



Avio S.p.A.

Registered office in Rome, via Leonida Bissolati No. 76
Share Capital Euro 90,964,212 fully paid-in
Rome (RM) Companies Registration Office No.: 09105940960

2021 HALF-YEAR REPORT

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HIGHLIGHTS

Net revenues

Euro 127.7 million (-23.9% on H1 2020)

EBITDA

Reported: Euro 8.1 million (-52.3% on H1 2020)

Adjusted: Euro 10.5 million (-47.3% on 2020)

EBIT

Reported: loss of Euro 2.4 million (profit of Euro 8.5 million in H1 2020)

Adjusted: Euro 0 million (profit of Euro 11.5 million in H1 2020)

Profit before taxes

loss of Euro 2.5 million (profit of Euro 8.2 million in H1 2020)

Net Profit

loss of Euro 2.4 million (profit of Euro 8.4 million in H1 2020)

Net cash position

Euro 36.6 million (cash of Euro 62.6 million at December 31, 2020)

Investments

Euro 14.8 million (11.3 in H1 2020)

Backlog

Euro 835.0 million at June 30, 2021 (Euro 735.9 million at December 31, 2020)

Research and development

net costs of Euro 38.1 million incurred in H1 2021, equal to 29.8% of net revenues for H1 2021 (net costs of Euro 58.0 million incurred in H1 2020, equal to 34.5% of net revenues for H1 2020)

Employees at period end

944 at June 30, 2021 (950 at December 31, 2020)

LETTER TO THE SHAREHOLDERS

Dear Shareholders

Company operations over the first six months featured the return to flight of the Vega launcher, as we worked in accordance with the recommendations issued by the Independent Commission of Inquiry chaired by ESA and Arianespace following the anomaly on the VV17 mission of November 2020.

The Company's key priority for the initial four months was the implementation of the recommendations, as evidenced by the significant commitment of resources and requiring the postponement of certain development activities scheduled for the future Vega C and Vega E launcher evolutions.

This major push saw the successful return to flight of the Vega launcher with the VV18 mission of April 29, 2021, which put into sun-synchronous orbit the French Pléiades Neo 3 satellite, together with a number of rideshare satellites.

Alongside these corrective actions, the Company also began to introduce new technologies focused on industrialisation 4.0 processes.

Avio also reorganised during the period production activities for subsequent Vega launches according to the new flight plan drawn up by Arianespace which schedules for 2021 - in addition to the VV18 mission - two further Vega flights. The first was the VV19 mission, successfully executed on August 17 and putting into orbit the Pléiades Neo 4 satellite, the second satellite of the Pléiades Neo constellation, together with 4 rideshare microsattellites. This second success again highlighted the sterling work carried out by Avio to improve the reliability, competitiveness and versatility of the Vega launcher, confirming its capacity to put into orbit groups of rideshare satellites together with a main payload, in addition to the availability of the new SSMS payload adapter, tested successfully on the VV16 mission.

The first Ariane 5 launch of the year took place at the end of July with flight VA254 which successfully placed a payload of 2 satellites into geostationary orbit.

The manufacturing of the motor casings for the P120C motor also continued; the motor qualification operations continued simultaneously, with completion on the qualification of the igniter scheduled for the end of September.

Development activities on the Vega C and Vega E resumed in a sustained manner in the final two months of the period and shall pick up further in the second half of the year, with the goal of a Vega C qualification launch in the first quarter of 2022 and the first ignition of the new Mira M10 motor of the third cryogenic stage of the Vega-E launcher in December at the SPTF test facilities in Sardinia, currently in the final commissioning phase.

The development of the Space Rider system also began in the period, composed of an "Avum Orbital module" service module and a "Re-entry Module" designed to be launched with Vega-C, ensuring an orbital life for the payload of approx. 6 months before returning to land.

The COVID-19 pandemic, with a global impact in 2020, continued in the period to create difficulties and slow certain Company operations. Nevertheless, given our strategic importance for the national economy, production activities were allowed to continue in Italy following the authorisation issued by the prefecture in March 2020, despite the extremely difficult situation.

Against this backdrop, the Group has continued its efforts to tackle the emergency, adopting all relative government measures and necessary national and international protocols to ensure maximum safety levels for our employees, while also protecting production levels and industrial operations.

The order portfolio in the period reached Euro 835 million, with a net increase of approx. Euro 100 million on the end of 2020, thanks to new orders worth Euro 227 million, mainly the Vega E contract for development activities until 2024 and, in terms of practical propulsion, an additional three tranches of the production contract for the Aster Booster to cover approx. ten years of production.

The operating-financial results for the period slowed on the first half of the previous year, mainly due to Company's extensive engagement - particularly over the initial four months of the year - in implementing the recommendations of the Independent Commission of Inquiry chaired by ESA and Arianespace for the Vega return to flight. The execution of these extraordinary activities required the postponement of a number of development activities and thus the realisation of the revenues and margins expected in the period for the future Vega C and Vega E launcher evolutions, as outlined at the beginning of this letter, against the backdrop of the continuing COVID-19 pandemic.

Net revenues therefore totalled Euro 127.7 million, down Euro 40.2 million (-24%) on the first half of the previous year, with reported EBITDA of Euro 8.1 million, contracting Euro 8.9 million (-52%) and adjusted EBITDA of Euro 10.5 million, decreasing Euro 9.4 million (-47%).

Financial management at June 30, 2021 reports a solid cash position of Euro 36.6 million, despite the seasonality effect (+Euro 9.7 million, +36% on June 30, 2020) and the significant level of Capex (Euro 15.3 million, compared to Euro 12.3 million in H1 2020), together with the distribution of dividends of Euro 7.3 million, as decided by the Shareholders' Meeting approving the 2020 Annual Accounts.

Finally, the operating-financial forecasts for 2021 were drawn up, also taking into account the continuation of the COVID-19 pandemic. In the short term in fact, operations are expected to a certain extent to be again impacted both by the continuation of the containment and restriction measures directly relating to COVID-19 adopted by the various governmental authorities in Europe and the rest of the world and the indirect consequences of these measures, including possible delays or slowdowns to supply chain operators and sub-contractors.

We again in this period had to deal with extraordinary events, but Avio once again - thanks to the passion, elevated standards and tenacity of its employees - has demonstrated enduring resilience, delivering Vega's successful return to flight. We will continue to doggedly strive to achieve the Company's growth objectives for the coming years, consolidating the substantial production orders and the many planned development activities, also within the broader scope of the recovery plan.

The significant growth for private capital investment in Space Ventures through SPAC's was again a feature of the first half of 2021, particularly in the US market, where significant assessments are being made on the basis of the innovative projects in the pipeline for the coming years.

This confirms the sector's potential, and as such, we will continue to support the Group's future growth and to increase Avio's value for all of our stakeholders, with a sense of determination and confidence based on the resilient foundation of the business and technologically innovative projects.

Giulio Ranzo
Chief Executive Officer and General Manager
Avio S.p.A.

DIRECTORS' REPORT

THE AVIO GROUP

PROFILE

The Avio Group (hereafter in this Directors' Report also "Avio" or the "Group") is an aerospace sector global leader. The experience and know-how built up over more than 50 years lies behind Avio's embodiment of excellence in terms of launch systems, solid, liquid and cryogenic propulsion and military systems propulsion.

The Group directly employs in Italy and overseas approx. 1,000 highly-qualified personnel at the main Colleferro facilities on the outskirts of Rome and at other locations in Campania, Piedmont and Sardinia. Additional operating sites are located overseas (in France and French Guyana).

The Group is currently involved in the Launch Systems and space propulsion sector, particularly with regards to the design, development, production and integration of:

- space transport systems (Vega Launcher and future developments);
- solid and liquid propulsion systems for launchers (Ariane 5 Launcher and Ariane 6 Launcher);
- solid propulsion systems for tactical missiles (Aspide, Aster, CAMM-ER, MARTE);
- liquid propulsion systems for satellites;
- new low environmental impact propulsion systems;
- ground infrastructure for launcher preparation and launch.

The current **Launch Systems** with Avio components are:

- Ariane 5 for the launch of up to 10-ton satellites into Geostationary Earth Orbit (36,000 km). Since the end of the 1980's, Avio has supplied the liquid oxygen turbo-pump boosters (solid propulsion motors) for the Vulcain 2 engine;
- Ariane 6 currently under development. The launcher has two distinct configurations for feasible missions, guaranteeing greater payload flexibility. In particular, the A62, with two P120C solid propulsion boosters, and the A64, with four P120C solid propulsion boosters, will be used for both GEO (geostationary) satellite positioning, at an altitude of 36,000 km, and other kinds of mission, such as launches to LEO orbits, SSO (sun-synchronous) polar orbits, MEO (medium earth) orbits, 4.5 ton satellites to GEO orbits, and 20 ton satellites to LEO orbits. In this context, Avio supplies solid boosters for both Ariane 6 configurations, as well as two oxygen turbopumps for the liquid stages of the Vulcain 2 and Vinci engines;
- Vega, for the launch of up to 2-ton satellites into Low Earth Orbit (between 300 and 2,000 km above sea level). Since 2000, Avio has been developing and implementing the Vega program for the European 2,000kg payload satellite launcher, which successfully completed its first qualifying flight in February 2012, 5 flights in December 2015 under the VERTA contract for completion of the qualification process, and its first commercial flight in 2016. The success of this product has allowed Italy to enter the extremely exclusive group of countries capable of developing and producing its own space launcher;
- Vega C, the latest evolution of Vega, is a launcher under development as part of the European Space Agency's space program. Vega C is designed for a greater payload than the Vega and at the same time optimizes production costs thanks to the sharing of the new first stage (P120C) with Ariane 6.

Regarding **tactical missiles**, Avio participates in the major national and international programs. These include:

- ASTER, ground-to-air weapon system;
- CAMM-ER, ground-air weapon system currently under development;
- MARTE, helicopter and ship launched anti-ship weapon.

In the field of **satellite propulsion**, Avio has developed and supplied the European Space Agency (ESA) and the Italian Space Agency (ASI) with propulsion subsystems for the launching and control of several satellites, including the latest SICRAL, Small GEO and EDRS-C satellites. Avio is currently participating in the development and qualification of the propulsion systems of the Hera satellite and of the Mars Sample Return mission, for the Orbit Insertion Module and for the Return Module.

The Group operates in the following business lines:

- **Ariane**

Ariane is a space program for ESA-sponsored GEO missions, in which Ariane Group ("AG") is the prime contractor and Avio operates as a subcontractor for the production of the P230 solid propulsion boosters and the liquid oxygen turbo pump (LOX) for the Vulcain 2 engine. Avio is also the subcontractor for the next-generation Ariane 6 launcher scheduled for 2022, for which Avio, through its subsidiary Europropulsion, is developing and will supply (i) the solid propellant P120C engine, (ii) the liquid oxygen turbopump for the Vulcain 2 engine and (iii) the liquid oxygen turbopump for the Vinci engine.

- **Vega**

Vega is a space program for LEO missions, whose development has been funded by the ESA, with mainly Italian funding, and for which the Group is the prime contractor for the production and integration of components for the entire launcher and for the production of the solid propulsion engines P80, Zefiro 23 and Zefiro 9 and of the AVUM liquid propulsion module. The Group also plays the role of the ESA's prime contractor for the development of the new generation of Vega Consolidated (Vega-C) and Vega Evolution (Vega-E) launchers, scheduled for the end of 2021 and the end of 2025 respectively. The Group is responsible for the development and production of these entire launchers, in addition to (i) the development of the solid propulsion engine P120 C (first stage to replace the current P80), which is constructed in synergy with the Ariane program 6), (ii) the Z40 solid propellant engine (second stage to replace the current Z23) and (iii) an oxygen-methane liquid engine for the upper Vega-E stage.

- **Tactical propulsion**

Avio is responsible for the design and production of the following products:

- Aster 30 - in particular, the booster motors, the Thrust Vector Control (TVC) actuation system and the aerodynamic control surfaces (fins);
- Aster 15 - in particular, the aerodynamic control surfaces (fins);
- Aspide propulsion units;
- Marte sustainer.

Regarding development programs:

- CAMM-ER - development of the booster and single stage sustainer motor, wiring and aerodynamic control surfaces (fins);
- Aster 30 MLU - development of the new Aster 30 booster to replace the current one in production, from 2021, solving REACH and obsolescence issues.
- E-TVC (*Electromechanical Thrust Vector Control*) system to replace the current hydraulics system in order to lengthen maintenance times and operating life of the Aster missile.

With net revenues in the first half of 2021 of Euro 127.7 million and Reported EBITDA of Euro 8.1 million, the Group currently occupies a leading position in the Italian and European space industry, substantially supported by its high degree of competitiveness - drawing over 98.6% of its revenues from overseas.

The highly technological content of Avio's operations has required research and development spend - for the portion principally commissioned by the ESA, ASI and Member State ministries - accounting for 29.8% of net revenues in H1 2021. These activities were carried out both in-house and through sub-contractors and a network of laboratories and partnerships with some of the leading domestic and international universities and research centres.

CORPORATE BOARDS & COMMITTEES

Board of Directors

On May 6, 2020, the Shareholder's Meeting appointed the new Board of Directors of the parent company Avio S.p.A., which in turn, on May 7, 2020, decided upon the internal appointments and the granting of the powers required to complete company operations.

The term of office of the new Board of Directors is three years, concluding with approval of the 2022 Annual Accounts.

Monica Auteri	Independent Director (a)
Raffaele Cappiello	Independent Director (b)
Letizia Colucci	Director (b)
Giovanni Gorno Tempini	Independent Director (a) (d)
Donatella Isaia	Independent Director (a)
Roberto Italia	Chairman (c) (d)
Stefano Pareglio ¹	Independent Director (c)
Luigi Pasquali	Director (d)
Elena Pisonero	Independent Director (c)
Giulio Ranzo	Chief Executive Officer (d)
Donatella Sciuto	Independent Director (b)

- Member of the Appointments and Remuneration Committee
- Member of the Control & Risks Committee
- Member of the Sustainability Committee
- Member of the Planning and Scenarios Committee

Board of Statutory Auditors

On May 6, 2020, the Shareholders' Meeting of the parent company Avio S.p.A. appointed its new Board of Statutory Auditors, whose term of office is three years, concluding with the approval of the 2022 Annual Accounts.

Vito Di Battista	Chairman
Mario Matteo Busso	Statutory Auditor
Michela Zeme	Statutory Auditor
Roberto Cassader	Alternate Auditor
Sara Fornasiero	Alternate Auditor

Supervisory Board

On May 7, 2020, the Board of Directors of the parent company Avio S.p.A. resolved to confirm its new Supervisory Board, whose term of office is three years, concluding with the approval of the 2022 Annual Accounts.

Alessandro De Nicola	Chairperson
Giorgio Martellino	Member
Raoul Vitulo	Member

Independent Audit Firm

Deloitte & Touche S.p.A. (2017-2025)

¹ Stefano Pareglio submitted his resignation from his role as member of the board and of the Sustainability Committee, effective August 23, 2021, due to incompatibilities with certain new professional commitments.

RECENT HISTORY

1994

The FIAT Group, operating since the early 1900's in the aviation sector, acquired in 1994 BPD Difesa e Spazio, a company founded in 1912 and growing to over 4,000 staff, focused on munitions development and production for Italian and foreign militaries.

2000

In 2000, adding to its traditional aeronautical and aerospace activities, the Group, in collaboration with the Italian Space Agency (ASI), established ELV S.p.A. (held 70%) for the complete development and design of a new launcher. In this role, under the auspices of the European Space Agency (ESA), the Group assumed the role of lead contractor for the European launcher VEGA.

2006

The Group was acquired by BCV Investments, owned by the private equity fund Cinven (81%), Finmeccanica Group (14%, now Leonardo Group) and other investors (5%).

2012

In February, the European space launch system named VEGA, designed and engineered by Avio, was approved.

In December, Avio announced the signing of an agreement for the sale of its aeronautical division to General Electric.

2013

In May, Avio's new VEGA launcher successfully completed its first commercial flight. On August 1, 2013, Avio sold GE Avio S.r.l., which operated its aeronautic division, to General Electric.

2014

In December, the European Space Agency Ministerial Conference of Member States decided to finance the VEGA launcher development program until its completion, including a first rocket stage (the P120 C) to be shared with the forthcoming Ariane 6 launcher, also fully financed.

2015

The outcome of the Ministerial Conference of ESA countries, held the previous December 2014, led in August 2015 to the signing of major development contracts for the Vega-C and Ariane 6 launchers. Avio's key role was recognized thanks to its participation in the development program for Vega-C and Ariane 6's shared rocket stage, the P120, and its lead systems engineering role in the VECEP program for the development of the Vega-C launcher.

For the first time in the history of the Kourou Space Centre as many as 12 launches were made in one year, including 6 involving Ariane and 3 for Vega.

2016 - 2017

In the fourth quarter of 2016, the operation for the acquisition and listing of the Avio Group by Space2 S.p.A., an Italian SPAC listed on the MIV market/SIV segment of Borsa Italiana S.p.A., was initiated.

This operation was completed on March 31, 2017 with the acquisition by Space2, Leonardo S.p.A. and In Orbit S.p.A. (a company formed by a number of Avio managers) of an 85.68% holding in Avio. The remaining investment was already held by Leonardo. On the same date, CONSOB authorised publication of the listing prospectus for ordinary Space2 post-merger with Avio shares on the Italian Stock Exchange. The merger by incorporation with Space2 was thereafter effectively executed on April 10, 2017.

Also on April 10, 2017, Space2 post-merger with Avio, maintaining the name "Avio S.p.A.", was listed on the Italian Stock Exchange's STAR segment.

2018

As part of the process initiated by European Space Agency (ESA) member states for new governance of the European launchers sector, in order to transfer to the prime contractors (Ariane Group for Ariane 6 and Avio for Vega-C) the responsibility for commercial exploitation of the new products and the associated risks, and following completion of the accompanying flights for Vega launcher testing, the shareholders of ELV S.p.A. (held 70% by Avio S.p.A. and 30% by ASI) reorganised operations, with development, production and distribution of launchers carried out by the industrial shareholder Avio, while ELV S.p.A. concentrates on the research and development of new technologies and on aviation testing.

Therefore, on March 1, 2018, the subsidiary ELV S.p.A. transferred to Avio S.p.A. the launchers development, production and distribution business unit. Following this reorganisation, the subsidiary ELV S.p.A. took from May 9, 2018 the new name of Spacelab S.p.A., focusing on the research and development of new technologies and space transport product testing.

2019

On August 19, the company Avio France S.A.S., with registered office in Paris and wholly-owned by Avio S.p.A., was incorporated. Its corporate scope is to undertake engineering activities to study and design space transport systems and subsystems.

BUSINESS AREAS

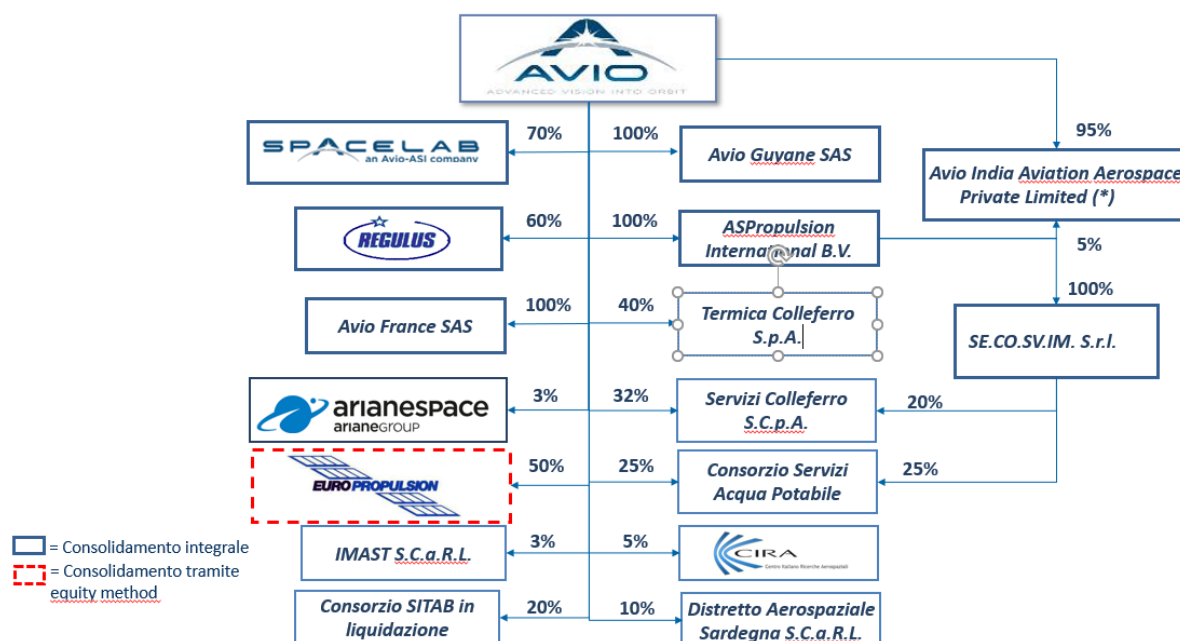
Core operations: design, development and production of solid and liquid propellant propulsion systems for space launchers; design, development and production of solid propellant propulsion systems for tactical missiles; development, integration and supply of complete light space launchers (VEGA); research and development of new low environmental impact propulsion systems and of satellite tracking control motors.

Main programmes: Ariane, VEGA, Aster, CAMM-ER

Main clients: Arianespace, ESA (European Space Agency), ArianeGroup (previously Airbus Safran Launchers), ASI (Italian Space Agency) and MBDA

GROUP STRUCTURE AND INTERNATIONAL PRESENCE

The Avio Group's ownership structure is reported below:



* indicates that the company is in voluntary liquidation. No financial significant commitments are expected for the Avio Group related to the liquidation.

The Group has production facilities in Italy, primarily in Colleferro (Rome) and Villaputzu (Cagliari), and in France, where the joint venture Europropulsion S.A. is based. There is also a research lab in Airola (Benevento), Italy. In Kourou, French Guyana, there is the European spaceport where loading and integration of the Ariane 5 solid-propellant booster segments, as well as integration of the VEGA launcher, take place.

STRATEGY

The company's strategy in the current decade is mainly orientated by

- at national level with
 - o the Italian Space Agency (ASI), the 2021-23 plan of which sets the primary objectives to be reached over that period
 - o the Defence Administration and MBDA for the development, production and sale of military products
- at European level with
 - o the European Space Agency (ESA) for the development of new products and services in line with the previous point, and
 - o Arianespace for the production, integration and batch sale of the Vega launchers
 - o ArianeGroup for the production, integration and batch sale of the P120C motors

These interests mean that Avio is among the very small number of companies worldwide operating in the field of space access.

In the area of Development Activities, in accordance with the outcomes of the 2014, 2016 and 2019 Ministerial Conferences, which confirmed the European strategy for developing its launchers (from Vega to Vega C and Ariane 5 to Ariane 62/64), and pursuant to contracts entered into in 2015, 2017, 2020 and the first half of 2021, Avio is working on:

- The Qualification Flight of the **Vega C** launcher to replace Vega, which will permit (i) an increase in performance of approximately 60% due to the new P120 engines (stage one) and Z40 (stage two) and lighter structures, (ii) an increase in the launch system's flexibility due to larger-capacity liquid tanks and (iii) an increase in available market share due its greater performances and therefore larger payload fairing in order to carry satellites with greater mass and volume and lighter structures, and finally (iv) a reduction in the k€/kg launch price, in a scenario where this key parameter in the choice of a launch service is continuously declining (effect of competition);
- the increase in the cadence of production of the P120 motor as a common element of Vega-C (stage one) and Ariane 6 (booster);
- developing **Vega E**, and, in particular, its Upper Stage, with the new M10 motor with cryogenic oxygen and methane propellants. Vega-E (a three-stage launcher based on P120, Z40 and a LOx-Methane Upper Stage), in addition to cutting the launch price compared to the Vega C, will further improve: (i) Vega-C's performance and (ii) the range and flexibility of satellite services, enabling, among other benefits, more extensive orbital parameter changes than possible with Vega and Vega-C.
- the development of the **Space Rider**, the European return vehicle, in which Avio is the Prime Contractor of the ESA (together with TASI) for the supply of the Attitude & Vernier Upper Module Orbital Module (AOM) derived from Vega C. Space Rider is a spacecraft taken into orbit by Vega-C, capable of carrying up to 800 kg of payload for different applications, of remaining in that orbit for a period of time in the order of 2 months, in order to carry out a series of experiments or orbital services, and finally return to earth for the recovery of the payloads.
- developing Smart Payload Adapters (**PLA**), which make it possible to adapt launches to the varying needs of commercial and institutional customers who increasingly use greater numbers of satellites with reduced masses and volumes. These PLAs can, therefore, offer different types of missions, from single/double to Piggyback and Rideshare launches via SSMS (already used in Vega flight VV16).
- activities aimed at creating a **green tech** launcher for the future post-Vega E generation;
- activities for the development of **Mini/Micro** Launch Systems for dedicated small satellite missions;
- **avionics and structural** innovation activities.

Regarding operations, the company:

- intends to first stabilize flights at 4 per year, increasing to 5 per year;
- through the subsidiary Avio Guyane, acquired control of the Zone de Lancement Vega (ZLV) launch area and the management; in particular it ensures main launcher assembly installation maintenance (e.g. Control Centre, Integration and Launch building, Propellant

Loading Stations). This consolidates its ground activities role, i.e. mechanical, electrical and hydraulic management activities at the Kourou launch base, which was assumed in 2016 and extended its scope of expertise.

In the military sector, the company is assessing the opportunity of offering technological solutions (with or without the intermediary of MBDA) to the Italian armed forces, within the scope of national and European initiatives.

SHAREHOLDERS

At June 30, 2021, the share capital of Avio S.p.A. of Euro 90,964,212.90 comprised 26,359,346 ordinary shares, of which:

- 22,533,917 ordinary shares from the merger with Space2, which resulted in the listing of Avio S.p.A. on April 10, 2017 (the "business combination") on the STAR segment of the Italian Stock Exchange (MTA);
- 1,800,000 shares following the conversion of 400,000 special shares into 2 tranches. In particular, the first tranche of 140,000 special shares was converted into 630,000 ordinary shares at the effective merger date of April 10, 2017, while the second tranche of 260,000 special shares was converted into 1,170,000 ordinary shares on May 17, 2017;
- 2,025,429 shares following the exercise of 7,465,267 market warrants in the June 16 - August 16, 2017 period.

In addition, Space Holding S.p.A., the promoter of the business combination, holds 800,000 sponsor warrants, exercisable within 10 years from the effective merger date of April 10, 2017, on the condition that Avio S.p.A. share price reaches Euro 13.00, with a conversion ratio with Avio S.p.A. post-merger shares of 1 against the payment of an exercise price of Euro 13.00.

At the effective merger date (April 10, 2017, the first trading day of the Avio S.p.A. share on the MTA), the condition for the exercise of the Sponsor Warrants was satisfied. At June 30, 2021, no exercise requests have been received from holders.

At June 30, 2021, on the basis of the communications received as per Article 120 of the CFA and the information available to the company, the Avio S.p.A. shareholder structure was as follows:

Shareholder	% share capital
Leonardo S.p.A.	29.63%
Space Holding S.p.A.	4.84%
In Orbit S.p.A.	4.07%
Delfin S.a.r.l.	3.79%
Servizi Cgn S.r.l.	3.02%
Treasury shares	2.55%
Remaining MTA free float	52.10%
Total	100.00%

H1 2021

H1 SIGNIFICANT EVENTS

Business

Vega return to flight: VV18 mission

Following the failure of Vega flight VV17, in November 2020, the Commission of Inquiry, chaired by ESA and Arianespace on January 21, 2021 identified the cause of the premature mission conclusion and prescribed a series of corrective actions to be implemented before resuming flight activities. Avio has implemented all of the corrective actions defined by the Commission of Inquiry within the specified timeframe and has been authorised for return to flight.

On April 29, 2021, with flight VV18, the Vega launcher successfully put the French satellite Pléiades Neo 3 in sun-synchronous orbit along with a number of rideshare satellites.

The mission put into perfect orbit the latest generation French satellite Pléiades Neo 3, constructed by Airbus Defence and Space, along with 5 other microsatellites, including the Norwegian Norsat 3 and 4 CubeSats for operators Eutelsat, NanoAvionics/Aurora Insight, and Spire, using a module derived from the SSMS adaptor that had already been validated for the VV16 mission in September 2020. The satellites have various applications, including Earth observation, the monitoring of maritime routes, telecommunications and technology.

The Vega launcher has confirmed its ability to put into orbit groups of rideshare satellites alongside a primary payload. This, together with the new SSMS payload adaptor that was successfully tested during flight VV16, increases the versatility of Vega in the competitive microsatellite market and provides clients with a wider range of launch opportunities.

In addition to the investigation efforts and implementation of the corrective actions, which represented costs during the period, Avio has also launched other projects and activities within the broader Industry 4.0 investment project.

On the basis of the contractual provisions and the agreements between the Company and Arianespace, no additional charges are considered to have arisen for the company from the failure of the VV17 mission, beyond those reported in the contract work in progress section of these financial statements.

Preparation of Vega VV19 and VV20 flight activities

Simultaneously with the implementation of the corrective actions to restore the reliability of the Vega launch system, Avio reorganized the production activities of the subsequent launchers according to the new flight manifest defined by Arianespace, which provides, following flight VV18, for two other Vega flights, respectively, the VV19 flight, held on August 17, 2021 (see the "Subsequent events to the period end" section) and the VV20 flight planned for the fourth quarter of 2021, before the qualification flight of the Vega C launcher scheduled for the first quarter of 2022

Production activities were undertaken implementing the corrective actions indicated by the Commission of Inquiry, in particular as regards a clearer and more comprehensive re-issuing of integration procedures and a more complete product control plan.

Development of the Vega-C launcher

During the first two months of the year, operations focused on the analysis by ESA of the Data Package presented at the end of 2020 in relation to Ground Qualification Review Part 1.

The ESA report identified several aspects to be consolidated before moving on to Part 2 of the review, as well as requiring an implementation plan, also for the VEGA-C launcher, of the prescriptions issued by the Commission of Inquiry for VV17.

The aspects to be consolidated, on which Avio's activity in the following months was focused, were:

- the safety aspects of the flight, particularly the fragmentation of the launcher following the activation of the neutralization system;

- the performances of the SSO missions;
- the completion of the Verification Control Document with the results of the qualifications of products developed by the Supply Chain.

The plan for the implementation of VV17 post-failure prescriptions for the Vega-C launcher concerns:

- the performance of additional checks on all the Vega-C hardware produced before the VV17 anomaly;
- the revision of operating procedures and the control plan in order to achieve greater clarity and completeness for application to hardware not yet produced.

Verification of the implementation of these actions is expected to take place by the end of July 2021 as part of a Project Key Point with ESA and the Commission of Inquiry.

The adaptation of the launch base to the needs of Vega-C continued during the stoppage in flight activities with the transfer of the launcher's new control desk to Kourou.

As the latest version of the Vega launcher, Vega-C will allow a 60% increase in performance, increasing market access for this launcher of Low Earth Orbit (LEO) satellites, a substantial part of which can be launched in multiple payloads.

The 1st flight of the Vega-C launcher is expected in the first quarter of 2022.

Development of the VEGA-E launcher

The development activities of the Vega-E launcher mainly concerned the manufacturing of the components for the DM1 prototype of the M10 motor, which is expected to be completed by the end of 2021 and made available for the LRE bench test.

The M10 is a cryogenic liquid (oxygen and methane) propulsion motor intended for the 3rd stage of the Vega-E launcher, replacing the Z9 solid propulsion motor and the LPS propulsion module of the 4th stage.

Simultaneously, research continued to refine the configuration of the 2nd prototype of the M10 motor, whose test is expected in 2022, and whose design must be completed by September 2021 in order to start manufacturing.

The system activities were focused on the definition of the components of the 3rd stage (tanks and valves) and the performance of the launcher.

Vega-E, as the evolution of Vega-C, will allow for a further 20% increase in the launcher's performance, increasing its competitiveness thanks to the better exploitation of load capacity for multiple satellite launches.

The 1st flight of the Vega-E launcher is currently scheduled for 2026.

Space Propulsion Test Facility (SPTF) project

The construction activities of the LRE liquid motor test bench, on which the Vega-E M10 motor will be tested, have been completed, and the bench is in the commissioning phase.

The LRE bench is located at the Space Propulsion Test Facility (SPTF), within an area granted for use by Avio at the Salto di Quirra firing range in Sardinia.

Space Rider

The final phase of the development of the Space Rider System began in January 2021, following the signing of the contract for its development and qualification in December 2020. The Space Rider System is composed of an AVUM (Attitude & Vernier Upper Module) Orbital Module, denominated AOM, and a re-entry module, denominated RM, whose development was assigned by ESA to two prime contractors, Avio and TAS-I. The modules, designed to be launched with Vega-C, ensure an orbital life for the payload of approximately 6 months before returning to land on the ground.

The activities of the first half of the year concerned the definition and contracting of the supply chain, and the follow-on of the co-producers.

Ariane

In the first half of 2021, no flights of the Ariane 5 launcher took place. Flight VA254 was successfully undertaken on July 30, with a payload of 2 satellites (Star One D2, EUTELSAT QUANTUM) to be placed in GTO orbit.

Regarding the P120C SRM programme for Ariane 6, manufacturing continued for the motor casings already manufactured for the qualification flight in 2020 and destined for use in commercial flights. Simultaneously, qualification activities of the P120C motor continued with the achievement of qualification status for all of its main components (nozzle, casing, loaded casing), with the exception of the igniter, which is expected to be qualified at the end of September. Step 2 of the Ground Qualification Review of the SRM motor was also undertaken and completed. The qualification of the P120C motor for Ariane 6 is then expected in October 2021, following the qualification of the igniter.

Regarding cryogenic propulsion, for integration purposes, liquid oxygen turbopumps were produced for Ariane 6 (Vinci and Vulcain) and Ariane 5 (Vulcain), with, however, delays in customer withdrawals and production plans as a direct consequence mainly of the delay to the Ariane 6 programme.

Tactical propulsion

During the period, production and delivery of Aster 30 Boosters and of Marte Sustainers continued as per the production plan. Refurbishment activities of the Aspide motor have also begun.

Activities relating to the development of the CAMM-ER motor continued. In particular, the qualification programme and accelerated ageing, to verify mid and end-of-life performance, are now underway.

Finally, PRIBES development activities commenced with a suborbital target pre-project to verify interception by anti-missile systems.

Satellite Propulsion

Activities for the development and manufacturing of the Chemical Propulsion System (CPS) for the Hera probe began. The probe is set to be launched at the end of 2024, as part of a joint NASA-ESA project to validate models for the deflection of asteroids at risk of impact with the Earth.

Main agreements and contractual events in H1 2021

Regarding Ariane 5 and P120 production activities, the following were agreed:

- the contract changes to update 2020 prices;
- the contract change to offset the effects of the production slowdown for the provisions of batch PB+ required in 2018 and 2019;
- the ESA contract to offset the effects of the production slowdown for the provisions of batch PC required in 2020.

Given the delay in the Ariane 6 launcher project, negotiations are underway with the counterparties regarding the production schedules for the P120C motor.

Regarding Vega production, supplemental orders were received for the production of specific structures dedicated to specific launches within the scope of batch 3.

Regarding Vega development activities, the following were established:

- the contract for the activities to complete the VNE project (phases C/D/E1), negotiations for which concluded at the end of 2020;
- the contract for phases B/C1 of the Vega E Preparation Programme, which will cover activities under this programme until mid-2024.

With reference to the satellite propulsion operations:

- with the client OHB, the contract was signed for the activities for the development and manufacturing of the Chemical Propulsion System (CPS) for the Hera probe. The probe is set to be launched at the end of 2024, as part of a joint NASA-ESA project to validate models for the deflection of asteroids at risk of impact with the Earth;
- authorisation was received from Airbus Defence and Space UK to proceed with initial production of the chemical propulsion systems of the two modules (OIM and RM) to be used by the Earth Return Orbiter (ERO) for the recovery and return to Earth of samples of Martian soil as part of a series of joint NASA/ESA missions between 2020 and 2030.

Finally, regarding the tactical sector, three additional tranches of an Aster Booster production contract were acquired, covering approximately ten years of production.

Other significant events

Collection of VAT receivables

On February 25, 2021 the Tax Agency refunded the subsidiary Secosvim S.r.l. Euro 854 thousand, inclusive of interest of Euro 31 thousand relating to 2010 and on March 9, 2021 the Tax Agency refunded the Company Euro 7,879 thousand, inclusive of interest of Euro 39 thousand relating to 2018.

Definition of the purchase price for acquisition of the business unit from the subsidiary Spacelab S.p.A. (formerly ELV S.p.A.) and reduction of this company's equity in line with expectations

By private agreement on June 29, 2021, between Avio S.p.A. and the subsidiary Spacelab S.p.A., in which the Italian Space Agency holds a 30% stake, the price adjustment was set for the acquisition of the business unit related to the development, production, and commercialisation of launchers by Spacelab S.p.A. to Avio S.p.A., the original agreement for which was signed on March 1, 2018.

This agreement will include a possible adjustment to the amount paid for the acquisition of the business unit to be determined by the parties (i.e. Avio S.p.A. and Spacelab S.p.A.) in consideration of the fact that, at the date on which the agreement for the acquisition of the business unit was signed, the analysis was still being conducted, with the help of tax consultants, concerning the potential expected benefits of the purchase of the business unit and looking to the possibility that applicable legislation could be subject to relevant changes and interpretations.

Given that legislation concerning the tax credit for research and development has now been established and an agreement reached between the parties, with this private agreement it was possible to adjust the price set by the parties, by mutual agreement, to Euro 8.5 million and to financially settle said price.

For further information, reference should be made to the "Subsequent events" section of the Directors' Report and to the section "3.30 Other current liabilities" of the Explanatory Notes.

COVID-19

In early 2021 many countries maintained limitations or suspensions of certain commercial activities or adopted travel restrictions and quarantine measures pending the completion of mass vaccinations.

For the associated risks, see the section "Principal risks and uncertainties to which the Group is exposed".

MARKET PERFORMANCE AND OPERATIONS

General overview: historic and future outlook

In the first half of 2021, 62 orbital launches were carried out (compared with 45 in the same period of 2020), 3 of which reported a failure. Globally, these 62 launches took 1308 satellites into orbit, that is more in those 6 months than in all of 2020 (1275 launched). This new record was possible thanks to the continuation, in the first 6 months of 2021, of the massive deployment of Space X's Starlink satellite internet access constellation (785 satellites, equalling a mass of 204 tonnes, in 12 dedicated Falcon 9 launches), as well as the launches of small satellites via Rideshare. The transported mass was 389 tonnes (compared to 266 tonnes in the first six months of 2020), which suggests that, by the end of 2021, a new record is likely for the total mass transported into orbit (current record set in 2020 with 542 tonnes).

2021's half-year results thus confirm that the launch sector is undergoing strong growth, due -as already highlighted from 2019 onwards - to the increasing deployment of low-orbit satellite constellations (particularly those of Space X's Starlink, but also of OneWeb, O3B and other minor players).

With particular regard to these **orbits**, in particular, there continues to be strong growth in Low Earth Orbit (LEO) missions, the main target segment of Vega, and a simultaneous decrease in GTO/GEO missions, the main target segment of Ariane: 43 launches in LEO (264 tonnes) versus 7 launches in GTO/GEO (28 tonnes). The trend recorded for the first time in 2020, with the mass transported to LEO exceeding that to GTO/GEO, is therefore confirmed.

In terms of the **types of satellites**, it is also useful to underline that, of the 1,308 satellites put into orbit, approximately 1259 were SmallSats (i.e. with a mass <500 kg), testifying to the fact that this technology, in growth since 2013, has, by now, established itself on the application market offering services such as broadband internet, Earth observation, IoT, technology demonstrations, and so on. Except for the Starlink constellation (satellites produced, launched and operated by Space X, without the possibility of open competition, and also subsidized by the FCC with more than USD 900 M), **missions** remain largely institutional (35 governmental civil/military launches vs. 7 commercial launches), testifying to the vital importance of public funds to this sector.

As for **applications**, these are mainly in the perimeter of telecommunications services, such as broadband internet, mobile telephony and the Internet of Things, but also in the field of earth observation and navigation.

Finally, the analysis of the **leading countries in the sector** reports 27 launches for the USA (272 tonnes), 19 for China (only 77 tonnes, indicating a very low filling factor of the launchers due to the fact that the launches are exclusively governmental), 7 for Russia, and 4 for Europe.

The effects of the COVID-19 pandemic emerging initially in 2020, which led to the shut-down or slowdown of the activities of various manufacturing plants for both satellites and launchers, as well as the slowdown of activities at launch bases around the world), continued to particularly impact India (2 launches in 2020, 1 in H1 2021, against historically 5-7 launches per year).

Forecasts for this decade and the next (produced by sector consulting firms) indicate a strong growth in transported mass, with a CAGR of 5% from 2020 to 2030, and 10% from 2030 to 2040. This growth is expected to occur above all in LEO orbits (deployment and replenishment of constellations, infrastructures and space logistics), but also in escape orbits (the Moon, Mars, exploration and colonization operations), not only at institutional but also, and above all, commercial expense.

Globally, it is estimated that revenues generated by the launch segment, equal to approximately USD 7.5 B in 2020, will rise to USD 11 B in 2030 (CAGR=4%) and USD 18 B in 2040 (CAGR=5%), 50% of which pertaining to the North American market.

Launchers market

The first six months of 2021 confirmed the global trend of recent years in which few nations have had a launch service offer capable of responding not only to the steadfast institutional market, but also to the growing commercial market. These nations were the USA, Russia and China, covering 75% of launches, and, to a lesser extent, Europe, India and Japan (with the latter having no launches in 2021). Among emerging countries in this sector, New Zealand (thanks to its presence on the US market) has so far carried out 20 launches of its Electron Mini Launcher, developed and operated by Rocket Lab.

In the first 6 months of 2021, there were no missions of new launchers, nor missions carried out with new versions of existing launchers. The most used 'legacy' launchers continue to be Falcon 9 (20 launches), CZ (18 launches), in its various versions, and Soyuz (used by both Russia and Europe, 10 launches).

8 missions were operated by Mini Launchers, with, in addition to Electron (3 launches, 1 failure), 2 launches of LauncherOne, operated by Virgin Galactic, which appears to be establishing itself in this market segment. 3 missions (Falcon 9, Soyuz 2.1 and CZ-6) were carried out via Rideshare (one of the markets operated by Vega with SSMS), which is becoming an ever more popular launch method.

COVID-19: how the pandemic has impacted global Space investment

The first Coronavirus case was reported at the end of 2019 and by January 2020 the city of Wuhan was put under total lockdown. That same month, the WHO declared a state of emergency and in February the financial markets saw their biggest drop in a single week since the financial crisis of 2008.

Despite the fact that the pandemic remains ongoing around the world, and in Europe and the United States in particular, and with the vaccine roll-out not beginning until late 2020 and immunisations not reaching significant levels until late Spring 2021, the march of the New Space Economy continues at a rapid pace.

As the global economy moves towards remote operations, the most innovative enterprises are relying on a range of space technologies such as GPS, Geospatial Intelligence, the Internet of Things and Telecommunications and internet via satellite to gain competitive advantages. The expectation is that the space economy will play an increasingly central role in the post-COVID world.

In 2020, the companies active in the space industry raised more than USD 25 billion in new private investment and have approached USD 14.9 billion in new investment in the first 6 months of 2021 (*source: Space Capital*). To these considerable figures we can also add the public listing (particularly on the New York NASDAQ) of new industry players and recent start-ups, which have attracted new capital as special purpose acquisition companies (SPACs), including companies such as Rocketlab, Astra, Virgin Orbit, Planet, Satellogic, and BlackSky, which have been or are in the process of being publicly listed in this way. For now, this is taking place in the United States, but it is possible that we could begin to see this same trend in Europe in the coming years.

This interest in the sector has also led to initiatives by investment funds expressly focused on the space economy, such as the fund launched in the spring of 2021 by Arkk Invest, which joins smaller funds such as UFO Space ETF, which has been active for a number of years. Therefore, the space economy is becoming an actual asset class in its own right in which even less sophisticated investors can invest and be protected by international legislation.

Primo Space was launched last year, the first Italian technological venture capital fund (and second in the world) specialising in space investment. The new fund, promoted by Primomiglio SGR, focuses on the Italian space industry, which is witnessing major growth and is globally currently worth approx. USD 400 billion and is forecast to exceed 1.0 trillion in 2040 (*source: Morgan Stanley*).

GROUP OPERATING PERFORMANCE AND FINANCIAL AND EQUITY POSITION

Operating results

The table below summarises the comparable performance of the Group for the first half of 2021 and the first half of 2020 (in Euro thousands):

	H1 2021	H1 2020	Change
Revenue	132,879	175,311	(42,432)
of which: Pass-through revenues	5,135	7,440	(2,305)
Revenues, net of pass-through revenues	127,744	167,871	(40,127)
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	5,707	5,179	528
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(125,825)	(156,270)	30,444
Effect valuation of investments under equity method - operating income/(charges)	442	143	299
EBITDA	8,067	16,923	(8,856)
Amortization, depreciation & write-downs	(10,477)	(8,389)	(2,088)
EBIT	(2,410)	8,534	(10,944)
Interest and other financial income (charges)	(91)	(343)	252
Net financial charges	(91)	(343)	252
Investment income/(charges)	-	-	-
Profit/(loss) before taxes	(2,501)	8,191	(10,692)
Current and deferred taxes	60	227	(167)
Group & minority interest net profit/(loss)	(2,441)	8,418	(10,859)

The "pass-through revenues" derive from agreements reached with the European Space Agency in August 2015 for the development and construction of the new "P120" motor for future generation Vega-C and Ariane 6 launches. As a result of the implementation of these agreements, the Avio Group consolidated revenues include the following dual invoicing:

- an initial invoice from the parent company Avio S.p.A., as the sub-supplier, to the Europropulsion S.A. joint venture with revenues and margins not eliminated during the consolidation of the Avio Group as this joint venture is not fully consolidated;
- a second invoice up until February 28, 2018 from the subsidiary ELV S.p.A. (now Spacelab S.p.A.) and from March 1, 2018 (following the acquisition by the parent company Avio S.p.A. of the launcher's business unit of the subsidiary ex-ELV S.p.A.) directly by Avio S.p.A., as prime contractor, to the final client the European Space Agency. This concerns a simple re-invoicing of costs received by Europropulsion, without margins, not eliminated in the Avio Group consolidation process as concerning third parties and defined as "pass-through" in this report.

Revenues net of "pass-through" revenues were Euro 127,744 thousand in the first half of 2021, down Euro 40,127 thousand (-23.9%) on the first half of 2020. This net decrease is mainly attributable to Vega's return-to-flight, which led to the postponement of activities and revenues relating to the development of the new Vega C launcher and to the Ariane programme for the planned phase-out of Ariane 5, partially offset by the future Ariane 6 programme.

The above revenues breakdown by business line as follows:

	H1 2021	H1 2020	Change
Ariane	37,840	54,502	(16,662)
Vega	73,627	99,875	(26,248)
Tactical Propulsion	14,590	9,314	5,276
Liquid Propulsion	1,029	3,667	(2,638)
Other revenues	658	514	144
Revenues, net of pass-through revenues	127,744	167,871	(40,127)

EBITDA in the first half of 2021 was Euro 8,067 thousand, decreasing Euro 8,856 thousand on H1 2020.

EBIT was a loss of Euro 2,410 thousand, decreasing Euro 10,944 thousand on H1 2020.

EBITDA against H1 2020 was mainly affected by the decrease in Net Revenues, while the greater EBIT decrease relates to amortisation and depreciation on investments entering into service in the P120 motors (Ariane 6 and Vega C first stage) and in the Zefiro 40 (Vega C second stage).

The H1 2021 results benefitted from the research and development tax credit for Euro 1.1 million (Euro 1.4 million in H1 2020), in relation to the reduced advancement of costs incurred in the period with regards to long-term orders for the research and development to which the benefit refers.

The Group has benefitted since 2017 from the research and development tax credit for operations commissioned by the European Space Agency. This contribution, of Euro 1.1 million for the first half of 2021, comprised the benefits matured between 2017 and 2019, recognised to the income statement in the first half of 2021 on the basis of the advancement of the costs incurred in the period with regards to orders for the research and development operations to which the benefit refers.

Currently, this benefit maturing between 2017 and 2019, on the basis of the state of advancement of long-term orders which have incurred costs against which the tax credit may be applied, is expected to benefit the medium-term period with an effect on the results of each year and period depending on the effective level of advancement of the qualifying orders.

Similarly to the first half of 2020, in the first half of 2021, no portion of the additional potential benefits from the tax credits maturing in 2021 was recognised.

For a more complete representation of the Group's earnings performance, the EBITDA and EBIT adjusted to exclude Group non-recurring and unusual components are presented below. The above adjusted amounts (in Euro thousands) and the relative margins for H1 2021 and H1 2020 are reported below:

	H1 2021	H1 2020	Change
Adjusted EBITDA	10,484	19,878	(9,394)
Adjusted EBITDA Margin (against revenues net of pass-through revs.)	8.2%	11.8%	
Adjusted EBIT	7	11,489	(11,482)
Adjusted EBIT Margin (against revenues net of pass-through revs.)	0.0%	6.8%	

The Adjusted EBITDA is considered by management as representative of the Group's operating results as, in addition to not considering the effects of amortisation and depreciation policies, the amounts and types of employed capital funding and any rate changes, already excluded from EBITDA, it also excludes non-recurring and extraordinary components of Group operations, improving the comparability of the operating results.

H1 2021 Adjusted EBITDA was Euro 10,484 thousand (8.2% of net revenues), down Euro 9,394 thousand on Euro 19,878 thousand in H1 2020 (11.8% of net revenues), mainly due to the above-stated effect of the Vega return to flight activities, which put back the Vega C development activities, in addition to the transition from Ariane 5 to Ariane 6 and the differing weight of non-recurring activities, mainly attributable to the Vega return to flight and the COVID-19 prevention procedures.

Adjusted EBIT, also considered by management as representative of the Group's operating results, consists of EBIT excluding non-recurring or extraordinary components, already excluded for the calculation of Adjusted EBITDA.

Adjusted EBIT for H1 2021 was Euro 7 thousand, decreasing Euro 11,482 thousand on Euro 11,489 thousand in H1 2020 (6.8% of net revenues). Net of the impact of the increased amortisation and depreciation connected with the entry into service of the P120 motors investments (Ariane 6 and Vega C first stage) and for the Zefiro 40 (Vega C second stage), the reduction in Adjusted EBIT reflects the same considerations underlying the Adjusted EBITDA movements.

The reconciliation between EBIT, Adjusted EBIT and Adjusted EBITDA for the first half of 2021 and the first half of 2020 is provided below (Euro thousands):

	H1 2021	H1 2020	Change	
A EBIT	(2,410)	8,534	(10,944)	
Non-recurring Charges/(Income) comprising:				
- Additional issues / incentives	259	67	192	
- Corporate, legal and tax consultancy	1	521	(520)	
- Indemnities	-	-	-	
- COVID-19 extraordinary charges	636	1,106	(470)	
- Other non-recurring charges/(income)	1,457	1,186	271	
- Settlements	-	-	-	
B Total Non-recurring Charges/(Income)	2,353	2,880	(527)	
A Investor Fees	64	75	(11)	
D Adjusted EBIT	A+B+C	7	11,489	(11,482)
E Net amortisation & depreciation	10,477	8,389	2,088	
Adjusted EBITDA	D+ E	10,484	19,878	(9,394)

"COVID-19 extraordinary charges" concerns the COVID-19 prevention procedure costs, mainly for protection and distancing equipment at employee work and transport stations. In the first half of 2020, the account included two donations to Colleferro Civil Protection Services and the Kourou Hospital to purchase hospital equipment to respond to the COVID-19 emergency for Euro 500 thousand.

"Other non-recurring charges/(income)" of Euro 1,457 thousand relates to costs incurred in the period for the Vega VV18 return to flight to implement the IEC recommendations following the VV17 failure of November 2020. In H1 2020, the amount of Euro 1,186 thousand mainly referred to the previously indicated activities for the VV16 return to flight launch campaign, subsequent to the failure of the VV15 flight, due to the temporary suspension of activities at the Kourou launch base following the COVID-19 pandemic, in addition to the subsequent exceptionally adverse weather conditions in French Guyana.

"Additional issues / incentives" of Euro 259 thousand (Euro 67 thousand in H1 2020) refer to employee leaving incentives.

Financial results analysis

Net financial charges in the first half of 2021 amounted to Euro 91 thousand. The decrease of Euro 252 thousand from Euro 343 thousand in the first half of 2020 was primarily due to financial charges associated with tax settlements incurred in the first half of 2020.

Balance Sheet

The Group balance sheet is broken down in the following table (in Euro thousands):

	June 30, 2021	December 31, 2020	Change
Tangible assets and investment property	118,638	115,137	3,501
Rights-of-use	8,546	9,209	(663)
Goodwill	61,005	61,005	-
Intangible assets with definite life	127,530	125,581	1,949
Investments	9,554	9,112	442
Total fixed assets	325,273	320,044	5,229
Net working capital	(56,877)	(58,224)	1,347
Other non-current assets	71,439	74,140	(2,701)
Other non-current liabilities	(123,325)	(127,840)	4,515
Net deferred tax assets	78,119	77,975	144
Provisions for risks and charges	(27,463)	(31,735)	4,271
Employee benefits	(10,868)	(11,261)	393
Net capital employed	256,298	243,100	13,198
Non-current financial assets	6,337	6,259	78
Net capital employed & Non-current financial assets	262,635	249,359	13,276
Net Financial Position	36,575	62,635	(26,060)
Equity	(299,210)	(311,994)	12,784
Source of funds	(262,635)	(249,359)	(13,276)

"Total fixed assets" amounted to Euro 325,273 thousand at June 30, 2021, a net increase of Euro 5,229 thousand on December 31, 2020 as a combined effect of the following main movements:

- net increase of Property, plant and equipment of Euro 3,501 thousand, principally due to investments in progress, amounting to Euro 7,104 thousand - mainly for the building of infrastructure for the "Space Propulsion Test Facility" (SPTF) project in Sardinia for the construction of a liquid motors test bench and a plant to build carbon-carbon components, the completion of the buildings for the new P120 motor (which will equip Vega C and Ariane 6) and the construction of the new headquarters, net of depreciation in the year;
- substantially unchanged Rights-of-use, with a decrease of Euro 663 thousand, mainly due to new contracts of use for Euro 681 thousand - mainly relating to new buildings for office use and for personnel seconded to French Guyana - net of depreciation for the period. The "Right-of-use" item is due to the application of IFRS 16, which provides for the recognition under assets of the value of assets to which a right-of-use is held and under liabilities of the present value of payables for fees relating to the same rights-of-use. These financial liabilities amounted to approx. Euro 6,640 thousand at June 30, 2021;
- net increase of Intangible assets with definite life of Euro 1,949 thousand, due to increases for development costs capitalised for Euro 5,712 thousand, mainly concerning the future Vega E launcher, relating to mini launchers and the liquid oxygen and methane motor and other capitalisations for Euro 1,962 thousand, mainly for the Industry 4.0 investment project, net of amortisation in the period;

- the essentially unchanged amount of Investments due to the slight change in the period relating to the investment in the jointly-controlled company Europropulsion S.A., which is measured at equity, increasing due to the 50% share of profits matured in the period January 1 to June 30, 2021 of Euro 442 thousand, without any decrease during the period for dividends, as not decided upon by this company.

The “Other non-current assets” and “Other non-current liabilities” in the balance sheet respectively include a receivable from the General Electric Group and a related tax payable of Euro 58,220 thousand recognised in the first half of 2016, following the receipt from the Tax Agency of the settlement notice of registration tax, mortgage tax and land tax, for a total amount of Euro 58,220 thousand, relating to the corporate transactions which in 2013 resulted in the sale of the company GE Avio S.r.l. (containing the assets of the AeroEngine division of the Avio Group) to the General Electric Group. In 2020 the Tax Agency appealed the judgment of the second instance, favourable to the Company, to the Court of Cassation. The Company acted promptly, filing its counter-appeal.

The recognition of the above-mentioned receivable from the General Electric Group is based on specific contractual clauses by which this latter is required to indemnify Avio S.p.A. with reference to any liabilities which may arise in relation to indirect taxes concerning the corporate operations which in 2013 resulted in the sale of the company GE Avio S.r.l. (containing the assets of the AeroEngine division of the Avio Group) to the General Electric Group.

In addition, also on the basis of specific contractual provisions, the General Electric Group is required to make available to Avio S.p.A. any amounts requested by the Tax Agency by the payment deadlines.

For further details, reference should be made to paragraphs 3.9 “Other non-current assets” and 3.24 “Other non-current liabilities”, in addition to the section “Legal and tax disputes and contingent liabilities” in the Explanatory Notes.

“Net working capital” was substantially stable on December 31, 2020, resulting in an excess of liabilities over assets of Euro 56,877 thousand. The main components are outlined in the following table (in Euro thousands):

	June 30, 2021	December 31, 2020	Change
Contract work-in-progress, net of advances	(153,532)	(143,011)	(10,521)
Inventories	59,680	51,474	8,206
Advances to suppliers	90,350	88,835	1,515
Trade payables	(52,674)	(66,454)	13,780
Trade receivables	4,533	2,175	2,358
Other current assets and liabilities	(5,234)	8,757	(13,991)
Net working capital	(56,877)	(58,224)	1,347

The current trading performance is substantially due to the cyclical nature of the receipt of advances from clients and works on orders.

“Other current assets and liabilities” of net working capital reported a net decrease of Euro 13,991 thousand to a negative Euro 5,234 thousand. The main components of this account are outlined in the following table (in Euro thousands):

	June 30, 2021	December 31, 2020	Change
VAT receivables	19,673	26,217	(6,544)
Research and development tax credits	1,563	1,563	-
Current tax receivables	4,392	5,315	(923)
Other current assets	11,751	8,953	2,798
Current income tax liabilities	(8,767)	(8,488)	(279)
Other current liabilities	(33,846)	(24,803)	(9,043)
Other current assets and liabilities	(5,234)	8,757	(13,991)

“VAT Receivables” report a net decrease due to the reimbursement in March 2021 by the Tax Agency of an amount of Euro 7,879 thousand, including interest of Euro 39 thousand concerning the 2018 financial year, partially offset by the VAT receivable arising in the period, mainly against the acquisition of assets for which it is not possible to utilise the VAT ceiling.

Turning to research and development tax credits, during the half-year there were no significant legal changes and the balance did not change since the offsetting of the portion of the credit matured in 2020 is expected to begin in September 2020 following the release of the relative “certification” from the appointed auditor, as required by the applicable legislation.

Similarly to the first half of 2020, in the first half of 2021, no portion of the additional potential benefits from the tax credits maturing in 2021 was recognised.

“Other current liabilities” increased on December 31, 2020, mainly due to a number of variable employee remuneration items settled in July 2021, in addition to the dividends approved by the subsidiary Spacelab S.p.A. in favour of the “Italian Space Agency” minority shareholder.

Analysis of the net cash position

At June 30, 2021, the Avio Group had a net cash position of Euro 36,575 thousand.

In response to recent EMSA guidelines issued in March 2021 and the subsequent CONSOB communication No. 5/21 issued in April 2021, this cash position of the Avio Group is presented below in accordance with these guidelines of the regulatory authorities.

	June 30, 2021	December 31, 2020	Change
A Cash and cash equivalents	(88,020)	(124,666)	36,646
B Other liquidity	-	-	-
A Other current financial assets	-	-	-
D Liquidity (A+B+C)	(88,020)	(124,666)	36,646
E Current financial debt (including debt instruments but excluding the current portion of non-current financial debt)	9,540	15,425	(5,885)
F Current portion of non-current bank payables	10,056	10,063	(8)
G Current financial debt (E+F)	19,596	25,488	(5,892)
H Net current financial debt (G-D)	(68,424)	(99,178)	30,754
I Non-current financial debt (excluding current portion and debt instruments)	31,849	36,543	(4,694)
J Debt instruments	-	-	-
K Trade payables and other non-current payables	-	-	-
L Non-current financial debt (I + J + K)	31,849	36,543	(4,694)
M Total financial debt (H + L)	(36,575)	(62,635)	26,060

The net cash position, reported at item "M Total financial debt (H+L)" of the table above as per the recommendations of the regulatory authorities, reduced from a positive balance of Euro 62,635 thousand at December 31, 2020 to Euro 36,575 thousand at June 30, 2021, decreasing Euro 26,060 thousand, principally due to the cyclical nature of operating cash flows, in line with expectations, in addition to capital expenditures in the period (Euro 14,781 thousand). There were no restrictions on liquidity.

The current financial debt, amounting to Euro 9,540 thousand (Euro 15,425 thousand at December 31, 2020), includes:

- current financial liabilities to the jointly-controlled company Europropulsion S.A. for Euro 7,749 thousand (Euro 12,749 thousand at December 31, 2020) arising from the cash pooling agreement with the joint venture;
- current financial liabilities for leased assets of Euro 1,791 thousand (Euro 2,676 thousand at December 31, 2020).

The current portion of non-current financial debt, amounting to Euro 10,056 thousand (Euro 10,063 thousand at December 31, 2020), includes:

- two instalments of the total loan granted by the European Investment Bank EIB of Euro 10 million (of which Euro 5 million due on October 31, 2021 and Euro 5 million due on April 30, 2022);
- the accrued interest at June 30, 2021 amounting to Euro 56 thousand.

The non-current financial debt, amounting to Euro 31,849 thousand (Euro 36,543 thousand at December 31, 2020), includes:

- non-current financial liabilities with the European Investment Bank amounting to Euro 27 million (Euro 32 million at December 31, 2020).
- non-current financial liabilities for leased assets of Euro 4,849 thousand (Euro 4,543 thousand at December 31, 2020).

Statement of changes in Equity

Consolidated equity at June 30, 2021 amounts to Euro 299,211 thousand, decreasing Euro 12,783 thousand compared to Equity at December 31, 2020, as a result of the following main movements:

- distribution of dividends of Euro 7,321 thousand;
- recognition of the half-year consolidated net loss of Euro 2,441 thousand;
- the share of the Italian Space Agency, a minority shareholder of the subsidiary Spacelab S.p.A., in the upcoming distribution of dividends approved and the reimbursement of own funds of the company for Euro 3,263 thousand;
- positive impact of actuarial gains of Euro 203 thousand.

RESEARCH AND DEVELOPMENT

Investment in research and development is a key factor in achieving and maintaining a competitive position in the space industry.

Avio, as always, devoted considerable resources to the research, development and innovation of products and processes which further its mission. Among its objectives is also the environmentally sustainable development of its activities and products, with particular attention paid to the issues of environmental protection, facility safety and the protection of its workforce.

Regarding such key issues, Avio continues to collaborate closely with national institutions such as the Italian Space Agency (ASI), the Ministry of Education, Universities and Research (MIUR) and the Economic Development Ministry (MISE), in addition to international institutions such as the European Space Agency (ESA) and the European Union.

Avio has developed a network of partnerships with Universities and research bodies in Italy and Europe, among which the Italian Aerospace Research Center (CIRA), the Italian National Agency for New Technologies, Energy and Sustainable Economic Development (ENEA), the Universities of Rome, the Polytechnic University of Milan, the 'Federico II' University of Naples, the University of Padua, the University of Forlì, the Sardinian AeroSpace District (DASS) and the Polymeric and Composite Materials and Structures Engineering cluster of Campania (IMAST). Avio also forms part of various consortia between European research institutes and industrial partners to support research in the field of energetic materials.

The Group has maintained its participation in research projects with various national and international organizations active in aerospace research. In particular, it continues to collaborate with universities involved in researching advanced solid propellants, composite materials, solid rocket motor (SRM) propulsion systems, cryogenic propulsion, hybrid propulsion and with major global manufacturers and research institutes developing propulsion technologies and innovative modules and components that can benefit from the synergy of individual specific competencies.

Research and development costs incurred by the Avio Group in H1 2021 amounted to Euro 43.2 million (Euro 65.4 million in H1 2020), equating to 32.5% of gross consolidated revenues for H1 2021 (37.3% in H1 2020).

Net of pass-through costs, research and development by the Group in H1 2021 incurred costs of Euro 38.1 million, 29.8% of revenues net of pass-through revenues (Euro 58.0 million in H1 2020, equal to 34.5% of revenues net of pass-through revenues).

Self-financed and executed activities amounted in H1 2021 to Euro 7.5 million (Euro 4.4 million in H1 2020). Self-financed activities in H1 2021 included Euro 5.7 million relating to development costs capitalised as Intangible assets with definite life (Euro 3.4 million in H1 2020) and Euro 1.8 million concerning research costs or development costs not capitalisable and directly recharged to the income statement (Euro 1.0 million in H1 2020).

The total amount of costs related to self-financed activities charged to the income statement in H1 2021 was Euro 5.2 million (Euro 2.8 million in H1 2020), comprising Euro 1.8 million of directly expensed non-capitalisable costs (Euro 1.0 million in H1 2020) and Euro 3.4 million for the amortisation of development costs capitalised (principally) in previous years (Euro 1.8 million in H1 2020).

In the first half of 2021, Avio continued its innovation upon the main product lines, harmonising basic research, applied research and pre-competitive development activities.

Solid Propulsion

In Avio's strategic vision, solid propulsion represents a mature but competitive technology that significantly reduces the cost of launch services and keeps the European space carrier market competitive on the global scene. Avio has made clear that its vision includes the consolidation and further development of both VEGA and the forthcoming Ariane 6 launcher, set to replace Ariane 5. Having successfully carried out the P120 bench qualification test for Vega C in January 2019, the related bench qualification firing test for Ariane 6 was carried out in October 2020.

In the first half of 2021, in addition to the development programs for the new propulsion shared between VEGA and Ariane (the P120C), Avio further consolidated its VEGA C market position through the configuration capable of competing in the large SAR satellite segment for earth observation. Regarding the solid propulsion engine segment, Avio has carried out various research activities to consolidate and optimize production technologies for qualified products concerning the Ariane 5 and VEGA launchers, and to prepare for the development of the forthcoming generations of European launch vehicles, Ariane 6, VEGA C and VEGA E.

Following the qualification tests on the Zefiro 9 VT3 motor in October 2021, which was specifically developed for the new Vega C, in the first half of 2021 the finalisation of the qualification review continued in view of the 2022 maiden flight.

Following the signing of an ATP with MBDA, preparatory work began on the development of the axial booster of the next-generation TESEO MK2/E weapon system, a long-range, dual-role, anti-ship missile with land-attack capability.

Negotiations are also underway with MBDA for Project ACQUILA, a first-stage solid rocket booster for the new TWISTER endo-atmospheric interceptor for hypersonic threats.

Research and development in materials continued to focus on the development of advanced, high performance and low toxicity solid propellants for implementation in the Ariane and Vega programs. Additionally, the possible expansion of the Avio composite materials production chain has been carefully researched and analysed, leading to the identification of various possible spin-offs in other sectors.

Liquid Propulsion

Avio considers cryogenic propulsion based on liquid oxygen and methane as the answer to future generations of late stages for launch vehicles, as well as for exploration spacecraft.

In the first half of 2021, work continued on the design of the liquid propulsion module (LPM) aimed at managing the propellant needed to fuel the M10 motor. The development of the M10 motor also continued for the provision of propulsion for the third stage of the future VEGA E.

After completing the Preliminary Design Review of the motor system and successfully closing the PDR's of the main subsystems, including those on the valves, the combustion chamber and the oxygen turbo pump, the first 2 full-scale prototypes of the M10 motor's LOX/CH₄ combustion chamber were built entirely in ALM, and successfully subjected to mechanical pressure and cold fluid dynamics testing at the Avio Colleferro facility. After these acceptance tests, the second model was then assembled with the rest of the equipment - including valves, tubing, sensors and harness - and configured for the firing test. The fire test campaign was successfully concluded at the end of February 2020 at NASA's Marshall Space Flight Center. This was the first test campaign for a prototype for an innovative 100KN combustion chamber with cooling channel, manufactured in ALM by implementing the Avio "Single Material Single Part" patent.

The results confirmed that additive technology can indeed be used to achieve a suitable thermal exchange for a full-scale combustion chamber with a single low thermal diffusion material (100 KN combustion chamber constructed with one piece and one material utilising ALM technology). This marks an important step forward for the development and qualification of the M10 LOx-CH₄ motor (for the upper stage of the Vega E), fully using ALM.

In the first half of 2021, manufacturing activities of all components continued, including the combustion chamber, injection plate, turbo-pumps, valves, sensors and tubing, which will make up the first development model of the entire M10 motor, named DM1, whose integration expected in H2 2021 will culminate in the fire test campaign at the innovative Avio Space Propulsion Test Facility (SPTF) on the Salto di Quirra military range in Sardinia.

Vega E, whose first flight is scheduled for 2025, thanks to the introduction of the innovative and highly-performing M10 motor, will be capable of launching approximately three tons into orbit, that is twice the current Vega.

In addition, one of its main features, thanks to its M10 cryogenic engine, will be the release of numerous satellites in various orbits on the same mission and at competitive cost.

The development of the M10 motor and the definition and architecture of Vega E's Upper Stage (VUS) were funded for the first phase (2017-2019) under CM2016. The results obtained in the first phase made it possible to acquire new funding for the second development phase (2020-2022), as agreed at the recent European Ministerial Conference in November 2019.

Avio has continued to self-fund the launch and the development of LOx and LCH₄ cryogenic resins for a new generation of large liner-free composite tanks (Cryo Tanks) to be included in the future version of the Vega E Upper Stage.

In the first half of 2021, tests continued in Colleferro to verify the permeability and mechanical and thermal properties of the composite structures in contact with the liquid oxygen cryogenic and oxidising environment. Based on the results of tests conducted on small-scale models of the filament-wound tanks produced in 2020, work has begun on the fourth linerless model to be LOX tested at Avio's Colleferro facilities in 2021.

At the same time, design work has begun on the carbon-fibre, thermoplastic-resin tanks to be made by way of automatic fibre replacement technology, which will have a construction process that is more suited to demonstrating the feasibility of a future "common-bulk" LOX/LCH₄ tank to optimise the fuel system of the M10 motor for use in the third stage of Vega E.

Space Transport Systems

During the first half of 2021, Avio continued the VEGA C launcher's development, finalising the necessary documentation for the Qualification Review under the ESA VECEP contract. The new Vega C launcher is based on a first stage with 50% greater total thrust than the current Vega and a fourth stage with 15% greater total thrust. The goal, among others, is to improve the launcher's capabilities by increasing its reference payload by over 50%.

In response to increasing small satellite demand, research continued, during 2021, on the development of the new VEGA Light launcher. The performance of this new launcher will be optimised to put into circular orbit (500X500 Km SSO) a payload of approx. 250 KG.

In the first half of 2021, following signing of the agreement between Thales Alenia Space and Avio S.p.A., as co-prime contractors, and the European Space Agency (ESA), work continued for the development and construction of the unmanned and reusable space transport system known as Space Rider, which, thanks to its integration with the Vega modules, will create an integrated family of services under the title of Vega Space Systems (VSS). In this regard, on December 9, 2020, Thales Alenia Space and Avio S.p.A.

In the first half of 2021, development work also continued on the Hera propulsion system, a planetary defence project funded by the ESA and which involves a consortium of European companies lead by OHB System AG. The ESA's Hera mission is scheduled for launch in 2024 and will be carried out in synergy with NASA's Double Asteroid Redirect Test (DART). Hera and DART will have the goal of exploration and the altering of the trajectory of a binary system of asteroids (a pair of near-Earth asteroids known as Didymos), which will be reached by the Hera spacecraft in 2026.

Tactical Propulsion

In H1 2021, CAMM-ER missile motor development activities continued as planned. The qualification programme continues, as does "accelerated ageing", to verify mid and end-of-life performance, in addition to the industrialisation activities. Avio support of MBDA has also continued in relation to the environmental testing with the delivery of 2 more inert motors.

Production and delivery of the Aster 30, Aster Sustainer 15 and 30, Aspide Improved and Marte boosters to export customers continued.

Obsolescence solution activities also continued for Aster MLU. Activities of particular note included: the use of fibre developed and produced by Avio for the construction of motor casings, the development of a new propellant with the same ballistic performance that maintains its mechanical characteristics at low temperatures and extension of the useful life, and the replacement of materials subject to non-European government authorisations, avoiding restrictions such as those imposed by the USA.

A second tranche of a production contract for the re-motorisation of the Aster Booster for the Italian armed forces was acquired, with an order to cover an additional five years of production.

Avio has also acquired a new development programme for an anti-ship system and is in negotiations for participation in a consortium to collaborate on the design and production of an anti-ballistic missile in order to broaden the company's offering in the defence sector.

With regard to Italy's National Military Research Plan (or "PNRM"), Avio continues to collaborate with Politecnico di Milano on development of a sub-orbital target.

HUMAN RESOURCES

At June 30, 2021, Avio Group employees numbered 944, slightly decreasing on 950 at December 31, 2020 and on June 30, 2020.

The number of employees does not include those of the company Europropulsion S.A. (68), consolidated at equity. The majority of the workforce is employed by the parent company, Avio S.p.A., which at the same date numbered 819 (823 at December 31, 2020 and 822 at June 30, 2020).

Organisation

In June 2021, the corporate structure was changed with the key objective of:

- Implementing IEC recommendations by introducing the role of Chief Technical Officer (CTO) and reinforcing Quality Management;
- Facilitating teamwork within the units of Engineering, Programmes, Industrial Operations, and Quality;
- Strengthening the team, distributing responsibilities, and initiating improvement programmes within the Industrial Operations division;
- Taking advantage of in-house talent and facilitating promotion from within.

Industrial Relations

- Management of industrial relations

In the first half of the year, meetings continued with the Workers' Representative Body in order to engage union representatives concerning the industrial challenges of the period.

The Workers' Representative Body was informed of the need not to extend the 7 temporary-worker agreements that expired in December 2020 and January 2021 and of the suspension of 5 staff-leasing agreements beginning on June 1, 2021, concerning manual labour.

Ample information on this situation was also provided to the local trade unions on February 22, 2021, even though they, along with the Workers' Representative Body, had already been notified in the second half of 2020.

In the same way, given the return of the crisis, the local trade unions and Workers' Representative Body were met with on July 13, 2021, to present the recovery plan, which called for the full return of temp workers on contracts that expired in December and January (with the exception of one worker who, in the meantime, had managed to find work elsewhere) and the uninterrupted continuation of staff-leasing agreements concerning manual labour. They were also notified of the expected need for approximately 18 additional workers in the second half of the year.

- Managing the COVID-19 emergency

Discussions are ongoing concerning the need to continue with certain actions to combat the spread of the virus and to implement others. More specifically, the company has begun a vaccination campaign within Avio, which involved 15% of the workforce.

- Other activities

During the period under review, the following agreements were reached:

- Summer closure and half day off for the Friday before Easter;
- Video surveillance of the museum area;
- Participation Bonus;
- Training agreements;
- Agreement to introduce 2 vouchers with a total value of €300 for the categories E-C-D-B.

Development and Training

In the first half of 2021, in line with the need to maintain and develop the business and, in particular, to deal with the activities related to the Vega C and Vega E programmes and the orbital launch systems, the Company launched a hiring plan that concerned the following personnel: 1 executive, 6 senior managers, 9 professionals, 16 white-collar and 2 blue-collar employees (total of 34), of

which 94% graduates possessing various degrees of experience and specific skills in various professional areas.

47% of new hires were in the Engineering area and 21% in the Operations area. In 13 cases, this involved the stabilisation of company personnel on consulting or staff-leasing contracts. During the period, targeting was also undertaken for the hiring of additional personnel. Thus far, between July 1 and September 30, 34 new hires are planned, 85% of which related to Engineering and Operations. Regarding Personnel Development in the first half of 2021, 4 mid-level managers were promoted to executive management.

For white-collar staff, 53 development/promotion measures were applied to 11% of the corporate population, including 3 promotions to the qualification of Professional Expert (the highest Manager classification), 9 promotions to the qualification of Manager, and 6 promotions to the qualification of Professional. The company's new organisation has generally facilitated the professional growth of individuals who have been given direct responsibility over products and/or processes.

Development efforts also continued for blue-collar workers during the period, concerning 15 employees, or 4.6% of the workforce.

In both cases, work will continue throughout the year with promotion and development efforts.

With regard to Avio Group training, in H1 2021, 15,561 hours of training were provided, with 2,887 participations (from personnel, contractors and staff leasing) in refresher courses, professional development courses, individual courses and soft skills and technical skills deployment training. A range of issues were of particular relevance in the first half of 2021, including: training focused on manufacturing processes concerning Vega; the provision of a new course on the Quality Management System; and the production of a webinar on the gender gap.

During the year, training activities were focused on the following main areas:

- training and updates on mandatory technical competences regarding safety issues;
- training on special and critical processes in manufacturing;
- soft skills training: development of managerial skills (participation at conventions and seminars);
- individual development plans;
- support for internationalisation with a focus on individual and group language training (French language courses, English language courses);
- Quality Management System training;
- training on Legislative Decree 231/01.

Distance learning training, both synchronous and asynchronous, had a positive impact on the total number of hours and participations, involving the entire company population. This also allowed for the provision of training during the COVID emergency while respecting the social distancing requirements put in place by applicable legislation. Using certified in-house trainers, safety and management training and information was provided. The e-learning platform has been enhanced, particularly in relation to the Quality area, in order to provide a new course on the Quality Management System and to implement a dedicated multimedia area used to share course materials. The e-learning platform was a key tool also to provide training on safety issues and Seveso quarterly reports; the regulatory area, to provide training on Legislative Decree 231; the on-boarding phase for newly-hired personnel via a dedicated multi-media course.

During 2021, the pilot project involving personnel from the Industrial Operations and Quality units and aimed at evaluating the performance of blue-collar and white-collar personnel without an MBO plan was expanded. The project, which involves the mapping of roles and the creation/updating of the specific job descriptions of each production unit of Avio, involved the training of all department heads and the production unit managers.

Regarding training methods, the structured learning organisation model was used, as it has been in previous years. This allows the organisation to learn through the active involvement of managers in the design of training activities for both direct groups and cross-departmental groups, therefore supporting increased integration among the company population.

Organisation and management of personnel

During the first half of the year, measures continued to be strengthened to counter the spread of COVID-19, through the publication of internal Avio procedures for the measuring of body temperatures before entering the facility, through the cleaning and sanitising of work environments, the distribution of masks, the use of sanitation kits in meeting rooms, further expansion of office space, the immediate diagnostic service of antigen swabs and PCR etc. and through the adoption of a risk assessment document (DVR) setting the rules to be followed to prevent the spreading of the virus in the workplace environment. These rules were applied not only to the entire workforce but also to entering suppliers.

The support of an infection disease expert alongside the company-appointed physician, which began in November 2020, has continued, which has included individual consultations with employees and the maximum dissemination of information by way of the company's intranet, webinars, and other media.

During this period, company management extended the possibility to telework until July 31, 2021, both for working parents with at least one child under the age of 14, as per Legs. Decree No. 34/2000 ("Relaunch Decree") and for employees with certain conditions (e.g. immuno-suppression conditions), in addition to resources belonging to Staff Departments (i.e. HR, Communications, ICT, Legal and AFC), for a maximum of two days a week.

Regarding issuance of the Participation Bonus in July, there has been a decline in all (financial, industrial and quality) indicators compared to the previous year, so the bonus will not be converted into welfare services this year and will be subject to ordinary taxation.

In June, within the scope of expanding benefits to support workers, the Company decided to grant middle managers and experts a fuel card, which is to be activated in July and the value of which will be allocated on a monthly basis.

Also in June, a voluntary vaccination plan was activated for all employees of the company, of its shareholdings, and of third-party companies that provide services within Avio.

COMMUNICATION AND SOCIAL RESPONSIBILITY

Avio promotes its image and its products through participation at major international events and a constant presence at Italian and international aerospace conferences regarding the research and development of new technologies in the specific field of space propulsion and launchers.

In addition, the Company develops its own network of scientific exchange and new product development through research collaborations with Italian and international universities and research institutes and through technical and operational collaborations with major European space agencies, in particular the Italian Space Agency (ASI), the French National Centre for Space Studies (CNES) and the European Space Agency (ESA).

In the first few months of 2021, travel restrictions in response to the SARS CoV-2 pandemic, which were particularly strict in the Lazio region, brought about a sharp reduction in the company's public relations efforts and corporate communications. The emphasis was placed on internal and digital communications.

Events and shows

The key events in the period included:

- in January and February, in addition to a number of articles in industry publications such as Air & Cosmos, numerous papers were published by Avio engineers in international scientific journals, such as the Polaris Innovation Journal, dedicated in particular to the Space Rider and Vega C projects;
- February 25, Colleferro - CEO Giulio Ranzo together with infection disease expert Dr. Meo to clarify certain aspects regarding transmission of the COVID-19 virus and the steps taken by the company to prevent infection;
- March 1, Rome - Stefano Bottaro, Director of Human Resources, and Salvatore Spinosa, Head of Industrial Operations, met with the rugby team AS Luiss Avio at the Palaluis arena to discuss teamwork as a fundamental value in both business and sports;
- March 4 - Avio was included in a ranking of the 200 most sustainable companies in the Aerospace and Defence sector by Istituto Tedesco Qualità & Finanza (ITQF) and the organisation's partner La Repubblica Affari & Finanza;
- March 8 - in conjunction with International Women's Day, a webinar for employees was organised on the topic of women in science in order to discuss the status of gender equality both within the company and throughout Italy;
- March 11, Rome - within the scope of ESA's New European Space Transportation Solutions (NESTS) initiative, Avio was appointed to pursue research that will lay the groundwork for new space transport solutions for the period 2030-2050;
- March 19, Rome - In connection with the meeting between France's Minister of the Economy and Finance, Bruno Le Maire, and Italy's Minister for Economic Development, Giancarlo Giorgetti, Avio and Arianespace signed an agreement to begin production of ten new Vega C launchers, with delivery to begin in 2023;
- April 14, Rome - In partnership with the Dante Alighieri Society, CEO Giulio Ranzo participated in the ceremony for the launch of the Dante Global online platform to promote the Italian language and Italian culture. The ceremony was also attended by Italian President Sergio Mattarella and the Minister of Foreign Affairs, Luigi di Maio;
- April 29, Kourou - Extensive media coverage related to flight VV18, which successfully put the French satellite Pléiades Neo 3 in sun-synchronous orbit along with a number of rideshare satellites;

- May 12, Colleferro - Opening of the new Sub-Acute Care wing at Parodi Delfino Hospital, which was made possible by a Euro 250,000 donation by Avio at the beginning of the COVID emergency. The ceremony was attended by our CEO, Giulio Ranzo, and our Chairman, Roberto Italia, as well as by the Lazio Regional Councillor for Health, Alessio D'Amato; the Director General of the Rome 5 district health authority, Giorgio Giulio Santonocito; and the mayor of Colleferro, Pierluigi Sanna;
- May 17, Colleferro - visit by the new Director General of ESA, Josef Aschbacher, and the Director of Space Transportation, Daniel Neuenschwander, for a working meeting and tour of our facilities;
- May 19, Colleferro - visit by the Under-Secretary of State of the Office of the Prime Minister responsible for Space, Bruno Tabacchi; the President of ASI, Giorgio Saccoccia; and General Luigi Francesco De Leverano, military adviser to the Italian Prime Minister;
- May 22, Segni - The ninth edition of the Sapienza Rocketry Challenge, a competition supported by Avio involving the launch mini-rockets built by students attending the space propulsion workshop at La Sapienza University, was held at Segni's Rugby & Football Club;
- May 26, Colleferro - Webinar for all employees involved in the new organisation that went into effect on June 1;
- May 29, Colleferro - Ethics in sports was the topic of a seminar held at Colleferro's G. Marconi secondary school. Luiss-Avio rugby team was the school's special guest, and students enjoyed a demonstration of sports and ethics organised by AS Luiss Sport and by Avio under the aegis of the City of Colleferro. The day then continued at the facilities of Avio;
- June 3, Rome - CEO Giulio Ranzo participated in the panel "Roma città industriale" within the scope of the series of debates about Rome organised by L'Espresso;
- June 14, Colleferro - visit by Massimo Claudio Comparini, CEO of Thales Alenia Space;
- June 16, Colleferro - Start of the Padel tournament organised by Avio at the ASDL Colleferro Padel sports complex to commemorate two colleagues who passed away prematurely;
- June 16, Colleferro - Avio placed 4th - Top 5 Extra 100 - in the 2021 Eticanews Integrated Governance Index, the only model of quantitative analysis of the level of integration of ESG in business strategy;
- June 17, 21 and 23, Sardinia - Small-scale, active testing was conducted at PISQ in Perdasdefogu (Sardinia) aimed at verifying the functioning of the EBA-D components selected as candidates for an innovative flight termination system, which should be able to make Z40 and Z9 motors self-destruct even when they are off;
- June 23, Colleferro - Avio visit of Jean-Marc NASR, vice-president of Space Systems, and Serafino D'Angelantonio, director of Airbus Defence and Space Italy S.r.l.;
- June 29 - A Rai Scuola broadcast about STEM, hosted by Davide Coero Borga, talked about Avio, space propulsion, materials research, and the role of chemistry in the aerospace industry.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES

General economic risks

The general economic context is still being significantly impacted by the COVID-19 epidemic, although the sector in which the Company operates is less exposed than others to the related risks.

The epidemic and restrictions imposed by the French government and authorities led to the temporary suspension, from March 16, 2020, of launch preparations at the Kourou base in French Guiana. In Italy, on March 23, 2020, an Italian governmental decree suspended all non-essential business until April 3, 2020. However, Avio was allowed to continue operating, since, as part of the aerospace industry, its business is deemed of strategic importance for the Italian national economy.

In addition, the space programmes have principally been executed through the use of funding provided by the governments and the European authorities. In view of the budget demands of countries dealing with the COVID-19 pandemic, there is a risk, currently assessed as remote, that funds allocated to the space sector may be reduced.

The effects of the health emergency were felt intermittently throughout 2020, and indirectly affected Avio's internal activities, as well as slowing down the activities of suppliers and sub-contractors in Italy and the rest of Europe. At the moment, operations at all Avio facilities, and in Colleferro and French Guiana in particular, are continuing normally in order to ensure operational objectives are achieved. On April 28, 2021, the mission launched at the Guiana Space Centre in Kourou, French Guiana, saw the success of Vega flight VV18.

Therefore, should the impacts continue in 2021 and beyond, with a progressive tightening of government intervention measures to counteract the contagion, effects may emerge, even of a significant degree, on the industrial, engineering and commercial activities of the entire aerospace sector.

In view of the above, the intrinsic risk associated with the potential effects that such an epidemic may entail is assessed as high (inherent risk high), while the control risk is assessed as medium, given that the internal control system introduced by the regulations in force is being continuously monitored and developed at an institutional level and considering that the Crisis Committee, set up by the Company, is operating in a situation of persistent uncertainty.

Although the Group considers the space programme sector less volatile in consideration of the long-term nature of projects and the backlog developed, a contraction in economic growth, a recession or a financial crisis may reduce (even significantly) demand for the components produced by the Group, with consequent impacts on operations and on the financial statements of Avio and of the Group companies.

In addition, a weak economic environment may impact the Group's access to the capital markets or the availability of favourable conditions, with consequent impacts on operations and on the financial statements of Avio and of the Group companies.

Excluding the possible macro-economic effects of COVID-19, the economic, equity and financial position of Avio is influenced by a number of macro-economic environment factors (including GDP movements, the cost of raw materials, the unemployment rate and interest rate movements), both in the countries in which the Group operates and at a global level, as a result of impacts upon the spending capacity of the individual countries (in particular in Europe) for the development of Space activities, through the national and European agencies.

Over recent years, the financial markets have featured particularly significant volatility with major repercussions on banks and financial institutions and, more generally, on the entire economy, therefore impacting the public accounts. The significant and widespread deterioration of market conditions was exacerbated by a serious and general difficulty in accessing credit, both for consumers and businesses, resulting in a lack of liquidity which affected industrial development and employment, therefore impacting the budgeting strategies of European states and consequently the spending capacity of the Space Agencies.

Although the governments and the monetary authorities have responded to this situation with extensive initiatives, including the cutting of interest rates to historic lows and the funding and bolstering of intermediaries, and although taking into consideration the signs indicating the exiting of recession for the leading economies, it currently is however not possible to predict whether and when the economy will return to pre-crisis levels, also in light of the above-mentioned COVID-19 epidemic, the situation related to the international geo-political environment and the slowing of Chinese economic growth, in addition to renewed volatility on the financial markets and tensions surrounding the financial situation and credit capacity of various countries.

Where this situation of significant weakness and uncertainty were to continue for significantly longer or worsen, particularly on the Group's market, the operations, strategies and prospects of the Group may be impacted, particularly with regards to production forecasts for future launches of Group spacecraft and for new research and development programmes, with a consequent possible impact on the Group financial statements.

In addition, as reported, the space programmes have principally been executed through the use of funding provided by the governments and the European authorities. These provisions depend on government policies and in general economic conditions in Europe. The demand for launchers is therefore supported both by the public sector and the private sector.

Specific business risks

The space programmes, due to their inherent complexity, strategic important and source of funding, are generally dependent on plans and decisions undertaken at government level in Europe, both by individual countries and as part of international agreements, implemented by specific national and supranational institutions and agencies. These plans seek to guarantee independent access to space by the European nations.

Changes to space access policies, both at a domestic and European or international level, and unfavourable economic conditions impacting the spending allocated to these policies by national governments and supranational institutions, may impact Group operational levels with possible repercussions for operations and the Group financial statements.

Group business depends in addition on a limited number of programmes and therefore clients. Any interruptions, temporary suspensions, delays or cancellations to one or more major programmes constitutes a risk which may impact the Group's operations and financial statements. The backlog may therefore be subject to unexpected adjustments and therefore may not be indicative of future revenues or operating results.

The Group operates in the space sector principally through long-term contracts, often at fixed prices or with inflation-linked price reviews. Fixed price contracts present the risk that any additional costs may not be or are only partially reabsorbed by the client, with possible negative impacts on the Group's operations and financial statements.

In addition, for the recognition of revenues and related margins deriving from long-term works contracts, the advancement percentage method is used, based on total cost estimates for the execution of contracts and verification of the state of advancement of operations. Both these factors are by their nature significantly subject to management estimates, which in turn depend on the objective possibility and capacity to forecast future events. The occurrence of unforeseeable events, such as the persistence of the COVID-19 epidemic, and foreseeable events, to a differing degree, resulted in an increase in costs incurred for the execution of long-term contracts, possibly also in the future, with impacts on the Group's operations and financial statements. To manage this risk, the Company has put into place procedures, systems, workers and professionals that have been consolidated over time.

The Group is not a Launch Service Provider with regards to Vega launch services sales. Although the Group has control of Arianespace's Business Plan regarding the marketing of the Vega launcher and its successors, in order to determine volumes and prices that allow, according to recurring launch system costs, balanced budgeting for the launcher's development, where the Launch Service Provider does not correctly execute its role or adopts commercial practices which do not align with the Group's interest, this may have an impact on the operations and financial statements of the Group.

Group clients are responsible for declaring the compliance of products before acceptance and sale and may entirely or partially reject them where such compliance is not declared. In this case, the warranty clauses require us to replace or repair the non-compliant component, incurring the associated costs in addition to any costs necessary to understand the problem. Where the associated costs are not covered by insurance, the Group's results may be impacted. Once accepted by clients, the Group is no longer responsible for damage deriving from the malfunctioning of products, except where the pre-existence of any defects which were not evident upon acceptance is demonstrated, with the consequent further obligation to restore or repair the defective products before final use and/or launch.

In addition, for any damage, whatever the cause, and including damage deriving from defects and/or the malfunctioning of products supplied by the Group, caused during the flight of the launchers, the launch service provider shall exclusively be responsible and, where applicable, the ESA and the French government.

The Group's industrial operations require the use and the processing of explosive or chemically hazardous materials. Although these activities are conducted in accordance with applicable rules, as per a specific Safety Management System to prevent accidents, and high-quality equipment and personnel are used, accidents may occur which result in interruptions of varying lengths and thus a negative effect on the Group's results.

Risks relating to the supply of electric and thermal energy

The electric and thermal energy used by the Company to carry out its production activities is supplied by the 40% owned subsidiary Termica Colleferro S.p.A. and 60% owned by SECI S.p.A.. As outlined in the "Commitments" section, following the arrangement with creditors, on July 5, 2021, the Bologna Court declared SECI S.p.A. bankrupt and appointed three receivers.

Termica Colleferro has always operated and continues to operate "in bonis".

In consideration of the different procedural context that arose with the declaration of bankruptcy, although the liquidation scenario of the investment in Termica Colleferro started by SECI S.p.A. remained substantially unchanged, Termica Colleferro and Avio promptly contacted the receivers in order to coordinate and accelerate the disposal of the 60% of the share capital of the Company.

Following discussions with the Receivership, in which Termica Colleferro and Avio, as supplier and customer, laid out their respective operational needs, the Bologna Court took immediate steps to initiate the sale of the stake held by SECI S.p.A. in Termica Colleferro, authorising the Receivers to take steps in this regard by issuing an authorisation order on August 18, 2021, which was followed by publication of the related call for tender on September 1, 2021.

On August 24, 2021, Termica Colleferro repaid the second instalment on the bank loan, completing the repayment plan scheduled for the entire 2021.

The presentation by SECI S.p.A. of the application for an arrangement with creditors of May 2019 is, under the terms of the Termica Colleferro bank loan agreement, an acceleration clause for repayment of the Loan.

In August 2020, while awaiting specific information from the parent company SECI S.p.A. concerning the arrangement with creditors and, more generally, the possibilities for the overall restructuring process (also in relation to the arrangement with Officine Maccaferri S.p.A.), the banks indicated that they are not in a position to carry out an assessment of the creditworthiness of the requests made by Termica Colleferro, while they shall not activate the acceleration clause.

Following the bankruptcy ruling of July 5, 2021, the acceleration clause could now be subject to evaluation by the banks in light of the changed bankruptcy scenario.

The rapid start by the receivers of the process for the sale of the share held by SECI S.p.A. in Termica Colleferro, together with the expressions of interest by third parties to acquire the share of SECI S.p.A., as well as the fact that from May 2019 to date the banks have not activated the acceleration clause of the Loan, regularly receiving the repayment of the principal amounts of the Loan and the payment of interest by Termica Colleferro, constitute elements that mitigate the risk at present.

SUBSEQUENT EVENTS

Business

Expansion of the MBDA contract for the provision of ASTER boosters

On July 7, 2021, Avio received various extensions of production orders from MBDA France S.A.S. for the production of additional batches of boosters for the ASTER-30 anti-aircraft and anti-missile defence system for a total value of over Euro 80 million.

Deliveries related to these additional orders are expected to cover the period 2022-30.

Avio with the Italy Pavilion at the Expo 2020 Dubai starting on October 1, 2021

On July 14, 2021, an agreement was signed by Avio and the commission for Italy's participation in Expo Dubai in the presence of the chairman of the Italian Space Agency, COMINT Secretary General Luigi De Leverano, and the regional councilman for Economic Development, Trade, Research & Innovation Paolo Orneli.

The application of sustainability and innovation, key themes of Expo 2020 Dubai, within the aerospace industry is the focus of the agreement by which Avio is to be a Gold Sponsor of the Italy Pavilion for the upcoming world expo to take place beginning October 1.

Agreement signed with ESA for the Vega E launcher

On July 21, 2021, at ESA's European Space Research Institute (ESRIN) in Frascati, Italy, Avio and ESA signed an agreement valued at Euro 118.8 million that ensures development of the Vega E launcher beyond 2025.

This agreement marks the start of a new phase in the development of Vega E (evolution), a more powerful version of the Vega C that will fly for the first time in 2022. The Vega E launcher will further increase its competitiveness, performance, and versatility in terms of mass and volume capabilities, while bringing about a significant reduction in launch costs. The focus of development of the Vega E is the new liquid oxygen-methane upper third-stage, which will also allow for improvements in terms of environmental sustainability.

Vega-C

The Project Key Point with ESA and the Commission of Inquiry conducted at the end of July 2021 had a positive outcome. The ESA authorised the completion of the qualification review with the analysis of the results of the "Hardware in the loop" (HWIL) avionic tests and the updating of the qualification Data Package with certain products (Telemetry, Multi-functional Unit, Destruction Chord) that had not yet undergone their respective qualification reviews, which will be carried out in the final quarter of the year.

Ariane 5 flight

On July 31, 2021, Ariane 5 successfully put into orbit two geostationary telecommunications satellites, Star One D2 and EUTELSAT QUANTUM.

Star One D2 is a high-capacity, multi-mission satellite with transponder in the Ku, Ka, C and X bands that will expand broadband coverage into new regions of Central and South America to provide Internet access to under-served populations. EUTELSAT QUANTUM is to be the world's first universal satellite able to modulate the coverage area and the strength of the telecommunication bands nearly in real time.

Vega flight VV19

On August 17, 2021, Vega successfully completed mission VV19.

Flight VV19 put into orbit the Pléiades Neo 4 satellite, the second satellite of the Pléiades Neo constellation, together with 4 ride-share microsatellites.

One of these is LEDSAT, a project of Rome's "La Sapienza" University aimed at studying a light-emitting diode (LED) technology used for independent optical tracking of satellites in low Earth orbit. The others are RADCUBE and SUNSTORM, for astronomical applications, and BRO-4 for security applications.

The success of these projects once again highlighted the work of Avio and Arianespace in making Vega increasingly reliable and competitive. The European launcher has confirmed its ability to put into orbit groups of rideshare satellites alongside a primary payload. This, together with the new SSMS payload adaptor that was successfully tested during flight VV16, increases the versatility of Vega in the competitive microsatellite market and provides clients with a wider range of launch opportunities.

Other significant events

Definition of the purchase price for acquisition of the business unit from the subsidiary Spacelab S.p.A. (formerly ELV S.p.A.) and reduction of this company's equity in line with expectations

As reported in the section "Significant Events", by private agreement on June 29, 2021, between Avio S.p.A. and the subsidiary Spacelab S.p.A., in which the Italian Space Agency holds a 30% stake, the price adjustment was set at Euro 8.5 million for the acquisition of the business unit related to the development, production, and commercialisation of launchers by Spacelab S.p.A. to Avio S.p.A., the original agreement for which was signed on March 1, 2018.

In an extraordinary session held on July 19, 2021, the shareholders of Spacelab S.p.A. approved the proportionate distribution of a dividend to Avio S.p.A. and the Italian Space Agency totalling Euro 8.0 million, to be taken from the price set for the acquisition of the aforementioned business unit. Furthermore, following the achievement of its mission to develop and commercialise the Vega launcher and its current status as research lab for the development of avionics applications, and as expected, the shareholders of Spacelab S.p.A. also approved a decrease in the company's equity that is in excess of current needs in the amount of approximately Euro 2.9 million.

The dividend and reduction of equity are to be paid to the shareholders of Avio S.p.A. and the Italian Space Agency as follows: 50% upon completion of the procedures for the reduction of Spacelab S.p.A. share capital and 50% by July 31, 2022.

For more information, see the "Significant events" section of the Directors' Report and section "3.30 Other current liabilities" of the Explanatory Notes.

OUTLOOK

In the short term, operations are expected to a certain extent to be again impacted both by the continuation of the containment and restriction measures directly relating to COVID-19 adopted by the various governmental authorities in Europe and the rest of the world and the indirect consequences of these measures, including possible delays or slowdowns to supply chain operators and sub-contractors.

In the fourth quarter, in addition to a further Vega Flight and two Ariane 5 flights, completion of the construction of the new Vega C launcher is planned, whose qualification flight is expected in Q1 2022. The Company has prepared forecasts for the year 2021 that take into account that outlined above, in addition to non-recurring costs.

Thus, a net order backlog of between Euro 850 and 900 million, net revenues of between Euro 300 and 330 million, Reported EBITDA of between Euro 30 and 32 million (including non-recurring costs

of approximately Euro 5 million) and a net result of between Euro 10 and 12 million are expected for the year 2021.

TRANSACTIONS WITH HOLDING COMPANIES, SUBSIDIARIES, JOINT VENTURES, ASSOCIATES & INVESTEEES

Transactions of the parent Avio S.p.A. with shareholders and with subsidiaries and associates of these latter, with subsidiaries, joint ventures, associates and investees, and with subsidiaries and associates of these latter, consist of industrial, commercial and financial transactions carried out as part of ordinary operations and concluded at normal market conditions. In particular, these concern the supply of goods and services, including of an administrative-accounting, IT, personnel management, assistance and funding and treasury management nature.

OTHER INFORMATION

As per Art. 40 of Legislative Decree 127/1991, it is disclosed that, in consideration of the share buy-back programme, at June 30, 2021, the Parent Company held 671,233 shares, representing 2.5465% of the share capital.

CORPORATE GOVERNANCE

The Company adheres to the principles of the Corporate Governance Code of the Corporate Governance Committee for Listed Companies, established by Borsa Italiana and promoted by Borsa Italiana, ABI, Ania, Assogestioni, Assonime and Confindustria, last updated in January 2020, and has adjusted its governance system to the regulatory provisions indicated therein. The Corporate Governance Code is available on the Borsa Italiana S.p.A. website at <https://www.borsaitaliana.it/comitato-corporate-governance/codice/2020.pdf>.

In accordance with the regulatory obligations, the Corporate Governance and Ownership Structure Report is drawn up annually and (i) contains a general outline of the Corporate Governance System adopted by the company and (ii) information upon the ownership structure and compliance with the Corporate Governance Code, including the main governance practices applied and the features of the internal control and risk management system, also with regards to financial disclosure.

The Company, at June 30, 2021, had adopted:

- i. the **Internal Dealing Policy**, as approved by the Board of Directors of Space2 on September 29, 2016, amended on September 13, 2017 by the Board of Directors of Avio S.p.A., with effect from the acquisition date.
- ii. a **Related Party Transactions Policy** approved by the Board of Directors of Space2 S.p.A. on January 19, 2017, with effect from the efficacy date of the merger by incorporation and latterly amended by the Board of Directors of Avio on May 11, 2021. For a reliable analysis of information on significant transactions with related parties, see the Explanatory Notes section "7. Related party transactions";
- iii. the **Inside Information processing policy**, approved on December 21, 2017 by the Company Board of Directors and amended on January 24, 2019 to incorporate regulatory changes, introduced by Legislative Decree No. 107 of August 10, 2018, concerning "*Domestic law adjustment provisions in view of regulation (EC) No. 596/2014, concerning market abuse and cancellation of Directive 2003/6/EC and Directives 2003/124/EC, 2003/125/EC and 2004/72/EC*;

- iv. **an Organisation, Management and Control model, as per Legislative Decree No. 231/2001, as amended**, and updated on May 11, 2021, by the Company's Board of Directors to account for all legislative changes introduced by Legislative Decree 231/2001;
- v. an **Avio Group Conduct Code**, approved on March 29, 2004 and amended latterly on June 28, 2017 by the Board of Directors of the Company, containing the requirements demanded by the company's stock market listing;
- vi. the **Guidelines to the Internal Control and Risk Management System of the Company**, approved on March 29, 2004 and latterly amended on June 28, 2017 by the Board of Directors of the Company;
- vii. a **Diversity policy**, approved by the Board of Directors of the Company on March 19, 2021, in compliance with Article 123-bis, paragraph 2, letter d-bis) of the CFA, as supplemented by Article 10 of Legislative Decree 254/2016, in addition to the recommendations of the Self-Governance Code.
- viii. an **Avio Group Anti-corruption Code**, approved by the Company's Board of Directors on March 14, 2019 in compliance with Legislative Decree 231/2001 and international best practices.

For all additional details in relation to the corporate governance of the company and all corporate governance decisions undertaken until March 19, 2021, reference should be made to the "Corporate Governance and Ownership Structure Report", published in the "Corporate Governance" section of the website, approved by the Board of Directors of Avio on March 19, 2021, prepared in compliance with Article 123-bis of the CFA and Article 89-bis of Consob Regulation 11971/1999 and in view of the recommendations of the Self-Governance Code, while also taking account of the reference documents prepared by Borsa Italiana S.p.A..

* * *

September 10, 2021

The BOARD OF DIRECTORS
The Chief Executive Officer and General Manager
Giulio Ranzo

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS AT JUNE 30, 2021

CONSOLIDATED BALANCE SHEET	Note	June 30, 2021	of which related parties	December 31, 2020	of which related parties
(In Euro thousands)					
ASSETS					
Non-current assets					
Property, plant and equipment	3.1	115,537		111,999	
Rights-of-use	3.2	8,546		9,209	
Investment property	3.3	3,101		3,138	
Goodwill	3.4	61,005		61,005	
Intangible assets with definite life	3.5	127,530		125,581	
Investments	3.6	9,554		9,112	
Non-current financial assets	3.7	6,337	6,337	6,259	6,259
Deferred tax assets	3.8	78,119		77,975	
Other non-current assets	3.9	71,439		74,140	
Total non-current assets		481,168		478,418	
Current assets					
Inventories and advances to suppliers	3.10	150,030	32,007	140,309	38,232
Contract work in progress	3.11	409,193	90,409	334,860	92,792
Trade receivables	3.12	4,533	1,547	2,175	1,634
Cash and cash equivalents	3.13	88,020		124,666	
Tax receivables	3.14	25,628		33,094	
Other current assets	3.15	11,751	18	8,954	4
Total current assets		689,155		644,058	
TOTAL ASSETS		1,170,323		1,122,476	

CONSOLIDATED BALANCE SHEET	Note	June 30, 2021	of which related parties	December 31, 2020	of which related parties
(In Euro thousands)					
EQUITY					
Share capital	3.16	90,964		90,964	
Share Premium Reserve	3.17	135,176		135,176	
Other reserves	3.18	14,053		13,851	
Retained earnings		54,265		49,373	
Group net profit		(2,450)		14,118	
Total Group Equity		292,008		303,482	
Equity attributable to non-controlling interests	3.19	7,203		8,512	
TOTAL EQUITY		299,211		311,994	
LIABILITIES					
Non-current liabilities					
Non-current financial liabilities	3.20	27,000		32,000	
Non-current financial payables for leasing	3.21	4,849	1,116	4,543	1,107
Employee Benefit Provisions	3.22	10,868		11,261	
Provisions for risks and charges	3.23	21,331		19,382	
Other non-current liabilities	3.24	123,325		127,840	
Total non-current liabilities		187,373		195,026	
Current liabilities					
Current financial liabilities	3.25	7,749	7,749	12,749	12,749
Current financial liabilities for leasing	3.26	1,791	73	2,676	150
Current portion of non-current financial payables	3.27	10,056		10,063	
Provisions for risks and charges	3.23	6,132		12,352	
Trade payables	3.28	52,674	4,714	66,454	10,257
Advances from clients for contract work-in-progress	3.11	562,725	70,838	477,871	79,515
Tax payables	3.29	8,767		8,488	
Other current liabilities	3.30	33,846	266	24,803	248
Total current liabilities		683,740		615,456	
TOTAL LIABILITIES		871,113		810,482	
TOTAL LIABILITIES AND EQUITY		1,170,323		1,122,476	

CONSOLIDATED INCOME STATEMENT	Note	H1 2021	of which related parties	H1 2020	of which related parties
<i>(In Euro thousands)</i>					
Revenues	3.31	132,879	45,634	175,311	54,004
Change in inventory of finished products, in progress and semi-finished		2,790		2,865	
Other operating income	3.32	2,916		2,315	
Consumption of raw materials	3.33	(37,553)		(40,552)	
Service costs	3.34	(59,194)	(20,016)	(85,378)	(14,383)
Personnel expenses	3.35	(39,157)		(38,614)	
Amortisation & depreciation	3.36	(10,477)		(8,389)	
Other operating costs	3.37	(2,333)		(3,128)	
Effect valuation of investments under equity method - operating income/(charges)	3.38	442	442	143	143
Costs capitalised for internal works	3.39	7,277		3,961	
EBIT		(2,410)		8,534	
Financial income	3.40	348	78	347	77
Financial charges	3.41	(439)	(8)	(690)	(5)
NET FINANCIAL INCOME/(CHARGES)		(91)		(343)	
Other investment income/(charges)					
INVESTMENT INCOME/(CHARGES)		-		-	
PROFIT/(LOSS) BEFORE TAXES		(2,501)		8,191	
Income taxes	3.42	60		227	
NET PROFIT/(LOSS) FOR THE PERIOD		(2,441)		8,418	
-- of which: Owners of the parent		(2,450)		8,309	
Non-controlling interests		9		108	
(Loss)/Earnings per Share (in Euro)		-0.10		0.32	
Diluted (Loss)/Earnings per Share (in Euro)		-0.09		0.31	

**CONSOLIDATED COMPREHENSIVE INCOME
STATEMENT**

H1 2021

H1 2020

(In Euro thousands)

NET PROFIT/(LOSS) FOR THE PERIOD (A)

(2,441)

8,418

Other comprehensive income items:

- Actuarial gains/(losses) - Actuarial gains/losses reserve

292

(112)

Gains/(losses) recorded directly to equity (which will be subsequently reclassified to P&L)

- Gains/(losses) on cash flow hedge instruments recorded directly to interest rate cash flow hedge reserve

Tax effect on other gains/(losses)

(89)

2

**TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF
TAX EFFECT (B)**

203

(110)

**COMPREHENSIVE NET PROFIT/(LOSS) FOR THE PERIOD
(A+B)**

(2,238)

8,308

-- of which: Owners of the parent

(2,247)

8,199

Non-controlling interests

10

109

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(Euro thousands)

	Share capital	Share Premium Reserve	Treasury shares	Other reserves			Retained earnings	Group result	Total Group equity	Non-controlling interest equity	Total Equity
				Unavailable reserve for treasury shares in portfolio	Legal reserve	Actuarial gains/(losses) reserve					
Equity at 31/12/2019	90,964	141,588	(2,668)	2,668	18,193	(3,993)	23,176	26,198	296,126	7,757	303,883
Allocation of prior year result							26,198	(26,198)			
Acquisition of treasury shares		(6,413)	(6,413)	6,413					(6,413)		(6,413)
Other changes											
Comprehensive income											
- Net profit for the period								14,118	14,118	755	14,873
- Other changes											
- Actuarial gains/(losses), net of tax effect						(349)			(349)		(349)
Comprehensive income	-	-	-	-	-	(349)	-	14,118	13,769	755	14,524
Equity at 31/12/2020	90,964	135,176	(9,080)	9,080	18,193	(4,342)	49,374	14,118	303,483	8,512	311,994
Allocation of prior year result							6,797	(6,797)			
Distribution of dividends of the parent company Avio S.p.A.								(7,321)	(7,321)		(7,321)
Allocation to reserves											
Effect on retained earnings attributable to the Group and reserves attributable to minority interests of transactions under common control and approved dividends of Spacelab SpA										(1,318)	(1,318)
Other changes							(1,906)		(1,906)		(1,906)
Comprehensive income											
- Net Profit								(2,450)	(2,450)	9	(2,441)
- Other changes									-		-
- Actuarial gains/(losses), net of tax effect						202			202	1	203
Comprehensive income	-	-	-	-	-	202	-	(2,450)	(2,247)	10	(2,238)
Equity at 30/06/2021	90,964	135,176	(9,080)	9,080	18,193	(4,140)	54,265	(2,450)	292,008	7,203	299,211

CONSOLIDATED CASH FLOW STATEMENT

(Euro thousands)

		H1 2021	of which related parties	H1 2020	of which related parties
OPERATING ACTIVITIES					
Net profit/(loss) for the period		(2,441)		8,418	
Adjustments for:					
- Income taxes		(60)		(227)	
- (Income)/charges from measurement at equity of investment in Europropulsion S.A.		(442)	(442)	(143)	(143)
- Financial (Income)/Charges		91		343	
- Amortisation & Depreciation		10,477		8,389	
- (Gains)/losses on sale of property, plant & equipment & other (income)/charges					
Dividends received					
Net change provisions for risks and charges		(4,272)		(2,703)	
Net change employee provisions		(189)		(276)	
Changes in:					
- Inventories and Advances to suppliers		(9,722)	6,225	(3,664)	1,824
- Contract work-in-progress & advances from clients		10,521	(6,294)	(16,754)	(24,557)
- Trade receivables		(2,358)	88	3,623	180
- Trade payables		(13,779)	(5,544)	(16,418)	3,512
- Other current & non-current assets		7,234	(14)	(934)	181
- Other current & non-current liabilities		1,629	18	3,622	41
Income taxes paid		15		(35)	
Interest paid		(126)		(150)	
Net liquidity generated/(employed) in operating activities	(A)	(3,422)		(16,910)	
INVESTING ACTIVITIES					
Investments in:					
- Tangible assets and investment property		(7,105)		(7,240)	
- Intangible assets with definite life		(7,675)		(4,109)	
- Equity Investments		(1)			
Disposal price of tangible, intangible & financial assets					
Liquidity generated (employed) in investing activities	(B)	(14,781)		(11,349)	
FINANCING ACTIVITIES					
EIB loan		(5,000)		(4,000)	
Centralised treasury effect with Europropulsion S.A. joint control company		(5,000)	(5,000)	(11,000)	(11,000)
Dividends paid by the parent Avio S.p.A.		(7,321)			
Dividends attributable to minorities of subsidiaries					
Acquisition of treasury shares				(1,407)	
Other changes to financial assets and liabilities		(1,122)	(68)	(1,326)	(46)
Liquidity generated (employed) in financing activities	(C)	(18,443)		(17,733)	
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C)	(36,646)		(45,992)	
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		124,666		144,303	
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD		88,020		98,311	

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS AT JUNE 30, 2021

1. GENERAL INFORMATION

Avio S.p.A. (the "Company" or the "Parent Company") is a limited liability company incorporated in Italy and registered at the Rome Companies Registration Office, with Registered Office at Rome, Via Leonida Bissolati, No. 76.

The Company was incorporated on May 28, 2015 under the name Space2 S.p.A., an Italian-registered Special Purpose Acquisition Company ("SPAC"), as an SIV (Special Investment Company) in accordance with the Borsa Italiana regulation, whose shares were listed on July 28, 2015 on the Professional Segment of the Investment Vehicles Market (MIV) organised and managed by Borsa Italiana S.p.A..

On March 31, 2017, Space2 S.p.A. acquired the company Avio S.p.A., parent company of the Avio Group and, on April 10, 2017 Avio S.p.A. was merged by incorporation. Space2 S.p.A. also changed its name to "Avio S.p.A." following the above-mentioned operation.

At June 30, 2021, Avio S.p.A. held, directly or indirectly, investments in seven subsidiary companies (Space S.p.A., Regulus S.A., Se.Co.Sv.Im. S.r.l., Avio Guyana S.A.S., Avio France S.A.S., AS Propulsion International B.V. and Avio India Aviation Aerospace Private Ltd. in liquidation) and in a jointly controlled company (Europropulsion S.A.) included in the consolidation scope of these financial statements (collectively the "Group" or the "Avio Group").

The consolidation scope was unchanged in the first half of 2021.

These Group consolidated financial statements are presented in Euro which is the Company's principal functional currency. The Consolidated Balance Sheet, the Consolidated Income Statement and the Consolidated Comprehensive Income Statement are reported in units of Euro; the Statement of Changes in Consolidated Equity and the Consolidated Cash Flow Statement, as well as these Explanatory Notes, are reported in thousands of Euro where not otherwise indicated. The foreign subsidiaries are included in the consolidated financial statements in accordance with the accounting policies described in the notes below.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Accounting Standards for the preparation of the condensed financial statements

These condensed half-year financial statements at June 30, 2021 were prepared in accordance with International Accounting Standards (hereafter also "IFRS") issued by the International Accounting Standards Board ("IASB") and approved by the European Union. IFRS refers to the International Financial Reporting Standards, the revised international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") - previously known as the Standing Interpretations Committee ("SIC").

In the preparation of these Condensed half-year financial statements, drawn up in accordance with IAS 34 - *Interim Financial Reporting*, the same accounting standards were adopted as for the preparation of the consolidated financial statements of the Avio Group at December 31, 2020, except for that outlined in the Explanatory Notes - "Accounting standards, amendments and interpretations applied from January 1, 2021" paragraph. Therefore, these financial statements must be read together with the consolidated financial statements of the Avio Group at December 31, 2020.

The preparation of condensed financial statements in application of IFRS requires estimates and assumptions on the values of the assets and liabilities, on the disclosures relating to assets and contingent liabilities at the reporting date and on the revenues and costs in the period. If in the future these estimates and assumptions, which are based on the best current valuations made by

management, should differ from actual circumstances, they will be modified appropriately in the period in which the circumstances change.

Some valuation processes, in particular the most complex such as the determination of any loss in value of non-current assets or the valuation of contingent liabilities, are generally made on a complete basis on the preparation of the annual accounts, when all the necessary information is available, except where there are specific indications of impairment which require an immediate valuation of any loss in value or an accrual is required to the provision for risks and charges.

2.2. Financial Statements

The Condensed half-year financial statements at June 30, 2021 consist of the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Comprehensive Income Statement, the Statement of changes in Consolidated Equity, the Consolidated Cash Flow Statement and the Explanatory Notes.

The financial statements of the Group are presented as follows:

- for the Consolidated Balance Sheet, the separate presentation of non-current and current assets and of non-current and current liabilities, generally adopted by industrial and commercial groups;
- for the Consolidated Income Statement, the classification of costs based on their nature, with separate indication of the results from discontinued operations, where applicable;
- for the Consolidated Comprehensive Income Statement, the adoption of the separate presentation ("two-statement approach") with indication of other gains/losses net of the relative tax effect;
- for the Consolidated Cash Flow Statement, the adoption of the indirect method.

2.3. Comparative information

In accordance with IAS 34, these condensed half-year financial statements at June 30, 2021 present the 2020 comparative figures for the Balance Sheet items (Consolidated Balance Sheet) and the first half year 2020 for the Income Statement items (Consolidated Income Statement, Consolidated Comprehensive Income Statement, Statement of changes in Consolidated Equity and Consolidated Cash Flow Statement).

2.4. Consolidation Principles

The consolidation principles adopted are in line with those utilised for the preparation of the consolidated financial statements at December 31, 2020 of the Avio Group, to which reference should be made for further information.

2.5. Translation of foreign entity financial statements

The financial statements of each company consolidated are prepared in the primary currency where they operate. For the condensed half-year financial statements, the financial statements of each foreign entity which utilises a currency other than the Euro is translated into this latter, as the Group's functional currency and the consolidated financial statement presentation currency. The transactions in currencies other than the Euro are translated into the functional currency at the exchange rate at the date of the transaction and the exchange gains and losses from the subsequent closure of these transactions are recorded in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates at the reporting date. The positive and/or negative differences between the values adjusted to the closing exchange rate and those recorded in the period are also recognised in the income statement. Non-monetary assets valued at historical cost in currencies other than the functional currency are not translated at the current exchange rate at the reporting date.

2.6. Consolidation scope

The Condensed half-year financial statements at June 30, 2021 include the financial statements of the parent company, of the Italian and overseas companies in which it holds directly or indirectly at June 30, 2021 more than 50% of the share capital, consolidated under the line-by-line method, and the financial statements of the company Europropulsion S.A., held 50% jointly with another shareholder, consolidated under the equity method.

The consolidation scope at June 30, 2021 was as follows:

Companies included in the consolidation scope at June 30, 2021	Holding
Parent	
Avio S.p.A.	-
Companies consolidated by the line-by-line method	
Spacelab S.p.A.	70%
Regulus S.A.	60%
SE.CO.SV.IM. S.r.l.	100% (*)
Avio Guyane S.A.S.	100%
Avio France S.A.S.	100%
ASPropulsion International B.V.	100%
Avio India Aviation Aerospace Private Limited (**)	100% (***)
Jointly controlled companies, measured at equity	
Europropulsion S.A.	50%
Associates, measured at equity	
Termica Colferro S.p.A.	40%

(*) Holding through ASPropulsion International B.V.

(**) The company is in liquidation. No financial commitments are expected for the Group related to the liquidation.

(***) Investment held in part directly by Avio S.p.A. (95%) and in part through ASPropulsion International B.V. (5%).

The non-controlling interest in the equity and results of the subsidiaries consolidated are recorded separately from the Group equity, in the account "Non-controlling interest equity".

2.7. Accounting policies

The accounting policies adopted are in line with the recognition and measurement criteria utilised in the preparation of the consolidated financial statements at December 31, 2020 of the Avio Group, to which reference should be made for further information, with the exception of that outlined in the following paragraph.

2.8. New accounting standards

IFRS accounting standards, amendments and interpretations applicable from January 1, 2021

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from January 1, 2021:

- on May 28, 2020, the IASB published an amendment called "**Covid-19 Related Rent Concessions (Amendment to IFRS 16)**". The document establishes for lessees the option to account for the reductions in rents connected with COVID-19 without having to assess, through the analysis of contracts, whether the definition of lease modification of IFRS 16 has been complied with. Therefore, lessees applying this option will be able to account for the effects of rent reductions directly in the statement of profit or loss on the effective date of the reduction. This amendment applies to financial statements beginning

June 1, 2020. The adoption of this amendment does not have effects on the consolidated financial statements of the Group.;

- on May 28, 2020, the IASB published an amendment called **"Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)"**. The amendments allow the temporary exemption from the application IFRS 9 to be extended until 1 January 2023 for insurance companies. The adoption of this amendment does not have effects on the consolidated financial statements of the Group.;
- on August 27, 2020, the IASB published, in light of the reform on interbank interest rates such as IBOR, the document **"Interest Rate Benchmark Reform-Phase 2"** which contains amendments to the following standards:
 - IFRS 9 Financial Instruments;
 - IAS 39 Financial Instruments: Recognition and Measurement;
 - IFRS 7 Financial Instruments: Disclosures;
 - IFRS 4 Insurance Contracts; and
 - IFRS 16 Leases.

All the amendments entered into force as of January 1, 2021. The adoption of this amendment does not have effects on the consolidated financial statements of the Group.;

- on March 31, 2021, the IASB published an amendment entitled **"Covid-19-Related Rent Concessions beyond June 30, 2021 (Amendments to IFRS 16)"** which extends by one year the application period of the amendment to IFRS 16 issued in 2020 and relating to the accounting for benefits granted to lessees due to COVID-19. These amendments are applied from April 1, 2021 and advance application is permitted. The adoption of this amendment does not have effects on the consolidated financial statements.

IFRS and IFRIC accounting standards, amendments and interpretations endorsed by the EU, not yet mandatory and not adopted in advance by the Group at June 30, 2021

On May 14, 2020, the IASB published the following amendments:

- **Amendments to IFRS 3 Business Combinations:** the purpose of the amendments is to update the reference in IFRS 3 to the revised version of the Conceptual Framework, without changing the provisions of the standard.
- **Amendments to IAS 16 Property, Plant and Equipment:** the purpose of the amendments is not to allow the amount received from the sale of goods produced during the testing phase of the asset to be deducted from the cost of the asset. These sales revenues and related costs will therefore be recognised to the income statement;
- **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets:** the amendment clarifies that in estimating the possible onerousness of a contract, all costs directly attributable to the contract must be considered. Accordingly, the assessment of whether a contract is onerous includes not only incremental costs (such as the cost of direct material used in processing), but also all costs that the enterprise cannot avoid because it has entered into the contract (such as, for example, the share of depreciation of machinery used to perform the contract);
- **Annual Improvements 2018-2020:** the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples of IFRS 16 Leases.

All the amendments will enter into force from January 1, 2022. The Directors do not expect these amendments to have a significant impact on the Group consolidated financial statements.

IFRS Standards, Amendments and Interpretations not yet approved by the European Union

At the reporting date, the relevant bodies of the European Union had not yet concluded the process necessary for the implementation of the amendments and standards described below.

- on May 18, 2017, the IASB published **IFRS 17 - Insurance Contracts** which replaces IFRS 4 - Insurance Contracts.

The new standard ensures that an entity provides pertinent information which accurately presents the rights and obligations under insurance contracts. The IASB developed the standard in order to eliminate inconsistencies and weaknesses in the existing accounting policies, providing a single principle-based framework to take account of all types of insurance contracts, including reinsurance contracts held by an insurer.

The new standard sets out in addition presentation and disclosure requirements to improve comparability between entities belonging to the same sector.

It measures insurance contracts on the basis of a General Model or a simplified version of such, called the Premium Allocation Approach ("PAA").

The main features of the General Model are:

- the estimates and assumptions of future cash flows always refer to the current portion;
- the measurement reflects the time value of money;
- the estimates include an extensive use of observable market information;
- a current and clear risk measurement exists;
- the expected profit is deferred and aggregated into groups of insurance contracts on initial recognition; and,
- the expected profit is recognised in the period of contractual coverage, taking account of adjustments from changes in the assumptions on cash flows for each group of contracts.

The PAA approach involves the measuring of the liability for the residual coverage of a group of insurance contracts on the condition that, on initial recognition, the entity expects that this liability reasonably reflects an approximation of the General Model. Contracts with a coverage period of one year or less are automatically considered appropriate for the PAA approach. The simplifications from application of the PAA method do not apply to the valuation of liabilities for existing claims, which are measured with the General Model. However, it is necessary to discount these cash flows where it is expected that the balance will be paid or received within one year from the date on which the claim occurred.

The entity should apply the new standard to insurance contracts issued, including reinsurance contracts issued, reinsurance contracts held and also investment contracts with a discretionary participation feature (DPF).

The standard is effective from January 1, 2023, although advance application is permitted, only for entities applying IFRS 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers. The Directors do not expect this standard to have a significant impact on the Group consolidated financial statements.

- on January 23, 2020, the IASB published an amendment entitled "**Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current**". The purpose of the document is to clarify how to classify payables and other short or long-term liabilities. These amendments shall enter into force on January 1, 2023 and early application is permitted. The directors do not expect this amendment to have a significant impact on the Group consolidated financial statements.
- on February 12, 2021, the IASB published two amendments entitled "**Disclosure of Accounting Policies—Amendments to IAS 1 and IFRS Practice Statement 2**" and "**Definition of Accounting Estimates—Amendments to IAS 8**". The changes are intended to improve disclosure on accounting policies to provide more useful information to investors and other primary users of financial statements and to help companies distinguish between changes in accounting estimates and changes in accounting policies. The amendments will be applicable from January 1, 2023, although advance application is permitted. The Directors do not expect these amendments to have a significant impact on the Group consolidated financial statements;

- on May 7, 2021, the IASB published an amendment called "**Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction**". The document clarifies how deferred taxes should be accounted for on certain transactions that can generate assets and liabilities of equal amounts, such as leases and decommissioning obligations. The amendments will be applicable from January 1, 2023, although advance application is permitted. The Directors do not expect this amendment to have a significant impact on the Group consolidated financial statements.

3. COMPOSITION, COMMENTS AND CHANGES IN THE PRINCIPAL BALANCE SHEET ACCOUNTS AND OTHER DISCLOSURES

NON-CURRENT ASSETS

3.1. PROPERTY, PLANT & EQUIPMENT

The values of Property, plant and equipment at June 30, 2021 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

The table illustrates the comparison between the balances in Property, plant and equipment of the Avio Group at June 30, 2021 and December 31, 2020.

	30/06/2021			31/12/2020		
	Values value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	14,669	-	14,669	14,669	-	14,669
Buildings	61,671	(20,324)	41,347	61,612	(19,317)	42,295
Plant and machinery	77,616	(61,983)	15,633	77,708	(60,196)	17,512
Industrial and commercial equipment	18,362	(17,183)	1,179	18,284	(16,940)	1,344
Other assets	11,462	(8,564)	2,898	11,208	(8,069)	3,139
Assets in progress and advances	39,810	-	39,810	33,040	-	33,040
Total	223,590	(108,054)	115,536	216,521	(104,522)	111,999

The changes between December 31, 2020 and June 30, 2021 in the gross values of property, plant and equipment are illustrated in the table below (Euro thousands):

Gross values	31/12/2020	Increases	Decreases for disposals	Reclassifications and other changes	30/06/2021
Land	14,669	-	-	-	14,669
Buildings	61,612	59	-	-	61,671
Plant and machinery	77,708	437	-	(529)	77,616
Industrial and commercial equipment	18,284	44	(5)	39	18,362
Other assets	11,208	263	(29)	22	11,462
Assets under development and payments on account	33,040	6,301	-	469	39,810
Total	216,521	7,104	(35)	-	223,590

The increases in the first half-year of Euro 7,104 thousand mainly concerns:

- assets in progress and advances for Euro 6,301 thousand. These investments particularly included:
 - works for the construction of industrial buildings for the SPTF "Space Propulsion Test Facility" project for the building of a Liquid Rocket Engine (LRE) test bench and of a plant for the production of carbon-carbon components in Perdasdefogu, at the Salto di Quirra experimental inter-force training range;
 - work relating to the Group's new office located in Colleferro;
 - works on the production buildings for the P120 motor;
- production machinery for Euro 437 thousand.

Some plant, for a total of Euro 529 thousand, which was included among plant and equipment at December 31, 2020, but which was not yet operational and so not yet subject to depreciation at June 30, 2021, has been moved to "Assets in progress and advances".

Between December 31, 2020 and June 30, 2021, the changes to accumulated depreciation were as follows (in Euro thousands):

Gross values	31/12/2020	Increases	Decreases for disposals	Reclassifications and other changes	30/06/2021
Land	-	-	-	-	-
Buildings	(19,317)	(1,007)	-	-	(20,324)
Plant and machinery	(60,196)	(1,787)	-	-	(61,983)
Industrial and commercial equipment	(16,940)	(245)	2	-	(17,183)
Other assets	(8,069)	(520)	24	-	(8,565)
Total	(104,522)	(3,559)	26	-	(108,055)

The depreciation was calculated in relation to the estimated useful life and the obsolescence incurred by these assets.

3.2. RIGHT-OF-USE

This account is recognised following the adoption of IFRS 16 - Leases, published by the IASB on January 13, 2016 and obligatory from January 1, 2019.

The Group adopted the option provided for in IFRS 16:C3, which permits reference to be made to the conclusions reached in the past regarding the contracts previously identified as leases in application of IAS 17 and IFRIC 4. This option was applied to all contracts, as provided for in IFRS 16:C4.

This standard was applied utilising the modified retrospective approach. In particular, with regard to lease contracts previously classified as operating leases, the Group recognised the following:

- financial assets at the present value of the residual future payments at the transition date, discounted according to the incremental borrowing rate applicable to each contract at the transition date;
- a right of use equal to the value of the financial liability at the transition date, net of any prepayments and accruals associated with the lease carried in the balance sheet at the reporting date of these financial statements.

The values of Right-of-use at June 30, 2021 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	30/06/2021			31/12/2020		
	Values value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land right-of-use	2,570	(214)	2,356	2,570	(143)	2,427
Buildings right-of-use	5,399	(2,171)	3,228	5,408	(1,750)	3,658
Plant and machinery right-of-use	1,632	(361)	1,271	1,525	(274)	1,251
Other assets right-of-use	3,117	(1,426)	1,691	3,053	(1,180)	1,873
Total	12,718	(4,172)	8,546	12,556	(3,347)	9,209

The gross values of these rights at June 30, 2021 (in Euro thousands) are reported below:

Gross values	31/12/2020	Increases	Decreases for contract conclusion	Reclassifications and other changes	30/06/2021
Land right-of-use	2,570	-	-	-	2,570
Buildings right-of-use	5,408	250	(259)	-	5,399
Plant and machinery right-of-use	1,525	107	-	-	1,632
Other assets right-of-use	3,053	325	(261)	-	3,117
Total	12,556	682	(520)	-	12,718

Changes in the year were as follows:

The Increases in the period of Euro 682 thousand concerned:

- buildings for Euro 250 thousand, concerning the apartment lease contracts for employees in French Guyana;
- plant and machinery for Euro 107 thousand, concerning the lease of a liquid nitrogen storage and provision plant;
- other assets for Euro 325 thousand, concerning new leased company vehicles.

The decreases of Euro 520 thousand concerned:

- with regards to "buildings" of Euro 259 thousand, mainly the conclusion of apartment lease contracts for employees in French Guyana;
- for "other assets" of Euro 261 thousand, the conclusion of vehicle leasing contracts.

The accumulated depreciation of these rights in the first half of 2021 is reported below (in Euro thousands):

Gross values	31/12/2020	Increases	Decreases for contract conclusion	Reclassifications and other changes	30/06/2021
Land right-of-use	(143)	(71)	-	-	(214)
Buildings right-of-use	(1,750)	(602)	180	-	(2,171)
Plant and machinery right-of-use	(274)	(86)	-	-	(360)
Other assets right-of-use	(1,180)	(397)	151	-	(1,426)
Total	(3,347)	(1,156)	331	-	(4,172)

The Right-of-use assets recognised in applying IFRS 16 mainly relate to the present values of the future payments under the following contracts:

- concession of an area located within the Salto di Quirra Inter-force Experimental Facility;
- lease of the electro-duct and relative electrical infrastructure at the combined cycle co-generation thermo-electrical station owned by the associate Termica Colleferro S.p.A.;
- leasing of office and industrial use land and buildings at Airola (Campania) and Villaputzu (Sardinia); leasing of apartments for employees in French Guyana; hiring of company cars.

3.3. INVESTMENT PROPERTY

The values of Investment property at June 30, 2021 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

The table illustrates the comparison between the balances in Investment property of the Avio Group at June 30, 2021 with December 31, 2020.

	30/06/2021			31/12/2020		
	Values value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	1,834	-	1,834	1,834	-	1,834
Buildings & facilities	2,378	(1,111)	1,267	2,378	(1,075)	1,303
Total	4,212	(1,111)	3,101	4,212	(1,075)	3,137

Investment property refers to part of the land, buildings and facilities within the Colleferro industrial complex (Rome) owned by the subsidiary Se.co.sv.im. S.r.l., leased to third parties. This latter undertakes property management activities.

The changes between December 31, 2020 and June 30, 2021 in the gross values of investment property of the Avio Group are illustrated in the table below (Euro thousands):

Gross values	31/12/2020	Increases	Decreases	Reclassifications and other changes	30/06/2021
Land	1,834	-	-	-	1,834
Buildings & facilities	2,378	-	-	-	2,378
Total	4,212	-	-	-	4,212

Between December 31, 2020 and June 30, 2021, the changes to accumulated depreciation were as follows (in Euro thousands):

Accumulated depreciation	31/12/2020	Depreciation	Utilisations	Reclassifications and other changes	30/06/2021
Land	-	-	-	-	-
Buildings & facilities	(1,075)	(36)	-	-	(1,111)
Total	(1,075)	(36)	-	-	(1,111)

The depreciation in the period was calculated in relation to the estimated useful life and the obsolescence incurred by these assets.

3.4. GOODWILL

The goodwill recognised at December 31, 2020 for an amount of Euro 61,005 thousand relates to the Purchase Price Allocation at March 31, 2017 commented upon in the Directors' Report.

As indicated in Note 2.7. Accounting policies", goodwill is not amortised but written down for impairments. The Group assesses the recoverability of goodwill at least annually, or more frequently where specific events and circumstances arise which may result in long-term value reductions, through impairment tests on each of the Cash Generating Units (CGU's). The CGU identified by the Group for the monitoring of goodwill coincides with the level of aggregation required by IFRS 8 - *Operating segments*, which for the Group is identified by the *Space business* alone.

Goodwill allocated to the Space CGU was subject to an impairment test at December 31, 2020, which indicated a recoverable value significantly in excess of the carrying amount of the net capital employed recognised to the financial statements at that date.

At June 30, 2021, the presence of impairment indicators was assessed; in the absence of these indicators, the value written to the financial statements was not submitted to additional recoverability checks.

3.5. INTANGIBLE ASSETS WITH DEFINITE LIFE

The values of Intangible assets with definite life at June 30, 2021 are shown net of the accumulated amortisation provisions, as illustrated in the table below (Euro thousands).

The table illustrates the comparison between the balances in Intangible assets with definite life of the Avio Group at June 30, 2021 with December 31, 2020.

	30/06/2021			31/12/2020		
	Gross values	Accumulated amortisation	Net book value	Gross values	Accumulated amortisation	Net book value
Development costs - amortisable	122,799	(61,115)	61,584	117,884	(57,722)	60,162
Development costs - in progress	28,967	-	28,967	28,070	-	28,070
Total development costs	151,666	(61,115)	90,551	145,954	(57,722)	88,232
Assets from PPA 2017 - Programmes	44,785	(12,689)	32,096	44,785	(11,197)	33,588
Concessions, licenses, trademarks and similar rights	10,583	(8,192)	2,391	10,439	(7,579)	2,860
Other	3,728	(3,207)	521	3,709	(2,979)	730
Assets in progress and advances	1,971	-	1,971	172	-	172
Total	212,733	(85,203)	127,531	205,059	(79,477)	125,582

The development costs being amortised primarily refer to design and testing costs relating to the P80, Z40 and P120 motors. Most development costs under completion refer to projects relating to the new liquid oxygen and methane motors.

The amortisation of these costs begins from the commencement of the commercial production of each individual programme, on a straight-line basis over their useful life, initially estimated based on the duration of the programmes to which they refer.

With reference to development costs in course of completion, which are not subject to amortisation as referring to programmes which have not yet commenced commercial production, recognition under intangible assets with definite useful lives (with prior verification of the absence of impairment) is supported by the profitability forecasts of the programmes.

Following the purchase price allocation process of the Avio Group by Space2 in March 2017, two intangible assets were identified relating to the Ariane and Vega aerospace programmes for a total of Euro 44,785 thousand.

The assets deriving from this allocation were measured at fair value based on the present value of the expected future benefits of the above aerospace programmes and amortised over a period of 15 years on the basis of the average useful life of the programmes.

Concessions, licenses, trademarks, patents and similar rights mainly include costs for the acquisition of software licenses and land rights costs.

The changes between December 31, 2020 and June 30, 2021 in the gross values of Intangible assets with definite life of the Avio Group are illustrated in the table below (Euro thousands):

Gross values	31/12/2020	Increases	Decreases	Reclassifications and other changes	30/06/2021
Development costs - amortisable	117,884	-	-	4,815	122,699
Development costs - in progress	28,070	5,712	-	(4,815)	28,967
Total development costs	145,954	5,712	-	-	151,666
Assets from PPA 2017 - Programmes	44,785	-	-	-	44,785
Concessions, licenses, trademarks and similar rights	10,439	144	-	-	10,583
Other	3,709	19	-	-	3,728
Assets in progress and advances	172	1,799	-	-	1,971
Total	205,059	7,674	-	-	212,733

The increases in H1 2021 of Intangible Assets with definite life of Euro 7,674 thousand, of which principally:

- Euro 5,712 thousand, principally for design and testing costs for the construction of the new liquid oxygen and methane motors;
- Euro 1,799 thousand for investments mainly related to the Industry 4.0 project.

Between December 31, 2020 and June 30, 2021, the changes to accumulated depreciation were as follows (in Euro thousands):

Accumulated amortisation	31/12/2020	Increases	Decreases	Reclassifications and other changes	30/06/2021
Development costs - amortisable	(57,722)	(3,393)	-	-	(61,115)
Development costs - in progress	-	-	-	-	-
Total development costs	(57,722)	(3,393)	-	-	(61,115)
Assets from PPA 2017 - Programmes	(11,197)	(1,492)	-	-	(12,689)
Concessions, licenses, trademarks and similar rights	(7,579)	(613)	-	-	(8,192)
Other	(2,979)	(228)	-	-	(3,207)
Total	(79,477)	(5,726)	-	-	(85,203)

3.6. INVESTMENTS

The investments held by the Avio Group at June 30, 2021 and December 31, 2020 follows (in Euro thousands).

	30/06/2021		31/12/2020		Change
	Group share	Total	Group share	Total	
<u>Subsidiaries</u>					
- Servizi Colleferro – Consortium	52.00%	62	52.00%	62	-
Total non-consolidated subsidiaries		62		62	-
<u>Companies under joint control</u>					
- Europropulsion S.A.	50.00%	5,326	50.00%	4,884	442
Total companies under joint control		5,326		4,884	442
<u>Associates</u>					
- Termica Colleferro S.p.A.	40.00%	3,636	40.00%	3,636	-
- Other consortiums		5		5	-
Total associates		3,641		3,641	-
<u>Other companies</u>					
- Other companies		525		524	1
Total other companies		525		524	1
Total		9,554		9,111	443

The changes between December 31, 2020 and June 30, 2021 in the investments are shown below (Euro thousands):

	31/12/2020	Increases	Decreases	Other changes	30/06/2021
Subsidiaries	62	-	-	-	62
Companies under joint control	4,884	442	-	-	5,326
Associated companies	3,641	-	-	-	3,641
Other companies	524	1	-	-	525
Total	9,111	443	-	-	9,554

The interest in Europropulsion S.A. has been classified among “Companies under joint control”. The change in the period relating to this interest was due to measurement at equity, which resulted in an increase of Euro 442 thousand (due to the 50% share of profits accrued in H1 2021, amounting to Euro 884 thousand).

The investments in associated companies (including certain consortiums) are valued at acquisition or subscription cost, as these companies are not considered significant in relation to the Group financial position and also as non-operating companies. In addition, the valuation as per the equity method would not result in a significant effect compared to valuation at cost.

There are no significant restrictions in the capacity of the associated companies to transfer funds to the owners of the company, through payment of dividends, loans or advance repayments.

The investments in other companies are valued at cost.

3.7. NON-CURRENT FINANCIAL ASSETS

The table below illustrates the non-current financial assets of the Avio Group at June 30, 2021 and at December 31, 2020 (in Euro thousands).

	30/06/2021	31/12/2020	Change
Shareholder loan to Termica Colleferro S.p.A.	6,337	6,259	78
	6,337	6,259	78

The account, amounting to Euro 6,337 thousand (Euro 7,440 thousand at nominal values), comprises the shareholder loan granted to the associated company Termica Colleferro S.p.A. together with the other shareholder SECI S.p.A., paid in order to ensure the long-term operational viability of this company in proportion to the share capital held; a similar contribution was made by the above-mentioned majority shareholder. This loan is non-interest bearing and repayment is subordinate to the total settlement of the bank loans of the associate, maturing in 2027.

The increase in the period is due to measurement at amortised cost.

For additional information regarding Termica Colleferro S.p.A., see the specific paragraph "Other commitments" of section 5. "Commitments and risks".

3.8. DEFERRED TAX ASSETS

The Avio Group's recognised deferred tax assets amount to Euro 78,119 thousand (Euro 77,975 thousand at December 31, 2020).

The amount recorded in the accounts represents the net balance of the deferred tax assets and liabilities calculated on the temporary differences between the value of assets and liabilities assumed for the purposes of the preparation of the financial statements and the respective values for fiscal purposes and the tax losses carried forward.

Deferred taxes are determined applying the tax rates which are expected to be applied in the period when the temporary differences will be reversed, or the benefits related to the tax losses will be utilised.

The summary of the temporary differences (deductible and assessable) and of the tax losses which resulted in the recognition of deferred tax assets and liabilities is illustrated in the table below with reference to the reporting date (Euro thousands):

	30/06/2021
Gross deferred tax assets on temporary differences	
<i>Temporary differences deriving from previous corporate operations</i>	
Fiscal amortisation on previous goodwill whose tax benefits remain in the Group.	7,491
Financial charges exceeding 30% of EBITDA	37,723
<i>Temporary differences deriving from current corporate operations</i>	
Provision for personnel charges, former employees and similar	2,280
Other deductible temporary differences	9,227
Total gross deferred tax assets	56,721
Deferred tax liability on temporary differences	
<i>Temporary differences deriving from previous corporate operations</i>	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(9,279)
Tax effect R&D expenses First-Time Adoption	(1,359)
<i>Temporary differences deriving from current corporate operations</i>	
Other temporary assessable differences	(1,174)
Total gross deferred tax liabilities	(11,812)
Net deferred tax assets/(liabilities)	44,909
Deferred tax assets on tax losses	68,996
Deferred tax assets not recorded	(35,786)
Net deferred tax assets (liabilities) recorded	78,119

Deferred tax assets on temporary differences and on tax losses were recorded in the accounts for the amounts whose future recovery was considered probable, on the basis of forecast assessable income, as well as based on a projection of these forecasts over a subsequent time horizon considered representative of the life cycle of the business equal to 15 years.

This time period considered representative of the life cycle of the business was estimated also taking into account the meeting with the Ministers of the Member Countries of ESA held in December 2014,

which resulted in the signing in August 2015 of agreements with ESA relating to the development of the new Ariane 6 launcher and the evolution of the VEGA launcher within the VEGA C programme which provides for the development and construction of the new "P120" motor, and the meeting of the Ministers of the Member Countries of ESA held on December 1, 2016 and on December 2, 2016 which confirmed the above-mentioned development programmes and gave the go ahead for the long-term development programme of the motor and of the Upper Stage of the Vega E, or rather the next step in the evolution of the Vega launcher.

Deferred tax assets recognised to the financial statements mainly concern the future tax deductibility of the goodwill amortisation relating to the "Aviation" business unit (sold in 2013), the financial charges exceeding 30% of gross operating profit and the intangible assets for client accreditation redefined as part of the purchase price allocation of 2017, as commented upon previously, in addition to prior tax losses.

3.9. OTHER NON-CURRENT ASSETS

The table below illustrates other non-current assets at June 30, 2021 and December 31, 2020 (Euro thousands).

	30/06/2021	31/12/2020	Change
Other non-current assets	71,439	74,140	(2,701)
	71,439	74,140	(2,701)

The breakdown of the account at the reporting date was as follows (Euro thousands):

	30/06/2021	31/12/2020	Change
Receivables from the General Electric Group	58,220	58,220	-
Receivables from FCA Partecipazioni	7,047	9,132	(2,085)
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	5,474	6,078	(604)
Guarantee deposits	561	572	(11)
Other non-current receivables	137	138	(1)
Total	71,439	74,140	(2,701)

"Receivables from the General Electric Group", amounting to Euro 58,220 thousand, refers to the recharge to the General Electric Group of the charges arising from the settlement notice relating to registration, mortgage and cadastral taxes notified to the Company in July 2016 by the Tax Agency, in connection with the extraordinary transactions that led to the transfer of the AeroEngine business by the Avio Group to the General Electric Group in 2013. This receivable is recognised against an amount payable to the Treasury of like amount among non-current liabilities;

The recognition of the above-mentioned receivable from the General Electric Group is based on specific contractual provisions, according to which the latter is required to indemnify the Avio Group from any liability arising in connection with the AeroEngine business pertaining to the General Electric Group, including liabilities related to indirect taxes referable to the above-mentioned extraordinary transactions of 2013.

It should be noted that the afore-mentioned tax settlement notice is the subject of a dispute with the tax authorities, which in 2020 appealed to the Supreme Court of Cassation against the sentence with which, at the end of 2018, the Piedmont Regional Tax Commission fully accepted the appeal lodged by the Company. The Company appeared promptly in the proceedings with its own counter-appeal and simultaneous cross-appeal, reaffirming the soundness of its arguments. The Supreme Court has not yet set a date for the hearing.

With regard to the litigation in question, and in particular the subject-matter of the dispute, relating to the anti-avoidance provision of Article 20, headed "Interpretation of acts", of Presidential Decree

No. 131/1986 ("Consolidated Registration Tax Act"), mention should be made of some circumstances post-dating the service of the payment notice. Specifically:

- the 2018 Budget Law (see Article 1, paragraph 87, letter a), of Law 205 of December 27, 2017) amended, with effect from January 1, 2018, Article 20 of the Consolidated Registration Tax Act, limiting the ability of the revenue authorities to reclassify acts subject to registration;
- the 2019 Budget Law (see Article 1, paragraph 1084, of Law 145 of December 30, 2018) attributed retroactive effect to the provision introduced by the 2018 Budget Law, which therefore should apply to payment notices – including that served on the Company – served in years prior to 2017;
- on July 21, 2020 Italy's Constitutional Court (see judgment no. 158) ruled that there was no basis for the challenges of the constitutionality of Article 20 of the Consolidated Registration Tax Act, holding that the statute is intended to reaffirm the "transaction tax" nature of registration tax, and clarifying the object of taxation in accordance with the structure of a levy on the legal effects of the legal transaction presented for registration, without the revenue authorities being able to attach relevance to extratextual elements and linked legal transactions devoid of any textual connection with the transaction in question;
- on September 17, 2020 the Central Directorate of the Tax Agency published official clarification (see reply no. 371) in which, acknowledging the above ruling by the Constitutional Court, it clarified that *"the sale of company quotas preceded by the contribution of a business line cannot be taxed on a par with the sale of a company as a whole on the basis of the provisions of Article 20 of the Consolidated Income Tax Act."*

For further information, reference should be made to Note "3.24. Other non-current liabilities" and to the section "Legal and tax disputes and contingent liabilities" in the Explanatory Notes.

The account "Receivables from FCA Partecipazioni" refers to the settlement dated August 2, 2019 between the Avio Group and FCA Partecipazioni S.p.A. regarding environmental charges. Based on this agreement FCA Partecipazioni S.p.A. committed to recognise to the Avio Group a total amount of Euro 19.9 million, of which Euro 11.3 million for reclamation activities and environmental restoration to be paid in the 2019-2023 period and Euro 8.6 million for post-operative management and maintenance to be paid in the 2019-2048 period, against the lapsing of the contractual guarantees which the company provided in the past to the Avio Group.

This agreement therefore entailed the recognition, on the transaction date (2019), of a discounted receivable from FCA Partecipazioni S.p.A. of Euro 16.5 million, divided into within and beyond 12 months according to the due dates of the expected collections, and a corresponding charges provision of Euro 16.9 million.

The decrease of Euro 2,085 thousand is due to the reclassification to short-term of the portion of the receivable due within 12 months.

"Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion", amounting to Euro 5,474 thousand, refer to the discounted value of the non-current portion of the concessions granted by the Ministry for Economic Development under the rules of Law 808/85.

These receivables are recorded in the accounts at the value resulting from the application of the amortised cost method, calculated utilising the effective interest rate, and are increased due to the effect of the accumulated amortisation of the difference between the initial value and the actual cash amounts and booked in the accounts under "Financial income".

The amounts to be received within 12 months are classified under "Other current assets" (Note 3.15).

CURRENT ASSETS

3.10. INVENTORIES AND ADVANCES TO SUPPLIERS

The table below illustrates inventories at June 30, 2021 and December 31, 2020 (Euro thousands).

	30/06/2021	31/12/2020	Change
Inventories	150,030	140,309	9,721
	150,030	140,309	9,721

The movements in the year are shown below (in Euro thousands):

	31/12/2020	Change	30/06/2021
Raw materials, ancillaries and consumables	47,432	6,064	53,496
Raw material, ancillary and consumables obsolescence provision	(2,374)	(152)	(2,526)
Raw material, ancillary and consumables - net value	45,058	5,912	50,970
Products in work-in-progress	5,275	2,293	7,568
Provision for the write-down of work in progress	-	-	-
Products in work-in-progress - net value	5,275	2,293	7,568
Finished products and other inventories	3,261	-	3,261
Finished products and other inventories obsolescence provision	(2,119)	-	(2,119)
Finished products and other inventories - net value	1,142	-	1,142
Advances to suppliers	88,834	1,516	90,350
	140,309	9,721	150,030

The increase in inventories relates to provisioning needed in order to support expected future production levels.

Advances to suppliers refers to payments to subcontractors made on the basis of interim progress reports. This item also includes advances paid on the signing of contracts. The change during the year reflects ordinary business cycle dynamics.

3.11. CONTRACT WORK-IN-PROGRESS

Production and research and development on orders are presented in the financial statements in two separate accounts: "Contract work-in-progress" and "Advances from clients for contract work-in-progress".

"Contract work-in-progress", recognised to the assets section of the Balance Sheet, includes the net balance of production orders and research and development for which, on the basis of analysis carried out by individual order, the gross value of contract work-in-progress is higher at the reporting date than the amount of advances received from clients.

"Advances from clients for contract work-in-progress", recognised to the liabilities section of the Balance Sheet, includes the net balance of production orders and research and development for which, on the basis of analysis carried out by individual order, the value of the advances received from clients is higher at the reporting date than the gross value of contract work-in-progress.

Contract work-in-progress is measured on the advancement of the production orders and research and development in accordance with the percentage of completion method based on the ratio between the costs incurred and the total estimated costs for the entire project.

The gross value of contract work-in-progress and advances received from clients is as follows (in Euro thousands):

	30/06/2021	31/12/2020	Change
Contract work in progress	409,193	334,860	74,333
Advances for contract work-in-progress	(562,725)	(477,871)	(84,854)
Net total	(153,532)	(143,011)	(10,521)

The table below summarises the contract work-in-progress relating to the projects where the gross value is higher than the advances collected; these works are therefore recorded for the net value under assets in the Consolidated Balance Sheet (Euro thousands):

	30/06/2021	31/12/2020	Change
Contract work-in-progress (gross)	1,136,747	1,045,285	91,462
Advances for contract work-in-progress (gross)	(727,554)	(710,425)	(17,129)
Contract work-in-progress (net)	409,193	334,860	74,333

The table below summarises the contract work-in-progress relating to the projects where the gross value is lower than the advances collected; these works are therefore recorded for the net value under liabilities in the Consolidated Balance Sheet (Euro thousands):

	30/06/2021	31/12/2020	Change
Contract work-in-progress (gross)	885,608	950,265	(64,657)
Advances for contract work-in-progress (gross)	(1,448,333)	(1,428,136)	(20,197)
Advances for contract work-in-progress (net)	(562,725)	(477,871)	(84,854)

The Avio Group is entitled to the research and development tax credits provided for in Decree-Law No. 145 of December 23, 2013, converted, with modifications, by Law No. 9 of February 21, 2014, as amended by Law No. 232 of December 11, 2016 (the "2017 Finance Act") and by the 2019 Finance Act (Art. 1, paragraphs 70-72, of Law No. 145 of December 30, 2018), on the basis of research and development services commissioned by the European Space Agency. These benefits are recognised to the income statement based on the advancement of the research and development on long-term orders which are part of the contract work-in-progress.

The multi-year projects mainly concern those relating to the Vega C and Vega E future generation launchers and the recognition of the economic benefits shall be made over the duration of the orders and from the effective advancement of the orders, calculated on the basis of the relative costs incurred.

This interim financial report does not include the research and development tax credits related to 2021, the analysis of which, for the purposes of recognition, may be carried out more fully at the end of 2021.

3.12. TRADE RECEIVABLES

The table below illustrates trade receivables at June 30, 2021 and December 31, 2020 (Euro thousands).

	30/06/2021	31/12/2020	Change
Trade receivables	4,533	2,175	2,358
	4,533	2,175	2,358

The breakdown of trade receivables at the reporting date is shown below (Euro thousands):

	30/06/2021	31/12/2020	Change
Receivables from third parties	3,214	561	2,653
Receivables from associates and jointly controlled companies	762	1,028	(265)
	3,976	1,589	2,388
Receivables from associates and jointly controlled companies beyond one year	557	586	(29)
	557	586	(29)
Total	4,533	2,175	2,359

The nominal value of receivables from third parties was adjusted by a doubtful debt provision of Euro 483 thousand in order to reflect their fair value.

Receivables from third parties

The breakdown of the account is shown below (Euro thousands):

	30/06/2021	31/12/2020	Change
Gross value	3,697	1,044	(2,653)
less: doubtful debt provision	(483)	(483)	0
Total	3,214	561	(2,653)

The principal receivables are due from ArianeGroup and the European Space Agency (ESA).

Receivables from associates, jointly controlled companies and non-consolidated subsidiaries

The breakdown of the account is shown below (Euro thousands):

	30/06/2021	31/12/2020	Change
Europropulsion S.A.	364	566	(202)
Servizi Colleferro S.C.p.A.	89	80	9
Potable Water Services Consortium	181	158	23
Termica Colleferro S.p.A. due within one year	128	224	(96)
	762	1,028	(266)
Termica Colleferro S.p.A. due beyond one year	557	586	(29)
	557	586	(29)
Total	1,319	1,614	(295)

3.13. CASH AND CASH EQUIVALENTS

The table below illustrates cash and cash equivalents at June 30, 2021 and December 31, 2020 (Euro thousands).

	30/06/2021	31/12/2020	Change
Cash and cash equivalents	88,020	124,666	(36,646)
Total	88,020	124,666	(36,646)

Cash and cash equivalents mainly concerning balances on bank current accounts.
Reference should be made to the Cash flow statement with regards to the movements in the period.

3.14. CURRENT TAX RECEIVABLES

The table below illustrates tax receivables at June 30, 2021 and December 31, 2020 (Euro thousands).

	30/06/2021	31/12/2020	Change
Current tax receivables	25,628	33,094	(7,466)
Total	25,628	33,094	(7,466)

The following table shows the net changes by type of tax credit and tax (amounts in thousands of euro):

	30/06/2021	31/12/2020	Change
VAT receivables	19,673	26,217	(6,544)
Research and development tax credit (year 2020)	1,563	1,563	-
Receivables from tax authorities	4,155	5,078	(923)
EU VAT receivables	237	236	1
Total	25,628	33,094	(7,466)

The reduction in the first half of the year of Euro 7,466 thousand essentially concerns the collection of the VAT receivables previously requested for repayment of Euro 8,557 thousand, in part offset by the amount of VAT receivables arising in the period.

VAT receivables

VAT receivables, for Euro 19,673 thousand, include:

- Euro 11,993 thousand, relating to VAT reimbursement requests to the Tax Authorities (Euro 20,601 thousand at December 31, 2020);
- Euro 7,680 thousand, relating to VAT reimbursements to date not requested for repayment (Euro 5,607 thousand at December 31, 2020).

The maturation of the VAT relates to the fact that the parent company's Avio S.p.A. main client is the European Space Agency (ESA) for the development of launchers and Ariane Group for their production/distribution, in addition to the jointly-controlled company Europropulsion for both of these phases. In particular, for the transactions carried out with these parties, Avio S.p.A. acts as a habitual exporter for VAT purposes, as the VAT exempt system for exports and the exemption for transactions treated as exports and the intra-EU supplies of goods are applicable to these transactions. This circumstance entails the quasi-absence of VAT payables on the sales transactions undertaken by the Company. On the other hand, the Company however has Italian suppliers whose supplies - further to the amounts for which declarations of intent are issued due to the fact that Avio S.p.A. is a habitual exporter - result in the recognition of VAT receivables.

Research and development tax credit

Regulatory framework

The research and development tax credit was introduced by Article 3 of Legislative Decree No. 145 of December 23, 2013, converted with amendments, by law No. 9 of February 21, 2014, and subsequently amended by:

- the 2017 Budget Law (Law No. 232 of December 11, 2016), published in the Official Gazette on December 21, 2016 and in force since January 1, 2017;
- the 2019 Budget Law (Law No. 145 of December 30, 2018), published in the *Official Gazette* on December 31, 2018 and in force since January 1, 2019;
- the 2020 Budget Law (Law No. 160 of December 27, 2019), published in the Official Gazette on December 30, 2019 and in force since January 1, 2020.

Under the original rules, introduced by Decree-Law No. 145/2013 and in effect until prior to the amendments applied by the 2019 Budget Law and the 2020 Budget Law, the tax credit in question:

- was recognised against the investment specifically identified by the law made in the years between 2015 and 2020;
- was "incremental" in nature, in that it equated to, for each of the tax break periods, the excess of investments made in the year over average similar investments over the 2012-2014 three-year period ("historic benchmark average");
- was equal to 50% of the excess costs incurred in the year over the historic benchmark average (until the amendments applied by the 2019 Finance Act, as set out below);
- was utilizable for an annual maximum amount of Euro 20 million (until the amendments applied by the 2019 Finance Act, as set out below);
- may be accessed also where research and development is contracted to third parties. In this case, the break may be utilised by the commissioner, if resident in Italy;

- was automatically accessible, without the need for a request for concession or administrative authorisation, and without complying with the obligation for cost certification by the independent auditing firm;
- was utilizable exclusively as an offset from the subsequent tax period to that in which the qualifying costs are incurred (until the amendments applied by the 2019 Finance Act, as set out below).

Due to the changes introduced by 2017 Budget Law, under the new paragraph 1-*bis* of Decree-Law No. 145/2013, introduced with effect from the 2017 tax year, the tax credit was, among other issues, extended also to costs incurred for research and development carried out by companies residing in Italy, as agents, on behalf of overseas principals.

Due to the 2019 Budget Law:

- the maximum amount of the tax credit that may be granted to each company was reduced from Euro 20 million to Euro 10 million with effect from January 1, 2019;
- the maximum amount of the tax credit was reduced from 50% to 25%, as limited to the costs of research and development activities not organized internally to the company, incurred in excess of the average amount of such investments undertaken in the three tax periods from 2012 to 2014. However, the 50% rate was confirmed for research and development activities organized internally to the company, i.e. for the personnel costs of employees directly assigned to such activities and, for externally commissioned activities, solely for contracts entered into with universities, research entities and organizations and innovative, independent start-ups and small and medium enterprises (SMEs). The benefit was extended to expenses incurred for the purchase of materials, supplies and other similar products directly used in 2019 R&D activities. These amendments enter into force from January 1, 2019;
- the use of the tax credit was only used after specific certification of the costs incurred had been issued by the independent auditor of the accounts. This amendment was already applicable to the tax credit accrued on the basis of the costs incurred in 2018;
- an interpretation rule was introduced for paragraph 1-*bis* of Article 3 of Decree-Law No. 145/2013 to establish that, where research and development is carried out on behalf of foreign principals, the tax benefit is granted to the agent exclusively in relation to the expenses concerning research and development carried out directly and in laboratories or structures located in Italy.

Lastly, the 2020 Budget Law significantly modified the tax relief for research and development activities as follows:

- 1) the previous tax credit provided for in Decree-Law No. 145/2013, with a maximum nominal amount of Euro 10 million (previously Euro 20 million), is confirmed for the 2019 tax period only. Before the 2020 Budget Law this credit was also to apply to the 2020 tax period;
- 2) the following new tax credits are established for the 2020 tax period only to replace the previous R&D credit:
 - a) a tax credit for fundamental research, industrial research and experimental development in scientific or technological fields, as defined in the "Frascati Manual". This tax credit is granted for 12% of the costs incurred in 2020, with a maximum of Euro 3 million;
 - b) a tax credit for technological innovation activities, other than those set out in point a), for the development of new or substantially improved products or production processes. This tax credit is granted – separately from that set out in paragraph a), and thus cumulatively – for 6% of the costs incurred in 2020 for such activities, with a maximum of Euro 1.5 million. The relief is increased (10% of the costs incurred in 2020 for such activities, up to a maximum of Euro 1.5 million), where the technological innovation activity is intended to achieve an environmental transition or digital innovation 4.0 objective;

- c) a tax credit for the design and styling activities carried out by companies active in textiles, fashion, footwear, eyewear, jewellery, furniture and furnishings and ceramics to create and implement new products and samples.

In contrast to the previous R&D tax credit, for the new relief introduced by the 2020 Budget Law:

1. the system for calculating eligible costs is not incremental, but proportional, with various rates (12%, 10% or 6%) applied according to the nature of the activity eligible for relief;
2. the receivables are used as offsets over three equal annual portions from the tax period subsequent to maturation, subject to satisfaction of the certification obligations;
3. it is now mandatory to submit a report to the Ministry for Economic Development, solely to permit the Ministry to obtain the information required to assess the performance, adoption and efficacy of the relief measures;
4. the costs eligible for relief must be stated net of other subsidies or grants received in any capacity for the same eligible expenses;
5. the rule in paragraph 1-*bis* of Decree-Law No. 145/2013, which allowed resident companies to benefit from an R&D tax credit for activities carried out on behalf of non-resident principals, was not renewed.

The same formalities established by the 2019 Budget Act for the previous R&D tax credit also apply to the new tax credits. These formalities include, for example, a report (i.e., certification) prepared by the independent auditors of the accounts attesting that the eligible expenses were effectively incurred and reflect the accounting documentation prepared by the company, in addition to an obligation for the beneficiaries to draft and retain a technical report on the purposes, contents and results of the eligible activities.

Recognition in the Financial Statements

a) R&D tax credits accrued until 2019 under Decree-Law 145/2013

The H1 2021 income statement includes accruals relating to the effects on the income statement of the tax credits accrued in 2017, 2018 and 2019 according to the provisions of Article 3 of Decree-Law 145/2013, in effect until December 31, 2019.

In particular, the recognition of these accruals was due to the fact that the receivables in question were initially recorded in the account "Research and development tax credit" and recognised to the income statement in each period on an accruals basis, according to the differing types of costs supported, and on the basis of the percentage of completion of the contract work-in-progress giving rise to the costs against which the due receivable was calculated in the Income Statement accounts "Service costs" and "Change in contract work-in-progress".

The cited long-term orders are those concerning research and development projects which principally include the future generation Vega C and Vega E launchers, which are part of the wider Vega launchers family.

This benefit, as matured against such research and development, was recognised to the income statement on the basis of the advancement of these activities, proportionate to the advancement of the costs incurred for the long-term orders to which the benefit refers.

b) R&D tax credits accrued in 2020 and maturing in 2021 pursuant to the 2020 Budget Law

This interim financial report does not include the recognition of research and development tax credits related to the current year. This tax credit, established under the 2020 Italian Budget, will be recognised at December 31, 2021, upon completion of the analyses that need to be done in relation to the full year. The tax credit in question, when recognised at year end, will refer to in-house research. At the date of this interim report, the credit accrued at December 31, 2020, on the basis of the 2020 Budget in the amount of Euro 1,563 thousand and also related to in-house research, has not yet been used.

Tax receivables

Tax receivables of Euro 4,155 thousand (Euro 5,078 thousand at December 31, 2020), principally concerned:

- receivables relating to the expedited VAT settlement of Se.co.sv.im. S.r.l. for Euro 1,256 thousand;
- IRAP receivables of Euro 267 thousand;
- receivables for withholding taxes on interest for Euro 947 thousand;
- tax receivables of the overseas subsidiaries Regulus and Avio France for Euro 734 thousand;
- other tax receivables of Euro 951 thousand.

EU VAT receivables

The EU VAT receivables relate to inter-EU transactions and amount to Euro 237 thousand (Euro 236 thousand at December 31, 2020).

3.15. OTHER CURRENT ASSETS

The table below illustrates other current assets at June 30, 2021 and December 31, 2020 (Euro thousands).

	30/06/2021	31/12/2020	Change
Other current assets	11,751	8,954	2,797
Total	11,751	8,954	2,797

The breakdown of the account is shown in the table below (Euro thousands):

	30/06/2021	31/12/2020	Change
Economic Development Ministry for disbursements pursuant to Law 808/85	3,839	3,212	627
Receivables from FCA Partecipazioni	2,168	2,168	-
Employee receivables	1,206	1,033	173
Prepayments and accrued income	2,268	986	1,282
Grants/subsidies receivable	1,393	1,098	295
Other debtors	410	415	(5)
Receivables from associated company Consorzio Servizi Acqua Potabile	18	4	14
Social security institutions	449	38	411
Total	11,751	8,954	2,797

Receivables from the "Economic Development Ministry for disbursements pursuant to Law 808/85", amounting to Euro 3,839 thousand, refer to the discounted value of the sums to be disbursed by the Ministry for Economic Development for projects qualifying as functional to national security or projects with common European interest, subsequent to the approval by the Interministerial

Committee for the Economic Programming of Resolution No. 28 of March 22, 2006 enacting directives for the aerospace sector, which will be received in the next year.

The portion which will be received beyond 12 months is classified in the account "Other non-current assets" (Note 3.9).

Regarding the "Receivables from FCA Shares", reference should be made to the comments at paragraph "3.9 Other non-current assets" in these notes. During the period, the instalment recognised as short-term at December 31, 2020 was received and the receivable for the new instalment due within 12 months recognised to this account, which is of an equal amount as the previous instalment.

With regards to the increase of Prepayments and accrued income of Euro 1,282 thousand on December 31, 2020, this mainly concerns prepayments, as the differing types of costs, such as for example software licenses, are invoiced at the beginning of the year and have one-year validity. Due to this fact, the prepayments made in the first half of the year are significant.

EQUITY

The breakdown of the Shareholders' equity at June 30, 2021 follows (in Euro thousands):

Share capital	Share Premium Reserve	Treasury shares	Unavailable reserve for treasury shares in portfolio	Legal reserve	Actuarial gains/(losses) reserve	Retained earnings	Group result	Total Group equity	Non-controlling interest equity	Total Equity
90,964	135,176	(9,080)	9,080	18,193	(4,140)	54,265	(2,450)	292,008	7,203	299,211
90,964	135,176	(9,080)	9,080	18,193	(4,140)	54,265	(2,450)	292,008	7,203	299,211

3.16. SHARE CAPITAL

The share capital of the parent company Avio S.p.A. amounts to Euro 90,964,212 at June 30, 2021; the share capital is entirely subscribed and paid-in.

This share capital derives from the aggregation:

- of Euro 15,422,500, equal to the share capital of the SPAC (Special Purpose Acquisition Company) Space2 S.p.A., following the partial proportional spin-off effective as of April 5, 2017, with the beneficiary being the new SPAC Space3 S.p.A. (this latter company therefore not part of the Avio Group). The company Space2, following the acquisition of the Avio Group on March 31, 2017, then merged by incorporation the parent Avio S.p.A., effective as of April 10, 2017, and was newly renamed "Avio S.p.A.";
- of Euro 75,339,170, equal to the share capital increase to service the share swap of the above-mentioned merger, following which shares were assigned of the incorporating company Space2 to Leonardo S.p.A. and In Orbit S.p.A.
- of which Euro 202,542 thousand as the increase due to the exercise, in the second half of 2017, of market warrants (see the "Shareholders" paragraph of the Directors' Report).

The share capital at June 30, 2021 comprised 26,359,346 ordinary shares.

3.17. SHARE PREMIUM RESERVE

The share premium reserve, originally totalling Euro 144,256 thousand, is restricted for the value of the treasury shares acquired. At June 30, 2021, the available value of the share premium reserve

was Euro 135,175 thousand, as treasury shares for a value of Euro 9,080 thousand had been acquired at that date.

3.18. OTHER RESERVES

The breakdown of other reserves is as follows (Euro thousands):

	30/06/2021	31/12/2020	Change
Actuarial gains/(losses) reserve	(4,140)	(4,342)	202
Legal reserve	18,193	18,193	-
Treasury shares acquired	(9,080)	(9,080)	-
Unavailable treasury shares purchase reserve	9,080	9,080	-
Total	14,053	13,851	202

The account includes:

- a negative reserve of Euro 4,140 thousand regarding losses net of actuarial gains from the application of IAS 19 revised, with the relative tax effect where applicable;
- the legal reserve for a positive Euro 18,193 thousand;
- treasury shares acquired for Euro 9,080 thousand, corresponding to 671,233 treasury shares, equal to 2.5465% of the total number of shares comprising the share capital.

3.19. NON-CONTROLLING INTERESTS

Non-controlling interests relate to the share of the equity in Spacelab S.p.A and Regulus S.A consolidated under the line-by-line method, as illustrated below (in Euro thousands):

	30/06/2021			
Consolidated companies	% Non-controlling interests	Capital and Reserves	Profit/(loss)	Equity non-controlling Interests
Spacelab S.p.A.	30.00%	1,201	(15)	1,186
Regulus S.A.	40.00%	5,993	23	6,017
		7,194	9	7,203

NON-CURRENT LIABILITIES

3.20. NON-CURRENT FINANCIAL LIABILITIES

The movement in the account between December 31, 2020 and June 30, 2021 is reported below (in Euro thousands):

	30/06/2021	31/12/2020	Change
Non-current financial liabilities	27,000	32,000	(5,000)
Total	27,000	32,000	(5,000)

The account concerns two loans agreed with the European Investment Bank (EIB):

- loan of an original Euro 10,000 thousand subscribed in January 2019: this loan has a fixed interest rate and is of 7-years duration, of which 2 constituting a grace period and repayment in ten equal half-yearly instalments of Euro 1,000 thousand from the third to the seventh years, of which the first maturing on April 30, 2021 and the final maturing on October 31, 2025;
- loan of Euro 40,000 thousand subscribed in October 2017: this loan has a fixed interest rate and is of 7-years duration, of which 2 constituting a grace period and repayment in ten equal half-yearly instalments of Euro 4,000 thousand from the third to the seventh years, of which the first payment on April 30, 2020 and the final maturing on October 31, 2024.

The two loans will support the planned development of new technologies in the field of space propulsion systems in view of the offering of the new products for the Ariane 6 and Vega-C programs and the expansion of industrial capacity at the Colleferro facility required to meet the Company's production volume targets for the coming years.

The decrease of Euro 5,000 thousand relates to the short-term reclassification:

- of the instalment of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2022;
- of the instalment of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2022.

The amount of the loan to be paid over the short-term, totalling Euro 10 million, is therefore recognised under item "3.26. Current financial liabilities."

These two loans are not supported by guarantees and stipulate the application of covenants (Gross Financial Debt/EBITDA, Gross Financial Debt/Equity, EBITDA/net financial charges), among other covenants. To-date, these covenants have been complied with.

Hedging derivatives have not been agreed on these loans.

3.21. NON-CURRENT FINANCIAL LIABILITIES FOR LEASING

Following the application of IFRS 16, the breakdown of the related non-current financial liabilities is shown below (in Euro thousands):

	30/06/2021	31/12/2020	Change
Non-current financial liabilities for leasing	4,849	4,543	306
Total	4,849	4,543	306

The breakdown of these financial liabilities is as follows (Euro thousands):

	30/06/2021	31/12/2020	Change
Non-current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	1,116	1,109	8
Non-current financial liabilities to third parties as per IFRS 16	3,733	3,434	299
Total	4,849	4,543	306

The financial liabilities to the associate Termica Colleferro S.p.A. relate to the lease of the electro-duct and relative electrical infrastructure at the combined cycle co-generation thermo-electrical station owned by the said associate.

With regards to the financial liabilities to third parties, these essentially concern:

- the concession of a specific area within the Salto di Quirra Inter-force Experimental Facility, where there are plans for a Space Propulsion Test Facility project for the construction of a Liquid Rocket Engine test bench and the production of carbon-carbon components;
- the leasing of office and industrial use land and buildings at Airola (Campania) and Villaputzu (Sardinia);
- the lease of apartments for employees in Guyana;
- the lease of company cars.

3.22. EMPLOYEE BENEFIT PROVISIONS

The account relates to post-employment benefits and other long-term benefits.

The means for accruing these benefits varies according to the legal, fiscal and economic conditions of each State in which the Group operates. These benefits are generally based on remuneration and years of employee service. The obligations refer to employees in service.

Post-employment benefits

Group companies guarantee post-employment benefits for employees both through contributions to external funds and through defined benefit plans.

Defined contribution plans

In the case of defined contribution plans, the Group pays the contributions to public or private insurance institutions based on legal or contractual obligations. With the payment of contributions the companies fulfil their obligations. The payables for contributions to be paid at the reporting date are included in the account "Other current liabilities" and the cost for the period matures based on the service period of the employee and recorded in the income statement account "Personnel expenses".

Defined benefit plans

Defined benefit plans are represented by unfunded plans, principally provided by third party funds, present in the Italian companies of the Group, of the leaving indemnity provision and of the special loyalty bonus indemnity, payable on departure to the employees which have matured the required number of years' service. The value of the liabilities recorded in the accounts for these institutions is calculated on an actuarial basis, utilising the projected unit credit method.

The leaving indemnity provision relates to the obligation for the amount to be paid to employees on the termination of employment, pursuant to the provisions of Article 2120 of the Civil Code. The regulations of this provision were modified by the 2007 Finance Act and subsequent Decrees and Regulations. Specifically, for the companies with an average number of employees not lower than fifty, the portion of leaving indemnity matured subsequent to January 1, 2007 is, on the choice of the employee, either transferred to a complementary pension fund or to the INPS treasury fund. Consequently, for the companies of the Group with a number of employees not below fifty, the portion of the employee leaving indemnity matured subsequent to this date is treated as a defined contribution plan, as the obligation of the Group is represented exclusively by the payment to the complementary pension fund or to INPS, while the liability existing at December 31, 2006 continues to be treated as a defined benefit plan to be valued in accordance with actuarial methods. For the companies of the Group with a number of employees below fifty, the portion matured in the year continues to be accrued to the company leaving indemnity provision, unless specific choices are made voluntary by the individual employees.

Other long-term employee benefits

The Group also recognises to employees other long-term benefits issued on the reaching of a fixed number of years of service. In this instance, the value of the obligation recognised to the financial statements reflects the probability that the payment will be issued and the duration for which payment will be made. The value of these liabilities recorded in the accounts are calculated on an actuarial basis, utilising the "projected unit credit" method.

The Group mainly has “unfunded” defined benefit plans, principally comprising the leaving indemnity provision of the Italian companies.

The provisions are broken down as follows (in Euro thousands):

	30/06/2021	31/12/2020	Change
- Defined benefit plans:			
Post-employment benefit	4,055	4,166	(111)
Other defined benefit plans	2,656	2,988	(332)
	6,711	7,154	(443)
- Other long-term benefits	4,157	4,107	50
Total employee benefit provisions	10,868	11,261	(393)
<i>of which:</i>			
- Italy	8,905	9,525	(620)
- Other Countries	1,963	1,736	227
	10,868	11,261	(393)

The following table presents the principal changes in the employee benefit provisions during the period (in Euro thousands):

	Defined benefit plans	Other long-term employee benefits	Total employee benefit provisions
Values at 31/12/2020	7,154	4,107	11,261
Financial charges/(income)	(15)	(0)	(15)
Actuarial (gains)/losses in income statement	-	(93)	(93)
Actuarial (gains)/losses in comprehensive income statement	(292)	-	(292)
Pension cost current employees	65	341	406
Other movements	-	(113)	(113)
Benefits paid	(201)	(85)	(286)
At 30/06/2021	6,711	4,157	10,868

The table below illustrates the principal assumptions utilised for the actuarial calculation:

	30/06/2021	31/12/2020
Discount rate	0.09%	-0.17%
Expected salary increases	2.14%	2.14%
Inflation rate	European zero-coupon inflation-indexed curve Swap at 31.05.2021	European zero-coupon inflation-indexed curve Swap at 31.12.2020
Average employee turnover rate	4.75%	4.74%

Securities issued by corporate issuers with “AA” ratings were utilised for the calculation of the present value, with the presumption that this class identifies a high rating level within a range of “Investment Grade” securities and therefore excluding more risky securities. The market curve utilised was a “Composite” curve which reflects the market conditions at the valuation date for securities issued by companies belonging to various sectors (including Utility, Telephone, Financial, Bank and Industrial). In relation to the geographical area, reference was made to the Eurozone.

3.23. PROVISIONS FOR RISKS AND CHARGES

The table below illustrates provisions for risks and charges at June 30, 2021 and December 31, 2020 (Euro thousands).

	30/06/2021	31/12/2020	Change
Provisions for risks and charges	27,463	31,734	(4,271)
Total	27,463	31,734	(4,271)

The breakdown of the provisions for risks and charges at June 30, 2021 is presented below (Euro thousands):

	30/06/2021		
	Current portion	Non-current portion	Total
Provision for variable remuneration	3,202	2,457	5,659
Provision for legal and environmental risks and charges	2,553	16,452	19,005
Provision for contractual and commercial risks and charges	377	2,422	2,799
Total	6,132	21,331	27,463

These provisions include:

- provisions for variable remuneration for Euro 5,659 thousand, mainly comprising employee remuneration on the achievement of individual and corporate objectives;
- provisions for legal and environmental risks and charges, against litigation and trade union disputes in course, amount to Euro 19,005 thousand;
- provisions for contractual and commercial risks and charges, mainly related to the provisions to cover potential commercial charges, penalties, charges and losses deriving from the conclusion of contracts in course, in addition to charges for rights pursuant to the provisions of Law 808/85 (regulation post 2006), amount to Euro 2,799 thousand.

The movements in current and non-current provisions in H1 2021 are shown below (amounts in Euro thousands):

	31/12/2020	Provisions	Other changes	Utilisations	Releases	30/06/2021
Provision for variable remuneration	8,732	2,780	-	(5,853)	-	5,659
Provision for legal and environmental risks and charges	19,330	-	84	(409)	-	19,005
Provision for contractual and commercial risks and charges	3,673	66	-	-	(940)	2,799
Total	31,735	2,846	84	(6,262)	(940)	27,463

The main changes in the first half of the year were:

- the provisions for variable remuneration were utilised for Euro 5,853 thousand, in consideration of the bonuses paid to employees for the achievement of individual and company objectives. This account concerned for Euro 4,642 thousand the payment of ordinary annual result bonuses and for Euro 1,211 thousand a tranche of the long-term incentive plan for top managers. The provision of Euro 2,780 thousand mainly relates to

variable remuneration which will be paid at the beginning of 2022, on the basis of the achievement of individual and company objectives for the year 2021, in addition to the aforementioned long-term incentive plan for senior Group managers;

- the risks and legal and environmental charge provisions were utilised for Euro 409 thousand, concerning environmental charges;
- the provisions for contractual and commercial risks and charges were released for Euro 940 thousand as the basis for their accrual was no longer applicable.

3.24. OTHER NON-CURRENT LIABILITIES

The table below illustrates the account at June 30, 2021 and December 31, 2020 (Euro thousands).

	30/06/2021	31/12/2020	Change
Non-current liabilities	123,325	127,840	(4,515)
Total	123,325	127,840	(4,515)

In detail, the changes in the item were as follows:

	30/06/2021	31/12/2020	Change
<i>Tax liabilities</i>			
Payables to the Tax Authorities for registration, mortgage and land tax relating to the corporate operations which in 2013 resulted in the sale of the company GE Avio S.r.l. (containing the assets of the AeroEngine sector of the Avio Group) to the General Electric Group.	58,220	58,220	-
Other tax payables	2,832	5,126	(2,295)
	61,052	63,346	(2,295)
<i>Liabilities relating to Law 808/85</i>			
Payables to the Economic Development Ministry (MiSE) for disbursements pursuant to Law 808/85 (rules pre-2007) - portion beyond one year	42,051	42,051	-
Deferred income on disbursements pursuant to Law 808/85 (post 2007) - beyond one year	17,629	19,781	(2,152)
Payables to MiSE for disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	1,310	1,301	9
Deferred income on disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	483	483	-
	61,473	63,616	(2,143)
Payables due to MiSE for other subsidies	104	122	(18)
Other payables	137	137	-
Deferred income	559	619	(60)
Total	123,325	127,840	(4,515)

Payables to the Tax Authorities for registration, mortgage and land tax relating to the corporate operations which in 2013 resulted in the sale of the company GE Avio S.r.l. (containing the assets of the AeroEngine sector of the Avio Group) to the General Electric Group.

The account, amounting to Euro 58,220 thousand, refers to the settlement notice received in July 2016 from the Tax Agency relating to registration, mortgage and land tax for the above-mentioned amount, relating to the corporate operations which in 2013 resulted in the sale of the company GE Avio S.r.l. (containing the assets of the AeroEngine sector of the Avio Group) to the General Electric Group. Simultaneously a receivable was recorded from the General Electric Group for a similar amount.

The recognition of the above-mentioned receivable from the General Electric Group is based on specific contractual clauses in which this latter must indemnify Avio with reference to any liabilities which should arise in relation to indirect taxes concerning the above-mentioned operations, providing Avio the sums requested by the Tax Office within the time period for the payments.

It should be noted that the afore-mentioned tax settlement notice is the subject of a dispute with the tax authorities, which in 2020 appealed to the Supreme Court of Cassation against the sentence with which, at the end of 2018, the Piedmont Regional Tax Commission fully accepted the appeal lodged by the Company. The Company appeared promptly in the proceedings with its own counter-appeal and simultaneous cross-appeal, reaffirming the soundness of its arguments. The Supreme Court has not yet set a date for the hearing.

With regard to the litigation in question, and in particular the subject-matter of the dispute, relating to the anti-avoidance provision of Article 20, headed "Interpretation of acts", of Presidential Decree No. 131/1986 ("Consolidated Registration Tax Act"), mention should be made of some circumstances post-dating the service of the payment notice. Specifically:

- the 2018 Budget Law (see Article 1, paragraph 87, letter a), of Law 205 of December 27, 2017) amended, with effect from January 1, 2018, Article 20 of the Consolidated Registration Tax Act, limiting the ability of the revenue authorities to reclassify acts subject to registration;
- the 2019 Budget Law (see Article 1, paragraph 1084, of Law 145 of December 30, 2018) attributed retroactive effect to the provision introduced by the 2018 Budget Law, which therefore should apply to payment notices – including that served on the Company – served in years prior to 2017;
- on July 21, 2020 Italy's Constitutional Court (see judgment no. 158) ruled that there was no basis for the challenges of the constitutionality of Article 20 of the Consolidated Registration Tax Act, holding that the statute is intended to reaffirm the "transaction tax" nature of registration tax, and clarifying the object of taxation in accordance with the structure of a levy on the legal effects of the legal transaction presented for registration, without the revenue authorities being able to attach relevance to extratextual elements and linked legal transactions devoid of any textual connection with the transaction in question;
- on September 17, 2020 the Central Directorate of the Tax Agency published official clarification (see reply no. 371) in which, acknowledging the above ruling by the Constitutional Court, it clarified that *"the sale of company quotas preceded by the contribution of a business line cannot be taxed on a par with the sale of a company as a whole on the basis of the provisions of Article 20 of the Consolidated Income Tax Act."*

For further information, reference should be made to Note "3.9. Other non-current liabilities" and to the section "Legal and tax disputes and contingent liabilities" in the Explanatory Notes.

Other tax payables

This account, which amounted to Euro 2,832 thousand, refers, in particular, to:

- for Euro 2,251 thousand, the long-term amount payable to the Italian Treasury as a refund of a part of the research and development tax credit and related interest, pursuant to Decree-Law No. 145/2013, relating to the 2017 tax period and already used for offsetting. In particular, in view of the shift in interpretation of the 2019 Budget Law, and of the opinions of independent advisors, the Group decided to apply the authentic interpretation rule set out in paragraph 1-*bis* of Decree-Law No. 145/2013 retrospectively to 2017 as well, and therefore to redetermine a lower tax benefit due for that year. The restatement in question was also subject to a settlement deed signed with the Italian Tax Office on July 22, 2020, with which an instalment plan was also agreed to partially refund the amount;
- Euro 581 thousand, as the long-term share of the tax payable of the subsidiary Se.co.sv.im. S.r.l. concerning the expedited settlement, following the application presented in 2019, regarding the tax dispute relating to the alleged failure to apply the tax on the reclamation costs subject to recharge to the consolidating company Avio S.p.A. for the years 2010, 2011 and 2012.

This settlement stipulates the payment in 20 quarterly instalments of the taxes only, without penalties and interest.

Liabilities relating to Law 808/85

Payables to the Economic Development Ministry for disbursements pursuant to Law 808/85 (rules pre-2007) - portion beyond one year

This account (Euro 42,051 thousand) comprises the payables to the Economic Development Ministry relating to the disbursements, received pursuant to Law 808/85 and subsequent modifications and supplementations, undertaken for the promotion of research and development activities, including studies, tests and design relating to new programmes and other activities, in the aerospace industry. These sums are non-interest bearing and must be reimbursed in the period in which the revenues are generated from the programmes to which they refer. The payables are recorded at their nominal value.

This payable concerning the grants as per Law 808/85 is subject to the relative provisions valid up to 2006.

In 2006 the enacting regulations of Law 808/85 were modified. In particular, a specific regulation was defined for the programmes subject to intervention by Law 808/85 considered as functional to national security or projects of common European interest, which provide for, in place of the restitution of the disbursements granted, the payment of rights relating to the sale of the products developed within the programmes. For the programmes not within the above-mentioned category, the obligation remains for the restitution without payment of interest.

It is considered, following detailed analysis undertaken also with the assistance of primary legal firms and as communicated to the Economic Development Ministry in previous years, that this new regulation is not applicable to the interventions undertaken prior to the adoption of Resolution No. 28/2006 of the Interministerial Committee for Economic Programming, in relation to the specific situation of the programmes subject to the interventions, and therefore, as during 2019 there were no mandatory changes to the regulations in force, there were no changes in the criteria utilised to-date in the recognition in the accounts of the disbursements in question.

Deferred income on disbursements pursuant to Law 808/85 (post 2007) - beyond one year

The account, amounting to Euro 17,629 thousand, represents the initial counter-entry of the receivable from the Economic Development Ministry against the grants pursuant to Law 808/85, relating to the projects qualifying as functional to national security or projects with common European interest, for the amount to be allocated to the income statement in future years, beyond one year, in correlation to the allocation of the costs against which the disbursements were granted.

Payables to Economic Development Ministry for disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year

Disclosure upon the payable to MiSE for disbursements as per Law 808/85 according to the ex MiSE Decree of 3/07/2015 of Euro 1,310 thousand is presented below.

With Economic Development Ministry Decree of July 3, 2015, the criteria and means for funding to promote and support aerospace research and development projects to consolidate and grow Italian technology and the sector's competitiveness were defined.

The measures under the Decree concern zero-rate subsidised loans granted within the limits established by EU rules upon research, development and innovation.

The loans are repaid for 90% of the settlement amount through annual equal instalments over the issue duration and however for a period of not less than ten years, beginning from the year subsequent to the final disbursement. The remaining 10% is an outright grant.

On February 19, 2018, the parent Avio was recognised the Settlement Decree by the Economic Development Ministry with regards to expenses incurred as part of a research and development project which falls within the scope of the above-mentioned July 3, 2015 Decree.

The final disbursement under the plan reported in the Decree of February 19, 2018 is in 2029, with repayment therefore from the subsequent year (2030) until 2045.

Both the grants receivable from the Ministry for Economic Development and the subsequent reimbursements payable to the Ministry have been accounted for at amortized cost.

The difference between the nominal and present values of the amount receivable and payable is recognized over the course of the benefit.

Deferred income on disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year

See above for an account of the rules for grants pursuant to Law 808/85 set out in the Decree of the Ministry for Economic Development of July 3, 2015.

The caption, which amounted to Euro 483 thousand, represents the difference between the nominal values and present values of the amount receivable and payable in respect of the aforementioned liquidation decree dated February 19, 2018.

Payables due to MiSE for other subsidies

This item, amounting to Euro 104 thousand, consists of payables due beyond one year to the Ministry of Economic Development relating to the disbursements provided for in Article 6 of the Decree of June 1, 2016, in accordance with Axis 1, action 1.1.3. of the National Operational Program "Enterprise and Competitiveness" 2014-2020 ERDF, received for the undertaking of the joint research and development project concerning "Additive Manufacturing by Mixing Elemental Powders". The payables are recorded at their discounted value.

Other payables

The account amounting to Euro 137 thousand mainly includes the amounts received from the E. Amaldi Foundation by the subsidiary Spacelab S.p.A., which are paid in instalments.

CURRENT LIABILITIES

3.25. CURRENT FINANCIAL LIABILITIES

The table below illustrates current financial liabilities at June 30, 2021 and December 31, 2020 (Euro thousands).

	30/06/2021	31/12/2020	Change
Current financial liabilities	7,749	12,749	(5,000)
Total	7,749	12,749	(5,000)

The account comprises financial payables to the jointly-controlled company Europropulsion, relating to the mechanism of distributing to its shareholders the financial resources available to the joint venture, in accordance with a specific treasury management contract.

3.26. CURRENT FINANCIAL LIABILITIES FOR LEASING

Following the application of IFRS 16, the breakdown of the related non-current financial liabilities is shown below (in Euro thousands):

	30/06/2021	31/12/2020	Change
Current financial liabilities for leasing	1,791	2,676	(885)
Total	1,791	2,676	(885)

The breakdown of these financial liabilities is as follows (Euro thousands):

	30/06/2021	31/12/2020	Change
Current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	73	148	(75)
Current financial liabilities to third parties as per IFRS 16	1,718	2,528	(810)
	1,791	2,676	(885)

The financial liabilities to the associate Termica Colleferro S.p.A. relate to the lease of the electro-duct and relative electrical infrastructure at the combined cycle co-generation thermo-electrical station owned by the said associate.

With regards to the financial liabilities to third parties, these essentially concern:

- the concession of a specific area within the Salto di Quirra Inter-force Experimental Facility, where there are plans for a Space Propulsion Test Facility project for the construction of a Liquid Rocket Engine test bench and the production of carbon-carbon components;

- the leasing of office and industrial use land and buildings at Airola (Campania) and Villaputzu (Sardinia);
- the lease of apartments for employees in Guyana;
- the lease of company cars.

3.27. CURRENT PORTION OF NON-CURRENT FINANCIAL PAYABLES

The table below illustrates this account at June 30, 2021 and December 31, 2020 (Euro thousands).

	30/06/2021	31/12/2020	Change
Current portion of non-current financial payables	10,056	10,063	(7)
Total	10,056	10,063	(7)

The account, which amounted to Euro 10,056 thousand, consists of:

- the two instalments of the initial EIB loan of Euro 40 million, amounting to Euro 8 million (of which Euro 4 million due on October 31, 2021 and Euro 4 million due on April 30, 2022);
- two instalments of the EIB loan of Euro 10 million, amounting to Euro 2 million (of which Euro 1 million due on October 31, 2021 and Euro 1 million due on April 30, 2022);
- the accrued interest at June 30, 2021 amounting to Euro 56 thousand.

3.28. TRADE PAYABLES

The table below illustrates trade payables at June 30, 2021 and December 31, 2020 (Euro thousands).

	30/06/2021	31/12/2020	Change
Trade payables	52,674	66,454	(13,780)
Total	52,674	66,454	(13,780)

Trade payables of the Avio Group at June 30, 2021 amount to Euro 52,674 thousand; this amount includes, for Euro 4,641 thousand, trade payables to associated companies, jointly controlled companies and non-consolidated subsidiaries as follows (Euro thousands):

	30/06/2021	31/12/2020	Change
Europropulsion S.A.	4,435	7,236	(2,801)
Termica Colleferro S.p.A.	36	445	(409)
Potable Water Services Consortium	63	(120)	183
Servizi Colleferro S.C.p.A.	107	3	104
Total	4,641	7,564	(2,923)

3.29. CURRENT TAX PAYABLES

The table below illustrates current tax payables at June 30, 2021 and December 31, 2020 (Euro thousands).

	30/06/2021	31/12/2020	Change
Current income tax payables	8,767	8,488	279
Total	8,767	8,488	279

The breakdown of current income taxes is shown below (in Euro thousands):

	30/06/2021	31/12/2020	Change
IRES payables	794	667	127
IRAP payables	76	41	35
Payables for withholding taxes	1,254	1,142	112
Other tax payables	6,337	6,246	91
Foreign income taxes	306	392	(86)
Total	8,767	8,488	279

IRES payables from the tax consolidation total Euro 794 thousand, increasing Euro 127 thousand on December 31, 2020.

Payables for withholding taxes, amounting to Euro 1,254 thousand, refer to employee and consultant withholding taxes. This liability is in line with December 31, 2020.

Other Tax payables of Euro 6,337 thousand comprise the following items:

- for Euro 4,379 thousand, the short-term portion of the amount payable to the Italian Treasury as a refund of a part of the research and development tax credit and related interest, pursuant to Decree-Law No. 145/2013, relating to the 2017 tax period and already used for offsetting in 2018. In this regard, see the content of paragraph "3.24. Other non-current liabilities";
- for Euro 332 thousand, as the short-term portion of the Tax payable of the subsidiary Se.co.sv.im. S.r.l. concerning the expedited settlement, following the application presented by May 31, 2019, regarding the tax dispute relating to the alleged failure to apply the tax on the reclamation costs subject to recharge to the consolidating company Avio S.p.A. for the years 2010, 2011 and 2012.

This settlement stipulates the payment in 20 quarterly instalments of the taxes only, without penalties and interest;

- for Euro 213 thousand, the portion within 12 months of amounts payable due to the settlement of a tax dispute relating to tax year 2013 reached by the parent Avio S.p.A. with the Italian Tax Office in 2018.
- for Euro 1,413 thousand, tax liabilities in respect of ongoing tax disputes.

Payables for foreign taxes totalling Euro 306 thousand relate to the tax liabilities of the subsidiaries Regulus S.A., Avio Guyane S.A.S and Avio France S.A.S., operating in Kourou in French Guyana, a French overseas region and department in South America.

3.30. OTHER CURRENT LIABILITIES

The table below illustrates other current liabilities at June 30, 2021 and December 31, 2020 (Euro thousands).

	30/06/2021	31/12/2020	Change
Other current liabilities	33,846	24,803	9,043
Total	33,846	24,803	9,043

The breakdown of the account at June 30, 2021 is shown in the table below (Euro thousands):

	30/06/2021	31/12/2020	Change
Payables due to social security institutions	3,711	3,622	89
Employee payables	10,645	6,969	3,676
Other payables to third parties	8,676	5,558	3,118
Deferred income on disbursements pursuant to Law 808/85 - current portion	2,152	1,079	1,073
Other accrued liabilities and deferred income	8,661	7,575	1,086
Total	33,846	24,803	9,043

Amounts due to social security institutions

The account concerns amounts to be paid, amounting to Euro 3,711 thousand, relating to company and employee contributions, in accordance with regulations in force.

Employee payables

Employee payables amount to Euro 10,645 thousand and include remuneration to be settled, in addition to vacations and other rights matured and not utilised. The increase on December 31, 2020 of Euro 3,676 thousand relates to the vacations matured and not yet taken, in addition to a number of variable remuneration items which are paid in July.

Other payables to third parties

"Other payables to third parties" of Euro 8,676 thousand principally concern:

- liabilities towards the Italian Space Agency (ASI), minority shareholder of the subsidiary Spacelab S.p.A., for Euro 6,263 thousand, for dividends and the reimbursement of a portion of the capital subscribed.

By private agreement on June 29 between the parent company and buyer, Avio S.p.A., and the seller, the subsidiary Spacelab S.p.A., the price for the sale of the launchers business unit was adjusted.

The contractual agreement pertaining to this transaction, signed on March 1, 2018, included a consideration adjustment clause to take account of the fact that, at the date of sale of the business unit, the amount of the research and development tax credit accrued on the basis of the activities attributable to the unit subject to sale had not yet been definitively determined. Accordingly, on the date of sale of the unit, the parties decided to provide for the execution of a subsequent supplementary agreement to stipulate the adjustment of the price of sale of the business unit, to be entered into once any expected benefits of the above tax credit have been negotiated.

The period for negotiation between the parties to which the contract refers was on numerous occasions extended over the years, in view, firstly, of the complexity of the rules governing tax credits and, subsequently, of the many changes to the rules in question, in some cases with retroactive effect on the period prior to the sale of the business unit.

Finally, upon reaching the agreement for the price adjustment at the end of June, the parties set the price at Euro 8,529 thousand. This amount was financially settled by the parties on the date of the private agreement, i.e. on June 29.

Having defined the price adjustment and definitively quantified the gain recognised by Spacelab for the sale of the business unit, the board of directors of Spacelab on June 28 and the shareholders in an extraordinary session held on July 19 approved the distribution of dividends totalling Euro 18 million to the shareholders Avio and ASI. These dividends included the Euro 10 million approved by the shareholders of Spacelab on April 17, 2019, but not yet paid, awaiting the aforementioned price adjustment.

Of the Euro 18 million total, Euro 12.6 million is payable to Avio, the majority shareholder, while Euro 5.4 million is payable to ASI.

In the extraordinary session of July 19, the shareholders also approved the reduction in the subsidiary's capital in the amount of Euro 2,877 thousand for the excess capital beyond the current needs of the company.

This reduction in equity affected both the subsidiary's share capital, in the amount of Euro 1,680 thousand (going from Euro 4,680 thousand to Euro 3 million), and reserves, in the amount of Euro 1,197 thousand.

The Euro 2,877 thousand reduction in equity will result in a reimbursement to Avio in the amount of Euro 2,014 thousand and to ASI in the amount of Euro 863 thousand.

Therefore, summing the dividend distribution of Euro 18 million and the reduction in equity of Euro 2,877 thousand, the shareholders Avio and ASI will be paid a total of euro 20,877 thousand, with Euro 14,614 thousand going to Avio and Euro 6,263 thousand going to ASI.

The liabilities to both ASI and Avio are to be financially settled as follows: 50% upon completion of the procedures required to reduce share capital (reasonably by Q4 2021) and 50% by July 31, 2022;

- liabilities for urban development charges due to the municipalities in which the Group operates for Euro 434 thousand;
- liabilities to third parties for Euro 2,123 thousand, of which Euro 471 thousand to company boards and Euro 430 thousand for short-term instalments of several tax settlements entered into in 2018.

Deferred income on disbursements pursuant to Law 808/85 (post 2007) - current portion

The account, amounting to Euro 2,152 thousand (Euro 1,079 thousand at December 31, 2020), concerns the accrual of the contribution, with regards to the portion expected to be recognised as income to the income statement within the next 12 months.

Accrued liabilities and deferred income

This account, amounting to Euro 8,661 thousand (Euro 7,575 thousand at December 31, 2020), mainly refers to the deferment of commercial costs and grants to the following year.

INCOME STATEMENT

3.31. REVENUES

Total revenues, comprising the change in contract work-in-progress and revenues from product sales and the provision of services, amounted to Euro 132,879 thousand. They amounted Euro 175,311 thousand in the first half of 2020.

The following table compares the two periods (in Euro thousands):

	H1 2021	H1 2020	Change
Revenues from sales	105,317	469	104,848
Revenues from services	4,055	3,365	690
	109,372	3,834	105,538
Changes in contract work in progress	23,507	171,477	(147,970)
Total	132,879	175,311	(42,432)

Group revenues in H1 2021 decreased Euro 42,432 thousand, as a result of the net negative impact of the following movements:

- increase in sales revenues, essentially from the completion of a number of orders, for Euro 105,538 thousand;
- decrease in revenues from the advancement of orders in progress of Euro 147,970 thousand.

The increase in sales revenues of Euro 105,538 thousand follows the completion of orders for Euro 105,014 thousand and for Euro 303 thousand the sale of products.

The works completed concerned:

- for Euro 54,332 thousand, orders for the client Europropulsion, principally concerning the 2nd production batch of the P80 motors for the VEGA launchers;
- for Euro 30,344 thousand, orders for the client ESA, mainly with regards to cryogenic propulsion programmes and Ariane 5 maintenance programmes;
- for Euro 11,381 thousand, orders contracted with ArianeGroup, for the production of nozzles for Ariane 5;
- for Euro 5,176 thousand, orders for the client Roxel;
- for Euro 2,936 thousand, orders for the client MBDA;
- for Euro 692 thousand, orders for the client Vitrociset;
- for Euro 153 thousand, orders for the client Pyroalliance.

The reduction in revenues from the advancement of orders in progress, in the amount of Euro 147,970 thousand, is also the result of the factors described above in relation to the completion of orders, given that the orders completed in the previous period were presented as revenues from the ordinary advancement of orders under "Changes in contract work in progress".

As also reported in the "Group operating performance and financial and equity position" section of the Directors' Report, the overall decrease in revenues of Euro 42,432 thousand is mainly attributable to Vega's return-to-flight, which led to the postponement of activities and revenues relating to the development of the new Vega C launcher and to the Ariane programme for the planned phase-out of Ariane 5, partially offset by the future Ariane 6 programme.

The revenues from advancement include, in addition, the effect from the recognition of research and development credits for the years 2017, 2018 and 2019 under Article 3 of Legislative Decree No. 145/2013 and subsequent amendments in force until December 2019. This income amounted to Euro 1,124 thousand, while in the first half of 2020 totalled Euro 1,374 thousand. These credits, recognised to the extent they are considered recoverable and usable, are initially recorded in the account "Current tax receivables", with counter-entry to the income statement under "Service costs", and rediscounted to reflect their recognition to the Income Statement in each period on an accruals basis, according to the differing types of costs supported, in relation to the percentage of completion

of the contract work-in-progress giving rise to the costs against which the credit was calculated. The accrual has been recognised on the balance sheet under "Contract work in progress" and its release has been recognised on the income statement as "Changes in contract work in progress".

For further details on the revenue performance and the relative programmes, reference should be made to the "Group operating performance and financial and equity position" paragraph of the Directors' Report.

3.32. OTHER OPERATING REVENUES

Other operating revenues for the two periods are compared below (in Euro thousands):

	H1 2021	H1 2020	Change
Income from the release of provisions	218	46	172
Income for the portion recognised to the income statement of the disbursements as per Law 808/85	1,108	532	576
Other income and operating grants	1,112	1,472	(360)
Over-accruals and similar in prior periods	478	265	213
Total	2,916	2,315	601

In the first half of 2021, the account comprised:

- income from the release of provisions of Euro 218 thousand relating to the subsidiary Regulus S.A. (Euro 46 thousand in H1 2020);
- income for the portion recognised to the income statement of the disbursements as per Law 808/85 for Euro 1,108 thousand (Euro 532 thousand in H1 2020);
- other income and operating grants of Euro 1,112 thousand (Euro 1,472 thousand in H1 2020), including primarily:
 - grants of Euro 387 thousand (Euro 554 thousand in the comparative period);
 - recovery of charges for Euro 725 thousand (Euro 918 thousand in the comparative period);
- prior year income of Euro 478 thousand (Euro 265 thousand in the comparative period).

3.33. CONSUMPTION OF RAW MATERIALS

The breakdown of the account is as follows (Euro thousands):

	H1 2021	H1 2020	Change
Purchase of raw materials	42,384	48,469	(6,085)
Change in inventories of raw materials	(4,831)	(7,917)	3,086
Total	37,553	40,552	(2,999)

3.34. SERVICE COSTS

The breakdown of the account is as follows (in Euro thousands):

	H1 2021	H1 2020	Change
Service costs	58,894	85,069	(26,175)
Rent, lease and similar costs	300	309	(9)
Total	59,194	85,378	(26,184)

Service costs, amounting to Euro 59,194 thousand, in particular, include costs for activities carried out by co-producers, for consultancy and technical and professional services, for outsourcing, for maintenance and for temporary personnel.

The item "Service costs" includes the amount of the emoluments due to the Avio Group's governing bodies, relating to:

- directors' fees of Euro 249 thousand (Euro 211 thousand in H1 2020) and specific committee fees of Euro 85 thousand (Euro 68 thousand in H1 2020);
- Supervisory Board fees of Euro 94 thousand (Euro 75 thousand in H1 2020);
- Board of Statutory Auditors' fees of Euro 92 thousand (Euro 93 thousand in H1 2020);
- Auditing Firm fees of Euro 86 thousand (Euro 78 thousand in H1 2020).

3.35. PERSONNEL EXPENSES

The breakdown of the account is as follows (in Euro thousands):

	H1 2021	H1 2020	Change
Wages and salaries	28,151	29,621	(1,470)
Social security expenses	6,663	6,534	129
Provision for variable remuneration	2,472	753	1,719
Other long-term benefits - current employees	61	64	(3)
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	(163)	58	(221)
Provision for "Other defined benefit plans"	1,973	1,584	389
Total	39,157	38,614	543

The table below illustrates, at Group level and divided by category, the average number of employees of the companies included in the consolidation scope:

	H1 2021	H1 2020	Change
Blue-collar	384	393	(10)
White-collar	517	528	(11)
Executives	25	26	(1)
Total	925	947	(22)

3.36. AMORTISATION & DEPRECIATION

The breakdown of the account is as follows (in Euro thousands):

	H1 2021	H1 2020	Change
Property, plant and equipment	3,559	3,352	207
Rights-of-use	1,156	906	250
Investment property	35	33	2
Intangible assets with definite life	5,727	4,098	1,629
Total	10,477	8,389	2,088

The increase of Euro 2,088 thousand in amortisation on the comparative period is mainly due to Intangible assets with definite life, whose amortisation increased by Euro 1,629 thousand. This increase follows the beginning of amortisation in the second half of 2020 - and therefore reflected in the income statement of this H1 2021 and not in H1 2020 - of development costs capitalised on the Z40 and P120 motors.

Amortization of Intangible assets with a definite life primarily includes:

- amortisation of capitalised development costs of Euro 3,393 thousand (Euro 1,829 thousand in H1 2020);
- Euro 1,493 thousand for the amortisation of development costs capitalised and for the amortisation of intangible assets regarding the Ariane and Vega programmes, identified following the purchase price allocation process regarding the Group by Space2 in 2017 (same amount in H1 2020).

3.37. OTHER OPERATING COSTS

This account amounts to Euro 2,332 thousand (Euro 3,128 thousand in H1 2020) and mainly comprises the following items:

- indirect taxes of Euro 807 thousand (Euro 935 thousand in H1 2020);
- other operating charges of Euro 515 thousand (Euro 1,213 thousand in H1 2020). The decrease on the comparative period of Euro 698 thousand is essentially due to two donations of Euro 250 thousand, one by the Avio Group in 2020 to deal with the COVID-19 emergency to Colleferro Civil Protection and the other to the Kourou Hospital (in French Guyana).
- extraordinary charges for Euro 258 thousand (Euro 144 thousand at June 30, 2020), mainly concerning additional amounts disbursed to personnel;
- accruals to personnel charge provisions of Euro 321 thousand (Euro 558 thousand in H1 2020);
- prior year charges of Euro 186 thousand (Euro 278 thousand in H1 2020).

3.38. EFFECT VALUATION OF INVESTMENTS UNDER EQUITY METHOD - OPERATING INCOME/(CHARGES)

The account includes the effect of the application of the equity method for the valuation of the investment held in the jointly-controlled company Europropulsion S.A. These effects are recorded, in accordance with the option permitted by IFRS 11, under operating income and charges of the Group, based on the operating nature of the investment of the Avio Group in the company. The effect recorded with reference to the first half of 2021, amounting to income of Euro 442 thousand, corresponds to the share of the net result recorded by the aforementioned company in the period (in the absence of consolidation adjustments impacting the result of the jointly controlled company).

In the comparative H1 2020 period, the effect of the valuation of the investment in the above company was income of Euro 143 thousand.

3.39. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to costs capitalised for internally constructed assets, amounting to Euro 7,277 thousand (Euro 3,961 thousand in H1 2020), includes the costs for the internal construction of intangible assets, and to a lesser extent, tangible assets, recorded under assets in the Balance Sheet.

The account comprises the capitalisations of:

- internal development costs of Euro 5,712 thousand (Euro 3,335 thousand in H1 2020);
- costs for the internal production of tangible assets for Euro 281 thousand (Euro 626 thousand in H1 2020).
- costs for investments regarding the optimisation of operating processes to achieve production efficiency benefits in the amount of Euro 1,284 thousand.

3.40. FINANCIAL INCOME

The breakdown of the account is as follows (Euro thousands):

	H1 2021	H1 2020	Change
Interest income on tax credits collected	76	-	76
Financial income from amortised cost	185	130	55
Other financial income	8	-	8
	269	130	139
Realised exchange gains	129	246	(117)
Unrealised exchange gains	(50)	(29)	(21)
	79	217	(138)
Total	348	347	1

Financial income of Euro 348 thousand is in line with the comparative period.

The account mainly comprises:

- interest income from the discounting of receivables for Euro 185 thousand (Euro 130 thousand in the comparative period), of which:
 - Euro 78 thousand concerning the financial receivable of the associate Termica Colleferro S.p.A.;
 - Euro 107 thousand concerning the receivables from the Ministry for Economic Development for the disbursements as per Law 808/85 and receivables from other parties with maturity over the medium/long-term;
- currency differences for Euro 79 thousand (Euro 217 thousand in the comparative period).

Realised exchange gains arise on the collection of receivables and settlement of payables in foreign currencies.

Unrealised exchange losses relate to the period-end translation of receivables and payables in foreign currencies.

3.41. FINANCIAL CHARGES

The breakdown of the account is as follows (Euro thousands):

	H1 2021	H1 2020	Change
Interest on EIB loans	182	219	(37)
Interest on other payables	14	305	(291)
Discounting on employee benefits	(20)	(12)	(8)
Financial charges from amortised cost	105	28	77
	281	540	(259)
Realised exchange losses	163	154	9
Unrealised exchange losses	(5)	(4)	(1)
	158	150	8
Total	439	690	(251)

Financial charges, amounting to Euro 439 thousand (Euro 690 thousand in the comparative period), decreased Euro 251 thousand.

The decrease is mainly due to financial charges recognised in the first half of 2020 stemming from the settlement with the Tax Agency on July 22, 2020 (Euro 181 thousand), stipulating the partial repayment through instalments of a portion of the research and development tax credit for 2017.

Realised exchange losses arise on the collection of receivables and settlement of payables in foreign currencies.

Unrealised exchange losses relate to the period-end translation of receivables and payables in foreign currencies.

3.42. INCOME TAXES

The effective tax charge in the period is presented below (in Euro thousands):

	30/06/2021	30/06/2020
Net deferred tax income/charge	232	(248)
Italian company taxes	(162)	517
Taxes overseas companies	(10)	(42)
	60	227

This charge therefore comprises:

- deferred tax income of Euro 232 thousand;
- corporate income tax and the regional business tax (IRAP) for Italian companies in the amount of Euro 162 thousand, which includes; a gain for corporate income tax from previous years in the amount of Euro 283 thousand;
- current tax charges of overseas subsidiaries for Euro 10 thousand.

The reconciliation between the theoretical and effective IRES corporate income tax is presented below (in Euro thousands):

	30/06/2021	30/06/2020
Pre-tax result	(2,501)	8,191
Ordinary rate applied	24.00%	24.00%
Theoretical IRES taxes	(600)	1,966
Effect of increases (decreases) to the ordinary rate:		
Permanent increases	2,225	1,960
Permanent decreases	(6,415)	(4,204)
Temporary difference increases	8,890	6,332
Temporary difference decreases	(10,480)	(11,855)
Total changes	(5,780)	(7,766)
(Tax loss)/Assessable income on Group income taxes	(8,281)	425
Effective IRES taxes	n/a	102

3.43. EARNINGS PER SHARE

An explanatory statement is reported below:

	H1 2021	H1 2020
Group consolidated result (in Euro thousands)	(2,450)	8,309
Number of shares in circulation	26,359,346	26,359,346
Treasury shares	(671,233)	(315,300)
Number of shares entitled to profits	25,688,113	26,044,046
Basic (loss)/earnings per share (in Euro)	-0.10	0.32
Diluted (loss)/earnings per share (in Euro)	-0.09 ⁽¹⁾	0.31 ⁽¹⁾

⁽¹⁾ Diluted earnings (or loss) per share was determined assuming the conversion of the 800,000 sponsor warrants into ordinary shares.

4. DISCLOSURE BY OPERATING AND REGIONAL SEGMENTS

Disclosure by operating segment

In the first half of 2021, the Avio Group continued operating activities in line with previous years, exclusively in the Space business. Consequently, all the assets and liabilities, costs and revenues

refer exclusively to a single sector of activity, which corresponds to the consolidation scope of the Group.

The Group workforce numbered 944 at June 30, 2021. At December 31, 2020 and June 30, 2020, Group employees numbered 950.

Disclosure by regional segment

The regional breakdown of Group revenues (defined based on customer country location), in H1 2021 (and in line with recent years) refers completely to Italy and Europe.

Group activities, and new investments, are similarly allocated - on the basis of the same criterion as revenues (customer country location) - entirely in Italy and Europe.

5. COMMITMENTS AND RISKS

The Group's principal commitments and risks are summarised in the following table (in Euro thousands):

	30/06/2021	31/12/2020
Guarantees given:		
Unsecured guarantees:		
Sureties issued to third parties on behalf of Group	47,890	47,834
Other guarantees	3,402	3,402
Total guarantees given	51,292	51,236
Guarantees received:		
Sureties and guarantees received	1,057	2,024
	1,057	2,024

Guarantees granted

Secured guarantees include sureties issued by third parties on behalf of the Group in favour of clients for the execution of contracts and other guarantees in the form of patronage letters issued in the interest of Group companies.

Sureties and guarantees received

These principally include sureties received from suppliers against orders for supplies to be completed.

Other commitments

In relation to the associate Termica Colleferro S.p.A., held 40% by Avio and held 60% by S.E.C.I. S.p.A., operator of a thermal electric power plant whose steam production is essential for the functioning of the Colleferro production facility, the following is outlined.

In February 2010, to assist plant construction, Termica Colleferro agreed with a banking syndicate a loan for a maximum Euro 34 million, with duration until February 24, 2022 (the "Loan") and supported by unsecured and secured guarantees, including an on-demand surety of the parent company Seci for a maximum amount of Euro 44.2 million.

The Loan requires Termica Colleferro to comply with certain financial covenants, and more precisely:

- 1) Net Financial Debt / Equity (NFP/E); and
- 2) Net Financial Debt / EBITDA (NFP/EBITDA).

In view of the development of general electricity market conditions and the consequent operating-financial situation of Termica Colleferro, in 2014, on the request of the lending banks so as to comply with the above Loan covenants, Termica Colleferro requested and obtained from the shareholders SECI and Avio a commitment letter by which the shareholders committed to grant a shareholder loan for maximum amounts respectively of Euro 18.2 million and Euro 12.1 million, in proportion to the share capital respectively held and cumulatively corresponding to the residual portion of the bank loan at that date. The agreements between the shareholders, Termica Colleferro and the banks establish that the shareholder loan shall be disbursed in a number of tranches on the request of Termica Colleferro, subject to the operating requirements of the latter and subordinated to the above Loan.

In the following years, also in consideration of the gradual deterioration of general electricity market conditions, in order to comply with the bank covenants, in December 2016 Termica Colleferro restructured its remaining bank debt of approx. Euro 22 million, mainly by extending the duration of the repayment plan from 2022 to 2027, reducing the interest rate spread and raising the covenant thresholds.

The Loan restructuring agreement did not amend the guarantees granted by the shareholders SECI and Avio to the lending banks, with the exception of the extension of the original guarantees to the new maturity date.

As mentioned above in relation to financing, Avio's maximum financial commitment originally totalled Euro 12.1 million. This financial commitment is structured around a mechanism based on progressive, proportionate reductions as the debt position of Termica Colleferro with the banks decreases.

Termica Colleferro's debt currently totals Euro 11.5 million. At the reporting date, Avio has a shareholder loan granted to Termica Colleferro for a total amount of Euro 7.4 million (carried according to the amortized cost method at Euro 6.3 million). At June 30, 2021, there was therefore no longer any residual commitment upon Avio to grant additional shareholder loans to Termica Colleferro on the basis of the progressive repayment of the Loan by Termica Colleferro to the banks. In fact, at June 30, 2021, in light of the agreements among the shareholders, Termica Colleferro and the banks, against a residual debt of Termica Colleferro for the Loan of Euro 11.5 million, this corresponds to a maximum financial commitment of Avio equal to 40% of the debt, i.e. Euro 4.6 million. As Avio has already disbursed shareholder financing to Termica Colleferro in the amount of Euro 7.4 million, this commitment has been fulfilled in its entirety.

Also in order to comply with the above Loan covenants, Termica Colleferro, Avio, SECI and the lending banks also signed an agreement in 2014 modifying the original loan agreement, in accordance with which Termica Colleferro has the right to remedy the potential violation of the financial covenants ("Equity cure") through the payment by the shareholders SECI and Avio to Termica Colleferro (pro-quota according to the limits of the respective share capital holdings in the company) of an amount as share capital increase and/or a shareholder loan which overall remedies the violation ("Cure amount").

In this regard, on the basis of the most recent approved financial statements of the subsidiary Termica Colleferro S.p.A. at December 31, 2018, the financial covenants provided for in the above loan agreement have been observed.

Where Termica Colleferro does not comply with the covenants established by the above loan, Avio and SECI may be called to undertake additional share capital increases or grant an additional shareholder loan (subordinated) in a measure proportional to their respective holdings.

On May 31, 2019, some Seci Group companies, including the holding company Seci S.p.A, and companies operating in the energy sector, in the agro-industrial sector, in the building/real estate sector and the last in the factoring sector, presented a voluntary arrangement with creditors application to the Bologna Court, agreed following the Order issued by the delegated Judge. The Court originally granted a deadline for the preparation and presentation of an industrial plan for the maintenance of the Group as a “performing” concern until November 4, 2019. Therefore, the majority stake in Termica Colleferro held by SECI S.p.A. has become an asset within the related procedure.

The associated company Termica Colleferro was not included in the companies presenting an administration procedure.

On January 17, 2020 the Court of Bologna ruled that the application for composition with creditors subject to a reserve filed by Seci S.p.A. on May 31, 2019 was inadmissible due to the failure by Seci S.p.A. to file the composition proposal and plan by the date January 3, 2020 fixed for this purpose by the Court of Bologna.

In the interim, on February 13, 2020 the Public Prosecutor’s Office of the Court of Bologna filed a petition for a declaration of bankruptcy of Seci S.p.A. following which, the Court of Bologna initially fixed the hearing for discussion on April 3, 2020

On the basis of that reported by the media outlets at that date, due in part to the concurrent effects of COVID-19, Seci S.p.A. presented on March 27, 2020 before the Bologna Court a new agreed settlement application, in so-called full form.

As the presentation by the parent company SECI S.p.A. of the application for an arrangement with creditors is, under the terms of the Termica Colleferro bank loan agreement, an acceleration clause for repayment of the loan, in order to define its position vis-à-vis the banking sector and to prepare the 2019 financial statements on a going concern basis, on April 27, 2020, Termica Colleferro requested that the banking syndicate waive the acceleration clause in the loan agreement.

Following a number of clarifications requested by the banks, the waiver request was resent on July 29, 2020 in order to receive a response in time for the approval of the 2019 financial statements (according to the applicable deadlines, also in view of the extensions granted as a result of COVID-19).

Following lengthy examination of the waiver request by the banks, Termica Colleferro examined, including with the support of its external consultants, the possibility of waiting for the banks' response to the waiver request in order to approve the 2019 financial statements.

In August 2020, while awaiting specific information from the parent company SECI S.p.A. concerning the arrangement with creditors and, more generally, the possibilities for the overall restructuring process (also in relation to the arrangement with Officine Maccaferri S.p.A.), the banks indicated that they are not in a position to carry out an assessment of the creditworthiness of the requests made by Termica Colleferro, while they shall not activate the acceleration clause.

After taking steps with SECI S.p.A. such that SECI S.p.A. could respond to requests for information from the banks, Termica Colleferro continued to pay the instalments of the loan due in 2020 (in February and August) and in February 2021 (in February and August).

The first hearing in court to lift the reserve on the admission of the composition procedure and approval of the creditors plan was scheduled for March 23, 2021 and was subsequently postponed to May 18, 2021 due to COVID-19.

In the first half of 2021, in pursuit of the objective to sell the stake in Termica Colleferro, SECI S.p.A. mandated an energy sector consulting firm to contact the leading industry players and issued a process letter to them describing how a future process of oversight by the Court of Bologna for the procedure of combination with creditors would work and calling for a formal, binding expression of interest in acquiring the 60% holding in Termica Colleferro, which was initially set to take place by July 5, 2021, and has since been postponed.

This action led a number of parties potentially interested in acquiring stakes in Termica Colleferro to contact Avio in order to ask about potential future collaborations should they be awarded the equity interest.

During these meetings, on July 5, 2021, the Bologna Court declared SECI S.p.A. bankrupt and appointed three receivers.

In consideration of the different procedural context that arose with the declaration of bankruptcy, although the liquidation scenario of the investment in Termica Colleferro started by SECI S.p.A. remained substantially unchanged, Termica Colleferro and Avio promptly contacted the receivers in order to coordinate and accelerate the disposal of the 60% of the share capital of the Company.

Following discussions with the Receivership, in which Termica Colleferro and Avio, as supplier and customer, laid out their respective operational needs, the Bologna Court took immediate steps to initiate the sale of the stake held by SECI S.p.A. in Termica Colleferro, authorising the Receivers to take steps in this regard by issuing an authorisation order on August 18, 2021, which was followed by publication of the related call for tender on September 1, 2021.

As such, the bankruptcy procedure is, in fact, in line with the continuity needs with respect to the liquidation initiatives undertaken by SECI S.p.A. in the composition with creditors.

On August 24, 2021, Termica Colleferro repaid the second instalment on the bank loan, completing the repayment plan scheduled for the entire 2021.

At present, there is no evidence of a risk either that the receivables from Termica Colleferro will not be collected or that the provision of electricity or heat will be interrupted. For further details, reference should be made to the "Main risks and uncertainties to which the Group is exposed" section.

Legal and tax cases and contingent liabilities

At the half-year reporting date, a number of Group companies were either plaintiffs or defendants to legal, civil, administrative and tax cases related to normal business operations, as outlined below. Avio S.p.A. and the subsidiaries have established in their financial statements and, therefore, in the consolidated financial statements, appropriate provisions for risks and charges to cover foreseeable liabilities relating to disputes of differing natures with suppliers and third parties, both within the courts and extra-judicially, the relative legal expenses, in addition to administrative sanctions, penalties and client indemnities. In establishing provisions, account was taken of: (i) the risks related to each dispute; and (ii) the applicable accounting standards, which require the provisioning of liabilities for probable and quantifiable risks.

Avio Group management consider the risks and charges provision estimates as appropriate with regards to the Group's overall amount of contingent liabilities.

In addition, with regards to disputes with a possible or remote risk of loss, or of an incalculable amount (of a limited number), in accordance with the accounting standards no risks provision has been established.

The Group in addition bases its risk of potential loss estimates on assessments/expectations with regards to the expected final judgment on the dispute, which remains however linked to the intrinsic uncertainty of each judgment, for which differing outcomes (whether favourable or unfavourable) for the Group against the *ex-ante* estimates may not be excluded.

A summary of current proceedings considered by the Group as significant on the basis of the amount or matters considered is provided below.

Legal disputes

Criminal case against Servizi Colleferro S.C.p.A for pollution of the Sacco river

As a result of the discovery of toxic substances in milk in June 2005 and the preliminary investigations of February 2009, in March 2010, the Republic of Velletri Public Prosecutor requested the citation of a number of individuals from Caffaro S.r.l., Centrale del Latte di Roma S.p.A. and Consorzio Servizi Colleferro (the legal representative and the presumed technical manager), alleging negligence causing the environmental disaster from the poisoning of the Sacco River waters and of substances intended for human consumption (milk), occurring in Colleferro, Segni and Gavignano until December 2008, and with regard to the consortium alone, the discharge of industrial wastewater without the prescribed authorisations in the same areas until November 2006. In particular, despite the fact that the Consortium was the sole party responsible for the final discharge of the industrial wastewater treatment plant of the area, its senior executives are accused of a failure to provide adequate safety measures, control systems and/or purifying treatments to prevent white water and first flush from the drainage of some areas in the area, collected by a trench facing the consortium wastewater treatment plant, flowing into the Sacco River, resulting in the contamination of the feed of dairy animals raised near the river. The Consortium operates on a non-profit basis with a main object to collect and treat waste water from the sites belonging to the consortium and sites in the industrial district of Colleferro.

The Ministry of the Environment, Land and Sea, the local municipalities and a number private parties (associations and individuals) appeared as civil claimants in the trial. The claims are founded on the environmental damages pursuant to Part IV of the Environmental Code (Legislative Decree No. 152 of April 3, 2006) and liability in tort pursuant to Articles 2043 et seq. of the Civil Code due to personal injury. The total amount of the damages sought has been set by the adverse parties at approximately Euro 35 million.

At present, Servizi Colleferro S.C.p.A. is owned by the following consortium member shareholders: Avio S.p.A. (32%), Se.co.sv.im. S.r.l. (20%), Termica Colleferro S.p.A. (6%), Caffaro s.r.l. in extraordinary administration (5%), Recupero Materie Prime S.r.l. (5%), Municipality of Colleferro (5%), EP Sistemi S.p.A. (6%), Lazio Ambiente S.p.A. (6%), Joyson Safety Systems Torino S.r.l. (5%) and Simmel Difesa S.p.A. (10%).

Finally, at the hearing of July 16, 2020, the Court of Velletri, in single-justice composition, fully acquitted Mr. Giovanni Paravani and Mr. Renzo Crosariol of the offense referred to in Section A) of the indictment, concerning the violation of Articles 113, 449, paragraph 1 (in relation to Article 434), 452, paragraph 1, No.3 (in relation to Article 439) of the Italian Criminal Code (negligent disaster), as judged to not have committed the act, consequently rejecting the claims brought by the civil parties against Servizi Colleferro S.C.p.A.

On March 30, 2021, legal counsel reported that neither the Prefect nor the claimants filed an appeal of the acquittals.

Therefore, the case has been definitively closed in favour of Messrs. Paravani and Crosariol and, consequently, of Servizi Colleferro.

Secosvim/Caffaro

The Colleferro industrial district includes an industrial area known as "Benzoin and derivatives" that until December 31, 2007 was leased to Caffaro S.p.A., which since September 2009 was subject to an extraordinary administration proceeding. For the collection of Caffaro debts, Secosvim submitted an application for admission to its insolvency proceedings, which was accepted.

At the same time, the Emergency Commissioners Office of Sacco Valley issued a claim for damages against Caffaro for land pollution for an estimated amount of approx. Euro 7 million, corresponding to the expected cost for the recovery of these areas. Caffaro challenged in the period between 2008 and 2012, before the Lazio Regional Administrative Court, a series of administrative acts (minutes of the conferences of service, notes with which Caffaro was requested to present contaminated waste disposal plans, approval deeds of characterization activities), requesting cancellation, with which the Commissioner's Office sought damages from Caffaro. These motions were notified also to Secosvim as owner of the Benzoin area (leased by Caffaro until 2007), which was therefore summoned before the court in accordance with law.

As the company Caffaro may claim these costs from Secosvim as the owner of the buildings, Secosvim therefore has requested since October 2009 before the Velletri court a prior technical declaration ("ATP") to establish any liability upon Caffaro for the contamination of the Benzoin area, which concluded with the filing of an opinion which confirmed the direct liability of Caffaro for the above-stated contamination.

In this regard, during the proceedings the State Prosecutor requested the Regional Administrative Court to assess the judicial incompatibility of the appeal decision. On conclusion of the hearing of December 6, 2016, the Lazio Regional Administrative Court consequently adopted separate ordinances (of identical tenor), with which (for each appeal) the President of the Counsel was requested to file within 90 days documented clarifications with regards to the criminal proceeding pending before the Velletri Court No. 1831/2014 (as reported in the previous paragraph, relating to the "*Criminal proceeding against Consorzio Servizi Colleferro with regards to the pollution of the Sacco river*"). The hearing to discuss these appeals was held on June 20, 2018.

The last hearing was held on June 9 of this year.
We await publication of the ruling.

Group tax audits

Information is provided below on the most significant tax audits and disputes which, at the date of the present financial statements, concerned Avio S.p.A. and its subsidiaries, with details on the specific disputes and the relative amounts.

A) Avio S.p.A. tax audits and disputes

A.1.) Settlement notice served on July 28, 2016 for indirect taxes on the transfer of the Aeroengine business unit from Avio S.p.A. to GE Avio S.r.l.

On July 28, 2016, the Tax Agency notified Avio S.p.A. of a settlement notice for registration, mortgage and cadastral taxes totalling Euro 58,220 thousand, re-categorising the conferment of the Aeroengine business unit from Avio S.p.A. to GE Avio S.r.l., and the subsequent sale of the shares of this latter company, during 2013, as a direct transfer of the business unit and, consequently, raised the alleged non-payment of the indirect taxes applicable to the above declared transfer of the business unit.

Convinced that there were extremely valid arguments for considering the charges brought by the revenue authorities to be baseless, Avio S.p.A. - in coordination with the General Electric Group, jointly appearing with Avio S.p.A. - appealed the aforementioned settlement notice. The Piedmont Regional Tax Commission decided in the company's favour in judgment 1740/18 filed on November 7, 2018, in which it granted the Company's appeal in full.

In 2020 the Italian Tax Office appealed the above judgment before the Court of Cassation. The Company appeared promptly in the proceedings with its own counter-appeal and simultaneous cross-appeal, reaffirming the soundness of its arguments.

With regards to this dispute, on the basis of specific contractual provisions, the General Electric Group is required to indemnify Avio S.p.A. for any liabilities which may arise with regards to the indirect taxes relating to the disposal of the company GE Avio S.r.l. (containing the AeroEngine segment operations of the Avio Group), in addition to the provision to Avio S.p.A. of any amounts requested by the Tax Agency by the established payment deadlines. In this regard, on August 12, 2016, following the notification from the Tax Agency to Avio S.p.A. of the settlement notice for a total of Euro 58,220 thousand, GE Italia Holding S.p.A. confirmed to Avio S.p.A. its punctual fulfilment of the above contractual stipulations. In view of that above, and particularly the notification of the above-

stated settlement notice which quantifies the alleged indirect taxes as Euro 58,220 thousand, in addition to the above payments of the contractually established indemnities and confirmed subsequently to the settlement notice at issue, a tax payable was recognised to the financial statements in relation to the liabilities which may arise from the dispute regarding the settlement notice and a corresponding receivable from the General Electric Group recorded for the same amount of Euro 58,220 thousand.

With regard to the litigation in question, and in particular the subject-matter of the dispute, relating to the anti-avoidance provision of Article 20, headed "Interpretation of acts", of Presidential Decree No. 131/1986 ("Consolidated Registration Tax Act"), mention should be made of some circumstances post-dating the service of the payment notice. Specifically:

- the 2018 Budget Law (see Article 1, paragraph 87, letter a), of Law 205 of December 27, 2017) amended, with effect from January 1, 2018, Article 20 of the Consolidated Registration Tax Act, limiting the ability of the revenue authorities to reclassify acts subject to registration;
- the 2019 Budget Law (see Article 1, paragraph 1084, of Law 145 of December 30, 2018) attributed retroactive effect to the provision introduced by the 2018 Budget Law, which therefore should apply to payment notices – including that served on the Company – served in years prior to 2017;
- on July 21, 2020 Italy's Constitutional Court (see judgment no. 158) ruled that there was no basis for the challenges of the constitutionality of Article 20 of the Consolidated Registration Tax Act, holding that the statute is intended to reaffirm the "transaction tax" nature of registration tax, and clarifying the object of taxation in accordance with the structure of a levy on the legal effects of the legal transaction presented for registration, without the revenue authorities being able to attach relevance to extratextual elements and linked legal transactions devoid of any textual connection with the transaction in question;
- on September 17, 2020 the Central Directorate of the Tax Agency published official clarification (see reply no. 371) in which, acknowledging the above ruling by the Constitutional Court, it clarified that *"the sale of company quotas preceded by the contribution of a business line cannot be taxed on a par with the sale of a company as a whole on the basis of the provisions of Article 20 of the Consolidated Income Tax Act."*

At the reporting date, the Court of Cassation has yet to schedule a hearing.

A.2) *Questionnaire of the Piedmont DRE of June 4, 2019 concerning transfer prices between Avio S.p.A. and Regulus S.A. - 2014 Tax period*

In November 2019, the Piedmont Tax Agency served two separate assessment notices on the Company, respectively for IRES and IRAP, in relation to the 2014 tax year, concerning the application of "transfer pricing" tax regulations to transactions between Avio S.p.A. and its subsidiary Regulus S.A., on the assumption that the latter is a tax resident in French Guyana.

With regard to the IRES assessment notice, it should be noted that, pending the settlement procedure, the Company has asked the Office to be able to offset the greater taxable profit assessed against unused prior tax losses. Granting the Company's request, in July 2020 the Office recalculated the greater IRES assessed for 2014 (and related interest), reducing it to zero and levying a single administrative fine of Euro 1,250.00.

With regard to the IRAP assessment notice, since the value of production adjusted by the Office is still negative, no tax was recovered and a fixed penalty of Euro 250.00 was levied. Therefore, the liability associated with this dispute amounts to a total of Euro 1,500.

The Company, as confident of the correctness of its actions and considering that it has acted in full compliance with the law, including in light of the OECD Guidelines and the Ministry of Economy and Finance Decree of May 14, 2018, challenged within the permitted timeframe the two IRES and IRAP assessment notices of June 2020.

The hearing to discuss the case has been postponed as the Office has proposed a settlement to the Company for the amicable settlement of this dispute. The Company has reserved the right to decide whether to accept the settlement, but solely so as to avoid litigation, given that the Company is convinced to have done no wrong.

B) Secosvim S.r.l. -Tax audits and disputes

A brief description of the Secosvim S.r.l. tax dispute, in addition to a brief description of the main related contingent liabilities, is outlined below.

B.1.) Tax dispute with the Customs Agency with regards to excise and provincial and municipal additions in the electricity sector regarding the years 2001-2005.

This dispute has reached the Court of Cassation after a ruling in favour of the Company in the court of second instance.

In 2017, awaiting the ruling of the superior court, the Company submitted a proposal to the Customs Agency to settle the matter out of court in accordance with Article 5-bis of law decree No. 123 of October 22, 2016. This agreement was signed on September 2017 and, with this agreement, the Company undertook to pay a total of Euro 846,000 as taxes plus interest on instalment payments at an annual rate of 2.10%, while benefiting from the nullification of past-due interest and other penalties and sanctions.

This amount was paid in four annual instalments of equal amount, the last of which was paid on September 28, 2020.

On May 6, 2021 the Court of Cassation, acknowledging the settlement agreement between the Company and the Customs Office and noting that all instalments due from the Company had been paid, declared the matter in dispute to be closed by decree.

B.2) Tax disputes with the Municipality of Segni relating to property tax (ICI).

2011: the dispute for the year in question concerns property tax, interest and penalties levied for a total of Euro 57 thousand.

Secosvim, following an unsuccessful settlement procedure, appealed to the Rome Provincial Tax Commission, which in June 2018 rendered a judgment unfavourable to the Company.

In February 2019 Secosvim lodged a timely appeal against the unfavourable judgment rendered by the Rome Provincial Tax Commission.

The fixing of the appeal hearing by the Lazio Regional Tax Commission is currently being awaited.

2012 and 2013: the dispute for the years in question concerns property tax, interest and penalties levied for a total of Euro 14 thousand.

In July 2018, Secosvim lodged a complaint/appeal with the Rome Provincial Tax Commission.

The Rome Provincial Tax Commission rejected the Company's claims in a judgment filed in December 2019.

The Company promptly appealed the above judgment in September 2020 and is now awaiting the fixing of the appeal hearing by the Lazio Regional Tax Commission.

B.3) Tax dispute relating to non-application of VAT on reclamation costs recharged to Avio in the years 2010, 2011 and 2012

These disputes concern three notices of assessment for VAT related to 2010, 2011 and 2012, disputing the Company's alleged failure to apply VAT to reclamation costs billed to Avio S.p.A. in these years for a total, including interest and penalties, of Euro 3,568,202.

In 2019, the company decided to agree to the expedited settlement of the pending tax disputes as per Article 6 of Legislative Decree No. 119 of October 23, 2018, converted with amendments by Law No. 136 of December 17, 2018. This settlement resulted in the payment of the taxes alone, without any past-due interest or penalties. The total amount due for all settlements is Euro 1,659,486.05, which is to be paid in 20 quarterly instalments. The first instalment was paid on May 31, 2019, and the final payment must be made by February 28, 2024.

For 2021, the amount to be paid as an agreed settlement is Euro 323,939.65 (Euro 331,897 including interest).

As at July 31, 2020, the Tax Agency had not notified the Company of any refusal of the settlement of pending litigation, as a result of the provisions of Article 6 of Decree-Law No. 119/2018, the settlement of the disputes by the Company must be considered final and legitimately carried out.

- B.4) *Correction and settlement of increased registration, mortgage and land taxes from the reclassification as the disposal of a business, with related recalculation of goodwill relating to the business unit, of the transfer of the "Energia Colleferro" business unit to Termica Colleferro S.p.A. and the subsequent transfer of the investment in this latter to the indirect parent company Avio S.p.A.*

In relation to the transfer of the "Energia Colleferro" business unit to Termica Colleferro S.p.A. and the subsequent transfer of the investment in this latter to the indirect parent company Avio S.p.A., the Bologna Tax Office had served:

- a) a settlement notice for greater registration, mortgage and property registry taxes arising from the re-characterisation of the transaction as the sale of a company, for a total of Euro 142 thousand;
- b) an adjustment notice relating to the redetermination of the value of the goodwill attributable to the business unit subject to the purported company sale, for a total of Euro 16 thousand.

The dispute concerning the document referred to in **point a)** was resolved in the Company's favour in both the first and second instances. Accordingly, on December 2, 2019 the Italian Tax Office filed an appeal against the judgment of the Emilia Romagna Regional Tax Commission before the Court of Cassation.

On January 24, 2020 the Company appeared promptly in the proceedings, filing its own counter-appeal.

The Court of Cassation has yet to schedule a hearing.

The dispute concerning the document referred to in **point b)** was resolved in the Company's favour in the first instance, whereas in the second instance in December 2018 the Emilia Romagna Regional Tax Commission suspended the trial pending the resolution of the dispute indicated in **point a)** above.

C) Spacelab S.p.A. (ex ELV S.p.A.) - Tax audits and disputes.

It should be noted that this company had not been and is not involved in any tax audits or disputes at the reporting date.

D) Europropulsion S.A. – Tax audits and disputes.

Europropulsion was subject to a Tax Assessment by the French Tax Authorities with regards to the "taxe professionnelle" (an indirect tax adopted in France similar to the Italian IRAP) on ESA assets provided for use by the Company initially for tax years 2009, 2010 and 2011 and subsequently for 2012 and 2013.

The amounts contested are:

- for the years from 2009 and 2011, initially amounting to Euro 1.6 million, paid by the company in 2014. This amount was thereafter reduced to Euro 0.9 million following the recognition of partial relief of Euro 684 thousand by the French tax authorities;
- for the years 2012 and 2013 amounting to approx. Euro 250 thousand.

For the years 2009-2011, Europropulsion presented a first level appeal at the competent Tax Court, which judged against the company; the Company appealed this decision on September 9, 2016.

With judgment of November 11, 2017, the competent French tax authorities cancelled the challenge concerning financial year 2010.

In the course of the legal procedure, it bears mentioning that in 2020 the judicial authority, known as the "Conseil d'Etat", declared the use of ESA assets subject to taxation according to an interpretation of the spirit of the tax law, referring the judgment to the next level, in accordance with the French legal system.

The unfavourable ruling was issued in July 2021, but the Company and legal counsel, based on a number of issues in form and in substance with the latest ruling, are evaluating the possibility of an appeal to the superior court by the end of September.

In view of the aforementioned judgment rendered in 2020 and 2021 the opinion of its legal counsel, in its 2020 and 2021 financial statements the Company decided to recognise the total amount of the tax liability associated with the theme in question in years 2009 to 2020, which was recalculated and

estimated at approximately Euro 4 million. Therefore, the financial statements of these joint ventures at June 30, 2021, still reflect this allocation.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Fair value of financial assets and liabilities and calculation models utilised

In relation to any financial instruments recorded in the balance sheet at fair value, IFRS 7 requires that these values are classified based on the hierarchy levels which reflects the significance of the input utilised in the determination of fair value. The following levels are used:

- level 1 - assets or liabilities subject to valuation listed on an active market;
- level 2 - input based on prices listed at the previous point, which are directly observable (prices) or indirectly (derivatives from the prices) on the market;
- level 3 - input which is not based on observable market data.

The company and the Avio Group did not have derivative financial instruments in place at June 30, 2021.

Types of financial risks and related hedging

The Avio Group through its operating activities is exposed to financial risks, in particular:

- credit risks, related to commercial transactions with clients and funding operations;
- liquidity risk, related to the availability of financial resources and access to the credit market;
- market risks;
- interest rate risk

These financial risks are continually monitored, undertaking initiatives to offset and contain potential impacts through appropriate policies and, where in general considered necessary, also through specific hedging instruments (currently not necessary as the loan interest rate with the EIB is fixed and competitive compared to the market).

Credit Risk

Credit risk represents the exposure of the Company and of the Group to potential losses due to the non-compliance with obligations by commercial and financial counterparties.

The exposure to credit risk is essentially related to receivables recognised to the financial statements, particularly trade receivables and guarantees provided in favour of third parties.

The maximum theoretical exposure to the credit risk for the Group at June 30, 2021 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 4,533 thousand.

This amount was recognised to the Assets section of the Balance Sheet, as the net balance between the nominal value of trade receivables and, as counter-entry, advances to be received.

Regarding the reasons for the exposure to credit risk represented by receivables net of "advances to be repaid", in accounting terms, the issuing of invoices involves as a counter-entry, against the recognition of an asset from the clients, the recognition of a liability concerning the advances to be received. These are both recognised to the balance sheet. The ageing analysis therefore is made net of the above-stated advances.

The main Group clients are government bodies and public sector clients, which by their nature do not present significant risk concentrations (ESA - European Space Agency, Arianespace, ArianeGroup).

In addition, operating on an order basis, the Avio Group plans the management of advances so as to attain the funding before and during the incursion of order costs, on the basis of the various contractual milestones and mitigating therefore the risk regarding the payment of receivables against the initiated production activities.

Based on an analysis of overdue trade receivables at June 30, 2021, trade receivables net of a doubtful debt provision were recorded of Euro 482 thousand. The overdue amounts were therefore not significant and mainly relate to timing factors.

Liquidity risk

The Company and Group's liquidity risk concerns any difficulties in obtaining at appropriate conditions the funding necessary to support operations. The principal factors which influence liquidity are, on the one hand, the resources generated and absorbed by the operating and investment activities and on the other the conditions concerning the maturity of the payable or the liquidity of the financial commitments.

Cash flows, funding requirements and liquidity are centrally monitored and managed, also through centralised treasury systems involving the main Group Italian and overseas companies, in order to ensure the timely and efficient sourcing of funding or the appropriate investment of liquidity, optimising the management of liquidity and cash flows. The Group periodically monitors forecast and effective cash flows and updates future cash flow projections in order to optimise liquidity management and calculate any funding requirements.

The currently available funds, in addition to those that will be generated from operating and financial activities, are considered sufficient to permit the Group to satisfy its requirements for investment activities, working capital management and the repayment of debt on maturity.

Market risk

With regards to the current financial structure of the Company and of the Group and the fact that the operating currency is almost exclusively the Euro, the company is not considered to currently be subject to significant market risks from fluctuations in exchange rates or interest rates on financial receivables and payables.

The Company and the Group, considering that stated with regards to the insignificant market risk related to exchange rate and interest rate movements, at June 30, 2020 had not undertaken specific cash flow hedges in relation to these types of risks.

Interest rate risk

The company has two loans with the European Investment Bank (EIB) for an original total of Euro 50 million (Euro 37 million remaining), at a competitive interest rate compared to the market.

Therefore, this risk is not considered applicable to the company and, therefore, to the Avio Group.

7. RELATED PARTY TRANSACTIONS

Avio regularly undertakes commercial and financial transactions with its subsidiaries and jointly-controlled companies, consisting of transactions relating to ordinary operations and undertaken at normal market conditions. In particular, these concern the supply and purchase of goods and services, including of an administrative-accounting, tax, IT, personnel management and assistance and consultancy nature, and the relative receivables and payables at period-end and funding and centralised treasury management transactions and the relative charges and income. These transactions are eliminated in the consolidation and consequently are not outlined in this section.

The related parties of the Avio Group are identified on the basis of IAS 24 - *Related Party Disclosures*, applicable from January 1, 2011, and are the parent companies, companies with a connection with the Avio Group and its subsidiaries as defined by the applicable rules, companies controlled but not consolidated within the Avio Group, associates and jointly-controlled companies of the Avio Group and other investee companies.

Until the effective acquisition date by Space2, Leonardo and In Orbit (on March 31, 2017), Leonardo - on the basis of rights arising under the Cinven shareholder agreement - had a connection with the Avio Group, although formally holding an investment in the Incorporated company under the threshold established by the IAS and Article 2359 of the Civil Code, final paragraph. Following the listing, although the shareholder agreement with Cinven had lapsed, Leonardo S.p.A. maintained this connection with the Avio Group on the basis of the increase of its investment in the Incorporated company over the threshold established by the above-stated rules.

The following tables present the quantification of transactions with related parties not falling within the Group consolidation on the Balance Sheet and on the Group Income Statement at June 30, 2021 and December 31, 2020 (in Euro thousands):

At June 30, 2021										
Counterparty	Other non-current assets	Inventories and Advances to suppliers	Trade receivables	Other current assets	Contract work-in-progress	Non-current financial assets	Trade payables	Other current liabilities	Advances for contract work in progress	Financial liabilities
Leonardo S.p.A.	-	2,440	-	-	-	-	73	266	-	-
MBDA Italia S.p.A.	-	-	17	-	5,576	-	-	-	-	-
MBDA France S.A.	-	-	135	-	13,595	-	-	-	16,581	-
Thales Alenia Space Italia S.p.A.	-	-	75	-	126	-	-	-	145	-
Vitrociset S.p.A.	-	-	-	-	-	-	-	-	-	-
Companies with a connecting relationship and relative investee companies	-	2,440	228	-	19,297	-	73	266	16,726	-
Termica Colleferro S.p.A.	-	-	685	-	-	6,337	36	-	-	1,189
Europropulsion S.A.	-	29,567	364	-	71,113	-	4,435	-	54,112	7,749
Potable Water Services Consortium	-	-	181	18	-	-	63	-	-	-
Servizi Colleferro - Consortium Limited Liability Company	-	-	89	-	-	-	107	-	-	-
Associates and jointly controlled companies	-	29,567	1,319	18	71,113	6,337	4,641	-	54,112	8,938
Total related parties	-	32,007	1,547	18	90,409	6,337	4,714	266	70,838	8,938
Total book value	71,439	150,030	4,533	11,751	409,193	6,337	52,674	33,846	562,725	51,445
% on total account items	0.00%	21.33%	34.12%	0.15%	22.09%	100.00%	8.95%	0.79%	12.59%	17.37%

At December 31, 2020

Counterparty	Other non-current assets	Inventories and advances to suppliers	Trade receivables	Other current assets	Contract work-in-progress	Non-current financial assets	Trade payables	Other current liabilities	Advances for contract work in progress	Financial liabilities
Leonardo S.p.A.	-	3,530	-	-	-	-	2,112	248	-	-
MBDA Italia S.p.A.	-	-	17	-	5,465	-	-	-	179	-
MBDA France S.A.	-	-	3	-	9,779	-	-	-	23,540	-
Thales Alenia Space Italia S.p.A.	-	-	-	-	126	-	-	-	-	-
Vitrociset S.p.A.	-	-	-	-	115	-	581	-	113	-
Companies with a connecting relationship and relative investee companies	-	3,530	20	-	15,485	-	2,693	248	23,832	-
Termica Colferro S.p.A.	-	-	810	-	-	6,259	445	-	-	1,257
Europropulsion S.A.	-	34,702	566	-	77,307	-	7,236	-	55,683	12,749
Potable Water Services Consortium Servizi Colferro - Consortium Limited Liability Company	-	-	158	4	-	-	(120)	-	-	-
	-	-	80	-	-	-	3	-	-	-
Associates and jointly controlled companies	-	34,702	1,614	4	77,307	6,259	7,564	-	55,683	14,006
Total related parties	-	38,232	1,634	4	92,792	6,259	10,257	248	79,515	14,006
Total book value	74,140	140,309	2,175	8,954	334,860	6,259	66,454	24,803	477,871	62,031
% on total account items	0.00%	27.25%	75.13%	0.04%	27.71%	100.00%	15.43%	1.00%	16.64%	22.58%

In H1 2021 and H1 2020, the main income statement transactions by the Group with related parties were as follows (in Euro thousands):

At June 30, 2021				
Counterparty	Operating Revenues and changes in contract work-in-progress	Operating Costs ⁽¹⁾	Financial income	Financial Charges
Leonardo S.p.A.	-	1,354	-	-
MBDA Italia S.p.A.	2,241	-	-	-
MBDA France S.A.	12,095	-	-	-
Thales Alenia Space Italia S.p.A.	22	-	-	-
Vitrociset S.p.A.	-	-	-	-
Companies with a connecting relationship and relative investee companies	14,358	1,354	-	-
Termica Colleferro S.p.A.	57	4,220	78	8
Europropulsion S.A.	31,051	13,623	-	-
Potable Water Services Consortium	37	263	-	-
Servizi Colleferro - Consortium Limited Liability Company	131	556	-	-
Associates and jointly controlled companies	31,276	18,662	78	8
Total related parties	45,634	20,016	78	8
Total book value	132,879	135,905	348	439
% on total account items	34.34%	14.73%	22.42%	1.71%

⁽¹⁾ The account includes raw material consumables, service costs and personnel expenses.

At June 30, 2020				
Counterparty	Operating Revenues and changes in contract work-in-progress	Operating Costs ⁽¹⁾	Financial income	Financial Charges
Leonardo S.p.A.	-	153	-	-
MBDA Italia S.p.A.	809	-	-	-
MBDA France S.A.	8,306	-	-	-
Thales Alenia Space Italia S.p.A.	-	-	-	-
Vitrociset S.p.A.	-	714	-	-
Companies with a connecting relationship and relative investee companies	9,115	867	-	-
Termica Colleferro S.p.A.	55	3,373	77	5
Europropulsion S.A.	44,639	9,415	-	-
Potable Water Services Consortium	37	238	-	-
Servizi Colleferro - Consortium Limited Liability Company	158	490	-	-
Associates and jointly controlled companies	44,889	13,516	77	5
Total related parties	54,004	14,383	77	5
Total book value	175,311	167,600	347	690
% on total account items	30.80%	8.58%	22.17%	0.72%

⁽¹⁾ The account includes raw material consumables, service costs and personnel expenses.

Transactions with companies with a connecting relationship and relative investee companies

The transactions with Leonardo S.p.A., considered a company with whom a connecting relationship exists, concern assistance and consultancy services. Transactions with investee companies by Leonardo are typically of a commercial nature.

With regards to the client MBDA Italia S.p.A., the guarantees issued by leading credit institutions cover prompt compliance with the contractual obligations undertaken by Avio for the Camm-er orders. Their release is based on completion of the relative contractual milestones.

Transactions with non-consolidated subsidiaries

Group transactions with non-consolidated subsidiaries concern ordinary operating activities and are concluded at normal market conditions.

Transactions with associates and jointly-controlled companies

Company transactions with associates and jointly-controlled companies may be summarised as follows:

- trade receivables, relating to revenues from the sale of company core business products, as part of ordinary operations and concluded at normal market conditions. In particular, with regard to the company Europropulsion S.A., revenues are included from the sale of company core business products, as part of ordinary operations and concluded at normal market conditions.
- financial receivables, relating to short and long-term financial receivables from Termica Colleferro S.p.A.;
- trade payables, relating to costs incurred as part of ordinary operations and relating to transactions concluded at normal market conditions; in addition, with reference to the company Europropulsion S.A., costs incurred as a result of transactions within ordinary operations and concluded at normal market conditions are included;
- financial payables, relating to the short-term inter-company financial payables of Avio S.p.A. to Europropulsion S.A.;
- revenues, relating to the transactions described previously with regards to trade receivables;
- operating costs, relating to the transactions described previously with regards to trade payables;
- financial income, related to interest on the financial receivables previously stated.

The bank guarantees to the Sitab Consortium in liquidation concern supplies in previous years and, together with the Consortium, are expected to be withdrawn shortly.

Transactions with other related parties

Group transactions with other related parties concern the following operations:

- trade receivables, relating to revenues from the sale of Group core business products, as part of ordinary operations and concluded at normal market conditions.
- revenues, relating to the transactions described previously with regards to trade receivables.

8. LIST OF GROUP COMPANIES AT JUNE 30, 2021

The following table presents the key details of Avio Group investees at June 30, 2021:

Companies included in the consolidation scope at June 30, 2021	Holding
Parent	
Avio S.p.A.	-
Companies consolidated by the line-by-line method	
Spacelab S.p.A.	70%
Regulus S.A.	60%
SE.CO.SV.IM. S.r.l.	100% (*)
Avio Guyane S.A.S.	100%
Avio France S.A.S.	100%
ASPropulsion International B.V.	100%
Avio India Aviation Aerospace Private Limited (**)	100% (***)
Jointly controlled companies, measured at equity	
Europropulsion S.A.	50%
Associates, measured at equity	
Termica Colleferro S.p.A.	40%

(*) Holding through ASPropulsion International B.V.

(**) The company is in liquidation. No financial commitments are expected for the Group related to the liquidation.

(***) Investment held in part directly by Avio S.p.A. (95%) and in part through ASPropulsion International B.V. (5%).

9. INFORMATION ON PUBLIC GRANTS PURSUANT TO ARTICLE 1, PARAGRAPHS 125-129, OF LAW NO. 124/2017

The following information is provided in accordance with the public disclosure requirements imposed by public grant legislation: This disclosure concerns, as required by the regulation, disbursements accruing in H1 2021:

Grants under Law No. 808 of December 24, 1985 "Incentives for the development and improved competitiveness of the aerospace sector industries"

Receiving company	Disbursing PA	Project	Years_costs Project	Loans issued in H1 2021	Collection date	Ministry for Economic Development
				(€ / mln)		(€ / mln)
AVIO SPA	Ministry for Economic Development	80-ton solid propellant engine - P80	2006-2008	-	-	1.16
AVIO SPA	Ministry for Economic Development	80-ton solid propellant engine - P80	2009	-	-	0.26
AVIO SPA	Ministry for Economic Development	80-ton solid propellant engine - P80	2010	-	-	0.15
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2009	-	-	0.15
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2010	-	-	0.46
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2011-2012	-	-	0.56
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2012-2013	-	-	1.69
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for	2014-2015	-	-	1.83

		filament winding applied to 40T space engines				
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2016-2017	-	-	2.0
AVIO SPA	Ministry for Economic Development	LOX/LCH technology demonstrator for the first stage of the Vega E launcher	2014-2016	-	-	1.16
				-		9.42

"Receivables from the Ministry for Economic Development" for disbursements in accordance with Law 808/85, amounting to Euro 9.42 million, refer to the nominal value of the grants to be issued by the Ministry for Economic Development. The amounts by Project are broken down as follows: Euro 1.56 million for the "80 ton solid propellant motor - P80" project; Euro 6.70 million for the "Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines" project; Euro 1.16 million for the "LOX/LCH demonstrated technology for the third stage of the Vega E launcher" project. These receivables are recorded in the accounts at the value resulting from the application of the amortised cost method, calculated utilising the effective interest rate, and are increased due to the effect of the accumulated amortisation of the difference between the initial value and the actual cash amounts and booked in the accounts under "Financial income".

Other grants

Receiving company	Disbursing PA	Project	Years_costs Project	Loans issued in H1 2021	Collection date	Nominal receivable to be collected
				(€ / mln)		(€ / mln)
AVIO SPA	MINISTRY FOR UNIVERSITY AND SCIENTIFIC RESEARCH	PRADE - NOP 02_00029_3205863	NA	0.02	12/01/2021	NA
AVIO SPA	European Union	EUSTM: SPACE TRAFFIC MANAGEMENT FOR XXI CENTURY SPACE OPERATIONS	NA	0.02	24/03/2021	NA
AVIO SPA	Lazio Region	MAGIC	NA	0.05	22/04/2021	NA
AVIO SPA	European Union	C3HARME	NA	0.15	26/04/2021	NA
				0.24		NA

As reported in the Explanatory Notes in the tax receivable paragraphs, the Avio Group has recognised with regards to financial years 2019, 2018 and 2017, the Research and development tax credit permitted under Article 3 of Legislative Decree No. 145 of December 23, 2013 and subsequent amendments. In relation to 2020, the Avio Group recognised a research and development tax credit in accordance with the provisions of the 2020 Italian Budget.

On January 18, 2021, Avio S.p.A. also used Euro 18,912.00 as a sanitisation tax credit accrued in 2020 for a total of Euro 28,297.00 based on the provisions of the "Cura Italia" decree for measures to respond to the COVID-19 health emergency.

10. SUBSEQUENT EVENTS

Business

Expansion of the MBDA contract for the provision of ASTER boosters

On July 7, 2021, Avia received various extensions of production orders from MBDA France S.A.S. for the production of additional batches of boosters for the ASTER-30 anti-aircraft and anti-missile defence system for a total value of over Euro 80 million.

Deliveries related to these additional orders are expected to cover the period 2022-30.

Avio with the Italy Pavilion at the Expo 2020 Dubai starting on October 1, 2021

On July 14, 2021, an agreement was signed by Avio and the commission for Italy's participation in Expo Dubai in the presence of the chairman of the Italian Space Agency, COMINT Secretary General Luigi De Leverano, and the regional councilman for Economic Development, Trade, Research & Innovation Paolo Orneli.

The application of sustainability and innovation, key themes of Expo 2020 Dubai, within the aerospace industry is the focus of the agreement by which Avio is to be a Gold Sponsor of the Italy Pavilion for the upcoming world expo to take place beginning October 1.

Agreement signed with ESA for the Vega E launcher

On July 21, 2021, at ESA's European Space Research Institute (ESRIN) in Frascati, Italy, Avio and ESA signed an agreement valued at Euro 118.8 million that ensures development of the Vega E launcher beyond 2025.

This agreement marks the start of a new phase in the development of Vega E (evolution), a more powerful version of the Vega C that will fly for the first time in 2022. The Vega E launcher will further increase its competitiveness, performance, and versatility in terms of mass and volume capabilities, while bringing about a significant reduction in launch costs. The focus of development of the Vega E is the new liquid oxygen-methane upper third-stage, which will also allow for improvements in terms of environmental sustainability.

Vega-C

The Project Key Point with ESA and the Commission of Inquiry conducted at the end of July 2021 had a positive outcome. The ESA authorised the completion of the qualification review with the analysis of the results of the "Hardware in the loop" (HWIL) avionic tests and the updating of the qualification Data Package with certain products (Telemetry, Multi-functional Unit, Destruction Chord) that had not yet undergone their respective qualification reviews, which will be carried out in the final quarter of the year.

Ariane 5 flight

On July 31, 2021, Ariane 5 successfully put into orbit two geostationary telecommunications satellites, Star One D2 and EUTELSAT QUANTUM.

Star One D2 is a high-capacity, multi-mission satellite with transponder in the Ku, Ka, C and X bands that will expand broadband coverage into new regions of Central and South America to provide Internet access to under-served populations. EUTELSAT QUANTUM is to be the world's first universal

satellite able to modulate the coverage area and the strength of the telecommunication bands nearly in real time.

Vega flight VV19

On August 17, 2021, Vega successfully completed mission VV19.

Flight VV19 put into orbit the Pléiades Neo 4 satellite, the second satellite of the Pléiades Neo constellation, together with 4 ride-share microsattellites.

One of these is LEDSAT, a project of Rome's "La Sapienza" University aimed at studying a light-emitting diode (LED) technology used for independent optical tracking of satellites in low Earth orbit. The others are RADCUBE and SUNSTORM, for astronomical applications, and BRO-4 for security applications.

The success of these projects once again highlighted the work of Avio and Arianespace in making Vega increasingly reliable and competitive. The European launcher has confirmed its ability to put into orbit groups of rideshare satellites alongside a primary payload. This, together with the new SSMS payload adaptor that was successfully tested during flight VV16, increases the versatility of Vega in the competitive microsattellite market and provides clients with a wider range of launch opportunities.

Other significant events

Definition of the purchase price for acquisition of the business unit from the subsidiary Spacelab S.p.A. (formerly ELV S.p.A.) and reduction of this company's equity in line with expectations

As reported in the "Significant Events" section of the Directors' Report, by private agreement on June 29, 2021, between Avio S.p.A. and the subsidiary Spacelab S.p.A., in which the Italian Space Agency holds a 30% stake, the price adjustment was set at Euro 8.5 million for the acquisition of the business unit related to the development, production, and commercialisation of launchers by Spacelab S.p.A. to Avio S.p.A., the original agreement for which was signed on March 1, 2018.

In an extraordinary session held on July 19, 2021, the shareholders of Spacelab S.p.A. approved the proportionate distribution of a dividend to Avio S.p.A. and the Italian Space Agency totalling Euro 8.0 million, to be taken from the price set for the acquisition of the aforementioned business unit. Furthermore, following the achievement of its mission to develop and commercialise the Vega launcher and its current status as research lab for the development of avionics applications, and as expected, the shareholders of Spacelab S.p.A. also approved a decrease in the company's equity that is in excess of current needs in the amount of approximately Euro 2.9 million.

The dividend and reduction of equity are to be paid to the shareholders of Avio S.p.A. and the Italian Space Agency as follows: 50% upon completion of the procedures for the reduction of Spacelab S.p.A. share capital and 50% by July 31, 2022.

For more information, see the "Significant events" section of the Directors' Report and section "3.30 Other current liabilities" of the Explanatory Notes.

* * *

September 10, 2021

The BOARD OF DIRECTORS
The Chief Executive Officer and General Manager
Giulio Ranzo



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REPORT ON REVIEW OF THE HALF-YEARLY CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying half-yearly consolidated financial statements of Avio S.p.A. and subsidiaries (the "Avio Group"), which comprise the statement of financial position as of June 30, 2021 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation of the half-yearly consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the half-yearly consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly financial statements under Resolution n° 10867 of July 31, 1997. A review of half-yearly consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly consolidated financial statements of the Avio Group as at June 30, 2021 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Francesco Legrottaglie
Partner

Rome, Italy
September 10, 2021

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

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Declaration of the Condensed Consolidated Financial Statements as per Article 81-ter of Consob Regulation No. 11971 of May 14, 1999 and subsequent amendments and supplements

1. The undersigned Giulio Ranzo and Alessandro Agosti, respectively CEO and Executive Officer for Financial Reporting of Avio S.p.A. declare, also in consideration of Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of February 24, 1998:
 - the conformity in relation to the characteristics of the company and
 - the effective application of the administrative and accounting procedures for the drawing up of the condensed consolidated half-year financial statements in the period between January 1 and June 30, 2021.
2. Verification of the adequacy and effective application of the administrative and accounting procedures for the preparation of the condensed consolidated half-year financial statements at June 30, 2021 was undertaken referring to the criteria established in the internationally accepted "Internal Controls – Integrated Framework" model.
3. We also declare that:
 - 3.1 The condensed interim consolidated financial statements:
 - a) were prepared in accordance with international accounting standards, recognised in the European Union pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council of July 19, 2002;
 - b) correspond to the underlying accounting documents and records;
 - c) provide a true and fair view of the equity, economic and financial position of the issuer and of the other companies in the consolidation scope.
 - 3.2 The Directors' Report includes a reliable analysis of the significant events in the first six months of the year and their impact on the condensed consolidated half-year financial statements, with a description of the principal risks and uncertainties to which the Group is exposed, in addition to the subsequent events and outlook. It also contains a reliable analysis of the significant transactions with related parties.

Date: September 10, 2021

Avio S.p.A.

Giulio Ranzo
Chief Executive Officer
(Signed)

Alessandro Agosti
Executive Officer for Financial Reporting
(Signed)