

Consolidated Non-Financial Statement 2017

Pursuant to Italian Legislative Decree 254/2016

Avio Group



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MESSAGE TO THE STAKEHOLDERS

Dear reader,

We are delighted to share with you Avio Group's first Consolidated Non-Financial Statement.

The document has been drafted in compliance with the recent reporting requirements introduced by the Italian Legislative Decree 254/2016 (hereinafter "Decree"). The Statement intends to be a first step towards a path in which sustainability has a fundamental role within the Company's strategy as well as in the creation of value in the medium and long term for all its stakeholders.

Throughout 2017, Avio conducted a significant number of activities. Among these: 6 launches of Ariane 5 that allowed to set the unmatched record of 80 consecutive successful missions and 3 flights of the Vega that correctly completed 11 successful consecutive missions since the qualification launch in 2012. In the meantime, the Company has already received from Arianespace a first multi-year advance order of 10 launches of the new Vega C, which is expected to start flying in 2019.

The year 2017 saw the Group involved in some important transformations including the completion, in March, of the extraordinary merging and acquisition of Space2 S.p.A. and Avio S.p.A. as well as the subsequent company listing on the STAR segment of the MTA Market of the Italian Stock Exchange (April 2017).

The listing was only the last step of a successful path undertaken by the Group, which, thanks to the experience and the expertise acquired in over 100 years of business, now has a recognized leadership role in the field of solid, liquid and cryogenic space propulsion.

This long path has been carried out with extreme determination by those of Avio and by the institutions that have always believed and supported the Company's mission.

The launcher sector, to which the Group belongs, and the international context, in which the Company operates today, pose new and fascinating challenges.

Avio believes that economic, social and environmental sustainability must be the driving force behind its strategic and business strategies as they lay at the basis of its mission and core values.

The current technological challenges require Avio to engage in the study of new generations of launchers, which will make access to space cheaper and more flexible.

The use of more performing technologies has enabled the Group to achieve better remarkable results in the optimization of the manufacturing processes, ensuring high quality products while fully protecting its workers' health and safety as well as respect for the environment.

For many years, Avio has invested significant resources in research, development and innovation of products and processes in line with its mission to produce launchers that are increasingly performing and able to meet the needs of customers.

Similarly, as basis for the management strategies, the Group focuses on the development of environmental-friendly/eco-compatible activities and products, paying particular attention to environmental risks linked to industrial production, as well as to the improvement of the safety within its production plants and to the overall safety of its employees.

Avio's success, however, depends mainly on the professional contribution of its highly qualified personnel, which contribute to the Company's growth with their expertise and know-how.



The Group recognises motivation and professional development as key elements to promoting competitiveness, which is, ultimately, essential to generate long-term value for its stakeholders.

Avio's management approach demonstrates the Company's commitment to promote the increasing development of the skills of its employees, guaranteeing an equal treatment to all, and condemning any form of discrimination in respect of human rights.

Throughout 2017, the Group updated its Code of Conduct, which constitutes a fundamental reference for the Group's decisions and operations. In addition, the Code represents a useful resource for all entities, both internal and external, which have a relationship with Avio.

This document hence lays the foundation for the definition of the Group's strategies and processes to promote long-term sustainable development. The appointment of the Sustainability Committee and the assignment of Environmental, Social & Governance (ESG)-related responsibilities will allow Avio to effectively manage the most pressing issues related to sustainability, enabling it to increase its awareness while simultaneously setting the basis for an integrated business strategy.

CEO

Giulio Ranzo

A blue ink signature of Giulio Ranzo, featuring a stylized, cursive script.

Chair

Roberto Italia

A blue ink signature of Roberto Italia, featuring a stylized, cursive script.



NOTE ON METHODOLOGY

This Consolidated Non-Financial Statement 2017 (hereinafter also referred to as "Statement") has been drafted pursuant to Articles 3 and 4 of Legislative Decree 254/2016 (hereinafter the "Decree") and offers a representation of the economic, financial, social and environmental performances of Avio S.p.A. and of its subsidiary companies which fall within the scope of consolidation at December 31, 2017. As a public interest entity (pursuant to article 16, paragraph 1, of the Legislative Decree 39/2010 of 27 January 2010, Avio S.p.A. is subject to the application of the aforementioned Decree, which legally requires it to disclose the Consolidated Non-Financial Statement. As foreseen by Article 5 of the Decree, this Statement constitutes a separate report with a specific wording in order to relate it to the Consolidated Non-Financial Statement required by the regulatory framework.

The reporting periodicity of the Statement is set according to an annual frequency.

This Statement has been approved by the Board of Director of Avio on March 15, 2018.

This Statement is available both in Italian and in English on the Group's website (www.avio.com).

Applicative Standards

The Statement was prepared in accordance with the "GRI Sustainability Reporting Guidelines" published by the Global Reporting Initiative (GRI) in 2016, using the "in accordance – core" approach.

The data and information included in this Statement derive from the Group's corporate information systems and from a non-financial reporting system specifically adopted to meet the requirements of Legislative Decree 254/2016 and the "GRI Sustainability Reporting Standards". The data were processed using specific calculations and, where specifically indicated, by means of estimates. The final part of the document includes the "GRI Content Index" which provides the details of the content reported in compliance with the GRI. The "GRI Content index" also includes additional references to other documents pertaining to the Group.

Materiality Analysis

To identify the topics on which to provide non-financial information pursuant to Legislative Decree 254/2016, a materiality analysis was carried out in accordance with the provisions of the "GRI Sustainability Reporting Standards" (see Chapter 2 "Commitment to stakeholders and relevant topics" for the details and results of the analysis carried out). The main phases of the process used in the analysis are summarized below:

- Internal identification of possible non-financial topics relevant to the aerospace sector, through peer analysis, reports published by analysts and ESG (Environmental, Social, Governance) rating agencies, sectoral studies and media;
- Internal identification of the topics, through the engagement of the main company departments involved in the non-financial reporting process;
- External identification of the topics through the analysis of the interaction with the Group's stakeholders during the reporting period, which include the common priority topics for its customers during the qualification and competition phases as well as for socially responsible analysts and investors.
- Evaluation and subsequent validation by the Risk and Sustainability Control Committee and by the Board of Directors of the Avio Group respectively.



Reporting Boundary

As required by art.4 of the Legislative Decree 254/2016, this document includes the data of the parent company (Avio S.p.A) and of its subsidiaries consolidated line-by-line. In 2017, no transactions with significant impact on the financial year data occurred which could have compromised the correct understanding of the business activity.

In particular, for reporting purposes, the consolidation boundary of the non-financial information included in the Statement considers the provision of financial information according to the global integration method, with the exception of the companies ASPropulsion International B.V. and Avio India Aviation Aerospace Private Limited. Although consolidated, the company ASPropulsion International B.V. has been excluded from the perimeter due to the nature of the company. Indeed as a financial holding company, ASPropulsion International B.V. does not contribute to the group's primary activity (aerospace sector) and above all to acquire additional information on the impact produced by the Group in the areas envisaged by the Decree and in the material topics identified. The company Avio India Aviation Aerospace Private Limited is instead in liquidation.

The Statement is subject of a limited examination ("limited assurance engagement" according to the criteria indicated by the ISAE 3000 Revised principle) by Deloitte & Touche S.p.A. which, once the document was finalized, issued a specific report on the compliance of the information provided in the Statement prepared by Avio S.p.A. pursuant to Legislative Decree 254/2016.

For the next reporting period, the Group aims to improve the non-financial reporting process in order to satisfy both the requirements provided by both by the Decree and by the "GRI Sustainability Reporting Standards". Furthermore, it intends to formalize its policies related to the management of the personnel, social impacts, human rights and the fight against both active and passive corruption, in order to reflect the Group's commitment on these issues within its sustainability strategy. In addition, this path will allow for a more integrated incorporation of sustainability topics within its risk management model.

In particular, by 2018, Avio intends to:

- Improve the non-financial reporting process through the adoption of a formalized procedure which defines the roles, responsibilities and the scheduling related to the different areas included in the Statement;
- Formalize, inform, and provide training on its own implementing policies to better define the guidelines in matter of sustainability, fight against active and passive corruption, respect for human rights (both in relations to its own employees and in the selection process of its suppliers);
- Improve and integrate the information disclosed in the Statement, especially in relation to the "Environment" and "Human resources" areas.

An additional goal for 2018 refers to the development of an enhanced structuring of the engagement process of the Group's stakeholders, which are essential to refine and improve both the materiality analysis process and to carry out a more specific identification of the impacts of the above-mentioned areas on its business activities.



1. AVIO Group

The Avio Group, (hereinafter “Avio” or “the Group”) is a world leading company in the aerospace sector.

With over 50 years of experience in the aerospace industry, thanks to its expertise and know-how, Avio today is a worldwide excellence in the design, development and manufacturing of solid and liquid propulsion systems for launchers. The company acts as a *sub-contractor*¹ and *prime contractor*² for the Ariane and Vega space programs respectively, both of which are funded by the European Space Agency (ESA) at the development stages of the process.

The above-mentioned space programmes are geared towards the development and production of a series of spatial launchers for civilian use, which are designed and built for the positioning of satellites in the geostationary orbit (Geostationary Earth Orbit – GEO) as well as in the low orbit (Low Earth Orbit – LEO).

Arianespace, of which Avio holds a minority stake, as a Launch Service Provider (LSP), purchases the launchers Ariane and Vega from the prime contractors of the respective programmes and sells the launch service to institutional and commercial clients wishing to place their satellites in orbit.

Furthermore, the Group also operates in the business of propulsion systems used for military tactical missiles. Specifically, it produces the following: propulsion components (*booster*³ e *sustainer*⁴), the thrust orientation system (TVC), the aerodynamics (wings) of Aster 30; the latter being considered one of the most powerful and technologically advanced solid propulsion engines used for tactical purposes available on the market. The propulsion systems are then sold at the prime contractor Matra BAE Dynamics Alenia (“MBDA”), which the leading European defense and missile manufacturing company operating in the European and international markets.

With a workforce of over 800 qualified people based both in Italy and abroad, in 2017, the Group accrued revenues for over 300 million euros. In the same year, the Group was also listed on the STAR segment of the MTA Market of the Italian Stock Exchange.

As far as the composition of the employees is concerned, the Group currently has 785 employees with full-time contracts; of these, 780 have a permanent contract, while 5 have fixed-term contract. Furthermore, in 2017 Avio S.p.A. employed about 70 temporary employees. The workforce of temporary staff has been fairly constant over the years, and it is strongly linked to the specific orders of Avio S.p.A.

Moreover, Avio S.p.A has 42 seconded staff members: 18 managed by Regulus⁵, 20 by Europropulsion and 4 by Arianespace.

The Group, whose headquarter is located in Colleferro, Rome, is currently based in Italy. Additionally, the Group has two operating facilities in Campania and Piedmont, and two operating facilities abroad, in France and French Guiana.

¹ Sub-contractors are responsible for the development of and or / manufacturing of components o subcomponents of space launchers, for which they are also generally design authorities.

² Responsible for the development and / or product manufacturing (space launchers or engines).

³ Propellant which generates an additional push to the one provided by the main stage of a space launcher, allowing the launcher to reach the necessary acceleration to overcome gravity.

⁴ Solid rocket propeller motor of the Aster missile.

⁵ 18 seconded to Regulus are included in the count of 102 employees working in French Guiana which is referred to the tables set out below in the Statement



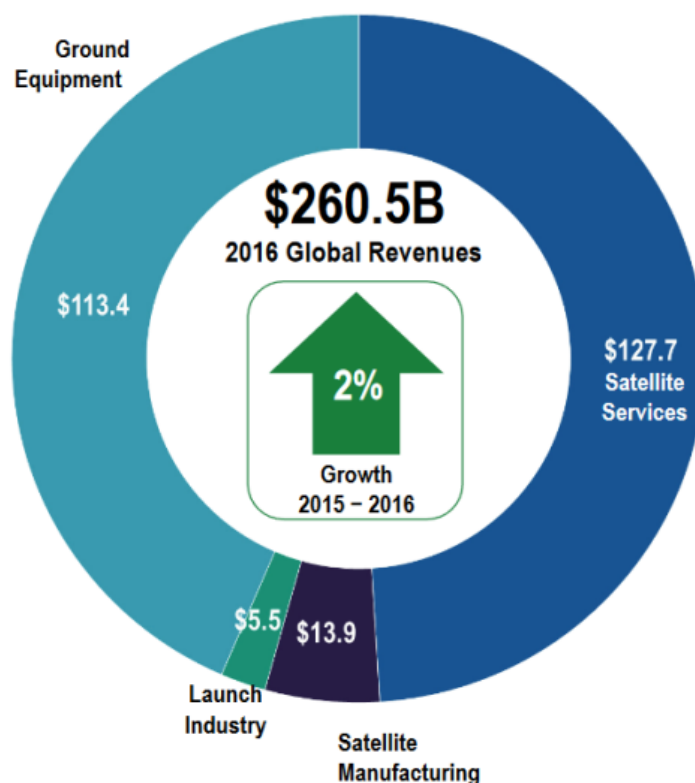
Avio has three main target markets:

- the European institutional market for the transportation of satellites - financed by the ESA and the European Community;
- the institutional market of the governments belonging to the European Community or having privileged relations with the member states of the European Community;
- international commercial markets (specifically, the Middle Eastern, Asian, South American, and more recently the North American one).

The space sector, which includes the launcher industry, is divided into four main segments:

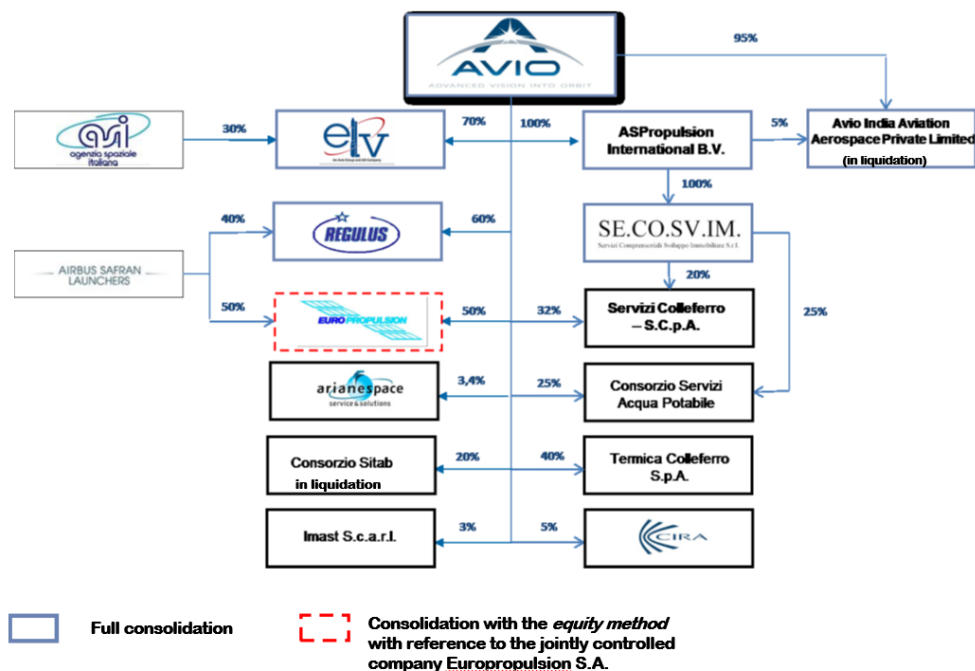
- design and manufacturing of satellites (platforms and payloads);
- land infrastructure for the data processing to and from in-service satellites;
- launchers for the transportation of in-orbit satellites;
- customer service/ users requesting the use of data from satellites.

In 2016, the launchers sector - to which the Group belongs - generated total revenues of 5.4 billion dollars, corresponding to 2.1% of the overall value of the space industry (260.5 billion dollars, which increased by 2% with respect to the previous year).



Source: SIA - State of the Satellite Industry Report, June 2017 – Prepared by the TAURI Group

At an organizational level, the parent company Avio S.p.A holds directly or indirectly shares of five subsidiary companies (ELV SpA - "ELV", Regulus SA - "Regulus", Secosvim Srl - "Secosvim", ASPropulsion International B.V. and Avio India Aviation Aerospace Private Ltd in liquidation), and in a jointly controlled company (Europropulsion SA). The table below describes the Group's composition.



DECRPTION OF THE COMPANIES BELONGING TO THE GROUP

ELV (European Launch Vehicle), company established by Avio and ASI (Italian Space Agency) in December 2000. ELV's main operating office is located in Colleferro, one of the most dynamically innovative production centres in Europe, which is at the forefront of science and technology. ELV develops and manufactures the Vega launcher and its evolutions with all associated technologies. ELV is responsible for all the aspects related to the development system, from the drafting of the specifications, through production, to its integration in lift-off facilities in Kourou (French Guiana).

Regulus, a French company with registered offices in Kourou, French Guiana, is a global leader in the production of solid propellant and for the loading of large rocket engines.

The company performs the solid propellant loading of the four segments that make up the Boosters of the European launcher Ariane 5 and of the first-stage engine (named P80) of the Vega launcher.

At the Regulus facilities, activities have recently started for the development and industrialization of the propellant for the new P120C engine that will power both the evolution Ariane 5, i.e. Ariane 6, and the upgraded version of the Vega, i.e. Vega C, whose first launch is scheduled for 2019.

Secosvim, the real-estate company of the Avio Group, which owns in Colleferro's municipalities, Segni and Artena (Rome), about 910 hectares of land with hundreds of properties, most of which are rented by the Group (about 450 ha) and other companies for industrial purposes. Secosvim directly manages the remaining, unrented properties.

Europropulsion, founded in 1986 by Avio and Safran (based in France) with the aim of ensuring a cooperation between France and Italy on the European launchers Ariane and Vega. The company's goal is to control the development of large solid propellant engines for space launchers, as part of the programs developed by the European Spatial Agency, which are financially supported by the Italian and French governments.



The launchers sector, in which the Group operates, is structured according to a complex production chain, which depending on the level of responsibility, costs and participation in the consortia of space programmes can be summarized as follows:

- suppliers of raw materials and/or semi-finished products;
- sub-contractors;
- prime contractors;
- launch service providers.

As far as the organization of space programmes is concerned, the *launch service provider* is responsible for managing and selling launch services, maintaining exclusive relationships with end customers for the whole duration of the programme. Lastly, it is responsible for the price policy, warranties, indemnities and the after-sales services.

The *prime contractor* is responsible for the development and manufacturing of the spatial launchers and represents the *design authority*. Furthermore, the *prime contractor* coordinates and manages some *sub-contractors*, which are responsible for the development and manufacturing of several components. While Ariane Group is the long-term *prime contractor* of the Ariane's launchers, Avio through its subsidiary company ELV is the *prime contractor* of the Vega launcher.

The *sub-contractor* is responsible for the development and/or production of the spatial launchers' components or under assemblies, for which it also represents the *design authority*. The *sub-contractors* are selected at the development stage based on specific competences requirements and their technical / industrial expertise in accordance with the rules of the principle of "Geographical return" applied by the ESA to the space programmes.

Indeed, these criteria generally refer to companies that, in addition to being in possession of the required technical / industrial skills and capabilities, are part of an ESA member country that participates in the related development programme, where the value of the assigned activities is commensurate with the level of financing guaranteed by the country of origin in the related development programmes.

Unlike *sub-contractors*, suppliers of raw materials and of various components are normally exempted from the ESA's "Geographical return" rules. Such suppliers are responsible for the provision of products (i.e. raw materials or semi-finished products), intended for commercial or specific purposes.

The Group has increasingly acquired a greater role in the production chain over the years. Indeed, it operates as a *sub-contractor* for the supply of the P230 engine and its stage in the Ariane-5 programme and of *prime contractor* and design authority of the entire launcher in the Vega programme.

1.1 Over 50 years of experience in the launch and propulsion system sectors.

Since its foundation, Avio, together with the main institutions, have been supporting and implementing the project in Colleferro "City in the Space" with strong determination.

Great flexibility and strong skills have always characterized the Avio Group allowing it to grow rapidly and establish itself, in response to the various needs of the country, as an important reference point for technological innovation in Italy. With a vision constantly geared towards the future, Avio has acquired significant experience. A description of its main significant events and successes is provided below:



From the outset to the 90s

The activities carried out by the Group originated in 1908, within the Fiat Group, with the task of producing the first aeronautical engine, followed in 1994 by the acquisition of BPD Difesa e Spazio, a company founded in 1912 which carries out the development and production of ammunition for the Italian and foreign military administrations.

2000s

Following the birth of the company ELV S.p.A, in addition to the traditional activities in the field of aeronautical and space production, the business activities of the Group have also started focusing on the development and integral design of a new launcher in collaboration with the Italian Space Agency (ASI). From this moment on, under the aegis of the European Space Agency (ESA), Avio assumed the important role of prime contractor for the European Vega launcher. During this period, the Group finalized the acquisition of BCV Investments, a company belonging to the private equity fund Cinven as well as to the Finmeccanica Group (now Leonardo Group) and other investors.

2010s

The European spacecraft Vega, designed and manufactured by Avio, was qualified in February 2012. However, it was in 2013 that it successfully completed its first commercial flight.

In these years, the Group continued its internal restructuring with the sale of the company GE Avio S.r.l. - operating in the AeroEngine sector - to General Electric.

Furthermore, with the financial support of the Ministerial Conference of the European Space Agency (ESA) Member States, between 2014 and 2015, the Group signed important development contracts for the Vega-C and Ariane-6 launchers.

Avio's key role in the sector lead to its participation in the development programme of the P120 (first stage engine common to Veg-C and Ariane-6) and to the guide with the role of system administrator of the VECEP program, aimed at the development of the Vega C launcher.

In 2015, for the first time in the history of Kourou's Space Center, the Group carried out 12 launches in a year, of which 6 for Ariane 5 and 3 for Vega (the remaining 3 were Soyuz launches).

Today

In 2016, the Group began its corporate restructuring process, which lead to the company listing in the stock market in 2017, following the merger by incorporation of Avio S.p.A. in Space2 S.p.A. (Italian SPAC, listed on the MIV / SIV segment of the Italian Stock Exchange).

In 2017, the Ariane 5 launcher successfully completed six missions. The last one, which was characterized by the correct positioning in orbit of four satellites of the Galileo constellation (navigation and localization), was completed on 13 December 2017.

On the other hand, there are three Vega flights. With the latest launch from the French Guiana space base, which brought, for the first time, a Moroccan earth observation satellite into orbit, Vega set its world record in the launching sector: 11 successful consecutive launches in the last 5 years.

Furthermore, in 2017, the subsidiary company ELV S.p.A. received from the launch service provider Arianespace a first multi-year advance order in relation to the so-called "Long Lead Items" components, functional for the production of 10 Vega launchers, which will fly starting in 2019.



2. Commitment to stakeholders and relevant topics

In order to understand its business activities, its progress and the consequential impact on the five areas as outlined in the Legislative Decree – namely environment, human rights, personnel management, social impacts and fight against active and passive corruption- Avio conducted several specific analysis to identify the material topics for the Group and its main stakeholders.

Moreover, with the aim of understanding the main expectations of its stakeholders and the company priorities, the company conducted an analysis aimed at identifying material topics through the analysis of the internal and external operating environment of the Group, with the involvement of the company top management.

The so-called "material topics" reflect the Group's significant economic, environmental and social impacts, and can influence the assessments and decisions of its stakeholders. These aspects, which are key elements of its risk management policies and its strategy, also constitute the basis of non-financial reporting.

The results of the analysis have led to the definition of the most relevant non-financial aspects, and constitute the main reporting areas within the Non-Financial Statement of Avio.

These material topics, listed below⁶, were shared with the Internal Sustainability working group and submitted to the evaluation and subsequent validation by the Risk and Sustainability Control Committee and by the Board of Directors of the Avio Group, respectively.

The relevant topics for the Avio Group

Legislative Decree 254/2016	Relevant aspect
Environment	Environmental remediation
	Energy consumption and emissions
	Waste management
	Use of water resources
Human rights	Human rights
Staff management	Dialogue with social partners
	Diversity within the organization's governance bodies
	Training and skills development
	Management and retention of talents
	Equal opportunities
	Staff remuneration
Social impact	Health, safety and well-being of employees
	Contributions to the community
	Cyber security and industrial safety
	Supply chain management
	Innovation
	Quality and safety of products and processes

⁶ The description of relevant aspects is provided in alphabetical order and not according to a priority evaluation



Legislative Decree 254/2016	Relevant aspect
	Safety of plants
Fight against active and passive corruption	Ethics and integrity Prevention of corruption
Other	Compliance with current regulations Sustainability governance

Based on the interaction with the main entities involved in Avio's activities, the company has identified the main stakeholder categories that can both have an impact on the company's ability to implement its strategy and, that are at the same time, significantly influenced by the company's activities.

On the basis on their characteristics and needs, the Group has identified its main relevant stakeholder's categories, which include: employees, shareholders, government institutions, supervisory and control authorities, customers, business partners, suppliers and subcontractors, media, academics, organizations such as trade unions and local communities.

The Group relates to its stakeholders through different forms of involvement and communication for each category, in order to identify their needs and expectations.

In order to improve and monitor the validity of the current identification of material topics, Avio intends to structure a process that periodically involves internal and external stakeholders in specific activities, such as meetings and/or dedicated workshops, aimed at defining a shared materiality matrix to update over time.

This path will allow the Group to promptly collect stakeholders' interests on Environmental, Social and Governance issues, as well as to adapt the contents of its own Consolidated Non-Financial Statement in relation to changes in the company, government, environmental and social context.

The Group is committed to start the implementation of regular stakeholder engagement activities in the upcoming years in order to refine the current materiality analysis. The direct involvement of its stakeholder (such in meetings and / or workshops) will allow the Group to incorporate the perspective of its stakeholders' into its existing mapping activities. Such activities will ultimately allow the Group to identify projects and initiatives that will contribute to the creation of share value in the long term.

The table below shows the list of the Group's key stakeholders and the main involvement and communication ways on which Avio bases its relations:

Avio's stakeholders

Stakeholder category	Engagement activities and communication
Employees and trade unions	Dissemination of the Code of Ethics, training sessions, company intranet, dedicated meetings, newsletter
Shareholders	Periodic financial reporting, Corporate Governance report, Shareholders' meeting, road show
Government institutions	Conferences , dedicated meetings
Supervisory and control authorities	Technical panel, specific meetings, inspections



Stakeholder category	Engagement activities and communication
Clients and business partners	Company website, dedicated meetings, brochures
Suppliers and sub-suppliers	Company website, dedicated meetings
Media	Social network, press releases
Academia	Collaborations, conferences, dedicated meetings
Local communities	Events, partnerships



3. Governance

3.1 The governance model adopted

As a reference model for its corporate governance, Avio adopts the provisions of the Corporate Governance Code promoted by Borsa Italiana. As indicated in the Report on Corporate Governance and ownership structures, available on the Group's website in the "Corporate Governance" section, Avio's corporate governance system is structured as a traditional management and control model and consists of the following bodies:

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

Pursuant to the By-laws, different roles and responsibilities of the various corporate bodies are foreseen within this model: the Shareholders' Meeting is the body that represents the interests of all Shareholders and expresses the corporate will through its resolutions; the Board of Directors, is the body vested with the broadest powers for the ordinary and extraordinary management of the Company, with the power to take all measures considered appropriate to achieve the Company's purpose, excluding only those reserved to the Shareholders' Meeting by law; the Board of Statutory Auditors supervises the financial disclosure and independent audit processes, with respect to the provision of services other than auditing. The Parent Company's Board of Directors currently in office, as the highest governing body, is made up of nine members⁷, 4 of which are independent pursuant to art. 148 of the Consolidated law on financial intermediation (TUF) and of art. 3 of the Corporate Governance Code. As shown below, its composition complies with the provisions on gender balance.

Avio's Board of Directors

Name	Role
Roberto Italia	Chairman
Giulio Ranzo	CEO
Donatella Sciuto	Independent Director
Maria Rosaria Bonifacio	Independent Director
Monica Auteri	Independent Director
Giovanni Gorno Tempini	Independent Director
Vittorio Rabajoli	Director
Luigi Pasquali	Director
Stefano Ratti	Director

The members of the Board of Directors are appointed by the Shareholders' Meeting for a term, not exceeding 3 (three) years from the acceptance of the office, through the voting list system aimed at ensuring the

⁷ Among them, there are two members of the board with over 55 years, while the remaining seven members are between 45 and 55 years old. The member of the council include six men and three women. [GRI 405-1]



presence of three minority directors in the Board of Directors, as well as in compliance with the provisions on gender parity. All directors must meet the eligibility, professionalism and honourability requirements and at least two must meet the independence requirements. [GRI 102-24]

The Board of Directors also has the right to delegate some of its powers to an Executive Committee, determining the limits of delegated powers, as well as the number of its members and its operating procedures; to appoint one or several Chief Executive Officers, granting those powers, as well as to establish one or more committees.

Given that the Company is subject to the *Golden Power*⁸ regulation, (i) pursuant to the By-laws, on matters and activities to which the Italian Government has the right to object pursuant to the aforementioned Golden Power Regulation applicable to companies operating in the national defence and security sectors, are the exclusive competence of the Board of Directors and can not be delegated; (ii) an ad hoc Committee was established, called the Strategic Activities Committee, which deals with issues related to the Golden Power legislation; (iii) a manager has been appointed to manage the Strategic Activities Committee, with regards to the *Golden Power* legislation.

The Board of Statutory Auditors consists of 3 (three) standing auditors and two alternate auditors. A list for the appointment of statutory auditors may be presented by shareholders who, at the time the list is presented, hold a share that is at least equal to that determined by Consob, pursuant to the applicable laws and regulations. [GRI 102-24]

Pursuant to Corporate Governance Code, the Board of Directors has established:

- the Nominations and Remuneration Committee: in charge of advisory and propositional functions regarding the professional figures whose presence is deemed appropriate within the Board and definition of the remuneration policy for directors and employees with strategic responsibilities;
- the Risk and Control and Sustainability Committee⁹: with the task of supporting the assessment and the decisions of the Board of Directors with respect to the internal control and risk management system, as well as those pertaining to the approval of periodic financial reports.

The following responsibilities are assigned to the Risk Control and Sustainability Committee on Environmental, Social and Governance issues:

- examining and assessing (i) sustainability policies aimed at ensuring the creation of value for the shareholders and for all the stakeholders over a medium-long term, respecting the principles of sustainable development; (ii) the guidelines, objectives, and the consequent processes of sustainability and sustainability reporting annually submitted to the Board of Directors;
- monitoring the international sustainability initiatives and the Company's participation in them, aimed at consolidating the company's reputation on international point of view;
- monitoring the Company's positioning with respect to the financial markets on sustainability issues, reference to the Company's positioning in the ethical sustainability indices; examining the Company's profit and non-profit strategies;

⁸ Regulatory regime that define the special powers exercised by the Government on corporate structure in the defense and national security sectors and in energy, transport and communications. In the first two sectors, the Government can act in the event of an "effective threat" of serious prejudice to the essential interests of defense and social security.

⁹ Following the approval of the Board of Directors, the Control and Risk Committee has taken the name Risk and Sustainability Control Committee as of September 13, 2017, in order to oversee sustainability activities in response to requests resulting from recent developments regulatory.



- expressing an opinion on sustainability issues at the request of the Board of Directors.

The Investment Committee and the Strategic Activities Committee are established by the Company on a voluntary basis. They have consultative roles respectively in relation to matters such as the approval or modification of the annual budget, business plans, strategic plans and investment operations and the issues related to compliance with the Legislative Decree 21/2012, converted with amendments to the Law of 11 May 2012, n. 56 (*Golden Power Standard*).

A detailed description about the composition of Avio's governance bodies is indicated in the specific chapters of the Annual Financial Report available on the website www.avio.com Investors/Financial Statements and Reports.

In the governance and control bodies, the gender, cultural and professional diversity is one of the greatest resources that gives value to the company system.

As expressly indicated in the Group Code of Conduct, also included in the "*Charte Étique*" of the French subsidiary Regulus, Avio supports and promotes diversity of race, gender, age, nationality, religion and personal beliefs. The effort is strengthened by the condemnation of any form of discrimination in all aspects of work relations, starting from recruitment, role assignment, training, responsibilities and objectives, assessment of performance, up until the transfer and termination of employment.

Group companies adopt management, organization and control models based on a system of principles (Vision, Mission, Values, Policies, Code of Conduct, Organisation, Management and Control Model 231) and management and control tools (risk management, procedures, controls) aimed at overseeing the relevant non-financial issues, in line with the regulations applicable in the different countries in which the Group operates, as well as with the main international standards and guidelines.

The companies Avio S.p.A, Secosvim and ELV have adopted their own Organisation, Management and Control Models pursuant to Legislative Decree 231/2001 and have appointed their own Supervisory Body, who is responsible for overseeing the functioning and compliance of the Model.

The identity of the Group

The Group's mission focuses upon growth and creation of value through the supply of innovative products and services for maximum customer satisfaction, with due respect to the legitimate interests of all the categories of "interested parties", fair employment practices, health and safety in the workplace, and the laws and regulations applicable to the different areas of activities in which the Group operates.

On the basis of these principles, the Avio Group is committed to a correct and impartial conduct.

All business relations shall be established and maintained with integrity and loyalty, and without any conflict of interest between Company business and personal affairs.

To achieve this goal, the Group requires its employees to comply with the highest standards of business conduct in the performance of their duties as set out in the Code of Conduct.



Code of conduct

The Company has adopted its own Code of Conduct, which defines the principles and rules of conduct that the individuals working for and with the Avio Group must respect and which must be inspired in their daily activities.

The Code is a document approved by the Board of Directors of Avio S.p.A and is applicable to the whole Avio Group, which sets out the principles of conduct in business together with the commitments and responsibilities of Group employees. The Code constitutes the Avio Group programme in order to ensure effective prevention and detection of violations of laws and regulatory directives applicable to its activities.

The Code is a guide and a support for every employee in order to enable him/her to pursue the Group's mission in the most effective way possible.

The Code constitutes a fundamental element of the organisational model of internal control, which the Avio Group is committed to continually reinforcing and developing.

The Code of Conduct is addressed to the directors, auditors, executives and employees of Avio and all those who, directly or indirectly, permanently or temporarily, establish relationships with Avio, each within their own functions and responsibilities.

They must comply with the laws and regulations applicable in the various geographical contexts in which Avio operates and to base its behaviour on the provisions of the Code.

The Code of Conduct includes fundamental aspects such as:

- Ethical principles: integrity, loyalty, correctness and reliability are the benchmarks on which Avio's employees must act;
- Rules of conduct: these are the rules that all the recipients of the Code of Conduct must adhere to; the rules of conduct included in the Code of Conduct cover all the non-financial topics discussed in this Statement;
- Methods of implementation and control: define the company controls responsible for overseeing the application of the Code, as well as the reporting systems that can be used by the recipients.

Non-Financial reporting system

Avio has started the implementation of a non-financial reporting system compliant with the requirements of Legislative Decree 254/2016 and the GRI Sustainability Reporting Standards, which will be developed and integrated in view of the results of the first non-financial reporting. The Communication Department oversees this reporting system and is responsible for managing sustainability aspects.

3.2 The Internal Control and Risk Management System

The Internal Control and Risk Management System (hereinafter also referred to as the "ICRMS") is an essential and qualifying element of the Corporate Governance of the companies in the Avio Group (Avio S.p.A. and its subsidiaries). The ICRMS is inspired by the best practices in force and in the international standard *Enterprise Risk Management-Integrated Framework* (ERM Integrated Framework).

The ICRMS plays a fundamental role in the identification, measurement, management and monitoring of significant risks, making them compatible with the company's strategic objectives and thus contributing to the creation of medium and long-term value.



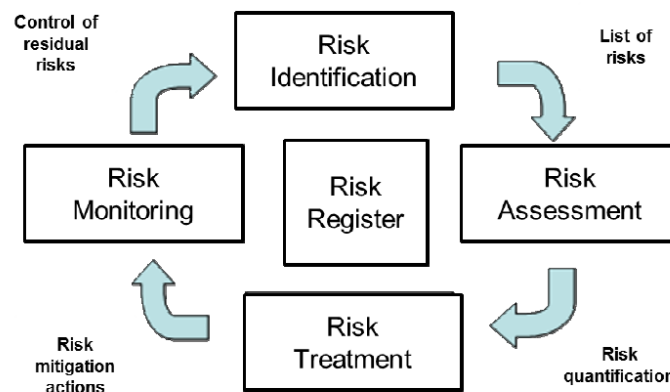
The ICRMS is composed of a set of rules, procedures and organizational structures aiming to proactively contribute to safeguarding the corporate heritage of the Avio Group, the effective and efficient running of the Group in line with the corporate strategies.

With regards to the foreign companies controlled by the Group, the definition and functioning of the ICRMS are defined on the basis of the Guidelines of the Internal Control and Risk Management System issued by Avio. S.p.A. The Guidelines summarize all the different aspects of the SCIGR, to which the subsidiaries of Avio S.p.A. are called upon to comply, limited to what is applicable to their business and business organization, in compliance with the rules applicable in the countries in which these companies are based.

Avio S.p.A. has a transversal structure dedicated specifically to managing the general internal risks of the Group, and this process is established in the procedures of the certified Quality Management System UNI EN ISO 9001:2015 and UNI EN 9100:2016. The aforementioned procedure defines the methods and responsibilities for the identification, evaluation, mitigation and control of general internal risks at all levels of the Avio company structure, taking as a reference the structure of company processes defined in the Quality Management System in force, adopted voluntarily and in compliance to International Quality Standard ISO 9001.

In relation to the management of specific risks, the other Company Management Systems (Significant Accidents, Health and Safety, Environment in compliance with the OHSAS 18001 and ISO 14001 standards) have their own specific procedures for the management of these specific risks, responding to precise legal requirements and/or systems.

The implemented management process can be summarised in four macro-phases, as represented in the figure below, with a final operational output represented by the “Risk Register” which lists and classifies all the identified risks (those managed and those being handled) and which may potentially occur and compromise the company objectives.



The macro phases of the Avio Group's risk management process

The main company figures responsible for the risk management process are:

- **Risk Manager:** the figure responsible for the coordination and management of the whole process. He/she reports directly to the Appointed ICRMS Director and ensures the correct application of the company risk management methods and, where necessary, requests appropriate reserves and



insurance cover. Actually this figure is covered by the Head of Legal, Compliance and Corporate Affairs Department of Avio S.p.A.;

- **Risk Owners:** the Managers covering all areas of potential company risk;
- **Risk Specialists:** in their own field of competence, these figures are those who know the risk management methods, know how to analyse and evaluate the impacts and are able to propose and implement appropriate mitigation actions.

The *Internal Audit function* has the task of providing independent assurance on the ICRMS, aiming to improve the efficiency and effectiveness of the organization. Internal Audit is in charge of checking that the ICRMS is functional and suited to the size and operations of the Group. It also checks that risks are managed consistently with the resolutions of the Board of Directors, external regulations and internal rules of the Group.

In reference to the main risks identified by the Group, in addition to those directly linked to the space sector, such as operational, regulatory, and market risks, linked for example to changes in the policies for access to space¹⁰ and the limited number of space programs, non-financial risks are also important. .

These risks have been identified through a process of mapping the economic, social and environmental criticalities that can generate significant impacts on the Group's activities, starting from an analysis of the operating context and integrating it with references coming both from a study of the current market framework, through benchmarking activities, both from the implementation of the indications coming from the main international institutions, such as the World Economic Forum. The results of the mapping process carried out are as follows:

Scope	Risks	Main controls
Social – Safety in products, plants and classified information	Incorrect design that can lead to the occurrence of events that undermine security	Avio has overseen the risk of non-compliance of the product design with the requirements of the Engineering and Product Development Department, which signs the status of the qualification with the Head of the Product Quality Department.
	Negative impacts due to the use of explosive material in plants	The quality and safety of products, as well as the prevention of major accidents, are managed by the companies of the Group through their respective management systems and in line with the principles of the policies adopted on the subject and the related organizational structure.
	Loss of classified data and information	With reference to the risk of data loss, the ICT Area is responsible for monitoring this risk and ensures that classified information is processed in accordance with the current legislation.
Social – Supply chain	Lack of transparency in supplier selection processes	For Avio S.p.A., ELV and Secosvim, purchasing management is centralized under the responsibility of the Purchasing Department. The selection process is formalized in internal procedures for qualification and performance evaluation. Regulus independently manages its suppliers by adopting the principles and guidelines issued by the parent companies (Avio S.p.A. and Ariane Group).

¹⁰ For more information, see the section "Principal risks and uncertainties to which the Group is exposed" in the 2017 Annual Report.

Scope	Risks	Main controls
<i>Governance</i> - Ethics and integrity, prevention of corruption and compliance with the law	Episodes of corruption in the Group's processes and activities	The Company has adopted the Group Code of Conduct, which defines the principles of prevention in this regard, as well as the Organization, Management and Control Model pursuant to Legislative Decree 231/01 defining the control standards in the field of active and passive corruption. The Group also disseminates anti-corruption policies to all staff through communication and training activities.
<i>Environment</i>	Inadequate waste management	In the Code of Conduct, the Group declares that it does not accept compromise in the field of environmental protection. The Group adopts environmental management systems defined in compliance with the main international standards and regulations. Furthermore, it has implemented safety management systems defined in compliance with the Seveso III Directive and with national implementation regulations. The companies of the Group prepare annually and communicate reports on the management of their environmental and energy aspects to the competent authorities.
	Inadequate management of energy consumption, emissions and water resources	
	Failure to comply with regulations for environmental protection	
<i>Human resources management</i>	Lacking or inadequate staff training	The importance of the human factor and the attention to training, health and safety of workers are stated in the principles established in the Group Code of Conduct. Ethical principles related to human rights are regularly referred to within the Company Organisational Model and the 231 Guidelines. Safety management systems at work are also adopted according to the OHSAS 18001 standard or inspired by the same Standard. Furthermore, the Group has implemented safety management systems defined in compliance with the Seveso III Directive and with national implementation regulations. The Group applies remuneration policies aimed at enhancing the contribution and commitment shown by its employees. The Group companies define and implement at local level an Annual Training and Training Plan, in order to develop and extend the knowledge of the organization and to capitalize the company experience.
	Inadequate systems to guarantee equal opportunities in personnel recruitment and recruitment activities	
	Loss of competent, qualified and talented staff	
	Violation of human rights	
	Risks in Health and Safety at Work	

3.3 Policies for the management of Environmental, Social and Governance aspects

Avio has adopted a management and organization model based on a system of principles - Mission, Values, Code of Conduct, Policies - and management and control tools - risk management, procedures, controls - that in line with the current regulatory framework, international standards and guidelines, express the Group's commitment to oversee the relevant non-financial topics.

The mission of the Avio Group is to promote growth and generate long-term value by supplying innovative products and services that satisfy its customers, while defending the legitimate interests of all categories of stakeholders, respecting the principles of fairness and equality and ensuring compliance with the laws and regulations applicable to its various fields of activity.

The Group's Code of Conduct, updated in 2017, constitutes a fundamental element to guide the Group's decisions and operations. Its guidelines and principles represent a key reference for all of the Group's



business partners, both internal and external. Moreover, the Code sets the rules for the Group's engagement modalities with its stakeholders.

The Code, which applies to the entire Avio Group, defines the Group's principles of conduct, as well as the commitments and responsibilities towards the Group's employees, the relations with external stakeholders, and lastly, its responsibilities in terms of health, safety, hygiene and environmental issues.

Furthermore, this tool ensures effective prevention and detection of violations of laws and regulatory directives applicable to its business activities.

The recipients of the Code are Board of Directors, Board of Statutory Auditors, External Auditors of Avio S.p.A. and its subsidiaries, as well as all employees of the companies belonging to the Group and all other parties or companies acting in the name and on behalf of one or more companies within the Group, or with which it has established long-term business relationships (suppliers, consultants, experts, agents and dealers). All recipients of the Code are expected to adhere to the values and principles set out in the Code and certify this commitment by accepting it and signing it.

Following the example of the Parent Company (Avio S.p.A.) and in line with the high standards adopted by it, Regulus has elaborated the *Charte Étique* (hereafter also indicated as the "Ethical Charter"). The document is based on three aspects - protection and respect for employees, compliance with laws, regulations and requirements for partners – and applies to all of the company employees, both internal and external, provided that an external commitment can be influenced by a Charter clause.

Together with the Code, Avio S.p.A. has adopted a set of corporate policies addressed to the main operational areas, as briefly described below, which express the Group's responsibility to guarantee a socially responsible conduct and to regulate the most relevant business processes in the sector in which it operates.

The Quality Policy defines the fundamental values that govern the conduct of Avio S.p.A. Among these are: respect, people's motivation, customer satisfaction, and the creation of value aimed at maintaining over time the highest levels of excellence in terms of quality, product performance, competitiveness and the quality of the services provided, in compliance with the current regulations.

The Policy on Health and Safety at work and for the Prevention of Major Accidents, explains the priority aspects for Avio S.p.A. in conducting its activities, namely the protection of health and safety of its workers and the community, the safety of facilities, the control and minimization of risks, the prevention of accidents and occupational diseases, always in full compliance with the applicable legislation and the other requirements subscribed in the field of health and safety of workers.

The Environmental Policy contains the principles which govern and ensure the correct management of the environmental performance of Avio. S.p.A. Such principles refer to the compliance with the legal provisions on the environment; protection and prevention in terms of optimization of the use of resources, minimization of environmental impacts and monitoring of indicators; integration of Group's Policy with the interested parties.

The Product Safety Policy is based on compliance with company procedures, customer needs and current legislation and is guaranteed by the continuous training and information dissemination activities to its personnel on safety, during maintenance activities as well as during the analysis and assessment phases of the "Human Factor" risk.

In 2014, in line with the policies developed by Avio S.p.A., Regulus drafted the *Politique en matière de Qualité, de Santé et Sécurité au travail et de respect de l'Environnement* (hereafter also the "Policy on Quality, Health and Safety at Work and Respect for the Environment"). The document outlines the objectives underlying its



corporate conduct in relations to people's health and safety, respect for the environment and customer satisfaction. The objectives are declined in many commitments aimed at achieving the highest levels in terms of health, safety and environmental protection.

The Group is considering the opportunity to integrate its corporate policies system in order to improve monitoring and control activities on social issues related to human rights and corruption, as well as to increase the awareness of all internal and external stakeholders.

The Group is formalizing its corporate practices in order to improve its monitoring and control activities on social issues related to human rights and corruption as well as to increase the awareness of all internal and external stakeholders on these issues.

3.4 Ethics, integrity and Model 231

Ethics and integrity, prevention of corruption and *compliance* with current regulations represent the foundations of Avio's corporate conduct. Avio's values guarantee the utmost fairness and transparency in the relationship with its stakeholders, as well as complete compliance with the internal rules and laws in force, without any conflict between corporate and personal interests.

The following risks are particularly relevant to issues relating to business ethics and integrity:

- possible fraudulent behavior by employees, such as corruption or donation activities towards a public official and / or third party bodies;
- failure to comply with the regulations governing the relations between States in the field of import / export, with consequent loss of the necessary licenses to operate.
- Based on the provisions of the Group's Code of Conduct and Regulus' Ethical Charter:
- the directors, managers, employees and other recipients of the Code and the Ethical Charter must comply with the Group's integrity, honesty and fairness standards in all of their activities within and outside the Group;
- any kind of corruption is condemned, both against public officials and private citizens.

The Group pays careful attention to the "active" prevention of crimes, which is guaranteed by the Organizational Model adopted and implemented in Italy by the Board of Directors pursuant to Legislative Decree 231/2001 (hereinafter also "Decree 231"), as well as by the Supervisory Body, which performs - among other things - the task of supervising the effectiveness and observance of the Model and the updating of the latter.

The system provides for policies and measures suitable to guarantee the regular course of business in compliance with the law and to identify and eliminate any crime risk situations. In fact, as mentioned in the Code of Conduct, the Group observes scrupulously the legislation in force in its fields of activity together with the provisions issued by the Supervisory Body, promptly fulfilling all their requests and avoiding any potential obstructive behavior.

Moreover, the Model represents an opportunity to improve the Group's Corporate Governance and, at the same time, sensitize and guide all the resources that operate in the name and against the Company with respect to the control issues of the company processes.

In particular, following the business integration of Avio S.p.A. with Space2 S.p.A. and the listing of the Company on the STAR segment of the Italian Stock Exchange as well as the subsequent company reorganization, it was necessary to update its 231 Model with regards to corruption among private entities,



as well as to include the new Special Part 11 which regulates crimes and administrative offenses of market abuse.

Avio also provided specific training and communication activities aimed at ensuring that all of its Group structures fully acknowledged the key sections of Decree 231 and of the Organizational Model adopted by the Group.

In particular, during 2017 Avio, S.p.A. communicated to the members of the Board of Directors of Avio SpA, Secosvim and ELV the new Group's Code of Conduct, and provided dedicated training on Legislative Decree 231, structured in specific modules related to anti-corruption procedures and policies and aimed at personnel in the risk areas through e-learning platform to 29 employees (between 2015 and 2017, 374 people were trained). Furthermore, in January 2018 an ad hoc training was provided to all the managers of the two companies Avio S.p.A. and ELV S.p.A. (23 in total) in order to cover 100% of the personnel in the risk areas. In addition to training for those at risk, the Code of Conduct and its periodic updates are subject to signature for acceptance of all employees of Italian companies including new hires. Regulus, on the other hand, despite not having provided ad hoc training courses on these issues, communicated the Ethics Charter to all employees. The Group has not currently foreseen the provision of dedicated training on anti-corruption to suppliers and/or commercial partners. The provision of such training sessions represents one of the goals for the next three-year period. [GRI 205-2]

The companies of the Group resident in Italy share the Code of conduct with its *suppliers* and *subcontractors* - both Italian and foreign - the Code includes, among other aspects, those related to the fight against corruption.

In terms of the Group's companies based abroad, the Parent Company has drafted specific "Guidelines 231", which are in line with the Model pursuant to Legislative Decree 231/2001 adopted by Avio. S.p.A. The "Guidelines 231" outline the general and specific behaviors to hold when engaging with "sensitive" activities. Such norms of behavior have to be in compliance with the rules applicable in the countries in which the companies operate.

The Guidelines represent an important reference for the Group's foreign companies, according to which the individual Supervisory Body may avail themselves of the support and coordination activities provided by the Parent Company's Supervisory Body.

For additional inquiries about the Organizational Model, please refer to the Corporate Governance Report.

In order to communicate directly with the Supervisory Body, the Group has set up an e-mail address that guarantees confidentiality to the reporting party and protection from any form of retaliation.

Furthermore, the Group is engaging in a restructuring of its whistleblowing system in order to strengthen the collection of reports of any dysfunctions of the organizational structure or of the internal control system, as well as any other irregularities in the management or violation of the rules governing Avio's activity.

All Group companies also provide for periodic assessment and auditing of processes that may have an impact on the risk of corruption (e.g. purchases, financial transactions). [GRI 205-1]



[GRI 205-1] Number and percentage of Group processes assessed for risks related to corruption

Processes assessed for risks related to corruption	u.m.	2017
Processes assessed for risk related to corruption	N.	16
Total processes		72 ¹¹
Processes assessed for risk related to corruption	%	22

Avio's commitment to integrity, prevention of corruption and compliance with regulations is repaid by the absence in 2017 of legal actions in the field of competition and antitrust *[GRI 206-1]*, as well as by the absence of monetary and non-monetary sanctions due to the violation of regulations on economic and social matters. *[GRI 419-1]*

In addition, no episodes of corruption were recorded in 2017. *[GRI 205-3]*

¹¹ The figure refers to the total number of processes of the 4 companies (Avio, Secosvim, ELV and Regulus)



4. The Group's respect for human rights

Respecting the integrity of its employees is a priority for Avio. Indeed, promoting the integrity of its workforce is a key requirement for the creation of a collaborative and reliable environment, which at the same time shall loyalty, fairness, transparency and due respect for the fundamental values of the Group and the laws in force.

In addition, the Group is committed to avoiding business relationships with suppliers, partners and customers that engage in activities associated with potential violations or abuses of Human Rights. In fact, in order to guarantee compliance with the Group's values, Avio requires its suppliers and subcontractors to sign the Group's Code of Conduct, which requires them to accept its provisions/principles.

The Group may be potentially exposed to the risk of discriminatory situations or behaviors towards single employees or some categories of these based on political and union opinions, religion, race, nationality, age, sex, sexual orientation and health status.

Within the Code of Conduct and the Regulus Ethics Charter, the Group expresses its responsibility to protect workers from harassment or undesired behavior of any kind, such offenses related to race, sex, religion or other personal characteristics which may violate the dignity of individuals who may be the victim of such forms of harassment or offensive behavior. Moreover, Avio does not tolerate any form of child labor.

These ethical principles are promptly referred to within the Company Organisational Model and the 231 Guidelines, whose non-compliance could expose the Group to sanctions and proceedings related to the crimes within the framework of the reference legislation (Legislative Decree 231/2001).

The Group's effective management related to the protection of human rights is demonstrated by the absence in 2017 of detected or reported incidents of discrimination or violation (or suspected violation) of human rights. *[GRI 406-1]*



5. Value for and respect for people

The Avio Group recognizes in the motivation and professional development of its people a key element to promote competitiveness, given its strong link to the ability to generate value for its shareholders and to meet customer needs. Avio commits itself to the fair management and equal growth of its workforce's intellectual potential, guaranteeing equal treatment and condemning any form of discrimination.

The recruitment criteria adopted by the Group are of even greater importance in light of the difficulty that the Group finds in attracting and/or maintaining competent, qualified and talented resources, among those available on the market and/or already in the company. In fact, Avio depends partly on the professional support of its highly qualified and difficult-to-substitute management team, as well as on its personnel dedicated to engineering, research and development activities, which contribute significantly to the achievement of company results.

Within the Group's Code of Conduct and the Regulus' Ethics Charter, Avio expresses its commitment to creating a collaborative and trusting work environment and underlines the importance of respect for the individual, in compliance with the national laws and the fundamental Conventions of the International Labour Organization (ILO).

At the Corporate level, the aspects concerning the selection and recruitment of personnel are coordinated by the Human Resources Department (hereinafter "HR" or "Human Resources"), which reports directly to the Chief Executive Officer. The HR department is supported by the corporate bodies active in the definition of needs, and if necessary, it is assisted by external companies specialized in selection and evaluation processes, in order to strengthen the scouting activity. These aspects are managed locally by the respective HR departments of the operating companies.

Furthermore, the Group has adopted a procedure that regulates the management of the recruitment and hiring processes, so that they are carried out in compliance with Group's values and ensure the selection of adequate personnel to cover the various business roles.

This procedure applies to the entire Group, compatibly with laws and internal regulations of foreign companies and defines the necessary operating procedures related to:

- the definition and validation of needs (i.e. the criteria - in terms of role responsibility; planned activities; technical and management skills, education, professional experience - and the procedures for initiating prior authorization);
- the recruitment and selection processes;
- the management of acceptance, which coincides with the entry of the new employee into the company.

The table below shows the breakdown of employees by category, age group, gender and region¹².

¹² The personnel in French Guiana includes employees of Regulus and seconded employees by Avio S.p.A. and Ariane Group. A specific Site Convention, drawn up in the interest of the various social partners, defines the Agreements' details that regulate the employment relationship of seconded personnel.

[GRI 405-1] Composition of employees by category, gender, age group and region.

Employee category	Italy			French Guiana		
	Man	Woman	Total	Man	Woman	Total
Executives	21	2	23	3	0	3
<i>under 30 years</i>	0	0	0	0	0	0
<i>between 30 and 50 years</i>	5	0	5	2	0	2
<i>over 50 years</i>	16	2	18	1	0	1
Managers	155	19	174	16	2	18
<i>under 30 years</i>	0	0	0	0	0	0
<i>between 30 and 50 years</i>	84	13	97	10	2	12
<i>over 50 years</i>	71	6	77	6	0	6
White collars	159	53	212	45	10	55
<i>under 30 years</i>	14	1	15	2	0	2
<i>between 30 and 50 years</i>	107	47	154	32	4	36
<i>over 50 years</i>	38	5	43	11	6	17
Blue collars	261	13	274	26	0	26
<i>under 30 years</i>	35	2	37	1	0	1
<i>between 30 and 50 years</i>	168	8	176	24	0	24
<i>over 50 years</i>	58	3	61	1	0	1
Total	596	87	683	90	12	102

The following tables show the employee composition distributed by type of contract and employment, broken down by gender and region.

[GRI 102-8] Total number of employees by employment contract type, gender and region.

Contract type	Italy			French Guiana		
	Man	Woman	Total	Man	Woman	Total
Temporary Contract	0	0	0	4	1	5
Permanent Contract	596	87	683	86	11	97
Total	596	87	683	90	12	102



[GRI 102-8] Total number of employees by employment type, gender and region.

Employment type	Italy			French Guiana		
	Man	Woman	Total	Man	Woman	Total
Full-time	596	87	683	90	12	102
Part-time	0	0	0	0	0	0
Total	596	87	683	90	12	102

5.1 Dialogue with trade unions

Promoting a constant informative and consultative relationship with trade unions on issues of common interest is a priority for the Group, which is committed to ensuring the well-being of its workers and protection of their rights.

In order to guarantee scrupulous compliance with the law, Avio issues employment contracts that are in line with applicable national and international laws and regulations.

In accordance with the existing legislation of the countries in which it operates, Avio ensures and safeguards the right and freedom of association and collective bargaining, and adopts an open attitude towards the organizational activities promoted by trade unions. In this regard, it should be noted that all the Group's employees in both Italy and French Guiana are covered by collective bargaining agreements. [GRI 102-41]

With regards to dialogue activities social partners, the Group could be potentially exposed to the risk of disputes in the workplace (i.e. strikes, petitions) related to situations of disagreement on certain company choices (i.e. negotiation of contractual conditions not properly advantageous to individual workers or specific categories of these). Disputes may also originate from other types of complications which may arise from external factors (i.e. national and/or sector protests against government actions). The occurrence of such hostile conditions, which may lead to strikes or work interruptions could expose the Group to the risk of worsening working conditions, resulting in lower productivity, greater employee turnover and, potentially, even a deterioration of the Company's reputation.

Within the Group's Code of Conduct, Avio indicates transparency and fairness as the highest principles of which regulate the relations with the trade unions.

The management of dialogue activities with social partners is entrusted to the central HR Department and to the respective departments of the operating companies that guarantee open communication through regular meetings with the trade unions, and respect for rules and equal opportunities.

During 2017, the foreign company Regulus signed two agreements with the local union representatives concerning working hours and economic treatments. Furthermore, thanks to an agreement on "professional equality between men and women" signed in 2015, the French company monitors specific social and economic indicators, whose performance is regularly communicated to staff representatives.

As for Avio S.p.A., the following second level agreements were signed in 2017: renewal of the "Participation Award", "Presence Award" and "Impartial". Furthermore, a Welfare System was introduced for managers, white collars and blue collars.

In the case of significant organizational changes, it is important to note how the Group Companies manage the notice period provided to employees. For these matters, each company of the Group refers to national collective bargaining or to local regulations. With reference to Italy, the notice period depends on the



legislation in force (i.e. in 2017 the merger by incorporation took place pursuant to article 47, paragraph 1, Law 428/1990 which provides 25 days notice). [GRI 402-1]

In French Guiana, the notice period is governed by the "Convention Collective Nationale des Industries Chimiques (CCNIC)". An informative and consultative meeting is scheduled to take place at least two months before the organizational change. [GRI 402-1]

Lastly, it should be noted that in 2017 no strikes took place nor did any incidents, of objections by employees against any of the Group companies.

5.2 Passion and development of skills and talent management

In light of the constant technological evolution, the growing innovation and the continuous regulatory evolution of the space propulsion sector, Avio attributes to training and skills development a key role to foster the growth of its human capital.

As recalled in the Group's Code of Conduct and in Regulus' Ethics Charter, the Group is committed to offering equal opportunities in work and professional career advancement to all employees, in order to promote the constant commitment of its people.

The potential inadequacy of the training programs accounts for the main risk of development and training activities carried out for the consolidation and transfer of skills among the employees. Such risk could potentially have a negative impact on the efficiency of production, the growth prospects and the overall safety of the Group's activities.

Avio S.p.A. has defined a specific training and education procedure with the purpose of establishing the process and criteria for the acquisition and development of skills and the level of awareness of the role exercised by its staff. Based on the guidelines set out by the Group's Human Resources Department, the companies define and implement at the local level an annual Training Plan jointly with a Training Program, in order to develop and extend the organization's knowledge and capitalize on the company's experience.

Depending on the new business activities and changes in the business environment, the Group companies start from an analysis of training needs and plan the updating of knowledge and skills, identifying the appropriate training methods in order to fill the gaps. Such training methods can include: training in frontal classroom, on-the-job training, e-learning training thanks to the contribution of both qualified internal teachers and specialized and certified training companies. Moreover, periodic evaluations are carried out through questionnaires to evaluate both the progress in terms of the level of expertise required and the level of satisfaction of the resources. The training activities are organized based on the specific roles and learning requirements, and are established through careful planning by the Learning Department each individual company. Depending on the various professional contributions, the Group offers a structured approach to various training courses: "general", relating to the concepts of management oriented to quality; "targeted", for single specialized activities; "technical training" for personnel whose operational ability has an influence on the quality of the product, including the qualifications in relations to the provisions of the applicable legislation.

Avio considers training and education activities as essential tools to stimulate the professional growth and satisfaction of its workforce. With this in mind, the Group pays particular attention to the provision of training systems and professional growth programs designed to achieve long-term results, attract new talents and affect the Group's ability to retain and motivate key people. Promoting effective learning and training systems ultimately reduces turnover and ensures management stability and continuity.



In a rapidly changing and highly competitive labor market, the main risks to which the organization is exposed in terms of retention are linked to remunerative policies and professional development opportunities as competitors may be able to offer more attractive compensation packages. In addition, changes in shareholding structure and corporate governance structure may occur, as a result of the merger by incorporation of the company.

With this in mind, in order to avoid repercussions on its business, Avio is committed to effectively manage its workforce, and in particular any business changes. The Group's turnover rate in 2017 was equal to 1.8%. The following is a breakdown of the hires and employees who left the Group¹³.

[GRI 401-1] Total number and rate of new employee hires by age, gender and region.

Age group	Italy			French Guiana		
	Man	Woman	Total	Man	Woman	Total
<i>under 30 years</i>	5	1	6	3	0	3
<i>between 30 and 50 years</i>	13	5	18	1	2	3
<i>over 50 years</i>	4	0	4	0	1	1
Total (n.)	22	6	28	4	3	7
Total (%)	3.7	6.9	4.1	4.4	25	6.9

[GRI 401-1] Total number and rate of employee turnover by age, gender and region.

Age group	Italy			French Guiana		
	Man	Woman	Total	Man	Woman	Total
<i>under 30 years</i>	0	0	0	1	0	1
<i>between 30 and 50 years</i>	6	0	6	0	2	2
<i>over 50 years</i>	7	0	7	0	1	1
Total (n.)	13	0	13	1	3	4
Total (%)	2,2	0	1,9	1,1	25	3,9

In 2017, the total amount of training hours was 21,161, focusing on strengthening technical/informatics and cross-cutting skills and on safety issues.

The majority of employee involved in training activities were based in Italy (35 average training hours per employee).

¹³ Data on new employees and employees who left the Group do not include seconded personnel.



Total training hours by employee category ¹⁴.

Employee category	Unit	Italy ¹⁵	French Guiana
Executives	N.	406	7
Managers		4,487	414
White collars		7,480	1,285
Blue collars		6,630	452
Total	N.	19,003	2,158

[GRI 404-1] Average training hours by employee category.

Employee category	Unit	Italy	French Guiana
Executives	N.	18	2
Managers		26	23
White collars		35	23
Blue collars		24	17
Total	N.	28	21

In order to continue guaranteeing the growth, management and strengthening of employees' know-how in line with the Group's current and future needs, Avio intends to commit itself in the next few years to review and update internal training programs.

Furthermore, for a correct collection of data regarding personnel training and development activities, the Group will update and implement its own reporting system.

5.3 Remuneration and rewarding system¹⁶

The Group pays attention to the management of remuneration policies, being particularly careful on ensuring compliance with current regulations and the Corporate Governance Code in terms of methods and instruments of disbursement.

In order to attract, motivate and retain young potential and ensure the professional and remuneration growth of qualified resources, Avio has adopted a Compensation Policy that is in line with best market practices and is based on the principles of fairness, equal opportunities and meritocracy. This Policy expresses

¹⁴ The distinction between men and women could not be made because the current Avio reporting system for 2017 does not provide for this detail.

¹⁵ The division by employee category is a redrafting of the final data relating to the training courses, the current Avio reporting system for 2017 does not include this detail.

¹⁶ Referred to KPI [GRI 102-35].



Avio's commitment in promoting the development of its employees, by investing a budget of 472.6 thousand euros in 2017.

Defined by the Human Resources Department at the central level, the Policy is subsequently shared and approved by the Company's General Management, who is also responsible for the final approval of the bonuses, and the establishment in advance of the general threshold of reference.

The remuneration packages are structured in such a way as to guarantee the balance between fixed and variable parts. The fixed remuneration is correlated to the value of the role and/or competences of the employee for the organization, within the reference values of the National Collective Labor Contract and periodic retributive analysis, carried out by specialized external companies. These packages are completed by a variable part, linked to the achievement of general Company objectives. In French Guiana the Variable Salary is also related to working environment that is the space base. The share is valued collectively with the Participation Bonus, and individually, for some categories of employees, based on the achievement of the annual objectives established with the Variable Bonus. The assessment of the performance as regards the objectives defined, is made by the direct chief/manager of the employee, within the principles of correctness, fairness, consistency and objectivity of judgement and, in any case, without any preference or discrimination whatsoever. Every year the company management issues a Merit and Development Policy, inspired by differentiation, which defines selectivity criteria of qualitative and quantitative nature, consistent with the role and responsibilities of employees, for salary or categorical adjustments.

The following table shows the ratio between the basic salary and the average remuneration divided by gender, employees' category and region. Considering French Guiana, the high impact of variable salary reaches around 56% of total salary for blue collars. Such impact results from the nature of the activities carried out in the production site, which guarantee the personnel with adequate benefits in economic terms as provided by the Site Convention. With reference to the salary and remuneration ratio between men and women, it emerges that men perceive a higher pay than women in all cases except for female employees in Italy.

Ratio of the basic salary and remuneration breakdown for employee category, gender and region.

Employee category	Italy			French Guiana(*)		
	Man	Woman	Total	Man	Woman	Total
Executives	66.2%	70.3%	66.5%	-	-	-
Managers	85.4%	84.9%	85.3%	62.2%	-	62.0%
White collars	83.8%	84.8%	84.0%	50.0%	59.8%	51.1%
Blue collars	93.8%	93.5%	93.8%	43.6%	-	43.6%

** For the populations of less than three individuals, the remuneration data referring to the French Guiana population considered to be sensitive was not provided, being referred to a few subjects.*



[GRI 405-2] Ratio of the basic salary of women to men for each employee by category and region.

Employee category	Italy	French Guiana(*)
	Ratio woman/man	
Executives	78.38%	-
Managers	95.73%	-
White collars	102.40%	96.96%
Blue collars	94.21%	-

* See footnote above.

[GRI 405-2] Ratio of the remuneration of women to men for each employee by category and region.

Employee category	Italy	French Guiana(*)
	Ratio woman/man	
Executives	73.83%	-
Managers	96.20%	-
White collars	101.19%	81.11%
Blue collars	94.45%	-

* See footnote above.

In Italy, in addition to the basic salary, the average remuneration includes the Participation Bonus, the variable and overtime. In French Guiana it includes, in addition to the basic salary, the variable bonuses is governed by the Center Convention Space.

5.4 Protection of workers' health and safety

Protection of the health, hygiene and safety of its people in the workplace is of utmost importance for Avio. The Company is committed to ensuring compliance with the highest standards and specific regulations applicable in the countries in which it operates, using an approach based on to continuous improvement.

Indeed, the well-being of workers is not only a moral principle, but also the key to the success of both the individual and the Company.

With reference to the management of health and safety at work and the prevention of major accidents at the Colleferro and French Guiana plants, the main risks assessed by the organization are linked to the use of explosive material and other hazardous materials used for propulsion systems for launchers and missiles and related regulatory changes. Although different and specific activities are carried out in accordance with the laws and regulations in force, the use and production of dangerous material could give rise to accidents that in addition to creating harm to people, could cause delays or interruptions of industrial activities with possible negative effects in terms of reputation, as well as damage the Group's economic, equity and financial activities.



In order to protect and fully guarantee the health and safety of workers and the prevention of major accidents in all its activities, the Group has adopted policies and procedures that guarantee a correct and uniform management of these issues.

As provided by the Group's Code of Conduct, as well as by Regulus' Charter of Ethics, Avio is committed to ensuring effective management of workers' health, safety and hygiene, and considers these factors decisive for its success. For this reason, in compliance with its values, the Group undertakes to:

- promote the application of the highest standards in terms of health and safety and prevention of major accidents;
- preserving the physical and moral integrity of people, starting from prevention and continuous monitoring of risks in the workplace, up to the establishment of specific measures to mitigate them;
- consolidating a culture of security, encouraging communication, involvement and awareness of all people.

Specifically, Avio S.p.A. has implemented an effective health and safety management system in the Workplace, in compliance with the OHSAS 18001 standard and certified by an external body, together with a safety management system for the Prevention of Major Accident Hazards, in compliance with the Seveso III Directive on the risks of major accidents ex. Legislative Decree 105/15¹⁷ and the Consolidated Law 18/06/1931 of the public security laws.

The overall responsibility for the implementation and control of the integrated management system is assigned to the Engineering Unit of Materials and Processes and Health, Safety and Environment. In line with this system, Avio S.p.A. has adopted the Health and Safety at work Policy and for the Prevention of Major Accidents and the Policy Document for the Prevention of Major Accidents, with which it describes the objectives it intends to pursue in the field of health and safety at work and prevention and control of major accidents for the protection of workers, the community and the environment.

In addition, the Company has adopted an Integrated Management System Manual and has defined a series of procedures with which it regulates the activities of the various Bodies and Functions aimed at coordinating their actions, identifying potential incidents and emergency situations and define suitable response plans in order to prevent and mitigate the related risks. In particular, the response to emergency situations is defined by the preparation of an "Internal Emergency Plan". The Plan is the object of information, training and education of the personnel performing its activities in plant, whose procedures are tested to verify and improve their effectiveness, involving, where possible, the interested parties. Since Avio S.p.A intends to maintain over time the highest levels of excellence in the field of health and safety in the workplace, it has set the objectives of "zero accidents at work and zero diseases" and "zero potentially at-risk events of a major accident".

With this in mind, Regulus had also set the goal of "zero accidents" with reference to the future lines. To this end, the French company is equipped with the *Manuel Qualité, Sécurité, Environnement* (hereafter also the "Quality, Safety, Environment Manual") in which it describes the integrated management system. In terms of safety, the manual is mainly based on the international standard OHSAS 18001. The special attention paid to the protection of health and safety of workers is also expressed in the Policy on Quality, Health and Safety at and respect for the Environment, through which Regulus presents a series of commitments. Among its

¹⁷ The Decree sets out provisions aimed at preventing major accidents related to certain dangerous substances and limiting their consequences for man and the environment.



commitments are: the encouragement of continuous improvement thanks to the adoption of an adequate and effective organizational model, ensuring a rigorous management of dangerous chemical agents, and adopting practices and processes that minimize risks and reduce the probability of accidents occurring. The health and safety aspects of the workers are entrusted to the Head of the Safety and Environmental Service and the ACACIA database - *Analyse des Causes et Conséquences d'Incidents et d'Accidents* (Analysis of the Causes and Consequences of the Incidents and Accidents) has been prepared - through which it is possible to report incidents, accidents or potential dangerous situations in terms of safety.

In 2017, 5 accidents occurred, 2 in French Guiana and 3 in Italy¹⁸. [GRI 403-2]

[GRI 403-2] *Types of injury breakdown by gender and region.*

Types of injury	Italy			French Guiana		
	Man	Woman	Total	Man	Woman	Total
Workplace	1	0	1	2	0	2
In itinere	1	1	2	0	0	0
Total	2	1	3	0	0	2

¹⁸ The accident indexes are relevant to the individual labor regulations applicable in the different sites located in different countries. Accident indexes:

- Frequency index: Italy 3.03; French Guiana 14.47;
- Severity index: Italy 0.02; French Guiana 6.02.



6. Technological innovation and attention for safety

6.1 Technological Development

In order to maintain its competitiveness in a constantly evolving market, Avio looks at innovation as the main driver of change and starting point for the development of new products.

Ever since it was founded, the Group has demonstrated its ability to effectively manage the innovative transformation within its business activities, supported by the use of revolutionary technologies and by implementing projects designed to support the improvement of the Group's business performances.

In line with the Group's mission, product innovation and innovation of its internal processes are two fundamental factors of Avio's success. Innovation in these two fields is crucial given that Avio operates in a sector, namely the aerospace sector, which both requires and encourages companies to undertake constant research activities.

Currently, the Group has focused its technological development on four main channels, which are: future applications and versions of Vega - such as accessible exploration projects of the solar system on the routes of NEO (Near-Earth Objects), In-Orbit Servicing missions and conduction of low-cost experiments for educational and scientific purposes - ; development of new materials and processes for the creation of structures and components for propulsion systems; extension in the cryogenic field of the production chain related to high performance composite materials, for the creation of large cryogenic tanks in composite material; potential use of composite materials as alternative to conventional metallic parts for solid rocket motors structural components.

Two distinctive features of the economy linked to the space sector are the rapid evolution of technologies and the high level of competition. Therefore, companies operating in the market are required to carry out significant research and development activities in order to create the cutting-edge technologies necessary to offer competitive products.

For this purpose, Avio also extends its scientific exchange network and partnerships for the development of new products also through the collaboration for research activities with prestigious universities and Italian and foreigner research institutes. Furthermore, Avio supports the technical and operational collaboration with the main European Space Agencies, in particular the Agenzia Spaziale Italiana (ASI), the Centre National d'Études Spatiales (CNES) and the European Space Agency (ESA).

The Group's strong reliance on research and development activities on commissioning by the public-sector (eg ESA, ASI, ministries of the Member States, etc.) and/or on public grants from government funds, community funds and from other entities, exposes the Group to the risk of not being able to obtain the necessary funds to perform said activities, especially in the occurrence of an interruption of funding by the Italian Government or by other national and EU public authorities.

Avio S.p.A. also plans its own development through research and development activities in a competitive and pre-competitive environment, managing an annually realigned Research Plan with a duration of five years, in line with the company's mission and vision, including self-financed or partially co-financed activities.

Each activity of the Research Plan is managed through the traditional company methodology related to the development of programs, whose records are recorded on the EPM system (Enterprise Project Management) that monitors the related progress. Furthermore, three formal reviews of the activities are carried out during the year.

In 2017, the Group incurred costs for pre-competitive research activities carried out as part of the Avio Research Plan equal to € 2,362,690.87, of which 60% were self-financed and 40% co-financed by employing 22,591 hours of its own personnel. These activities, geared towards to preparation of future developments,



contribute to the total Research & Development costs. In the 2017 financial year, R&D costs amounted to € 177 million.

In order to increase its role in the aerospace sector, the Group has been able to create a network of clients, collaborations and partnerships with various players on an international scale, the main ones being reported below in addition to having joined trade associations such as the Union of Industrialists of Rome (of the Confindustria circuit) and Assonime. [GRI 102-13]

International clients, collaborations and partnerships

	Avio partners with the European Space Agency (ESA) in the space sector by participating in the development programs of the Ariane and Vega European launchers, as well as the study of new technologies in the field of space propulsion.
	Avio collaborates with the Italian Space Agency (Agenzia Spaziale Italiana - ASI) in technological development and innovation activities mainly related to solid, liquid and hybrid space propulsion. Moreover, ASI is part of the joint venture ELV (70% Avio and 30% ASI), which develops and manufactures the Vega launcher as prime contractor.
	Avio is a partner of Arianespace, holding a 3.38% stake. Arianespace is responsible for the marketing of launchers: Ariane and Vega. Avio supplies to Arianespace the Vega launcher, ready for launch.
	The collaboration with Airbus Safran Launchers, now Ariane Group, was created through the joint ventures Regulux (60% Avio-40% ASL) and Europropulsion (50% Avio-50% ASL), which were set up for Ariane 5 and were maintained for the first stage of the Vega launcher and for Ariane 6.
	Avio partners with the German company OHB, which develops and manufactures satellite platforms, for the supply of the propulsion system, and is a client of the subsidiaries of OHB, MT-Aerospace and CGS, for the supply of components related to the Ariane 5 launcher.
	Avio partners with Vitrociset as prime contractor for the entire land segment of the French Guiana Space center dedicated to the Vega launcher, in particular for the activities on the control bench.
	Avio partners with Telespazio, the company that supports Vega launches from the Kourou Space Center by providing weather, radar, telemetry and control services for the Vega launches. Telespazio, also supplies elements of the flight software of the Vega launcher and elements of the control bench software.
	CIRA is a company with public and private sector shareholders such as research bodies, local government and aeronautics and space industries, including Avio. Avio partners with CIRA for the activities of research linked to the Space propulsion.
	SABCA is one of the leading aerospace companies in Belgium. SABCA partners with Avio mainly for the complete Thrust Vectoring Control Systems (TVC) of launchers.
	RUAG Space collaborates with Avio for the development and supply of Fairings and other components of Vega such as the OBC (on board computer).



	Yuzhnoye SDO supplies Avio with the fourth-stage Vega engine and cooperates in research and development activities.
	GKN Space Sweden partners with Avio for the development and supply of the turbines and the turbopumps of Avio.

By attributing value to the connection with the territory and the local community, in Italy the Group has promoted various involvement initiatives and sponsorship aimed at incubating technical skills in the space sector, stimulating the development of innovative technologies and creating awareness of the opportunities created by space access systems. In 2017, the main initiatives focused on financial support for training activities, in particular the funding of seven scholarships for the Master in "Space Transport Systems" organized by the University of Rome "La Sapienza" and a study grant for doctorates in technical disciplines, through an investment of € 170,400.

In this context, the protection of intellectual property rights is a fundamental element for the success of its products and for the competitive positioning of the Group. To this purpose, the Group is constantly engaged in the registration and protection of its brands and patents. In recent years, following investments in research and development, the Group has developed new products and solutions for its clients. In order to protect intellectual rights, at the end of 2017, 20 patents were registered (already recognized or awaiting confirmation from the competent offices), mainly focused on products and technologies integrated into manufacturing processes.

6.2 The continuous search for product excellence

Creating the right conditions to enable the discovery of new applications and technologies is an essential value for the Group, which is closely connected to the reliability of the operating systems. The advanced technologies represent the tool to optimize the working processes, guaranteeing products with excellent quality standards compatibly with the protection of the health and safety of workers and respect for the environment.

For this purpose, the Group declares the utmost attention to the issue of quality and safety of its products and processes, both within the company policy for the Quality of Avio S.p.A. and in Regulus' Policy on Quality, Health and Safety at Work and Respect for the Environment. The latter expresses the commitment to achieve and maintain the highest objectives of excellence in terms of quality, product performance, competitiveness and level of service over time, and always in compliance with the mandatory regulations.

Avio S.p.A.'s Quality Policy, spread and communicated to all staff, is expressed in the following key principles and objectives:

- Compliance: meeting customer needs and expectations in a timely manner;
- Improvement: maintaining a process of continuous improvement, extended to all business processes;
- Competitiveness: conceiving and implementing products and services in a competitive way;
- Integration: establishing relationships of mutual benefit with suppliers;
- Communication: facilitating transparent access to information.



As evidence of the primary importance that the Group attributes to quality within the corporate development strategies, all the processes that contribute to the design, development and implementation of a product or service are subject to mapping in the quality management systems, respectively corresponding to the ISO 9001: 2008 standard, in reference to Regulus, and to the 2015 version of the standard with regards to Avio S.p.A., whose management system is certified. The system, documented and in place, is aimed at ensuring that the products and services provided meet client expectations and meet the applicable regulatory requirements, as well as allowing the continuous improvement of services to increase its competitive position on the market. Indeed, the system is a fundamental tool to define the rules and limits applicable to quality control at all levels. The main processes are therefore regulated by procedures and practices that incorporate contractual rules and regulations, aimed at maximizing the quality levels of each product and process.

As part of the quality management system, the Parent Company has also adopted a product safety policy that identifies compliance with the regulations issued by the Supervisory Authorities, the company procedures and customer requirements, as well as the continuous training and information of personnel on the subject and the analysis and assessment of the "Human Factor" risk as guiding principles.

The Avio Group considers essential to ensure maximum transparency and fairness in its relations with customers, through the constant commitment to meeting their expectations. In this regard, the Company Code of Conduct states that the companies within the Group must establish business relationships with their clients based on honesty, professional correctness and transparency, in order to develop and guarantee profitable and lasting relationships, offering security, assistance, quality and value, supported by continuous innovation.

Therefore, as required by the quality management system, Avio S.p.A. has adopted the method of measuring customer satisfaction, by agreeing with them metrics for the assessment of its performance. This method allows understanding the client's expectations in terms of quality (absence of defects) of the delivered product and service offered and compliance with contractual deadlines (punctuality). Periodically, the results of these surveys, and any critical issues that emerged during the execution phase, are analyzed in order to identify possible actions, at the basis of the improvement plans.

In accordance with contractual requirements, the Group, in the sale of its products (components, assemblies or integrated launchers), is required to certify, through the Registry of Individual Controls, their compliance with the requirements in order to highlight any deviations.

The compliance status of a product under development according to its own requirements (including security) is identified, in correspondence with the main design reviews, through the compliance status traced in the compliance matrixes, often gathered in the Verification Control Document or in the explanatory Dossier. The status of the critical points (in particular with regards to operational security) is traced in the Critical Item List. These registries are evolutionary during the development phases and are frozen during the qualification and/or certification process.

As far as the use of chemical products in its industrial activities is concerned, whose use is subject to legal requirements for both the safety aspects of personnel and environmental impact, any changes in the regulations may require industrial adaptation measures to safeguard the environment and safety, with economic impacts and impacts on the continuity of activities.

In all of the Group companies, the Quality Department is responsible for monitoring the quality of products and of company processes and for certifying that the product manufactured complies with the required technical standards. Quality Departments work in close coordination with the Technical Departments that are responsible for drafting and validating the technical dossiers that certify the conformity of the



components manufactured to the acceptance specifications. In 2017, 37 audits were carried out, of which 11 on the product, 15 on the process and 11 on suppliers.

Concerning the assessment of risks related to the health and safety of products, all the qualified products are subject to a *hazard analysis* carried out by Avio S.p.A. (which owns the "*design authority*" of the products). For products under development, the process is linked to the level of maturity achieved. To date, out of 21 end products in the portfolio, 17 products have been analyzed for health and safety risks. [GRI 416-1]

6.3 Commitment to Safety

The Group ensures that the health and safety requirements of the structure are taken into consideration from the very beginning of each phase of new project activities, as to guarantee its commitment to have an appropriate and effective industrial and plant model.

The Health and Safety in the Workplace and Prevention of Major Accidents Policy and the Quality, Health and Safety in the Workplace and respect for the Environment Policy are the documents with which the Group declares its commitment to guaranteeing high levels standards of safety and to raising the awareness of all staff, suppliers and contractors of the need to adopt practices and procedures consistent with the principles of these policies. The responsibility for compliance with Health and Safety policies in the workplace is attributed to the individual Employers of the various Organizational Units, who make use of the Supervisors, which are regularly trained and appointed. Employers receive support from the Prevention and Protection Service (PPS) and HSE Department, for the assessment of specific risks and the definition of prevention and protection measures to implement.

In order to adequately support its technical, industrial and management processes, Avio uses a series of applications that form the Information and Communications Technology (ICT) platform. The Group has forecasted significant investments for the construction and implementation of safety equipment and the creation of means of protection in the infrastructure. Any anomalies are duly recorded and reported thanks to the implementation of audits and periodic checks.

The activities of the Avio plant in Colleferro that involve the use of substances and preparations classified as explosive and/or oxidising, are authorized and controlled by the Ministry of Internal Affairs, in order for them to be designed and operated in compliance with the safety criteria set by the R.D. 773 of 18.06.1931, Consolidated Act of Public Safety Laws. The Avio S.p.A. plant of Colleferro falls within the obligations established by Legislative Decree 105/15 (upper threshold) for the possession of substances classified as Oxidising and Explosive. In this regard, the Group has adopted a series of company procedures to ensure usage and management that are controlled and in line with the laws and regulations in force.

Moreover, the activities of the Avio plant in Colleferro that involve the use of radiogenic machines for X-Ray controls on the components of the propulsion systems are subject to the provisions of Law 230/95 and any subsequent amendments and additions, which regulates the possession and use of X-ray sources.

The Internal Emergency Plan (PEI) for Avio's S.p.A. plant of Colleferro was predisposed, pursuant to art. 20 of Legislative Decree 105/15, with the specific objective of establishing the rules of conduct and defining the operating methods of both the individuals and the various company departments involved in the management of emergencies. In particular, this document details: checking and circumscribing incidents; implementing the necessary measures to protect human health and the environment from the consequences of major accidents; adequately informing the competent local workers and services or local authorities; providing for the restoration and clean-up of the environment following a major accident.

With regards to the processing of industrial operations and of explosive/chemical materials, the most influential risks are those reported in Legislative Decree 81/2008, such as explosion risk, chemical and



carcinogenic risk, electrical risk, fire risk, handling and transport of active materials. Any industrial events caused by human error or the failure of a security system or related to a natural disaster can negatively affect production.

The Group recognizes and is aware that the use of hazardous, explosive or oxidising substances, represents, in a general sense, an operation with potential impact outside the plant's premises. This impact is appropriately monitored by the Colleferro industrial district, which evaluates the impact both in the Risk Assessment Document and in the Safety Report pursuant to Legislative Decree 105/15, in which the different areas of impact, the reversibility and the probability of occurrence are reported for each possible individual event. Likewise, all the buildings part of the French Guiana plant, which comply with local French legislation and are located at an adequate distance from the urban center of the city, are regularly monitored in terms of the impact of their activities on the local communities. At the creation of the document, no significant residual risks were identified for the external population related to these issues. [GRI 413-2]

The management systems implemented by the companies of the Group - in line with the international OHSAS 18001 standard and with local regulations for the prevention of major accidents - include resources that attest to adequate management of health and safety and prevention of related risks in the working environment. Specifically, with regards to the Avio plant of Colleferro, the Head of the Industrial Operations Department, as the Holder of the licenses for the possession, manufacture, transport, sale of explosives and explosive products, according to the Consolidated Act of Public Safety Laws, is responsible for the application and compliance with TULPS and its execution regulation for the manufacture of explosives. The Head of the Infrastructures, Industrial Planning and Profit Improvement Department, through their role of "PIR Manager" (Major Incident Prevention), as head of plant maintenance, is delegated the operational powers for the management of plants at risk of major accidents, according to the Legislative Decree 151/15 and subsequent amendments.

Among the organizational functions involved, Avio S.p.A. has also identified the *Engineering of Materials and Processes and Health, Safety and Environment* structure, which has overall responsibility for the implementation and control of the Health and Safety Management System in the Workplace and for the Prevention of Relevant Accidents. The person responsible assumes the role of Representative for the General Management of the Health and Safety at work Management System and of the Environmental Management System, as well as the role of Representative of the Manager for the Management System for the Prevention of Major Accidents.

Within Regulux, the Industrial, Safety and Environment Department is responsible for the implementation and maintenance of an appropriate management system, in line with the international standard of reference, an adequate security system with the aim of assessing the importance of the impacts and risks associated with production activities, as well as ensuring the protection of industrial sites and of the people on the premises (workers or visitors). In addition, information and training programs on safety for employees and refresher courses for safety operators are defined and implemented.

For Avio, security also concerns the IT infrastructure. As already described, the Group deals with sensitive information, whose unauthorized access and disclosure could lead to serious crisis situations. In this regard, Avio may face threats to the security of its IT infrastructure (cyber attacks), those being illegal attempts of physical or IT access to its sensitive information. Furthermore, the occurrence of such events may compromise the competitive advantage deriving from research and development of intellectual property, may make products and services obsolete ahead of time and may cause the Group to incur contractual penalties, resulting in consequences on the activity and its prospects.

As part of its business, the Group, as mentioned in its Code of Conduct, is responsible for managing a large amount of personal data and confidential information, which it commits to process in compliance with all applicable privacy laws. Ensuring high levels of security in the selection and use of its IT systems, intended



for the processing of personal data and confidential information, in accordance with current legislation, is a commitment and a fundamental value to safeguard.

The execution of public contracts for the construction of weaponry requires the processing of confidential information covered by state secrecy or classified as national secrecy, therefore within the framework of the North Atlantic Treaty, of the European Union and of international nature, as regulated by the Law of August 3rd 2007, 124 ("Intelligence System for the Security of the Republic and new Provisions governing Secrecy"). In fact, Avio carries out classified activities under current legislation concerning the protection and safeguard of information classified as D.P.C.M. 3/2017 ("Provisions for the administrative protection of State secrets and classified information and exclusive dissemination") and is enabled for such information processing on the basis of specific clearance (Security Clearance and Total Security Clearance).

All classified level information is processed in dedicated areas. These areas are constructed according to the criteria established by the relevant legislation and access to the information is regulated according to the safety criteria and the procedures for processing and consulting the classified material. The IT management of classified level information within the designated areas is managed by applying all the security policies described in the *DPCM 3/2017*. Examples are controlled access to classified areas through the activation of a badge, access to workstations with mandatory password change on first access and every 60 days with a password history tracking (the last 5 can not be reused), use of USB keys with encryption system. The entry of occasional personnel who need access to the classified areas is authorized by the Industrial Safety Office and recorded in a dedicated registry.

Note that, during 2017, following an inspection visit by the Presidency of the Council of Ministers Department for Information and Security, some irregularities were detected in the IT management of classified engineering data and programs with reference to physical and logical security measures of information. Therefore, the report prepared by the CIS Security Officer and by the Group Security Officer was sent to the DIS. In the report, Avio has defined suitable measures to further strengthen the information systems security systems.

No losses or theft of sensitive information were recorded in 2017. *[GRI 418-1]*



7. The Group's responsibility to suppliers ¹⁹

Responsible management of the supply chain plays a key role in improving the competitiveness of the Avio Group. In fact, Avio carries out a careful selection towards its suppliers in order to guarantee the sustainability and relative traceability of supplies.

As part of its activities, the Group mainly uses suppliers and sub-contractors for the supply of components, semi-finished products and raw materials. Some suppliers and sub-contractors are difficult to replace or, in any case, their replacement is challenging, resulting in significant additional costs.

For the production of its products (engines and launchers), the production model of the Group requires raw materials and components related to the following commodity macro-areas:

- Commodities: chemical products / metallic materials;
- Flight components: liquid propulsion engines and impulsors/stage components/electronic components/structural components.

The supplier system plays a fundamental role in improving the competitiveness of the Avio Group. In order to constantly guarantee the highest level of client satisfaction, the Group selects suppliers based on their offering in terms of quality, innovation, costs and services.

As defined in the Regulus Code of Conduct and in its *Charte Étique*, the performance indicators that guide the Group in the allocation of supplies are based on adequate and objective methods, taking into account, in addition to quality, innovation, costs and services offered the subjective requirements of integrity, honourability and professionalism. Moreover, in consideration of the business sector and the uniqueness of its supply chain, the absence of any past or present suspicion of involvement in terrorist activities or subversion of public order is of particular importance in the selection of suppliers. Avio commits itself to verifying the non-inclusion in the reference lists of individuals connected to international terrorism, i.e. in the so-called Black List issued by the European Community, the US Treasury Department and the UN, to support the prevention and opposition to money laundering and to financing of international terrorism. The Group companies resident in Italy require their suppliers and subcontractors - both Italian and foreign - to underwrite, next to the signing of the contract, the Group Code of Conduct (to date signed by 66% of suppliers out of a total of 1.242). [GRI 412-3] The signing of the *Charte Étique* or the Code of Conduct is not currently required by the suppliers operating in French Guiana. With respect to Italian suppliers only, the delivery of the tax and wage compliance certificate (so called DURC) is required. Furthermore, the Avio Group guarantees to all suppliers equal opportunities and equal treatment in the negotiation, stipulation and execution of contracts with regard to the availability of information, terms and conditions of supply and technical decision-making criteria.

Sub-contractors for flight components are selected during the development phase between companies that have worked or work in similar areas on other European launchers. Selection occurs in the development phase, based on the contributions of individual ESA member states to the program. In this case, compliance with local laws of ethical-legal, social and environmental nature and related to health and safety in the workplace is guaranteed by the mechanisms activated by ESA for sub-contractors from a European member country. Exceptions are the non-European sub-contractors - selected based on their skills acquired through participation in the implementation of extra-European launchers - mainly from Ukraine, Russia and the USA. However, since these companies belong to the government programs of the respective countries, the same principle on compliance with national laws applied to European suppliers is applied.

¹⁹ [GRI 102-9]



Concerning commodities, suppliers are selected based on skills in the specific product category. During the pre-selection phase, suppliers are subject to a verification process in relation to their compliance with the requirements of technical and industrial competence. Suppliers, are also subject to a qualitative assessment verifying if they comply with the requisites of ethical-legal, environmental, social and health and safety nature. In addition to a technical evaluation, in order to be included in the supplier registry, suppliers are required to sign the Avio general purchasing conditions, the declaration according to Legislative Decree 231/2001, and the Group Code of Conduct, through which they self-certify their adequacy to those requirements. Commodities are sourced in Europe, USA, and Japan.

The Group favours suppliers with whom it has established consolidated relationships over time and who have participated to other launcher development programs with similar product. Given the nature of aerospace products, sub-contractors and major suppliers are subject to a certification process. Relationships with those are mainly managed with long-term contracts in order to ensure production continuity. If serious failures, inefficiencies or the unavailability of strategic suppliers occur, the Group is called upon to replace them. In order to limit such occurrences, the Group has adopted, where economically possible, a policy of "dual sourcing" in the supplier selection, accounting for the availability of two suppliers. In addition, Avio has predisposed a general policy aimed at the gradual minimization, and where possible the elimination, of raw materials hazardous to health under REACH and the consequent reduction of suppliers of these materials. The type and importance of the Group's supplies exclude the use of supplies from countries in a state of conflict such as the so-called *conflict minerals*.

The purchasing management in the Group companies is overseen by the relevant competent functions and formalized in internal procedures for qualifying and evaluating services. Suppliers are constantly monitored based on indexes of quality and punctuality of supply and through specific audits that allow for the identification of any critical issues and implementation of the related corrective actions.



8. Responsibility towards the environment and the territory

Environmental protection is a priority that the Avio Group has established in its Code of Conduct. The Code sets out the following fundamental principles to draw from to ensure an effective environmental management:

- not to pollute;
- to constantly optimize the use of natural resources;
- to develop products that are increasingly compatible with the environment.

Similarly, Regulus spells out its commitment to promoting eco-efficiency in its Code of Ethics. In the document, the French company acknowledges its responsibility towards the local community and expresses its willingness to put in place activities designed to reduce the company's environmental impacts, in compliance with the applicable environmental rules and regulations.

Given the context in which it operates as well as the type of business activities the Group carries out, the main environmental risks may stem from two factors, namely uncertainties and changes in the regulatory framework and in the interpretative practice, failure to obtain and renew the necessary environmental authorizations, from incomplete or inadequate assessment of the environmental impact of products, as well as adverse environmental conditions (e.g. extreme natural or atmospheric events).

Furthermore, in the management of production activities, the Group's operational companies may incur risks related to the inefficient use of natural resources, to the imbalance of one or more environmental aspects (e.g. soil, water, air) following an incorrect risk assessment and related management and mitigation actions, attributable both to normal operations and to possible accidental scenarios.

These events may cause potential negative impacts on the functioning, and consequently on the economic, patrimonial and financial position of the Group, which may ultimately cause reputational damages to the company.

The Group's manufacturing companies have developed and implemented structured environmental management systems in line with international standards. Among these, Avio S.p.A. has adopted a certified Environmental Management System compliant with the UNI EN ISO 14001 international standard. The certification gave way to a transition process that led to the updated 2015 version of the regulatory framework, which focuses more in depth on new concepts such as the analysis of the context, the Life Cycle Perspective and systematic risk assessments. The system is made of internal environmental management standards implemented to ensure the timely identification of the most significant environmental impacts, and the adoption of the most effective management and mitigation measures, through a structured system to monitor the performances.

Avio S.p.A.'s care for the environment is further confirmed by the Integrated Environmental Authorization (in Italian "Autorizzazione Integrata Ambientale", so called "AIA") obtained from the Province of Rome on June 30th, 2010, by Executive Decision R.U. 4730 in accordance to the Legislative Decree 59/2005, for the exercise of activities related to chemical plants and to the production of explosives. With this authorization, Avio S.p.A. must guarantee compliance to specific operating requirements and to specific limits to the emission amounts. Moreover, Avio S.p.A. must guarantee: *[GRI 413-1]*

- periodic monitoring of the environmental impacts resulting from activities carried out within the plants, based on a defined Plan of Monitoring and Control;
- communication to the competent bodies of the data obtained.



Within the Environmental Management System, Avio S.p.A. has adopted an Environmental Policy, which indicates environmental protection as the main pillar of its management and development strategies.

Furthermore, it spells out a specific commitment both in relations to the prevention of pollution and in relations to the continuous improvement of its environmental performances. In fact, the document is aimed at guaranteeing:

- compliance with Community, national and international requirements regarding the environment;
- rationalization of resource usage, reduction of consumption and improvement of their utilization starting from the planning phase;
- identification of the best available techniques aimed at minimizing the environmental impact of production processes and of the products produced;
- continuous monitoring to prevent accidents;
- sharing the principles and commitments made in the environmental field with suppliers;
- involvement of employees and external staff, through awareness raising initiatives, informative sessions and dedicated training;
- transparent communication of the environmental results achieved.

The Company, in accordance with these principles, implements an Improvement Programme on a three-year basis, which constitutes the reference framework to define the objectives, targets and, hence the necessary actions the organization should undertake in order to ensure the continuous improvement of the company's environmental performances. The Company has set a series of environmental targets for the year period of 2016-2018, with the objective of improving its environmental management and mitigation strategies. The targets defined were the following:

- improvement measures on atmospheric emission plants;
- improvement of the management of energy consumption;
- rationalization of the usage of industrial water;
- improvement of waste management;
- rationalisation of the use of substances and preparations that are harmful and dangerous for the environment.

In order to achieve the above-mentioned objectives, the Company has implemented a series of actions, including: participation in the construction of a Cogeneration Plant for the production of electricity and steam, located near the company terrain, in order to optimize the production and distribution of electricity and steam in the plant and in security utilities; the improvement of the distribution grid of utilities (steam, industrial water and electricity) with benefits on the reduction of dispersions and greater efficiency in transport; the search for alternative preparations and dangerous chemical substances with low environmental impact (such as the qualification of substitution of MEK - methylethylketone - in the degreasing process of the S1²⁰ enclosures for Ariane 5, with a soapy solution that allows the reduction of the hazardousness of the substances used), the improvement of some systems for the reduction of emissions into the atmosphere and the storage of industrial waste through the operation of the new temporary storage areas.

The HSE Department (Health, Safety and Environment), with the support of all the functions assigned to the execution of production or development activities, is responsible for the implementation and control of the Environmental Management System (Environment Manager). Each objective reported in the Environmental Management System has a specific owner, assisted by the Environment Manager.

²⁰ The Group provides the lateral solid-propellant motors for the Ariane 5 vector, named P230. The pair of P230 motors is composed of three cylindrical segments (S1, S2, S3), which are internally coated with rubber, which has the function of thermic protection.



With reference to the operations of Secosvim, on the other hand, the choice of operating methods for the treatment of environmental aspects is attributed to the Sole Administrator of the company, which adopts management methods and practices in line with the management model of the parent company.

Finally, in compliance with the general principles established by the Group's Code of Conduct, Regulus has adopted a Policy on Quality, Health and Safety at work, and respect for the Environment. Additionally, the company has also developed a Quality, Safety and Environment Manual, which is based on the provisions of the UNI EN ISO 14050: 2010 international standard. To this purpose, the Company has put in place a dedicated structure of experts, responsible for managing and overseeing environmental aspects. In accordance with the local legislation, Regulus drafts and shares with the DEAL (*Direction de l'Environnement, de l'Aménagement et du Logement*) an annual report related to the management of the company's environmental and energy performances with [GRI 413-1]. The DEAL requires Regulus to undergo periodic audits on specific environmental areas. In this regard, Regulus intends to intensify the control indicators, with the purpose of strengthening its monitoring system of its environmental performances.

In carrying out its production process, the Group generates impacts mainly linked to pollutant emissions into the atmosphere, to the management of water withdrawals and discharges and to the waste disposal.

The following section describes the management methods and the main performances attributable to the most significant environmental aspects (energy, water and waste generation) of the Group companies in 2017.

8.1 Energy consumption and emissions

The Group's energy consumption derives mainly from the procurement of electricity and heat used in its production activities. In compliance with the requirements of Legislative Decree 102/14, in 2017 Italy had conducted energy audits which highlighted some possible areas of intervention in order to improve the Company's energy performance.

[GRI 302-1] Energy Consumption.

Type of energy consumption (expressed in GJ/year)*	Italy	French Guiana	Total
Electricity	83,397.60	68,429.21	151,826.81
Thermal energy	245,109.60		245,109.60

In an emergency, Regulus may use another auxiliary energy source. It is composed by a generator set, owned by CNES (Centre national d'études spatiales), fueled by diesel. However, since the set is owned by third parties, used together with other entities and with a limited use, the Company does not have any tools to monitor the related consumption.

The following table reports the data on indirect GHG emissions (scope 2 of the GRI standards) which originate from the procurement of electricity and thermal energy. In 2017, the Group emitted 22,242.17 tons of CO₂ eq/year. [GRI 305-2]



[GRI 305-2] Indirect GHG Emissions (Scope 2).

Indirect GHG Emissions by type of energy consumption (expressed in tons CO ₂ eq/year)	Italy	French Guiana	Total
Electricity	4,749.03	3,535.51	8,284.54
Thermal energy	13,957.63	-	13,957.63

* The conversion factor refers to the one received from Termica Colleferro (data on the CO₂ emissions of the plant in 2017: Natural gas emission factor (weighted average year): 57.133 tons CO₂ / TJ equivalence: 205.6 gCO₂ / kWh)

** Due to the lack of a conversion factor for French Guiana and given the similarities between the energy mixes in the two countries, we used the coefficient relating to Brazil (kWh → KgCO₂e = 0.186 Source: Statistical Data on Electricity in Italy - Year 2016 prepared by Terna in the "International Comparisons" section).

With regards to the pollutant emissions in the atmosphere, the manufacturing process of the companies does not produce Nitrogen Oxides (NO_x) or Sulfur Oxides (SO_x). The auxiliary engines used in the site where Regulus operates are the only sources of emission for which no monitoring is planned. The responsibility of these emissions lies with the site manager in French Guiana. Information on the other emissions was provided by the company Groups. The data is in line with the units of measurement required by the local regulations, which have been communicated to the competent authorities (for Avio S.p.A., the mean concentration is measured in mg/Nm³ while for Regulus it is measured in Kg/year). *[GRI 305-7]*

[GRI 305-7] Significant air emissions.

Significant pollutants (expressed in mean concentration mg/Nm ³)	Italy
Volatile organic compounds (VOC)	0.9
Particulates	0.51
Total	1.41

[GRI 305-7] Significant air emissions²¹

Significant pollutants (expressed in Kg/year)	French Guiana
Volatile organic compounds (VOC)	1,329
Total	1,329

In compliance with the law, the air emissions deriving from the plant activities are checked regularly through its aspiration and pollutants abatement systems. As required by the law, the company carries out self-monitoring analysis of the concentrations of pollutants.

8.2 Management of water resources and waste

With reference to the Colleferro site, the Company operates within the industrial area using the water resource for both industrial and civil purposes. With reference to the management of water supplies, the companies make three different types of water withdrawals based on use:

- industrial water: supplied by the Società Consortile Servizi Colleferro (SC), which collects water from the Sacco river and/or from the wells authorized for industrial water and/or recirculation from the

²¹ The calculation is based on the amount of material used and the product specifications.



emission of the purifier. This latter, for which the water leaving the consortium purifier is duly analysed and complies with legal limits, is fed into the industrial water network and allows the reduction of natural water withdrawals;

- fire-fighting water: supplied by the Società Consortile SC and accumulated in water basins which constitute the emergency reserve;
- potable water: supplied by the Consorzio delle Acque Potabili (CSAP), of which Avio S.p.A. and Secosvim holds shares, manages the wells of drinkables water deriving from deep water layer, whose authorization is headed by Secosvim.

With regards to Regulus, all water management activities are subject to regular controls by the *Direction de l'Environnement, de l'Aménagement et du Logement* (DEAL) which grants the necessary authorizations to allow the company to operate.

In 2017, the water consumed in French Guiana, which is equal to 17,615 m³/year, is fully supplied by the municipal aqueduct or other third-party services. The corresponding water consumption in Italy, was 1,008,550 m³/year. [GRI 303-1]

[GRI 303-1] Water withdrawal by source.

Volume of water by source (expressed in m ³ /year)	Italy (*)	French Guiana	Total
Surface water	892,448	-	892,448
Ground water	116,102	-	116,102
Municipal water supplies or other public or private water utilities	-	17,615	17,615
Total	1,008,550	17,615	1,026,165

*The data refer to the following companies of the Group: Avio S.p.A. and ELV S.p.A.

Concerning the management of water discharges, the production companies operating within the Colleferro industrial complex are subject to the Italian national legislation (Legislative Decree 152/2006) and the Integrated Environmental Authorization (AIA). The discharges of water are managed by the Società Consortile SC. The sewage system located inside the plant is mixed, and collects both industrial and domestic wastewater before reaching the purification plant. After undergoing treatment, the wastewater is discharged by the Società Consortile SC into a surface water body of the Sacco river.

Wastewater, which is treated in appropriate purification plants with regularity and according to legal requirements, is partially recycled in the production process and discharged into the sewage system. It should be noted that the monitoring of the discharged water is not prescribed by the Authorization AIA, therefore the management of volumetric data is not certified as in the case of withdrawals, for this reason the data relating to the Colleferro factory is not provided.

With regards to Regulus, in the year 2017 the volumes of discharged water of an industrial nature amounted to 1,272 m³, which were fully sent to treatment plants. In this regard, the French company has authorized an investment of over 1 million euros to improve its system of treatment of water discharges in response to the increase in production expected in the upcoming years.

In recent years, Avio S.p.A. has implemented significant changes in relations to the management of industrial waste specifically:



- the improvement of temporary storage, through the commissioning, in 2017, of a new temporary deposit inside the Colleferro plant, equipped with all the protections required by law (segregation, containment tanks, etc.). The new Temporary Deposit has been put into service in compliance with the AIA prescription and allows to reduce the internal handling of waste from the end of the line to the deposit;
- maximization of waste going for recovery by identifying destination plants suitable for receiving and recovering waste.

The waste management of the plant based in Italy has two areas designated for temporary storage of waste, which are managed according to the provisions of the law. The waste will partly be allocated to external treatment/recovery plants, and partly to disposal plants (landfill).

Secosvim, whose waste derives mainly from the ordinary and extraordinary maintenance of buildings, entrusts its waste management to the contractors responsible for maintenance interventions. The contractors are responsible for the regular disposal and/or recovery through the use of external companies authorized to transport according to the relevant CER code (European waste code).

According to the type of waste, Regulus defines the appropriate treatment method together with the collection authority. For years, the French company has only worked with two suppliers of such services which are chosen on the basis of reliability and efficiency of the treatment service. Furthermore, it regularly conducts awareness campaigns on the correct differentiation of waste.

In 2017 the Group generated a total waste of 1,395 tonnes, of which 588.1 tonnes (42%) of non-hazardous waste and 806.9 tonnes (58 %) of hazardous waste. [GRI 306-2]

[GRI 306-2] Hazardous and non-hazardous waste by type of disposal method.

Total weight of waste (ton/year)*	Italy	French Guiana	Total
Hazardous waste			
<i>Recycling and recovery</i>	97.5	38.4	135.9
<i>Disposal</i>	53.6	398.6	452.2
Total weight of hazardous waste (ton/year)*	151.1	437.0	588.1
Non-hazardous waste			
<i>Recycling and recovery</i>	374.5	322.8	697.3
<i>Disposal</i>	5.4	104.2	109.6
Total non-hazardous waste	379.9	427.0	806.9

* The waste measurements take place through the loading and unloading registers

8.3 Management of areas subject to potential environmental issues

Avio's industrial district, based in Colleferro is located in the area that, starting from November 2016 has been identified as a National Interest Site. The area, called "Basin of the Sacco River", is managed by Secosvim S.p.A, which manages the monitoring and remediation activities of the soil, subsoil and groundwater.

When the company acquired the Colleferro industrial site in the mid-nineties, it also inherited some previous land pollution issues. However as an incoming owner Avio S.p.A was exempted from any responsibilities related to the land pollution. Prior episodes of pollution have however been subject to past judicial sentences, for which Secosvim is clearly not responsible. Despite this, the company has taken charge, through substantial economic effort, of the remediation measures, which are attributed to the owners by law even if they were not actually responsible for polluting the land.



All of the activities are designed for the completion of the land remediation and permanent land safety measures that still to be implemented, will be completed in compliance with the program agreement signed with the Competent Authorities during the Commissary Management (Valle del Sacco Regional Office) and with the Parent Company Avio S.p.A. Such activities will be carried out with further requirements accepted in the context of specific Services Conferences, under the coordination of the Ministry for the Environment and the Territory and the Sea. In order to ensure compliance with the deadlines and the implementation procedures laid down in the Remediation Plan, the company carries out a continuous monitoring activity documented to the Competent Authorities, through the transmission of the related reports and results of the monitoring campaigns.

In conducting its operations and activities, the Group operates in conformity with the laws and regulations and therefore in accordance to the issue of permits and authorizations, which are subject to periodic renewal as well as possible modification, suspension or revocation by the competent authorities. The adoption of new regulations that limit or further regulate the sectors in which the Group operates, or changes in current legislation and/or interpretative practice could have economic impacts and affect the company's reputation.

It should be noted that the Group did not receive any monetary and non-monetary sanctions due to the violation of environmental laws and regulations in 2017. *[GRI 307-1]*

In order to ensure the adoption of the most effective environmental management and control measures, the Company adopts, where applicable, the procedures in force at the parent company Avio S.p.A., in compliance with the requirements of the UNI EN ISO 14001: 2004. Particular attention is paid to the implementation and monitoring of the progress of the Remediation Plan and Asbestos Removal Plan.

Asbestos products are conversed in the roofs of some buildings of the Colleferro industrial complex, which are, for the most part, abandoned buildings. The management of these hedges meets the requirements of the current regulation in terms of monitoring and conservation in order to exclude current risks for people and the environment. Currently, around 90% of the remediation activities detailed in the Asbestos Removal Plan have been completed, while the remaining part is expected to be completed by 2019.

The Soil Remediation Plan implemented by Secosvim is composed of:

- securing of the Cava di Pozzolana site;
- remediation of the ARPA 1 site;
- creation of a permanent storage site serving the remediation of the ARPA 1 site;
- securing of the ARPA 2 site;
- emergency securing and remediation of the "aquifers" by means of hydraulic barrier systems, equipped with specific plants for pre-treatment.

All the above activities, with the exception of the securing of the ARPA 2 site, which is under the responsibility of the Region of Lazio, have been completed operationally and are awaiting the closure of the related administrative procedure by the competent authorities. The company's objective is to obtain the certification for the interventions already carried out, the return to the legitimate uses of the non-contaminated areas and an adequate post-operative management of the interventions carried out according to the agreed timing and/or to be agreed with the competent authorities. Secosvim is committed to the operational continuation of the Remediation Plan and the Asbestos Removal Plan, and is constantly active in the responsible management of the related environmental impacts due to the generation of waste and the consumption of water used.

Table of connection between material topics and aspects of the GRI Standards

Material topics identified	Link with GRI standard	Impact boundary		
		Inside impact	Outside impact	Limitation
Environmental remediation	Environmental compliance	Secosvim	Community	-
Energy consumption and emissions	Energy Emissions	Group	Community	-
Waste management	Effluents and Waste	Group	Community	-
Use of water resources	Water	Group	Community	-
Human rights	Non-discrimination	Group	-	-
	Human Rights Assessment			
Dialogue with social partners	Labor/Management Relations	Group	-	-
Training and skills development	Training and Education	Group	-	-
Management and retention of talents	Employment	Group	-	-
Equal opportunity	Diversity and Equal Opportunity	Group	-	-
Staff remuneration	Diversity and Equal Opportunity	Group	-	-
Health, safety and well-being of employees	Occupational Health and Safety	Group	-	-
Contributions to the community	Local Communities	Avio S.p.A. Regulus	Community	-
Quality and safety of products and processes	Customer Health and Safety	Group	Clients	-
Cyber security and industrial safety	Customer Privacy	Avio S.p.A.	Clients	-
Safety of plants	Local Communities	Avio S.p.A. Regulus	Community	-
Ethics and integrity	Anti-corruption	Group	-	-
Prevention of corruption	Anti-corruption	Group	-	-



Material topics identified	Link with GRI standard	Impact boundary		
		Inside impact	Outside impact	Limitation
Compliance with current regulations	Anti-competitive Behavior	Group	-	-
	Environmental Compliance			
Diversity within the organization's governance bodies	Socio Economic Compliance	Avio S.p.A.		
	Diversity and Equal Opportunity			
Supply chain management	Supplier Social Assessment	Group	Suppliers	-
	Human Rights Assessment			
Sustainability Governance	Customer Health and Safety	Avio S.p.A.	-	-
Innovation	N/A	Avio S.p.A.	Clients	-



GRI Content Index

Page number in this document and reference to other sections of the Management Report or other external documents(The page numbers refer to the paragraph of the Statement that includes the disclosure)			
Standard Disclosure	Standard's description	Page Number	Omission
GRI 102: GENERAL DISCLOSURES			
ORGANIZATIONAL PROFILE			
102-1	Name of the organization	Avio S.p.A.	
102-2	Activities, brands, products, and services	p. 5, Management Report: Profile , Business areas	
102-3	Location of headquarters	Rome, Italy	
102-4	Location of operations	p. 5, Management Report: Geographical presence	
102-5	Ownership and legal form	Report on corporate governance and ownership structure	
102-6	Markets served	p. 5, Management report: Profile, Business areas	
102-7	Scale of the organization	p. 5, p. 26, Management Report: Analysis of the economic results and the financial and equity situation of the Group, Human Resources, Profile, Business Areas	
102-8	Total number of employees by employment contract, region and gender	p. 5, p. 26. Full-time staff represents 100% of the total	
102-9	Supply chain description (activities, products, numbers of suppliers, suppliers breakdown by geographical area, order value)	p. 42, 43	
102-10	Significant changes to the organization's size, structure, ownership, or supply chain during the reporting period	There have been no significant changes in the supply chain compared to the previous period	
102-11	Precautionary Principle approach	p. 18, 19, 45, 46 (Environmental Policy)	
102-12	Adoption of international economic, social and environmental standards	Actually the Group has not adhered to codes, external Standards in the ESG field	
102-13	Membership of national and international associations	p.36	
STRATEGY			
102-14	Statement from senior decision-maker	p.1	
102-15	Key impacts, risks, and opportunities	p.18,19	

Page number in this document and reference to other sections of the Management Report or other external documents (The page numbers refer to the paragraph of the Statement that includes the disclosure)

Standard Disclosure	Standard's description	Page Number	Omission
ETHICS AND INTEGRITY			
102-16	Values, principles, standards, and norms of behaviour	p.21, 22, Code of Conduct, Charte Étique	
GOVERNANCE			
102-18	Governance structure of the organization, including committees of the highest governance body. Committees responsible for decision-making on economic, environmental, and social topics	p.13-15	
102-24	Criteria used for nominating and selecting highest governance body and its committees	p.14	
102-35	Remuneration policies	p.30, 31	
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholder groups	p.11, 12	
102-41	Percentage of total employees covered by collective bargaining agreements	p. 27. In 2017, the 100% of employee is covered by collective bargaining agreements.	
102-42	The basis for identifying and selecting stakeholders with whom to engage	p.11	
102-43	Approach to stakeholder engagement	p.11	
102-44	Key topics and concerns that have been raised through stakeholder engagement and related actions (stakeholder engagement)	p.11	
REPORT PARAMETERS			
102-45	Entities included in the consolidated financial statements and those not included in the sustainability report	p.4	
102-46	An explanation of the process for defining the report content	p.3	
102-47	List of material topics	p.10,11	
102-48	Explanation of the effects of any restatements of information given in previous reports, and the reasons for such restatements	Not applicable	This Statement constitutes the first application of Legislative Decree 254/2016 on non-financial reporting
102-49	Significant changes from previous reporting periods	Not applicable	This Statement constitutes the first application of Legislative Decree 254/2016 on non-financial reporting
102-50	Reporting period	p.3, 2017	

Page number in this document and reference to other sections of the Management Report or other external documents (The page numbers refer to the paragraph of the Statement that includes the disclosure)

Standard Disclosure	Standard's description	Page Number	Omission
102-51	Date of most recent report	Not applicable	This Statement constitutes the first application of Legislative Decree 254/2016 on non-financial reporting
102-52	Reporting cycle	p.3, Annual	
102-53	Contact point for questions regarding the report	comunicazione@avio.com	
102-54 / 102-55	GRI content index and choice of the "in accordance" option	p.3, 53-60	
102-56	External Assurance	p.61-63	
TOPIC-SPECIFIC DISCLOSURES			
GRI 200: ECONOMIC PERFORMANCE			
GRI 205: ANTI-CORRUPTION			
103-1	Explanation of the material topic and its Boundary	p.21- 23, 51,52	
103-2	The management approach and its components	p.21- 23	
103-3	Evaluation of the management approach	p. 3, 21- 23, 51,52	
205-1	Total number and percentage of operation areas assessed for risks related to corruption	p.23	
205-2	Communication and training about anti-corruption policies and procedures	p.22	The Group has not currently foreseen training activities to suppliers and/or commercial partners. The provision of such training sessions represents one of the goals for the next three-year period.
205-3	Confirmed incidents of corruption and actions taken	p.23	
GRI 206: ANTI-COMPETITIVE BEHAVIOUR			
103-1	Explanation of the material topic and its Boundary	p.21-23, 51,52	
103-2	The management approach and its components	p. 21-23	
103-3	Evaluation of the management approach	p. 3, 21- 23, 51,52	
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and related judgements	p.23	
GRI 300: ENVIRONMENTAL PERFORMANCE			
GRI 302: ENERGY			
103-1	Explanation of the material topic and its Boundary	p.44-46, 51,52	

Page number in this document and reference to other sections of the Management Report or other external documents(The page numbers refer to the paragraph of the Statement that includes the disclosure)

Standard Disclosure	Standard's description	Page Number	Omission
103-2	The management approach and its components	p.44-46	
103-3	Evaluation of the management approach	p. 3, 44-46, 51,52	
302-1	Energy consumption within the organization	p.46	
GRI 303: WATER			
103-1	Explanation of the material topic and its Boundary	p.44-48, 51, 52	
103-2	The management approach and its components	p.44-48	
103-3	Evaluation of the management approach	p. 3, 44-48, 51,52	
303-1	Water withdrawal by source	p.48	
GRI 305: EMISSIONS			
103-1	Explanation of the material topic and its Boundary	p.44-47, 51,52	
103-2	The management approach and its components	p.44-47	
103-3	Evaluation of the management approach	p. 3, 44-47, 51,52	
305-2	Energy indirect (Scope 2) GHG emissions generated by energy consumption	p.47	
305-7	NOx, SOx, and other significant emissions	p.47	
GRI 306: WASTE AND DISCHARGE			
103-1	Explanation of the material topic and its Boundary	p.44-46, 48, 49, 51,52	
103-2	The management approach and its components	p. 44-46, 48, 49	
103-3	Evaluation of the management approach	p. 3, 44-46, 48, 49, 51,52	
306-2	Total weight of waste by type and disposal method	p.49	
GRI 307: COMPLIANCE			
103-1	Explanation of the material topic and its Boundary	p.21, 22, 23, 44-46, 49,50, 51,52	
103-2	The management approach and its components	p. 21, 22, 23, 44-46, 49,50	
103-3	Evaluation of the management approach	p. 3, 21, 22, 23, 44-46, 49,50, 51,52	
307-1	Significant fines and non-monetary sanctions for non-compliance with environmental laws and/or regulations	p.50	

Page number in this document and reference to other sections of the Management Report or other external documents (The page numbers refer to the paragraph of the Statement that includes the disclosure)

Standard Disclosure	Standard's description	Page Number	Omission
GRI 400: SOCIAL PERFORMANCE			
GRI 401: EMPLOYMENT			
103-1	Explanation of the material topic and its Boundary	p.28, 29, 51,52	
103-2	The management approach and its components	p. 28, 29	
103-3	Evaluation of the management approach	p. 3, 28, 29, 51,52	
401-1	Total number and rate of new employee hires and staff turnover by age, gender and geographical area	p.29	
GRI 402: LABOUR RELATIONS MANAGEMENT			
103-1	Explanation of the material topic and its Boundary	p.27, 28, 51,52	
103-2	The management approach and its components	p. 27, 28	
103-3	Evaluation of the management approach	p. 3, 27, 28, 51,52	
402-1	Minimum notice period for organizational (operational) changes and declaration of notice period in collective labor agreements (if present)	p.28	
GRI 403: HEALTH AND SAFETY AT WORK			
103-1	Explanation of the material topic and its Boundary	p.32-34, 51,52	
103-2	The management approach and its components	p. 32-34	
103-3	Evaluation of the management approach	p. 3, 32-34, 51,52	
403-2	Types of injury, injury rate, occupational disease rate, lost day rate, absentee rate, and work-related fatalities, for all employees, with a breakdown by region gender	p. 34	
GRI 404: TRAINING AND EDUCATION			
103-1	Explanation of the material topic and its Boundary	p.28-31, 51,52	
103-2	The management approach and its components	p. 28-31	
103-3	Evaluation of the management approach	p. 3, 28-31, 51, 52	
404-1	Average hours of training that the organization's employees have undertaken by gender and employee category	p.30	The current Reporting System has not allowed the distinction by gender of the training provided for the Italian companies. For the next reporting period, the Group aims to improve the non-financial reporting.

Page number in this document and reference to other sections of the Management Report or other external documents (The page numbers refer to the paragraph of the Statement that includes the disclosure)

Standard Disclosure	Standard's description	Page Number	Omission
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY			
103-1	Explanation of the material topic and its Boundary	p.13, 25, 30-32, 51,52	
103-2	The management approach and its components	p. 13, 25, 30-32	
103-3	Evaluation of the management approach	p. 3, 13, 25, 30-32, 51, 52	
405-1	Diversity of governance bodies and employees breakdown by gender, age, minority or vulnerable groups and other indicators of diversity	p.13, 26	
405-2	Ratio of basic salary and remuneration of women to men	p. 32	Due to privacy related regulations the remuneration data is not disclosed for groups composed by less than three resources for Regulus
GRI 406: NON-DISCRIMINATION			
103-1	Explanation of the material topic and its Boundary	p.24, 51,52	
103-2	The management approach and its components	p. 24	
103-3	Evaluation of the management approach	p. 3, 24, 51, 52	
406-1	Incidents of discrimination and corrective actions taken	p.24	
GRI 412: HUMAN RIGHTS ASSESSMENT			
103-1	Explanation of the material topic and its Boundary	p.24, 42, 43, 51,52	
103-2	The management approach and its components	p. 24, 42, 43	
103-3	Evaluation of the management approach	p. 3, 24, 42, 43, 51, 52	
412-3	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	p.42	The signing of the <i>Charte Éthique</i> or the Code of Conduct is not currently required by the suppliers operating in French Guiana. This is a goal for the next three-year period.
GRI 413: LOCAL COMMUNITIES			
103-1	Explanation of the material topic and its Boundary	p. 39, 40, 44- 46, 51,52	
103-2	The management approach and its components	p. 39, 40, 44- 46	
103-3	Evaluation of the management approach	p. 3, 39, 40, 44- 46, 51, 52	
413-1	Percentage of operations with implemented local community engagement, impact assessments, and/or development programs	p.44, 46	

Page number in this document and reference to other sections of the Management Report or other external documents(The page numbers refer to the paragraph of the Statement that includes the disclosure)

Standard Disclosure	Standard's description	Page Number	Omission
413-2	Operations with significant actual and potential negative impacts on local communities	p.40	
GRI 414: SUPPLIER ASSESSMENT FOR SOCIAL IMPACTS			
103-1	Explanation of the material topic and its Boundary	p.42, 43, 51,52	
103-2	The management approach and its components	p.42, 43	
103-3	Evaluation of the management approach	p. 3, 42, 43, 51, 52	
414-1	Percentage of new suppliers that were screened using social criteria	-	The companies of the Group have not currently implemented a social impact assessment of its suppliers. This is a goal for the next three-year period.
GRI 416: CUSTOMER HEALTH AND SAFETY			
103-1	Explanation of the material topic and its Boundary	p.37-39, 51,52	
103-2	The management approach and its components	p. 37-39	
103-3	Evaluation of the management approach	p. 3, 37-39, 51, 52	
416-1	Percentage of categories of products and services for which health and safety impacts of customers are assessed	p.39	
GRI 418: CUSTOMER PRIVACY			
103-1	Explanation of the material topic and its Boundary	p.40, 41, 51,52	
103-2	The management approach and its components	p. 40, 41	
103-3	Evaluation of the management approach	p. 3, 40, 41, 51, 52	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	p.41	
GRI 419: SOCIO-ECONOMIC COMPLIANCE			
103-1	Explanation of the material topic and its Boundary	p.21-23, 51,52	
103-2	The management approach and its components	p. 21-23	
103-3	Evaluation of the management approach	p. 3, 21-23, 51, 52	
419-1	Monetary value of significant fines for non-compliance with laws and/or regulations concerning the supply and use of products or services	p.23	
INNOVATION			
103-1	Explanation of the material topic and its Boundary	p.35-37, 51,52	



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Standard Disclosure	Standard's description	Page Number	Omission
103-2	The management approach and its components	p. 35-37	
103-3	Evaluation of the management approach	p. 3, 35- 37, 51, 52	

For further inquiries on the topics and indicators reported in the Statement please contact:

Avio S.p.A.

Communications Department

Via Latina, snc (SP 600 Ariana km 5,2)

00034 Colleferro (RM) – Italy

Email: comunicazione@avio.com



Auditor's report

Deloitte.

Deloitte & Touche S.p.A.
Galleria San Federico, 54
10121 Torino
Italia

Tel: +39 011 55971
www.deloitte.it

**INDEPENDENT AUDITOR'S REPORT
ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3,
PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016 AND
ART. 5 OF CONSOB REGULATION N. 20267**

**To the Board of Directors of
Avio S.p.A. (formerly Space2 S.p.A.)**

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter the "Decree") and to article 5 of the CONSOB Regulation n. 20267, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of Avio Group and its subsidiaries (hereinafter the "Group") as of December 31, 2017 prepared on the basis of art. 4 of the Decree, and approved by the Board of Directors on March 15, 2018 (hereinafter the "NFS").

Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" established in 2016 by GRI – Global Reporting Initiative (hereinafter "GRI Standards"), which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the Group.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

Auditor's Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care,

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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

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confidentiality and professional behaviour. Our auditing firm applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's Responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards. We conducted our work in accordance with the criteria established in the *"International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information"* (hereinafter "ISAE 3000 Revised"), issued by the *International Auditing and Assurance Standards Board (IAASB)* for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. Analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of art. 3 of the Decree and taking into account the adopted reporting standard.
2. Analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree.
3. Understanding of the following matters:
 - business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;
 - policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
 - main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 4, letter a).

4. Understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

In particular, we carried out interviews and discussions with the management of Avio S.p.A., Secosvim S.r.l., Elv S.p.A., Regulus S.A. and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.



In addition, for material information, taking into consideration the Group's activities and characteristics:

- at the parent company's and subsidiaries' level:
 - a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
 - b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.
- for Avio S.p.A., which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out site visits, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the Group as of December 31, 2017 is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and the GRI Standards.

DELOITTE & TOUCHE S.p.A.

Signed by
Franco Chiavazza
Partner

Turin, Italy
March 30, 2018

This report has been translated into the English language solely for the convenience of international readers.