



# CONSOLIDATED NON-FINANCIAL STATEMENT 2018

Pursuant to Italian Legislative Decree 254/2016

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Avio Group





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## Message to the stakeholder

Dear reader,

We are delighted to share with you Avio Group's Consolidated Non-Financial Statement 2018 as testimony of our increasing commitment towards sustainability.

The year 2018 marked important achievements in the development and innovation field. Ariane 5 and Vega realized 8 launches (6 for Ariane and 2 for Vega respectively) that brought 16 satellites (14 Ariane and 2 Vega) in the orbit for the observation of the Earth, for telecommunication and for scientific research.

Several events took place successfully throughout the year: the Zefiro 40 engine bench test in Sardinia, which is Vega C's second-state propulsion system; the P120C solid rocket motor's test, the world's largest monolithic carbon fiber solid rocket motor; the bench test of the prototype of the new M10 liquid oxygen-methane engine, which will equip the Vega E launcher in 2024, and which represents a true innovation for both propulsion efficiency and environmental sustainability.

The year 2018 saw the reorganization of ELV S.p.A., which was renamed Spacelab S.p.A. and increasing focuses on the design of new control benches, new real time simulation laboratories and new data acquisition software related to the future launchers of the VEGA family. Furthermore, Avio founded the Avio Guyane SAS society with the aim of optimizing industrial processes and increasing the Group's productivity. The company will coordinate the launch campaigns and will manage the land infrastructure for Vega's launches.

We also made some important steps in the stakeholder engagement's activity, which represents our first step towards a greater understanding of the Group's material topics, both



inside the company and among the stakeholders. Moreover, the Group is increasing its effort within its supply chain by including sustainability elements in its selection process.

The achievement of these ambitious goals brought a deeper acknowledgement of the need to pursue our growth in a sustainable way. We believe that our challenge consists in growing continuously while achieving a new technological lead and in positioning ourselves as leading market players in our expanding market. We want to commit daily to generate a positive change that benefits everyone by promoting initiatives and solutions which bring wellbeing to people and to the society in which we are and in which we want to act as a responsible actor.

These are the reasons why Avio cares about environmental and social issues and considers them as an important reference for our daily choices. We continue along this path knowing that we can count on our people spread across two different continents, who constitute an asset thanks to their passion, energy, competence and experience and to whom Avio offers professional growth opportunities in a stimulating working environment.

We have come a long way but there is still more to achieve. Our history is made of challenges and we want to build on them every day to achieve our next mission.

CEO  
Giulio Ranzo



Chair  
Roberto Italia







# NOTE ON METHODOLOGY

## Applicative Standards

This Consolidated Non-Financial Statement of the Avio Group (hereinafter also referred to as "Statement") has been drafted pursuant to Articles 3 and 4 of Legislative Decree 254/2016 (hereinafter the "Decree") that transposes the Directive 2014/95/UE on non-financial disclosure. It contains information on environmental, social and personnel issues, respect for human rights and the fight against corruption, that is useful to provide a clear description of the Group's activities, its performance, results achieved and impacts.

This Statement, as provided for in Article 5 of the Decree, constitutes a separate report and includes the appropriate reference and wording that leads back the Statement foreseen by the regulations.

This 2018 Statement, which will be published on an annual basis, is prepared according to the GRI Sustainability Reporting Standards ("in accordance core" option) that were defined in 2016 by the Global Reporting Initiative, which today is the most widespread and internationally recognized standard for non-financial reporting. 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 the abovementioned Decree and the GRI Standards. The data were processed using specific calculations and, where specifically indicated, by means of estimates for which the methodology is described. The results are reported with their two-year trend. The GRI Content Index is shown at the end of this Statement in order to facilitate the reader in finding information within the document and it includes details on the content reported in conformity with the GRI. The GRI Content index also includes additional references to other documents pertaining to the Group.

The information included in the non-financial Statement reflects the principle of materiality or relevance, an element provided for by the relevant legislation and that characterizes the GRI Standards: the topics dealt with in the Statement are those that, following the materiality analysis and assessment described in the section "The prioritization of relevant topics: Avio's materiality matrix" of this document, have been considered relevant for their ability to reflect the social and environmental impacts of the Group's activities or to influence the decisions of its stakeholders.

Following the 2018 materiality assessment, the aspects related to "Governance", and more in general those related to regulatory compliance and economic performance have been considered as prerequisites and therefore they are reported in this document.

The company set itself the objective to develop a Sustainability Plan, aligned to the Business Plan and with the SDGs. The status of the objectives and commitments included in the 2017 Statement is described in the chapters included in this Statement.

## Reporting Boundary

As required by art.4 of the Legislative Decree 254/2016, this Statement includes the data of the parent company (Avio S.p.A) and of its subsidiaries consolidated line-by-line. In particular, for reporting purposes, the consolidation boundary of the non-financial information included in the Statement follows 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 reporting boundary due to the nature of the company. Indeed as a financial holding company, ASPropulsion International B.V. does not contribute to the information about the Group's primary activity (aerospace sector) and 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 in liquidation also in 2018. The environmental impact data does not include Avio Guyane SAS, as today it does not manage a plant. Additional limitations to the reporting boundaries are included in the text and do not hinder the correct understanding of the Group's activities.

The following operations took place in 2018 at company level, which did not have significant impacts on the data nor did they compromise the understanding of the Group's activity:

- In January 2018 the company Avio Guyane SAS was founded. It is entirely owned by Avio S.p.A. and its aim is the coordination of the production activities and the launch campaigns of the launchers. In 2018 the society is still in its start-up phase.
- In March 2018 the company ELV sold its launcher's company branch to Avio S.p.A.. It was renamed Spacelab S.p.A. and became a research laboratory shared between Avio (70%) and the Italian Space Agency (30%).

For further information on significant events occurred in 2018, please refer to the paragraph "Significant events in 2018" of the Consolidated Financial Statements.

## Reporting Process

The preparation of the non-financial consolidated statement of the Avio Group for 2018 was based on a structured reporting process that included:

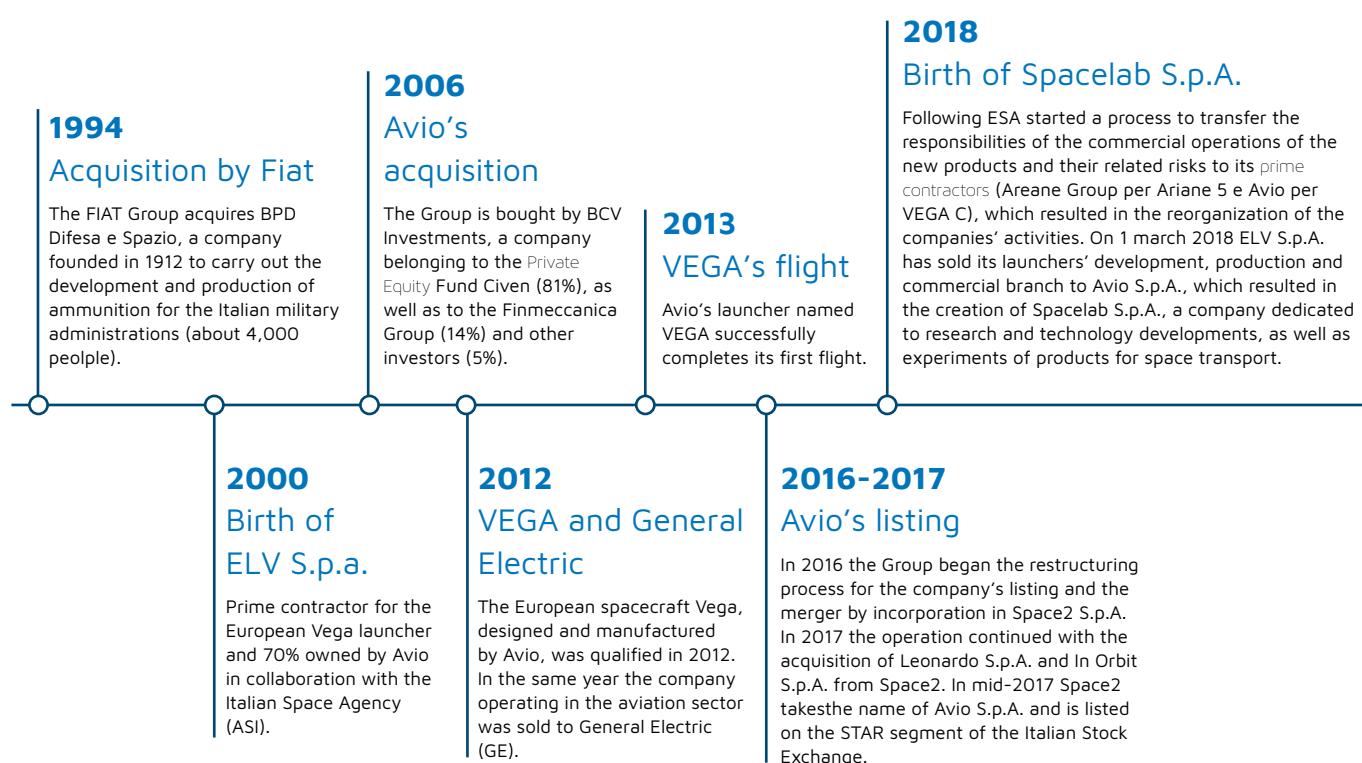
- The involvement of all the company units/Departments responsible for the relevant areas and the related data and information subject to the Group's non-financial reporting. They have been asked to contribute to the identification and evaluation of the material issues, the significant projects/initiatives to be described in the Statement and to the data collection, analysis and consolidation phase, with the role of verifying and validating all the information contained in the Statement, each for their own area of competence. In particular, the data and information included in this Statement derive from a non-financial reporting system (data collection forms) specially implemented to meet the requirements of Legislative Decree 254/2016 and the GRI Standards;
- The approval of the Statement by the Board of Directors of Avio S.p.A., convened on 14 March 2019 for the approval of the Consolidated Financial Statements of the fiscal year that ended on 31 December 2018;
- The publication of the Statement on the corporate website in order to be transparent to all its stakeholders via the corporate website.

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



# 1. AVIO Group

The Avio Group (hereafter "Avio" or "the Group") is considered a leading company in the space propulsion field. Avio originates from the historical BPD – Difesa e Spazio based in Colleferro, Rome, Italy. The expertise and know-how acquired in over 50 years currently allow Avio to compete with the top players in the segment of launch systems, solid, liquid and cryogenic space propulsion, as well as in the business of propulsion systems used for military tactical missiles, where it plays the role of sub-contractor<sup>1</sup> and prime contractor<sup>2</sup> for the Ariane and Vega space programs respectively, both of which are financed by the European Space Agency (ESA) at the development stages of the process.

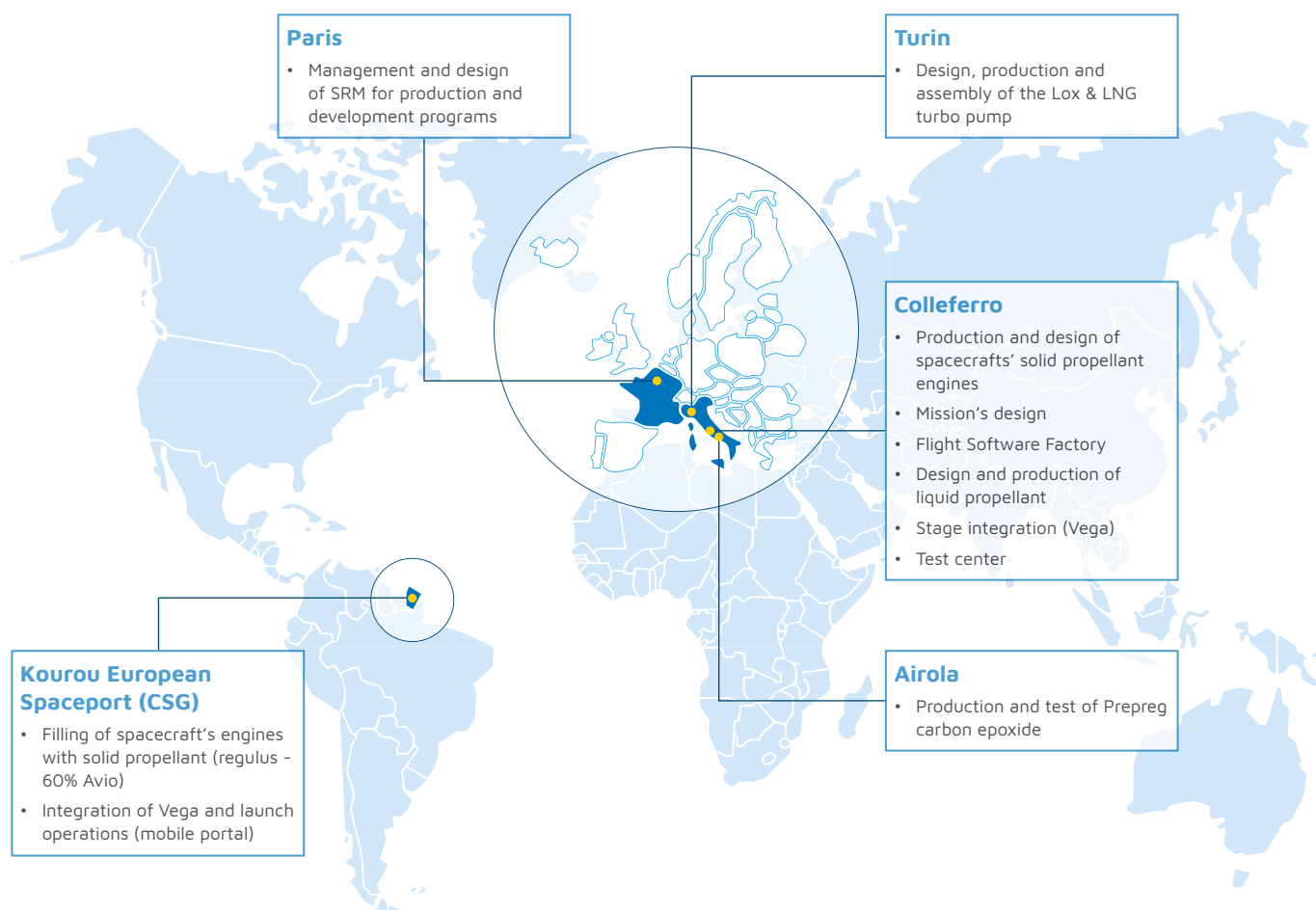


The Group employs directly 842 highly qualified people both in Italy and abroad. They are located in its headquarter in Colleferro, near Rome, and in the operating facilities in Campania and in Piedmont. More operating facilities are located abroad, in France and in French Guiana. The Group also employs contractors and consultants in relation to specific job orders and the specific needs associated with the development of new products<sup>3</sup>.

<sup>1</sup> 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.

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

<sup>3</sup> For further information, please refer to the "Avio people" section of this Document.



The Group operates in the launch and space propulsion system sector with a focus on design, development, production and integration activities of the following systems and infrastructures:

Space Transport Systems  
(e.g. Vega launcher)

Solid and liquid propulsion  
systems for space vectors

Propulsion systems with solid  
propellant for tactic missiles

Propulsion systems with liquid  
propellants for satellites

New propulsion systems with low  
environmental impact

Ground infrastructures related  
to the launchers' launch  
preparation activities

Thanks to Avio's launch systems, the Group is an important actor of space programs 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. Specifically, **Vega** is a space launcher that is designed and built for the positioning of satellites in the low orbit (Low Earth Orbit, LEO - between 500 and 2000 km of height). The project is supported by seven European countries, even though 65% of the launcher is built in Italy. Avio develops and produces for Vega the solid propellant motors used in Vega's first three stages, as well as the liquid propellant for the fourth stage. **Ariane 5** is a space launcher designed and realized for the positioning of satellites in the geostationary orbit (Geostationary Transfer Orbit, GTO - about 36,000 km of height). As previously mentioned, in this instance Avio operates as sub-contractor, having developed and produced the turbopump and the liquid oxygen (LOX) for the Vulcain 2 engine, and the P230 solid propellant motor via the joint venture Europropulsion with ASL.

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

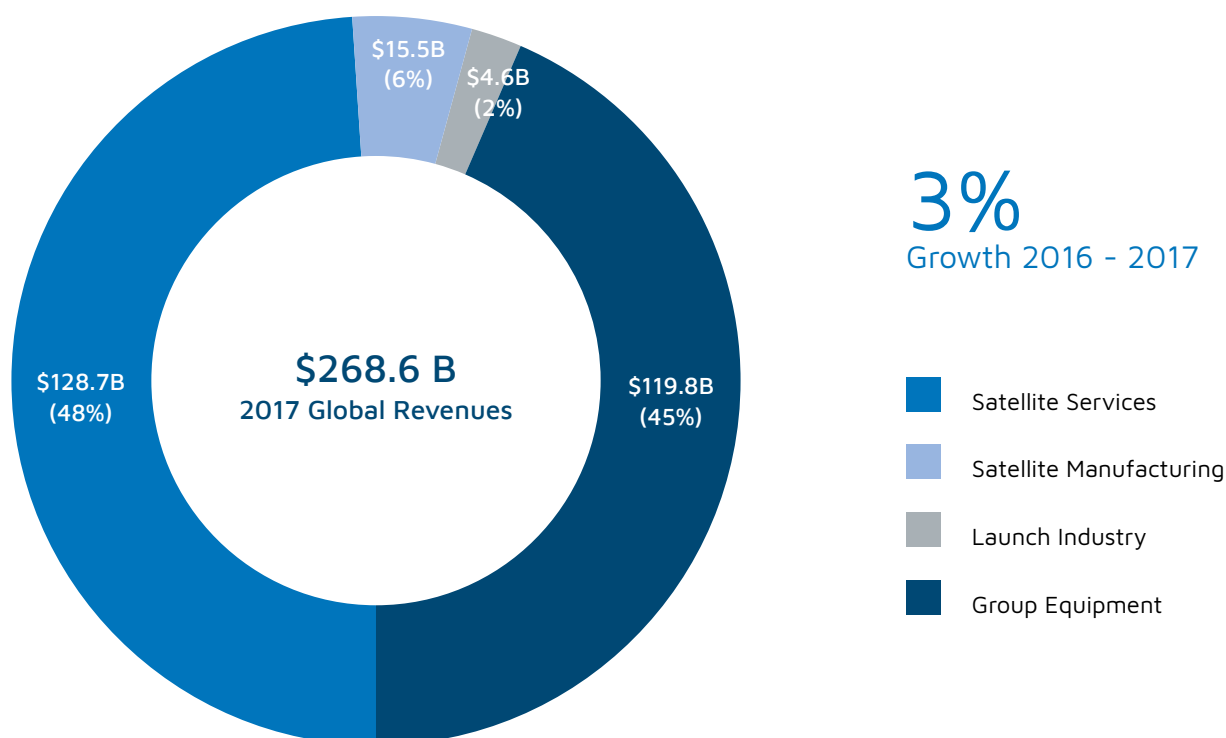


Furthermore, the Group also operates in the business of propulsion systems used for military tactical missiles. Specifically, it produces the following: propulsion components (booster<sup>4</sup> e sustainer<sup>5</sup>), the thrust orientation system (TVC), the aerodynamics (wings) of Aster 30 - the latter being considered some of the most powerful and technologically advanced solid propulsion engines used for tactical purposes that are available on the market. The propulsion systems are subsequently sold to the prime contractor Matra BAE Dynamics Alenia ("MBDA"), which is the leading European defense and missile manufacturing company operating in the European and international markets. In addition, Avio develops and manufactures the propulsion for the Aspide and Marte missiles and it has recently started to develop the engine for the high performing CAMM-ER Anti-air missile with an extended range that will equip the future land, maritime and air defense systems.

Finally, in the field of satellite propulsion, Avio has manufactured propulsive subsystems for ESA and ASI for the satellites' positioning in orbit and their control. Among these, we can find the most recent satellites: SICRAL, Small GEO and EDRS-C. Since 1984, Avio has developed and produced more than 15 propulsive systems with liquid propellants for satellites. The preparations for the launch of the two new ESA satellites with Avio's liquid propulsion are currently ongoing.

In 2018, the launcher's segment - to which the Group belongs - generated 4.6 billion dollar revenues, corresponding to 1.7% of the overall value of the space industry (268.6 billion dollars, which increased by 3% with respect to the previous year).

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).

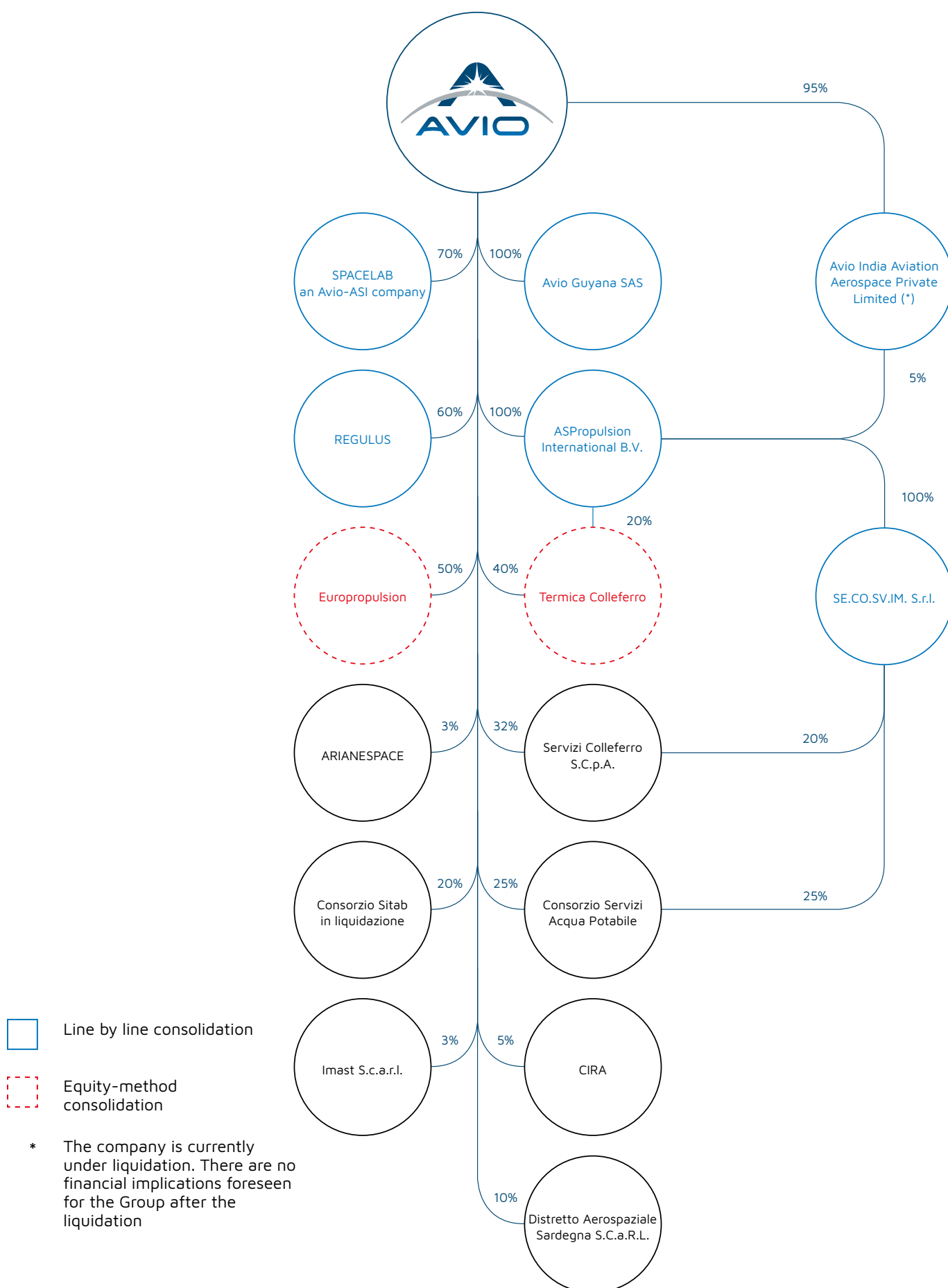


Source: SIA - State of the Satellite Industry Report, September 2018 - Written by the BRYCE Group

<sup>4</sup> A launcher that generates an additional thrust to that provided by the main stage of a space launcher, allowing the launcher to achieve the acceleration necessary to overcome the force of gravity.

<sup>5</sup> Aster Missile Cruise Solid Propellant Motor.

## 1.1 The Group's structure





## The following table includes a short description of the companies consolidated line-by-line:

**SPACELAB**, company established in 2000 by Avio and ASI with the name "ELV S.p.A." until 9 May 2018, when it was renamed "Spacelab S.p.A.".

Objective: development of innovative technologies in the segment of space access, which are not available in Italy, with the aim of creating a competitive advantage for Italy in general, as well as for Avio. The company mainly operates on behalf of Avio S.p.A. and the Italian Space Agency (ASI) and it takes part in projects financed by ASI and the European Union. The company's mission includes, among others, (i) research and development activities on new technologies and test infrastructures in the space transport sector; (ii) the creation and management of research structures, development and testing; (iii) participation to research, development and testing programs financed by private and public commitments and contractual agreements and (iv) consulting services.

Spacelab S.p.A. is 70% owned by Avio and 30% owned by ASI.

**REGULUS** is a French company with registered offices in Kourou, French Guiana created in 1989 by the Italian BPD from Colleferro and from SNPE («Société National des Poudres et Explosifs»), which was property of the French State.

Objective: being a global leader in the production of solid propellant and for the loading of large rocket engines.

Regulus is currently owned by Avio S.p.A (60%) and by Ariane Group (for the remaining 40%).

**SE.CO.SV.IM.** is the real-estate company of the Avio Group that owns about 910 hectares of land in the municipalities of Colleferro, Segni and Artena (Rome), with hundreds of properties, most of which are rented by the Group for industrial purposes (about 450 hectares) and by other companies which are present in the area: Simmel Difesa S.p.A. occupies about 45 hectares), Italcementi occupies about 65 hectares for the right-of-access for a power line and Servizi Colleferro occupies about 2.5 hectares. Se.Co.Sv.Im directly manages the remaining unrented properties of about 350 hectares.

Se.Co.Sv.Im. is indirectly owned by Avio via its controlled entity AS Propulsion, which fully owns Se.Co.Sv.Im.

**AVIO GUYANE SAS**, the company was founded in the first semester of 2018 as a French company fully owned by AVIO S.p.A. and operating in French Guiana. The company coordinates the launch campaigns and manages the land infrastructure, with a focus on the production activities for the assembly and preparation of Vega's launches. Furthermore, it has the aim to optimize and increase the productivity of these activities with the perspective of an increased number of Vega's launches in the future.

## 2. The prioritization of relevant topics: Avio's materiality matrix

Avio Group recognizes the importance of identifying topics that are relevant for its stakeholders and of selecting the content of this Statement in a way that allows the reader to understand the activities carried out by the Group, its performance, results and impact. The topics were selected considering the GRI Standards reporting principles of materiality, stakeholder inclusiveness, sustainability context and completeness. As of 2018, the Group commits to conduct a materiality assessment process every year in order to identify the areas in which Avio's activities could have the biggest impact on the regions of its operations, on the wellbeing of the community, the people and the stakeholders of the Group.

The material topics were evaluated based on their ability to significantly influence the decisions and opinions of its stakeholders as well as their impact on the Group's performance, based on the GRI Standards' requirements.

This materiality assessment process, conducted by the External Relations and Communications Department with the support of a specialized company, involved four phases:

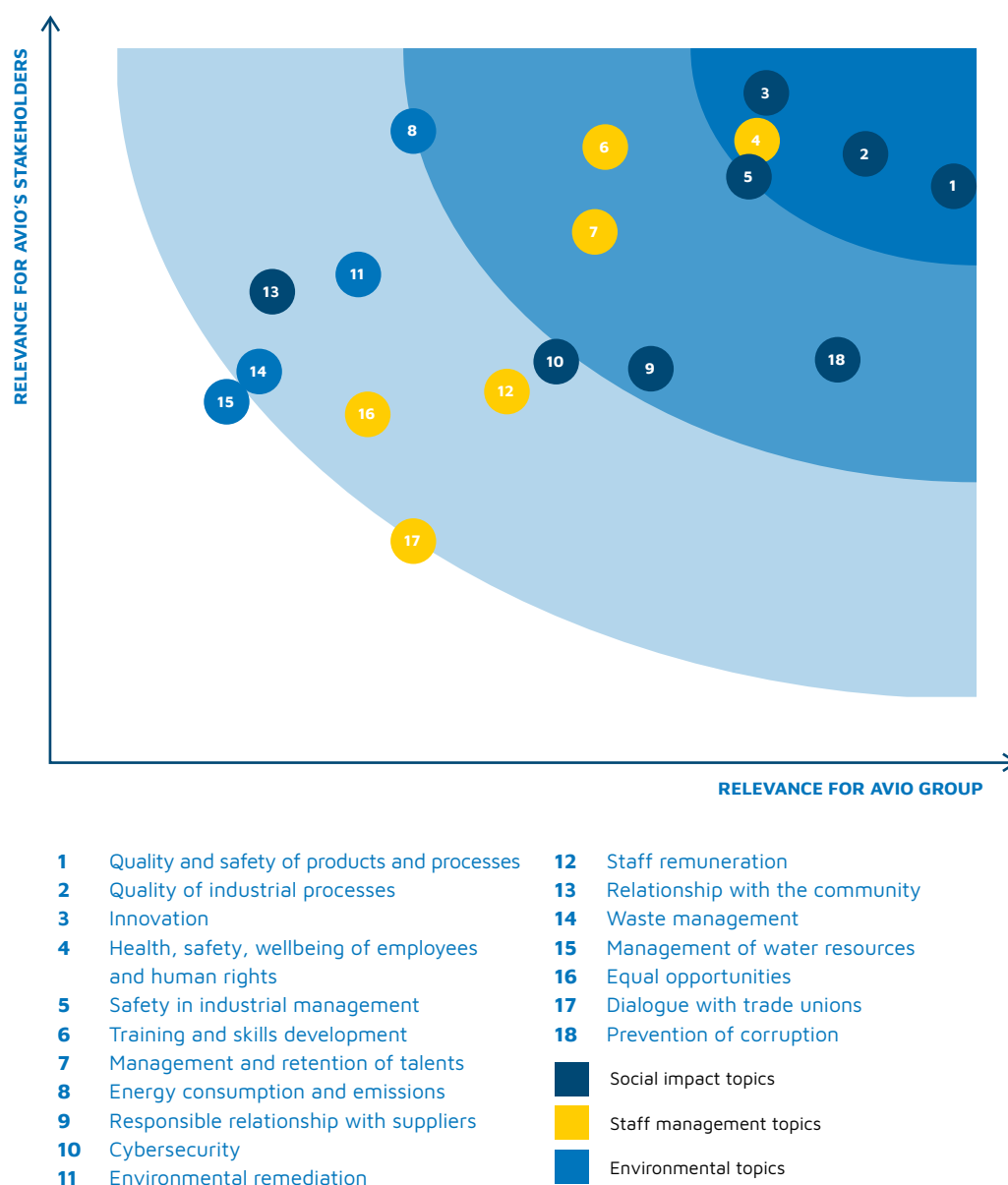
- identification of all of Avio's potential material aspects through the analysis of the company's documents (Model 231, Ethical Charter, Annual financial report, Industrial plan, etc.), external documents on scenario changes and sectoral analysis. In 2018 the focus of the activity was to refine and integrate the topics identified in 2017 with the aim of bringing them closer to Avio's reality;
- involvement of top management representatives and representatives from the main external stakeholders' categories in the evaluation and update of the materiality matrix;
- approval from the Risk and Sustainability Control Committee;
- presentation of the analysis to the Board of Directors convened on 24 January 2019 and approval of the materiality assessment.

Dedicated interviews with the top management took place in 2018 with specific reference to the stakeholder engagement activities that were carried out in the second phase of the materiality assessment, in line with the activities performed in 2017. The interviewees evaluated the material topics as spokespeople for Avio according to their professional experience and their answers enabled the prioritization of such topics and their positioning within the matrix. In more detail, the evaluation was carried out on the 22 themes identified as material in 2017, with the aim to review their relevance while considering the evolution of sectoral trends and their economic impact – both financial and reputational – as well as Avio's defined strategies. Furthermore, starting from the first months of 2018, the Group has started to involve several categories of external stakeholders by asking them to rate the material topics on a 1 to 5 scale.

Based on the 2018 assessment, the topics related to "Governance" and in general all topics related to normative compliance and economic performance were considered as prerequisites and therefore are included in this Statement.

Furthermore, the following topics were renamed to align them with the Groups' activities, as reported in the matrix: "Contributions to the community", "Cyber security and industrial safety", "Supply chain management", "Quality and safety of products and processes", "Health, safety and wellbeing of employees" and "Safety of plants".

## Materiality matrix



The materiality assessment underlines the Group's effort to gain a competitive advantage in the aerospace sector and to ensure the quality of its products and services. These are the result of the constant innovation process that is guaranteed by the safety and efficacy of the production practices and by Avio's ability to empower and develop the people working for the Group.

The 18 topics identified as material are thoroughly described in separate paragraphs in this Statement and are summarized in the following table to ensure a deeper understanding:

Material topic	Definition
Environmental remediation	Measures taken to remedy environmental pollution, by securing, removing and disposing of any polluting substances (such as chemicals that were deliberately released or accidentally leaking into the soil, rivers and sea waters, or municipal and industrial waste), to restore the environmental conditions for the population and to achieve beneficial effects also for the productive, social and economic rebirth of degraded territories.
Energy consumption and emissions	Activities to further improve energy efficiency and reduce direct and indirect CO <sub>2</sub> emissions and other emissions in production processes, building management and maintenance, logistics processes and in the development of new products.
Waste management	Activities aimed at managing hazardous and non-hazardous waste and its recovery in production processes.
Management of water resources	Activities to manage water efficiency, discharges and water availability in production processes.
Dialogue with trade unions	Activities aimed at promoting a constant relationship with trade unions based on information sharing on issues of common interest, with the aim of ensuring compliance with the law and ensuring the wellbeing and protection of workers' rights.
Training and skills development	Training and development activities for the consolidation and transfer of an increasingly broader set of skills in order to guarantee a continuous process of valorization and growth of human capital.
Management and retention of talents	Activities and initiatives aimed at increasing the company's ability to implement strategies and policies to attract talented employees and retain them for a long time in the Group, as well as building a workplace of competent, motivated and satisfied employees.
Equal opportunities	Adoption of a remuneration and performance evaluation system aimed at enhancing the employees' contribution and commitment.
Staff remuneration	Adozione di un sistema di remunerazione e valutazione delle performance volto a valorizzare il contributo e l'impegno dimostrato dai dipendenti.
Health, safety, wellbeing of employees and human rights	Management of health and safety initiatives and training and prevention programs, as well as monitoring of accidents and occupational diseases rates. Commitment to protecting the human rights and working conditions of people that are involved in the Group's activities in various capacities.
Relationship with the community	Involvement of communities and local authorities through targeted initiatives and corporate donations to support the community development.
Safety in industrial management	Maintenance of high standards of compliance with law requirements in order to guarantee the careful handling of hazardous substances, processes, plants and access to sites.
Cybersecurity	Initiatives aimed at ensuring the security of the IT infrastructure, preventing illegal attempts of physical or remote access to sensitive information that could compromise the competitiveness of the company - which derives from the research and development of intellectual property - or that could make the products and services offered obsolete.
Responsible relationship with suppliers	Transparent management of the supply chain through constant dialogue with suppliers and engagement activities.
Innovation	Activities aimed at maintaining and developing the Group's ability to foster a culture of innovation and the development of new products, technologies, materials and services that could increase the Group's competitiveness on the market.
Quality of industrial processes	Maintaining high standards of all business processes that contribute to the design, development and implementation of the Group's products or services.
Quality and safety of products and processes	Maintenance of high quality and safety standards of products and services in their use phase.
Prevention of corruption	Activities related to control systems aimed at preventing active and passive corruption.



## 2.1. The Sustainable Development Goals and Avio's priorities

In September 2015, 193 United Nations member countries approved the Global Agenda for Sustainable Development, which aims to motivate and request an effort from all member countries to bring the world on a sustainable path for the benefit of people, the planet and prosperity.

The 17 common goals for sustainable development (Sustainable Development Goals - SDGs), that constitute the 2030 Agenda, concern several areas, including acting for people by eradicating poverty in all its forms, acting for the planet through conscious consumption and production, and acting for prosperity by ensuring that all human beings can benefit from economic, social and technological progress. The definition of such objectives - outlined in 169 targets to be achieved by the year 2030 - means that all countries and individuals are asked to contribute by defining their own strategy for sustainable development and involving all of society's members. Therefore, this active role is also required by companies that can make a fundamental contribution to achieving the SDGs thanks to their resources and skills.

In this global context, Avio started a journey to contribute concretely to the global 2030 Agenda through the definition of objectives around three main areas: the promotion of a culture oriented towards **innovation** and **research**, the **development** of its **employees** and the promotion of respect for the **protection of the environment** and space.

# SUSTAINABLE DEVELOPMENT GOALS



## 2.2. Dialogue with stakeholders

Avio recognizes the importance of maintaining a continuous and solid relationship with all its stakeholders. This relationship is based on the dialogue with all parties and their active involvement and it is as well an expression of the Group's responsibility towards the social context with which it interacts. Indeed, stakeholders bring a wide range of different interests: establishing and maintaining stable and lasting relationships are two crucial elements for the creation of shared and long-term value.

By understanding specific needs and priorities, Avio is able to anticipate the emergence of potential problems and refine its actions in response to the interests of its stakeholders. The starting point for an effective engagement process consists in the timely identification of the stakeholders and the establishment of effective communication channels by continuously monitoring the expectations, needs and opinions of the various categories of stakeholders.

The Group is able to pursue a proactive approach towards its stakeholders with whom it frequently interacts, via dedicated company functions that promote a constant dialogue and reconcile their needs. Avio is aware that these moments of exchange are opportunities for growth and enrichment.

The following table shows the stakeholders' maps, including the related methods of involvement and it is updated periodically through internal investigations with the corporate structures that are responsible for the daily management of relations with the specific categories:

Stakeholder's categories	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 panels, specific meetings, inspections
Clients and Business Partner	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. The Governance of the Avio Group

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 members<sup>6</sup>, 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

<sup>6</sup> Among them, there are two members of the board between 30 and 50 years old, while the remaining seven members are older than 50. The member of the council include six men and three women. [GRI 405-1]

The members of the Board of Directors are appointed by the Shareholder's Meeting for a term, not exceeding three years from the acceptance of the office, through the voting list system aimed at ensuring the 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 honorability 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<sup>7</sup> 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:

1. 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;
2. the Risk and Control and Sustainability Committee<sup>8</sup>: 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;

<sup>7</sup> 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.

<sup>8</sup> 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).

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 Ethical Charter, also included in the "Charte Étique" of the French subsidiary Regulus, starting from 2018 also in the policy on Diversity within the organization's governance and control bodies, 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.

## Diversity within the Avio's governance and control bodies

In 2018, the Legal, Compliance & Corporate Affairs Department drafted a document on the diversity policies of the governance and control bodies, which underwent the approval of the Board of Directors of the company on 14 March 2019<sup>9</sup>, following the opinion of the Appointment and Remuneration Committee and after consulting the Board of Statutory Auditors. Diversity and inclusion are important aspects of business management for Avio, besides the requirements imposed by legislation. These issues become of particular importance when it comes to the diversity of its corporate bodies and management in terms of gender, age, qualifications, skills, training and professional profile.

Thanks to its Diversity policy for the governance and control bodies, Avio defines and formalizes the criteria and instruments adopted by the Group to guarantee an adequate level of diversity in relation to its Corporate Bodies. Its aim is to orient the candidacies formulated by the shareholders for the renewal of the corporate bodies and to ensuring that the benefits that deriving from a harmonious composition of these bodies are adequately considered on this occasion.

The goal of this policy is to ensure a deeper knowledge of the needs and demands of stakeholders and to make the decision-making process in the Corporate Bodies more effective and thorough, by enriching the discussion with general strategic skills or special technical skills that allow the members of the Corporate Bodies to constructively question management decisions.

This Policy is directed to all the members of the Board of Directors, including the Board Committees, and to the Board of Statutory Auditors of Avio.

Group companies adopt management, organization and control models based on a system of principles (Vision, Mission, Values, Policies, Code of Conduct, Organization, 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, Se.Co.Sv.Im. S.r.l. and Spacelab S.p.A have adopted their own 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.

<sup>9</sup> In the same session of the Board of Directors' meeting in which this Statement was approved.

## 4. Internal control and risk management systems

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).

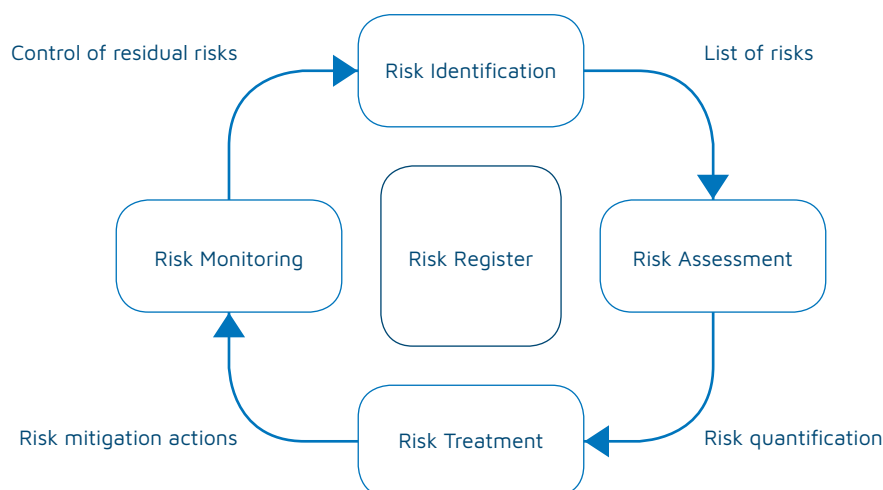
The ICRMS plays a fundamental role in the identification, measurement, management and monitoring of significant risks, making them compatible with the company's strategic objectives and thus contributing to the creation of medium and long-term value. The ICRMS is composed of a set of rules, procedures and organizational structures to proactively contribute to the safeguard of the corporate heritage of the Avio Group and the effective and efficient running of the Group, in line with the corporate strategies.

The definition and functioning of the ICRMS are described in the Guidelines of the Internal Control and Risk Management System issued by Avio. S.p.A. These Guidelines summarize all the different aspects of the SCIGR, to which the companies of the Group are called upon to comply, limited to what is applicable to their business and business organization and, concerning the foreign subsidiaries of the Group, 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 summarized 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. Currently this role is taken 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, the methodologies to analyse and evaluate the impacts and who are able to propose and implement appropriate mitigation actions.

The Internal Audit<sup>10</sup> 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.

Throughout 2018 Avio S.p.A. has launched, with the support of the Risk Management Function, a path for the redefinition of its integrated risk management system with reference to the main risks identified by the Group, in order to allow the Board of Directors, the Corporate Bodies and the management team to better identify, classify, measure, manage and monitor business risks.

The implementation of the new Enterprise Risk Management integrated model has the objective of developing a more coherent ERM methodological framework, which can be used to make a preliminary survey of the main risks to which Avio S.p.A. is exposed and to define the current management and monitoring methods. The review of the Enterprise Risk Management process included aspects of risk reporting and monitoring; the improvement of the tools available to manage and monitor business-relevant risks; and the risk analysis according to quali-quantitative methods in order to obtain a prioritization of the risks identified, with a view to planning the Internal Audit activities with a risk-based approach.

The results of the mapping process carried out are described in the following table, highlighting the main management approaches:

Scope	Risks	Main controls and mitigation actions
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, there are procedures and regulations in place to describe roles and responsibilities on the topic of classified information. Avio S.p.A. organizes training sessions that focus on handling classified information.

<sup>10</sup> On the 25<sup>th</sup> of June 2018, the Board of Directors of Avio S.p.A. has outsourced the activities related to the Internal Audit function of the company Avio S.p.A. to the company Protiviti S.r.l., identifying Alessandro Cencioni, Managing Director of the company Protiviti S.r.l. as the responsible party.

Social - Safety in products, plants and classified information		Concerning the risk of data loss in electronic format, the ICT Area is responsible for monitoring this risk and ensures that classified information is processed in accordance with the current legislation, as attested by the approval granted following the inspection visit in 2018 of the representatives of the Presidency of the Council of Ministers Department for Information and Security (DIS).
	Risk that unauthorized external or internal parties, fraudulently access strategic areas, or misuse classified information, or steal information/ strategic material causing damage to facilities, equipment, products and people	The Company has advanced security systems (including video surveillance cameras, security personnel, alarm systems), it has defined a system of procedures that describe roles and responsibilities and it provides safety training sessions on classified information.
Social - Supply chain	Lack of transparency in supplier selection processes	<p>For Avio S.p.A., Spacelab S.p.A. and Se.Co.Sv.Im., purchasing management is centralized under the responsibility of the Purchasing Department. The selection process is formalized in internal procedures for qualification and performance evaluations that are regulated within the Model 231.</p> <p>Regulus independently manages its suppliers by adopting the principles and guidelines issued by the parent companies (Avio S.p.A. and Ariane Group).</p>
Governance - Ethics and integrity, prevention of corruption and compliance with the law	Episodes of corruption in the Group's processes and activities	<p>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. Furthermore, as of 2018 it has adopted the Anti-corruption Code which was examined and approved by the Board of Directors on March 2019<sup>11</sup>, subject to the opinion of the Risk and Sustainability Control Committee, the Supervisory Board and the Board of Statutory Auditors .</p> <p>Moreover, the Group disseminates its anti-corruption policies to all staff through communication and training activities.</p>
Environment	Inadequate waste management	<p>In the Code of Conduct, the Group declares that it does not accept compromise in the field of environmental protection. The companies of the Group annually prepare and communicate reports on the management of their environmental aspects, including waste management, to the competent authorities.</p> <p>Avio and Regulus have adopted environmental policies that explicitly mention waste management.</p>
	Inadequate management of energy consumption, emissions and water resources	<p>The companies of the Group annually prepare and communicate reports on the management of their environmental and energy aspects to the competent authorities.</p> <p>The environmental policies of Avio and Regulus include specific requirements on water and energy consumption.</p>

<sup>11</sup> In the same session of the Board of Directors' meeting in which this Statement was approved.



Environment	Failure to comply with regulations for environmental protection	The Group adopts environmental management systems and policies 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.
	Inadequate management of environmental remediation	The Group companies manage the environmental remediation activities according to the Program Agreements signed with the competent authorities, permits and authorizations issued by the latter. The Group companies apply the procedures envisaged by the management systems in force and defined in compliance with international principles and standards.
Human Resources	Occupational Health and Safety risks	The Group adopts safety management systems at work 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.
	Loss of strategic and technical know how	<p>The Group has gradually established a series of retention mechanisms that include the provision of benefits (including automobile for management and executives and an extended car list), the monitoring of skills, the simultaneous allocation of a variable bonus based on merit and the increase in salary levels. These mechanisms are in place to prevent and manage this risk and to avoid the consequent impacts on the market shares and the related economic impacts.</p> <p>It has also developed succession plans with a structured delegation mechanism to manage potential losses of key people. Finally, in 2018, a salary survey was carried out that led to a weighting of the executives, officials and managers on the total workforce.</p>
	Inadequate management of the relations with the trade unions	Avio is constantly committed to establishing gainful and positive relationships with trade unions. In this regard, it plans frequent formal and informal meetings between the various Group companies and the trade unions. During such meetings, for example, changes to company regulations are shared. The CEO meets the trade union representatives once a year.
	Inadequate selection procedures for talent attraction and inclusion	<p>Avio has defined a system of selection procedures that defines roles and responsibilities. In addition, it promotes brand awareness as a lever to attract new talent, underlining the important role that the Group plays for Italy in the aerospace market. The recruiting process is supported by the collaboration with headhunting companies, in order to carry out targeted research to find the technical skills that the Group requires.</p> <p>Avio S.p.A.'s Code of Conduct and Regulus SA's Charte Éthique include specific norms on human resources management and the attraction of talents.</p>
	Risk related to the safety of Avio employees abroad (or on business trip) in case of violent incidents (acts of terrorism, riots, accidents, etc.) or of emergency weather conditions (earthquakes, typhoons, floods, etc.)	The Group has put in place formalized procedures that describe roles and responsibilities in relation to the safety of Avio personnel abroad or on business trip. The introduction of a geolocation system integrated with the travel system is planned in 2019.
	Human rights violations	Ethical principles related to human rights are regularly referred to within the Company Organisational Model and the 231 Guidelines, as well as in the company's Code of Ethics.

## 5. Avio's responsible business management

Avio has adopted a management and organization model based, on one hand, on a system of principles described in the Mission and in the corporate Values that represent the identity of the Group and that are reaffirmed in the Code of Conduct and the policies; and on the other hand on management and control tools. This corporate governance structure expresses the Group's commitment to oversee the relevant non-financial topics, in line with the current regulatory framework, international standards and guidelines.

### 5.1. The identity of the Group

The Group's mission focuses on the growth and creation of value through the supply of innovative products and services to ensure maximum customer satisfaction, while respecting 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.

Based on these principles, 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.

### 5.2. Code of conduct

The Company has adopted its own Code of Conduct that was updated in 2017, 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 program to ensure effective prevention and detection of violations of laws and regulatory directives applicable to its activities also in the areas of health, safety, hygiene and environment.

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 organizational model of internal control, which the Avio Group is committed to continually reinforcing and developing.

The Code of Conduct is addressed to the Corporate bodies of Avio S.p.A. and its subsidiaries, all employees of the companies belonging to the Group and to all those who act in the name or on behalf of one or more companies of the Group or with whom it establishes business relationships on a long-lasting basis (suppliers, consultants, agents and dealers). All addressees undertake to respect the values set forth in the Code and certify this commitment by accepting and signing it.

They must comply with the laws and regulations that are applicable in the different geographical contexts in which Avio operates and they should base their behavior 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 addressees.

Following the example of the Parent Company and in line with the high standards adopted by it, Regulus has updated its Charte Éthique (hereafter also indicated as the "Ethical Charter") in 2018. The document is based on three aspects - protection and respect for employees, compliance with laws, regulations and requirements for partners - and applies to all employees, both internal and external, provided that an external commitment can be influenced by a Charter clause.

## Human Rights in Avio

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 company values 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 commits to ask its suppliers and subcontractors to sign the Group's Code of Conduct, which requires them to accept its provisions/principles. Currently the suppliers managed by the company in French Guiana are not required to sign the Charte Éthique or the Group's Code of Conduct, however the company has committed to include such requirement in the next two years.

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 Ethical 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 Organizational 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). In 2018, there has been a dedicated course for executives on the 231 legislation related to this risk.

Being a foreign company, Regulus adopted a policy on equal opportunities, which led to the recruitment of two women in the areas of environmental management and quality management in 2018.

Avio's care for the protection of human rights is demonstrated by the absence in 2018 of detected or reported incidents of discrimination or violation (or suspected violation) of such rights. [GRI 406-1]





### 5.3. Policies for the management of Environmental, Social and Governance aspects

Together with the Code, the Group 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. These include the protection of health and safety of its workers and the community, the safety of the 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 that govern and ensure the correct management of the environmental performance of Avio S.p.A. in terms of compliance with the legal provisions on the environment; protection and prevention for the optimization of the resources use, minimization of environmental impacts and monitoring of indicators; integration of Group's Policy with the interested parties.

The **Product Safety Policy** is compliant with company procedures, in line with customer needs and current legislation and it 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.

Starting from 2014, in line with the policies developed by Avio S.p.A., Regulus has adopted 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 further developed in many commitments aimed at achieving the highest levels in terms of health, safety and environmental protection.

The Group has started to fine-tune its corporate policies system to integrate 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.

Concerning sustainability, Avio has started to implement in 2017 a non-financial reporting system in line with the requirements of the Legislative Decree 254/2016 and of the GRI Sustainability Reporting Standards. This system has been upgraded and integrated thanks to the learning points from the first year on non-financial reporting in 2017 thanks to the adoption of a specific internal procedure on drafting the Consolidated Non-financial Statement. The Communication and External Relations Department supervises the reporting system and is responsible for the management of sustainability aspects.

### 5.4. Business ethics and fight against corruption

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 Management and Control 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 its update.

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 illegal behavior.

For Avio, the Model 231 represents an opportunity to improve the Group's Corporate Governance and, at the same time, to sensitize and guide all the resources that operate in the name and for the Company with respect to the control issues of the company processes.

In particular, since 2017, 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 Model 231 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.

In November 2018, the Board of Directors has approved the updated version of the Model 231. The update focused on the identification of gaps in the Model in relations to changes in the law or in the organizations that occurred since the Board of Directors' resolution in 2017. The update also covered the identification of any activities at risk of offense (so-called sensitive activities) not yet present in the previous Model, as well as any areas for improvement in the internal control system, and finally the verification of the consistency of the overall Model with respect to the activities and organization of the company.

## Model 231: main features introduced

The general part of the Model integrated the changes to the regulations introduced by the Law 179 of 2017 concerning "Provisions for the protection of perpetrators of reports of crimes or irregularities that emerged in the context of a public or private employment relationship".

Some changes were introduced to the special section of the Model due to the new organizational structure.

In 2018, Avio's Board of Directors has approved the Whistleblowing procedure, which is recalled in the updated Model 231, with the aim of carefully managing and rapidly ascertaining any illicit behavior, with respect to the rules, regulations and internal procedures that is subject to reporting and of taking appropriate measures and ensure the anonymity of the reporting person.

As per internal procedure, Avio has also provided specific training and communication activities aimed at ensuring the knowledge of the key contents of the Decree 231 and the 231 Model by all the Group's structures.

In the month of January 2018 all managers of Avio S.p.A. and Spacelab S.p.A. (23 people in total) underwent specific training with the aim of covering 100% of all personnel in the areas at risk of corruption. Starting from 2019, the Group has undertaken to provide training courses with reference to the updated version of the 231 Model of Avio S.p.A. and of Se.Co.Sv.Im S.r.l.

In addition to the training targeted to individuals at risk, the Code of Conduct and its periodical updates are subject to signature for the acceptance of all employees of Italian companies including new hires. Regulus, on the other hand, communicated to the staff delegates the information on the Ethical Charter that will be disseminated to all staff in 2019, although it did not provide ad hoc training courses on these issues. The Italian Group companies share the Code of Conduct with their suppliers and sub-contractors, foreign and Italian. The Code includes, among other aspects, those related to the fight against corruption. [GRI 205-2]

The Parent Company has drafted specific "Guidelines 231" for the Group companies based abroad, which are in line with the Model pursuant to Legislative Decree 231/2001. The "Guidelines 231" outline the general and specific behaviors to be held when engaging with "sensitive" activities. Such norms of behavior have to be compliant with the rules applicable in the countries in which the companies operate and represent a reference point for the foreign companies of the Group.

Finally, 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.	2018	2017	2016
Processes assessed for risk related to corruption	N.	20	16	11
Total processes		50	53 <sup>12</sup>	51
Processes assessed for risk related to corruption	%	40	30	40

<sup>12</sup> In order to improve the comparability of the information provided, the figure for 2017 has been reformulated by including the total number of processes subject to assessment of the risk of corruption of Avio S.p.A., Se.Co.Sv.Im., ELV S.p.A. (now Spacelab S.p.A.) and Regulus. For the data published in the NFS 2017 please refer to the website [www.avio.com](http://www.avio.com).

## Anticorruption Code

In 2018, the Legal, Compliance and Corporate Affairs Department drafted the Anti-Corruption Code, submitted to the Board of Directors on 14 March 2019<sup>13</sup>, following the opinion of the Risk and Sustainability Control Committee, of the Supervisory Body and of the Board of Statutory Auditors.

This code applies to all employees of the Group and, more generally, to all those with whom Avio comes into contact during the various company activities.

In the Code, Avio clearly expresses the anti-corruption principles applicable to the internal and external stakeholders of the Group. It also underlines the Group's commitment to fighting corruption and preventing, assessing and managing risks in this area. This document defines all the principles for the identification and prevention of potential incidents of corruption in order to protect the integrity and reputation of the Group.

Avio's commitment to integrity, prevention of corruption and compliance with regulations is repaid by the absence in 2018 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 2018. [GRI 205-3]

With reference to the subsidiary Regulus, it should be noted that in 2018 the latter adopted its own Anti-Corruption Code in line with the provisions of the Sapin Law 2.

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<sup>13</sup> In the same session of the Board of Directors' meeting in which this Statement was approved.



## 6. Avio people

Motivation and professional development are two key elements to promote competitiveness and to ensure continuous innovation. For this reason, working for Avio means contributing to humanity's progress, living as main actors in the conquest of the universe and leaving a mark in the technological development of space launchers. The Group offers a competitive, international, innovative environment in which people can put themselves to test and answer new challenges.

On 31 December 2018, the total number of employees was 842, with an increase of 7% compared to 2017 (equivalent to 57 more people). Almost all employees had full-time contracts. Such growth is in line with its goal to widen the employees in the different professional areas.

About 98% of the contracts is permanent, mostly in line with last year's trend.

Throughout 2018, 22 contracts of blue and white-collar workers in Italy were made permanent. At the end of the year, there were 65 posted factory workers. The temporary agency workers' number is constant across different years (in 2017 there were 70 workers) and it is related to the specificity of Avio S.p.A.'s work. Moreover, about 50 consultants worked with Avio throughout the year, mainly contributing to the development of new products by executing specific tasks. In French Guiana, posted workers are hired mainly for two activities: the temporary increase of workforce needed for the launch campaigns and the maintenance activities related to technical services.

The region in which most of the workforce operates is Italy. The employee categories that count the largest number of employees are the blue and white collars, due to Avio's business model.

The majority of employees (68%) is between 30 and 50 years old; the average age in Avio is 43 and in Regulus is 45. Concerning seniority, most employees have been employed for less than 5 years or between 11 and 20 years (these categories are respectively about 38% and 34% of total employees). This underlines how the Group is growing together with its employee's sense of belonging.

The table below shows the breakdown of employees by category, age group, gender and region<sup>14</sup>:

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

Employee category	2018						2017					
	Italy			French Guiana			Italy			French Guiana		
	Man	Woman	Total	Man	Woman	Total	Man	Woman	Total	Man	Woman	Total
<b>Executives</b>	<b>20</b>	<b>1</b>	<b>21</b>	<b>3</b>	<b>0</b>	<b>3</b>	<b>21</b>	<b>2</b>	<b>23</b>	<b>3</b>	<b>0</b>	<b>3</b>
under 30 years	0	0	0	0	0	0	0	0	0	0	0	0
between 30 and 50 years	7	0	7	2	0	2	5	0	5	2	0	2
over 50 years	13	1	14	1	0	1	16	2	18	1	0	1
<b>Managers</b>	<b>164</b>	<b>21</b>	<b>185</b>	<b>18</b>	<b>3</b>	<b>21</b>	<b>155</b>	<b>19</b>	<b>174</b>	<b>16</b>	<b>2</b>	<b>18</b>
under 30 years	1	0	1	1	1	2	0	0	0	0	0	0

<sup>14</sup> The personnel in French Guiana described in the following paragraphs includes employees of Regulus SA (both seconded employees from Avio S.p.A. and seconded employees from Ariane Group) and Avio Guyane SAS (seconded employees of Avio S.p.A.). 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.



between 30 and 50 years	94	15	109	13	2	15	84	13	97	10	2	12
over 50 years	69	6	75	4	0	4	71	6	77	6	0	6
<b>White collars</b>	<b>188</b>	<b>62</b>	<b>250</b>	<b>47</b>	<b>10</b>	<b>57</b>	<b>159</b>	<b>53</b>	<b>212</b>	<b>45</b>	<b>10</b>	<b>55</b>
under 30 years	15	5	20	1	0	1	14	1	15	2	0	2
between 30 and 50 years	135	51	186	33	4	37	107	47	154	32	4	36
over 50 years	38	6	44	13	6	19	38	5	43	11	6	17
<b>Blue collars</b>	<b>266</b>	<b>16</b>	<b>282</b>	<b>23</b>	<b>0</b>	<b>23</b>	<b>261</b>	<b>13</b>	<b>274</b>	<b>26</b>	<b>0</b>	<b>26</b>
under 30 years	17	3	20	2	0	2	35	2	37	1	0	1
between 30 and 50 years	189	10	199	19	0	19	168	8	176	24	0	24
over 50 years	60	3	63	2	0	2	58	3	61	1	0	1
<b>Total</b>	<b>638</b>	<b>100</b>	<b>738</b>	<b>91</b>	<b>13</b>	<b>104</b>	<b>596</b>	<b>87</b>	<b>683</b>	<b>90</b>	<b>12</b>	<b>102</b>

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

**[GRI 102-8] Total number of employees by employment contract type (permanent or temporary), gender and region.**

Contract type	2018						2017					
	Italy			French Guiana			Italy			French Guiana		
	Man	Woman	Total	Man	Woman	Total	Man	Woman	Total	Man	Woman	Total
Temporary contract	8	4	12	5	0	5	0	0	0	4	1	5
Permanent contract	630	96	726	86	13	99	596	87	683	86	11	97
<b>Total</b>	<b>638</b>	<b>100</b>	<b>738</b>	<b>91</b>	<b>13</b>	<b>104</b>	<b>596</b>	<b>87</b>	<b>683</b>	<b>90</b>	<b>12</b>	<b>102</b>

**[GRI 102-8] Total number of employees by employment type (full-time e part-time), gender and region.**

Employment type	2018						2017					
	Italy			French Guiana			Italy			French Guiana		
	Man	Woman	Total	Man	Woman	Total	Man	Woman	Total	Man	Woman	Total
Full-time	638	99	737	91	13	104	596	87	683	90	12	102
Part-time	0	1	1	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>638</b>	<b>100</b>	<b>738</b>	<b>91</b>	<b>13</b>	<b>104</b>	<b>596</b>	<b>87</b>	<b>683</b>	<b>90</b>	<b>12</b>	<b>102</b>

The company is also working on the inclusion of disabled people. Avio manages diversity in accordance with the rules and practices established by applicable laws and encourages the various departments of the company to include resources with disabilities, who were 21 in the entire Group at the end of December 2018.

## 6.1. Human capital management and retention of talents

The Human Resources Department (hereinafter "HR" or "Human Resources"), which reports directly to the Chief Executive Officer, manages all aspects related to people management in Avio. This department is supported by corporate bodies that are active in the definition of needs and, if necessary, by external companies specialized in the selection and evaluation processes. The aim is to strengthen the scouting activity in line with established processes and aligned with national and international best practices, even in the absence of formalized policies.

The Group expresses its commitment to creating a collaborative and trusting work environment within the Group's Code of Conduct and the Regulus' Ethics Charter, in compliance with national laws and the fundamental Conventions of the International Labour Organization (ILO) in each phase of people management.

Avio wants to attract and find talented people who stand out for their high technical/professional skills as well as their managerial skills that are difficult to replace. The company relies on its personnel dedicated to engineering activities, research and development both for their personal qualities, in line with the Group's values, and, last but not least, their ability to adapt to a continuously evolving context. From this point of view, the selection of personnel plays an important role, also in light of the challenge the Group faces in attracting and retaining competent, qualified and talented resources among those already present in the job market or within the company. 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 operating procedures that are necessary to:

- Define and validate the 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);
- Define the recruitment and selection processes;
- Manage the acceptance, which coincides with the entry of the new employee into the company.

Employee retention is an important element of personnel management. In this regard, the Group is committed to offering equal opportunities in work and professional advancement to all employees, encouraging the continuous commitment of its people. 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.

### In Avio employees' loyalty counts

The colleagues who worked between 25 and 30 years in the company in 2018 received an award during the ceremony of Merit.

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. Throughout 2018, 102<sup>15</sup> entered the Group and the growth was mainly driven by the strengthening of corporate structures and the establishment of new organizational functions. Among those hired, 22% are young people under the age of 30, demonstrating the Group's commitment to invest in new generations.

<sup>15</sup> Data includes 88 people that joined the Group in Italy (of which 80 people were new hires and 8 returns from secondment abroad) and 14 people that joined in French Guiana (of which 4 new hires and 9 returns from secondment abroad). The secondments concern the following companies: Avio S.p.A., Avio Guyane Sas, Europropulsion SA.

Throughout the year, the total negative turnover was 5.3% and is linked to 45<sup>16</sup> people who left companies of the Group due to retirement, secondment, resignation and dismissal (if we consider the only resignations, the rate is 0.95%). The following is a breakdown of the assumptions and employees who left the Group:<sup>17</sup>

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

Age group	2018						2017					
	Italy			French Guiana			Italy			French Guiana		
	Man	Woman	Total	Man	Woman	Total	Man	Woman	Total	Man	Woman	Total
under 30 years	14	5	19	2	1	3	5	1	6	3	0	3
between 30 and 50 years	54	12	66	8	1	9	13	5	18	1	2	3
over 50 years	3	0	3	2	0	2	4	0	4	0	1	1
<b>Total (n.)</b>	<b>71</b>	<b>17</b>	<b>88</b>	<b>12</b>	<b>2</b>	<b>14</b>	<b>22</b>	<b>6</b>	<b>28</b>	<b>4</b>	<b>3</b>	<b>7</b>
<b>Total (%)</b>	<b>11.1</b>	<b>17.0</b>	<b>11.9</b>	<b>13.2</b>	<b>15.4</b>	<b>13.5</b>	<b>3.7</b>	<b>6.9</b>	<b>4.1</b>	<b>4.4</b>	<b>25.0</b>	<b>6.9</b>

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

Age group	2018						2017					
	Italy			French Guiana			Italy			French Guiana		
	Man	Woman	Total	Man	Woman	Total	Man	Woman	Total	Man	Woman	Total
under 30 years	3	0	3	1	0	1	0	0	0	1	0	1
between 30 and 50 years	14	3	17	7	1	8	6	0	6	0	2	2
over 50 years	12	1	13	3	0	3	7	0	7	0	1	1
<b>Total (n.)</b>	<b>29</b>	<b>4</b>	<b>33</b>	<b>11</b>	<b>1</b>	<b>12</b>	<b>13</b>	<b>0</b>	<b>13</b>	<b>1</b>	<b>3</b>	<b>4</b>
<b>Total (%)</b>	<b>4.5</b>	<b>4.0</b>	<b>4.5</b>	<b>12.1</b>	<b>7.7</b>	<b>11.5</b>	<b>2.2</b>	<b>0</b>	<b>1.9</b>	<b>1.1</b>	<b>25.0</b>	<b>3.9</b>

## Dialogue and engagement of Avio's employees

Dialogue and engagement of the employees are two fundamental levers for Avio's in order to create long-term relations with its people, increase motivation and guarantee employee's satisfaction. The year 2018 was important thanks to the improvement of internal communication. The internal system has been enriched with the following initiatives:

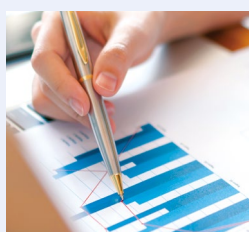
- Launch of the new company intranet;
- Company e-mail address given to all employees;
- Press review sent to all employees, including personnel seconded in French Guiana;

<sup>16</sup> The data includes 33 people who left Italy (of which 22 people who left the Group and 11 foreign secondments) and 12 people who left French Guiana (of which 7 people who left the Group and 5 foreign secondments). The secondments concern the following companies: Avio S.p.A., Avio Guyane Sas, Regulus SA, Europropulsion SA.

<sup>17</sup> Data 2017 on new employees and employees who left the Group do not include seconded personnel. For this reason the data in 2018 is not comparable with what was published in the 2017 Non-Financial Statement.

- Organization of the first company convention of Avio in the month of July with the title "Together towards the future" to involve all the company on the company results and the business context;
- Launch of the My Governance system to share company news to all employees. Thanks to this platform, in 2018 the updated Organization, Management and Control Model pursuant to Legislative Decree 231/2001 was shared with all employees. Furthermore, a training course on the topic was organized for the executives.

The year 2018 marked for Avio a year of increased openness to the dialogue with its employees. The People Survey was carried out to monitor the work climate. The questionnaire involved 77% of employees and the results were discussed both with the trade unions and with the first line of management. The survey's objective aimed to create a picture of the company's positioning of "organizational wellbeing", defined as people's wellbeing and preferences regarding the offer in terms of welfare. The survey was run by an external consulting firm that monitored the following five dimensions:



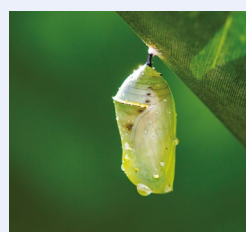
Organizational wellbeing



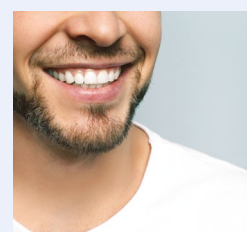
Individual wellbeing



Trust



Change



Welfare

By analyzing the components of each investigated dimension, the Group was able identified the strengths and areas of improvement to increase and improve overall positioning.

Lastly, a second survey was carried out to evaluate in the year about the possibility of facilitating carpooling at company level.

## 6.2. Training and development of skills

Avio considers training and skills development as key elements to foster the growth of its human capital, given the constant technological evolution, growing innovation and continuous regulatory evolution of the space propulsion sector. Training is a fundamental tool to develop and consolidate individual competencies and at the same time to spread the company values and strategy. In relations to training and development, 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.

In this regard, 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 in order to develop, extend the organization's knowledge and capitalize on the company's experience and ensure a company experience that adapts to the local environment.

The process for defining the training plan starts from an analysis of the training needs to plan the update of knowledge and skills by identifying the appropriate training methods in order to fill the gaps. The training methods used by Avio include: classroom training, e-learning training, and on-the-job training. 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 planned by the Learning Department each individual company. Depending on the various professional contributions, the Group offers a structured approach to various training courses, which involves mainly three methods: "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.

A great share of the training activities that took place in 2018 in the Italian sites focused on regulatory updates foreseen from the State-Region agreement in the field on health, safety and environment. Furthermore, the training plan on health and safety has been improved and integrated via a managerial training path targeted to managers and newly appointed managers. Moreover, the employees could follow technical and specialist updates on thematic areas such as engineering, manufacturing, laboratories, as well as those aimed at strengthening language and soft skills.

In 2018, the total amount of training hours was 22,596 (about 7% more compared to 2017). About 44% of the employees involved in training activities were white collars, followed by blue collars (29%), managers (21%) and executives (6%). As of 2018, the Group has updated its reporting system starting to monitor the training hours by gender.

#### Total training hours by employee category.

Employee category	u.m.	2018						2017	
		Italy			French Guiana			Italy <sup>18</sup>	French Guiana
		Man	Woman	Total	Man	Woman	Total		
Executives	N.	1,234	59	1,293	52	0	52	406	7
Managers		3,247	810	4,057	633 <sup>19</sup>	135	768	4,487	414
White collars		5,533	1,620	7,153	2,442	294	2,736	7,480	1,285
Blue collars		5,514	339	5,853	684	0	684	6,630	452
<b>Total</b>	<b>N.</b>	<b>15,528</b>	<b>2,828</b>	<b>18,356</b>	<b>3,811</b>	<b>429</b>	<b>4,240</b>	<b>19,003</b>	<b>2,158</b>

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

Employee category	u.m.	2018						2017	
		Italy			French Guiana			Italy <sup>20</sup>	French Guiana
		Man	Woman	Total	Man	Woman	Total		
Executives	N.	62	59	62	17	0	17	18	2
Managers		20	39	22	35	45	37	26	23
White collars		29	26	29	52	29	48	35	23
Blue collars		21	21	21	30	0	30	24	17
<b>Total</b>	<b>N.</b>	<b>24</b>	<b>28</b>	<b>25</b>	<b>42</b>	<b>33</b>	<b>41</b>	<b>28</b>	<b>21</b>

<sup>18</sup> The breakdown by professional category is a re-elaboration of the final data relating to training courses that were not included in such detail in the 2017 reporting system.

<sup>19</sup> Data includes 77 training hours for Avio Guyane SAS' employees.

<sup>20</sup> The breakdown by professional category is a re-elaboration of the final data relating to training courses that were not included in such detail in the 2017 reporting system.



The Group has also entered into collaboration with the best Italian and European universities to launch and promote research projects on aerospace activities.

Finally, with a view to enhancing and developing its people, Avio S.p.A. defines the framework for the systems and actions for the evaluation and development of personnel within the Company Quality Policy. The Group is especially committed to enhancing and respecting its people, based on the mobilization of knowledge, motivation and personal satisfaction.

The Group has developed two specific evaluation systems:

- The **Performance Assessment System**, which annually evaluates the performance of a section of the company's employees (professionals and managers), based on the individual and company objectives set for the year. The assessment is carried out by the managers, who are responsible to assign and share the yearly work objectives with their collaborators. The Assessment System is communicated in writing to the concerned people, while the objectives and the assessments are tracked on a company software;
- The **Skills Assessment System**, updated in 2018 by the Human Resource and Organization Department consists of a project to refocus the management competencies' framework, with the aim of adapting it to future challenges. In 2018, this framework will be used for the personnel assessment also in the context of promotions.

### 6.3. Staff remuneration

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. Avio acknowledges that professional growth and remuneration policies based on merit represent two important levers to attract, motivate and retain young potential and professionals in the company. 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 Avio's commitment in promoting the development of its employees by investing a budget of 330.5 thousand euros in 2018. 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 thanks to 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 Group is committed to promoting greater involvement of the Departments in the assessment process of positions, to increase awareness of the objectivity of the attribution of levels, currently measured according to an internationally recognized methodology (HAY). Furthermore, in 2018 a Development Plan related to blue-collar workers was shared with the trade unions, with the aim of identifying development activities, which will continue in 2019, specifically dedicated to this professional category. In 2018, 36 workers were awarded (Ideas award) for suggesting improvements to industrial processes through the "Box of Ideas" initiative.

The following tables show 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 goes beyond 50% 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 Italy, moreover, it emerges that there is a significant change between 2017 and 2017 data due to the resignation of a woman executive.

#### [GRI 405-2] Ratio of the basic salary and breakdown for employee category, gender and region<sup>21</sup>

Employee category	2018		2017	
	Italy	French Guiana	Italy	French Guiana
	Ratio woman/man			
Executives	75.95%	-	78.38%	-
Managers	99.16%	-	95.73%	-
White collars	95.03%	96.96%	102.40%	96.96%
Blue collars	90.37%	-	94.21%	-

#### [GRI 405-2] Ratio of the remuneration and breakdown for employee category, gender and region<sup>22</sup>

Employee category	2018		2017	
	Italy	French Guiana	Italy	French Guiana
	Ratio woman/man			
Executives	76.40%	-	73.83%	-
Managers	98.16%	-	96.20%	-
White collars	90.74%	69.25%	101.19%	81.11%
Blue collars	81.36%	-	94.45%	-

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.

## 6.4. Health, safety and wellbeing of employees

In Avio, health and safety topics are relevant; for this reason the Group pays special attention and invests a lot of energy in managing issues related to health and safety topics, in order to limit the occurrence of injuries on its own offices and production sites as much as possible.

In compliance with the provisions of the legislation, the Group adopts a preventive approach that consists in the continuous improvement of the general measures for protection of health and safety at work, in engaging its employees so that they are consulted, informed, trained and sensitized on the subject and in developing research and technological innovation to

<sup>21</sup> For the populations of less than three individuals, the basic salary data referring to the French Guiana population considered to be sensitive was not provided, being referred to a few subjects.

<sup>22</sup> 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.

promote substances, products and processes that are more compatible with the health and safety of workers. Furthermore, Avio acknowledges the importance to inform and sensitize the suppliers and contractors on one hand, and on the other to verify the adoption of behaviors and practices that are consistent with the principles of the Group's policy.

The presence and use of explosive material at the Group's facilities is a source of specific risks that could have negative effects on health and safety in the workplace as well as in the context of legislation concerning major accidents. Although different and specific activities are carried out in accordance with the legislation in force, the use and production of dangerous material could give rise to accidents that, in addition to damage people, could cause delays or interruptions of industrial activities with possible negative effects in reputational terms as well as on the Group's economic, equity and financial situation. The management approach adopted by Avio is the definition of and the compliance with specific policies and procedures aimed at ensuring a correct and uniform management of issues related to worker safety and the prevention of major accidents.

As provided by the Group's Code of Conduct and by Regulux' Charter of Ethics, the Group is committed to promote the application of the highest standards in terms of health and safety and prevention of major accidents, as well as 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 and consolidating a culture of security, encouraging communication, involvement and awareness of all people.

The overall responsibility for the implementation and control of the SSL-PIR<sup>23</sup> integrated management system is assigned to the Engineering Unit of Materials and Processes and Health, Safety and Environment. This Unit has implemented an effective occupational health and safety system, in line with the OHSAS 18001 norm, certified by an external entity, and 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 105/15<sup>24</sup>.

The policy on health and safety at work describes the objectives that Avio intends to pursue in the field of occupational health and safety to safeguard the employees, 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.

The French company Regulux adopted 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 Regulux presents a series of commitments. The company commits to favoring 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 related to 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 Conventions 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 2018, 4 accidents occurred, 1 in French Guiana and 3 in Italy. In addition, one workplace injury occurred that is related to a contract worker in Italy<sup>25</sup>. No deadly accident occurred among employees and contractors and no occupational diseases were registered. [GRI 403-2]

<sup>23</sup> Health and safety at work and prevention of major accidents.

<sup>24</sup> The Decree sets out provisions aimed at preventing major accidents related to certain dangerous substances and limiting their consequences for man and the environment.

<sup>25</sup> The injury rate of posted workers in 2018 is 7.48.

**[GRI 403-2] Types of injury breakdown by gender and region.<sup>26</sup>**

Types of injury	2018						2017 <sup>27</sup>					
	Italy			French Guiana <sup>28</sup>			Italy			French Guiana		
	Man	Woman	Total	Man	Woman	Total	Man	Woman	Total	Man	Woman	Total
Workplace	1	-	1	1	-	1	1	-	1	2	-	2
In itinere	2	-	2	-	-	-	1	1	2	-	-	-
<b>Total</b>	<b>3</b>	<b>-</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>-</b>	<b>2</b>
<b>Injury rate (IR)<sup>29</sup></b>	<b>2.82</b>	<b>-</b>	<b>2.47</b>	<b>6.49</b>	<b>-</b>	<b>5.88</b>	<b>2.64</b>			<b>12.94</b>		
<b>Lost day rate (LDR)<sup>30</sup></b>	<b>0.05</b>	<b>-</b>	<b>0.05</b>	<b>0.89</b>	<b>-</b>	<b>0.89</b>	<b>0.02</b>			<b>0.67</b>		

The absentee rate<sup>31</sup> in 2018 was 2.3% (2.4% for men and 2.1% for women) in the Italian companies and 2.9% for the employees that work in French Guiana.

## 6.5. 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]

Concerning 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.

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.

<sup>26</sup> The injury indexes are calculated according to the INAIL methodology.

<sup>27</sup> Due to an improvement in the collection and calculation methods, the data on 2017 has been reformulated compared with what was published in 2017. The distinction between men and women is still not available for 2017 due to the recording system which did not allow such distinction. In order to find the data published in the 2017 Statement please refer to the website [www.avio.com](http://www.avio.com).

<sup>28</sup> The number of hours worked used for the calculation of the injury indexes has been estimated based on days actually worked during the year and the working hours included in the contracts. The distinction of hours worked by men and women has been estimated based on the number of workers.

<sup>29</sup> The Injury Rate (IR) is calculated according to the formula [(number of injuries + number of deaths) \* 1,000,000] / total number of hours worked.

<sup>30</sup> The Lost day rate (LDR) is calculated according to the formula (number of injury-related days of absence/total number of hours worked) \* 1,000.

<sup>31</sup> The absentee rate is the percentage ratio between the number of lost days due to illness, injury, unpaid leave, delays, unjustified leave, strike and theoretical working days.

In 2018, the dialogue with the trade unions at Italian and European level tackled the topics related to reporting and notifications on the entire life of the company, including: the cleanliness of the premises, catering and common areas, as well as the launch of discussion tables concerning the implementation of agreements on video surveillance, funded training programs and the inclusion of financial topics in the field of welfare, closing agreements and flexible working hours. The foreign company Regulus signed four agreements with local trade unions concerning working hours, economic treatments, issuing of flight tickets and subsidies to the Works council. 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 shared with staff representatives.

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. In French Guiana, concerning the foreign company Regulus, 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 the past two years no strikes took place nor did any incidents, of objections by employees against any of the Group companies.











## 7. Innovation

### 7.1 Technological innovation

Identifying, interpreting and promoting change are three key components in the creation of an innovation-oriented culture that ensures the development of new products and the competitiveness of Avio in a constantly evolving market.

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.

The space sector is characterized by the rapid evolution of technologies and the high level of competition. It is a unique economic sector and it requires firms that operate in this market to carry out significant research and development activities in order to create the cutting-edge technologies and products. In this context and in line with the company's mission, Avio considers research and innovation of products and services as basis for its competitive advantage. Currently, the Group has focused its technological development on four main channels, which are:

- Research on future applications and versions of Vega, as starting point for new research and exploration opportunities, such as: accessible exploration projects of the solar system on the routes of NEO (Near-Earth Objects), In-Orbit Servicing missions, conduction of low-cost experiments for educational and scientific purposes and payload recovery with return and landing on airport runways;
- 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;
- Use of composite materials as alternative to conventional metallic parts for solid rocket motors structural components;
- Research on new propulsion systems, based on "green" propellants, not only for the launch applications where Avio's Lox-LNG technology has already achieved a maturity level in line with the industrial development, but also for orbital applications that necessitate longer storing capacity for their propellants.

The Group relies on research and development activities based on works commissioned by the public-sector (e.g. ESA, ASI, ministries of the Member States, etc.) and/or on public grants from government funds, community funds and from other entities. This 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 the revision of its Research Plan on an annual or five-year basis, 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. The costs incurred for pre-competitive research activities carried out by the Group in 2018 have increased by 27% compared to the year before, reaching a total amount of € 3,122,205.72, of which about 45% were self-financed and 55% financially shared. The research and development activities also required the contribution of Avio's people who dedicated more than 25,000 hours to such activities, 11% more than in 2017.

In order to ensure high quality research and innovation and to increase its role in the aerospace sector, Avio commits to expand the network of scientific exchanges and partnerships for the development of new products with various players on an international scale, in addition it has 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

	<p>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.</p>
	<p>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 Spacelab S.p.A. (70% Avio and 30% ASI).</p>
	<p>Avio is a partner of Arianespace, holding a 3.38% stake. Arianespace is responsible for the marketing of launchers: Ariane and Vega. Furthermore, Avio supplies to Arianespace the Vega launcher, ready for launch.</p>
	<p>The collaboration with Airbus Safran Launchers, now Ariane Group, was created through the joint ventures Regulus (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.</p>
	<p>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.</p>
	<p>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.</p>
	<p>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.</p>
	<p>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.</p>
	<p>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.</p>
	<p>RUAG Space collaborates with Avio for the development and supply of Fairings and other components of Vega such as the OBC (on board computer).</p>
	<p>Yuzhnoye SDO supplies Avio with the fourth-stage Vega engine and cooperates in research and development activities.</p>
	<p>GKN Space Sweden partners with Avio for the development and supply of the turbines and the turbopumps of Avio.</p>



In the field of research, Avio is in partnerships with prestigious universities and Italian and foreigner research institutes. The Group 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).

Along the same line, 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. For this purpose, the main initiatives of financial support for training activities have continue. The main initiatives are as follows:

- Sponsorship of the Master in "Space Transport Systems" organized by the University of Rome "La Sapienza";
- A study grant for doctorates and masters' in technical disciplines, through an investment of more than 190,000 euro;
- Partnerships with Italian and foreign Universities for the provision of 12 internships and curricular traineeships for dissertations on technical subjects;
- Organization of events, conferences and workshops at national and international level;
- Educational visits for the students of technical University courses.

In addition, in 2018 Avio has established partnerships with the University of Rome "La Sapienza", with the Polytechnic of Milan, the University of Padua and with the grouping of European universities and companies in the ASTRI aerospace.

The combination of these activities and initiatives in the local communities brings important benefits, including the creation and incubation of state-of-the-art technical skills for the space sector, with opportunities for internalizing trade and spin-offs to other industrial and service sectors; the creation of economic activity in innovative and critical technologies by opening to the value chains of SMEs that are locally present; the awareness of the community about the opportunities provided by the availability of space access systems, as demonstrated by the promotional effect of Vega on the Small Mission to Mars program foreseen by the Universities of Cagliari and Naples - Federico II.

### Mini rocket contest

Maintaining a channel of dialogue with the universities means sharing experiences and bringing together young people of value interested in the Avio world. In May, in collaboration with the University "La Sapienza" of Rome, the Group hosted a group of students of the Master in Space Transport who challenged each other in the launch of rocket models designed and built by them. The winners were awarded by Director of Engineering and Product Development of the Group.



## The research and development of new technologies with Spacelab

The company was founded in December 2000 by Avio and the Italian Space Agency (ASI) and it carries out research and development activities on technologies that are functional to introduce new product innovations and in the design of advanced technical testing infrastructure.

Throughout 2018, Spacelab's activity was mainly directed towards the design and implementation follow-up of the new control desks, the new *real-time* simulation laboratories and the new data acquisition software for the future launchers of the VEGA family (Vega C, Vega E and Space Rider). These new products are under development and they use state-of-the-art technologies that will improve both the functional aspects of the acceptance tests and launchers' tests, and the aspects related to their safety by implementing an advanced management system for alarms and operations in degraded mode.

Avio's ability to innovate and to make its expertise as a strategic lever for its technological and commercial competitiveness can be measured by the number of patents registered over time. In order to protect intellectual rights, at the end of 2018, 18 patents were registered (already recognized or awaiting confirmation from the competent offices), mainly focused on products and technologies integrated into manufacturing processes.



## 8. Quality and safety in Avio

### 8.1. The quality of the company's processes as a safeguard for the quality and safety of products and services

The quality and reliability of a product and a service are directly related to the ability of the Group in creating the right conditions to enable the discovery of new applications and technologies. Technologies represent the necessary 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.

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. In French Guiana, the mapping process follows the EN 9001:2015 standard. In Italy, Avio S.p.A. refers to the EN 9100:2018 and the system is certified and integrated with the workplace Health and Safety Integrated Management System and the prevention of relevant incidents, certified according to OHSAS 18001 and with the Environmental Management System, certified according to the UNI EN ISO 14001. Each of these three systems is based on dedicated policies on quality, product safety, people's health and safety and environmental protection. These policies are set out in detail in the respective management manuals.

The system is normed by procedures and practices that implement contractual rules and regulations and it is documented and in place to ensure, on one hand, that the product and process' quality levels are maximized and, on the other hand, to ensure that the products and services provided meet client expectations and the applicable regulatory requirements, as well as allowing the continuous improvement of services to increase the competitive position of the Group on the market.

The Group's commitment to the quality and safety of its products and services is underlined both by the Avio's Quality policy and in the Quality, Health and Safety at work policy and respect for the environment. These policies express 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. Furthermore, they are the documents with which the Group declares its commitment to high standards of safety and sensitizes its employees, suppliers and subcontractors to encourage the adoption of practices and procedures that are coherent with these principles.

In particular, the Quality policy, shared and communicated to all staff, is based on these principles and key objectives:

- Proactiveness: anticipating customers' expectations in terms of products and services provided;
- 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.

The guiding principles of the product safety products identified are the 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. 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 underlines 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, thanks to continuous innovation. Therefore, as required by the quality management system, Avio S.p.A. measures customer satisfaction, after agreeing with them metrics for the assessment of its performance. Thanks to this survey, the Group understands the client's expectations in terms of quality (absence of defects) of the delivered product and service offered and compliance with contractual deadlines (punctuality). The results of these surveys are analyzed based on any critical issues that emerged during the execution phase, and they help to identify actions, for 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 in the development phase 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.

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 in all of the Group's companies. The Department works 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. The role of these entities is essential for a Group like Avio, where the quality and safety of the products must be ensured since their design phase. Designing unsafe and unreliable products would jeopardize Avio's space missions and would have an economic impact for the company, for its clients and, in some cases (e.g. in the case of unavailability of surveillance or telecommunication systems) for the national security. For this reason, in 2018, 28 audits were carried out, of which 8 on the product, 14 on the process and 6 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, 18 products have been analyzed for health and safety risks. [GRI 416-1]

## Quality and safety through transparency and Avio's people involvement

Transparency and information sharing are two essential aspects for reaching the objectives in terms of quality and safety of products and services, ensuring the efficacy of the quality management system and implementing the product quality and safety policies. For this reason Avio is engaged in the following activities:

- Definition and continuous sharing of objectives that are monitored and managed via specific indicators, including: reduction of non-conformities in the production process, reduction of escapes during checks, improvement of the quality performance of the main suppliers and subcontractors, compliance with production targets and delivery dates of production items to the customers
- Surveys on the performance of the objectives over time
- Dissemination and sharing of the principles of quality and the practices through training sessions during courses, workshops or round tables

- Carrying out process and product audits
- Definition of improvement plans
- Definition of improvement actions following product and process audits

Avio acknowledges that the involvement of people at various levels contributes to the improvement of the quality of its products and services. This is the reason why it has launched two engagement tools:

- The "Box of Ideas" initiative, which foresees the possibility for each blue collar worker of the different production departments to send improvement proposals for some of the work stages, the machineries and the tools that could improve the quality of the product or of the processes. The proposals are periodically collected and analyzed. Those that are valued as interesting are subsequently selected for the next implementation round, with the acknowledgement of the employees who made the suggestion.
- The organization of dedicated working groups composed by technicians and operations belonging to different company departments (design, technology, laboratories) with the aim to implement design and/or process related actions that could improve the quality of the Vega product.

## 8.2. Safety in industrial management

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 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 for the implementation of safety equipment and the creation of means of protection in the infrastructure. All 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. 635 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. Consequently, 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. 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".

Concerning 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, whose probabilities can be mitigated thanks to an adequate evaluation of related risks that could 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 that could have effects outside the plant's premises. This impact is appropriately monitored by the Colleferro industrial district, which evaluates its impact both in the Risk Assessment Document and in the Safety Report pursuant to Legislative Decree 105/2015, 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 the presence of resources that verify the adequate management of health and safety and prevention of related risks in the working environment. Specifically, concerning 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 Regulus, the Department of the plant 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.

## Security of the access to the premises

Given the nature of Avio's business, the topic of physical security of people and things is very relevant, including the premises, documentation and any other asset necessary to the functioning of the company. For this reason, Avio has set up an internal company security structure, which deals with the issues related to the physical security and management of classified documentation. This structure is dedicated to the protection of the site. It is supported by the Supervisory Institute and is equipped with a Special Guard Sworn decree (issued by the Prefect of Rome) who, in addition to carrying out armed surveillance activities in the reception area, also contributes to the protection of information, materials, sensitive and classified areas through a whole series of activities that implement the provisions reported in the Prefectural License.

The Security & Facility & Management function carries out its activities in accordance with the guidelines contained in the various operating instructions adopted and, so far as it is concerned, with the provisions laid down in the HSE procedures. The Security function has set itself important objectives, including the installation of radar stations connected to cameras (latest-generation technology of military derivation) to increase the scope and effectiveness of monitoring particularly sensitive areas of the premises, and the installation of turnstiles at the main entrances for the purpose of simpler and more efficient control of internal and external personnel entering and leaving.

## 8.3. Cybersecurity

For Avio, security also concerns the IT infrastructure. For this reason, the Group has adopted a set of tools, procedures and checks that aim at facing all potential threats to the security of its IT infrastructure (cyber-attacks), those being illegal attempts of physical or IT access to its sensitive information.

The Group has access to sensitive information such as personal data and other confidential information that, as described in its Code of Conduct, it is committed to handle respecting all existing laws and regulations, since unauthorized access or distribution of such data could lead to significant critical scenarios. The occurrence of events of data violation may compromise the competitive advantage related to the research and development of intellectual property, by making 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. On this topic, Avio pays special attention to the selection and use of its IT systems, intended for the processing of personal data and confidential information.

The execution of public contracts for the construction of classified material requires the processing of confidential information covered by state secrecy or classified within the framework of the North Atlantic Treaty, of the European Union or of international agreements, as regulated by the Law 124 of August 3rd 2007, ("Intelligence System for the Security of the Republic and new Provisions governing Secrecy") e.s.m.i.

Avio carries out classified activities following the current legislation concerning the protection and safeguard of information classified as D.P.C.M. 5/2015 ("Provisions for the administrative protection of State secrets and classified information and exclusive dissemination"), as modified and integrated by D.P.C.M. 3/2017 and is enabled to treat such information processing on the basis of specific clearance (Security Clearance and Industrial Security Clearance). All classified level information is processed in dedicated areas. These areas are constructed according to the criteria established by the relevant legislation.

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, for example 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<sup>32</sup>, use of USB keys with encryption system. The entry of occasional personnel who needs access to the classified areas



is authorized by the Industrial Safety Office and recorded in a dedicated registry.

Note that, during 2018, following an inspection visit, the Presidency of the Council of Ministers Department for Information and Security issued a certificate of conformity for the reserved areas with a 5 year validity period.

No losses or theft of sensitive information were recorded in 2018. [GRI 418-1]

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<sup>32</sup> It is not allowed to reuse the last 5 passwords.



## 9. The responsible relationship with suppliers

Investing in the supply chain and managing it in a responsible way means increasing Avio's competitiveness and allowing the company to grow further. This is why Avio carries out a careful selection of its suppliers in order to guarantee the sustainability and the 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. Most of them are difficult to replace without incurring in significant additional costs.

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

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

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. In line with the company's Code of Conduct and with Regulux' Ethical Charter, that foresee a suppliers' selection procedure based on the subjective requirements of integrity, honorability and professionalism, Avio has committed to include sustainability criteria in the selection process. To this aim, new procedures on suppliers' management will be issued throughout 2019 to include these new elements.

In 2018, some training courses on the theme of sustainability were identified for the employees of the Purchasing Department in order to make Avio's people more and more aware of environmental protection.

Another important aspect of the selection of suppliers that is particularly considered by the Group - given the business sector and its reliance on some of them - is the absence of any past or present suspicion of involvement in terrorist activities or subversion of public order. 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.

During all the phases of the relationship with its suppliers, from the negotiation via the signing and the execution of the contracts, the Group commits itself to guarantee equal opportunities and treatment, in addition to the maximum transparency in the suppliers' conditions and the technical decision criteria. With particular attention to the signing phase of the contract, 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's Code of Conduct., while, to this date, the suppliers managed by the companies in French Guiana are not required to sign the Ethical Framework nor the Group's Code of Conduct. With respect to Italian suppliers only, the delivery of the tax and wage compliance certificate (so called DURC) is required.

Throughout 2018, the Purchasing function has improved its process of verifying supplier information<sup>33</sup>. The new system allowed the monitoring of the suppliers that were engaged, equal to 649 (637 in 2017), of which 406 (about 63%) has signed the company's Code of Conduct compared to the 397 (62%) of last year [GRI 412-3]. In 2018, about 76% of the new coded suppliers has signed the Code of Conduct.

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.

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 favors 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.

Avio has also 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.

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<sup>33</sup> Avio's Group Non-financial Declaration 2017, contained the data on all the suppliers present in the system (equal to 1,242 suppliers), which also included the suppliers that were not engaged in the year under evaluation. In order to give a better picture of the relations with its suppliers in 2018, the data in this Document was reviewed according to a new calculation methodology that includes only the suppliers, which issued an invoice in 2018. The 2017 figure has been re-calculated.

## 10. Avio Group's environmental impact

Avio Group has formalized its Environmental policy, which restates its constant attention to follow all applicable legislative and normative requirements and formalizes the company's commitment to continuously improving its environmental performance minimizing the impact of its production plant and its premises. For Avio<sup>34</sup>, environmental protection means to avoid polluting, to constantly optimize the use of natural resources and to develop products that are increasingly compatible with the environment.

With the same modalities, the foreign company 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 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 from adverse environmental conditions (e.g. extreme natural or atmospheric events). The incorrect monitoring and assessment of risks and related management and mitigation actions could cause an inefficient use of natural resources, the imbalance of one or more environmental aspects (e.g. soil, water, air), potential negative impacts on functioning and subsequently on the economic, patrimonial and financial position of the Group, which may ultimately cause reputational damages to the company.

In line with these needs and with international standards, Avio has adopted an Environmental Management System that is certified according to the international standard UNI EN ISO 14001. The certification gave way to a transition process that started in 2017 and finished in 2018, which 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 limits to the emission amounts. The authorization requires the Group to monitor periodically its environmental impacts resulting from activities carried out within the plants, based on a defined Plan of Monitoring and Control and to communicate the data obtained to the competent bodies. [GRI 413-1]

Within the Environmental Management System, Avio S.p.A. has adopted an Environmental Policy, which defines the main management and development strategies to safeguard the environment and to ensure a constant effort to prevent pollution and to improve environmental performance. In more detail, the Environmental policy is set out to ensure:

- Compliance with Community, national and international requirements regarding the environment;
- Rationalization of resource usage, by reducing consumption and improving their utilization starting from the planning phase;

<sup>34</sup> Data on the environmental impact does not include those related to Avio Guyane SAS since it currently does not manage a plant.

- 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 objectives, targets and actions to ensure continuous environmental improvements are set for three years based on the Improvement Plan that constitutes the reference framework. The objectives defined for the three-year period 2016-2018 were related to its main environmental impacts with the aim to manage them and minimized them are reported here as example<sup>35</sup>:

- 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, among which there is the 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. Additionally there is also 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 and the company also carried out the search for alternative preparations and dangerous chemical substances with low environmental impact, among which there is the qualification of substitution of MEK - methylethylketone - in the degreasing process of the S1<sup>36</sup> enclosures for Ariane 5, with a soapy solution that allows the reduction of the hazardousness of the substances used. It also improved 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 defined and reported in the Environmental Management System has a specific owner, assisted by the Environment Manager.

The company Se.Co.Sv.Im, on the other hand, assigned the choice of operating methods for the treatment of environmental aspects 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 reported in 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,

<sup>35</sup> Additional information on the environmental policies is given in the dedicated chapters of the Management Report, included in the Annual Financial Report 2018.

<sup>36</sup> 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.

Safety and Environment Manual, which is based on the provisions of the EN ISO 14001 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 [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 chapters describe the data and information on the performance related to the most significant environmental aspects (energy, water and waste generation) of the Group companies in 2018.

## 10.1. 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 Italy, in line with the activities carried out in 2017, the Group had conducted energy audits in 2018 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)	2018			2017		
	Italy	French Guiana	Total	Italy	French Guiana	Total
Electricity	90,430.13	64,521.29	154,951.42	83,397.60	68,429.21	151,826.81
Thermal energy	233,591.69	-	233,591.69	245,109.60	-	245,109.60
Diesel <sup>37</sup>	2,341.24	3,075.79	5,417.03	n.a.	n.a.	n.a.

NOTE: Conversion coefficients used: conversion coefficient of 0.0036 GJ/kWh (Source: GRI Sustainability Reporting Guidelines, Version 3.1) for electrical and thermal energy. For Diesel: 1l = 0.383 GJ (Source: Defra 2018- Diesel average biofuel blend).

### [GRI 302-3] Energy intensity.

Energy intensity	2018		
	Italy	French Guiana	Total
Total energy consumption (GJ) /number of employees	442.23	649.97	467.89

Electricity consumption at Group level has increased by 2% compared to the previous year. Such increase, mainly related to the Italian site, is directly proportional to the activities carried out and follows the trend of the production cycle, which in 2018 was influenced by the large production sites of the new plants for the construction of the new Ariane 6 launcher.

It should be highlighted that, in case of emergency, Regulus uses another auxiliary energy source. It is composed by a generator set, owned by CNES (Centre national d'études spatiales), fueled by diesel. The plant is owned by third parties, used together with other entities and with a limited use, has consumed about 14,458.76 GJ in 2018.

<sup>37</sup> Starting from this Document, the Group includes Diesel fuel consumption in the calculation of energy consumption which relates to the use of the company car fleet.



**[GRI 305-2] Indirect GHG Emissions (Scope 2).<sup>38</sup>**

Indirect GHG Emissions by type of energy consumption (expressed in tons CO <sub>2</sub> eq/year)	2018			2017		
	Italy*	French Guiana	Total	Italy*	French Guiana	Total
<b>Location based<sup>39</sup></b>						
Electrical energy	9,043.01	2,778.00	11,821.01	8,339.76	2,946.26	11,286.02
Thermal energy	12,163.64	-	12,163.64	12,763.40	-	12,763.40
<b>Total</b>	<b>21,206.65</b>	<b>2,778.00</b>	<b>23,984.65</b>	<b>21,103.16</b>	<b>2,946.26</b>	<b>24,049.42</b>
<b>Market based<sup>40</sup></b>						
Electrical energy	11,970.19	2,778.00	14,748.19	11,039.29	2,946.26	13,985.55
Thermal energy	13,340.68	-	13,340.68	13,998.48	-	13,998.48
<b>Total</b>	<b>25,310.87</b>	<b>2,778.00</b>	<b>28,088.87</b>	<b>25,037.78</b>	<b>2,946.26</b>	<b>27,984.03</b>

Conversion factors used:

- Location based, electrical energy for Italy 0.360 kgCO<sub>2e</sub>/kWh (Source: Terna 2017 (year 2016) "International Comparisons"). 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 --> KgCO<sub>2e</sub> = 0.186 Source: Statistical Data on Electricity in Italy - Year 2016 prepared by Terna in the "International Comparisons" section).
- Location based, thermal energy: 0.19 kgCO<sub>2e</sub>/kWh (Source: Defra 2018 - Heat and Steam).
- Market based, electrical energy: for Italy 0.47653 kgCO<sub>2e</sub>/kWh (Source: European Residual Mixes 2017); for French Guiana 0.186 kgCO<sub>2e</sub>/kWh (Source Terna 2017 (year 2016) "International Comparisons").
- Market based, thermal energy: the conversion factor for Italy refers to the one received from Termica Colleferro (data on the CO<sub>2</sub> emissions of the plant in 2017 and in 2018: Natural gas emission factor (weighted average year): 57,133 tons CO<sub>2</sub> / TJ equivalence: 205.6 gCO<sub>2</sub> / KWh).

**[GRI 305-4] Emission intensity.**

Emission intensity	2018		
	Italy	French Guiana	Total
Total GHG Emissions (tCO <sub>2</sub> eq) /number of employees	28.74	26.71	28.50

The calculation on emission intensity is based on Scope 2 GHG emissions Location based.

<sup>38</sup> Starting from 2018, the Group has calculated the emissions according to the two methodologies: market-based and location-based. The data has been calculated according to the two methodologies also for the year 2017. The data published in the NFS 2017 are available on the website [www.avio.com](http://www.avio.com).

<sup>39</sup> The Location-based method takes into consideration the average emission factors of the distribution grid used by the organization for its own electricity consumption.

<sup>40</sup> The Market-based method takes into consideration the contribution of the specific emission factors related to the contractual agreements of the purchases of the organization for its own electricity consumption.

The Group has estimated the environmental impact deriving from staff's business travel. The Scope 1 CO<sub>2</sub> equivalent emissions associated to employees' car journeys in the Group's operating sites amount to about 371.41 tonnes in 2018 (of which 160.52 in Italy and 210.89 in French Guiana)<sup>41</sup>.

With regards to the pollutant emissions in the atmosphere, the manufacturing process of the companies does not produce Nitrogen Oxides (NOx) or Sulfur Oxides (SOx). 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/Nm<sup>3</sup> while for Regulus it is measured in Kg/year).

**[GRI 305-7] Significant air emissions.**

Significant pollutants (expressed in mean concentration mg/Nm <sup>3</sup> )	2018	2017
	Italy	
Volatile organic compounds (VOC)	1.32	0.9
Particulates	0.53	0.51
<b>Total</b>	<b>1.85</b>	<b>1.41</b>

**[GRI 305-7] Significant air emissions<sup>42</sup>**

Significant pollutants (expressed in Kg/year)	2018	2017
	French Guiana	
Volatile organic compounds (VOC)	3,100	1,329
<b>Total</b>	<b>3,100</b>	<b>1,329</b>

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.

The average VOC concentration value is in line with the requirements and significantly below the limits established by the AIA. The trend is related to the increase in hours worked and to the changes made by AIA which led to the elimination of some emission points and the introduction of others for the new processes.

Regarding the emissions of relevant pollutants by Regulus, they are also increasing compared to 2017, as in 2018 it was necessary to resort more frequently to using the Generating Set more frequently.

<sup>41</sup> Scope 1 emissions only refer to diesel consumption directly attributable to the Group. The emissions related to the consumption of the power unit owned by CNES in French Guiana are not included. The conversion factor is the Diesel average biofuel blend factor from Defra 2018.

<sup>42</sup> The calculation is based on the amount of material used and the product's specifications.

## 10.2. Management of water resources

The Group mainly uses water resources for industrial and civil purposes. Specifically, regarding 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 emission of the purifier. The water leaving the consortium purifier is duly analysed and if it 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 Se.Co.Sv.Im holds shares, manages the wells of drinkables water deriving from deep water layer, whose authorization is headed by Se.Co.Sv.Im.

In the foreign company Regulus, all water management activities are subject to regular controls by the Direction de l'Environnement, de l'Aménagement et du Logement (DEAL) in order to obtain and/or maintain the necessary authorizations to allow the company to operate.

In 2018, the water consumed in French Guiana and Italy amounts to 6,147 m<sup>3</sup> and 1,034,082 m<sup>3</sup> respectively. In French Guiana the consumption is lower following an improvement activity on the water system to reduce water losses.

### [GRI 303-1] Water withdrawal by source.

Volume of water by source (expressed in m <sup>3</sup> /year)	2018			2017		
	Italy	French Guiana	Total	Italy(*)	French Guiana	Total
Surface water	896,163.00	-	896,163.00	892,448	-	892,448
Ground water	137,919.00	-	137,919.00	116,102	-	116,102
Municipal water supplies or other public or private water utilities	-	6,147	6,147	-	17,615	17,615
<b>Total</b>	<b>1,034,082.00</b>	<b>6,147</b>	<b>1,040,229</b>	<b>1,008,550</b>	<b>17,615</b>	<b>1,026,165</b>

\*The data refer to the following companies of the Group: Avio S.p.A. and ELV S.p.A. (now Spacelab S.p.A.).

The management of water discharges is directly linked to national legislation. Avio follows what is prescribed by the Integrated Environmental Authorization (AIA) and by the Italian national legislation (Legislative Decree 152/2006). The discharges of wastewater are managed by the Società Consortile SC. The sewage system of Avio that is located inside the plant is mixed and it collects both industrial and domestic wastewater before reaching the purification plant. After undergoing treatment, the wastewater is discharged by the Società Consortile Società Consortile 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. Concerning Regulus, in the year 2018 the volumes of discharged water of an industrial nature amounted to 6,147 m<sup>3</sup>, of which 1,564 m<sup>3</sup> were fully sent to two treatment plants.

## 10.3. Waste management

Waste management is a relevant topic for the Group due to the presence of hazardous waste which requires a specific management system. For this reason, in the past years Avio committed to a more efficient management of industrial waste by improving its collection and management, Avio specifically focused on:

- The improvement of temporary storage process, through the commissioning, since 2017, of a new temporary deposit inside the Colleferro plant, in line with legislative requirements (i.e. 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;
- The maximization of waste going for recovery by identifying destination plants suitable for receiving and recovering waste. The percentage of waste sent for recovery in 2018 is decreasing consequently to national issues on waste management. As a consequence Avio has adopted some mitigation actions to maintain the high standards of collection of the waste it produced;
- The increase of recycled 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.

Concerning Se.Co.Sv.Im, 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 based on reliability and efficiency of the treatment service. Furthermore, it regularly conducts awareness campaigns on the correct differentiation of waste. In 2017, the amount of waste included the disposal activities of the P120 inert motors. This activity was not undertaken in 2018, which shows in the data related to the waste produced by the Group, which has decreased by 22%.

In 2018 the Group generated a total waste of 1,044.72 tons, of which 511.95 tons (49%) of hazardous waste and 532.77 tons (51 %) of non-hazardous waste. [GRI 306-2]

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

Total weight of waste (ton/year)*	2018			2017		
	Italy	French Guiana	Total	Italy	French Guiana	Total
Hazardous waste						
Recycling and recovery	47.08	71.78	118.86	97.5	38.4	135.9
Disposal	139.09	254.00	393.09	53.6	398.6	452.2
<b>Total weight of hazardous waste (ton/year)</b>	<b>186.17</b>	<b>325.78</b>	<b>511.95</b>	<b>151.1</b>	<b>437.0</b>	<b>588.1</b>

Non-hazardous waste						
Recycling and recovery	277.83	168.40	446.23	374.5	322.8	697.3
Disposal	14.42	72.11 <sup>43</sup>	86.53	5.4	104.2	109.6
<b>Total non-hazardous waste</b>	<b>292.25</b>	<b>240.52</b>	<b>532.77</b>	<b>379.9</b>	<b>427.0</b>	<b>806.9</b>

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

## 10.4. Environmental remediation and 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 Se.Co.Sv.Im, the real estate company of the Group, which manages the monitoring and remediation activities of the soil, subsoil and groundwater.

Se.Co.Sv.Im is engaged in 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 attributable to the generation of waste and the consumption of water used.

When the company acquired the Colleferro industrial site in the mid-nineties as owner and 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 Se.Co.Sv.Im has been found not responsible. In line with what the law requires in these situations, namely that the owners – even if they are not responsible for the pollution – must carry out the environmental remediation necessary for the restoration of polluted land, the company has made conspicuous investments to define an environmental remediation plan.

All of the activities are designed for the completion of the land remediation and permanent land safety measures that still to be implemented, are carried out 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 protection of 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 environmental remediation activities, the Group is committed to operate 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.

<sup>43</sup> This figure includes both landfill and disposal operations D9, D14 and D15.

## Main remediation activities to date

Based on the remediation plan, the main activities followed by Se.Co.Sv.Im are:

- Securing the Cava di Pozzolana site;
- Remediation of the ARPA 1 site;
- Construction of a permanent storage site for the remediation of the ARPA 1 site;
- Securing the ARPA 2 site;
- Safety measures for emergency and reclamation of aquifers carried out using hydraulic barrier systems, equipped with specific pre-treatment plants.

All the above activities, with the exception of securing the ARPA 2 site for which the Lazio Region is responsible, have been completed at an operational level and are awaiting the closure of the related administrative procedure by the competent bodies. The objective of the company is to obtain the certification of the interventions already carried out, the return to the legitimate uses of the areas that have not been contaminated and an adequate post-operative management of the interventions carried out according to the agreed times or to be agreed with the Competent Bodies.

Another critical aspect in environmental terms is the management and conservation of asbestos products, present in the roofs of some buildings of the industrial complex of Colleferro. The management of these roofs meets the requirements of current legislation in terms of monitoring and conservation in order to exclude risks for people and the environment. Currently, approximately 94% of the remediation activities envisaged in the Asbestos Removal Plan have been carried out. This progress includes the projection of the post-cleaning "Lot 5 disabled Se.Co.Sv.Im" which will be completed by February 2019.

In order to ensure the adoption of the most effective environmental management and control measures in relation to the implementation and control of the progress of the Asbestos Remediation and Removal Plan, 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 14001:2015 standard.





# 11. 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
Quality and safety of products and processes	Customer Health and Safety	Group	Clients	-
Quality of industrial processes	Customer Health and Safety	Group	-	-
Innovation	N/A	Group	Clients	-
Health, safety, wellbeing of employees and human rights	Occupational Health and Safety, Non discrimination	Group	-	-
Safety in industrial management	Local communities	Group	Community Clients	-
Management and retention of talents	Training and education	Group	-	-
Talent management and retention	Employment	Group	-	-
Equal opportunities	Diversity and equal opportunity	Group	-	-
Energy consumption and emissions	Energy Emissions	Group	Society	The environmental impact data does not include Avio Guyane SAS, as it currently does not manage a plant
Responsible relationship with suppliers	Supplier's social assessment Human Rights' assessment	Group	Suppliers	-
Cybersecurity	Customer Privacy	Group	Clients	-
Environmental remediation	Environmental Compliance	Se.Co.Sv.Im	Local Communities	-
Staff remuneration	Diversity and Equal Opportunity	Group	-	-
Relationship with the community	Local Communities	Group	Local Communities	-
Waste management	Effluents and Waste	Group	Society	The environmental impact data does not include Avio Guyane SAS, as it currently does not manage a plant
Management of water resources	Water	Group	Society	The environmental impact data does not include Avio Guyane SAS, as it currently does not manage a plant
Dialogue with trade unions	Employment, Labor/ Management Relations	Group	-	-
Prevention of corruption	Anti-corruption, Anti-competitive Behaviour, Socio Economic compliance	Group	-	-

## 12. 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
<b>GRI 102: GENERAL DISCLOSURES</b>			
<b>ORGANIZATIONAL PROFILE</b>			
102-1	Name of the organization	Avio S.p.A.	
102-2	Activities, brands, products, and services	7-11 Management Report: Profile , Business areas	
102-3	Location of headquarters	Rome, Italy	
102-4	Location of operations	8	
102-5	Ownership and legal form	Report on corporate governance and ownership structure	
102-6	Markets served	8-9 Management Report: Profile , Business areas	
102-7	Scale of the organization	7-8, 31-32 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	31-32	
102-9	Supply chain description (activities, products, numbers of suppliers, suppliers breakdown by geographical area, order value)	54-55	
102-10	Significant changes to the organization's size, structure, ownership, or supply chain during the reporting period	5-6 There have been no significant changes in the supply chain compared to the previous period	
102-11	Precautionary Principle approach	20-23, 56-58	
102-12	Adoption of international economic, social and environmental standards	Currently the Group has not adhered to codes, external Standards in the ESG field	
102-13	Membership of national and international associations	45	
<b>STRATEGY</b>			
102-14	Statement from senior decision-maker	2-3	
102-15	Key impacts, risks, and opportunities	20-23	

**ETHICS AND INTEGRITY**

102-16	Values, principles, standards, and norms of behaviour	24-25, 27 Code of Conduct, Charte Éthique	
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**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	17-19	
102-24	Criteria used for nominating and selecting highest governance body and its committees	18-19	
102-35	Remuneration policies	37-38 Remuneration Report	

**STAKEHOLDER ENGAGEMENT**

102-40	List of stakeholder groups	16	
102-41	Percentage of total employees covered by collective bargaining agreements	40 In 2018 the 100% of employee is covered by collective bargaining agreements	
102-42	The basis for identifying and selecting stakeholders with whom to engage	12, 15-16	
102-43	Approach to stakeholder engagement	12, 15-16, 34-35	
102-44	Key topics and concerns that have been raised through stakeholder engagement and related actions (stakeholder engagement)	12, 15-16, 34-35	

**REPORTING PRACTICE**

102-45	Entities included in the consolidated financial statements and those not included in the sustainability report	5-6	
102-46	An explanation of the process for defining the report content	12-14	
102-47	List of material topics	13-14	
102-48	Explanation of the effects of any restatements of information given in previous reports, and the reasons for such restatements	5-6	
102-49	Significant changes from previous reporting periods	5-6	
102-50	Reporting period	5-6 Year 2018	
102-51	Date of most recent report	5-6 the previous Non-financial Statement has been published after the approval by the Board of Directors on 15 march 2018	
102-52	Reporting cycle	5-6 Yearly	

102-53	Contact point for questions regarding the report	comunicazione@avio.com	
102-54	Choice of the "in accordance" option	5-6	
102-55	GRI content index	66-73	
102-56	External Assurance	78-80	

## TOPIC-SPECIFIC DISCLOSURES

### GRI 200: ECONOMIC PERFORMANCE

#### GRI 205: ANTI-CORRUPTION

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	27-30	
103-3	Evaluation of the management approach	27-30	
205-1	Total number and percentage of operation areas assessed for risks related to corruption	29	
205-2	Communication and training about anti-corruption policies and procedures	29	Throughout 2018 the Group drafted the anti-corruption code which will be approved by Avio's Board of Directors in 2019. For this reason the Group hasn't foreseen any communication or training activity for its suppliers and/or commercial partners on policies and anti-corruption procedures. The Group has planned to do so in the next two years (2021)
205-3	Confirmed incidents of corruption and actions taken	30	

#### GRI 206: ANTI-COMPETITIVE BEHAVIOUR

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	27-30	
103-3	Evaluation of the management approach	29-30	
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and related judgements	30	

## GRI 300: ENVIRONMENTAL PERFORMANCE

### GRI 302: ENERGY

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	56-60	
103-3	Evaluation of the management approach	56-60	
302-1	Energy consumption within the organization	58	
302-3	Energy intensity	58	

### GRI 303: WATER

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	56-58, 61	
103-3	Evaluation of the management approach	56-57, 61	
303-1	Water withdrawal by source	61	

### GRI 305: EMISSIONS

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	56-58	
103-3	Evaluation of the management approach	56-60	
305-2	Energy indirect (Scope 2) GHG emissions generated by energy consumption	59	
305-4	Emission intensity	59	
305-7	NOx, SOx, and other significant emissions	59-60	

### GRI 306: EFFLUENTS AND WASTE

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	56-58	
103-3	Evaluation of the management approach	56-57, 61-64	
306-2	Total weight of waste by type and disposal method	62-63	



**GRI 307: ENVIRONMENTAL COMPLIANCE**

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	27-30, 56-58, 62-64	
103-3	Evaluation of the management approach	27-30, 56-58, 62-64	
307-1	Significant fines and non-monetary sanctions for noncompliance with environmental laws and/or regulations	In 2018, as proof of the fact that the Group operates in compliance with all applicable laws and regulations, no monetary and/or non-monetary sanctions received for violation of environmental laws and regulations were recorded	

**GRI 400: SOCIAL PERFORMANCE****GRI 401: EMPLOYMENT**

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	31-34	
103-3	Evaluation of the management approach	31-34	
401-1	Total number and rate of new employee hires and staff turnover by age, gender and geographical area	34	

**GRI 402: LABOR/MANAGEMENT RELATIONS**

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	40-41	
103-3	Evaluation of the management approach	40-41	
402-1	Minimum notice period for organizational (operational) changes and declaration of notice period in collective labor agreements (if present)	41	

**GRI 403: OCCUPATIONAL HEALTH AND SAFETY**

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	38-40	
103-3	Evaluation of the management approach	38-40	
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	39-40	The injury indexes are calculated according to the INAL methodology

**GRI 404: TRAINING AND EDUCATION**

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	35-37	
103-3	Evaluation of the management approach	35-37	
404-1	Average hours of training that the organization's employees have undertaken by gender and employee category	36	

**GRI 405: DIVERSITY AND EQUAL OPPORTUNITY**

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	17,19, 31, 37-38	
103-3	Evaluation of the management approach	17,19,31,37-38	
405-1	Diversity of governance bodies and employees breakdown by gender, age, minority or vulnerable groups and other indicators of diversity	17, 31-32 Report on corporate governance and ownership structure	
405-2	Ratio of basic salary and remuneration of women to men	38	For privacy reason, the data on remuneration for categories with fewer than three units is not shown

**GRI 406: NON-DISCRIMINATION**

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	24-25	
103-3	Evaluation of the management approach	24-25	
406-1	Incidents of discrimination and corrective actions taken	25	

**GRI 412: HUMAN RIGHTS ASSESSMENT**

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	24-25, 54-55	
103-3	Evaluation of the management approach	24-25, 54-55	

412-3	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	55	To date, suppliers managed by the Company in French Guiana are not required to sign the Charte Éthique or the Group's code of conduct. The Company has set itself this objective within the next two years
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#### GRI 413: LOCAL COMMUNITIES

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	48-53	
103-3	Evaluation of the management approach	48-53	
413-1	Percentage of operations with implemented local community engagement, impact assessments, and/or development programs	46-47, 56-58	
413-2	Operations with significant actual and potential negative impacts on local communities	48-52	

#### GRI 414: SUPPLIER SOCIAL ASSESSMENT

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	54-55	
103-3	Evaluation of the management approach	54-55	
414-1	Percentage of new suppliers that were screened using social criteria	-	The Purchasing Department has set itself the objective of starting bonus systems in the selection phase of suppliers and/or business partners linked to the possession of certifications or, more generally, on aspects of sustainability. The Group has set itself this objective for the next two years (2021)

#### GRI 416: CUSTOMER HEALTH AND SAFETY

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	48-55	

103-3	Evaluation of the management approach	48-55	
416-1	Percentage of categories of products and services for which health and safety impacts of customers are assessed	49	

#### GRI 418: CUSTOMER PRIVACY

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	52-53	
103-3	Evaluation of the management approach	52-53	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	53	

#### GRI 419: SOCIO-ECONOMIC COMPLIANCE

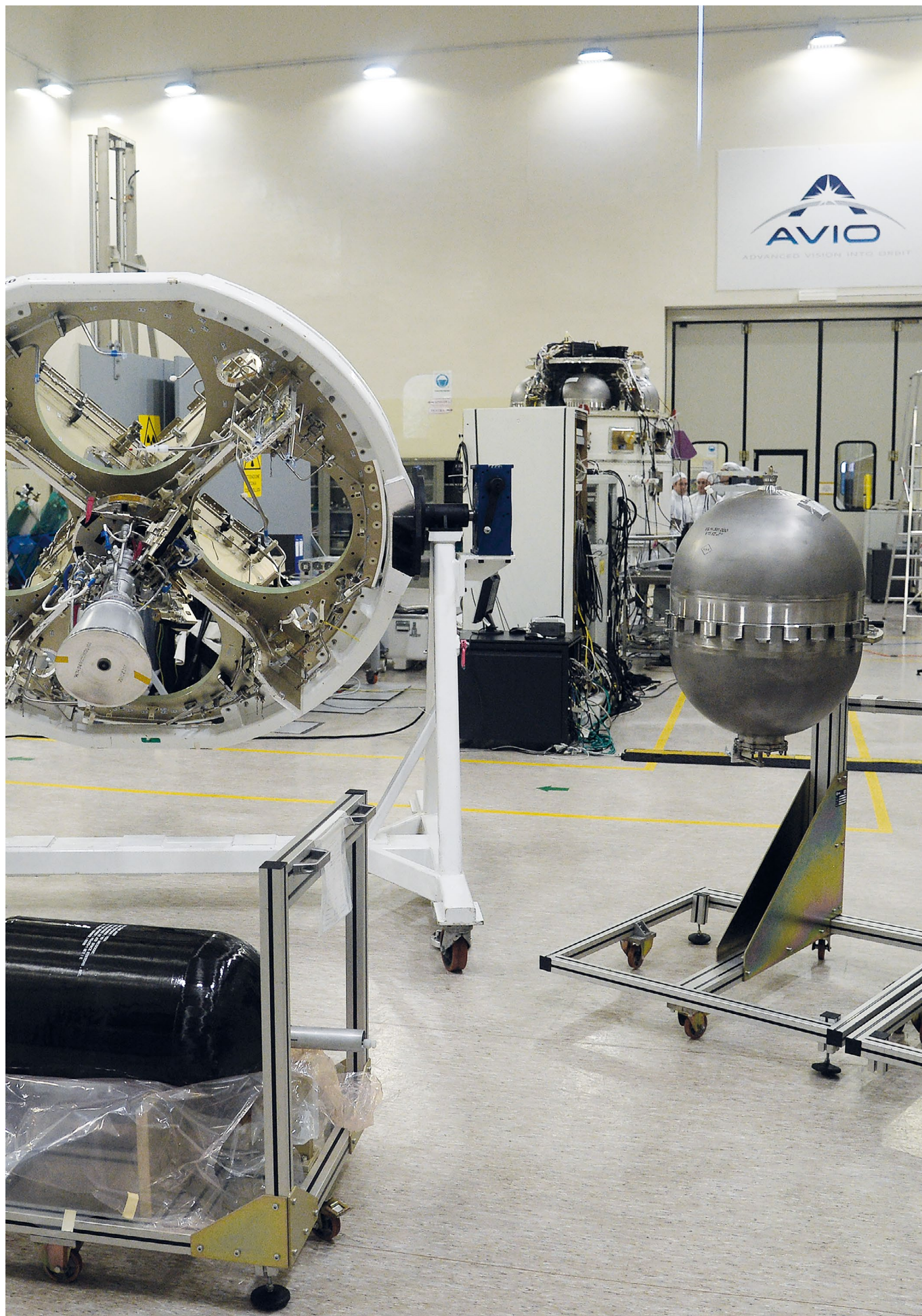
103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	27-30	
103-3	Evaluation of the management approach	27-30	
419-1	Monetary value of significant fines for non-compliance with laws and/or regulations concerning the supply and use of products or services	30	

#### INNOVATION

103-1	Explanation of the material topic and its Boundary	12-14, 65	
103-2	The management approach and its components	44-47	
103-3	Evaluation of the management approach	44-47	









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

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Communications Department  
Via Latina, snc (SP 600 Ariana km 5.2)  
00034 Colleferro (RM) – Italy











## 13. Auditor's report



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### **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. 20267/2018**

**To the Board of Directors of  
AVIO S.p.A.**

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter also "Decree") and to article 5 of the CONSOB Regulation n. 20267/2018, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of Avio Group (the "Group") as of December 31, 2018 prepared on the basis of art. 4 of the Decree, and approved by the Board of Directors on March 14, 2019 (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 "Global Reporting Initiative Sustainability Reporting Standards" established in 2016 by GRI – Global Reporting Initiative (hereinafter also "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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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 also *"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 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) of this report.





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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., Spacelab S.p.A. (former ELV S.p.A.), SE.CO.SV.IM. S.r.l. and 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 the following subsidiaries and sites, Avio S.p.A., SE.CO.SV.IM. S.r.l., Spacelab S.p.A. (former ELV S.p.A.), Regulus S.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 Avio Group as of December 31, 2018 is not prepared, in all material aspects, in accordance with articles 3 and 4 of the Decree and GRI Standards.

DELOITTE & TOUCHE S.p.A.

Signed by  
**Franco Chiavazza**  
 Partner

Turin, Italy  
 March 28, 2019

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







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