35,630,546)       |
| Depreciation and amortization   | 3.32 | (14,807,140)       | (14,584,060)       |
| Impairment losses and reversals of impairment   |      | -                  | -                  |
| Other operating costs   | 3.33 | (5,046,397)        | (2,942,294)        |
| Capitalized costs for internally generated assets   | 3.34 | 6,293,801          | 9,781,387          |
| <b>OPERATING PROFIT</b>   |      | <b>5,019,284</b>   | <b>8,383,498</b>   |
| Financial income  | 3.35 | 2,186,096          | 2,379,046          |
| Financial expenses  | 3.36 | (4,906,454)        | (12,013,859)       |
| <b>NET FINANCIAL INCOME/(EXPENSES)</b>  |      | <b>(2,720,358)</b> | <b>(9,634,812)</b> |
| Share of income/(expenses) in investments in associated companies accounted for using the equity method |      | -                  | -                  |
| Other income/(expenses) from financial investments  | 3.37 | 791,399            | 3,978,358          |
| <b>NET INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS</b>   |      | <b>791,399</b>     | <b>3,978,358</b>   |
| <b>PROFIT/(LOSS) BEFORE TAXES AND DISCONTINUED OPERATIONS</b>   |      | <b>3,090,324</b>   | <b>2,727,043</b>   |
| <b>INCOME TAXES</b>   | 3.38 | <b>2,315,954</b>   | <b>4,170,209</b>   |
| <b>PROFIT/(LOSS) FROM CONTINUING OPERATIONS</b>   |      | <b>5,406,278</b>   | <b>6,897,252</b>   |
| <b>PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS NET OF TAXES</b>  |      |                    | (1,349,172)        |
| <b>PROFIT/(LOSS) FOR THE YEAR</b>   |      | <b>5,406,278</b>   | <b>5,548,080</b>   |

| AVIO S.P.A.  |                  |                  |
|--|------------------|------------------|
| STATEMENT OF COMPREHENSIVE INCOME  | Year<br>2015     | Year<br>2014     |
| (amount in Euro)   | Continuing       | Continuing       |
| <b>PROFIT/(LOSS) FOR THE YEAR (A)</b>  | <b>5,406,278</b> | <b>5,548,080</b> |
| Gains/(losses) included directly in equity (which are not subsequently reclassified to income statement) |                  |                  |
| - Actuarial gains and losses-reserve Actuarial gains/losses  | (48,891)         | (588,583)        |
| 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   | -                | -                |
| - interest rate  | (367,990)        | -                |
| - commodities  | -                | -                |
| Tax effect related to gains/(losses)   | (380,608)        | 161,861          |
| <b>TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX (B)</b>  | <b>(797,489)</b> | <b>(426,722)</b> |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR (A+B)</b>   | <b>4,608,789</b> | <b>5,121,358</b> |

## Avio S.p.A.

### STATEMENT OF CHANGES IN EQUITY

(€ thousands)

|   | Share capital | Additional paid-in capital | Legal reserve | Other reserves              |                                       |                                 | Carry forward profit (losses) | Profit (losses) for the Year | Total Equity     |
|---|---------------|----------------------------|---------------|-----------------------------|---------------------------------------|---------------------------------|-------------------------------|------------------------------|------------------|
|   |               |                            |               | Currency conversion reserve | Cash flow hedge interest rate reserve | Actuarial profit/losses reserve |                               |                              |                  |
| <b>Net Equity at December 31, 2013</b>  | <b>40,000</b> | <b>73,576</b>              | <b>8,000</b>  | <b>-</b>                    | <b>-</b>                              | <b>(1,669)</b>                  | <b>80,469</b>                 | <b>-</b>                     | <b>1,245,356</b> |
| Allocation of prior year profit/loss  | -             | -                          | -             | 36                          | -                                     | -                               | 1,245,320                     | (1,245,356)                  | -                |
| Profit/(Loss) for the year  | -             | -                          | -             | -                           | -                                     | -                               | -                             | 5,548                        | 5,548            |
| Distribution dividends  | -             | -                          | -             | -                           | -                                     | -                               | (949,000)                     | -                            | (949,000)        |
| 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                             | -             | -                          | -             | -                           | -                                     | -                               | -                             | -                            | -                |
| Comprehensive income/losses for the year  | -             | -                          | -             | 36                          | -                                     | -                               | 296,320                       | (1,239,808)                  | (943,452)        |
| Other movements in equity   | -             | -                          | -             | -                           | -                                     | -                               | -                             | -                            | -                |
| Transfeer effects   | -             | -                          | -             | -                           | -                                     | -                               | -                             | -                            | -                |
| Effects of reserve distribution   | -             | -                          | -             | -                           | -                                     | -                               | -                             | -                            | -                |
| Other changes   | -             | -                          | -             | -                           | -                                     | (427)                           | -                             | -                            | (427)            |
| <b>Net Equity at December 31, 2014</b>  | <b>40,000</b> | <b>73,576</b>              | <b>8,000</b>  | <b>36</b>                   | <b>-</b>                              | <b>(2,096)</b>                  | <b>80,469</b>                 | <b>296,320</b>               | <b>5,548</b>     |
| Allocation of prior year profit/loss  | -             | -                          | -             | -                           | -                                     | -                               | 5,548                         | (5,548)                      | -                |
| Profit/(Loss) for the year  | -             | -                          | -             | -                           | -                                     | -                               | -                             | 5,406                        | 5,406            |
| Other comprehensive income / (losses):  | -             | -                          | -             | -                           | -                                     | -                               | -                             | -                            | -                |
| Changes in fair value of hedging derivatives, net of related tax effect fiscale | -             | -                          | -             | -                           | (367)                                 | -                               | -                             | -                            | (367)            |
| Actuarial profit/ losses, net of related tax effect                             | -             | -                          | -             | -                           | -                                     | (430)                           | -                             | -                            | (430)            |
| Comprehensive income/losses for the year  | -             | -                          | -             | -                           | (367)                                 | (430)                           | 5,548                         | (142)                        | 4,609            |
| Distribution dividends  | -             | -                          | -             | -                           | -                                     | -                               | (220,000)                     | -                            | (220,000)        |
| Other movements in equity   | -             | -                          | -             | -                           | -                                     | -                               | -                             | -                            | -                |
| Transfeer effects   | -             | -                          | -             | -                           | -                                     | -                               | -                             | -                            | -                |
| Effects of reserve distribution   | -             | -                          | -             | -                           | -                                     | -                               | -                             | -                            | -                |
| Other changes   | -             | -                          | -             | -                           | -                                     | -                               | -                             | -                            | -                |
| <b>Net Equity at December 31, 2015</b>  | <b>40,000</b> | <b>73,576</b>              | <b>8,000</b>  | <b>36</b>                   | <b>(367)</b>                          | <b>(2,526)</b>                  | <b>80,469</b>                 | <b>81,868</b>                | <b>5,406</b>     |
|   |               |                            |               |                             |                                       |                                 |                               |                              | <b>286,462</b>   |

**Avio S.p.A.**  
**STATEMENT OF CASH FLOWS**  
(€ thousands)

|  | 2015             | 2014               |
|--|------------------|--------------------|
| <b>OPERATING ACTIVITIES</b>  |                  |                    |
| Profit/(Loss) for the year from Continuing and Discontinued operations                           | 5,406            | 6,897              |
| Adjustments for:   |                  |                    |
| - income taxes   | (2,316)          | (4,189)            |
| - net (income)/expenses from financial investments   | (791)            | (3,978)            |
| - net financial (income)/expenses not inherent to operating activities                           | 3,134            | 11,135             |
| - depreciation and amortisation  | 14,807           | 14,583             |
| Net changes in provisions for risks  | (4,571)          | 743                |
| Net changes in provision for employee benefits   | (536)            | (929)              |
| <b>Cash provided by operating activities before changes in working capital</b>                   | <b>15,133</b>    | <b>24,262</b>      |
| Changes in:  |                  |                    |
| - Inventories  | (17,552)         | 5,067              |
| - Contract work in progress and advances for contract work in progress                           | 39,217           | 19,009             |
| - Trade receivables  | (2,325)          | (315)              |
| - Trade payables   | (4,925)          | (5,124)            |
| - Other current and non-current assets   | 10,190           | 3,066              |
| - Other current and non-current liabilities  | (6,245)          | (49,082)           |
|  | <b>18,360</b>    | <b>(27,379)</b>    |
| <b>Cash provided by operating activities</b>   | <b>33,493</b>    | <b>(3,117)</b>     |
| Income taxes paid  | (7,025)          | (17,918)           |
| Interest paid  | (3,057)          | -                  |
| <b>Net cash provided by operating activities</b>   | <b>23,411</b>    | <b>(21,035)</b>    |
| <b>INVESTING ACTIVITIES</b>  |                  |                    |
| Capital expenditures for:  |                  |                    |
| - Property, plant, equipment and investment property   | (6,197)          | (5,221)            |
| - Intangible assets with finite useful lives   | (5,343)          | (9,574)            |
| - Investments  | (5)              | -                  |
| Proceeds from sale of fixed assets   |                  | 1,151,078          |
| Dividends from financial investments   | 3,590            | 3,930              |
| Other changes  |                  | (1,368)            |
| <b>Net cash used in investing activities</b>   | <b>(7,955)</b>   | <b>1,138,845</b>   |
| <b>FINANCING ACTIVITIES</b>  |                  |                    |
| Proceeds from long-term borrowings   | 100,000          | -                  |
| Payment of transaction costs related to the amendment and extension of long term borrowings      | (4,875)          | -                  |
| Repayments of long-term borrowings   |                  | (151,064)          |
| Share capital and additional paid-in capital   |                  | -                  |
| Reserve distribution to Shareholders   | (220,000)        | (949,000)          |
| Financing given  | (200)            | (1,400)            |
| Funds transferred to Escrow accounts to guarantee the GE Avio S.r.l, investment's sale operation | 21,313           | 93,694             |
| Other changes in financial assets and liabilities  | (3,488)          | 717                |
| <b>Net cash provided by financing activities</b>   | <b>(107,250)</b> | <b>(1,007,053)</b> |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                      | <b>(91,794)</b>  | <b>110,757</b>     |
| <b>NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>                                | <b>159,298</b>   | <b>48,541</b>      |
| <b>NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>                                      | <b>67,504</b>    | <b>159,298</b>     |

(\*) 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..

## 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 Rome Company Register and with its registered office in Via Antonio Salandra 18, Rome, 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 Private Equity Fund (59,78%), institutional investors whose voting right is exercised according to Cinven Limited's instructions (21,37%), by Finmeccanica S.p.A. (about 14%) and other investors (5%).

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, 2015, 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"),

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.

### 2.2. Financial statements

The financial statements for the year ended December 31, 2015, 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, 2015 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 prudent 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 2014, the Company and certain Italian subsidiaries decided to renew, starting from 2014 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.

## 2.7. New accounting principles

### **ACCOUNTING PRINCIPLES, AMENDMENTS AND INTERPRETATIONS EFFECTIVE FROM JANUARY 1, 2015**

The following amendments, improvements and interpretations have been applied for the first time by the Company from January 1, 2015:

- On May 20, 2013, IFRIC interpretation 21 – Levies was issued. The interpretation clarifies when a liability for levies (other than income taxes) imposed by government agencies should be recognised. This standard addresses both levies that are accounted for in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, and those for which the settlement timing and amount are certain. The interpretation applies retrospectively to reporting periods beginning on or after June 17, 2014. The adoption of this new interpretation had no impact on the consolidated financial statements of the Company.
- On December 12, 2013, the IASB issued document “Annual Improvements to IFRSs: 2011-2013 Cycle” implementing the amendments to some principles within the yearly improvement process (including IFRS 3 Business Combinations – Scope exception for joint ventures, IFRS 13 Fair Value Measurement – Scope of portfolio exception, IAS 40 Investment Properties – Interrelationship between IFRS 3 and IAS 40). The amendments apply to reporting periods beginning on or after January 1, 2015. The adoption of these amendments had no impact on the consolidated financial statements of the Company.

### **IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPROVED BY THE EUROPEAN UNION BUT NOT YET MANDATORY APPLICABLE AND NOT EARLY ADOPTED BY THE COMPANY AS AT DECEMBER 31, 2015**

The Group has not adopted the following new and amended standards, that have been issued but are not mandatory applicable.

- Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions” (issued on November 21, 2013) concerning the recognition of contributions from employees or third parties to defined benefit plans. The amendment applies at the latest for reporting periods beginning on February 1, 2015 or at a later date.
- Amendment to IFRS 11 Joint Arrangements – “Accounting for acquisitions of interests in joint operations” (issued on May 6, 2014) concerning the accounting for acquisitions of interests in a joint operation when the operation constitutes a business. The amendments apply as of January 1, 2016, though early adoption is allowed.
- Amendments to IAS 16 Property, plant and equipment and IAS 41 Agriculture – “Bearer Plants” (issued on June 30, 2014) providing for bearer plants, i.e. fruit trees that bear produce annually (such as vines, hazelnut plants) to be accounted for under IAS 16 (rather than IAS 41). The amendments apply as of January 1, 2016, though early adoption is allowed.
- Amendments to IAS 16 Property, plant and Equipment and IAS 38 Intangibles Assets – “Clarification of acceptable methods of depreciation and amortisation” (issued on May 12, 2014) establishing that a depreciation or amortisation method that is based on revenue is not appropriate, because the revenue arising from the operation of a business of which the asset under depreciation or amortisation is part reflects a different pattern from the mere use of the economic benefits arising from the asset, which is a pre-requisite for depreciation or amortisation. The amendments apply as of January 1, 2016, though early adoption is allowed.
- Amendment to IAS 1 – “Disclosure Initiative” (issued on December 18, 2014): the goal of the amendments is to provide some clarifications on disclosures and other elements that may be perceived as hindrance to a clear and intelligible presentation of financial statements. The amendments apply as of January 1, 2016, though early adoption is allowed.

Directors do not expect any significant effect on the consolidated financial statements of the Group when these amendments are adopted.

On December 12, 2013, the IASB published documents "Annual Improvements to IFRSs: 2010-2012 Cycle" (including IFRS 2 Share Based Payments – Definition of vesting condition, IFRS 3 Business Combination – Accounting for contingent consideration, IFRS 8 Operating segments – Aggregation of operating segments and Reconciliation of total of the reportable segments' assets to the entity's assets, IFRS 13 Fair Value Measurement – Short-term receivables and payables) and – on September 25, 2014 – "Annual Improvements to IFRSs: 2012-2014 Cycle" (including: IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 – Financial Instruments: Disclosure and IAS 19 – Employee Benefits) partly amending existing standards. The amendments apply at the latest to the reporting periods on or after February 1, 2015 and reporting periods starting on or after January 1, 2016.

Directors do not expect any significant effect on the consolidated financial statements of the Group when these amendments are adopted.

## **IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION**

The European Union has not yet completed its endorsement process for the standards and amendments below reported at the date of these Financial Statements.

- IFRS 15 – Revenue from Contracts with Customers (issued on May 28, 2014) bound to replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as the interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services. The standard provides for a new revenue recognition model, which will be applicable to all agreements made with customers, with the exception of those falling under the scope of other IFRSs such as leases, insurance contracts and financial instruments. The main steps for revenue recognition according to the new model are:
  - o identifying the agreement in place with the customer;
  - o identifying the performance obligations under the agreement;
  - o defining the transaction price;
  - o price allocation to the performance obligations under the agreement;
  - o revenue recognition criteria when the entity satisfies each performance obligation.

This standard is applicable as of January 1, 2018, though early adoption is allowed. Directors expect that the adoption of IFRS 15 will have an impact on the revenue recognition and the relevant disclosure included in the Group's consolidated financial statements. Still, it will be impossible to provide a reasonable estimate as to the effects until the Group completes a detailed analysis of the agreements in place with the customers.

- Final version of IFRS 9 – Financial instruments (issued on July 24, 2014). The standard includes the results of the classification, valuation, impairment and hedge accounting phases relating to the IASB project pending the replacement of IAS 39:
  - <
  - o it introduces new criteria to classify and measure financial assets and liabilities.
  - o With reference to the impairment model, the new standard requires the losses on receivables to be estimated based on the expected losses model (instead of the incurred losses model of IAS 39) using information that can be evidenced, available free of charge or without unreasonable effort and including historic, current and forecast data.
  - o A new hedge accounting model is introduced (additional types of transactions can be designated for hedge accounting, different accounting method for forward contracts and options when they are included in a hedge accounting transaction, changes to effectiveness test).

The new standard, which supersedes the previous versions of IFRS 9, must be applied to reporting period beginning on January 1, 2018 and thereafter.

Directors expect IFRS 9 to have a significant impact on the balances and the relevant disclosures in the Consolidated Financial Statements of the Group. Still, it will be impossible to provide a reasonable estimate as to the effects until the Group completes a detailed analysis.

- On January 13, 2016, the IASB issued IFRS 16 – Leases which is to replace IAS 17 – Leases, as well as IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to differentiate between lease and service agreements according to: asset identification, right to replacement of the asset, right to obtain all economic benefits arising out of use of the asset and right to control the use of the asset underlying the agreement.

The standard introduces a single lessee accounting model for recognising and measuring lease agreements, which provides for the underlying asset – including assets underlying operating leases – to be recognised in the statement of financial position as assets and lease financial liability. Lessees may elect to not recognise agreements for low-value assets or with a term of up to 12 months within the scope of this standard. No significant changes are introduced for lessor accounting.

The standard applies for reporting period beginning on or after January 1, 2019. Early application is only allowed for early adopters of IFRS 15 - Revenue from Contracts with Customers. Directors expect that the adoption of IFRS 16 will have a significant impact on lease accounting and the relevant disclosures included in the Group's Consolidated Financial Statements. Still, it will be impossible to provide a reasonable estimate as to the effects until the Group completes a detailed analysis of the relevant agreements.

- Document "Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)" (issued on December 18, 2014) introduces certain changes to address issues arisen after the application of the consolidation exception granted to investment entities. The amendments apply at the latest as of the reporting period beginning on January 1, 2016 or at a later date. Early adoption is allowed. Directors do not expect any significant effect on the consolidated financial statements of the Group when these amendments are adopted, as the Company does not meet the definition of investment entity.

On September 11, 2014 the IASB issued an amendment to IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. The purpose of these amendments were to resolve the conflict between IAS 28 and IFRS 10 concerning the measurement of profit or loss arising from transfers or assignments of a non-monetary asset to a joint venture or associate in return for its shares. The IASB has suspended the application of these amendments for the time being.

### 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):

|                                     | AI 31/12/2015 |                          |            |               | AI 31/12/2014 |                          |            |               |
|-------------------------------------|---------------|--------------------------|------------|---------------|---------------|--------------------------|------------|---------------|
|                                     | Gross values  | Accumulated depreciation | Write-offs | Net values    | Gross values  | Accumulated depreciation | Write-offs | Net values    |
| Land                                | -             | -                        | -          | -             | -             | -                        | -          | -             |
| Buildings                           | 13.049        | (4.649)                  | -          | 8.400         | 13.049        | (4.185)                  | -          | 8.864         |
| Plant and machinery                 | 52.720        | (35.819)                 | -          | 16.901        | 47.178        | (33.105)                 | -          | 14.073        |
| Industrial and commercial equipment | 10.281        | (9.918)                  | -          | 363           | 10.021        | (9.725)                  | -          | 296           |
| Other assets                        | 3.115         | (2.150)                  | -          | 966           | 2.720         | (1.913)                  | -          | 807           |
| Work in progress and advances       | 315           | -                        | -          | 315           | 315           | -                        | -          | 315           |
| <b>Total</b>                        | <b>79.480</b> | <b>(52.536)</b>          | -          | <b>26.945</b> | <b>73.283</b> | <b>(48.928)</b>          | -          | <b>24.355</b> |

As at December 31, 2015, 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                        | AI 31/12/2014 | Increase     | Disposals | Reclassifications and other changes | AI 31/12/2015 |
|-------------------------------------|---------------|--------------|-----------|-------------------------------------|---------------|
| Land                                | -             | -            | -         | -                                   | -             |
| Buildings                           | 13.049        | -            | -         | -                                   | 13.049        |
| Plant and machinery                 | 47.178        | 5.542        | -         | -                                   | 52.720        |
| Industrial and commercial equipment | 10.021        | 260          | -         | -                                   | 10.281        |
| Other assets                        | 2.720         | 395          | -         | -                                   | 3.115         |
| Work in progress                    | 315           | -            | -         | -                                   | 315           |
| <b>Total</b>                        | <b>73.283</b> | <b>6.197</b> | -         | -                                   | <b>79.480</b> |

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

| Fondo ammortamento                  | AI 31/12/2014 | Depreciation | Disposals | Reclassifications and other changes | AI 31/12/2015 |
|-------------------------------------|---------------|--------------|-----------|-------------------------------------|---------------|
| Land                                | -             | -            | -         | -                                   | -             |
| Buildings                           | 4.185         | 465          | -         | -                                   | 4.650         |
| Plant and machinery                 | 33.105        | 2.714        | -         | -                                   | 35.819        |
| Industrial and commercial equipment | 9.725         | 193          | -         | -                                   | 9.918         |
| Other assets                        | 1.913         | 236          | -         | -                                   | 2.149         |
| Capital Work in progress            | -             | -            | -         | -                                   | -             |
| <b>Total</b>                        | <b>48.928</b> | <b>3.608</b> | -         | -                                   | <b>52.536</b> |



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, 2015 goodwill amounted to Euro 219,100 thousand (unchanged compared to December 31, 2014) 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.

The goodwill allocated to the CGU “Space” was tested referring to the balance sheet date and this test did not reveal any need to write-down the carrying amount of the goodwill recorded in the financial statements at 31 December 2015.

The recoverability of the recorded amounts is verified by comparing the CGU’s net invested capital (book value) of the CGU with its recoverable value. The recoverable value is given by the determination of the value in use, which is the present value of the discounted cash flows arising from expectations included in the business plan approved by the Group, properly extrapolated in order to consider the characteristics of the lifecycle of the Group's business, and a standardized terminal value, used to express a synthetic estimate of future results over the time period explicitly considered.

These cash flows are then discounted using discount rates which are representative of the current market assessments of the time value of money and which consider the specific risks of the Group and the CGU.

At December 31, 2015, the cash flows of the CGU “Space” are determined based on the last Business Plan prepared by the Management of the Company and declined in the 2016-2018 triennium. The terminal value has been determined normalizing the expected cash flows relating to the last year of projection (2018) according to the perpetuity method and assuming a growth rate of 2% of the cash flows expected from 2019.

The average discount rate (weighted average cost of capital) used for the discounting of cash flows amounted to 8.16%, net of taxes (8.79% in the previous year).

It is worth to underline that the abovementioned parameters are applied to estimates and data which are determined by management based on past experience and expectations on the development of the markets in which the Group operates. In a more detailed way, the current international macroeconomic situation and the possible effects on economy, in particular on expenditure levels defined by national governments and supranational institutions relating to space access policies, could present scenarios of uncertainty in achieving objectives and levels of activities considered in the plan, although without the rise of situation which could led to goodwill impairment. However, the estimate of the recoverable amount requires discretion and use of estimates by management and, even considering that the production and marketing cycles of products are characterized by time periods of significant duration which allow the recovery of any slippage of the objectives defined in the plan, it can not be excluded a loss of value in the goodwill in future periods due to changes in the scenario which are currently unforeseeable. The circumstances and the events that could require further testing of impairment losses are constantly monitored by the Group management.

Considering what above-mentioned, the Group carried out a sensitivity analysis simulating a variation which can be considered representative of the impairment test’s significant parameters. In particular:



- relating to the terminal value's growth rate, it was assumed a decrease of 25 basis point; alternately
- relating to the cash flows discount rate it was assumed an increase of 50 basis point.

Based on these sensitivities, the recoverable value of the CGU "Space" exceeds the recorded net book value.

Even considering a negative simultaneous variation of all the above-mentioned parameters, the recoverable value of the CGU "Space" results higher than the recorded net book value.

### 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):

|  | AI 31/12/2015  |                          |            |               | AI 31/12/2014  |                          |            |               |
|--|----------------|--------------------------|------------|---------------|----------------|--------------------------|------------|---------------|
|  | Gross values   | Accumulated depreciation | Write-offs | Net values    | Gross values   | Accumulated depreciation | Write-offs | Net values    |
| Development costs – amortised                          | 68,517         | (34,771)                 | -          | 33,746        | 68,517         | (28,359)                 | -          | 40,158        |
| Development costs – not yet amortised                  | 28,189         | -                        | -          | 28,189        | 23,656         | -                        | -          | 23,656        |
| <b>Total development costs</b>                         | <b>96,706</b>  | <b>(34,771)</b>          | <b>-</b>   | <b>61,935</b> | <b>92,173</b>  | <b>(28,359)</b>          | <b>-</b>   | <b>63,814</b> |
| Investments costs for international programmes         | -              | -                        | -          | -             | -              | -                        | -          | -             |
| Customer relationships for participation in programmes | 61,257         | (36,754)                 | -          | 24,503        | 61,257         | (32,670)                 | -          | 28,587        |
| Concessions, licences, trademarks and similar rights   | 3,682          | (3,141)                  | -          | 541           | 3,122          | (2,459)                  | -          | 663           |
| Other  | 1,458          | (742)                    | -          | 716           | 1,208          | (721)                    | -          | 487           |
| <b>Total</b>   | <b>163,103</b> | <b>(75,408)</b>          | <b>-</b>   | <b>87,695</b> | <b>157,760</b> | <b>(64,209)</b>          | <b>-</b>   | <b>93,551</b> |

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                          | AI 31/12/2014 | Additions    | Disposals | Reclassifications and other changes | AI 31/12/2015 |
|---------------------------------------|---------------|--------------|-----------|-------------------------------------|---------------|
| Development costs – amortised         | 68,517        | -            | -         | -                                   | 68,517        |
| Development costs – not yet amortised | 23,656        | 4,533        | -         | -                                   | 28,189        |
| <b>Total development costs</b>        | <b>92,173</b> | <b>4,533</b> | <b>-</b>  | <b>-</b>                            | <b>96,706</b> |

|  |                |              |          |          |                |
|--|----------------|--------------|----------|----------|----------------|
| Customer relationships for participation in programmes | 61,257         | -            | -        | -        | 61,257         |
| Concessions, licences, trademarks and similar rights   | 3,122          | 560          | -        | -        | 3,682          |
| Other  | 1,208          | 250          | -        | -        | 1,458          |
| <b>Total</b>   | <b>157,760</b> | <b>5,343</b> | <b>-</b> | <b>-</b> | <b>163,103</b> |

The increases during the year referred to development costs capitalized are mainly related to the propellant motors "Z40" e "P120" in the context of programmes of launchers VEGA e Ariane 6.

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                               | AI 31/12/2014 | Amortisation  | Disposals | Reclassifications and other changes | AI 31/12/2015 |
|--|---------------|---------------|-----------|-------------------------------------|---------------|
| Development costs – amortised                          | 28,359        | 6,412         | -         | -                                   | 34,771        |
| Development costs – not yet amortised                  | -             | -             | -         | -                                   | -             |
| <b>Total development costs</b>                         | <b>28,359</b> | <b>6,412</b>  | <b>-</b>  | <b>-</b>                            | <b>34,771</b> |
| Customer relationships for participation in programmes | 32,670        | 4,084         | -         | -                                   | 36,754        |
| Concessions, licences, trademarks and similar rights   | 2,459         | 682           | -         | -                                   | 3,141         |
| Other  | 721           | 21            | -         | -                                   | 742           |
| <b>Total</b>   | <b>64,209</b> | <b>11,199</b> | <b>-</b>  | <b>-</b>                            | <b>75,408</b> |

### 3.4. INVESTMENTS

The composition and book value of investments held as at December 31, 2015, 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) |
|--|--------------------------|----------------|-----------------|-------------------------|-------------|-------------------|
| <b>Subsidiaries</b>                            |                          |                |                 |                         |             |                   |
| ASPropulsion International B.V.                | Amsterdam (Olanda)       | Euro 18.000    | Euro 57.835.734 | Euro (113.712)          | 100%        | 58.640.102        |
| ELV S.p.A.                                     | Roma                     | Euro 4.680.000 | Euro 6.648.593  | Euro (1.421.854)        | 70%         | 1.892.147         |
| Regulus S.A.                                   | Kourou (Guyana Francese) | Euro 640.000   | Euro 15.574.410 | Euro 3.004.037          | 60%         | 492.064           |
| Avio India Aviation Aerospace Private Limited  | New Delhi (India)        | INR 16.060.000 | INR 8.639.009   | INR (2.475.288)         | 100%        | 114.000           |
| <b>Total Subsidiaries</b>                      |                          |                |                 |                         |             | <b>61.138.313</b> |
| <b>Associated companies and joint ventures</b> |                          |                |                 |                         |             |                   |
| Europropulsion S.A. (*)                        | Suresnes                 | Euro           | Euro            | Euro                    | 50%         | 1.521.162         |

|  |                 |                   |                   |                   |     |                  |
|--|-----------------|-------------------|-------------------|-------------------|-----|------------------|
|  | (Francia)       | 1.200.000         | 5.132.554         | 3.785.753         |     |                  |
| Termica Colleferro S.p.A.                            | Bologna         | Euro<br>6.100.000 | Euro<br>5.018.764 | Euro<br>2.610.145 | 40% | 2.007.505        |
| Servizi Colleferro - Società consortile per azioni   | Colleferro (Rm) | Euro<br>120.000   | Euro<br>120.000   | Euro<br>0         | 32% | 38.400           |
| Consorzio Sitab in liquidazione                      | Roma            | Euro<br>25.823    | Euro<br>0         | Euro<br>0         | 20% | 5.165            |
| Consorzio Servizi Acqua Potabile                     | Colleferro (Rm) | Euro<br>0         | Euro<br>0         | Euro<br>0         | 25% | 0                |
| <b>Total Associated companies and joint ventures</b> |                 |                   |                   |                   |     | <b>3.572.232</b> |

(\*)Jointly controlled company

The net book value of some investments in controlled and associated companies as at December 31, 2015 is higher than the owned share of net equity.

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

|  | Valori al<br>31/12/2014 | Increase | Disposals | Write-<br>downs | Valori al<br>31/12/2015 |
|--|-------------------------|----------|-----------|-----------------|-------------------------|
| Controlled companies                           | 61,138                  | -        | -         |                 | 61,138                  |
| Associated and jointly<br>controlled companies | 6,371                   | -        |           | (2,799)         | 3,572                   |
| Other companies                                | 515                     | 5        | -         | -               | 520                     |
| <b>Total</b>                                   | <b>68,024</b>           | <b>5</b> | <b>-</b>  | <b>(2,799)</b>  | <b>65,230</b>           |

The net book value of investments has been tested for impairment.

The comparison between the recoverable value and the book value did not reveal any indicators of impairment with the exception of the investment in Termica Colleferro SpA. In order to align the carrying amount of the investment to its recoverable value obtained by the method of discounting cash flows expected (DCF) it proceeded to recognize an impairment loss of Euro 2,799 thousand.

With reference to "Other companies", movements occurred during the year solely focused on the purchase of shares in Sardinia Aerospace District for a total amount of Euro 5 thousand.

The foreign controlled company Avio India Aviation Aerospace is still in liquidation as at December 31, 2015.

### 3.5. NON-CURRENT FINANCIAL ASSETS

The caption amounts to Euro 6,400 thousand (Euro 6,200 thousand as at December 31, 2014) and refers to the profitable loan granted to the associated Termica Colleferro S.p.A finalized to support its operating activity. The net increase, amounting to Euro 200 thousand, is due to the additional funding of Euro 200 thousand granted during the year.

### 3.6. DEFERRED TAX ASSETS

The deferred tax assets recognized in the balance sheet amount to Euro 54,126 thousand (Euro 51,648 thousand as at December 31, 2014):

| 31/12/2015 | 31/12/2014 | Variation |
|------------|------------|-----------|
|------------|------------|-----------|

|                          |               |               |              |
|--------------------------|---------------|---------------|--------------|
| Deferred Tax Assets      | 54,126        | 51,648        | 2,478        |
| Deferred Tax Liabilities | -             | -             | -            |
| <b>Net balance</b>       | <b>54,126</b> | <b>51,648</b> | <b>2,478</b> |

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 tax assets have also been calculated by applying the tax rates that are expected to be applicable when the temporary differences will be reversed or the benefits of tax losses will be usable.

The analysis of temporary differences and carry forward tax losses 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      | Variation in income statement | Variation comprehensive income statement | Others   | At 31/12/2015   |
|--|-----------------|-------------------------------|--|----------|-----------------|
| <b>Gross Deferred Tax Assets on Temporary Differences</b>  |                 |                               |  |          |                 |
| Temporary Differences from past transactions   |                 |                               |  |          |                 |
| Amortisation of goodwill for "Aviation" for tax purposes only  | 97.035          | (23.547)                      |  |          | 73.488          |
| Financial expenses exceeding 30% of EBITDA   | 53.661          | (7.382)                       |  |          | 46.279          |
| Temporary Differences from current transactions  |                 |                               |  |          |                 |
| Maintenance and other expenses with deferred deductibility   | 2.650           | (1.170)                       |  |          | 1.480           |
| Provision for employee-related liabilities   | 2.789           | 95                            | (381)                                    |          | 2.503           |
| Other taxable Temporary Differences  | 1.929           | 115                           |  |          | 2.044           |
| <b>Gross Deferred Tax Assets</b>   | <b>158.064</b>  | <b>(31.889)</b>               | <b>(381)</b>                             | <b>-</b> | <b>125.794</b>  |
| <b>Gross Deferred Tax Liabilities on Temporary Differences</b>   |                 |                               |  |          |                 |
| Temporary Differences from past transactions   |                 |                               |  |          |                 |
| Amortisation of goodwill for "Space" for tax purposes only   | (23.212)        | 617                           |  |          | (22.595)        |
| Amortisation of intangible assets for tax purposes only (Customer relationships for participation in programmes) | (9.239)         | 2.034                         |  |          | (7.205)         |
| FTA R&D cost capitalisation and related amortization   | (8.197)         | 1.662                         |  |          | (6.535)         |
| Temporary Differences from current transactions  |                 |                               |  |          |                 |
| Other taxable Temporary Differences  | (1.019)         | 191                           |  |          | (828)           |
| <b>Gross Deferred Tax Liabilities</b>  | <b>(41.667)</b> | <b>4.504</b>                  | <b>-</b>                                 |          | <b>(37.163)</b> |
| <b>Net Deferred Tax</b>  | <b>116.397</b>  | <b>(27.385)</b>               | <b>(381)</b>                             |          | <b>88.631</b>   |
| Deferred tax recorded on fiscal losses   | -               | 28.047                        |  |          | 28.047          |

|                           |          |       |          |
|---------------------------|----------|-------|----------|
| Unrecorded Deferred Tax   | (64.749) | 2.197 | (62.552) |
| Net Recorded Deferred tax | 51.648   | 2.859 | (381)    |
|                           | 54.126   |       |          |

Deferred tax assets on temporary differences and on carry forward tax losses have been recognized to the extent of future taxable income estimated over a period consistent with the business cycle of the Group. Future taxable income has been determined based on the most recent business plan approved by the Board of Directors for the period 2016-2018 and based on projections for periods starting from 2018 onward.

The period considered for the recoverability analysis, consistent with the business cycle, has been determined taking into consideration the recent meeting of Ministers of ESA members in December 2014 and the following agreement executed with ESA on August 2015 concerning the development of the new launcher Ariane 6, to the further development of VEGA regarding the VEGA C launcher and to the development and implementation of the new propeller "120".

### 3.7. OTHER NON-CURRENT ASSETS

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

|  | AI 31/12/2015 | AI 31/12/2014 | Variation      |
|--|---------------|---------------|----------------|
| Receivables for prepayment of tax withheld on employee severance indemnity                   | -             | 2             | (2)            |
| Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85 | 8,373         | 11,112        | (2,739)        |
| Cautionary deposits  | 96            | 96            | -              |
| <b>Total</b>   | <b>8,469</b>  | <b>11,210</b> | <b>(2,741)</b> |

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 9,018 thousands), granted on December 31, 2015 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 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 3,011 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 at December 31, 2015 amounts at Euro 64,421 thousands. The composition of the caption is in the following table (amounts in thousands of Euro):

|                            | AI 31/12/2015 |                   |               | AI 31/12/2014 |                   |               |
|----------------------------|---------------|-------------------|---------------|---------------|-------------------|---------------|
|                            | Gross value   | Inventory reserve | Net value     | Gross value   | Inventory reserve | Net value     |
| Raw materials and supplies | 28.300        | (1.332)           | 26.968        | 21.409        | (1.332)           | 20.077        |
| Work in progress           | 2.878         | (424)             | 2.454         | 2.416         | (424)             | 1.992         |
| Finished goods             | 11            | (4)               | 7             | 11            | (4)               | 7             |
| Advances to suppliers      | 34.992        | -                 | 34.992        | 24.793        | -                 | 24.793        |
| <b>Total</b>               | <b>66.181</b> | <b>(1.760)</b>    | <b>64.421</b> | <b>48.629</b> | <b>(1.760)</b>    | <b>46.869</b> |

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

### 3.9. CONTRACT WORK IN PROGRESS

Contract work 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 contract work in progress and progress billing and advances cashed from customers is detailed as follows (amounts in thousands of Euro):

|  | 31/12/2015      | 31/12/2014      | Variation       |
|--|-----------------|-----------------|-----------------|
| Contract work in progress (gross amount) | 939.610         | 790.779         | 148.831         |
| Advances for contract work in progress   | (1.009.138)     | (821.089)       | (188.049)       |
| <b>Advances (net)</b>                    | <b>(69.528)</b> | <b>(30.310)</b> | <b>(39.218)</b> |

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):

|  | 31/12/2015    | 31/12/2014    | Variation     |
|--|---------------|---------------|---------------|
| Contract work in progress (gross amount) | 625.374       | 692.018       | (66.644)      |
| Advances for contract work in progress   | (542.873)     | (646.603)     | 103.730       |
| <b>Work in progress (net)</b>            | <b>82.501</b> | <b>45.415</b> | <b>37.086</b> |

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):

|  | 31/12/2015 | 31/12/2014 | Variation |
|--|------------|------------|-----------|
|--|------------|------------|-----------|

|  |                  |                 |                 |
|--|------------------|-----------------|-----------------|
| Contract work in progress (gross amount) | 314.236          | 98.761          | 215.475         |
| Advances for contract work in progress   | (466.265)        | (174.486)       | (291.779)       |
| <b>Advances (net)</b>                    | <b>(152.029)</b> | <b>(75.725)</b> | <b>(76.304)</b> |

As at December 31, 2015, the Group has provisioned funds to cover expected losses on contracts with negative balance, amounting to Euro 718 thousand (Euro 718 thousand as at December 31, 2014), classified in the Liabilities' section of the Consolidated Statement of Financial Position in the caption "Provision for risks and charges"

### 3.10. TRADE RECEIVABLES

Trade receivables at December 31, 2015 amount to Euro 8,887 thousand (Euro 6.562 thousand at December 31, 2014). The caption is detailed as follows (amounts in thousands of Euro):

|                                       | 31/12/2015   | 31/12/2014   | Variation    |
|---------------------------------------|--------------|--------------|--------------|
| Trade receivables from third parties  | 2.493        | 1.230        | 1.263        |
| Receivables from parent companies     | 5.493        | 4.491        | 1.002        |
| Receivables from associated companies | 901          | 841          | 60           |
| <b>Total</b>                          | <b>8.887</b> | <b>6.562</b> | <b>2.325</b> |

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):

|                                       | 31/12/2015   | 31/12/2014   | Variation    |
|---------------------------------------|--------------|--------------|--------------|
| Gross value                           | 2.576        | 1.326        | 1.250        |
| Less: allowance for doubtful accounts | (83)         | (96)         | 13           |
| Net value – within one year           | 2.493        | 1.230        | 1.263        |
| Trade receivables – beyond one year   | -            | -            | -            |
| <b>Total</b>                          | <b>2.493</b> | <b>1.230</b> | <b>1.263</b> |

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):

|                     | 31/12/2015 | 31/12/2014 | Variation |
|---------------------|------------|------------|-----------|
| Regulus S.A.        | 1,556      | 2,199      | (643)     |
| SE.CO.SV.IM. S.r.l. | 2          | -          | 2         |
| ELV S.p.A.          | 3,935      | 2,292      | 1,643     |

|              |              |              |              |
|--------------|--------------|--------------|--------------|
| <b>Total</b> | <b>5,493</b> | <b>4,491</b> | <b>1,002</b> |
|--------------|--------------|--------------|--------------|

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):

|                                  | 31/12/2015 | 31/12/2014 | Variation |
|----------------------------------|------------|------------|-----------|
| Europropulsion S.A.              | 605        | 467        | 138       |
| Consorzio Servizi Acque Potabili | 173        | 226        | (53)      |
| Consorzio Servizi Colleferro     | 77         | 80         | (3)       |
| Termica Colleferro S.p.A.        | 46         | 68         | (22)      |
| <b>Total</b>                     | <b>901</b> | <b>841</b> | <b>60</b> |

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):

|   | 31/12/2015 | 31/12/2014    | Variation       |
|---|------------|---------------|-----------------|
| Current financial assets from associated companies                    | 130        | 141           | (11)            |
| Current financial assets from third parties - subject to restrictions | -          | 21,313        | (21,313)        |
| <b>Total</b>  | <b>130</b> | <b>21,454</b> | <b>(21,324)</b> |

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.

The caption as at December 31, 2014 included the residual restricted amount referred to the *escrow accounts* recognized based on the signature of the *Settlement Agreement ad Release*, occurred with GE Italia Holding S.p.A. on December 30, 2014. Such agreement finally settled all pending *claims*, by determining the release of the restricted accounts for a total amount of Euro 20.313 thousand in favour of Avio S.p.A. reclassified to the caption "cash and cash equivalents" in January 2015. The residual amount of Euro 1.000 thousand was deducted by the counterpart as a result of such settlement agreement.

### 3.12. CASH AND CASH EQUIVALENTS

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

|                               | 31/12/2015 | 31/12/2014 | Variation |
|-------------------------------|------------|------------|-----------|
| Bank and post-office accounts | 67,505     | 159,298    | (91,793)  |



|              |               |                |                 |
|--------------|---------------|----------------|-----------------|
| Cash on hand | -             | -              | -               |
| <b>Total</b> | <b>67,505</b> | <b>159,298</b> | <b>(91,793)</b> |

The caption "Cash and cash equivalents" include Bank and post-office accounts and Cash on hand. At December 31, 2015, it amounts to Euro 67,505 thousand, represented by Bank and post-office account, which recorded a decrease of Euro 91,793 thousand compared with the previous year.

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

- Cash-out related to the dividends payment (Euro 220,000 thousand) deliberated by the Shareholder's Meeting on May 11, 2015, 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 44 million) paid to Tax Authorities;
- Cash-in due to the reclassification described in paragraph 3.11 (Euro 21,313 thousand) of funds included in escrow accounts following the *Settlement Agreement and Release* signed on December 30, 2014 with GE Italia Holding S.p.A.;
- Cash-in due to the *Senior Term Loan* for a total amount of Euro 100,000 thousand granted in the first half of 2015 by IMI bank, as previously disclosed.

### 3.13. CURRENT TAX ASSETS

Current tax assets as at December 31, 2015 amount to Euro 13,859 thousand (at December 31, 2014 amounted to Euro 17,477 thousand). The caption is composed as follows (amounts in thousands of Euro):

|   | 31/12/2015    | 31/12/2014    | Variation     |
|---|---------------|---------------|---------------|
| VAT receivable                                | 9,935         | 6,000         | 3,935         |
| Receivables from Tax Authorities              | 3,680         | 11,075        | -7,395        |
| EU VAT receivable                             | 244           | 233           | 11            |
| Various other taxes claimed for reimbursement | 0             | 169           | -169          |
| <b>Total</b>                                  | <b>13,859</b> | <b>17,477</b> | <b>-3,618</b> |

VAT receivables refers to the recognition of VAT receivables (Euro 6,541 thousand), previously requested for reimbursement and for Euro 3.394 thousand recently maturation VAT receivables for which refunding practices are still ongoing.

Receivables from Tax Authorities primarily refers to the excess of advance payments for IRAP tax (Euro 3,016 thousand) and to payments disbursed to the Tax Authorities as provisional deposit for pending litigations (Euro 553 thousand).

The balance significantly decreased compared to December 31, 2014 following the repayment of the amounts previously advanced and pending for judgment (Euro 6,888 thousand) with reference to the disputes connected with the operation of Leveraged Buy-Out (LBO) subject of the settlement in April 2015.

### 3.14. OTHER CURRENT ASSETS

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

|  | 31/12/2015 | 31/12/2014 | Variation |
|--|------------|------------|-----------|
|--|------------|------------|-----------|

|  |              |               |                |
|--|--------------|---------------|----------------|
| Receivables from Social Security Institutions  | -            | 26            | (26)           |
| Receivables from employees   | 586          | 572           | 14             |
| Receivables from the Ministry of Economic Development for funding pursuant to Law No. 808/85 | 3,011        | 5,739         | (2,728)        |
| Receivables for public grants to be collected  | 2,610        | 2,610         | -              |
| Receivables from controlled companies  | 211          | 351           | (140)          |
| Receivables from associate companies:<br>-Servizi Colleferro – Società Consortile per Azioni | 38           | 28            | 10             |
| Receivables from other debtors   | 1,272        | 2,002         | (730)          |
| Prepaid expenses and accrued income  | 176          | 410           | (234)          |
| <b>Total</b>   | <b>7,904</b> | <b>11,738</b> | <b>(3,834)</b> |

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 3,051 thousand on December 31, 2015) 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 1,204 thousand towards Fiat Partecipazioni S.p.A. related to the portion – contractually defined - of environmental reclamation 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.

## **EQUITY**

### **3.15. SHARE CAPITAL**

The Company's share capital as of December 31, 2015 amounts to Euro 40,000 thousand, fully issued and paid, and it is unchanged with respect to December 31, 2014.

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

As at December 31, 2015, 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, 2015 and it is unchanged with respect to December 31, 2014.

### **3.17. OTHER RESERVES**

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

|   | 31/12/2015    | 31/12/2014    | Variation    |
|---|---------------|---------------|--------------|
| Actuarial gain/(losses) reserve               | (2.526)       | (2.096)       | (430)        |
| Contribution surplus reserve                  | 80.469        | 80.469        | -            |
| Exchange adjustment reserve                   | 36            | 36            | -            |
| Cash flow hedge reserve (interests rate risk) | (367)         | -             | (367)        |
| <b>Total</b>                                  | <b>77.612</b> | <b>78.409</b> | <b>(797)</b> |

The actuarial gains/losses reserve, negative for Euro 2,526 thousand as at December 31, 2015, includes gains and losses, net of tax effect, arising from the application 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 Cash flow hedge reserve as at December 31, 2015, negative for Euro 367 thousand, includes the effect of the mark-to-market adjustments deriving from the interest rate swaps (IRS) signed on June 30, 2015, for hedging purposes in relation to the volatility of the interest rates stated and applied by the Senior Term and Revolving Facilities Agreement, more widely described in paragraph 3.18.

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                             | -                                | -                 |
| Reserves from profits:                 |                |              |                                    |                                  |                   |
| - Legal reserve                        | 8,000          | B            |                                    |                                  |                   |
| - Contribution surplus reserve         | 80,469         | B, C         | 80,469                             |                                  |                   |
| - Actuarial gain/(losses) reserve      | (2,526)        | -            |                                    |                                  |                   |
| - Exchange adjustment reserve          | 36             | -            |                                    |                                  |                   |
| - Cash flow hedge reserve              | (367)          | -            |                                    |                                  |                   |
| Retained Earnings                      | 81,869         | A, B, C      | 81,869                             | -                                | 214,452           |
| <b>Total</b>                           | <b>281,552</b> |              | <b>235,914</b>                     |                                  |                   |
| Portion not available for distribution |                |              | (61,935)                           |                                  |                   |
| Portion available for distribution     |                |              | <b>173,979</b>                     |                                  |                   |

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):

|  | 31/12/2015    | 31/12/2014 | Variation     |
|--|---------------|------------|---------------|
| Financial payables towards banks (Senior facilities) | 91.272        | -          | 91.272        |
| <b>Total</b>   | <b>91.272</b> | <b>-</b>   | <b>91.272</b> |

The caption as at December 31, 2015, amounts to Euro 91.272 thousand and registered an increase quantified in the same amount compared with the previous year, following the submission on April 1, 2015, of a financial loan with a pool of remarked international credit institutes for a total amount of Euro 100 million ("Senior Term"), in addition to the availability of a credit line ("Revolving") amounting to Euro 30 million.

Senior Term Agreement is divided into two *tranches*, the former amounting to Euro 35 million and to be reimbursed by six years and the latter amounting to Euro 65 million and with a "bullet" reimbursement plan after seven years.

- The loan is not covered by any collateral, defines some limits in terms of investments, acquisitions, disposals, other funding (active or passive), as well as the compliance with several Financial Covenants, in line with the pluriennial plan's forecast of the Company, referred to:
  - Leverage Ratio;
  - Interest Cover Ratio;
  - Capital Expenditure.

The *financial covenants* as at December 31, 2015, are fulfilled.

The agreement defines interest rates in line with market trends as following:

- in relation to the *tranche* of 35 million and to the revolving credit line (if used) it is applied

- an interest rate corresponding to the Euribor + *spread* 4%;
- in relation to the *tranche* of 65 million, it is applied an interest rate corresponding to the Euribor + *spread* 4,5%.

Such spreads may be reduced up to 2,5% (for the *tranche* of Euro 35 million and the revolving credit line) and up to 4% (for the *tranche* of Euro 65 million) depending on certain range defined for the leverage ratio; based on the measurement of such covenants as at 31 December 2015, the Group will achieve therefore a reduction in the spread, respectively, up to 3% and 4% from the second half of 2016.

In relation to both tranches and revolving line the Euribor to be considered for determining the interest rate is zero, even if negative.

Furthermore the financing is covered by specific derivative contracts to mitigate the interest rate risk, as reported in the disclosures relating to "financial instruments and risk management policies".

### 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):

|                                    | AI 31/12/2015 | AI 31/12/2014 | Variation    |
|------------------------------------|---------------|---------------|--------------|
| Defined benefit plans:             |               |               |              |
| Employee severance indemnity (TFR) | 5,172         | 5,789         | (617)        |
| Other defined benefit plans        | 1,999         | 1,827         | 172          |
|                                    | 7,171         | 7,616         | (445)        |
| Other long-term benefits           | 1,545         | 1,587         | (42)         |
| <b>Total</b>                       | <b>8,716</b>  | <b>9,203</b>  | <b>(487)</b> |

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

|  | Defined benefit plans | Other long-term benefits | Provision for employees benefits |
|--|-----------------------|--------------------------|----------------------------------|
| <b>Balance at December 31, 2014</b>            | <b>7.616</b>          | <b>1.587</b>             | <b>9.203</b>                     |
| Financial expenses/(income)                    | 10                    | 2                        | 12                               |
| Recognised actuarial losses/(gains)            | -                     | 120                      | 120                              |
| Current service costs                          | 80                    | 89                       | 169                              |
| Benefits paid                                  | (573)                 | (253)                    | (826)                            |
| Transfers to companies within the Company      | (10)                  | -                        | (10)                             |
| Actuarial losses/(gains) from equity's reserve | 48                    | -                        | 48                               |
| <b>Balance at December 31, 2015</b>            | <b>7.171</b>          | <b>1.545</b>             | <b>8.716</b>                     |

The amounts charged to the 2015 income statement related to the employees benefits provisions, are detailed in the following table (amounts in thousands of Euro):

|                                     | AI 31/12/2015         |                          |                                    | AI 31/12/2014         |                          |                                    |
|-------------------------------------|-----------------------|--------------------------|------------------------------------|-----------------------|--------------------------|------------------------------------|
|                                     | 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                   | 80                    | 88                       | 168                                | 77                    | 91                       | 168                                |
| Recognised actuarial losses/(gains) | 0                     | 120                      | 120                                | -                     | 195                      | 195                                |
| Total personnel costs               | 80                    | 208                      | 288                                | 77                    | 286                      | 363                                |
| Financial expenses/(income)         | 10                    | 2                        | 12                                 | 30                    | 6                        | 36                                 |
| <b>Total</b>                        | <b>90</b>             | <b>210</b>               | <b>300</b>                         | <b>107</b>            | <b>292</b>               | <b>399</b>                         |

Main actuarial assumptions used are detailed as follows:

|               | Year 2015 | Year 2014 |
|---------------|-----------|-----------|
| Discount rate | 0,97%     | 0,62%     |

|                                |       |       |
|--------------------------------|-------|-------|
| Expected salary increase       | 2,11% | 2,00% |
| Inflation rate                 | 1,50% | 1,50% |
| Average rate of staff turnover | 4,78% | 5,67% |

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                         | (141)                               | 138                                 |
| Long-term service indemnity | (73)                                | 76                                  |

### 3.20. PROVISIONS FOR RISKS

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

|  | AI 31/12/2015 |              |               | AI 31/12/2014 |               |               |               |
|--|---------------|--------------|---------------|---------------|---------------|---------------|---------------|
|  | Current       | Non -current | Total         | Current       | Non -current  | Total         | Variation     |
| Reserve for costs of variable salaries and wages | 7,657         |              | 7,657         | 7,496         | -             | 7,496         | (123)         |
| Reserve for personnel expenses and restructuring |               | 804          | 804           | -             | 574           | 574           | (230)         |
| Reserve for legal and environmental risks        |               | 337          | 337           | -             | 870           | 870           | 533           |
| Reserve for contractual and commercial risks     |               | 1,182        | 1,182         | -             | 794           | 794           | (388)         |
| Reserve for fiscal risks                         |               | 5,324        | 5,324         | 8,730         | 8,438         | 17,168        | 11,844        |
| <b>Total</b>                                     | <b>7,657</b>  | <b>7,647</b> | <b>15,304</b> | <b>16,226</b> | <b>10,676</b> | <b>26,902</b> | <b>11,636</b> |

- 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, 2015;
- 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 2015 are detailed as follows (amounts in thousands of Euro):

|  | 31/12/2014    | Provisions   | Non-recurring provisions | Utilization     | Reclassification and amounts reversed to income | 31/12/2015    |
|--|---------------|--------------|--------------------------|-----------------|---|---------------|
| Reserve for costs of variable salaries and wages | 7,496         | 2,518        |                          | (2,085)         | (272)   | 7,657         |
| Reserve for personnel expenses and restructuring | 574           |              | 983                      | (231)           | (522)   | 804           |
| Reserve for legal and environmental risks        | 870           | 130          |                          | (527)           | (136)   | 337           |
| Reserve for contractual and commercial risks     | 794           | 388          |                          |                 |   | 1,182         |
| Reserve for fiscal risks                         | 17,168        | 456          |                          | (12,300)        |   | 5,324         |
| <b>Total</b>                                     | <b>26,902</b> | <b>3,492</b> | <b>983</b>               | <b>(15,143)</b> | <b>(930)</b>                                    | <b>15,304</b> |

### 3.21. OTHER NON-CURRENT LIABILITIES

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

|  | 31/12/2015    | 31/12/2014    | Variation  |
|--|---------------|---------------|------------|
| Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 - portion due after one year | 41,216        | 39,230        | 1,986      |
| Deferred income for funding pursuant to Law No. 808/85 - portion due after one year                                  | 13,801        | 14,947        | (1,146)    |
| Deferred income for grants related to assets - portion due after one year  | -             | 7             | (7)        |
| Deferred income for tax credit related to R&D activities - portion due after one year                                | 513           | 571           | (58)       |
| Deferred income for grants toward operating costs  | -             | 234           | (234)      |
| <b>Total</b>   | <b>55,530</b> | <b>54,989</b> | <b>541</b> |

#### 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 41,217 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 2015, 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 13,801 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 tax credit related to R&D activities – portion due after one year**

This caption (equal to Euro 513 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.

## **CURRENT LIABILITIES**

### **3.22. CURRENT FINANCIAL LIABILITIES**

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

|  | 31/12/2015    | 31/12/2014    | Variation      |
|--|---------------|---------------|----------------|
| Financial payables to jointly controlled companies | 35,635        | 39,552        | (3,917)        |
| Financial payables to associate companies          | 8,399         | 7,919         | 480            |
| Fair value of derivative instruments (IRS)         | 367           | -             | 367            |
| <b>Total</b>                                       | <b>44,401</b> | <b>47,471</b> | <b>(3,070)</b> |

### **Financial payables to controlled companies**

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

|                     | 31/12/2015    | 31/12/2014    | Variation      |
|---------------------|---------------|---------------|----------------|
| SE.CO.SV.IM. S.r.l. | 29,878        | 28,988        | 890            |
| Elv S.p.A           | 5,757         | 10,564        | (4,807)        |
| <b>Total</b>        | <b>35,635</b> | <b>39,552</b> | <b>(3,917)</b> |

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.

### 3.23. CURRENT SHARE OF NON CURRENT FINANCIAL LIABILITIES

The caption, amounting to Euro 4.439 thousand, is referred to the current portion the financial loan Senior Term and Revolving Facilities Agreement, as more widely disclosed in paragraph 3.18.

### 3.24 TRADE PAYABLES

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

|   | 31/12/2015    | 31/12/2014    | Variation      |
|---|---------------|---------------|----------------|
| Trade payables to third parties                               | 23,568        | 26,183        | (2,615)        |
| Trade payables to controlled companies                        | 18,031        | 16,639        | 1,392          |
| Trade payables to associated and jointly controlled companies | 1,411         | 5,113         | (3,702)        |
| <b>Total</b>  | <b>43,010</b> | <b>47,935</b> | <b>(4,925)</b> |

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

|              | 31/12/2015    | 31/12/2014    | Variation    |
|--------------|---------------|---------------|--------------|
| Regulus S.A. | 18,031        | 16,639        | 1,392        |
| <b>Total</b> | <b>18,031</b> | <b>16,639</b> | <b>1,392</b> |

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

|                                  | 31/12/2015   | 31/12/2014   | Variation      |
|----------------------------------|--------------|--------------|----------------|
| Europropulsion S.A.              | 1,081        | 4,925        | (3,844)        |
| Termica Colleferro S.p.A.        | 341          | 124          | 217            |
| Servizi Colleferro S.c.p.A.      | -            | -            | -              |
| Consorzio Servizi Acqua Potabile | (11)         | 64           | (75)           |
| <b>Total</b>                     | <b>1,411</b> | <b>5,113</b> | <b>(3,702)</b> |

### 3.25. PASSIVITA' PER IMPOSTE CORRENTI

La composizione della voce è la seguente (importi in migliaia di Euro):

|                                 | 31/12/2015   | 31/12/2014   | Variation      |
|---------------------------------|--------------|--------------|----------------|
| Tax withholdings payable        | 1,437        | 1,135        | 302            |
| VAT payables                    | -            | 519          | (519)          |
| Income tax payables – IRES      | -            | -            | -              |
| Other taxes and duties payables | 61           | 4,460        | (4,399)        |
| <b>Total</b>                    | <b>1,498</b> | <b>6,114</b> | <b>(4,616)</b> |

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.

The caption "other taxes and duties payables" mainly comprised liabilities related to tax claim ("avviso di accertamento") received, in December 2014 and related to 2009 interest expense in the context of MLBO operation. On January, 14, 2015, the Company has paid through F24 the total liability recorded in the previous year.

### 3.26. OTHER CURRENT LIABILITIES

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

|  | 31/12/2015    | 31/12/2014    | Variation      |
|--|---------------|---------------|----------------|
| Advances from customers for supply of goods and services                               | 2,238         | 2,072         | 166            |
| Social Security payables   | 2,085         | 1,999         | 86             |
| Other payables   | 1,764         | 3,797         | (2,033)        |
| Other payables to controlled companies   | 2,023         | 2,567         | (544)          |
| Deferred income for grants related to assets - portion due within one year             | 7             | 31            | (24)           |
| Deferred income for funding pursuant to Law No. 808/85 - portion due within one year   | 1,149         | 1,400         | (251)          |
| Deferred income for tax credit related to R&D activities - portion due within one year | 289           | 58            | 231            |
| Other accrued expenses and deferred income   | 958           | 786           | 172            |
| <b>Total</b>   | <b>10,513</b> | <b>12,710</b> | <b>(2,197)</b> |

#### Social Security payables

This caption amounts to Euro 2,085 thousand as at December 31, 2015 (Euro 1,999 thousand as at December 31, 2014), 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):

|                                  | 31/12/2015   | 31/12/2014   | Variation      |
|----------------------------------|--------------|--------------|----------------|
| Payables to employees            | 1,675        | 2,744        | (1,069)        |
| Payables to third parties        | 89           | 1,053        | (964)          |
| Payables to controlled companies | 2,023        | 2,567        | (544)          |
| <b>Total</b>                     | <b>3,787</b> | <b>6,364</b> | <b>(2,577)</b> |

Payables to employees amount to Euro 1,675 thousand and include certain payroll costs and deferred compensation accruals at year-end 2015.

Moreover, payables to third parties amount to Euro 89 thousand and significantly decrease compared to the previous year following the payment of Euro 1,000 thousand in favour of GE Avio S.r.l. attributable to the redefinition of some values affecting the sale operation of the business Aviation occurred in 2013.

Payables to controlled companies mainly include the exposure towards the subsidiary SE.CO.SV.IM. S.r.l. relating to the portion of environmental remediations performed on sites owned by the subsidiary and recoverable through the recharge to Fiat Partecipazioni S.p.A., as compensation.

### Other accrued expenses and deferred income

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

|                                       | 31/12/2015 | 31/12/2014 | Variation  |
|---------------------------------------|------------|------------|------------|
| Accrued expenses related to personnel | 958        | 786        | 172        |
| <b>Total</b>                          | <b>958</b> | <b>786</b> | <b>172</b> |

This caption relates to the accrued expenses due to the current year's portion of charges for retributions and contributions to employees.

## INCOME STATEMENTS

### 3.27. 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 2015      | Year 2014      | Variation     |
|---|----------------|----------------|---------------|
| Revenues                                    | 82,919         | 249,347        | (166,428)     |
| Revenues from services and work in progress | 808            | 423            | 385           |
|   | 83,727         | 249,770        | (166,043)     |
| Change in construction in progress          | 148,831        | (38,154)       | 186,985       |
| <b>Total</b>                                | <b>232,558</b> | <b>211,616</b> | <b>20,942</b> |

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.

### 3.28. OTHER OPERATING INCOME

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

|   | Year 2015 | Year 2014 | Variation |
|---|-----------|-----------|-----------|
| Revenue grants  | 224       | 818       | (594)     |
| Tax credit income related to R&D activities   | 58        | 58        | 0         |
| Income related to amount credited to the income statement of funding pursuant to Law No. 808/85 | 1,400     | 1,703     | -303      |
| Portion for the period of grants related to assets  | 31        | 33        | -2        |
| Recovery of costs, compensation and other income  | 2,776     | 2,623     | 153       |
| Reserves credited to income   | 939       | 465       | 474       |
| Gains on disposal of property, plant and equipment  | -         | -         | -         |
| Income related to prior years   | 513       | 642       | (129)     |

|                      |              |              |              |
|----------------------|--------------|--------------|--------------|
| Non-recurring income | -            | -            | -            |
| <b>Total</b>         | <b>5,941</b> | <b>6,342</b> | <b>(401)</b> |

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 research and development costs charged to the 2015 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).

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.

### 3.29. RAW MATERIALS CONSUMPTION

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

|                            | Year 2015     | Year 2014     | Variation    |
|----------------------------|---------------|---------------|--------------|
| Raw materials and supplies | 72,549        | 65,378        | 7,171        |
| Change in inventories      | (6,891)       | (6,429)       | (462)        |
| <b>Total</b>               | <b>65,658</b> | <b>58,949</b> | <b>6,709</b> |

### 3.30. COST OF SERVICES

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

|                   | Year 2015      | Year 2014      | Variation    |
|-------------------|----------------|----------------|--------------|
| Cost of Services  | 112,578        | 103,558        | 9,020        |
| Lease and rentals | 4,916          | 4,733          | 183          |
| <b>Total</b>      | <b>117,494</b> | <b>108,291</b> | <b>9,203</b> |

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).

The increase of the year is partially attributable to costs invoiced by the joint venture Europropulsion in relation to the development and implementation contract of the new propellant

"P120" and related to the portion of "pass-through revenues", as more specifically described in the management report.

In 2015, 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 232 thousand relating to the directors.

### 3.31. PERSONNEL COSTS

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

|  | Year 2015     | Year 2014     | Variation    |
|--|---------------|---------------|--------------|
| Salaries and wages   | 24,307        | 23,173        | 1,134        |
| Social security contributions  | 8,445         | 7,711         | 734          |
| Defined contribution plan expenses   | 1,710         | 1,575         | 135          |
| Other personnel expenses and provision for variable salaries and wages costs | 2,480         | 2,808         | (328)        |
| Costs related to defined benefits plans and other long-term benefits:        |               |               | -            |
| Current service costs  | 169           | 169           | -            |
| Actuarial (gains)/losses on employee benefit plans                           | 120           | 195           | (75)         |
| Past service costs   |               |               | -            |
| Cost of cash settled share-based payment plan                                |               | -             | -            |
| <b>Total</b>   | <b>37,231</b> | <b>35,631</b> | <b>1,600</b> |

The following table shows the average number of employees, divided by category, referred to the Company:

|                      | 2015 Average | 2014 Average |
|----------------------|--------------|--------------|
| Blue-collar workers  | 264          | 260          |
| White-collar workers | 273          | 269          |
| Managers             | 17           | 15           |
| <b>Totale</b>        | <b>554</b>   | <b>544</b>   |

### 3.32. DEPRECIATION AND AMORTISATION

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

|  | Year 2015     | Year 2014     | Variation  |
|--|---------------|---------------|------------|
| Property, plant and equipment              | 3,608         | 3,511         | 97         |
| Intangible assets with finite useful lives | 11,199        | 11,073        | 126        |
| <b>Total</b>                               | <b>14,807</b> | <b>14,584</b> | <b>223</b> |

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.

### 3.33. OTHER OPERATING EXPENSES

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

|                                       | Year 2015    | Year 2014    | Variation    |
|---------------------------------------|--------------|--------------|--------------|
| Provisions for risks                  | 556          | 25           | 531          |
| Write-down of trade receivables       | -            | -            | -            |
| Other operating expenses              | 1,382        | 1,698        | (316)        |
| Non-recurring expenses and provisions | 3,108        | 1,219        | 1,889        |
| <b>Total</b>                          | <b>5,046</b> | <b>2,942</b> | <b>2,104</b> |

#### 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 2015    | Year 2014    | Variation    |
|---|--------------|--------------|--------------|
| Tax and duties                                      | 509          | 473          | 36           |
| Other expenses                                      | 489          | 657          | (168)        |
| Losses on disposal of property, plant and equipment | -            | -            | -            |
| Expenses related to prior years                     | 384          | 568          | (184)        |
| <b>Total</b>  | <b>1,382</b> | <b>1,698</b> | <b>(316)</b> |

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 2015    | Year 2014    | Variation    |
|---|--------------|--------------|--------------|
| Expenses:   |              |              |              |
| - for organization restructuring and personnel expenses | 2,125        | 421          | 1,704        |
|   | <b>2,125</b> | <b>421</b>   | <b>1,704</b> |
| Provisions:   |              |              |              |
| - for organization restructuring                        | 983          | 792          | 191          |
| - for legal and environmental risks                     | -            | 6            | (6)          |
|   | 983          | 798          | 185          |
| <b>Total</b>  | <b>3,108</b> | <b>1,219</b> | <b>1,889</b> |

The caption expenses for organization restructuring and personnel expenses refers to non recurring expenses related to incentives paid in the context of redundancy plan.

The caption provisions made for organization restructuring refers to the effects of an agreements signed with the trade unions on October 16, 2015 and relating to the redundancy of 20 workers.

### 3.34. 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 2015, the caption amounts to Euro 6,294 thousand and includes the following costs (amounts in thousands of Euro):

|  | Year 2015    | Year 2014    | Variation      |
|--|--------------|--------------|----------------|
| Costs for the internal construction of tangible fixed assets | 1.711        | 659          | 1.052          |
| Costs for development activities                             | 4.533        | 8.815        | (4.282)        |
| Costs for internal production of intangible assets           | 50           | 307          | (257)          |
| <b>Total</b>   | <b>6.294</b> | <b>9.781</b> | <b>(3.487)</b> |

### 3.35. FINANCIAL INCOME

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

|   | Year 2015    | Year 2014    | Variation    |
|---|--------------|--------------|--------------|
| Interest income from banks  | 121          | 1.292        | (1.171)      |
| Discounts and other financial income                                  | 405          | 283          | 122          |
| Interest income on financial receivables towards controlled companies | 5            | 1            | 4            |
| Interest income on financial receivables towards associated companies | 259          | 272          | (13)         |
| Income from interest rate derivative instruments                      | -            | -            | -            |
|   | 790          | 1.848        | (1.058)      |
| Realised exchange gains   | 1.371        | 526          | 845          |
| Unrealised exchange gains   | 26           | 5            | 21           |
| Income from foreign exchange derivative financial instruments         | -            | -            | -            |
|   | 1.397        | 531          | 866          |
| <b>Total</b>  | <b>2.186</b> | <b>2.379</b> | <b>(193)</b> |

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 2015 and they refer to trade items.

### 3.36. FINANCIAL EXPENSES

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



|   | Year 2015    | Year 2014     | Variation      |
|---|--------------|---------------|----------------|
| Interest on financial payable to parent company -<br><i>Intercompany Loan Agreement</i> | -            | 11.135        | (11.135)       |
| Interest on Senior Term Loan Agreement  | 3.697        | -             |                |
| Interest on financial payables to associated companies                                  | -            | 29            | (29)           |
| Interest on easy-term financing from banks and the<br>Ministry of Economic Development  | -            | -             | -              |
| Interest on financial payables to controlled companies                                  | 4            | 4             | -              |
| Interest on other payables  |              | 135           | (135)          |
| Discounts and other financial expenses  | 119          | 46            | 73             |
| Interest costs on employee benefits   | 12           | 36            | (24)           |
| Expenses from interest rate derivative instruments                                      | 103          | -             | 103            |
|   | 3.935        | 11.385        | (7.450)        |
| Realised exchange losses  | 954          | 543           | 411            |
| Unrealised exchange losses  | 17           | 86            | (69)           |
|   | 971          | 629           | 342            |
| <b>Total</b>  | <b>4.906</b> | <b>12.014</b> | <b>(7.108)</b> |

The caption financial expenses amounts to Euro 4,906 thousand, shows a decrease compared to previous year (Euro 7,108 thousand). This is mainly due to the effect of the application, in the comparison's year, of the amortized cost resulting from changes made to the Intercompany Loan Agreement signed with the former controlling company BCV Investments S.C.A., which led to the recognition of financial expenses amounting to Euro 11,135 thousand.

In 2015, the financial expenses recognized in the income statement are mainly due to the interests related to the Senior Term and Revolving Facilities Agreement (see paragraph 3.18), amounting to Euro 3,967 thousand.

The expenses from interest rate derivative instruments, amounting to Euro 103 thousand, refer to the economic effects recorded from June 30, 2015, to December 31, 2015 and related to the unpredictability of interest rates on credit lines defined by the Senior Term and Revolving Facilities Loan Agreement.

### 3.37. OTHER INCOME/(EXPENSES) FROM FINANCIAL INVESTMENTS

Net income from financial investments presents a balance of Euro 791 thousand and are detailed as follows:

- Gains of Euro 1,620 thousand, received from the controlled company Regulus S.A.;
- Gains of Euro 1,970 thousand, paid by the jointly controlled Europropulsion S.A.;
- Depreciation, amounting to Euro 2,799 thousand, of the participation in the associated company Termica Colleferro S.p.A., in order to adjust its net value to the recoverable value, determined considering the expected cash flows.

### 3.38. INCOME TAXES

Income taxes for the year 2015 presents a net positive balance amounting to Euro 2,316 thousand. This balance is the result of current taxes charges amounting to Euro 543 thousand and deferred tax net amounting to Euro 2,858 thousand.

The reconciliation between the theoretical and effective tax rate, excluding IRAP because of its particular nature, is presented in the following table (Euro thousands):

|                            | Year 2015 | Year 2014 |
|----------------------------|-----------|-----------|
| Profit/(Loss) before taxes | 3.090     | 1.359     |
| Ordinary IRES tax rate     | 27,50%    | 27,50%    |
| Theoretical income taxes   | 850       | 374       |

Effect of adjustments:

|  |          |          |
|--|----------|----------|
| Increasing permanent differences             | 3.695    | 13.669   |
| Decreasing permanent differences             | (4.481)  | (3.969)  |
| Increasing temporary differences             | 12.109   | 14.859   |
| Decreasing temporary differences             | (73.584) | (83.608) |
| Total  | (62.261) | (59.049) |
| Fiscal loss                                  | (59.171) | (57.690) |
| Unrecorded deferred tax (assets)/liabilities | (2.858)  | (11.938) |
| Provisions for tax liabilities               | 542      | 7.768    |
|  | (2.316)  | (4.170)  |

#### 4. GUARANTEES GRANTED AND COMMITMENTS

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

|   | 31/12/2015    | 31/12/2014    |
|---|---------------|---------------|
| Guarantees granted:                                     |               |               |
| Personal guaranties:                                    |               |               |
| Sureties issued by third parties on behalf of the Group | 6.714         | 6.335         |
| Other   | 29.788        | 29.788        |
| Total Guarantees granted                                | 36.502        | 36.123        |
| Goods owned by third parties held by the Group          | 1.000         | 1.000         |
| Goods owned by the Group held by third parties          | 2.030         | 3.476         |
| Guarantees and received guarantees                      | 114           | 874           |
| <b>Total</b>  | <b>39.646</b> | <b>41.473</b> |

##### 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

A short description of the most significant proceedings is reported below, with a short description of the most significant contingent liabilities.

*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 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 merger 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 of interests 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 appealed, 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, referring to the operation of leveraged buy-out, quantifying a request, inclusive of interest and penalties, of approximately Euro 32,905 thousand. 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 referring 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 merger that occurred in 2007 with the Parent (for not exceeding the vitality test), quantifying the claim, inclusive to interest and penalties, in approximately Euro 3,485 thousand. 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 the denial of additional reposted losses of Avio Holding S.p.A. (deriving from the reimbursement form of IRES and IRAP, amounting Euro 105 thousand) 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 in 2007, 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 thousand paid in provisional account (referred exclusively to 2007-2008 fiscal years) are recorded as receivable in the balance sheet.

Following the contacts occurred with Agenzia delle Entrate, Avio SpA, despite the belief of the correctness of its actions, considered appropriate to reach a settlement agreement, formalized on April 22, 2015; under the terms of the agreement the parties waived the aforesaid litigation, defining the amounts paid by the AVIO total of Euro 8,153 thousands, paid during 2015 and in January 2016 in adherence to acts accordingly issued; on the other hand, the amounts paid as a provisional collection (as specified, Euro 6,888 thousand) were repaid by the end of 2015.

Considering the remarks not subject to definition by means of the aforementioned transaction, in December 2014 it had been notified the tax claim ("*avviso di accertamento*") for the fiscal year 2007 concerning the non-deductibility of VAT on invoices qualified as not inherent relating to the same leveraged buy-out transaction, quantifying requests, inclusive of interest and penalties, in the amount of Euro 10,954 thousand; about this finding contacts are in progress for the eventual agreed definition before the hearing at the Provincial Tax Commission.

In December 2012, furthermore simultaneously to the notifications regarding the operation of leveraged buy-out, the parent company was notified about i) a notice of assessment, always for

the year 2007 concerning the alleged non-application of withholding tax on interest paid, in connection with contractual loan arrangements in progress, to an associated company under Dutch law, based on the denial of the status of effective beneficial of such amount (amount requested 7,895 thousand, paid in June 2013) ii) the attached document contestation of sanctions for non-payment of withholdings amounts.

In December 2013, 2014 and 2015 "avvisi di accertamento" were also notified for the same case in relation to years 2008, 2009 and 2010. Such amounts have been timely paid always drawing from the provision for risks and charges accrued for this purpose (respectively 6,572, 4,459 and 4,221 thousand).

In February 2014 and 2015 were reported for the years 2007 and 2008, the related acts of penalty for non-payment, against which the parent company has proposed timely appeals to Turin CTP, holding them without legal basis (amounts requested amounted to 1,513, respectively, and 1,450 thousand); it should be noted that the appeal for the year 2007 was incorporated in June 2015 with the past decision final.

In December 2014 and December 2015 related acts of application of sanctions will also be challenged in the event of non-acceptance of deductions acts of contestation of sanctions relating to 2009 and 2010 (amounts 983 and 932 thousand) were finally notified: defensive.

Avio S.p.A. also appealed to the Provincial Tax Commission of Turin against two demands for payment issued in May 2015 for the application of penalties and interests for late payment, relating to the same case of withholding tax, concerning the annual 2011 (total amount € 1,194 thousand, in addition to premiums collected). Such appeals were received in November 2015.

As anticipated, with reference to the above findings and the arrangement of the situation of the years 2011, 2012 and 2013 under the supplementary return for 2011 and performance of ravvedimenti industrious for subsequent years, the Parent Company has proceeded to the allocation of a specific risks and charges, partly used in 2013, 2014 and 2015 for the above mentioned payments related withholdings omitted; the consistency of that provision recognized in the financial statements at 31.12.2015 is considered adequate to the fulfillment of future payments related to the expenses for the years still to be defined and penalties dissenting object on already defined exercises.

Regarding the "Processo Verbale di Constatazione" notified on 8 March 2016 by the Guardia di Finanza, please refer to what is already stated in the paragraph "Significant events after the year end" of the Management Report

## 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):

| Amounts in Euro thousands      | Balance as of<br>December 31,<br>2015 | Class of<br>financial<br>instruments<br>(IAS 39) |   | Fair<br>value* |
|--------------------------------|---------------------------------------|--|---|----------------|
|                                |                                       | <i>Loan and<br/>Receivables</i>                  | <i>Financial<br/>liabilities<br/>recognized at<br/>amortized cost</i> |                |
|                                |                                       |  | <i>Derivatives<br/>financial<br/>instruments</i>                      |                |
| FINANCIAL ASSETS               |                                       |  |   |                |
| - Non-current financial assets | 6,400                                 | 6,400  |   | 6,400          |
| - Other non-current assets     | 8,649                                 | 8,649  |   | 8,649          |
| - Current financial assets     | 130                                   | 130  |   | 130            |

|  |        |                |            |        |
|--|--------|----------------|------------|--------|
| - Trade receivables                                    | 8,887  | 8,887          |            | 8,887  |
| - Other current assets                                 | 7,906  | 7,906          |            | 7,906  |
| - Cash and cash equivalents                            | 67,505 | 67,505         |            | 67,505 |
|  |        | <b>99,297</b>  |            |        |
| FINANCIAL LIABILITIES                                  |        |                |            |        |
| - Non-current financial liabilities                    | 91,272 | 91,272         |            | 91,272 |
| - Current financial liabilities                        | 44,401 | 44,033         | 368        | 44,401 |
| - Current portion of non-current financial liabilities | 4,439  | 4,439          |            | 4,439  |
| - Other non-current liabilities                        | 41,217 | 41,217         |            | 41,217 |
| - Other current liabilities                            | 5,872  | 5,872          |            | 5,872  |
| - Trade payables                                       | 43,010 | 43,010         |            | 43,010 |
|  |        | <b>229,843</b> | <b>368</b> |        |

\* Where not available the fair value, the data included the table is related to cost.

Amounts as of December 31, 2014:

| Amounts in Euro thousands       | Balance as of<br>December<br>31, 2014 | Class of<br>financial<br>instruments<br>(IAS 39) |   |   | Fair<br>value* |
|---------------------------------|---------------------------------------|--|---|---|----------------|
|                                 |                                       | Loan and<br>Receivables                          | Financial<br>liabilities<br>recognized at<br>amortized cost | Derivatives<br>financial<br>instruments |                |
| FINANCIAL ASSETS                |                                       |  |   |   |                |
| - Non-current financial assets  | 6,200                                 | 6,200  |   |   | 6,200          |
| - Other non-current assets      | 11,210                                | 11,210   |   |   | 11,210         |
| - Current financial assets      | 21,454                                | 21,454   |   |   | 21,454         |
| - Trade receivables             | 6,562                                 | 6,562  |   |   | 6,562          |
| - Other current assets          | 11,738                                | 11,738   |   |   | 11,738         |
| - Cash and cash equivalents     | 159,298                               | 159,298  |   |   | 159,298        |
|                                 |                                       | <b>216,462</b>                                   |   |   |                |
| FINANCIAL LIABILITIES           |                                       |  |   |   |                |
| - Current financial liabilities | 47,471                                |  | 47,471  |   | 47,471         |
| - Other non-current liabilities | 39,230                                |  | 39,230  |   | 39,230         |
| - Other current liabilities     | 8,363                                 |  | 8,363   |   | 8,363          |
| - Trade payables                | 47,935                                |  | 47,935  |   | 47,935         |
|                                 |                                       |  | <b>142,999</b>  |   |                |

\* Where not available the fair value, the data included the table is related to cost

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

#### Fair value of financial assets and liabilities: calculation methods

In relation to financial instruments recognized at fair value in the statement of financial position, IFRS 7 requires that financial instruments stated at fair value in the financial statements be classified based on a hierarchy with three levels that reflect the level of input used in determining the fair value. The following levels must be shown:

- level 1 – quoted prices on an active market for the asset or liability being measured;
- level 2 – input other than the quoted prices per level 1 that may be observed directly (prices) or indirectly (derived from prices) on the market;
- level 3 – inputs not based on observable market data.

Derivative financial instruments (interest rate swaps) related to “*Senior Term and Revolving Facilities Agreement*” granted by Banca IMI and other leading financial institutions on April 1, 2015, are recognized at fair value and are included in the financial assets and liabilities.

The following table shows assets and liabilities measured at fair value at 31 December 2015 by hierarchical level of fair value measurement.

| Amounts in Euro thousands        | Level 1 | Level 2 | Level 3 |
|----------------------------------|---------|---------|---------|
| Derivative financial instruments | -       | 368     | -       |

### Financial charges and income identified pursuant to IAS 39

The tables reported below show an analysis of the amounts relative to financial charges and income broken down pursuant to the categories set out in IAS 39 for fiscal years 2015 and 2014.

#### Year 2015

| Amounts in Euro thousands                          | Financial income/(expenses) recognized to income statement |                            | Financial income/(expenses) recognized to other comprehensive income |
|--|--|----------------------------|--|
|  | From interest  | From changes in fair value | From changes in fair value   |
| Loan and receivables                               | 790  | -                          | -  |
| Financial liabilities recognized at amortized cost | (3,701)  | -                          | -  |
| Derivative financial instruments                   | (103)  | -                          | (368)  |
| Total  | (3,014)  | -                          | (368)  |

#### Year 2014

| Amounts in Euro thousands                          | Financial income/(expenses) recognized to income statement |                            | Financial income/(expenses) recognized to other comprehensive income |
|--|--|----------------------------|--|
|  | From interest  | From changes in fair value | From changes in fair value   |
| Loan and receivables                               | 1,848  | -                          | -  |
| Financial liabilities recognized at amortized cost | (11,303)   | -                          | -  |
| Derivative financial instruments                   | -  | -                          | -  |
| Total  | (9,455)  | -                          | -  |

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,

Interest rate swap, for which it is not possible to determine an active market, are recorded at fair value and included financial assets and liabilities. The related fair value is determined with evaluating technique based on market data, particularly using pricing models recognized by markets, as the discounted cash flow method.

## **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, 2015 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, 2015, an exposure for past due receivables of approximately Euro 5,7 million (Euro 13.3 million as at December 31, 2014). 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, 2015 (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.

| Amounts in Euro thousands  | Balance as of December 31, 2015 | On-demand | within 12 months | From 1 to 2 years | From 2 to 3 years | From 3 to 4 years | From 4 to 5 years | Over 5 years | Total   |
|--|---------------------------------|-----------|------------------|-------------------|-------------------|-------------------|-------------------|--------------|---------|
| Financial liabilities recognized at amortized cost:  |                                 |           |                  |                   |                   |                   |                   |              |         |
| Current financial liabilities:   |                                 |           |                  |                   |                   |                   |                   |              |         |
| - Financial liabilities from subsidiaries  | 35,635                          | 35,635    |                  |                   |                   |                   |                   |              | 35,635  |
| - Financial liabilities from joint venture   | 8,399                           | 8,399     | -                | -                 | -                 | -                 | -                 | -            | 8,399   |
| Financial liabilities:   |                                 |           |                  |                   |                   |                   |                   |              |         |
| - Financial liabilities Senior Term and Revolving Facilities Agreement   | 95,711                          | -         | 8,736            | 9,404             | 10,923            | 12,371            | 12,901            | 68,998       | 123,333 |
|  | 139,745                         | 44,034    | 8,736            | 9,404             | 10,923            | 12,371            | 12,901            | 68,998       | 167,367 |
| Trade payables   | 43,010                          | -         | 43,010           | -                 | -                 | -                 | -                 | -            | 43,010  |
|  | 43,010                          | -         | 43,010           | -                 | -                 | -                 | -                 | -            | 43,010  |
| Other non-current liabilities:   |                                 |           |                  |                   |                   |                   |                   |              |         |
| - Payables to the Ministry of Economic Development for funding pursuant to Law No. 808/85 - portion due after one year | 41,217                          | -         | -                | -                 | -                 | -                 | -                 | 41,217       | 41,217  |
|  | 41,217                          | -         | -                | -                 | -                 | -                 | -                 | 41,217       | 41,217  |
| Other current liabilities:   |                                 |           |                  |                   |                   |                   |                   |              |         |
| - Social security payables   | 2,085                           | -         | 2,085            | -                 | -                 | -                 | -                 | -            | 2,085   |
| - Other payables to third parties  | 1,764                           | -         | 1,764            | -                 | -                 | -                 | -                 | -            | 1,764   |
| - Other payables to subsidiaries   | 2,023                           | -         | 2,023            | -                 | -                 | -                 | -                 | -            | 2,023   |
|  | 5,872                           | -         | 5,872            | -                 | -                 | -                 | -                 | -            | 5,872   |
| Total  | 229,844                         | 44,034    | 57,618           | 9,404             | 10,923            | 12,371            | 12,901            | 110,215      | 257,466 |

| Amounts in Euro thousands                           | Balance as of December 31, 2014 | On-demand | within 12 months | From 1 to 2 years | From 2 to 3 years | From 3 to 4 years | From 4 to 5 years | Over 5 years | Total  |
|---|---------------------------------|-----------|------------------|-------------------|-------------------|-------------------|-------------------|--------------|--------|
| Financial liabilities recognized at amortized cost: |                                 |           |                  |                   |                   |                   |                   |              |        |
| Current financial liabilities:                      |                                 |           |                  |                   |                   |                   |                   |              |        |
| - Financial liabilities from subsidiaries           | 39,552                          | 39,552    |                  |                   |                   |                   |                   |              | 39,552 |
| - Financial liabilities from joint venture          | 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 - portion due after one year | 39,230  | -      | -      | - | - | - | - | 39,230 | 39,230  |
|  | 39,230  | -      | -      | - | - | - | - | 39,230 | 39,230  |
| Other current liabilities:   |         |        |        |   |   |   |   |        |         |
| - Social security payables   | 1,999   | -      | 1,999  | - | - | - | - | -      | 1,999   |
| - Other payables to third parties  | 3,797   | -      | 3,797  | - | - | - | - | -      | 3,797   |
| - Other payables to subsidiaries   | 2,567   |        | 2,567  |   |   |   |   |        | 2,567   |
|  | 8,363   | -      | 8,363  | - | - | - | - | -      | 8,363   |
| Total  | 142,999 | 47,471 | 56,298 | - | - | - | - | 39,230 | 142,999 |

### Market risks

Considering the actual financial structure of the Company, even if the net financial position, shows, during 2015 a significant exposure represented by the Senior Term and Revolving Facilities Agreement and the related derivative instruments to hedge the exchange rate, the operating currency is almost exclusively the 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, 2015, 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.

### Interest rate risk

The Company is exposed to the interest rate risk essentially because of the floating rate financial liabilities related to the Senior Term and Revolving Facilities Agreement signed with Banca IMI and other primary credit institute on April 1, 2015. The changes in interest rate could have positive or negative impact on the earnings and the equity of the Company.

The Company regularly assesses its exposure to the risk of changes in interest rates and manages this risk through the use of derivative financial instruments, in accordance with what established in its risk management policies and in line with the provisions of the mentioned loan agreement.

Within these policies, the use of derivative financial instruments is limited to manage the exposure to fluctuations in interest rates related to cash flows and to balance sheet assets and liabilities, and not for speculative purposes.

The Company uses cash flow hedge derivative financial instruments, aiming at predetermining the interest rate of floating rate loan.

The tools used in pursuing this strategy are mainly interest rate swaps. The risk management's objectives can be summarized as follows:

- The objective of the Company is to mitigate the risk of net result and cash flow's variation more negative than those expected in the budget and the business plan because of adverse fluctuations in interest rates, ensuring a fixed rate on part of its financial exposure, subject to floating rate;
- The identified positions (outstanding loans) are hedged by the use of derivatives interest rate swaps;
- It is not allowed to use derivative instruments for speculative purposes, namely, not to pursue the above mentioned objectives.

### Accounting for hedging transactions

The Group uses derivative contracts to safeguard the loan agreement "*Senior Term and Revolving Facilities Agreement*" against the risk of interest rate fluctuations, on the basis of a cash flow hedge strategy.

Consequently, when reporting on hedging transactions in the financial statements, the Group checks whether or not the requirements of IAS 39 on the application of hedge accounting are met.

The following table shows the main outstanding interest rate swap:

| Financial Institute | Signing date | Expiration date | Notional Amount | MtM       |
|---------------------|--------------|-----------------|-----------------|-----------|
| Société Générale    | 30/06/2015   | 29/06/2018      | 8.943.089       | (47.986)  |
| BPM                 | 30/06/2015   | 29/06/2018      | 16.260.163      | (89.083)  |
| UniCredit           | 30/06/2015   | 30/06/2018      | 8.943.089       | (48.958)  |
| Intesa Sanpaolo     | 30/06/2015   | 29/06/2018      | 32.520.325      | (181.963) |
|                     |              |                 | 66.666.666      | (367.990) |

The aim of interest rate hedges is to fix the cost relating to the floating rate long term loan agreements being hedged by entering into a related derivative contract that allows the floating rate interest to be collected in return for payment of interest at a fixed rate.

Derivatives for which the conditions laid down by IAS 39 for application of hedge accounting (formal designation of a hedging relationship; documented, measurable and highly effective hedging relationship) are respected are accounted for on a cash flow hedge basis. This means that, when a hedge agreement is entered into, the related "fair value", regarding the effective portion only, is recorded under an equity reserve. Subsequent changes in "fair value" resulting from movements in the interest rate curve – again only in relation to the effective portion of the hedge – are also recorded under an equity reserve.

During 2015, no events of over-hedging have occurred about future cash outflows being hedged.

The table below shows the following information on derivatives:

- the notional amount at 31 December 2015;
- the fair value of the contracts at the reporting date and the changes in fair value recognized to OCI;
- the ineffective portion or the change in time value recorded in the income statement under Financial expenses.

| Amounts in Euro thousands | Notional amount | Fair Value | Effect recognized to profit and loss | Effect recognized to OCI |
|---------------------------|-----------------|------------|--------------------------------------|--------------------------|
| Interest rate swap        | 66,667          | (368)      | -                                    | (368)                    |
|                           | 66,667          | (368)      | -                                    | (368)                    |

Financial expenses occurred in 2015 related to interest rate swap and recognized to income statement amount to Euro 103 thousand.

There not were any hedging transactions in 2014 and, accordingly, no comparative information have been reported.

## 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.

2015 and 2014's most relevant asset and liabilities values for transactions with related parties are shown in the table below (amount in thousand of Euro):

| December 31, 2015  |                         |                          |                       |                |                               |                    |
|--|-------------------------|--------------------------|-----------------------|----------------|-------------------------------|--------------------|
| Counterparty   | Trade receivables/Other | Construction in progress | Financial receivables | Trade payables | Progress billing and advances | Financial payables |
| Cinven   | -                       |                          | -                     | 259            |                               | -                  |
| <b>Controlling companies</b>   | -                       | -                        | -                     | <b>259</b>     |                               | -                  |
| Finmeccanica S.p.A.  | -                       |                          | -                     | 342            |                               | -                  |
| MBDA Italia S.p.A.   | -                       | 751                      | -                     | -              | 48                            | -                  |
| MBDA France S.A.   | -                       | 9.774                    | -                     | 42             | 5.918                         | -                  |
| Thales Alenia Space Italia S.p.A.  | -                       |                          | -                     | -              |                               | -                  |
| <b>Companies that have significant influence and related investments</b> | -                       | <b>10.525</b>            | -                     | <b>384</b>     | <b>5.966</b>                  | -                  |
| ELV S.p.A.   | 3.935                   | 34.162                   | -                     | -              | 110.370                       | 5.756              |
| Regulus S.A.   | 1.556                   | 231                      | -                     | 18.031         | 450                           | -                  |
| SE.CO.SV.IM. S.r.l.  | 213                     |                          | -                     | -              |                               | 29.878             |
| <b>Controlled companies</b>  | <b>5.704</b>            | <b>34.393</b>            | -                     | <b>18.031</b>  | <b>110.820</b>                | <b>35.634</b>      |
| Termica Colleferro S.p.A.  | 46                      |                          | 6.530                 | 319            |                               | -                  |
| Europropulsion S.A.  | 605                     | 29.025                   | -                     | 1.081          | 32.576                        | 8.399              |
| Servizi Colleferro – Società Consortile per Azioni                       | 116                     |                          | -                     | 11             |                               | -                  |
| <b>Associated and jointly controlled companies</b>                       | <b>767</b>              | <b>29.025</b>            | <b>6.530</b>          | <b>1.411</b>   | <b>32.576</b>                 | <b>8.399</b>       |
| <b>Total related parties</b>   | <b>6.471</b>            | <b>73.943</b>            | <b>6.530</b>          | <b>20.085</b>  | <b>149.362</b>                | <b>44.033</b>      |
| <b>Total</b>   | <b>8.887</b>            | <b>82.501</b>            | <b>#REF!</b>          | <b>43.010</b>  | <b>152.028</b>                | <b>140.112</b>     |
| Effect on Total  | 72,8%                   | 89,6%                    | #REF!                 | 46,7%          | 98,2%                         | 31,4%              |

| December 31, 2014 |                         |                          |                       |                     |                               |                    |
|-------------------|-------------------------|--------------------------|-----------------------|---------------------|-------------------------------|--------------------|
| Counterparty      | Trade receivables/Other | Construction in progress | Financial receivables | Commercial payables | Progress billing and advances | Financial payables |

|  |              |               |               |               |               |
|--|--------------|---------------|---------------|---------------|---------------|
| Cinven   | -            | -             | 255           | -             | -             |
| <b>Controlling companies</b>   | -            | -             | <b>255</b>    | -             | -             |
| Finmeccanica S.p.A.  | -            | -             | 170           | -             | -             |
| MBDA Italia S.p.A.   | -            | 1.026         | -             | 590           | -             |
| MBDA France S.A.   | 31           | 4.401         | -             | -             | -             |
| Thales Alenia Space Italia S.p.A.  | -            | -             | 10            | -             | -             |
| <b>Companies that have significant influence and related investments</b> | <b>31</b>    | <b>5.427</b>  | <b>-</b>      | <b>170</b>    | <b>590</b>    |
| ELV S.p.A.   | 2.292        | 24.257        | -             | -             | 53.383        |
| Regulus S.A.   | 2.199        | 90            | -             | 16.639        | 350           |
| SE.CO.SV.IM. S.r.l.  | -            | -             | -             | -             | 28.988        |
| <b>Controlled companies</b>  | <b>4.491</b> | <b>24.347</b> | <b>-</b>      | <b>16.639</b> | <b>53.733</b> |
| Termica Colleferro S.p.A.  | 68           | -             | 6.341         | 124           | -             |
| Europropulsion S.A.  | 467          | 2.323         | -             | 4.925         | 18.019        |
| Servizi Colleferro – Società Consortile per Azioni                       | 108          | -             | -             | -             | -             |
| <b>Associated and jointly controlled companies</b>                       | <b>643</b>   | <b>2.323</b>  | <b>6.341</b>  | <b>5.049</b>  | <b>18.019</b> |
| <b>Total related parties</b>   | <b>5.165</b> | <b>32.097</b> | <b>6.341</b>  | <b>22.113</b> | <b>72.342</b> |
| <b>Total</b>   | <b>6561</b>  | <b>45.415</b> | <b>27.654</b> | <b>47.935</b> | <b>75.725</b> |
| Effect on total  | 78,7%        | 70,7%         | 22,9%         | 46,1%         | 95,5%         |

The main effects on profit and loss of the transactions between the Group and related parties for 2015 and 2014 are as follow (amounts in thousands of Euro):

| Counterparty   | Year 2015                         |                                    |                                |                  |                    |
|--|-----------------------------------|------------------------------------|--------------------------------|------------------|--------------------|
|  | Operating revenues <sup>(1)</sup> | Change in construction in progress | Operating costs <sup>(2)</sup> | Financial income | Financial expenses |
| Cinven   | -                                 | -                                  | 1.054                          | -                | -                  |
| <b>Controlling companies</b>   | <b>-</b>                          | <b>-</b>                           | <b>1.054</b>                   | <b>-</b>         | <b>-</b>           |
| Finmeccanica S.p.A.  | -                                 | -                                  | 167                            | -                | -                  |
| MBDA Italia S.p.A.   | 3.495                             | (1.979)                            | -                              | -                | -                  |
| MBDA France S.A.   | 8.789                             | 408                                | -                              | -                | -                  |
| Thales Alenia Space Italia S.p.A.  | 1.884                             | -                                  | -                              | -                | -                  |
| <b>Companies that have significant influence and related investments</b> | <b>14.168</b>                     | <b>(1.571)</b>                     | <b>167</b>                     | <b>-</b>         | <b>-</b>           |
| ELV S.p.A.   | 10.796                            | 73.908                             | -                              | 6                | 1                  |
| Regulus S.A.   | 3.817                             | 1.306                              | 31.854                         | -                | -                  |
| SE.CO.SV.IM. S.r.l.  | 176                               | -                                  | 3.697                          | -                | 3                  |
| <b>Controlled companies</b>  | <b>14.789</b>                     | <b>75.214</b>                      | <b>35.551</b>                  | <b>6</b>         | <b>4</b>           |
| Termica Colleferro S.p.A.  | 84                                | -                                  | 6.963                          | 258              | -                  |
| Europropulsion S.A.  | 9.142                             | 98.096                             | 34.183                         | 1                | -                  |
| Servizi Colleferro – Società Consortile per Azioni                       | 10                                | -                                  | 536                            | -                | -                  |
| <b>Associated and jointly controlled companies</b>                       | <b>9.236</b>                      | <b>98.096</b>                      | <b>41.682</b>                  | <b>259</b>       | <b>-</b>           |

|                              |               |                |                |              |              |
|------------------------------|---------------|----------------|----------------|--------------|--------------|
| <b>Total related parties</b> | <b>38.193</b> | <b>171.739</b> | <b>78.454</b>  | <b>265</b>   | <b>4</b>     |
| <b>Total</b>                 | <b>83.727</b> | <b>148.831</b> | <b>225.429</b> | <b>2.186</b> | <b>4.906</b> |
| Effects on total             | 45,6%         | 115,4%         | 34,8%          | 12,1%        | 0,1%         |

(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.

| Counterparty   | Year 2014                         |                                    |                                |                  |                    |
|--|-----------------------------------|------------------------------------|--------------------------------|------------------|--------------------|
|  | Operating revenues <sup>(1)</sup> | Change in construction in progress | Operating costs <sup>(2)</sup> | Financial income | Financial expenses |
| Cinven   | -                                 |                                    | 1.041                          | -                | -                  |
| <b>Controlling companies</b>   | <b>-</b>                          | <b>-</b>                           | <b>1.041</b>                   | <b>-</b>         | <b>-</b>           |
| Finmeccanica S.p.A.  | -                                 |                                    | 170                            | -                | -                  |
| MBDA Italia S.p.A.   | 491                               | 3.294                              |                                |                  |                    |
| MBDA France S.A.   | 77                                | 5.414                              | -                              | -                | -                  |
| Thales Alenia Space Italia S.p.A.  |                                   |                                    |                                |                  |                    |
| <b>Companies that have significant influence and related investments</b> | <b>568</b>                        | <b>8.708</b>                       | <b>170</b>                     | <b>-</b>         | <b>-</b>           |
| ELV S.p.A.   | 152.026                           | (84.118)                           | -                              | 1                | -                  |
| Regulus S.A.   | 3.466                             | (372)                              | 31.517                         | -                | -                  |
| SE.CO.SV.IM. S.r.l.  | 35                                |                                    | 3.600                          | -                | 3                  |
| <b>Controlled companies</b>  | <b>155.527</b>                    | <b>(84.490)</b>                    | <b>35.117</b>                  | <b>1</b>         | <b>3</b>           |
| Termica Colleferro S.p.A.  | 13                                |                                    | 8.373                          | 141              | -                  |
| Europropulsion S.A.  | 2.704                             | 91.202                             | 22.000                         | -                | 29                 |
| Servizi Colleferro – Società Consortile per Azioni                       | 11                                |                                    | 559                            | -                | -                  |
| <b>Associated and jointly controlled companies</b>                       | <b>2.728</b>                      | <b>91.202</b>                      | <b>30.932</b>                  | <b>141</b>       | <b>29</b>          |
| <b>Total related parties</b>   | <b>158.823</b>                    | <b>15.420</b>                      | <b>67.260</b>                  | <b>142</b>       | <b>32</b>          |
| <b>Total</b>   | <b>249.770</b>                    | <b>(38.154)</b>                    | <b>205.812</b>                 | <b>2.379</b>     | <b>12.014</b>      |
| Effects on total   | 63,6%                             | -40,4%                             | 32,7%                          | 6,0%             | 0,3%               |

(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.

### Transactions with controlling companies

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;

- 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;

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.

## 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, 2015 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 2015 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                        | 2015 fees |
|------------------|---|-----------|
| Audit            | Deloitte & Touche S.p.A.                | 66        |
| Attestation      | Deloitte & Touche S.p.A. <sup>(1)</sup> | 6         |
| <b>Total</b>     |   | <b>72</b> |

(1) For the subscription of tax returns.

\* \* \*

March 31, 2016

for the BOARD OF DIRECTORS  
Chief Executive Officer  
*Giulio Ranzo*

**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 2015, 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 2015 were approved by the Board of Directors during the meeting held on March 31, 2016 and shows a net profit amounting to Euro 5,406,278. 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, 2015 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 2015 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.

During 2015 we have expressed our proposal about the appointment of the audit Company.

Based on our supervisory activities as performed during the year ended December 31, 2015 and considering the unqualified opinions issued on this date by the external auditors on both the statutory financial statements and the consolidated financial statements, we agree with the Directors' proposals regarding the approval of the statutory financial statements as at December 31, 2015 and the allocation of the net profit for the year.

Finally we remember that, with the approval of the financial statements as at 31 december 2015, our mandate as statutory auditors expires. We invite you to renew the mandate for the period 2016-2018.

April 1, 2016  
THE BOARD OF STATUTORY AUDITORS  
*Raoul F. Vitulo*  
*Maurizio Salom*  
*Luigi Gaspari*



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**INDEPENDENT AUDITORS' REPORT  
PURSUANT TO ART. 14 OF  
LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010**

**To the Shareholders of  
AVIO S.p.A.**

**Report on the Financial Statements**

We have audited the accompanying financial statements of Avio S.p.A., which comprise the statement of financial position as at December 31, 2015, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and the explanatory notes.

*Management's Responsibility for the Financial Statements*

The Company's Directors are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11, no. 3, of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Avio S.p.A. as at December 31, 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Report on Other Legal and Regulatory Requirements**

*Opinion on the consistency of the report on operations with the financial statements*

We have performed the procedures indicated in the Auditing Standard (SA Italia) no. 720B in order to express, as required by law, an opinion on the consistency of the report on operations, which is the responsibility of the Directors of Avio S.p.A., with the financial statements of Avio S.p.A. as at December 31, 2015. In our opinion the report on operations is consistent with the financial statements of Avio S.p.A. as at December 31, 2015.

DELOITTE & TOUCHE S.p.A.

Franco Chiavazza  
Partner

Turin, Italy  
April 1<sup>st</sup>, 2016

*This report has been translated into the English language solely for the convenience of international readers.*