



Avio S.p.A.

Registered office in Rome, via Leonida Bissolati No. 76
Administrative offices in Colleferro (Rome), via Ariana Km 5.2
Share Capital Euro 90,964,213 fully paid-in
Rome (RM) Companies Registration Office No.: 09105940960

2021 ANNUAL REPORT

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HIGHLIGHTS

Net revenues⁽¹⁾

Euro 311.6 million (-3.2% on 2020)

EBITDA

Reported: Euro 30.0 million (-14.7% on 2020)

Adjusted ⁽²⁾: Euro 37.7 million (-12.9% on 2020)

EBIT

Reported: Euro 8.9 million (-44.2% on 2020)

Adjusted⁽²⁾: Euro 16.6 million (-31.1% on 2020)

Profit before taxes

Euro 8.6 million (-44.0% on 2020)

Net Profit

Euro 9.1 million (-38.6% on 2020)

Net Financial Position

cash position of Euro +57.2 million (Euro -5.5 million on December 31, 2020)

Investments

Euro 33.7 million (Euro 34.5 million in 2020);

Backlog⁽¹⁾

Euro 877.0 million (+19.2% on December 31, 2020)

Research and development

costs of Euro 109.3 million, net of pass-through costs incurred in 2021, equal to 35.1% of revenues net of pass-through revenues for 2021 (Euro 119.8 million net of pass-through costs incurred in 2020, equal to 37.2% of revenues net of pass-through revenues for 2020)

Employees

991 at December 31, 2021 (950 at December 31, 2020)

¹ Net of "pass-through" revenues.

² Net of non-recurring costs.

LETTER TO THE SHAREHOLDERS

Dear Shareholders

2021 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 the ESA and Arianespace with the support of Avio S.p.A. following the anomaly on the VV17 mission of November 2020.

The Company's key priority in the initial part of the year 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 launcher evolutions.

This focus has supported the Vega's return to flight, with 3 successful missions (VV18, VV19 and VV20) in approximately 6 months, re-establishing a launch reliability in line with the leading market players and putting into orbit 2 satellites for the Pléiades Neo constellation of Airbus Defence & Space, the constellation of 3 Céres satellites, in addition to further rideshare mini-satellites.

There were also 3 successful Ariane 5 missions during 2021, including a mission with the James Webb Space Telescope in December 2021 for NASA.

The Vega return-to-flight also boosted the commercial activities of Arianespace, which signed a number of Vega and Vega C launch contracts with the Italian Space Agency for the Platino 1 and 2 missions, with the French Space Agency (CNES) for Microcarb and with the ESA for Flex and Altius.

Alongside these corrective actions, the Company also began in 2021 to introduce new technologies focused on industrialisation 4.0 processes aimed to increase operating efficiency and productivity.

The manufacturing of the motor casings for the P120C motor also continued and the relative production agreements were finalised.

In the second half of the year, the Vega C developments activities recovered in a sustained manner, whose qualification launch is scheduled for the first half of 2022, in addition those for the Vega E with the first ignition of the new Mira M10 motor of the third cryogenic stage of the launcher scheduled by March 2022 at the SPTF facilities in Sardinia, currently undergoing final commissioning.

In 2021, the development of the Space Rider system also has got to the heart 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 in 2021, which hit the entire world 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.

A backlog of approx. Euro 880 million is reported at year-end 2021, up 19% on 2020 and in line with Guidance, thanks to an order intake of Euro 450 million, mainly concerning the future Vega C production, the Vega E development activities, in addition to the tactical propulsion activities with additional Aster programme production contracts.

The operating and financial results in 2021 contracted on the previous year, although were in line with Guidance, mainly due to the concerted effort of the company in the initial part of the year to implement the recommendations of the Independent Commission of Inquiry chaired by the ESA and Arianespace for the Vega return-to-flight, due to the delayed Ariane 6 ramp-up and to the sudden and significant rise in energy costs, particularly in Q4.

Net revenues totalled Euro 312 million, slightly reducing (-3% on the previous year), with reported EBITDA of Euro 30 million (decreasing 15%), and adjusted EBITDA of Euro 38 million (-13%). These results were in line with 2021 Guidance.

Financial management at December 31, 2021 reports a solid cash position of Euro 57 million (Euro 62 million at December 31, 2020), although a significant level of investments were maintained in the year (Euro 36.4 million, in line with 2020), together with the distribution of dividends of Euro 7.3 million, as approved by the Shareholders' Meeting approving the 2020 Annual Accounts.

The net profit was Euro 9 million, decreasing 39% and slightly under Guidance, due to increased amortisation and depreciation on investments for the production of the P120 motors (for Ariane 6 and Vega C) and the Zefiro 40 motors (for Vega C).

Towards the end of 2021, tensions between Russia and Ukraine heightened, resulting in the start of the conflict on February 24, 2022. This factor - already from the fourth quarter of 2021 and more significantly over recent weeks - has resulted in a significant rise in energy costs and considerable unpredictability on their development over the short-term.

Avio also imports from Ukraine the main motor of the Vega AVUM upper stage.

These ongoing circumstances do not currently impact industrial operation continuity. The situation is constantly monitored in order to assess possible impacts and - if necessary - actions to protect operations over the medium term.

Although amid these uncertainties, the operating-financial forecasts were drawn up providing the Guidance for 2022, which take account of the significant rise in energy costs and their unpredictability over the short-term, together with a continuation - although to a lesser degree - of the effects from the containment and restriction measures required by COVID-19, in addition to their indirect impacts.

We also this year had to face extraordinary events, but once again Avio - thanks to the passion, high degree of professionalism and tenacity of its personnel - demonstrated major resilience that allowed the return-to-flight of Vega with three successful missions in approximately six months, which re-established a launch reliability in line with the best players on the market and boosted commercial activity.

We will continue to work with determination on the key milestones for 2022, consisting of the maiden Vega C launch scheduled for the first half of the year and of Ariane 6 by the end of the year, in addition to the achievement of the company growth objectives for the coming years, focusing on the consolidation of the substantial production orders and the many development activities ahead of us, also in the broader context of the Italian recovery plan.

The significant growth for private capital investment in Space Ventures through SPAC's was again a feature 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

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 ArianeGroup ("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 producing (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 in the first half of 2022 and for the end of 2026 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 2022, solving REACH and obsolescence issues.

With net revenues in 2021 of Euro 311.6 million and Reported EBITDA of Euro 30.0 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% of its revenues from overseas.

The highly technological content of Avio's operations required a research and development spend - for the portion mainly commissioned by ESA, ASI and Member State ministries - accounting for approx. 35.1% of net revenues in 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.

On August 23, 2021, the non-executive and independent director and member of Avio's Sustainability Committee, Mr. Stefano Pareglio, resigned due to incompatibilities relating to new professional commitments. On December 21, 2021, the Board of Directors approved the co-opting of Ms. Marcella Logli as a non-executive and independent Director of the company, replacing Mr. Stefano Pareglio until the next shareholders' meeting called for the approval of the 2021 Annual Accounts.

The new Board of Directors will remain in office for three years, with their mandate concluding on the approval of the 2022 Annual Accounts, with the exception of Ms. Logli, whose term of office concludes on the date of the Shareholders' Meeting called to approve the 2021 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)
Marcella Logli	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)

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

Avio 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.

On February 7, 2018, the company Avio Guyane SAS was incorporated, fully owned by Avio S.p.A. and operating at the Kourou launch site in French Guyana. The company is involved in coordinating the launch campaigns and managing the ground infrastructure for the Vega launches, optimising the industrial processes and boosting productivity ahead of a future increase in the number of Vega launches.

2019-2021

On August 19, 2019 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.

Following the two failures of July 2019 and November 2020, Vega returned to flight with three successful launches in just a little over 6 months in 2021, demonstrating the reliability of the Vega launcher, whose reliability rate is above average for launchers over its first 19 completed missions. The campaign for the maiden launch of the new Vega C launcher is currently being completed.

The Group scope did not change in 2021.

BUSINESS DIVISIONS

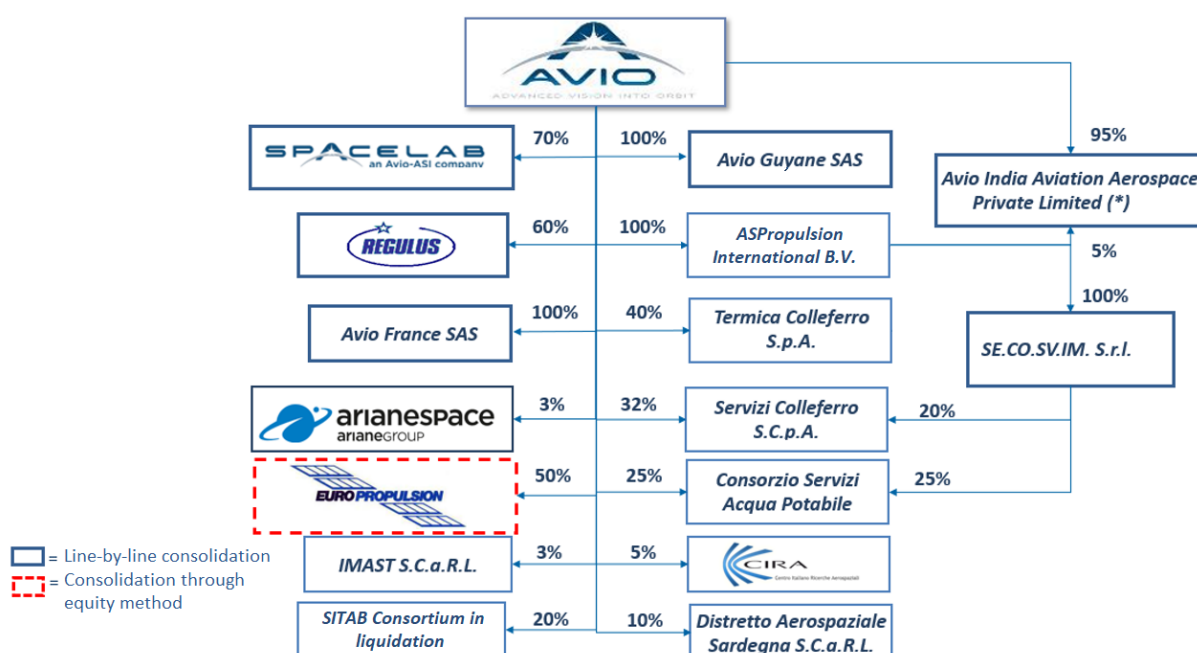
Core operations: design, development and production of solid and liquid propellant propulsion systems for space launchers; design, development and production of solid propellant propulsion systems for tactical missiles; development, integration and supply of complete light space launchers (VEGA); research 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 Villaputzo (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.

Moreover, the Group, through its subsidiary Spacelab S.p.A., has a shareholding with a nominal value of Euro 350 thousand in the E. Amaldi Foundation, whose primary objective is to promote and support scientific research aimed at technology transfer, starting from the space sector, as a fundamental tool for the economic development of the country and as a source of innovation to improve competitiveness, productivity and employment.

STRATEGY

Avio Group's strategy in the current decade is mainly orientated by the agreements:

- at national level with:
 - o the Italian Space Agency (ASI), in which the 2021-23 plan sets the primary objectives to be reached,
 - 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 in 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 500 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).
- in the context of the National Recovery Plan, we also highlight:
 - o initiatives aimed at building a larger-than-M10 liquid engine demonstrator for the future post-Vega E generation;
 - o initiatives aimed at the development of enabling technologies (avionics, separation systems structures) to new liquid launcher models, to be tested in orbit by means of 2 demonstrators;
 - o the development of technologies and products aimed at Orbital Services to satellites.

Regarding operations, Avio:

- 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, Avio is assessing the opportunity of offering technological solutions to the Italian armed forces, within the scope of national and European initiatives.

SHAREHOLDERS

At December 31, 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 December 31, 2021, no exercise requests have been received from holders.

At December 31, 2021, on the basis of 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%
Servizi Cgn S.r.l.	4.00%
Delfin S.a.r.l.	3.79%
Treasury shares	2.55%
Remaining MTA free float	51.13%
Total	100.00%

FY 2021

SIGNIFICANT EVENTS IN 2021

Business

VV18, VV19 and VV20 missions of the VEGA launcher

Following the failure of Vega flight VV17, in November 2020, the Commission of Inquiry, chaired by ESA and Arianespace on January 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 into sun-synchronous orbit the French satellite Pléiades Neo 3, built by Airbus Defence and Space, together with 5 other micro-satellites, including the Norwegian Norsat 3 and 4 Cubesats, for the operators Eutelsat, NanoAvionics/Aurora Insight, and Spire, using a module derived from the SSMS adapter, validated in 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 multi-satellite 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.

Flight VV19 was carried out on August 17, 2021, successfully transporting into sun-synchronous orbit the satellite Pléiades Neo 4, built by Airbus Defence and Space, and four auxiliary payloads: BRO-4, SUNSTORM, LEDSAT and RADCUBE.

The VEGA launcher's third mission of the year, namely flight VV20, went ahead on November 16, 2021, putting into orbit 3 identical CERES satellites, built by Airbus Defence and Space for the French Ministry of Defence.

Thus, in 2021, a total of 3 Vega launcher missions were carried out in just a little over 6 months, all fully successfully, demonstrating the effectiveness of the corrective actions taken following the VV15 and VV17 flight failures.

Development of the Vega-C launcher

In 2021, the Ground Qualification review was completed, as the final verification of the project by the customer, ESA, before authorizing the first flight of the new launcher. In addition to the typical activities of this final phase of the project, an assessment was carried out on whether the failure of the Vega VV17 flight could have any impact on the new Vega C project. This assessment led to a series of improvements to the project, particularly regarding component and launcher quality controls and manufacturing procedures, which were implemented over the course of 2021.

In addition, stages A2 and A3 and other Vega C launcher components and materials were sent to the Kourou launch base in preparation for the 1st flight launch campaign.

Finally, on completion of the Vega VV20 mission on November 16, 2021, the last phase of the adaptation works of the launch base were initiated, in order to make it suitable for hosting the new launcher. The activities specifically concerned the updating of the control desk, and the building of the new control centre.

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 maiden flight of the Vega-C launcher is currently scheduled for the first half of 2022.

Development of the VEGA-E launcher

The development activities of the Vega-E launcher mainly concerned the manufacturing of the DM1 prototype of the M10 motor, which was completed and shipped in December 2021 to the Space Propulsion Test Facility (SPTF) for test firing scheduled for the beginning of 2022.

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 which currently equips the VEGA-C carrier.

It is underlined that the M10 is the first motor made in Europe to use oxygen and liquid methane fuel technology.

Concurrently, the configuration of the 2nd prototype of the M10 motor was defined, and initial manufacturing activities began in view of a 2nd test firing campaign scheduled for the end of 2022.

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 LRE liquid motor test bench, on which the Vega-E M10 will be tested, has now been commissioned and is, therefore, operational. Fire tests of the M10 are scheduled for early 2022.

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.

A focus was placed on establishing the subsystem specifications for the new industrial planning under the contract, reallocating the responsibility of certain critical subsystems to industrial partners different from those who had carried out the previous contractual phase. Following the activation and follow-on of the new supply chain contracts, system technical activities were carried, leading to a initial pre-CDR (Critical Design Review) definition.

Next year's activities will include carrying out the system CDR, and creating the first hardware for use in functional ground tests.

Ariane

2021 saw three flights of the Ariane 5 launcher. Of particular importance was the last flight, carried out on December 25, which put NASA's James Webb telescope successfully into orbit.

Regarding the P120C SRM programme for Ariane 6 and VEGA C, manufacturing activities for the commercial flight motor casings of the Ariane 6 and VEGA C launcher continued. The casings for the qualification flights of both launchers had already been manufactured in 2020. In parallel, the qualification of the P120C motor and all its components (including the nozzle, casing, charged casing, and igniter) was completed.

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

In 2021, production and delivery activities of the Aster 30 Booster and Marte Sustainer continued according to the production plan agreed with the customer MBDA. The refurbishment activities of the Aspide motors are also nearing completion.

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 were completed with a suborbital target pre-project to verify interception by anti-missile systems. The next phase of this programme will be activated in early 2022.

Satellite Propulsion

The following activities have been launched:

- 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;
- development and manufacturing of the chemical propulsion system (CPS) for the orbital module and return module of the Mars Sample Return probe.

In particular, both programmes involved the initiation of the contractual chain and the performance of the compliance review of European Cooperation for Space Standardization (EQSR) requirements for off-the-shelf systems.

Main agreements and contractual events of 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;
- the ESA contract to offset the effects of the production slowdown for the provisions of batch PC required in 2020.

Considering the delay in the Ariane 6 launcher project, negotiations are underway with counter-parties regarding the production schedule of the P120C motor and Oxygen Turbopumps (TPO) for the Vulcain 2 and Vinci cryogenic motors. Also regarding the same delay, a contract was signed by ESA taking into account compensation for the effects of the reduced production rate of supplies envisaged over the Ariane 5 to Ariane 6 Transition period.

Regarding Vega production activities, additional orders were received for:

- the production of structures dedicated to specific launches within the scope of Batch 3.
- the extension of services for CNES activities at the Kourou Space Centre for Batch 3 Vega missions, regarding, in particular, the management of telemetry stations for the collection of launcher flight signals and data.
- a part of the production support activities planned for the 2021-2022 two-year period.
- the extension, until the end of 2022, of activities for the purchasing of components and initial manufacturing of 10 Batch 4 Vega C launchers, whose deliveries are expected in the 2023-2025 three-year period.

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;
- contractual variants to support completion of the development and qualification programme for the Vega C launcher.
- the Vega C Competitiveness Improvement Program contract, supporting activities over a period of approximately two and a half years to reduce the launcher's production costs and increase the flexibility and versatility of the launch service.

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;
- negotiation and signing of the contract with Airbus Defence and Space UK for construction of the chemical propulsion systems of the two modules (IOM and RM) which will be used by the Earth Return Orbiter (ERO) for the recovery and transfer to Earth of Mars soil samples, as part of a series of joint NASA/ESA missions planned for the period from 2020 to 2030.

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

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.

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.

Other significant events

Collection of VAT receivables

Euro 18,787 thousand was collected in the year, in addition to interest of Euro 131 thousand, concerning VAT credits.

MARKET PERFORMANCE AND OPERATIONS

General overview: historic and future outlook

In 2021, 145 orbital launches were made (compared to 114 in the same period in 2020), 10 of which recorded a failure (same number in 2020). Globally, these 145 launches put into orbit 1,856 satellites, for a total transported mass of 721 tons, constituting an all-time record since the beginning of the space age. This new record was made possible by continued deployment of (i) Space X's Starlink (989 satellites in 2021, with a mass of 261 tons, over 19 dedicated launches of Falcon 9), and (ii) OneWeb (284 satellites in 2021, with a mass of 42 tons), both constellations for satellite internet access. Excluding these constellations, the market growth is greatly reduced (583 satellites, equalling a mass of 409 tons), but, nonetheless, indicating an expansion of as much as 30% compared to the previous year.

The numbers of 2021, therefore, confirm that the launch sector (and space in general) is experiencing growth, due, largely, as already evident from 2019 onwards, by the deployment of low orbit satellite constellations, such as not only Space X's Starlink, but also OneWeb, O3B, and other minor constellations. The data are compiled by Avio from information reported on the websites <https://space.skyrocket.de> and <http://spacelaunchreport.com>, in addition to SpaceNews Magazine.

From the perspective of orbits, low Earth orbit (LEO) missions (Vega's target segment) continue to consistently increased, alongside a parallel decline in geostationary transfer orbit (GTO) and geostationary orbit (GEO) missions (Ariane's target segment). Globally, in 2021, there were 91 LEO launches (with a transported mass of 397 tons, excluding launches to the ISS), against 24 GTO/GEO launches (with a transported mass of 103 tons). The trend set for the first time in 2020 of LEO transported mass exceeding that of GTO/GEO is therefore confirmed, with the phenomenon largely attributable to the launch of mega-constellations.

In terms of the types of satellites, it is also useful to underline that, of the 1,856 satellites put into orbit, approximately 1,738 were SmallSats (i.e. with a mass <500 kg), testifying to the fact that this technology, in growth since 2013, has established itself on the applications market, in particular for Mega-Constellations broadband internet, but also for Earth observation, IoT and technology demonstrations.

Apart from the Starlink constellation (satellites manufactured, launched and operated by Space X, without the possibility of open competition, and also subsidized by the Federal Communications Commission - FCC - with subsidies worth over USD 900 M), and launches of unknown origin, missions continued to be mainly institutional (59 civil government launches, 30 military launches, 26 commercial launches), proving, once again, that, for this sector, public funds are of vital importance.

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, analysis of the sector's leading countries reported, in 2021, 45 launches for the USA (395 tons of launched mass), 55 launches for China (with only 95 tons of launched mass, due to a very low fill factor of the launchers, and possible only because the launches are exclusively governmental), 16 launches for Russia, and 15 for Europe (demonstrating growth compared to previous years, thanks to OneWeb constellation launches by Arianespace with Soyuz launch vehicle).

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, 2 in 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 at commercial level.

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

Launchers market

The year 2021 confirmed the global trend of recent years in which few nations had a launch service offer capable of responding not only to the steadfast institutional market, but also to the stable and slightly growing commercial market. As already mentioned in the previous paragraph, these countries were the USA, China (together covering 70% of launches, and 76% of the mass launched), and, to a lesser extent, Russia, Europe, India, and Japan. Among emerging countries in this sector, New Zealand (thanks to its presence on the US market, regarding small institutional satellites) has carried out, from 2017 to today, 23 launches of the Electron Mini Launcher, developed and operated by Rocket Lab.

The year 2021 saw missions of new launchers and missions carried out with new versions of existing launchers: (i) the Mini Launcher Alpha, operated by Firefly (USA), which resulted in a failure; (ii) Angara A5 (Russia), which resulted in a partial failure; (iii) Nuri (South Korea), which resulted in a failure; and (iv) a new version of the GSLV Mk2 (India). The most used “legacy” launchers continue to be Falcon 9 (31 launches), CZ (48 launches), in its various versions, and Soyuz (used by both Russia and Europe, 22 launches). For comparison, the Vega launcher had 3 launches in 2021 (compared to 2 in 2020).

23 missions dedicated to small satellites used so-called Mini Launchers: 6 Electron launches (1 failure); 4 Chinese Kuaizhou launches (1 failure); and 2 LauncherOne launches, operated by Virgin Galactic, which appears to be starting to establish itself in this market segment. 5 missions (2 Falcon 9, Soyuz 2.1 and 2 CZ), on the other hand, were carried out in Rideshare (one of the markets operated by Vega with the Small Spacecraft Mission Service - SSMS), which is becoming an increasingly frequent launch mode.

"Regarding sources, please refer to the “General overview: historic and future outlook”.

GROUP OPERATING PERFORMANCE AND FINANCIAL AND EQUITY POSITION

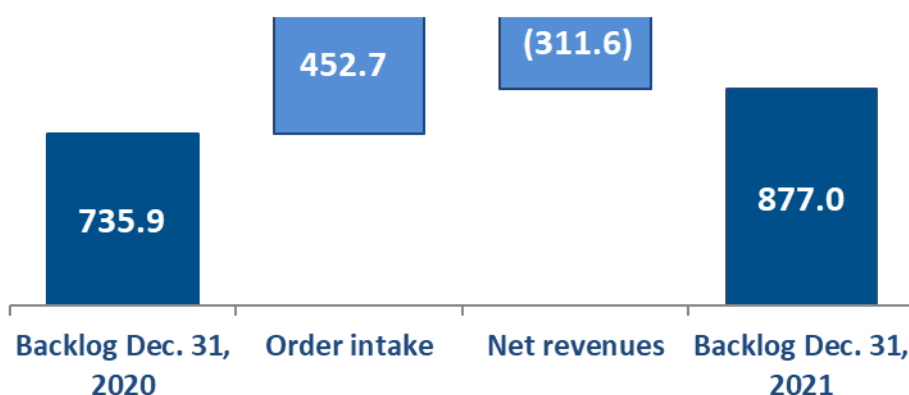
Backlog

The industrial sector of space programs in which Avio operates is characterised by medium-long term projects with limited volatility, associated with an order backlog that provides solid medium-long term visibility.

The backlog at December 31, 2021 was Euro 877.0 million, a net increase of Euro 141.1 million (+19.2%) compared to Euro 735.9 million at December 31, 2020.

The order intake in 2021 totalled Euro 452.7 million, mainly concerning orders for:

- batch 3 and 4 of production of the Vega C launcher relating to Long Lead Items and improvement programmes (approx. Euro 200 million);
- the development of Vega E (approx. Euro 90 million);
- aster's tactical production (over Euro 80 million);



With regards to the *backlog* at December 31, 2021, that is related to the residual obligations to be performed, amounting to Euro 877.0 million, it is reasonably estimated that it shall give rise to the recognition of revenues of approx. 30% of the amount in 2022, for approx. 35% in 2023, with the remainder mainly in 2024.

In the press release for the 2021 results of March 14, 2022³, it was announced that Avio S.p.A. closed 2021 with a backlog of Euro 877 million, up 19% on 2020 and in line with Guidance 2021 (Euro 850-900 million), thanks to an order intake in the year in excess of Euro 450 million, mainly regarding the contracting of Long Lead Items for the future production of the Vega C (Batches 3 and 4), development activities for the Vega E, in addition to the Aster programme production contracts.

In the same press release, Avio S.p.A. announced its 2022 Guidance, forecasting, among other items, a backlog of between Euro 870 and Euro 920 million.

In the above presentation to analysts and investors concerning the 2021 results of March 14, 2022⁴, an increase in the backlog over the 2019-2021 period at a compound growth rate of 15% was reported.

The indication on the Backlog in 2021 is also reported:

- in the institutional presentations for investors and analysts on the approval of the 2021 Half-Year Report and the Additional Quarterly Disclosures of 2021 and in the relative Press Releases available on the company website in the "Investors" section;
- in the other presentations for investors and analysis other than the approval of the 2021 Half-Year Report and the Additional Quarterly Disclosures for 2021, available on the website of the Company in the "Investors" section.

³ Published on Avio's website, in the "Investors" section: <https://investors.avio.com/Investors/Financial-Announcements/>

⁴ Avio's website, in the "Investors" section: <https://investors.avio.com/Investors/Financial-Announcements/>

Operating Results

The table below presents the Group operating performance for 2021 and 2020 (in Euro thousands):

	FY 2021	FY 2020	Change
Revenue	320,094	351,590	(31,496)
of which: Pass-through revenues	8,515	29,567	(21,052)
Revenues, net of pass-through revenues	311,579	322,023	(10,444)
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	7,627	7,216	411
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(291,679)	(295,417)	3,738
Effect valuation of investments under equity method - operating income/(charges)	2,482	1,346	1,136
EBITDA	30,009	35,168	(5,159)
Amortisation, depreciation and write-downs	(21,151)	(19,285)	(1,866)
EBIT	8,858	15,883	(7,025)
Interest and other financial income (charges)	(237)	(474)	237
Net financial charges	(237)	(474)	237
Investment income/(charges)	-	-	-
Profit before taxes	8,621	15,409	(6,788)
Current and deferred taxes	512	(536)	1,048
Net Profit for the year	9,133	14,873	(5,740)

The following paragraph outlines “pass-through” revenues. These revenues stem from contractual agreements between the subsidiary ELV S.p.A. (now Spacelab S.p.A.) and 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 311,579 thousand in 2021, down Euro 10,444 thousand (-3.2%) on 2020. This net decrease is mainly due to the scheduled phase-out of the Ariane 5 program and the completion of development on the P120 motor, which will power the future VEGA-C and Ariane 6 launchers, whose maiden flights are scheduled for 2022, partially offset by the increase in production and development activities for Vega C, in addition to tactical and satellite propulsion.

The table below shows net revenues by business line (in Euro thousands):

	FY 2021	FY 2020	Change
Vega	204,404	184,514	19,890
Ariane	74,269	116,480	(42,211)
Tactical Propulsion	28,129	20,790	7,339
Satellite	4,777	240	4,537
Revenues, net of pass-through revenues	311,579	322,023	(10,444)

In 2021, EBITDA was Euro 30,009 thousand, down by Euro 5,169 thousand on 2020, mainly due to the sudden and unforeseeable international surge of energy costs in the second half of the year. Adjusted EBITDA was also impacted by the slight reduction in non-recurring costs. EBITDA and Adjusted EBITDA were in line with the Guidance for 2021 provided to the market in September 2021.

EBIT was Euro 8,858 thousand, decreasing Euro 7,025 thousand on 2020, mainly due to the above-stated increase in energy costs and higher amortisation and depreciation from the entry into full operation of a number of development investments.

The result for 2021 was also shaped by the research and development tax credit of Euro 4,033 thousand, mainly relating to research and development activities, commissioned by the European Space Agency, recognised in the results for the year on the basis of the costs incurred for the Group's long-term research and development projects to which the grant refers, as well as to the Industry 4.0 and technological innovation investments.

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 2021 and 2020 are reported below:

	FY 2021	FY 2020	Change
Adjusted EBITDA	37,707	43,315	(5,608)
Adjusted EBITDA Margin (against revenues net of pass-through revs.)	12.1%	13.5%	
Adjusted EBIT	16,557	24,029	(7,473)
Adjusted EBIT Margin (against revenues net of pass-through revs.)	5.3%	7.5%	

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.

2021 Adjusted EBITDA was Euro 37,707 thousand (12.1% of net revenues), down Euro 5,608 thousand on Euro 43,315 thousand in 2020 (13.5% of net revenues), mainly due to the sharp and significant rise in energy costs in the second half of the year.

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.

2021 Adjusted EBIT was Euro 16,556 thousand (5.3% of net revenues), down Euro 7,473 thousand on Euro 24,029 thousand in 2020 (7.5% of net revenues), mainly due to, in addition to the components affecting EBITDA, the increase in amortisation and depreciation of Euro 1,866 thousand, as commented upon above.

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

	FY 2021	FY 2020	Change
A EBIT	8,859	15,883	(7,024)
Non-recurring Charges/(Income) comprising:			
- Settlement agreements / incentives	1,210	224	986
- Corporate and legal consultancy	696	415	281
- COVID-19 extraordinary charges	4,541	7,282	(2,741)
- Other non-recurring charges/(income)	587	39	548
- Supplemental disbursements and "expansion contracts"	548	34	514
- Investor Fees	116	152	(36)
B Total Non-recurring Charges/(Income)	7,698	8,146	(448)
C Adjusted EBIT A+B	16,557	24,029	(7,472)
D Net amortisation & depreciation	21,151	19,285	1,866
E Adjusted EBITDA C+D	37,708	43,315	(5,607)

"COVID-19 Extraordinary charges" mainly concern the costs related to the COVID-19 prevention measures, principally including the protection and distancing tools at work stations and personnel transport and the costs incurred for the return to flight of the Vega VV18-VV20 for the implementation of the recommendations of the IEC following the failure of the VV17 flight in November 2020 (2020: Euro 7,282 thousand for COVID-19 and the VV16 and VV17 return to flight following the VV15 flight failure).

Financial results analysis

Net financial charges in 2021 amounted to Euro 237 thousand, decreasing Euro 236 thousand on the previous year.

Balance Sheet

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

	December 31, 2021	December 31, 2020	Change
Tangible assets and investment property	126,382	115,137	11,245
Rights-of-use	9,456	9,209	247
Goodwill	61,005	61,005	-
Intangible assets with definite life	129,352	125,581	3,771
Investments	11,595	9,112	2,483
Total fixed assets	337,790	320,044	17,746
Net working capital	(82,997)	(58,224)	(24,773)
Other non-current assets	70,926	74,140	(3,214)
Other non-current liabilities	(119,830)	(127,840)	8,010
Net deferred tax assets	79,436	77,975	1,461
Provisions for risks and charges	(28,229)	(31,734)	3,505
Employee benefits	(10,344)	(11,261)	917
Net capital employed	246,752	243,100	3,652
Non-current financial assets	6,415	6,259	156
Net capital employed & Non-current financial assets	253,167	249,359	3,808
Net financial position	57,160	62,635	(5,475)
Equity	(310,327)	(311,994)	1,667
Source of funds	(253,167)	(249,359)	(3,808)

“Total fixed assets” amounted to Euro 337,790 thousand at December 31, 2021, a net increase of Euro 17,746 thousand on December 31, 2020 as a combined effect of the following main movements:

- a net increase of Euro 11,245 thousand in Property, plant and equipment and Investment property, primarily due to investment in progress, totalling Euro 18,319 thousand, net of depreciation for the year.
The above investments essentially involved:
 - 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, at the Salto di Quirra experimental inter-force training range in Sardinia;
 - the construction of the company's new headquarters in Colleferro (Rome);
 - the rolling out of investments to boost the production speed of the P120 motor.
- net increase in Intangible assets with finite useful life of Euro 3,771 thousand, following investments of Euro 15,394 thousand, net of amortisation in the year, for the development activities of the future Vega E launcher, the development activities on the SPTF “Space Propulsion Test Facility” project, “Industry 4.0” investments, the review of the permanent production procedures in application of IEC recommendations following the Vega failures and software licenses.
- increase in Investments mainly due 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 2021 of Euro 4,965 thousand, without any decrease during the period for dividends, as not approved by the 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 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 3.25 "Other non-current liabilities", in addition to the section "Legal and tax disputes and contingent liabilities" in the Explanatory Notes.

"Net working capital" was negative deriving from an excess of liabilities over assets of Euro 82,997 thousand. The main components are outlined in the following table (in Euro thousands):

	December 31, 2021	December 31, 2020	Change
Contract work-in-progress, net of advances	(155,826)	(143,011)	(12,815)
Inventories	57,100	51,474	5,626
Advances to suppliers	97,632	88,835	8,798
Trade payables	(76,927)	(66,454)	(10,473)
Trade receivables	3,696	2,175	1,521
Other current assets and liabilities	(8,673)	8,756	(17,429)
Net working capital	(82,997)	(58,224)	(24,773)

The negative "Net working capital" (current trading) increased due to the cyclical nature of customer advances and the advancement of the production and development orders.

"Other current assets and liabilities" of net working capital reported a net decrease of Euro 17,429 thousand to a negative Euro 8,672 thousand. The main components of this account are outlined in the following table (in Euro thousands):

	December 31, 2021	December 31, 2020	Change
VAT receivables	10,763	26,217	(15,454)
Research and development tax credits, technological innovation and industry 4.0.	3,348	1,563	1,785
Current tax receivables	3,545	5,315	(1,770)
Other current assets	7,376	8,953	(1,577)
Current income tax liabilities	(7,322)	(8,488)	1,166
Other current liabilities	(26,383)	(24,803)	(1,580)
Other current assets and liabilities	(8,673)	8,757	(17,430)

"VAT receivables" report a net decrease of Euro 15,454 thousand, net of the VAT generated in the year, due to the receipt of Euro 18,787 thousand, in addition to interest for Euro 131 thousand.

With regards to the research and development, technological innovation and Industry 4.0 tax credits, Euro 1,785 thousand was recognised in 2021.

Analysis of the net cash position

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.

	December 31, 2021	December 31, 2020	Change
A Cash and cash equivalents	(104,614)	(124,666)	20,052
B Other liquidity	-	-	-
C Other current financial assets	-	-	-
D Liquidity (A+B+C)	(104,614)	(124,666)	20,052
E Current financial debt (including debt instruments but excluding the current portion of non-current financial debt)	10,655	15,425	(4,770)
F Current portion of non-current bank payables	10,048	10,063	(15)
G Current financial debt (E+F)	20,703	25,488	(4,785)
H Net current financial debt (G-D)	(83,911)	(99,178)	15,267
I Non-current financial debt (excluding current portion and debt instruments)	26,751	36,543	(9,792)
J Debt instruments	-	-	-
K Trade payables and other non-current payables	-	-	-
L Non-current financial debt (I + J + K)	26,751	36,543	(9,792)
M Total financial debt (H + L)	(57,160)	(62,635)	5,475

At December 31, 2021, the Avio Group reports a net cash position of Euro 57,160 thousand (Euro 62,635 thousand at December 31, 2020), with cash and cash equivalents exceeding financial liabilities.

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 57,160 thousand at December 31, 2021, decreasing Euro 5,475 thousand, principally due to the cyclical nature of operating cash flows, in addition to capital expenditures in the year. There were no restrictions on liquidity.

The current financial debt, amounting to Euro 10,655 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 2,906 thousand (Euro 2,676 thousand at December 31, 2020).

The current portion of non-current financial debt, amounting to Euro 10,048 thousand (Euro 10,063 thousand as at December 31, 2020), includes two instalments, each of Euro 5,000 thousand, relating to the total loan of Euro 50,000 thousand, falling due on April 30, 2022 and October 31, 2022 respectively, as well as interest accrued as at December 31, 2021, amounting to Euro 48 thousand.

The non-current financial debt, amounting to Euro 26,751 thousand (Euro 36,543 thousand at December 31, 2020), includes:

- non-current financial liabilities with the European Investment Bank amounting to Euro 22 million (Euro 32 million at December 31, 2020).
- non-current financial liabilities for leased assets of Euro 4,751 thousand (Euro 4,543 thousand at December 31, 2020).

Statement of changes in Equity

Consolidated equity at December 31, 2021 amounts to Euro 310,327 thousand, decreasing Euro 1,667 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 2021 consolidated net profit of Euro 9,133 thousand;
- share of the Italian Space Agency, a minority shareholder of the subsidiary Spacelab S.p.A., of the dividends approved and the reimbursement of own funds of the company for Euro 3,132 thousand;
- negative effect of actuarial losses of Euro 254 thousand.

RESEARCH AND DEVELOPMENT ACTIVITIES

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 (the CRdC). 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 overall by the Avio Group in 2021 amounted to Euro 117.8 million (Euro 149.4 million in 2020), equating to 36.8% of gross consolidated revenues in 2021 (42.5% in 2020).

Net of pass-through costs, research and development by the Group in 2021 incurred costs of Euro 109.3 million, 35.1% of revenues net of pass-through revenues (Euro 119.8 million in 2020, equal to 37.2% of revenues net of pass-through revenues).

Self-financed and self-executed activities amounted in 2021 to Euro 12.7 million (Euro 12.4 million in 2020).

Self-financed activities in 2021 included Euro 10.0 million relating to development costs capitalised as Intangible assets with finite life (Euro 10.4 million in 2020) and Euro 2.7 million concerning research costs or development costs not capitalisable and directly charged to the income statement (Euro 2.0 million in 2020).

The total amount of costs related to self-financed activities charged to the income statement in 2021 was Euro 9.5 million (Euro 7.1 million in 2020), comprising Euro 2.7 million of directly expensed non-capitalisable costs (Euro 2.0 million in 2020) and Euro 6.8 million for the amortisation of development costs capitalised (principally) in previous years (Euro 5.1 million in 2020).

In 2021, Avio continued its innovation in the main product lines, as a synthesis of 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 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, the finalisation of the qualification review continued in view of the 2022 maiden flight.

Following the signing of an ATP with MDBA, 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 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.

The first development model of the entire M10 motor, named DM1, has been fully integrated, and preparatory activities have begun for the test fire campaign to be carried out during the first half of 2022, at the innovative Avio Space Propulsion Test Facility (SPTF), inaugurated in October 2021, and located on the Salto di Quirra military range in Sardinia.

Vega E, whose first flight is scheduled for 2026, 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 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 was completed on the fourth linerless model to be LOX tested at Avio's Colleferro facilities in the first half of 2022.

At the same time, design work was completed 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 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 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).

The development of the Hera propulsion system continued, to support ESA's Critical Design Review during the first half of 2022. HERA is a planetary defence project funded by ESA, involving a consortium of European companies led 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 December 31, 2021, Group employees numbered 991, up from 950 at December 31, 2020.

The number of employees does not include those of the company Europropulsion S.A., consolidated at equity. The majority of the workforce is employed by the parent company, Avio S.p.A., which at the same date numbered 875 (823 at December 31, 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.

In July, following the corporate organizational changes made in June, updated lists of acronyms were communicated to the individual departments, revised on the basis of the new organizational provisions, according to the Protocol programme.

On December 21, 2021, the Board of Directors of Avio S.p.A. approved the 6th edition of the Code of Ethics, made available on the company's website and intranet, and circulated to all employees via the Mygovernance IT tool and the Avio Organization email system. The main modifications concerned adjustments and additions regarding cybersecurity, considering the nature of the company's business, and the constant evolution of the digital world.

Industrial Relations

- Management of industrial relations

Meetings continued during the year with the Workers' Representative Body in order to engage union representatives concerning the industrial challenges at the beginning of the year.

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.

In this regard, the final target, reached by the end of 2021, was the hiring of 16 workers on Avio contracts, and a further 14 workers on temporary employment contracts.

In the second half of the year, the Workers Development Plan was launched, which, between November 2021 and January 2022, led to 61 worker promotions (in addition to the 16 made in March 2021).

Regarding HR management, in September 2021, an expansion agreement was digitally signed with the Ministry of Labour, the Workers' Representative Body and the Territorial Unions, allowing for the early retirement of 5 resources (4 managers and 1 blue-collar worker).

The Workers' Representative Body was involved in the decision to keep the plant open for the entire month of December 2021.

- 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. In particular, after the conclusion of the vaccination campaign, which involved 15% of the company population, Management adopted the necessary tools for verifying Strengthened Green Passes (for access to both the plant and shuttle services to Rome and Ceccano), and temporarily suspended use of the canteen.

- 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;
- Agreements on the training funded by Fondimpresa;
- Agreement to introduce 2 vouchers with a total value of €300 for the categories E-C-D-B;
- Christmas closure for the first few days of January 2022.

Development and Training

In 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 manager, 101 middle managers / office workers (19% managers, 33% professionals, and 48% office workers), and 16 blue-collar workers (total: 118 hires). Mostly graduates, the hired personnel have different degrees of experience, and are in possession of specific skills relating to various professional areas. Of the 101 managers/white-collar workers hired, 62% were in the engineering area, 13 were previous consultants, and 20 were contracted under staff-leasing.

In line with the launch of the new corporate organization, and the assignment of new tasks and responsibilities in relation to the various corporate programmes, the company has implemented a substantial Merit and Development Plan, involving a total of 35% of the white-collar population. In particular, 128 promotions were made - involving 27% of the white-collar population - of which 7 to the qualification of *Professional Expert* (i.e. the highest Manager level), 26 to the qualification of Manager, and 20 to the company title of Professional.

With regard to Avio Group training, in 2021, 24,784 hours of training were provided, with 5,404 participations (from personnel, contractors and staff leasing) in refresher courses, professional development courses, individual courses and soft skills and technical skills deployment training. During 2021, several topics of particular relevance were dealt with, including targeted training on manufacturing processes for the Vega product, and the establishment of the VALUE A training course to address the theme of inclusion and how to transform this value into action involving managers and white and blue-collar workers.. In this regard, a social cooperative was chosen and part of the training activity was oriented to a beneficial cause. The corporate professional development training catalogue was expanded with a new "New Manager Course" designed to support promotions to the A3 level, with 16 hours of experiential training on themes such as time, people and stress management. Transverse individual courses were also organized to respond to needs expressed in terms of: Emotional Intelligence, Decision Making, Negotiation, Time Management, Effective Communication, Public Speaking, Recruiting, and the Training of Trainers. 2021 also saw the company management focus on the provision of methodological courses, such as 8D, Project Management and Yellow Belt (in the latter case participants had to take an exam to complete certification). A training course on Human Error Awareness was also designed for staff involved in launch campaigns.

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;
- methodological training.

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 allowed for the provision of courses during the Covid-19 emergency while respecting the social distancing required by company regulations. 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 2021, 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.

From October 15, following the introduction of the mandatory Green Pass to access workplaces in the private sector, as well as the public sector, as per Italian Decree Law 127, all employees were given new methods of access to the plant, and those without Green Passes were notified that, during unjustified absence, they would keep their jobs but forfeit remunerations and benefits.

The support of an infection disease expert continued in the year, alongside the company-appointed physician, which began in November 2020, and 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, the company management extended - until March 31, 2022 - the possibility of remote work for parents with at least one child under the age of 14, as per Italian Legislative Decree 34/2000, the so-called "Relaunch Decree", and for employees with certain pathologies, such as immune deficiency.

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

In addition, in June 2021, an agreement was signed with the Workers' Representative Body regarding the Participation Bonus, which was calculated on the basis of the industrial and quality data of Avio Group's 2020 financial statements, and paid in July 2021.

In July, an agreement was signed with the Workers' Representative Body and local trade unions for employees belonging to B, C, D and E contractual categories not benefiting from a company fuel card to receive two shopping vouchers worth Euro 150 in September and December, applicable to all employees and temporary staff in the company at 31/12/2020, upon signing the agreement.

Also in July, following the increase in hiring, Workstation Guidelines were established to manage the assignment process for entry, movement and relocation of resources, the adequacy of existing set-ups, compliance with safety requirements, and the updating of company floor-plans.

The Merit Ceremony was held in September, an important moment for the Company to pay homage to the experience and professionalism of employees whose careers in Avio have spanned 30 and 35 years.

From November 2, the INAZ Desk was reactivated on the first Tuesday of each month, in order to respond to requests for clarifications and explanations regarding pay.

Again this year due to the COVID situation, it was not possible to organise the usual “Natale Bimbi” corporate Christmas children’s event. However, the Company decided to offer, as usual, a gift card worth Euro 40 to employees with children aged 0 to 10 years that can be spent at Toy Center and Bimbo Store.

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).

The retained Covid-19 restrictions continued to limit the company’s corporate and external communications activities throughout the course of 2021. The emphasis was placed on internal and digital communications.

Events and shows

The main events in the year include:

- 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 Tabacci; 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.
 - July 5, Colleferro - A small ceremony was held at the Avio BPD tennis club to mark the end of the children's course, with the presence of Dr. Francesca Lillo, and the national coach Danilo Leonori;
 - July 9, Colleferro - A large number of Avio personnel participated in the blood donation drive;
 - July 12, Rome - As part of the Seven Stories (Sette Storie) programme on Rai 1, conducted by Monica Maggioni, an extensive report was dedicated to Avio and Vega, with CEO Giulio Ranzo talking about the work and technologies used to build the European light launcher;
 - July 14, Colleferro - Avio become a Gold Sponsor of the Italian Pavilion at the Dubai 2020 Expo in an official ceremony conducted in the presence of the Expo Commissioner, Paolo Glisenti, the President of the Italian Space Agency, Giorgio Saccoccia, the COMINT General Secretary, Luigi De Leverano, and the Regional Councillor for Economic Development, Trade and Crafts, and Research and Innovation, Paolo Orneli. The participation in the Expo was the subject of extensive coverage by the national media;

- July 14, Colleferro - The final of the Padel tournament took place, dedicated to the memory of two colleagues who died prematurely, Cristian Cemino and Giovanni Tesini;
- July 21, Frascati - At ESA's ESRIN headquarters in Frascati, Avio CEO, Giulio Ranzo, and ESA Space Transport Director, Daniel Neuenschwander, signed a contract, worth Euro 118.8 million, to guarantee the development of the Vega launcher beyond 2025;
- July 21, Kourou - The first Junior Project carried out in French Guiana came to an end. The project allowed a group of employees from different company areas to experience part of the launch campaign activities and visit other departments of the Avio group, such as the Regulus plant;
- July 23, Kourou - A delegation from the French National Centre for Space Studies (CNES) visited the ZLV launch facility on occasion of the inauguration of the new CNES President, Philippe Baptiste;
- August 8, Kourou - A relaxed Sunday event was organized at "La Mangrove", in Macouria, where CEO Giulio Ranzo met with Avio and Avio Guiana teams to thank them for their commitment to the VV19 campaign;
- August 18 - Widespread media coverage was given to flight VV19, which successfully took the French satellite Pléiades Neo 4 into sun-synchronous orbit, together with four other ride-share micro-satellites, including LADSAT, of the University of Rome La Sapienza, as part of an ESA project;
- September 21, Colleferro - As part of the G20 Space Economy Leaders Meeting 2021, a prestigious delegation, made up of representatives of the Saudi Space Commission and the Mexican Aerospace Industry Federation Space Commission, visited the Avio sites, accompanied by members of the Italian Space Agency, ASI, and the Italian Foreign Trade Institute, ICE;
- September 24, Rome - Avio received a Leonardo Quality Award from the Italian Leonardo Quality Committee for Made in Italy Excellence, as a company seen to be at the cutting edge of global technology. The award was presented to CEO Giulio Ranzo at a ceremony conducted in the presence of the President of the Italian Republic, Sergio Mattarella;
- September 25, Colleferro - A representative of SE.CO.SV.IM real-estate company of Avio Group participated in the final day of presentations of projects of the students of architecture and engineering of the INU Masterclass, organized by the Municipality of Colleferro on the theme "City Projects";
- September 27, Colleferro - CEO Giulio Ranzo held a virtual meeting addressing the whole company, in order to take stock of the current situation, and illustrate future prospects;
- September 27, Colleferro - The first "Get On Board Day" was held at the Morandi Auditorium in Colleferro for new hires which create an opportunity to meet with them directly and to expand further on the company's strategic objectives;
- September 29, Colleferro - During the "Merit Ceremony", CEO Giulio Ranzo, together with the Mayor of Colleferro, Pierluigi Sanna, awarded colleagues with 30 or 35 years of service with a plaque to commemorate the important milestone;
- October 5, Perdasdefogu - Inauguration of the new Space Propulsion Test Facility (SPTF), in Perdasdefogu, in the presence of Avio CEO, Giulio Ranzo, Air Brigade General, Davide Marzinotto, President of the Sardinian Regional Council, Michele Pais, Commander of the Military Command of the Sardinia Army, General Francesco Olla, and other representatives of military and civil authorities and key players in the aerospace world;
- October 18, Dubai - Avio put on the "Space 4 Sustainability" event, inaugurated by astronaut Luca Parmitano, at the Italian Pavilion of Expo Dubai, focused on the key theme of "Sustainability from space and in space". Taking part in the conference were: the Italian General Commissioner for Expo 2020, Paolo Glisenti; Avio CEO, Giulio Ranzo; Director of the United Nations Office for Outer Space Affairs, Simonetta di Pippo; President of the Italian Space Agency, Giorgio Saccoccia; the CEOs of major companies operating in the space sector, such as Dallara, Thales Alenia Space Italy, Telespazio, Argotec, and Tolo Green; and the Polytechnic University of Milan, and the University of Pavia;

- October 19, Colleferro - Press conference for the presentation of the docufilm “Città Novecento” (“20th Century City”) tracing the history of Colleferro, which is closely linked with that of Avio. The film tells just over a century of growth and development, told by the actor Alessandro Haber, through the fictionalized setting of B.P.D., ancestor of Avio;
- October 29, Colleferro - Guided visit of the Avio plants for students of the three-year degree course in Physics of the University of Campania Luigi Vanvitelli, accompanied by Pierluigi Perugini and Massimo Epifani;
- October 29, Colleferro - The well-known English TV presenter James May (better known as “Captain Slow” by Top Gear lovers), shot a visit to Avio for the “Our Man in Italy” Amazon Prime series;
- November 12, Milan - Avio was awarded in the Sustainability Aerospace & Aviation Category of the LC Sustainability Awards 2021, for its all-round commitment to sustainability;
- November 16, Kourou - Extensive media coverage was given to flight VV20, which successfully took three CERES satellites into orbit for CNES and the French Ministry of Defence;
- November 26, Colleferro - Avio went on air on the “Buongiorno Regione” regional newscast programme for the Lazio Region, with journalist Mauro Scanu interviewing Francesca Lillo and Mayor Pierluigi Sanna on the “4560 Museum Area”;
- November 29, Colleferro - Avio was on air on the national newscast programme “TG2 Storie” regarding how the Vega and Vega C are produced, in an interview with Salvatore Spinosa, Head of Industrial Operations;
- November 29, Colleferro - A large delegation of representatives of the South Korean Space Agency (KARI) and the South Korean government visited Avio to see where the Vega C launcher that will take their Kompsat7 satellite into orbit is produced;
- December 9, Colleferro - Start of the lectures of the Level I Masters on the “Management of Critically Ill Patients in the Event of Catastrophic Events”, for the academic year 2020-2021, of the University of Rome La Sapienza, under the responsibility of Prof. Carlo Ciambriello;
- December 16, Colleferro - Avio played a key part in celebrating the first National Space Day, established by Directive of the President of the Council of Ministers of October 14, 2021, in honour of the launch of the first Italian satellite, San Marco 1, which allowed Italy to be one of the first countries in the world to go beyond Earth’s atmosphere;
- December 16, Paris - ESA and Avio signed a Euro 51 million contract to improve the competitiveness of Vega C;
- December 23, Colleferro - The second “Get on Board Day” was held, aimed at recruitment and sharing an overview of the company’s operations and strategic objectives.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES

Risks relating to the war in Ukraine

The Russian-Ukrainian crisis is an ongoing diplomatic-military confrontation between Russia and Ukraine that began in February 2014. It centres on the status of Crimea, the Donbass region, and Ukraine's possible membership in NATO.

As widely reported, on February 24, 2022, Russia began the invasion of Ukraine. Despite unanimous condemnation and international sanctions against Russia, the war between the two countries continues.

As previously reported in the prospectus of March 31, 2017 relating to the admission to trading on the STAR segment of the Italian Stock Exchange organised and managed by Borsa Italiana S.p.A., in undertaking transactions the Group mainly uses suppliers and sub-contractors for the supply of components, semi-finished products and raw materials. The Group's ability to fulfill its obligations to its clients also depends on the fulfilment of contractual obligations by its sub-contractors and suppliers. Also as reported in the prospectus, certain Group suppliers and sub-contractors, considering the skills and know-how they have developed, in addition to the qualification processes that have certified their compliance with specific requirements, are difficult to replace or, in any event, their replacement may entail a lengthy period of time and significant costs.

In view of the Russian-Ukrainian crisis that had emerged even in February 2014, it was reported in the prospectus, in particular, that the then recent foreign policy events could affect the capabilities of suppliers operating in Russia and Ukraine. The prospectus also stated that such possible non-fulfilment could concern a varying range of components (such as the propellant tanks and the fourth stage motors of the Vega launcher, the pressure regulators and valves) or raw materials (such as ammonium perchlorate and carbon fibres) and, should significant cases of non-fulfilment by the Group's suppliers or subcontractors occur or, for any reason, should such suppliers no longer be able to meet their obligations or should they need to be replaced by the Group, the latter, also on account of any delays that might ensue, could be held liable by its clients and, therefore, be subject to possible claims for damages. The occurrence of one or more of these circumstances could impact upon the Group's financial statements.

Among the Group's strategic suppliers, due to the skills and know-how developed as well as the qualification processes that have certified their compliance with the specific requirements, which are difficult to replace or, in any case, whose replacement could require a lengthy period of time and significant costs, included, and still include, three Ukrainian suppliers who currently supply:

- The main motor of the 4th stage for the Vega and Vega-C launchers;
- The carbon-carbon inserts used to make the nozzles for the Z40 and Z9 motors of the Vega-C carrier.

Currently, there is no direct procurement from Russian suppliers.

In addition, since 2019, the Group has started a technical-engineering collaboration again with two of these three suppliers to fine-tune the processes for making the carbon-carbon inserts to be used in the manufacture of the nozzles of the Z40 and Z9 solid propellant motors of the Vega C launcher, the completion of which is expected by 2024 at the "Space Propulsion Test Facility" industrial site in Sardinia.

On the basis of the investigations carried out to date, it has emerged that the state of supplies allows the continuation of industrial activities without interruption in relation to the VEGA and VEGA C programmes. The situation is being monitored in order to take action to protect business continuity also in the medium and long term. On the basis of the information currently available (which is not yet complete, precise and reliable), it cannot be excluded that a worsening of the Ukrainian crisis, or the continuation of the current situation, could have possible future impacts on the Group's production activities with reference to the VEGA and VEGA C programmes.

As a result of the contacts regularly maintained with these suppliers, production activities were suspended for the carbon-carbon inserts used for the production of the nozzles of the Z40 and Z9 motors of the Vega-C launch vehicle, without, however, interrupting the production schedule of Avio's operations.

Therefore, on February 25, 2022, Avio promptly issued a press release about the dramatic events taking place in Ukraine, reporting that, at present, there is no impact on the continuity of Vega's operations.

Based on the above, the risks from impacts from dependence on such Ukrainian strategic suppliers are qualified as possible.

In this general context, it should be noted that the Batch 3 contract with the client Arianespace includes the possibility - where necessary - to invoke a force majeure clause for the obligations assumed by Avio. At present, also on the basis of in-depth analyses carried out by legal advisors, the application of this clause has not been invoked because, in light of the above, Avio is currently able to ensure the continuation of production activities of the Batch 3 contract.

In any case, the situation will be constantly monitored in order to be able to invoke the force majeure clause in a timely manner, if necessary.

The Group has already taken preventive action - with the support of the European Space Agency - to identify possible alternative suppliers with reference to the above products, also analysing the process and methods necessary for the certification of these solutions in the qualification dossier of the Vega and Vega C launchers. At today's date, the analysis is still in progress and several viable alternatives have been identified, for which a more detailed evaluation of the timings and costs of their possible introduction will be carried out.

General economic risks

The COVID-19 pandemic

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

2021 was significantly affected by the continuation of the disruption of the Covid-19 pandemic, which continued to spread and threaten the lives of millions of citizens, as well as the health of the world economy. In this context, Avio continued to guarantee the protection of the health of its workers, consultants, suppliers and customers, by implementing - in line with the epidemiological trends of the pandemic and regulatory provisions issued by the Italian government - protective measures to limit the spread of the virus as much as possible, and to mitigate the potential risks associated with a safe continuation of production activities.

The effects of the health emergency were felt intermittently throughout 2021, 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 with difficulty but normally in order to ensure operational objectives are achieved. In particular, in the year 2021 all 3 planned flights of the VEGA launcher have been performed: on April 28, 2021 the VV18, on August 16, 2021 the VV19 and on November 16, 2021 the VV20.

Should the effects of Covid-19 continue into 2022 and beyond, impacts, including significant impacts, may be seen 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.

The COVID-19 Committee, specifically set up by Avio, regularly updated the risk assessment that was necessary in view of the Coronavirus (COVID-19) outbreak globally.

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 (in particular energy costs), 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.

Risks related to sudden increase in energy costs

The final part of 2021 saw a sudden increase in energy costs, which impacted profits. The company has already taken action by concluding a partnership with Cogenio-Enel X in December 2021 for the management of a thermoelectric power plant to ensure the security of energy and steam supplies at the best financial conditions.

Should this situation of high energy costs and uncertainty be significantly prolonged or worsen, the Group's business, strategies and prospects could be adversely affected, which could have a negative impact on the Group's income statement, balance sheet and financial position.

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. In the third and fourth quarters of 2021 orders increased, with a strong outlook both for development and production activities, alongside possible further technological development through the National Recovery and Resilience Plan. However, as a typical potential risk of aerospace industry groups, the backlog may 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. Despite this, the Group participates in the definition of the 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 investee Termica Colleferro S.p.A.. After a period of arrangement with creditors of the previous majority shareholder Seci S.p.A., in July 2021, the latter was declared bankrupt by the Court of Bologna.

In addition, the final months of 2021 saw an unexpected and sharp increase in energy costs across Europe.

In this context, Avio quickly reacted by agreeing a new partnership with Cogenio S.r.l.-Enel X, with Cogenio S.r.l., with Cogenio S.r.l. the new majority shareholder of Termica Colleferro S.p.A., (owning 60% since December 2021), for the management of the thermo-electric plant in order to guarantee energy and steam supplies at the best financial conditions.

SUBSEQUENT EVENTS

Business

The campaign for the maiden launch of the Vega C continues (scheduled for H1 2022).

An agreement was reached with ArianeGroup for the production of P120 motors.

War situation in Ukraine

The ongoing conflict situation in Ukraine, as extensively reported in the risks section of these financial statements, to which reference should be made, is a subsequent event, assessed, pursuant to IAS10, as “not adjusting” to the items recorded in the Group's consolidated financial statements at December 31, 2021.

Acquisition of treasury shares

As reported in the Press Release of February 3, 2022, the Board of Directors on the same date, in execution of that authorised by the Shareholders' Meeting of April 29, 2021, resolved to launch a share buyback program, for a total maximum value of approx. Euro 9.1 million, until the conclusion of the authorisation granted by the Shareholders' Meeting (October 30, 2022).

As of December 31, 2021, the Company held 671,233 treasury shares, corresponding to 2.55% of the shares constituting the share capital. From February 3, 2022 to today's date, 364,000 treasury shares have been purchased, resulting in a total number of 1,035,233 treasury shares, corresponding to 3.93% of the number of shares constituting the share capital.

Outlook

In the short term, it is expected that the undertaking of the activities may be affected by both the activities for the maiden Vega C and Ariane 6 launches. Production ramp-up of the P-120 motors is also expected.

As reported in the press release of February 25, 2022, and in the section “Main risks and uncertainties to which the Group is exposed” regarding the dramatic events taking place in Ukraine, there is currently no impact on Vega's operational continuity. The situation will continue to be monitored and mitigation actions will be taken, if necessary, to ensure full operations in the medium to long term.

The Board of Directors of Avio S.p.A. has resolved to propose to the next Shareholders' Meeting, to be held on April 28, 2022, the allocation of the 2021 net profit of Avio S.p.A., amounting to Euro 4,836 thousand, for Euro 4,500 thousand to dividends and Euro 336 thousand to retained earnings.

RESULTS & EQUITY AND FINANCIAL POSITION OF AVIO S.P.A.

Earnings and financial results

Results

The following table compares the company performance in 2021 and 2020 (in Euro thousands):

	FY 2021	FY 2020	Change
Revenues	313,091	347,407	(34,316)
of which: Pass-through revenues	8,515	29,567	(21,052)
Revenues, net of pass-through revenues	304,576	317,839	(13,263)
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	8,197	8,720	(523)
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(287,665)	(295,969)	8,305
EBITDA	25,108	30,590	(5,482)
Amortisation, depreciation & write-downs	(23,083)	(20,842)	(2,241)
EBIT	2,025	9,748	(7,723)
Interest and other financial income (charges)	(558)	(666)	108
Net financial income/(charges)	(558)	(666)	108
Investment income/(charges)	2,667		2,667
Profit before taxes	4,134	9,081	(4,948)
Current and deferred taxes	703	(310)	1,013
Profit for the year	4,836	8,771	(3,935)

Revenues net of “pass-through” revenues were Euro 304,576 thousand in 2021, down Euro 13,263 thousand (-4.2%) on 2020. This net decrease is mainly due to the scheduled phase-out of the Ariane 5 program and the completion of development on the P120 motor, which will power the future VEGA-C and Ariane 6 launchers, whose maiden flights are scheduled for 2022, partially offset by the increase in production and development activities for Vega C, in addition to tactical and satellite propulsion.

In 2021, EBITDA was Euro 25,108 thousand, down by Euro 5,482 thousand on 2020, mainly due to the sudden and unforeseeable international surge of energy costs in the second half of the year. Adjusted EBITDA was also impacted by the slight reduction in non-recurring costs. EBITDA and Adjusted EBITDA were in line with the Guidance for 2021 provided to the market in September 2021.

EBIT was Euro 2,025 thousand, decreasing Euro 7,723 thousand on 2020, mainly due to the above-stated increase in energy costs and higher amortisation and depreciation from the entry into full operation of a number of development investments.

The result for 2021 was also shaped by the research and development tax credit of Euro 4,033 thousand, mainly relating to research and development activities, commissioned by the European Space Agency, recognised in the results for the year on the basis of the costs incurred for the Group’s long-term research and development projects to which the grant refers, as well as to the Industry 4.0 and technological innovation investments.

For further information on the operating performance, reference should be made to the preceding section of the Directors’ Report “Analysis of the results and balance sheet of the Group”.

"Investment income/(charges)" report income of Euro 2,667 thousand, following the sale of the branch of business from the subsidiary Spacelab S.p.A. to Avio S.p.A., as commented in the notes.

Balance Sheet

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

	December 31, 2021	December 31, 2020	Change
Property, plant and equipment	88,779	80,398	8,381
Rights-of-use	33,714	38,224	(4,510)
Goodwill	61,005	61,005	-
Intangible assets with definite life	128,798	125,141	3,657
Investments	78,996	77,460	1,535
Total fixed assets	391,292	382,229	9,063
Net working capital	(86,277)	(59,500)	(26,776)
Other non-current assets	63,807	65,000	(1,194)
Other non-current liabilities	(119,229)	(126,782)	7,552
Net deferred tax assets	75,400	74,085	1,315
Provisions for risks and charges	(9,726)	(12,271)	2,545
Employee benefits	(8,427)	(9,057)	629
Net capital employed	306,840	313,705	(6,865)
Non-current financial assets	6,415	6,259	156
Net capital employed & Non-current financial assets	313,255	319,964	(6,709)
Net financial position	(21,963)	(25,933)	3,970
Equity	(291,292)	(294,031)	2,739
Source of funds	(313,255)	(319,964)	6,709

For further information on the equity differences, reference should be made to the preceding section of the Directors' Report "Analysis of the results and balance sheet of the Group".

"Right-of-use" in the separate financial statements amounted to Euro 33,714 thousand, exceeding the Euro 9,456 thousand presented in the consolidated financial statements, since Avio S.p.A. has leased plots of land, offices and buildings in the Colferro business park owned by the subsidiary Se.Co.Sv.Im. S.r.l.

Analysis of the financial position

At December 31, 2021, the Parent Avio had net financial debt of Euro 21,963 thousand (Euro 25,933 thousand at December 31, 2020), being cash and cash equivalents lower than financial liabilities.

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.

The table below illustrates the net financial position (in Euro thousands):

	December 31, 2021	December 31, 2020	Change
A Cash and cash equivalents	(100,069)	(121,536)	21,467
B Other liquidity	-	-	-
C Other current financial assets	-	-	-
D Liquidity (A+B+C)	(100,069)	(121,536)	21,467
E Current financial debt (including debt instruments but excluding the current portion of non-current financial debt)	63,393	74,260	(10,867)
F Current portion of non-current bank payables	10,048	10,063	(15)
G Current financial debt (E+F)	73,441	84,323	(10,882)
H Net current financial debt (G-D)	(26,627)	(37,212)	10,585
I Non-current financial debt (excluding current portion and debt instruments)	48,591	63,146	(14,555)
J Debt instruments	-	-	-
K Trade payables and other non-current payables	-	-	-
L Non-current financial debt (I + J + K)	48,591	63,146	(14,555)
M Total financial debt (H + L)	21,963	25,933	(3,970)

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 negative balance (liquidity < financial liabilities) of Euro 25,933 thousand at December 31, 2020 to Euro 21,963 thousand at December 31, 2021, decreasing Euro 3,970 thousand, principally due to the cyclical nature of operating cash flows, in addition to capital expenditures in the year. There were no restrictions on liquidity.

Current and non-current financial liabilities concern, in addition to the medium/long-term liabilities to the EIB for Euro 22 million (Euro 32 million at December 31, 2020), also liabilities for leased assets for Euro 33,339 thousand (Euro 39,514 thousand at December 31, 2020), the majority of which of the subsidiary Se.Co.Sv.Im. S.r.l..

Current financial liabilities to the EIB amounts to Euro 10,048 thousand (Euro 10,063 thousand at December 31, 2020).

The current financial debt of Euro 63,393 thousand (Euro 74,260 thousand at December 31, 2020), in addition to financial liabilities for leased assets, includes mainly financial liabilities to the Group's wholly-owned subsidiaries for the current treasury account for Euro 56,645 thousand (Euro 65,892 thousand at December 31, 2020).

Analysis of equity

Equity at December 31, 2021 amounts to Euro 291,292 thousand, decreasing Euro 2,739 thousand on equity at December 31, 2020 (Euro 294,031 thousand), as a result of the combined effect of the following:

- 2021 net profit of Euro 4,836 thousand;
- distribution of dividends for Euro 7,321 thousand;
- decrease due to actuarial losses of Euro 254 thousand.

TRANSACTIONS WITH HOLDING COMPANIES, SUBSIDIARIES, JOINT VENTURES, ASSOCIATES AND INVESTEEs

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 Article 40 of Legislative Decree 127/1991, it is disclosed that, in consideration of the share buy-back programme, at December 31, 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 31, 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 November 8, 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 Ethics Code**, approved on March 29, 2004 and amended latterly on December 21, 2021 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 14, 2022, 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 14, 2022, 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 Corporate Governance Code, while also taking account of the reference documents prepared by Borsa Italiana S.p.A..

PROPOSAL FOR THE ALLOCATION OF THE RESULT OF AVIO S.P.A.

In inviting you to approve the 2021 Annual Accounts of Avio S.p.A., drawn up as per IFRS and reporting a net profit of Euro 4,836 thousand, we propose the allocation of the result as follows:[...]

- Euro 4,500 thousand as dividend;
- Euro 336 thousand to retained earnings.

* * *

March 14, 2022

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

CONSOLIDATED FINANCIAL STATEMENTS

This document is an English language translation of the official Italian version and is not provided in the European Single Electronic Format (ESEF) and hence it is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. The legally required ESEF-format is filed in Italian language with the authorised storage mechanism "eMarket STORAGE" (www.emarketstorage.com) as well as on Company's website.

CONSOLIDATED BALANCE SHEET	Note	December 31, 2021	December 31, 2020
<i>(In Euro thousands)</i>			
ASSETS			
Non-current assets			
Property, plant and equipment	3.1	123,171	111,999
Rights-of-use	3.2	9,456	9,209
Investment property	3.3	3,211	3,138
Intangible assets with definite life	3.4	129,352	125,581
Goodwill	3.5	61,005	61,005
Investments	3.6	11,595	9,112
Non-current financial assets	3.7	6,415	6,259
- of which related parties		6,415	6,259
Deferred tax assets	3.8	79,436	77,975
Other non-current assets	3.9	70,927	74,140
Total non-current assets		494,568	478,418
Current assets			
Inventories and advances to suppliers	3.10	154,732	140,309
- of which related parties		28,876	38,232
Contract work in progress	3.11	453,808	334,860
- of which related parties		99,596	92,792
Trade receivables	3.12	3,696	2,175
- of which related parties		1,278	1,634
Cash and cash equivalents	3.13	104,614	124,666
Tax receivables	3.14	17,656	33,094
Other current assets	3.15	7,376	8,954
- of which related parties		4	4
Total current assets		741,882	644,058
TOTAL ASSETS		1,236,450	1,122,476

CONSOLIDATED BALANCE SHEET	Note	December 31, 2021	December 31, 2020
<i>(In Euro thousands)</i>			
EQUITY			
Share capital	3.16	90,964	90,964
Share premium reserve	3.17	135,175	135,175
Other reserves	3.18	13,598	13,851
Retained earnings		54,263	49,374
Group net profit		8,480	14,118
Total Group Equity		302,480	303,482
Equity attributable to non-controlling interests	3.20	7,847	8,512
TOTAL NET EQUITY		310,327	311,994
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	3.21	22,000	32,000
Non-current financial liabilities for leasing	3.22	4,751	4,543
- of which related parties		974	1,107
Employee provisions	3.23	10,344	11,261
Provisions for risks and charges	3.24	17,364	19,382
Other non-current liabilities	3.25	119,830	127,840
Total non-current liabilities		174,289	195,026
Current liabilities			
Current financial liabilities		7,749	12,749
- of which related parties	3.26	7,749	12,749
Current financial liabilities for leasing	3.27	2,906	2,676
- of which related parties		146	150
Current portion of non-current financial payables	3.28	10,048	10,063
Provisions for risks and charges	3.24	10,865	12,352
Trade payables		76,927	66,454
- of which related parties	3.29	11,009	10,257
Advances from clients for contract work-in-progress		609,634	477,871
- of which related parties	3.11	100,988	79,515
Current income tax payables	3.30	7,322	8,488
Other current liabilities		26,383	24,803
- of which related parties	3.31	283	248
Total current liabilities		751,834	615,456
TOTAL LIABILITIES		926,123	810,482
TOTAL LIABILITIES AND EQUITY		1,236,450	1,122,476

CONSOLIDATED INCOME STATEMENT	Note	FY 2021	FY 2020
<i>(In Euro thousands)</i>			
Revenues	3.32	320,094	351,590
- of which related parties		83,635	121,072
Change in inventory of finished products, in progress and semi-finished		166	(17)
Other operating income	3.33	7,461	7,233
Consumption of raw materials	3.34	(83,769)	(85,355)
Service costs	3.35	(154,070)	(172,600)
- of which related parties		(50,053)	(67,667)
Personnel expenses	3.36	(72,396)	(70,899)
Amortisation and Depreciation	3.37	(21,151)	(19,285)
Other operating costs	3.38	(4,178)	(8,086)
Effect valuation of investments under equity method - operating income/(charges)	3.39	2,482	1,346
Costs capitalised for internal works	3.40	14,219	11,955
EBIT		8,858	15,882
Financial income	3.41	685	672
- of which related parties		156	153
Financial charges	3.42	(922)	(1,145)
- of which related parties		(15)	(13)
NET FINANCIAL INCOME/(CHARGES)		(237)	(473)
Other investment income/(charges)			
INVESTMENT INCOME/(CHARGES)			
PROFIT BEFORE TAXES		8,621	15,409
Income taxes	3.43	512	(536)
NET PROFIT		9,133	14,873
-- of which: Owners of the parent		8,480	14,118
Minority interests		653	755
Basic earnings per share (in Euro)	3.44	0.33	0.55
Diluted earnings per share (in Euro)	3.44	0.32	0.53

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT	FY 2021	FY 2020
<i>(In Euro thousands)</i>		
NET INCOME FOR THE YEAR	9,133	14,873
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	(315)	(430)
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)	61	81
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	(254)	(349)
COMPREHENSIVE INCOME FOR THE YEAR (A+B)	8,879	14,524
-- of which: Owners of the parent	8,224	13,769
Non-controlling interests	655	755

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' 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 for the year											
- Net profit for the year								14,118	14,118	755	14,873
- Other changes											
- Actuarial gains/(losses), net of tax effect						(349)			(349)		(349)
Comprehensive income for the year						(349)		14,118	13,769	755	14,524
Equity at 31/12/2020	90,964	135,175	(9,081)	9,081	18,193	(4,342)	49,374	14,118	303,482	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							(1,907)		(1,907)	(1,318)	(3,225)
Comprehensive income for the year											
- Net profit for the year								8,480	8,480	653	9,133
- Other changes											
- Actuarial gains/(losses), net of tax effect						(254)			(254)		(254)
Comprehensive income for the year						(254)		8,480	8,226	653	8,879
Equity at 31/12/2021	90,964	135,175	(9,081)	9,081	18,193	(4,596)	54,263	8,480	302,480	7,847	310,327

CONSOLIDATED CASH FLOW STATEMENT

(Euro thousands)

	2021	2020
OPERATING ACTIVITIES		
Net income for the year	9,133	14,873
Adjustments for:		
- Income taxes	(512)	536
- (Income)/charges from measurement at equity of investment in Europropulsion S.A.	(2,482)	(1,346)
- Financial (Income)/Charges		
- Amortisation & Depreciation	21,151	19,285
- (Gains)/losses on sale of property, plant & equipment & other (income)/charges		
Dividends received		
Net change provisions for risks and charges	(3,505)	(157)
Net change employee provisions	(1,170)	(277)
Changes in:		
- Inventories and Advances to suppliers	(14,423)	5,210
- of which related parties	9,356	4,270
- Contract work-in-progress & advances from clients	12,815	38,106
- of which related parties	14,669	(31,709)
- Trade receivables	(1,521)	4,040
- of which related parties	356	144
- Trade payables	10,473	(33,881)
- of which related parties	752	7,977
- Other current & non-current assets	18,675	4,221
- of which related parties		490
- Other current & non-current liabilities	(6,677)	(2,201)
- of which related parties	35	59
Income taxes paid	(409)	(653)
Interest paid	(293)	(357)
Net liquidity generated/(employed) in operating activities	(A) 41,255	47,399
INVESTING ACTIVITIES		
Investments in:		
- Tangible assets and investment property	(18,319)	(21,469)
- Intangible assets with definite life	(15,395)	(13,131)
- Equity Investments		
Disposal price of tangible, intangible & financial assets		
Liquidity generated (employed) in investing activities	(B) (33,714)	(34,600)
FINANCING ACTIVITIES		
EIB loan	(10,000)	(8,000)
Centralised treasury effect with Europropulsion S.A. joint control company	(5,000)	(16,000)
- of which related parties	(5,000)	(16,000)
Dividends paid by the parent Avio S.p.A.	(7,321)	
Dividends attributable to minorities of subsidiaries	(3,132)	
Acquisition of treasury shares		(6,413)
Other changes to financial assets and liabilities	(2,140)	(2,025)
- of which related parties	(137)	(138)
Liquidity generated (employed) in financing activities	(C) (27,593)	(32,438)
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C) (20,052)	(19,639)
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	124,666	144,303
NET CASH AND CASH EQUIVALENTS AT END OF YEAR	104,614	124,666

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 administrative headquarters is in Colleferro (Rome), via Ariana Km 5.2.

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 the “SPAC” 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 December 31, 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 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, the Consolidated Comprehensive Income Statement, 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 financial statements

These financial statements at December 31, 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”).

These IFRS financial statements were prepared on a going concern basis.

With the exception of the provisions of IFRS 3 with reference to the business combination undertaken in 2017, which allowed Space2 S.p.A. to acquire the Avio Group, the financial statements have been drawn up according to the historical cost criteria, adjusted, where applicable, for the measurement of certain financial instruments and other assets and liabilities at fair value.

The financial statements were prepared in accordance with the provisions of CONSOB in relation to financial statement layout pursuant to Article 9 of Legislative Decree No. 38/2005 and other CONSOB regulations and provisions concerning financial reporting.

2.2. Financial Statement format

The financial statements at December 31, 2021 consist of the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Comprehensive Income Statement, the Statement of changes in Consolidated Shareholders’ 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 1, these 2021 consolidated financial statements present the comparative 2020 figures for the Balance Sheet items (Consolidated Balance Sheet) and the 2019 figures 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 consolidated financial statements include the financial statements of the parent company, its direct or indirect subsidiaries and the companies over which the Group exercises joint control with other shareholders, as specified below and defined by standards IFRS 10 - Consolidated Financial Statements, IFRS 11 - Joint control arrangements, and IAS 28 - Investments in associates and joint ventures.

Subsidiaries

A company is considered a subsidiary where the Group exercises control as defined by IFRS 10 - Consolidated financial statements. The parent company controls an investee when, in the exercise of its power, it is exposed and has rights to the variable returns through managerial involvement, and simultaneously can impact upon the variable returns of the investee. The exercise of the power on the investee derives from the rights which permit the parent company to manage the significant assets of the investee also in its own interests. For assessing whether the Group controls another entity, the existence and the effect of potential voting rights exercisable or convertible at that moment are considered. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control terminates.

Subsidiaries are consolidated according to the line-by-line method from the date on which the Group assumes control until the moment at which this control terminates.

Inactive subsidiaries, those for which the consolidation due to specific operating dynamics (such as non-equity based consortiums) does not produce significant effects and those with insignificant fixed assets, whether in terms of investment profile or the relative equity and earnings figures, are excluded from the consolidation. These businesses are valued according to the criteria applied for holdings in other companies.

In the consolidated financial statements, the assets and liabilities and the costs and the revenues of the companies consolidated according to the line-by-line method are fully included. The carrying amount of investments is eliminated against the corresponding share of the equity of the subsidiaries, allocating to the individual assets and liabilities their fair value at the acquisition control date.

Changes in the holdings of subsidiaries which do not result in the acquisition or loss of control are recognised to changes in equity.

The receivables, payables, costs and revenues among consolidated companies are eliminated. Profits and losses of insignificant amounts from transactions between companies included in the consolidation and not yet realised with third parties are also eliminated.

The dividends distributed between Group companies are eliminated from the income statement.

Profits and losses of significant amounts not realised through transactions with associates or jointly-controlled companies are eliminated according to the Group holding in such companies.

Non-controlling interests in the net assets and the result of consolidated subsidiaries are recorded separately from the Group equity.

Interests in joint ventures

Subsidiaries held directly with other shareholders where the relative agreements constitute joint ventures (or where the parties only have equity rights under the agreement) are consolidated as per IFRS 11, with the equity method applied once becoming operative.

Where agreements in place constitute a joint operation (in which the parties have rights over the assets and obligations for the liabilities of the agreement), the assets, liabilities and costs and revenues deriving from the joint operation are consolidated on a pro-rata basis.

Where necessary, adjustments are made to the financial statements of consolidated joint ventures in order to apply uniform Group accounting policies.

Investments in associates

Associates are companies over which the Group exercises significant influence, as defined by IAS 28 - Investments in associates and joint ventures, without control or joint control over financial and operating policies. Generally a shareholding between 20% and 50% of the voting rights indicates significant influence. Associates in which significant influence is exercised are measured at equity from the moment at which significant influence commences until the date at which it ceases. According to this method, the carrying amount of the investment is adjusted at each year-end by the share of the result of the investee, net of dividends received, after adjustments, where necessary, to the accounting policies of the companies for uniformity with those adopted by the Group. Any excess of the acquisition cost over the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date is recognised as goodwill. The recognition of goodwill at the acquisition date is made in accordance with that described in the previous paragraph "Business combinations" and is included in the carrying amount of the investment. The entire carrying amount of the investment is subject to an impairment test amid indicators of a possible reduction in the long-term value of the investment. Any impairments are not allocated to the individual assets (and in particular any goodwill) which comprises the carrying value of the investment, but to the overall value of the investment. However, if the conditions exist for a subsequent write-back, such must be fully recognised.

Any excess of the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the associate over the cost of acquisition is recorded in the Income Statement in the year of acquisition. Finally, where the share of losses pertaining to the Group in the associate exceeds the carrying value of the investment, the value of the investment is written down and the share of further losses is not recorded as a liability, unless the Group has the legal or implied obligation to cover such losses.

Investments in associates not considered significant are not aligned to equity for representation of the consolidated position.

Investments in other companies

The companies in which the Group holds between 20% and 50% of voting rights while not exercising significant influence and investments in other companies, are included in non-current assets or current assets where they are expected to remain within the Group for a period, respectively, in excess of or less than 12 months. The other investments are classified to "financial assets measured at fair value through consolidated profit or loss" (FVTPL) under current assets. On the purchase of each investment, IFRS 9 establishes the irrevocable option to recognise these assets among "financial assets measured at fair value through consolidated other comprehensive income" (FVOCI), under non-current or current assets. Other investments classified as "financial assets measured at fair value through other comprehensive income" are measured at fair value; the changes in the value of these investments are recognised to an equity reserve through other comprehensive income items (Reserve for financial assets measured at fair value recognised to other comprehensive income), without reclassification to the separate income statement, on derecognition (sale) or a definitive impairment. Dividends are however recognised to the separate consolidated income statement. Changes in the value of other investments classified as "financial assets measured at fair value through the separate consolidated income statement" are recognised directly to the separate consolidated income statement.

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 consolidated financial statements, the financial statements of each foreign entity is converted into Euro, as the Group's reporting 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 consolidated financial statements at December 31, 2021 include the financial statements of the parent company, of the Italian and overseas companies in which it holds directly or indirectly at December 31, 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 December 31, 2021 was as follows:

Companies included in the consolidation scope at December 31, 2021			Holding
Parent			
Company Name	Registered office	Share capital	% Held
Avio S.p.A.	via Leonida Bissolati, 76 - Rome	Euro 90,964,212.90	N/A
Companies consolidated by the line-by-line method			
Company Name	Registered office	Share capital	% Held
Spacelab S.p.A.	via Leonida Bissolati, 76 - Rome	Euro 3,000,000.00	70%
Regulus S.A.	Centre Spatial Guyanais - BP 0073 97372 Kourou (French Guiana - France)	Euro 640,000.00	60%
SE.CO.SV.IM. S.r.l.	Via degli Esplosivi, 1 - Colleferro (RM)	Euro 53,929,691.00	100% (*)
Avio Guyane S.A.S.	Centre Spatial Guyanais - BP 506 97388 Kourou (French Guiana - France)	Euro 50,000.00	100%
Avio France S.A.S.	3 Rue du Colonel Moll - 75017 Paris (France)	Euro 50,000.00	100%
ASPropulsion International B.V.	Herikerbergweg 238, 1101 CM Amsterdam (Netherlands)	Euro 18,000.00	100%
Avio India Aviation Aerospace Private Limited (**)	Pitampura Delhi North West (India)	INR 16,060,000	100% (***)
Jointly controlled companies, measured at equity			
Europropulsion S.A.	11, rue Salomon de Rothschild 92150 Suresnes 388 250 797 RCS Nanterre	Euro 1,200,000.00	50%
Associates, measured at equity			
Termica Colleferro S.p.A.	Via degli Agresti, 4 and 6 Bologna	Euro 6,100,000.00	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

Property, plant & equipment

Property, plant and equipment are measured at purchase or production cost, net of accumulated depreciation and any impairments.

The acquisition cost corresponds to the price paid, plus accessory charges incurred until entry into use (gross of any contributions received) and any expected dismantling and removal costs for the asset, in addition to reclamation costs for the areas on which the asset is located, where necessary and corresponding to IAS 37. For assets conferred, the cost corresponds to the value established in the relative deeds on the basis of expert opinions. The internal production cost includes all construction costs incurred until entry into service, whether direct and specifically relating to the tangible assets or relating, in general, to the construction activities and therefore to differing construction operations. Any financial charges incurred for the acquisition or production of property, plant and equipment that generally require a substantial period of time to prepare for their intended use (qualifying assets in accordance with IAS 23 - *Financial charges*) are capitalised and depreciated over the duration of the useful life of the category of assets to which they refer. All other financial charges are recognised to the income statement in the period in which they are incurred.

Costs incurred subsequently to acquisition (maintenance and repair costs and replacement costs) are recorded at the carrying amount of the assets, or are recognised as separate assets, only where it is considered probable that the future economic benefits associated with the assets may be exploited and that the cost of the assets may be measured reliably. Maintenance and repair costs or replacement costs not reflective of those reported above are recognised to the income statement in the period in which they are incurred.

The gross carrying amount of assets is depreciated on a straight-line basis over their useful life in relation to the estimated useful life and the residual value of the asset. Depreciation starts when the asset is available for use. For conferred assets, depreciation is calculated according to the residual useful life upon conferment.

The depreciation rates utilised by the Group are as follows:

Category	Depreciation rate
Buildings	3-10%
Plant & machinery	7-30%
Industrial & commercial equipment	25-40%
Other assets:	
- Furniture, equipment and EDP	12-20%
- Transport vehicles	20-25%
- Other assets	12-25%

During the year in which depreciation of the asset begins, such is calculated on the basis of the effective period of use. The useful life is re-examined annually and any changes are applied prospectively.

Capitalised costs for leasehold improvements are allocated to the categories of assets to which they refer and amortised at the lesser between the residual duration of the rental or concession contract and the residual useful life of the type of assets to which the improvements relate.

The assets composed of components, of significant amounts, and with different useful lives are considered separately for the calculation of depreciation (component approach).

The assets held through finance lease contracts within the scope of IAS 17 and for which the majority of the risks and rewards related to the ownership of an asset have been transferred to the Group are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability due to the lessor is recorded in the financial statements under financial payables.

The contracts which are not leasing contracts in a legal form, but which, in accordance with the provisions of IFRIC 4 - *Determining whether an arrangement contains a lease*, are recognised as finance lease contracts.

Land is not depreciated.

In the event of a permanent impairment in the value of an asset, regardless of the depreciation recorded to date, the asset is written down accordingly; if in future years, the reasons for the write-down no longer apply, the asset is reinstated to its original value less the depreciation which would have been provisioned where the write-down had not been made or the recoverable value, where less.

Gains and losses deriving from the disposal or sale of assets are determined as the difference between the sales revenue and the net carrying amount of the asset on disposal or sale and are recorded in the income statement in the year.

Investment property

Owned land and buildings used for purposes not strictly relating to ordinary operations and held for rental or capital appreciation are recognised at cost, calculated according to the same methods indicated for property, plant and equipment. Investment properties are eliminated from the financial statements when they are sold or when they are unusable on a long-term basis and no future economic benefits are expected from their sale.

Intangible assets

An intangible asset is without physical form and recognised to the balance sheet only if identifiable, controllable, where future economic benefits are expected and its costs can be reliably calculated.

Intangible assets include goodwill acquired for consideration following a business combination.

Intangible assets with a definite life are measured at purchase or production cost, net of amortisation and cumulative impairments. Amortisation is recognised over the useful life of the asset and begins when the asset is available for use. The useful life is reviewed on an annual basis and any changes are made in accordance with future estimates.

The intangible assets with indefinite useful life are not amortised but are subject annually or, more frequently where necessary, to an impairment test.

Intangible assets recognised following a business combination are recorded separately from goodwill where their fair value can be reliably measured.

Intangible assets with indefinite life

Goodwill

The goodwill deriving from business combinations is initially recorded at the acquisition cost, as per the preceding paragraph *Business combinations*. Goodwill is recognised as an asset with indefinite useful life and is not amortised, although subject annually, or more frequently where an indication that specific events or changed circumstances indicate a possible reduction in value, to an impairment test. An impairment loss is recorded immediately in the income statement and is not restated in a subsequent period. After initial recognition, goodwill is measured net of any impairments. On the sale of a subsidiary, the net value of attributable goodwill is included in calculating the gain or loss.

For the purpose of the impairment test, goodwill is considered allocated to the individual Cash Generating Units (CGU's) representing the financially independent business units through which the Group operates. The Group situation at December 31, 2021 indicates a single CGU corresponding to the Space operating segment.

Negative goodwill originating from acquisitions is recognised directly to the income statement.

Intangible assets with definite life

Development costs

Development costs are capitalised only where the costs may be calculated reliably, the assets developed may be clearly identified and where there is proof that they will generate future economic benefits. In particular, for capitalisation the existence of technical feasibility and the intention to complete the asset to make it available for use or sale, the existence of adequate technical and financial resources to complete development and sale and the reliability of the valuation of the costs attributable to the asset during development are required. On meeting these conditions, the costs are recognised to the assets section of the Balance Sheet and amortised on a straight-line basis from the initiation of commercial production on

the programs to which they refer. Amortisation in the initial period is proportional to the effective period of use. The useful lives are calculated on the basis of a prudent estimate of the duration of the programs from which the relative economic benefits derive and are initially estimated at 5, 10 or 15 years according to the characteristics of the relative programs. Capitalised development costs concerning programs whose production has not yet begun are amortised and maintained among definite life intangible assets, following verification of the absence of impairments, on the basis of the future earnings of the relative programs.

Research and development costs which do not meet the above conditions are recognised to the income statement when incurred and may not be capitalised in subsequent periods.

Intangible assets for Customer Relationships

The Group allocated, at the acquisition date by Space2 and with effect from financial year 2017, the cost of this acquisition recognising the assets, liabilities and contingent liabilities of the companies acquired at their relative fair values at that date. Following this allocation, the intangible assets held by customers for programme participation were identified as responding to the criteria required for recognition, as per IFRS 3 and IAS 38, which were valued at fair value applying an earnings valuation method, based on the present value of future cash flows generated by the assets for the period of residual expected useful life, calculated applying a discount rate which takes account both of the possible risks associated with the assets and the time value of money. In addition, the benefit attributable to the tax savings achievable for a potential purchaser deriving from the amortisation of the recognisable intangible assets was also considered (tax amortisation benefits).

The intangible assets for Customer Relationships are amortised, in relation to the average weighted residual life of the programs to which they refer, over a period of 15 years. Against the intangible assets recognised, the relative deferred taxes were recorded, calculated through application of the tax rates which are expected to be in force on recognition to the income statement of the amortisation.

Other intangible assets

Intangible assets are recognised to the Balance Sheet only when it is probable that the use of the asset will generate future economic benefits and its cost can be reliably calculated. Having complied with these conditions, the intangible assets are recognised at the acquisition cost which corresponds to the price paid, plus accessory charges and, for the assets conferred, to the values established in the relative deeds. Other intangible assets recognised on acquisition are recorded separately from goodwill where their fair value can be reliably calculated.

The gross carrying amount of the other definite life intangible assets is broken down on a straight-line basis over the estimated useful life. Amortisation begins when the asset is available for use and is proportionate for the first year to the period of effective use. For assets conferred, the amortisation is calculated according to the residual useful life.

The amortisation rates utilised by the Group are as follows:

Category	Amortisation rate
Patents	20%
Brands	10%
Software	20-33%

Investments

Investments in non-consolidated companies are valued in accordance with that outlined in the "Consolidation principles" paragraph.

Impairments

The Group verifies, at least annually, the recoverability of the carrying amount of property, plant and equipment in order to determine whether there are indications that these assets may have incurred a loss in value. Where there are indications of impairment, the carrying amount of the asset is reduced to its recoverable amount. In addition, an intangible asset with indefinite useful life is subject annually or, more frequently where there is an indication that the asset may have suffered a loss in value, to an impairment test. The loss in value of an asset corresponds to the difference between its carrying amount and its recoverable value, defined as the higher between the fair value net of sales costs and its value in use. The value in use is calculated as the present value of expected future operating cash flows, excluding cash flows from financing activities. The cash flow projection is based on company plans and reasonable and documented assumptions concerning the Group's

future results and macro-economic conditions. The discount rate utilised considers the time value of money and specific sector risks.

Where it is not possible to estimate the recoverable value of an asset individually, the Group estimates the recoverable value of the cash generating unit to which the asset belongs.

Where the recoverable value of an asset, or of a cash generating unit, is lower than the carrying amount, it is reduced to the recoverable value and the loss recognised to the income statement. Subsequently, where the loss on an asset other than on goodwill is no longer evident or reduces, the carrying amount of the asset (or of the cash generating unit) is increased, up to the new estimate of the recoverable value (which however may not exceed the net carrying amount that the asset would have had in the absence of the write-down). This recovery is immediately recognised to the income statement.

Financial assets

The Group classifies financial assets in the following categories:

- financial assets measured at amortised cost;
- financial assets measured at fair value through profit or loss for the year;
- financial assets measured at fair value through other comprehensive income items.

The Group establishes the classification on the basis of the business model used to manage financial assets and according to the characteristics of the contractual cash flows of the financial asset.

The financial assets are initially recognized at fair value, plus or minus, in the case of financial assets or liabilities not at FVTPL, the transaction costs directly attributable to the acquisition or issue of the financial asset. Trade receivables which do not contain a significant financial components are however initially measured at their transaction price.

On initial recognition, financial assets are classified to one of the above categories and may not subsequently be reclassified to other categories, except where the Group amends its business model for their management.

The Group recognises under doubtful debts the expected losses for financial assets measured at amortised costs, the assets deriving from contracts and debt securities measured at fair value through other comprehensive income. The expected losses are calculated over the full duration of the receivable, awaiting the results of various scenarios on the basis of their probability and discounting the amounts utilising the effective interest criterion.

The classification between current and non-current reflects the expectations of the management on their trading:

Financial assets measured at amortised cost

This category includes financial assets Held to Collect contractual cash flows, represented only by the payments in capital and interest on the amount of the capital to be repaid. This category includes outstanding receivables and loans. These assets are measured at amortised costs, in accordance with the effective interest criterion, reduced for impairment. These are included in current or non-current assets on the basis of whether the contractual maturity is less than or greater than twelve months from the reporting date. Interest income, exchange gains and losses and impairments are recognised to the profit or loss for the year, as are derecognition gains and losses.

Financial assets measured at fair value through profit or loss for the year

This category includes financial assets not classified as measured at amortised cost or fair value through other comprehensive income. This category includes derivative instruments and financial assets held for trading. The fair value of the financial assets held for trading is calculated on the basis of the market prices at the reporting date or the interim reports, or through financial measurement techniques and models.

Financial assets measured at fair value through other comprehensive income items

This category includes financial assets held with the dual purpose of collecting the contractual cash flows, represented only by the payment of capital and of interest on the amount of capital to be repaid, and the sale of financial assets (Held to Collect and Sell).

Inventories

Inventories are measured at the lower of the acquisition or production cost and the net market value, defined as the estimated sales price less expected completion costs and expenses necessary to carry out the sale.

In particular, raw materials, semi-finished products and work-in-progress are initially recognised at acquisition or production cost. The purchase costs include the cost paid to suppliers plus accessory charges incurred until the entry of the goods to Group warehouses, net of discounts. Production costs include costs incurred to bring the asset to its location and state at the reporting date: they include costs specific to the individual assets or categories of assets and general preparation costs (general production expenses). Inventories are generally measured according to the FIFO method. This calculation method is considered most suitable for providing a true and fair view, in addition to a uniform representation of the Group's equity position and earnings.

Inventories thus calculated may be adjusted by a write-down provision to take account of obsolete or slow moving materials on the basis of their future utility or realisation.

Contract work-in-progress

Contract work-in-progress (or construction contracts) concerns contracts specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their final use. This principally concerns development and production activities in the space sector.

Where the result of a construction contract may be reliably estimated, contract work-in-progress is valued according to the percentage of completion method, with application to the contractual value for each obligation included in the contract, whereby the costs, revenues and the relative margin are recognised according to the advancement of production activities. For the calculation of the percentage of completion, the ratio between production costs incurred to date and forecast total costs for the entire works (cost-to-cost) is adopted, on the basis of updated estimates at the reporting date. Periodically, the assumptions underlying the measurements are updated. The changes to the contract, the revision prices and the incentives are included for those amounts agreed with the buyer; the variable elements of the contractual consideration are estimated on signing. Any economic effects are recognised in the period in which the updates are made.

Where the result of a construction contract may not be estimated reliably, the revenues related to the relative contract are recorded only to the extent of the project costs incurred which will probably be recovered. The project costs are recorded as expenses in the year in which they are incurred.

Account is in addition taken of charges to be incurred following closure of the order and those for expected losses through accruals to the risks provisions; in particular, any losses on contracts are recognised to the income statement in their entirety once noted.

Contract work-in-progress is stated to the assets section of the Balance Sheet net of advances invoiced to clients. The analysis is made by individual order: where the value of the individual order is greater than the advances, the positive differential is classified to the account considered in the Balance Sheet; where the value of the individual order is lesser than advances, the negative differential is classified to "Advances for contract work-in-progress" in the Balance Sheet.

Trade and Other Receivables

Receivables are initially stated at fair value, corresponding to their nominal value, and subsequently measured according to the amortised cost method, net of a write-down provision.

In relation to trade receivables and other receivables, the Group has applied the simplified approach indicated by IFRS 9 to measure the doubtful debt provision as the expected loss over the life of the receivable. The Group measures the amount of expected losses in relation to these elements through the use of a provisioning matrix, estimated on the basis of historic experience of receivable losses according to creditor due dates, adjusted to reflect current conditions and estimates concerning future economic conditions. Consequently, the credit risk profile of these assets is presented according to due dates on the basis of the provisioning matrix.

The Group does not undertake the factoring of receivables.

Cash and cash equivalents

These include cash, liquid bank deposits and other current readily tradable financial investments which may be quickly converted into cash and for which the risk of changes in value is insignificant.

Research and development tax credits

Research and development tax credits relating to Decree-Law No. 145 of December 23, 2013, converted, with amendments, by Law No. 9 of February 21, 2014, as amended by Law No. 232 of December 11, 2016 (the "2017 Budget Act") and the 2019 Budget Act (Art. 1, paragraphs 70-72, of Law No. 145 of December 30, 2018) are recognized to the extent that the tax credit is considered recoverable and utilizable, while ensuring that only the benefit for which it is reasonable certain that the entity has met the established requirements is quantified. These credits are initially recorded in the account "Other current assets" and recognised 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 in the accounts "Service costs" and "Change in contract work in progress".

Treasury shares

Treasury shares are recognised as a deduction from equity. The original cost of the treasury shares and the revenues deriving from any subsequent sale are recognised as equity movements.

Financial liabilities

Non-current financial liabilities and current account overdrafts are classified to this account, in addition to current and non-current payables which, although arising from commercial or however non-financial transactions, are negotiated at particular conditions as undertaken as a financial transaction, therefore de facto making them financial receivables. Current and non-current financial payables are initially recognised at fair value, less transaction costs incurred, and are subsequently valued at amortised cost utilising the effective interest rate method.

Non-current financial payables due within twelve months from the reporting date are classified to the "Current portion of non-current financial payables" account.

Employee Benefit Provisions

Employees of Group companies enjoy post-employment benefits which may consist of defined contribution pension plans or defined benefit plans, and other long-term benefits, according to the conditions and local practices of the countries in which such companies operate.

Post-employment benefits

The accounting treatment of pension plans and of other post-employment benefits depends on their type.

Defined contribution plans are plans for benefits upon conclusion of employment for which the Group companies have made fixed contributions to a legally separate entity on an obligatory, contractual or voluntary basis, in the absence of which legal or implied obligations exist to make additional payments where the entity does not have sufficient assets to pay all of the pension benefits matured concerning employment services provided in the present and previous years. The contributions to be paid are recognised to the income statement on an accruals basis to personnel expenses.

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The obligation to fund the defined benefit pension plans and the annual cost recognised to the income statement are determined by independent actuarial valuations using the projected unit credit method, on the basis of one or more factors such as age, years of service and expected future remuneration.

Actuarial gains and losses relating to defined benefit plans deriving from changes to the actuarial assumptions and adjustments based on past experience are immediately recognised in the period in which they arise to other comprehensive income/(losses) and are never reclassified to the income statement in subsequent periods.

The liabilities for post-employment benefits recorded in the balance sheet represent the present value of the liabilities for the defined benefit plans adjusted to take into account any actuarial profits and losses not recorded and reduced by the fair value of the asset plan, where existing. Any net assets calculated on this basis are recognised up to the amount of the actuarial losses and the cost for prior benefits not previously recognised, in addition to the present value of available repayments and the reductions in the future contributions to the plan.

Defined benefit plan costs are classified to personnel expenses, except for any costs associated with the increase in the present value of the obligation nearer to the payment date which are recognised under financial charges.

Until December 31, 2006, the post-employment benefits of the Italian companies were considered as defined benefit plans. The regulations of this provision were extensively modified by Law No. 296 of December 27, 2006 ("2007 Finance Act") and subsequent Decrees and Regulations.

In view of these changes, and particularly for companies with at least 50 employees, this provision is now to be considered a defined benefit plan exclusively for the amounts matured prior to January 1, 2007 (and not settled at the balance sheet date), while subsequent to this date they are similar to a defined contribution plan. Consequently, post-employment benefits matured subsequently to this date assume the nature of defined contribution plans, with exclusion therefore of actuarial estimate components in the calculation of the cost for the period. Post-employment benefits matured until December 31, 2016 remain valued as defined benefit plans according to actuarial processes, excluding however from the calculation the component relating to future salary increases.

Other long-term benefits

The accounting treatment of other long-term benefits is similar to that for defined benefit plans, with the exception of the fact that the actuarial gains and losses are entirely recognised to the income statement in the period in which they arise.

Share based payment plans

Cash-settled share-based payments are recorded as a liability to the risks and charges provisions and are measured at fair value at the end of each reporting period until settlement. Any subsequent changes in fair value are recognized in profit or loss.

Provisions for risks and charges

The Group records provisions for risks and charges when it has a current obligation from a past event, legal or implicit, to third parties, and it is probable that it will be necessary to use resources of the Group to settle the obligation, and a reliable estimate of the amount can be made. Provisions are made based on the best estimate of the cost of fulfilling the obligation at the reporting date. Where the effect is significant, the provision is discounted and its increase due to the passage of time is subsequently recognised to the financial charges account of the Income Statement.

In the case of legal disputes, the amount of the provisions is calculated on the basis of risk assessments in order to calculate the probability, timing and the amounts involved.

In the case of liabilities for future dismantling, removal and reclamation charges relating to a tangible asset, the provision is recognised against the asset to which it refers; the charge is recognised to the income statement through the depreciation of the tangible asset to which the charge refers to.

The provisions are re-examined at each reporting date and adjusted to reflect any improvement to the present estimates; any changes to the estimate are reflected in the income statement in the period in which the change occurs.

Risks that may only potentially result in a liability are disclosed in the Explanatory Notes without any amounts being set aside.

Trade payables

Trade payables with maturities within the normal commercial terms are not discounted and recognised at the nominal value considered representative of the settlement value.

Trade payables are recognised to current liabilities, except where the Group has the contractual right to settle its obligations beyond 12 months from the reporting date.

Payables for disbursements in accordance with Law 808/85

These payables are recognised to the financial statements at nominal value and classified to "Other non-current liabilities" and "Other current liabilities".

Revenue recognition

Revenues are recognised in accordance with the probability that the Group will receive economic benefits and the amount can be measured reliably. Revenues are recognised on an accruals basis at the fair value of the amount received or due, less VAT, returns, premiums and discounts.

Revenues from the sale of goods are recognised where the Group has transferred to the purchaser the significant risks and benefits related to ownership of the goods, which generally coincides with shipping. In addition, the Group establishes whether contractual conditions are in place which represent obligations on which the consideration of the transaction should be allocated (e.g. guarantees), in addition to effects from the existence of variable payments, significant financial components or non-monetary consideration and to be paid to the client. In the case of variable payments, the amount of the consideration is estimated on the basis of the amount expected on the transfer of control of the goods to the client; this consideration is estimated on the signing of the contract and may be recognised only when highly probable. Revenues from the provision of services are recognised according to the stage of completion of the services, based on the same criteria as for contract work-in-progress. In addition, where the result from the provision of services may not be reliably estimated, revenues are recognised only to the extent to which the relative costs are recoverable.

Revenues include also the changes in contract work-in-progress concerning long-term orders recognised according to the state of advancement of works against the sales price (as described in greater detail in the Contract works-in-progress note).

Interest income is recorded on an accruals basis, according to the amount financed and the effective interest rate applicable. This is the rate at which the expected future cash flow over the life of the financial asset is discounted to equate them with the carrying amount of the asset.

Dividends received

Dividends of non-consolidated companies are recognised in the period in which the right of shareholders to receive payment is established.

Grants

Grants from public bodies are recorded when there is a reasonable certainty that the conditions required to obtain them will be satisfied by the Group and that they will be received. Such grants are generally recorded in the income statement on a straight-line basis over the period in which the related costs are recorded.

In particular, grants obtained against investments in fixed assets and capitalised development costs are recognised to "Other non-current liabilities" or "Other current liabilities" in the liabilities section of the balance sheet and to the income statement on the basis of the residual duration of the depreciation of the assets to which they refer. Where a grant is awarded in a period after the start of the depreciation period of the asset, the portion of the grant relating to the prior periods is recorded in the income statement as other income.

The accounting treatment of benefits deriving from a public loan obtained at a reduced rate is similar to that for public grants. This benefit is calculated at the beginning of the loan as the difference between the initial book value of the loan (fair value plus direct costs attributable to obtaining the loan) and that received, and subsequently recorded in the income statement in accordance with the regulations for the recording of public grants.

Costs

Costs are recognised on an accruals and going concern basis for the Group companies, less VAT and returns, discounts and premiums. Provisions are recognised to the financial statements according to the methods described in the provisions for risks and charges note.

Interest charges are recognised on an accruals basis, according to the amount lent and the effective interest rate applicable.

Income taxes

Income taxes comprise of current and deferred taxes.

Current taxes are calculated on the estimated assessable result for the year and according to the applicable tax rates of the various countries in which the Group companies operate.

The assessable fiscal result differs from the result recorded in the income statement as it excludes positive and negative components that will be assessable or deductible in other periods and also includes accounts that are never assessable or deductible. The liability for current income taxes is calculated using the current rates at the reporting date.

The Company and some of its Italian subsidiaries adhered to the national tax consolidation regime pursuant to Article 117/129 of the Consolidated Finance Act (CFA). Avio S.p.A. acts as the consolidating company and calculates a single assessable base for the Group of companies adhering to the tax consolidation and therefore benefits from the possibility of offsetting assessable income with assessable losses in a single tax declaration. The Group has exercised the tax consolidation option for the three-year period 2021, 2022 and 2023.

Each company participating in the consolidation transfers its taxable income or tax loss to the consolidating company. Avio S.p.A. recognises a receivable for companies contributing taxable income, corresponding to the amount of IRES to be payable, in accordance with the consolidation contract. For companies contributing a tax loss, Avio S.p.A. recognises a payable for the amount of the loss actually set off at Group level, in accordance with the consolidation contract.

The IRAP payable is recorded under "Current tax payables" net of any payments of account in the year.

Deferred tax assets and liabilities are the taxes that are expected to be recovered or paid on the temporary differences between the carrying value of the assets and of the liabilities in the financial statements and the corresponding fiscal value utilised in the calculation of the assessable income, accounted under the liability method. Deferred tax liabilities are generally recorded on all temporary assessable differences, while deferred tax assets are recorded based on the probability that the future assessable results will permit the use of the temporary deductible differences. These assets and liabilities are not recognised if the temporary differences deriving from the goodwill or the initial recognition (not in business combinations) of other assets or liabilities in operations do not have an impact on the accounting result or on the assessable fiscal result. The tax benefit from the carrying forward of tax losses is recorded upon, and to the extent of its probable availability, future assessable income arises for the utilisation of the losses. Deferred tax assets and liabilities are also calculated with regards to the consolidation adjustments.

The deferred tax liabilities are recognised on the temporary assessable differences relating to investments in subsidiary, associated and jointly controlled companies with the exception of the where the Group is capable of controlling the elimination of these temporary differences and it is probable that this latter will not be eliminated in the foreseeable future.

The carrying value of deferred tax assets is revised at the end of the year and reduced to the extent that it is no longer likely that there will be sufficient taxable income against which to recover all or part of the assets.

Deferred tax assets and liabilities are calculated based on the tax rates that are expected to be in force in the various countries where the Group operates on realisation of the asset or settlement of the liability. Current and deferred taxes are recognised directly to the income statement with the exception of those relating to accounts directly recognised to equity, in which case the taxes are also recognised to equity. Deferred tax assets and liabilities are offset when there is a direct right to compensate the tax assets and liabilities, when they concern the same company and when they refer to income taxes due to the same fiscal authority and the Group intends to pay the amount on a net basis. The balance following the offset, where positive, is recognised to "Deferred tax assets" and, where negative, to "Deferred tax liabilities".

Dividends distributed

Dividends payable by the Group are represented as changes to equity and recognised to current liabilities in the period in which distribution is approved by the Shareholders' Meeting.

2.8. Risk management

Credit risk

The Group has a concentration of credit risk due to the nature of its operating markets. Overall, trade receivables have a concentration risk in the European Union market. Trade receivables are recognised net of write-downs calculated in view of counterparty non-settlement risk, assessed according to the information available upon client solvency and considering also historic data.

Liquidity risk

The Group's liquidity risk arises from the difficulty to obtain according to an acceptable timeframe and financial conditions the funding to support operating and investing activities and repayments. The principal factors which influence the liquidity of the Group 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, in order to ensure the timely and efficient sourcing of funding or the appropriate investment of liquidity.

The current difficult economic, Group market and financial environment requires a close focus on liquidity risk and therefore particularly on the generation of funding through operations and the establishment of a sufficient level of liquidity to meet Group obligations.

Management considers that the currently available funds, in addition to those that will be generated from operating and financial activities, will permit the Group to satisfy its requirements for investment activities, working capital management and the repayment of debt on maturity.

Currency and interest rate risk

The company has a loan with the European Investment Bank (EIB) for Euro 40 million - increasing Euro 50 million in 2019 - at a fixed interest rate for 7 years.

Further qualitative and quantitative information on the financial risks to which the Group is subject is reported at Note 6 "Financial instruments and risk management policies".

2.9. Use of estimates

The preparation of the financial statements and the relative Explanatory Notes in application of IFRS requires the making of estimates and assumptions on the values of the assets and liabilities recorded, on the information relating to the assets and contingent liabilities at the reporting date and on the amount of costs and revenues.

Actual results may differ from estimates due to the uncertainty regarding the assumptions and conditions upon which the estimates are based. The estimates and assumptions are reviewed periodically by the Group according to the best information on Group operations and other factors reasonably discernible from current circumstances. The effects of all changes are immediately reflected in the income statement.

The current global economic environment, impacting the Group's business area, resulted in the need to make assumptions on a future outlook characterized by uncertainty, for which it cannot be excluded that results in the next year or in subsequent years will differ from such estimates and which therefore could require adjustments, clearly not possible to currently estimate or forecast, to the carrying amounts of the relative items. The estimates and assumptions are utilised in differing areas, such as non-current assets, deferred tax assets, the doubtful debt provision, the inventory obsolescence provision, the employee benefit plans, contingent liabilities and other risks provisions, in addition to an estimation of costs to complete orders and the relative state of advancement.

The principal measurement processes and key assumptions used by management in applying IFRS and which may have significant effects on the values recorded in the consolidated financial statements or give rise to significant adjustments to the accounting values of assets and liabilities in the year subsequent to the reporting date are summarised below.

Recoverable value of non-current assets

Non-current assets include Property, plant and machinery, Goodwill, Intangible assets with definite useful life and Investments. The Group periodically reviews the carrying value of the non-current assets held and utilised and of any assets to be disposed of, when events and circumstances require such. For Goodwill, this analysis is carried out at least annually and wherever required by circumstances. The recoverability analysis of the carrying amount of non-current assets is generally made utilising the estimates of the future cash flows expected from the utilisation or from the sale of the asset and adjusted by discount rates for the calculation of the fair value. When the carrying amount of a non-current asset is impaired, the Group

recognises a write-down for the excess between the carrying amount of the asset and its recoverable amount through use or sale, with reference to the cash flows of the Group's most recent long-term plans.

The estimates and assumptions used for these analyses reflect the Group's knowledge upon developments concerning the business in which it operates and take account of reasonable estimates on future developments of the market and the aerospace sector, which remains subject to uncertainty also in view of the continued economic-financial crisis and its effect on the international economic environment. Although present Group estimates do not indicate impairments to non-current assets further than those recognised in these financial statements, any changes to this economic environment and divergent Group performances may result in differences from the originally estimates and, where necessary, adjustments to the carrying amount of certain non-current assets.

Recoverability of deferred tax assets

At December 31, 2021, the consolidated financial statements present deferred tax assets concerning deferred tax deductible income components, for an amount whose recovery in future periods is considered probable by management. 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.

Doubtful debt provision

The doubtful debt provision reflects the estimate of losses related to the Group's receivables portfolio. The accruals were made against expected losses on receivables, estimated according to past experience with regards to receivables with similar credit risk, current and historic unsettled amounts, reversals and receipts, in addition to the close monitoring of the quality of the client portfolio and present and forecast economic and market conditions.

Inventory obsolescence provision

The inventory obsolescence provision reflects management estimates on expected Group losses in value, based on past experience and historic and forecast market developments and any obsolescence or slow movement for technical or commercial reasons.

Employee benefit plans

Employee benefit provisions and net financial charges are valued according to an actuarial method which requires the use of estimates and assumptions for the calculation of the net value of the obligation. This process is based on estimates made periodically by actuarial consultants utilising a combination of statistical-actuarial factors, including statistics concerning prior years and estimates of future costs. Mortality and retirement indices, assumptions upon future discount rates, salary growth rates and inflation rates, in addition to analyses upon healthcare costs, are also considered as estimate components. Changes to any of these parameters may impact future provision contributions. Following the adoption of IAS 19 revised with regards to the recognition of actuarial gains and losses generated by the valuation of employee benefit liabilities and assets, the effects deriving from the update to the estimates of the above-indicated parameters are recorded to the Balance Sheet through recognition to Group Equity of a specific reserve, with presentation in the comprehensive income statement.

Provision for risks, charges & contingent liabilities

The Group accrues a liability against disputes in progress when it considers it probable that there will be a financial payable and when the amount of the losses arising can be reasonably estimated. In the case in which a payment is considered possible, but is not yet determinable, such is reported in the financial statements.

The Group is involved in legal and tax cases regarding differing types of issues which are subject to varying degrees of uncertainty on the basis of their complexity, jurisdiction and applicable law. During the normal course of business, the Group monitors the state of cases in progress and liaises with its legal consultants and legal and tax experts; the value of the provisions for legal cases and disputes of the Group may therefore vary according to the future development of cases in progress.

In addition, the Group operates within sectors and markets where certain problems of a commercial nature may only be resolved after the lapsing of significant periods of time, requiring therefore an estimate by management on the outcome of these disputes and challenges through the monitoring of contractual conditions and the individual cases.

Valuation of contract work-in-progress

The Group operates according to particularly complex contracts, some of which recognised to the financial statements through the percentage of completion method. In these cases, the margins recognised to the income statement are dependent both on the advancement of the order and the margins expected on the entire works following completion: therefore, the correct recognition of works-in-progress and of margins upon works not yet concluded assumes a correct estimate by management on finishing costs, contractual changes, in addition to delays, extra costs and penalties which may impact the expected margin.

The Company provides frameworks for managing and analysing contract risks that derive from Risk Assessment. These frameworks identify for each risk:

- the type;
- the risk owners;
- the probability of occurrence;
- the potential economic, operational, and reputational impact;
- the actions planned to monitor and manage these risks.

The identified risks essentially fall within the following types:

- Risk of mismatch between available resources and resource requirements for production and development activities;
- Risk of missed deadlines in production and development programme management;
- Risk of failure within manufacturing and/or research and development programmes;

Contract risk management and analysis frameworks include a set of procedures, processes, indicators (KPIs), meetings, and systems (including Enterprise Project Management - EPM and SAP) to oversee risks and their management.

Other

In addition to the accounts listed above, estimates were used to value certain financial assets and liabilities, derivative financial instruments, remuneration plans for selected managers and to measure the fair value of assets acquired and of liabilities assumed through business combinations.

2.10. 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 March 31, 2021, the IASB published an amendment entitled "**Covid-19-Related Rent Concessions beyond June 30, 2021 (Amendments to IFRS 16)**" by which it extends by one year the period of application of the amendment issued in 2020, which provided lessees the option to account for Covid-19-related rent reductions without having to assess through contract analysis whether the definition of lease modification in IFRS 16 was met. Therefore, the lessees who applied this option in fiscal year 2020 accounted for the effects of rent reductions directly in the income statement on the effective date of the reduction. The 2021 amendment, which is only available to entities that have already adopted the 2020 amendment, applies from April 1, 2021, and early adoption is permitted. The adoptions of these amendments do not have any effects on the Group consolidated financial statements;
- on June 25, 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.

IFRS accounting standards, amendments and interpretations approved by the EU, not yet mandatory and not adopted in advance by the Group at December 31, 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 statement of profit or loss.
 - **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;

- on 18 May 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 1 January 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.

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 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.
- on December 9, 2021, the IASB published an amendment called **“Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information”**. The amendment is a transition option related to comparative information on financial assets presented at the date of initial application of IFRS 17. The amendment is intended to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and thus improve the usefulness of comparative information for financial statement readers. The amendments will apply from January 1, 2023, together with the application of IFRS 17. The directors do not expect this amendment to have a significant impact on the Group consolidated financial statements.
- on January 30, 2014 the IASB published the standard - **IFRS 14 Regulatory Deferral Accounts** which permits only those adopting IFRS for the first time to continue to recognise amounts concerning Rate Regulation Activities according to the previous accounting standards adopted. As the Company/Group is a first-time adopter, this standard is not applicable.

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 December 31, 2021 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2021			31/12/2020		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	14,651	-	14,651	14,669	-	14,669
Buildings	62,550	(21,257)	41,293	61,612	(19,317)	42,295
Plant and machinery	79,933	(63,719)	16,214	77,708	(60,196)	17,512
Industrial & commercial equipment	18,522	(17,353)	1,169	18,284	(16,940)	1,344
Other assets	12,049	(9,098)	2,951	11,208	(8,069)	3,139
Assets in progress and advances	46,893	-	46,893	33,040	-	33,040
Total	234,598	(111,427)	123,171	216,521	(104,522)	111,999

The changes between December 31, 2020 and December 31, 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	31/12/2021
Land	14,669		(18)		14,651
Buildings	61,612	986	(49)		62,549
Plant and machinery	77,708	2,754		(529)	79,933
Industrial & commercial equipment	18,284	237	(37)	39	18,523
Other assets	11,208	711	110	20	12,049
Assets in progress and advances	33,040	13,483	(100)	470	46,893
Total	216,521	18,171	(94)	-	234,598

The increases in the year of Euro 18,321 thousand mainly concerns:

- assets in progress and advances for Euro 13,483 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 2,754 thousand;
- buildings amounting to Euro 986 thousand, mainly relating to extraordinary maintenance;
- other assets amounting to Euro 861 thousand, primarily relating to IT hardware.

Between December 31, 2020 and December 31, 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	31/12/2021
Land	-	-	-	-	-
Buildings	(19,317)	(1,991)	51	-	(21,257)
Plant and machinery	(60,196)	(3,523)	-	-	(63,719)
Industrial & commercial equipment	(16,940)	(428)	15	-	(17,353)
Other assets	(8,069)	(1,059)	30	-	(9,098)
Total	(104,522)	(7,001)	96	-	(111,427)

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

3.2. RIGHT-OF-USE

The Group applied, for the preparation of these half-year financial statements, 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 assets at December 31, 2021 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2021			31/12/2020		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land right-of-use	2,570	(286)	2,284	2,570	(143)	2,427
Buildings right-of-use	7,687	(3,712)	3,975	5,408	(1,750)	3,658
Plant and machinery right-of-use	1,632	(447)	1,185	1,525	(274)	1,251
Other assets right-of-use	3,580	(1,568)	2,012	3,053	(1,180)	1,873
Total	15,469	(6,013)	9,456	12,556	(3,347)	9,209

The gross values of these rights at December 31, 2021 (in Euro thousands) are reported below:

Gross values	31/12/2020	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2021
Land right-of-use	2,570	-	-	-	2,570
Buildings right-of-use	5,408	2,476	(197)	-	7,687
Plant and machinery right-of-use	1,525	107	-	-	1,632
Other assets right-of-use	3,053	1,275	(748)	-	3,580
Total	12,556	3,858	(945)	-	15,469

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.

The increase in 2021 primarily related to company motor vehicles and apartments for employees in Guyana.

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

Gross values	31/12/2020	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2021
Land right-of-use	(143)	(143)	-	-	(286)
Buildings right-of-use	(1,750)	(1,271)	(691)	-	(3,712)
Plant and machinery right-of-use	(274)	(173)	-	-	(447)
Other assets right-of-use	(1,180)	(867)	479	-	(1,568)
Total	(3,347)	(2,454)	(212)	-	(6,013)

3.3. INVESTMENT PROPERTY

The values of Investment property at December 31, 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 December 31, 2021 with December 31, 2020.

	31/12/2021			31/12/2020		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	1,834	-	1,834	1,834	-	1,834
Buildings & facilities	2,526	(1,149)	1,377	2,378	(1,075)	1,303
Total	4,360	(1,149)	3,211	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 December 31, 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	31/12/2021
Land	1,834	-	-	-	1,834
Buildings & facilities	2,378	148	-	-	2,526
Total	4,212	148	-	-	4,360

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

Accumulated depreciation	31/12/2020	Depreciation	Utilisations	Reclassifications and other changes	31/12/2021
Land	-	-	-	-	-
Buildings & facilities	(1,075)	(74)	-	-	(1,149)
Total	(1,075)	(74)	-	-	(1,149)

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

3.4. INTANGIBLE ASSETS WITH DEFINITE LIFE

The values of Intangible assets with definite life at December 31, 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 December 31, 2020 with December 31, 2021.

	31/12/2021			31/12/2020		
	Gross values	Accumulated amortisation	Net book value	Gross values	Accumulated amortisation	Net book value
Development costs - amortisable	123,000	(64,507)	58,493	117,884	(57,722)	60,162
Development costs - in progress	32,967	-	32,967	28,070	-	28,070
Total development costs	155,967	(64,507)	91,460	145,954	(57,722)	88,232
Assets from PPA 2017 - Programmes	44,785	(14,183)	30,602	44,785	(11,198)	33,588
Concessions, licenses, trademarks and similar rights	12,362	(8,977)	3,384	10,439	(7,579)	2,860
Other	4,103	(3,434)	670	3,709	(2,979)	730
Assets in progress and advances	3,236	-	3,236	172	-	172
Total	220,453	(91,101)	129,352	205,059	(79,478)	125,581

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 December 31, 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	31/12/2021
Development costs - amortisable	117,884	-	-	5,116	123,000
Development costs - in progress	28,070	10,013	-	(5,116)	32,967
Total development costs	145,954	10,013	-	-	155,967
Assets from PPA 2017 - Programmes	44,785	-	-	-	44,785
Concessions, licenses, trademarks and similar rights	10,439	1,923	-	-	12,362
Other	3,709	267	-	126	4,102
Assets in progress and advances	172	3,191	-	(126)	3,237
Total	205,059	15,394	-	-	220,453

The increases in 2021 of Intangible Assets with finite useful lives amounted to Euro 15,394 thousand, of which principally:

- Euro 10,013 thousand, principally for design and testing costs for the construction of the new liquid oxygen and methane motors;
- Euro 1,923 thousand for the purchase of licenses and software;
- Euro 3,191 thousand for investments mainly related to the review of permanent production procedures in application of IEC recommendations following the failures of Vega and Industry 4.0 projects.

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

Accumulated amortisation	31/12/2020	Increases	Decreases	Reclassifications and other changes	31/12/2021
Development costs - amortisable	(57,722)	(6,785)	-	-	(64,507)
Development costs - in progress	-	-	-	-	-
Total development costs	(57,722)	(6,785)	-	-	(64,507)
Assets from PPA 2017 - Programmes	(11,197)	(2,986)	-	-	(14,183)
Concessions, licenses, trademarks and similar rights	(7,579)	(1,398)	-	-	(8,977)
Other	(2,979)	(455)	-	-	(3,434)
Total	(79,477)	(11,624)	-	-	(91,101)

3.5. GOODWILL

The goodwill recognised at December 31, 2021 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 the reporting date, the outcome of which did not indicate the need for a write-down of the carrying amount of goodwill at December 31, 2021.

The recoverability of the amounts recognised are verified through comparing the net capital employed (carrying amount) of the CGU with the relative recoverable value. The recoverable value of goodwill is based on the calculation of the value in use i.e. the present value of future operating cash flows on the basis of the estimates included in the long-term plans approved by the Group and an adjusted terminal value, employed to express a summary estimate of future results over the explicitly

considered timeframe. These cash flows are thereafter discounted according to discount rates reflecting the present market valuations of the cost of money and which take account of the specific risks of Group operations and of the CGU considered.

At December 31, 2021, cash flows for the Space CGU were estimated based on projections from the 2022-2026 Business Plan, approved by the Board of Directors on March 14, 2022.

The assumptions underlying the projections of future cash flows of the Space CGU of the 2022-2026 long-range plan approved by Avio's Board of Directors on March 14, 2022 included, first of all, the order backlog at the date of preparation and approval of the plan. In particular, as more fully described in the Directors' Report in the section "Group operating performance and financial and equity position" as of December 31, 2021 the order backlog amounted to Euro 877.0 million, a net increase of Euro 141.1 million (+19.2%) compared to Euro 735.9 million as of December 31, 2020, thanks to new orders acquired in 2021 amounting to Euro 452.7 million (+16% compared to order intake of Euro 389.2 million in 2020) for which reference should be made, for more information, to the same section of the Directors' Report.

It is reasonably estimated that such backlog as of December 31, 2021 will result in the recognition of revenue in the 2022-2026 business plan of approximately 30% of such amount in 2022, approximately 35% in 2023 and the remainder primarily in 2024.

In addition to what has been stated above with reference to the order backlog, the cash flow projections of the 2022-2026 multi-year plan are based on the following additional main assumptions, corroborated by separate external sources by type of revenue, i.e. on the one hand launcher production activities and on the other research and development activities.

- Globally, we are seeing the value of the space industry grow from the current \$350 billion to about \$650 billion in 2030 (at a CAGR of 6%), according to a Morgan Stanley report⁵.

The space launch business segment is expected to grow, again according to the same Morgan Stanley report¹ from the current \$7.8 billion to \$12.1 billion in 2030, with a CAGR of 5%.

- The growth forecast for total mass demand to be launched into space, based on the study by the company Euroconsult⁶, for the period 2021-2029 is 3,999 tons compared to 2,448 tons actually launched in the period 2012-2020, with an overall CAGR of +6%.
- Market demand as an average between the estimates of the Morgan Stanley and Euroconsult reports (made in both quantity and value) can therefore be reasonably estimated at between 5% and 6% CAGR on a ten-year basis.
- With respect to the 2022-2026 plan's R&D revenue projections, the demand for publicly funded new technology development activities is based primarily on expectations for government spending on space activities. In Europe, the budgets of the national space agencies and the European Space Agency (hereinafter also "ESA") have grown by an average of more than 5% per year in the last five years, as can be deduced from the data published by the agencies themselves⁷.
- In particular, again with regard to projections of revenues from R&D, the ESA defined - for the space launcher segment - a product roadmap up to 2025 including, among other things, future evolutions of the current Vega launcher, of which Avio is prime contractor, consisting of the Vega C and Vega E, the new Ariane 6 launcher, of which Avio will produce the P120 first-stage motors, and the reusable Space Rider spacecraft, of which Avio is co-prime. Against this development roadmap, Italy has signed up in ESA for public funding of over Euro 400 million at the 2019 Ministerial Conference. These subscriptions, by virtue of the geographic return principle applied in ESA, are transforming into new contracts for Avio (the only operator in the sector in Italy and recognised as prime contractor for launcher activities in ESA), which are regularly announced to the market⁸.
- The ESA Council in August 2021 approved the resolution on the deployment ("exploitation") of Ariane 6 and Vega-C launchers. ESA member states agreed on the conditions for Europe's imminent deployment of Ariane 6 and Vega-C and asked ESA to propose a roadmap for new and innovative space transportation solutions for the next decade and a framework for associated short-cycle demonstrations. The resolution, agreed to by ESA member states in August 2021,

⁵ "Investment Implications of the Final Frontier," Morgan Stanley Research, published October 12, 2017.

⁶ "Satellites to be built & launched by 2029," 2020 23rd edition, Euroconsult Report, published December 2020.

⁷ ESA 2015 budget of Euro 4.4 billion available at: https://www.esa.int/Newsroom/Highlights/ESA_budget_2015; ESA 2021 budget of Euro 6.5 billion available at: https://www.esa.int/Newsroom/ESA_budget_2021;

⁸ Examples of ESA contracts or budget allocations that were announced by Avio to the market

- Contract for Vega E development activities: <https://www.avio.com/it/comunicati-stampa/vega-firmato-con-esa-contratto-da-118-milioni-di-Euro>

- Space Rider 2021 Development Activity Contract: http://avio-data.teleborsa.it/2020%2f20201209-CS-Space-Rider-Contratto-ESA-ITA_Finale_20201215_104856.pdf;

- ESA 2019 Ministerial Conference Budget Allocation http://avio-data.teleborsa.it/2019%2fAvio-Financial-update-December-2019_20191206_094015.pdf

sets the stage for the first three years of stabilized deployment of the new European launch vehicles, Ariane 6 and Vega-C, and is based on a European institutional launch service demand of four Ariane 6 and two Vega-C per year on average starting in 2025 for two cycles 2025-2027 and 2028-2030. States have also established a basis for maintaining strategic industrial capabilities through options to serve additional institutional launches or increased commercial demand. Corresponding financial allocations from member states are expected at the ESA Ministerial Conference in November 2022.

- National Recovery and Resilience Plan (NRP) - During 2021, the Italian government launched a number of projects for the NRP, some of which specifically address the evolution of space propulsion technologies and products related to launchers. The execution of these projects has been entrusted to ESA and concerns in particular the realization of a high-thrust methane engine and an in-flight demonstrator of a small liquid propulsion launcher. These projects represent an opportunity for the Company to extend its product portfolio and technological expertise, capitalizing on its ongoing experience with Vega E and the M10 liquid oxygen-methane engine. In parallel, the PNRR has initiated the creation of an Italian satellite constellation for Earth observation, with execution also entrusted to ESA, whose missions will be carried out with Vega launchers.
As reported in the 2021 results⁹ presentation to the market, the PNRR and complementary funds for 2022-2026 amount to a total of Euro 2.3 billion, of which approximately Euro 1.0 billion is for Earth observation projects, which includes the Italian satellite constellation whose missions will be carried out with Vega launchers, and approximately Euro 300 million for the "Space Factory", which includes the construction of a high-thrust methane engine, a technology already being developed by the Company, and an in-flight demonstrator of a small liquid-propulsion launcher.
- The expectation of new funding for Avio's development programs at the next ESA Ministerial Conference in 2022, in terms of subscriptions and therefore subsequent contracts, expected to be substantially in line with what already happened at the previous Ministerial Conference in 2019¹⁰, also based on the above-mentioned resolution approved by the ESA Council in August 2021.
- The forecast for growth in production volumes of tactical propulsion systems as well as the development of new evolutions was estimated based on new production and development contracts signed during 2021 and announced to the market¹¹, as well as expected.

The estimates and the plan data used in the application of the above indicated parameters are calculated by directors based on past experience and forecasts concerning Group markets. It is therefore highlighted that the current international economic environment and the possible economic-financial repercussions, also on spending levels by national governments and supranational institutions on space access policies, may create uncertainties around the achievement of objectives and the level of activities considered in the plan. However, the estimate of the recoverable value of goodwill requires subjectivity and the use of estimates by the directors and, although considering that the production and commercialisation cycles for products cover extensive timeframes which therefore permit the recovery of any delays on plan objectives, it should be considered that goodwill may be impaired in future periods due to changes in the general environment which are currently unforeseeable. The circumstances and events which may result in further impairments are constantly monitored by the directors.

For the calculation of the terminal value, the expected cash flows for the final year of the plan were normalised according to the perpetuity method, assuming 1.5% growth (1.0% in the previous year) for forecast cash flows (in line with forecast Italian medium/long-term inflation)¹².

For the purposes of preparing the impairment test, cash flows were discounted at a weighted average cost of capital ("WACC") of 8.2% (7.7% in the previous year), estimated in accordance with the Capital Asset Pricing Model approach.

Based on the above, the recoverable value of the Space CGU is Euro 56 million higher than the carrying amount of the net capital employed.

⁹ See the following "Investors" section of Avio's website: http://avio-data.teleborsa.it/2022%2f20220215-Avio-FY-2021-results_vDEF_1_20220315_100105.pdf;

¹⁰ See: http://avio-data.teleborsa.it/2019%2fAvio-Financial-update-December-2019_20191206_094015.pdf;

¹¹ See examples of contract posting for Aster 30 referenced in the following links:

- July 2021: http://avio-data.teleborsa.it/2021%2fCS-Avio-contratto-Aster-2021-def_v1_20210707_023145.pdf

- May 2020: http://avio-data.teleborsa.it/2020%2fCS-Avio-contratto-Aster_vdef_20200526_055413.pdf

¹² Source: Economist Intelligence Unit database

In view of the above, a sensitivity analysis was conducted on the discount rate for cash flows, assuming an increase of 50 basis points, resulting in a change in recoverable amount, nonetheless in excess of the carrying amount of net invested capital by Euro 37 million; a further sensitivity analysis was carried out by assuming, in order to determine the terminal value, a reduction in the g-rate of 50 basis points, resulting in a recoverable value that is in any case higher than the book value of net capital employed by Euro 41 million.

In order to further support the analysis carried out, in view of the persistence of the COVID-19 epidemic and the uncertainty of the geo-political situation and of the international markets, an additional execution risk was prudently introduced, increasing the average discount rate (average weighted cost of capital) by 100 basis points. Also on the basis of this additional stress test, the recoverable value of the Space CGU was comfortably greater than the carrying amount of the net capital employed recorded in the financial statements.

It should also be noted that the discount rate (weighted average cost of capital) that would make the recoverable value of the Space CGU equal to the book value of the net capital employed recognised to the financial statements is 10%.

The impairment testing exercise was conducted by an outside leading consultancy company.

3.6. INVESTMENTS

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

	31/12/2021		31/12/2020		Change
	Group share	Total	Group share	Total	
<u>Subsidiaries</u>					
- Servizi Colleferro – Consortium	52.00%	63	52.00%	63	0
Total non-consolidated subsidiaries		63		63	0
<u>Companies under joint control</u>					
- Europropulsion S.A.	50.00%	7,368	50.00%	4,886	2,482
Total companies under joint control		7,368		4,886	2,482
<u>Associates</u>					
- Termica Colleferro S.p.A.	40.00%	3,635	40.00%	3,635	0
- Other consortiums		5		5	0
Total associates		3,640		3,640	0
<u>Other companies</u>					
- Other companies		524		524	0
Total other companies		524		524	0
Total		11,595		9,112	2,483

As regards the comparison between the book value of investments and the respective shareholders' equity of the Parent Avio S.p.A., reference should be made to the specific comparison schedule at paragraph "3.5. Equity investments" in the separate financial statements.

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

	31/12/2020	Increases	Decreases	Other changes	31/12/2021
Subsidiaries	63	-	-	-	63
Companies under joint control	4,886	2,482	-	-	7,368
Associated companies	3,640	-	-	-	3,640
Other companies	524	-	-	-	524
Total	9,112	2,482	0	0	11,595

The interest in Europropulsion S.A. has been classified among "Companies under joint control". The change in the year relating to this interest was due to measurement at equity, which resulted in an increase of Euro 2,482 thousand (due to the 50% share of profits accrued in 2021, amounting to Euro 4,964 thousand).

The investments in other associated companies (mainly 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 December 31, 2021 and at December 31, 2020 (in Euro thousands).

	31/12/2021	31/12/2020	Change
Shareholder loan to Termica Colleferro S.p.A.	6,415	6,259	156
	6,415	6,259	156

The account, amounting to Euro 6,415 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. (which at the end of 2021 sold the shares to Cogenio S.r.l. - ENEL X), 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 year 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 79,436 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):

	31/12/2021
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 Company.	5,441
Financial charges exceeding 30% of EBITDA	36,694
<i>Temporary differences deriving from current corporate operations</i>	
Provision for staff charges	2,717
Other deductible temporary differences	3,830
Provisions for risks and charges	12
Tax liabilities	18
Provisions for risks and legal charges	5,301
Doubtful debt provision - trade and other receivables	96
Total gross deferred tax assets	54,109
Deferred tax liability on temporary differences	
<i>Temporary differences deriving from previous corporate operations</i>	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(8,849)
Tax effect R&D expenses First-Time Adoption	(545)
<i>Temporary differences deriving from current corporate operations</i>	
Other temporary assessable differences	(665)
	15
Total gross deferred tax liabilities	(10,044)
Net deferred tax assets/(liabilities)	44,065
Deferred tax assets on tax losses	66,463
Total deferred tax assets	110,528
Deferred tax assets not recorded	(31,092)
Net deferred tax assets (liabilities) recorded	79,436

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 December 31, 2021 and December 31, 2020 (Euro thousands).

	31/12/2021	31/12/2020	Change
Other non-current assets	70,927	74,140	(3,213)
	70,927	74,140	(3,213)

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

	31/12/2021	31/12/2020	Change
Receivables from the General Electric Group	58,220	58,220	-
Receivables from FCA Partecipazioni	7,109	9,132	(2,023)
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	4,888	6,077	(1,189)
Guarantee deposits	568	572	(4)
Other non-current receivables	142	139	3
Total	70,927	74,140	(3,213)

"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 "3.25. 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 4,888 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 December 31, 2021 and December 31, 2020 (Euro thousands).

	31/12/2021	31/12/2020	Change
Inventories	154,732	140,309	14,423
	154,732	140,309	14,423

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

	31/12/2021	Change	31/12/2020
Raw materials, ancillaries and consumables	53,041	5,609	47,432
Raw material, ancillary and consumables obsolescence provision	(2,614)	(240)	(2,374)
Raw material, ancillary and consumables - net value	50,427	5,369	45,058
Products in work-in-progress	5,554	279	5,275
Provision for the write-down of work in progress	0	0	0
Products in work-in-progress - net value	5,554	279	5,275
Finished products and other inventories	3,104	(157)	3,261
Finished products and other inventories obsolescence provision	(1,985)	135	(2,120)
Finished products and other inventories - net value	1,119	(22)	1,142
Advances to suppliers	97,632	8,797	88,835
	154,732	14,423	140,309

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, net of advances received from clients is as follows (in Euro thousands):

	31/12/2021	31/12/2020	Change
Contract work in progress	453,808	334,861	118,947
Advances for contract work-in-progress	(609,634)	(477,872)	(131,762)
Net total	(155,826)	(143,011)	(12,815)

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

	31/12/2021	31/12/2020	Change
Contract work-in-progress (gross)	989,609	1,045,285	(55,676)
Advances for contract work-in-progress (gross)	(535,801)	(710,425)	174,624
Contract work-in-progress (net)	453,808	334,860	118,948

The table below summarises the contract work-in-progress relating to the projects where the gross value is lower than the advances and is therefore recorded, net of the advances, under liabilities in the Consolidated Balance Sheet (Euro thousands):

	31/12/2021	31/12/2020	Change
Contract work-in-progress (gross)	699,128	950,265	(251,137)
Advances for contract work-in-progress (gross)	(1,308,762)	(1,428,136)	119,374
Advances for contract work-in-progress (net)	(609,634)	(477,871)	(131,763)

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.

3.12. TRADE RECEIVABLES

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

	31/12/2021	31/12/2020	Change
Trade receivables	3,696	2,175	1,521
	3,696	2,175	1,521

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

	31/12/2021	31/12/2020	Change
Receivables from third parties	2,571	562	2,009
Receivables from associates and jointly controlled companies	569	1,028	(459)
	3,139	1,589	1,550
Receivables from associates and jointly controlled companies beyond one year	557	586	(29)
	557	586	(29)
Total	3,696	2,175	1,521

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):

	31/12/2021	31/12/2020	Change
Gross value	3,054	1,045	2,009
less: doubtful debt provision	(483)	(483)	-
Total	2,571	562	2,009

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):

	31/12/2021	31/12/2020	Change
Europropulsion S.A.	268	566	(298)
Servizi Colleferro S.C.p.A.	15	80	(64)
Potable Water Services Consortium	99	158	(59)
Termica Colleferro S.p.A. due within one year	187	224	(38)
	569	1,028	(459)
Termica Colleferro S.p.A. due beyond one year	557	586	(29)
	557	586	(29)
Total	1,126	1,614	(488)

3.13. CASH AND CASH EQUIVALENTS

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

	31/12/2021	31/12/2020	Change
Cash and cash equivalents	104,614	124,666	(20,052)
Total	104,614	124,666	(20,052)

Cash and cash equivalents mainly concerning balances on bank current accounts.

For an analysis of the changes during the year, reference should be made to the cash flow statement.

3.14. CURRENT TAX RECEIVABLES

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

	31/12/2021	31/12/2020	Change
Tax receivables	17,656	33,094	(15,438)
Total	17,656	33,094	(15,438)

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

	31/12/2021	31/12/2020	Change
VAT receivables	10,763	26,217	(15,454)
Research and development tax credits	1,285	548	737
Tax credits for simple and 4.0 technological innovation	1,103	534	569
Tax credits for the purchase of simple new capital goods and 4.0	960	481	479
Receivables from tax authorities	3,309	5,078	(1,769)
EU VAT receivables	237	237	0
Total	17,656	33,094	(15,438)

The decrease in the account on the previous year totalled Euro 15,438 thousand; this was due to the following factors:

- decrease of Euro 15,454 thousand of the VAT receivables, following the collection of the VAT reimbursement previously requested for Euro 18,787 thousand, net of the VAT receivables maturing in the year for Euro 3,333 thousand;
- decrease of other Tax receivables for Euro 1,769 thousand, mainly due to the offsetting of IRAP and withholding taxes;
- increase of Euro 1,785 thousand regarding tax credits for research and development, for simple and 4.0 technological innovation, and for the purchase of new simple and 4.0 capital goods.

VAT receivables

VAT receivables of Euro 10,763 thousand (Euro 26,217 thousand at December 31, 2020), include:

- Euro 6,961 thousand, relating to VAT reimbursement requests to the Tax Authorities (Euro 20,601 thousand at December 31, 2020);
- Euro 3,802 thousand, relating to VAT reimbursements to date not requested for repayment (Euro 5,607 thousand at December 31, 2020).

As indicated above, Euro 18,787 thousand was collected in the year, in addition to interest of Euro 131 thousand, concerning the following VAT receivables:

- Avio VAT receivables for FY 2018, Q2 2018 and FY 2019 for Euro 17,964 thousand, in addition to interest of Euro 100 thousand;
- VAT receivables of the subsidiary Se.Co.Sv.Im. S.r.l. for FY 2010 for Euro 823 thousand, in addition to interest of Euro 31 thousand.

The Group matured VAT receivables in 2021 of Euro 3,333 thousand. The maturation of the VAT relates to the fact that the parent company's Avio S.p.A. main clients are non resident, such as the European Space Agency (ESA) for the development of launchers and ArianeGroup 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 2020 Budget Law (see Law No. 160 of December 27, 2019), as amended by the 2021 Budget Law (see Law No. 178 of December 30, 2020) and the 2022 Budget Law (see Law No. 234 of December 30, 2021), significantly modified the tax benefits for research and development activities by providing the following:

- 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), was confirmed for the 2019 tax period only;
- 2) in replacing the previous R&D credit, it established:
 - 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 20% of the costs incurred in 2021, with a maximum of Euro 4 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 10% of the costs incurred in 2021 for such activities, with a maximum of Euro 2 million. The relief is increased (15% of the costs incurred in 2021 for such activities, up to a maximum of Euro 2 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 addition, a tax credit was granted for the purchase of new capital goods, both tangible and intangible, both simple and functional to the so-called "new" projects. 4.0, confirmed by the Budget Act 2021.

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 (20%, 10% or 15%) to the costs incurred in the maturation year of the credit;
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. 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.

Recognition in the Financial Statements

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

The 2021 income statement includes amounts of Euro 2,248 thousand 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 in 2021 pursuant to the 2020 Budget Law

The effect of the tax credit accrued in 2021 pursuant to the 2021 Budget Law, amounting to Euro 1,785 thousand, was also recognised in the 2021 income statement. The receivables under review refer mainly to internal research and development projects and to some technological innovation projects, both simple and 4.0 projects. As these subsidies are intended to cover operating costs and are not dependent on the creation of a specific fixed asset, and as they accrue in the financial year in which the eligible costs are incurred, regardless of the way in which these costs are accounted for, the subsidies in question have been treated as operating grants and, for this reason, the related economic benefit has been recorded in full in the same financial year in which the eligible costs from which the subsidies in question accrue were accounted for.

Tax receivables

Tax receivables of Euro 3,309 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 1,252 thousand, for which the subsidiary was challenged for the failure to apply VAT on the restoration costs recharged to Avio S.p.A. in 2010, 2011 and 2012.
In 2019, Se.Co.Sv.Im. complied with the expedited settlement of this tax dispute, according to Article 6 of Legislative Decree No. 119 of October 23, 2018, converted, with amendments, by Law No. 136 of December 17, 2018. This settlement entailed payment to the Tax Agency of only the tax to be settled, by Se.Co.Sv.Im., in 20 quarterly instalments; the first was paid on May 31, 2019, while the last shall be settled by February 28, 2024.

Avio S.p.A. presents the entire expedited settlement amount as tax receivables, which shall gradually become deductible VAT, according to the payment of the instalments of the above-mentioned expedited settlement by Se.Co.Sv.Im.;
- receivables for withholding taxes on interest for Euro 545 thousand;
- tax receivables of the overseas subsidiaries Regulux and Avio France for Euro 506 thousand;
- IRAP receivables of Euro 93 thousand;
- other tax receivables of Euro 913 thousand.

EU VAT receivables

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

3.15. OTHER CURRENT ASSETS

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

	31/12/2021	31/12/2020	Change
Other current assets	7,376	8,954	(1,578)
Total	7,376	8,954	(1,578)

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

	31/12/2021	31/12/2020	Change
Economic Development Ministry for disbursements pursuant to Law 808/85	1,227	3,212	(1,985)
Receivables from FCA Partecipazioni	2,168	2,168	-
Employee receivables	1,098	1,033	65
Grants/subsidies receivable	1,488	1,098	390
Prepayments and accrued income	938	986	(48)
Other debtors	437	415	22
Social security institutions	16	38	(22)
Receivables from associated company Consorzio Servizi Acqua Potabile	4	4	0
Total	7,376	8,954	(1,578)

Receivables from the "Economic Development Ministry for disbursements pursuant to Law 808/85", amounting to Euro 1,227 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 Inter-ministerial 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 decrease of Euro 1,985 thousand essentially concerns the collection of the final amounts for the "80 tonne solid propellant motor - P80" development project.

The residual receivable of Euro 1,227 thousand comprises:

- Euro 1,112 thousand concerning 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" development project;
- Euro 115 thousand concerning the "LOX/LCH technology demonstrator for the third stage of the Vega E launcher" development project.

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" amounting to Euro 2,168 thousand, reference should be made to the comments at paragraph "3.9 Other non-current assets" in these notes. At the end of the first half of 2021, the instalment of Euro 2,168 thousand recognised at December 31, 2020 was received; the amount recognised at December 31, 2021 is the new instalment due within 12 months, which is of an equal amount to the previous instalment.

Receivables for grants and subsidies of Euro 1,488 thousand concerning various subsidised research projects. See also in this regard what is stated in section "10. Disclosure on public grants as per Article 1, paragraphs 125-129 of Law No. 124/2017".

Employee receivables of Euro 1,098 thousand concern the Group cash advances for the coverage of mission and travel expenses.

Other receivables of Euro 436 thousand mainly concern certain recharges, including of a tax nature, to a number of counterparties.

EQUITY

3.16. SHARE CAPITAL

The share capital of the parent Avio S.p.A. amounts to Euro 90,964,212 at December 31, 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 December 31, 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 December 31, 2021, the available value of the share premium reserve was Euro 135,176 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):

	31/12/2021	31/12/2020	Change
Actuarial gains/(losses) reserve	(4,596)	(4,342)	(254)
Legal reserve	18,193	18,193	-
Treasury shares acquired	(9,080)	(9,080)	-
Unavailable treasury shares purchase reserve	9,080	9,080	-
Total	13,597	13,851	(254)

At December 31, 2021, following further purchases of treasury shares, Avio S.p.A. held 671,233 treasury shares, equal to 2.5465% of the share capital. The value of the treasury shares acquired amounts to Euro 9,080 thousand.

3.19. RECONCILIATION BETWEEN EQUITY AND NET PROFIT OR LOSS OF THE PARENT COMPANY AND CONSOLIDATED EQUITY AND NET PROFIT OR LOSS

The reconciliation between equity at December 31, 2021 and the 2021 parent result and the corresponding consolidated financial statement amounts is outlined as follows (in Euro thousands):

	Equity at 31/12/2021	Net profit 2021
Financial Statements of Avio S.p.A.	291,292	4,836
Elimination of investments recognised to the statutory financial statements	(128,824)	
Accounting for equity and the Group's share of the profits or losses of consolidated companies	134,125	3,008
Elimination of inter-company dividends		(1,224)
Other consolidation adjustments	5,887	1,860
Consolidated financial statements (Group shareholders' equity/ Group profit for the year)	302,480	8,480

With regards to the reconciliation, the following is reported:

- the reversal of inter-company dividends concerns the subsidiary Spacelab, following both the setting of the adjustment of the sales price of the business unit to the parent company Avio S.p.A. and the reduction of its equity in view of its business needs, issued dividends recognised to the income statement totalling Euro 1,224 thousand;
- other consolidation adjustments, totalling income of Euro 1,860 thousand, mainly concern:
 - the valuation of the joint venture Europropulsion S.A. at equity, which led to the recognition of income of Euro 2,482 thousand to the consolidated financial statements;
 - the elimination of lease contracts with Group companies, in particular Se.Co.Sv.Im. S.r.l., resulting in the recognition of income to the consolidated financial statements of Euro 360 thousand;
 - the completion of the measurement of the investment in the subsidiary Spacelab S.p.A. following the transactions outlined above, which resulted in the recognition of income to the separate financial statements of Avio of Euro 1,442 thousand. This income had a negative effect on the consolidated figure as adjusted for the eliminations;
 - other effects for Euro 460 thousand;

Other consolidation adjustments, in addition to those affecting the 2021 result, mainly refer to the equity valuation of the jointly controlled company Europropulsion S.A., taking into account the cumulative effects resulting from the valuations made, in addition to 2021, in previous years.

3.20. EQUITY ATTRIBUTABLE TO 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):

	31/12/2021			
Consolidated companies	% Non-controlling interests	Capital and Reserves	Profit/(loss)	Equity non-controlling Interests
Spacelab S.p.A.	30.00%	1,201	40	1,241
Regulus S.A.	40.00%	5,993	613	6,606
		7,194	653	7,847

NON-CURRENT LIABILITIES

3.21. NON-CURRENT FINANCIAL LIABILITIES

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

	31/12/2021	31/12/2020	Change
Non-current financial liabilities	22,000	32,000	(10,000)
Total	22,000	32,000	(10,000)

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 10,000 thousand relates to the short-term reclassification:

- of the two instalments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2022 and October 31, 2022, respectively;
- of the two instalments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2022 and October 31, 2022, respectively.

The short-term portion of the loan, totalling Euro 10,048 thousand (including Euro 48 thousand for interest), is therefore recognised under item "3.28. Current portion of non-current financial payables".

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.

3.22. 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):

	31/12/2021	31/12/2020	Change
Non-current financial liabilities for leasing	4,751	4,543	208
Total	4,751	4,543	208

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

	31/12/2021	31/12/2020	Change
Non-current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	974	1,109	(135)
Non-current financial liabilities to third parties as per IFRS 16	3,777	3,434	343
Total	4,751	4,543	208

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.

3.23. 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 complimentary 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):

	31/12/2021	31/12/2020	Change
- Defined benefit plans:			
Post-employment benefit	3,646	4,166	(520)
Other defined benefit plans	3,005	2,988	17
	6,651	7,154	(503)
- Other long-term benefits	3,693	4,107	(414)
Total employee benefit provisions	10,344	11,261	(917)
<i>of which:</i>			
- Italy	8,742	9,526	(784)
- Other Countries	1,602	1,735	(133)
	10,344	11,261	(917)

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
At 31/12/2020	7,154	4,107	11,261
Financial charges/(income)	(23)	(4)	(27)
Actuarial (gains)/losses in income statement	-	(93)	(93)
Actuarial (gains)/losses in comprehensive income statement	315	-	315
Pension cost current employees	67	75	142
Other changes	-	(134)	(134)
Benefits paid	(862)	(258)	(1,120)
At 31/12/2021	6,651	3,693	10,344

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

	31/12/2021	31/12/2020
Discount rate	0.15%	-0.17%
Expected salary increases	2.15%	2.14%
Inflation rate	European Zero-Coupon Inflation-Indexed Swap curve at 31.12.2021	European Zero-Coupon Inflation-Indexed Swap curve 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.

3.24. PROVISIONS FOR RISKS AND CHARGES

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

	31/12/2021	31/12/2020	Change
Provisions for risks and charges	28,229	31,734	(3,505)
Total	28,229	31,734	(3,505)

The breakdown of the provisions for risks and charges at December 31, 2021 is presented below (Euro thousands):

	31/12/2021		
	Current portion	Non-current portion	Total
Provision for variable remuneration	4,562	2,837	7,399
Provision for legal and environmental risks and charges	6,002	12,429	18,431
Provision for contractual and commercial risks and charges	301	2,098	2,399
Total	10,865	17,364	28,229

These provisions include:

- provisions for variable remuneration for Euro 7,399 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 18,431 thousand;
- provisions for contractual and commercial risks and charges for Euro 2,399 thousand, 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) and for the recovery of a concession area.

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

	31/12/2020	Provisions	Other changes	Utilisations	Releases	31/12/2021
Provision for variable remuneration	8,732	4,591	-	(5,924)	-	7,399
Provision for legal and environmental risks and charges	19,329	-	168	(1,010)	(56)	18,431
Provision for contractual and commercial risks and charges	3,673	65	-	-	(1,339)	2,399
Total	31,735	4,655	168	(6,934)	(1,395)	28,229

The main changes during the year were:

- the provisions for variable remuneration were utilised for Euro 5,924 thousand, in consideration of the bonuses paid to employees for the achievement of individual and company objectives. This account concerned for Euro 4,713 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 4,591 thousand mainly relates to variable remuneration which will be paid in the first half 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 1,010 thousand, mainly concerning environmental charges;
- the provisions for contractual and commercial risks and charges were released for Euro 1,339 thousand as the basis for their accrual was no longer applicable.

3.25. OTHER NON-CURRENT LIABILITIES

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

	31/12/2021	31/12/2020	Change
Non-current liabilities	119,830	127,840	(8,010)
Total	119,830	127,840	(8,010)

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

	31/12/2021	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	406	5,126	(4,720)
	58,626	63,346	(4,720)
<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	16,556	19,781	(3,225)
Payables to MiSE for disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	1,320	1,302	18
			-
Deferred income on disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	483	483	-
	60,410	63,617	(3,207)
Payables due to MiSE for other subsidies	388	122	266
Other liabilities		136	(136)
Accrued expenses	406	619	(213)
Total	119,830	127,840	(8,010)

Tax liabilities

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, totalling Euro 407 thousand, concerns the long-term portion of the Tax payable of the subsidiary Se.co.sv.im. 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.

At December 31, 2020 this account included, for Euro 4,203 thousand, the long-term 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 income tax period.

This portion was classified as short-term in these financial statements.

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 Inter-ministerial 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 16,556 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 1,320 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 388 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".

- "Additive Manufacturing by Mixing Elemental Powders" (amounting to 104 thousand euros), and
- "Innovative composite materials for space, aeronautics and automotive I.S.A.C." (amounting to 284 thousand euros).

The payables are recorded at their discounted value.

CURRENT LIABILITIES

3.26. CURRENT FINANCIAL LIABILITIES

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

	31/12/2021	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. This contract provides for application of the 3-month Euribor as the reference rate, with an additional lending rate of -0.05% and a borrowing rate of 0.20%.

3.27. 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):

	31/12/2021	31/12/2020	Change
Current financial liabilities for leasing	2,906	2,676	230
Total	2,906	2,676	230

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

	31/12/2021	31/12/2020	Change
Current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	146	148	(2)
Current financial liabilities to third parties as per IFRS 16	2,760	2,528	232
	2,906	2,676	230

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.

3.28. CURRENT PORTION OF NON-CURRENT FINANCIAL PAYABLES

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

	31/12/2021	31/12/2020	Change
Current portion of non-current financial payables	10,048	10,063	(15)
Total	10,048	10,063	(15)

The account, which amounted to Euro 10,048 thousand, consists of:

- the two instalments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2022 and October 31, 2022, respectively;
- the two instalments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2022 and October 31, 2022, respectively;
- interest expense on the above financial liabilities accrued at December 31, 2021 for Euro 48 thousand.

3.29. TRADE PAYABLES

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

	31/12/2021	31/12/2020	Change
Trade payables	76,927	66,454	10,473
Total	76,927	66,454	10,473

Trade payables of the Avio Group at December 31, 2021 amount to Euro 76,927 thousand; this amount includes, for Euro 8,204 thousand, trade payables to associated companies, jointly controlled companies and non-consolidated subsidiaries as follows (Euro thousands):

	31/12/2021	31/12/2020	Change
Europropulsion S.A.	1,670	7,236	(5,566)
Termica Colleferro S.p.A.	6,588	445	6,143
Potable Water Services Consortium	(227)	(120)	(107)
Servizi Colleferro S.C.p.A.	173	3	170
Total	8,204	7,564	640

3.30. CURRENT TAX PAYABLES

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

	31/12/2021	31/12/2020	Change
Current income tax payables	7,322	8,488	(1,166)
Total	7,322	8,488	(1,166)

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

	31/12/2021	31/12/2020	Change
IRES payables	705	667	38
IRAP payables	72	41	31
Payables for withholding taxes	1,203	1,142	61
Other tax payables	5,004	6,246	(1,242)
Foreign income taxes	338	392	(54)
Total	7,322	8,488	(1,166)

IRES payables from tax consolidation amount to Euro 705 thousand. The tax consolidation agreement relates to the years 2021-2022-2023. The companies participating in the tax consolidation are the Parent Avio S.p.A. and the Italian subsidiaries Spacelab S.p.A. and Se.Co.Sv.Im. S.r.l..

Payables for IRAP amount to Euro 72 thousand.

Payables for withholding taxes, amounting to Euro 1,203 thousand, refer to employee and consultant withholding taxes. The liability is in line with the previous year.

Other Tax payables of Euro 5,004 thousand comprise the following items:

- for Euro 4,378 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 "3.25. Other non-current liabilities";
- for Euro 340 thousand the short-term portion of the Tax payable of the subsidiary Se.co.sv.im. 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 286 thousand, tax liabilities in respect of ongoing tax disputes.

Payables for foreign taxes totalling Euro 338 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.

3.31. OTHER CURRENT LIABILITIES

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

	31/12/2021	31/12/2020	Change
Other current liabilities	26,383	24,803	1,580
Total	26,383	24,803	1,580

Other current liabilities at December 31, 2021 and December 31, 2020 were as follows (Euro thousands):

	31/12/2021	31/12/2020	Change
Other accrued liabilities and deferred income	7,408	7,575	(167)
Employee payables	7,238	6,969	269
Other payables to third parties	5,214	5,557	(343)
Payables due to social security institutions	4,376	3,622	754
Deferred income on disbursements pursuant to Law 808/85 - current portion	2,147	1,079	1,068
Total	26,383	24,803	1,581

Accrued liabilities and deferred income

This account, amounting to Euro 7,408 thousand (Euro 7,575 thousand at December 31, 2020), mainly refers to the deferment of commercial costs and grants to the following year.

Employee payables

Employee payables amount to Euro 7,238 thousand and include remuneration to be settled, in addition to vacations and other rights matured and not utilised.

Other payables to third parties

This account, totalled Euro 5,214 thousand, concerns:

- liabilities towards the Italian Space Agency (ASI), minority shareholder of the subsidiary Spacelab S.p.A., for Euro 3,132 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 of March 2018 was defined.

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 relating to the activities attributable to the unit subject to sale could not be definitively determined.

The parties have defined the price adjustment as Euro 8,529 thousand in June 2021.

The subsidiary Spacelab S.p.A. then defined the capital gain to be accounted for in its financial statements related to this sale, and the Board of Directors' meeting of June 28 proposed to the Extraordinary Shareholders' Meeting of July 19, which resolved the distribution of dividends for Euro 18,000 thousand to Avio and ASI shareholders. These dividends are inclusive of Euro 10,000 thousand already resolved by it on April 17, 2019, but not yet paid pending the above-mentioned price adjustment; Euro 12,600 thousand is due to the shareholder Avio and Euro 5,400 thousand to the shareholder ASI.

During the above-mentioned Extraordinary Shareholders' Meeting of July 19, a resolution was passed to reduce Spacelab S.p.A.'s share capital by Euro 2,877 thousand due to its surplus compared to the Company's current needs, with a reimbursement to the shareholder Avio of Euro 2,014 thousand and to the shareholder ASI of Euro 863 thousand.

Eligibility to the two partners was 50% paid in November 2021 and 50% will be paid by July 31, 2022;

- liabilities for urban development charges due to the municipalities in which the Group operates for Euro 465 thousand;
- other liabilities to third parties for Euro 1.617 thousand.

Amounts due to social security institutions

The account concerns amounts to be paid, amounting to Euro 4,376 thousand (Euro 3,622 thousand at December 31, 2020), relating to company and employee contributions, in accordance with regulations in force.

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

The account, amounting to Euro 2,147 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.

INCOME STATEMENT

3.32. REVENUES

Total revenues, comprising the change in contract work-in-progress and revenues from product sales and the provision of services, amounted to Euro 320,094 thousand. They amounted Euro 351,590 thousand in 2020.

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

	FY 2021	FY 2020	Change
Revenues from sales	733,052	199,081	533,971
Revenues from services	7,930	7,028	902
	740,982	206,109	534,873
Changes in contract work in progress	(420,888)	145,481	(566,369)
Total	320,094	351,590	(31,496)

Group revenues decreased by Euro 31,496 thousand which, as reported in the "Group operating performance and financial and equity position" paragraph of the Directors' Report, mainly relates to the scheduled phase-out of the Ariane 5 programme and the completion of development activities on the P120 motor, which will power the future VEGA-C and Ariane 6 launchers, whose maiden launches are scheduled for 2022, partially offset by the increase in Vega C production and development activities, in addition to those for tactical and satellite propulsion.

"Revenues", amounting to Euro 733,052 thousand, refer to the completion of the following main job orders and the consequent release of advances in revenues:

- for Euro 334,692 thousand, orders for the client Arianespace, relating to the 2nd batch production of VEGA;
- for Euro 273,921 thousand, orders for the client Europropulsion, related to the production of Ariane 5 segments and igniters, batch PB+;
- for Euro 37,135 thousand, orders for the client Europropulsion, relating to the 2nd batch production of VEGA;
- for Euro 30,704 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 5,684 thousand, orders for the client Roxel;
- for Euro 3,022 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 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 in 2021 amounted to Euro 2,248 thousand, while in 2020 totalled Euro 2,710 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.

3.33. OTHER OPERATING REVENUES

The account in 2021 amounted to Euro 7,461 thousand, as follows:

	FY 2021	FY 2020	Change
Other income and operating grants	4,051	4,338	(287)
Income for the portion recognised to the income statement of the disbursements as per Law 808/85	2,157	1,064	1,093
Income from the release of provisions	638	1,024	(386)
Over-accruals and similar in prior periods	615	807	(192)
Total	7,461	7,233	228

The account comprises:

- other income and operating grants of Euro 4,051 thousand (Euro 4,338 thousand in 2020), including, primarily:
 - grants for Euro 700 thousand (Euro 1,029 thousand in 2020);
 - recovery of charges for Euro 1,712 thousand (Euro 1,602 thousand in 2020);
 - other income amounting to Euro 1,464 thousand (Euro 1,707 thousand in 2020), including Euro 412 thousand relating to the release of a tax liability for which the Court of Cassation declared the matter in dispute to have ceased during the year;
- income for the portion recognised to the income statement of the disbursements as per Law 808/85 for Euro 2,157 thousand (Euro 1,064 thousand in 2020);
- income from the release of provisions of Euro 638 thousand (Euro 1,024 thousand in 2020), of which Euro 314 thousand relating to the subsidiary Regulus S.A. and Euro 324 thousand relating to the parent company Avio S.p.A.;
- prior year income of Euro 615 thousand (Euro 807 thousand in 2020);

3.34. CONSUMPTION OF RAW MATERIALS

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

	FY 2021	FY 2020	Change
Purchase of raw materials	89,138	94,174	(5,036)
Change in inventories of raw materials	(5,369)	(8,819)	3,450
Total	83,769	85,355	(1,586)

3.35. SERVICE COSTS

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

	FY 2021	FY 2020	Change
Service costs	153,399	172,088	(18,689)
Rent, lease and similar costs	671	512	159
Total	154,070	172,600	(18,530)

Service costs, amounting to Euro 154,070 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 remuneration of Euro 469 thousand (Euro 456 thousand in 2020) and to the board committees for Euro 164 thousand (Euro 156 thousand in 2020);
- Supervisory Body fees of Euro 177 thousand (Euro 186 thousand in 2020);
- Board of Statutory Auditors fees of Euro 178 thousand (Euro 186 thousand in 2020);

Service costs are shown net of the recognition of accrued tax credits on certain types of costs amounting to Euro 1,785 thousand (Euro 1,677 thousand at December 31, 2020), as described in paragraph "3.14. Current tax receivables".

3.36. PERSONNEL EXPENSES

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

	FY 2021	FY 2020	Change
Wages and salaries	48,491	47,375	1,116
Social security charges	16,944	16,366	578
Provision for variable remuneration	3,904	3,719	185
Other long-term benefits - current employees	120	152	(32)
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	(162)	272	(434)
Provision for "Other defined benefit plans"	3,099	3,015	84
Total	72,396	70,899	1,497

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

	FY 2021	FY 2020	Change
Blue-collar	356	387	(31)
White-collar	557	521	36
Executives	27	26	1
Total	940	934	6

3.37. AMORTISATION & DEPRECIATION

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

	FY 2021	FY 2020	Change
Property, plant and equipment	6,999	7,262	(263)
Rights-of-use	2,454	2,134	320
Investment property	74	70	4
Intangible assets with definite life	11,624	9,819	1,805
Total	21,151	19,285	1,866

Compared to the previous year, amortization and depreciation increased by Euro 1,866 thousand, mainly due to higher amortization of Intangible assets with finite lives, amounting to Euro 1,805 thousand; the latter increase is essentially attributable to the full amortization in 2021 of development costs related to the Z40 engine for Euro 2,256 thousand

compared to the previous year in which amortization was Euro 564 thousand, as amortization began in the fourth quarter of 2020.

Amortization of intangible assets with a definite life primarily includes:

- amortization of capitalized development costs of Euro 6,785 thousand (Euro 5,094 thousand in 2020);
- Euro 2,986 thousand for the amortisation of development costs capitalised and Euro 1,493 thousand 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 2020).

3.38. OTHER OPERATING COSTS

This account amounts to Euro 4,178 thousand (Euro 8,086 thousand in 2020) and mainly comprises the following items:

- indirect taxes of Euro 1,692 thousand (Euro 1,894 thousand in 2020);
- provisions for contingent liabilities and other charges for Euro 643 thousand. In 2020 they amounted to Euro 5,239 thousand and concerned, among others, costs deriving from the COVID-19 emergency, including two donations for a total of Euro 500 thousand in favour of the Civil Protection of Colleferro and the Kourou Hospital (in French Guyana);
- prior year charges of Euro 553 thousand (Euro 414 thousand in 2020);
- net extraordinary charges of Euro 1,290 thousand (Euro 539 thousand in 2020).

3.39. 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 2021, amounting to income of Euro 2,482 thousand, corresponds to the share of the net result recorded by the investee in the period (in the absence of consolidation adjustments impacting the result of the jointly controlled company). The effect generated in 2020 was Euro 1,346 thousand.

3.40. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to internal costs capitalised, amounting to Euro 14,219 thousand (Euro 11,959 thousand in 2020), mainly includes:

- development costs for Euro 10,013 thousand (Euro 10,345 thousand in 2020);
- costs for the construction of internal intangible and tangible fixed assets for Euro 4,206 thousand (Euro 1,610 thousand in 2020). The change primarily results from the capitalisation of costs to revise permanent production procedures in application of IEC recommendations following the Vega failures.

3.41. FINANCIAL INCOME

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

	FY 2021	FY 2020	Change
Bank interest income	10	-	10
Interest income on VAT refunds	131	-	131
Financial income from amortised cost	380	246	134
	521	246	275
Realised exchange gains	214	405	(191)
Unrealised exchange gains	(50)	21	(71)
	164	426	(262)
Total	685	672	13

Financial income of Euro 685 thousand (Euro 672 thousand in 2020) principally concerned:

- interest on VAT receivables collected totalled Euro 131 thousand;

- interest income from the discounting of receivables for Euro 380 thousand (Euro 246 thousand in 2020), of which:
 - Euro 156 thousand concerning the financial receivable from the associate Termica Colleferro S.p.A. (Euro 153 thousand in 2020);
 - Euro 42 thousand concerning the receivables from the Ministry for Economic Development for the disbursements as per Law 808/85 (Euro 51 thousand in 2020);
 - Euro 182 thousand concerning the receivables from FCA (Euro 42 thousand in 2020);
- currency gains of Euro 164 thousand (Euro 426 thousand in 2020).

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.

3.42. FINANCIAL CHARGES

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

	FY 2021	FY 2020	Change
Interest on EIB loans	341	420	(79)
Interest expenses on other liabilities	32	230	(198)
Discounting on employee benefits	(37)	(23)	(14)
Financial charges from amortised cost	228	217	11
	564	844	(280)
Realised exchange losses	364	299	65
Unrealised exchange losses	(6)	2	(8)
	358	301	57
Total	922	1,145	(223)

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.

3.43. INCOME TAXES

"Income taxes" report a net positive balance of Euro 512 thousand (the comparative year charge of Euro 536 thousand). The income of Euro 512 thousand comprises:

- current IRES income taxes of Euro 440 thousand (Euro 667 thousand in 2020);
- current IRAP regional taxes of Euro 23 thousand (Euro 46 thousand in 2020);
- current taxes of foreign companies of Euro 425 thousand (Euro 717 thousand in 2020);
- income on the recognition of deferred tax assets of Euro 1,399 thousand (Euro 110 thousand in 2020).

The previous year included income relating to the 2019 IRAP balance of the subsidiaries Se.co.sv.im. S.r.l. and Spacelab S.p.A. of Euro 784 thousand following the relief measure introduced by Article 24 of the Relaunch Decree, on the basis of which payment of the 2019 IRAP balance was not due. This tax payable was released in 2020.

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

	FY 2021	FY 2020
Pre-tax result	8,621	15,409
Ordinary rate applied	24.00%	24.00%
Theoretical tax charge	2,069	3,698
Effect of increases (decreases) to the ordinary rate:		
Permanent increases	6,132	6,074
Permanent decreases	(4,903)	(4,994)
Temporary difference increases	17,430	15,704
Temporary difference decreases	(16,606)	(15,218)
Total changes	2,052	1,565
Utilisation of fiscal losses	(4,372)	(9,458)
IRES taxable income of the Group	6,303	7,516
Net deferred tax (income)/charge	1,399	110
Current taxes Italian companies	(464)	(666)
Extraordinary income IRAP 2019 balance net of 2020 IRAP		738
Current taxes overseas companies	(425)	(717)
	512	(536)

3.44. EARNINGS PER SHARE

	FY 2021	FY 2020
Consolidated result (in Euro thousands)	8,480	14,118
Number of shares in circulation	26,359,346	26,359,346
Treasury shares	(671,233)	(671,233)
Number of shares entitled to profits	25,688,113	25,688,113
Basic earnings per share – in Euro	0.33	0.55
Diluted earnings per Share – in Euro	0,32 ⁽¹⁾	0,53 ⁽¹⁾

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

4. DISCLOSURE BY OPERATING AND REGIONAL SEGMENTS

Disclosure by operating segment

In 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 totalled 991 employees at December 31, 2021. At December 31, 2020, Group employees numbered 950.

Disclosure by regional segment

The regional breakdown of Group revenues (defined based on customer country location), in 2021 (and in line with the previous 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):

	31/12/2021
Guarantees given:	
Unsecured guarantees:	
Sureties issued to third parties on behalf of Group	59,131
Other guarantees	3,402
Total guarantees given	62,533
Sureties and guarantees received	1,206
Total	63,739

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

The associated company Termica Colleferro S.p.A. ("Termica Colleferro") is currently 40% owned by Avio and 60% owned by the controlling shareholder Cogenio S.r.l. ("Cogenio"), which took over SECI S.p.A. ("SECI"), on December 22, 2021. Termica Colleferro manages a thermoelectric power plant that produces energy and steam essential for the functioning of the Avio production site in Colleferro.

For the purpose of building the thermoelectric plant, Termica Colleferro stipulated, in February 2010, a loan agreement for a maximum principal amount of Euro 34 million, guaranteed by SECI with a first demand surety and with a pledge on Termica Colleferro shares for the portion held by the same, with an original maturity date of February 24, 2022.

The bank loan agreement requires Termica Colleferro to comply with typical financial covenants consisting of the ratio of financial debt to equity and of financial debt to EBITDA.

In consideration of the deterioration of the general conditions of the electricity market, in order to ensure compliance with the bank covenants, Termica Colleferro, Avio, SECI and the financing banks signed, in 2014, agreements amending the original loan agreement, according to which:

(i) the right of Termica Colleferro to cure any infringement of the financial parameters was provided for through the payment by SECI and Avio shareholders of a pro-quota amount, by way of capital increase and/or shareholders loan (the "Equity Cure"), sufficient to cure the infringement (the "Cure Amount");

(ii) it was also provided that SECI and Avio, in proportion to the shares held, would undertake, without any solidarity obligation, to grant a shareholder loan up to a maximum amount of Euro 18.2 million and Euro 12.1 million, respectively, in proportion to the share capital held in Termica Colleferro, and cumulatively corresponding to the residual portion of the bank loan outstanding at that date, payable in several instalments, upon request by Termica Colleferro, in relation to the latter's operating requirements, and subordinated to the bank loan.

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 bank debt restructuring agreement did not modify the guarantees to which the then shareholders SECI and Avio had committed themselves towards the financing banks, except for the alignment of the same to the new maturity of the bank loan.

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 a business plan for the maintenance of the Group as a “going concern”. 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.

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 lending banks in April 2020, Termica Colleferro requested from them a waiver of the acceleration clause in the loan agreement.

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 of the Maccaferri Group, to which SECI S.p.A. belongs, 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 2021.

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 calling for a formal, binding expression of interest in acquiring the 60% holding in Termica Colleferro.

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.

In July 2021, the Court of Bologna declared SECI S.p.A. bankrupt on the basis of the judgement of inadmissibility of the application for “Full Agreement” with the filing of the plan for an arrangement with creditors on a going concern basis pursuant to Articles 160 - 161 and 186-bis of the Finance Law.

In consideration of 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.

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

With respect to Termica Colleferro's request, promptly submitted to the lending banks, for a waiver of the acceleration clause of the loan due to the composition with creditors of the controlling shareholder SECI, on the assumption of the normal continuation of Termica Colleferro's operations not impacted by SECI's composition with creditors, as well as Termica Colleferro's independent ability to punctually repay the instalments of the bank debt falling due, the lending banks never manifested their willingness to avail themselves of the right granted to them by the loan agreement, and this is also reasonable in light of Termica Colleferro's ability to autonomously and punctually meet the payments due, as was the case.

On September 1, 2021, the Court of Bologna ordered the auction sale of the entire equity investment (equal to 60% of the share capital) held by SECI in Termica Colleferro, which concluded, thanks also to the search for potential buyers carried out in the first half of 2021, with the final award to Cogenio, subject to satisfaction, inter alia, of the suspensive condition, to which the sale was subject, of the prior obtaining of a waiver from the lending banks.

The waiver from Termica Colleferro's lending banks was obtained on December 10, 2021 and Cogenio's takeover was finalized on December 22, 2021. Termica Colleferro's Shareholders' Meeting, held on December 22, 2021, approved the financial statements for fiscal years 2019 and 2020, with reference to which Termica Colleferro has always considered the going concern assumption to exist, even during the period in which the bank waiver was outstanding, in light of the Company's ability to independently and punctually honour the repayment of the bank debt and, more generally, the payments, as in fact occurred.

On the basis of the most recent approved financial statements of Termica Colleferro S.p.A., the financial covenants in the above loan agreement have been observed.

The shareholder loan commitment undertaken by Avio S.p.A. has a maximum limit equal to 40% of the outstanding bank debt of Termica Colleferro. At December 31, 2021, Termica Colleferro's outstanding bank debt amounts to Euro 10.6 million. The maximum limit of the commitment undertaken by Avio S.p.A., therefore, amounted to Euro 4.2 million on December 31, 2021.

At the reporting date, Avio has a financial receivable for the shareholder loan granted to Termica Colleferro of Euro 7.4 million, carried in the accounts under the amortized cost method at Euro 6.4 million.

As a consequence, due to the progressive repayment of the bank debt by Termica Colleferro, no further financial commitments existed for Avio S.p.A. towards Termica Colleferro.

On February 24, 2022, Termica Colleferro punctually repaid the instalment due on its bank loan in the amount of Euro 1.1 million, of which Euro 1.0 million in principal. Consequently, the bank debt outstanding as of today amounts to Euro 9.6 million.

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 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, and the Company will appeal the decision to the Council of State.

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 the judgment 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 to 2022 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) Se.Co.Sv.Im. S.r.l. -Tax audits and disputes

A brief description of the Se.Co.Sv.Im. 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.

In February 2022 a hearing was held before the Regional Tax Commission of Lazio to discuss the appeal. It is pending the filing of the decision by the Tax Commission.

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.

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 December 31, 2021, still reflect this allocation.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Categories and fair value of financial assets and liabilities

The following table breaks down financial assets and liabilities as per IFRS 7, on the basis of the categories under IAS 9 for 2021 and 2020.

Amounts at December 31, 2019:

In thousands of Euro

	Total accounts	IFRS 9 Category		
		Assets at amortised cost	Assets at fair value through profit or loss	Liabilities at amortised cost
FINANCIAL ASSETS				
- Investments in other companies	524		524	
- Non-current financial assets	6,415	6,415		
- Other non-current assets	70,926	70,926		
- Current financial assets	-	-		
- Trade receivables	3,696	3,696		
- Other current assets	7,376	7,376		
- Cash and cash equivalents	104,614	104,614		
	193,552	193,028	524	0
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	22,000			22,000
- Non-current financial payables for leasing	4,751			4,751
- Current financial liabilities	7,749			7,749
- Current lease liabilities	2,906			2,906
- Current portion of non-current financial payables	10,048			10,048
- Other non-current liabilities	119,830			119,830
- Other current liabilities	26,383			26,383
- Trade payables	76,927			76,927
	270,594	0	0	270,594

Amounts at December 31, 2020:

In thousands of Euro

In thousands of Euro	Total accounts	IFRS 9 Category		
		Assets at amortised cost	Assets at fair value through profit or loss	Liabilities at amortised cost
FINANCIAL ASSETS				
- Investments in other companies	524		524	
- Non-current financial assets	6,259	6,259		
- Other non-current assets	74,140	74,140		
- Current financial assets	-	-		
- Trade receivables	2,175	2,175		
- Other current assets	8,954	8,953		
- Cash and cash equivalents	124,666	124,666		
	216,718	216,194	524	0
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	32,000			32,000
- Non-current financial payables for leasing	4,543			4,543
- Current financial liabilities	12,749			12,749
- Current lease liabilities	2,676			2,676
- Current portion of non-current financial payables	10,063			10,063
- Other non-current liabilities	127,840			127,840
- Other current liabilities	24,803			24,803
- Trade payables	66,454			66,454
	281,128	0	0	281,128

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 December 31, 2021.

Financial income and charges recognised as per IAS 9

The following table presents the financial income and charges generated by financial assets and liabilities, broken down by category as per IFRS 9 for 2021 and 2020.

FY 2021

In Euro thousands	Financial income/(charges) recognised through profit or loss		Actuarial gains/(losses) recognised to comprehensive income statement
	From interest	From fair value changes	From fair value changes
Assets at amortised cost		-	-
Assets at fair value			
Through profit or loss			
Statement			
Liabilities at amortised cost	568	-	-
Derivative financial instruments	-	-	-
Total categories	568	-	-

FY 2020

In Euro thousands	Financial income/(charges) recognised through profit or loss		Actuarial gains/(losses) recognised to comprehensive income statement
	From interest	From fair value changes	From fair value changes
Assets at amortised cost		-	-
Assets at fair value			
Through profit or loss			
Statement			
Liabilities at amortised cost	637	-	-
Derivative financial instruments	-	-	-
Total categories	637	-	-

The items presented in the tables mainly concern financial charges for the EIB loans and those related to financial liabilities as per IFRS 16.

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).

This section provides qualitative and quantitative disclosure upon the impact of these risks on the Company and on the Group. The following quantitative data cannot be used for forecasting purposes or completely reflect the complexity and the related market reactions which can derive from any change in assumptions.

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 December 31, 2021 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 3,696 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 (European Spatial Agency, Arianespace, Airbus Safran Launchers).

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 December 31, 2021 these are recorded net of a doubtful debt provision of Euro 483 thousand. The overdue amounts were therefore not significant and entirely relate to timing factors.

For trade receivables, each financial year, an individual assessment of risk is carried out and a specific doubtful debt provision accrued, which takes account of an estimate of recoverable amounts and any disputes in progress and possible maturity extensions.

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.

Liquidity analysis

The following tables break down future contractual cash flows generated by financial and commercial liabilities and by the principal other liabilities of the Group (in Euro thousands).

The tables report non-discounted cash flows, including the capital portion and any interest, on the basis of market conditions at the reporting date. The analysis incorporates expectations upon the materialisation of cash flows on the basis of the contractually-established repayment dates or in certain cases the estimated dates. In the absence of a predefined redemption date, flows were included based on an estimate based on available information. For this reason, the treasury accounts were included in the on-demand bracket.

Amounts at December 31, 2019:

	Book values	On demand	Within 12 months	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Over 5 years	Total cash flows
Current financial liabilities:									
- Current financial payables to companies under joint control	7,749	7,749	-	-	-	-	-	-	7,749
- Current lease liabilities	2,906	-	2,906	-	-	-	-	-	2,906
- Financial payables EIB Loan	10,048	-	10,048	-	-	-	-	-	10,048
	20,703	7,749	12,954	-	-	-	-	-	20,703
Trade payables (including companies under joint control)									
	76,927	-	76,927	-	-	-	-	-	76,927
	76,927	-	76,927	-	-	-	-	-	76,927
Other non-current liabilities:									
- Financial payables EIB Loan Euro 40 mln	16,000	-	-	8,000	8,000	-	-	-	16,000
- Financial payables EIB Loan Euro 10 mln	6,000	-	-	2,000	2,000	2,000	-	-	6,000
- Non-current financial payables for leasing	4,751	-	-	950	950	950	950	950	4,751
- Payables for disbursements in accordance with Law 808/85	42,051	-	-	-	-	-	-	42,051	42,051
	68,802	-	-	10,950	10,950	2,950	950	43,001	68,802
Other current liabilities:									
- Social security institutions	4,376	-	4,376	-	-	-	-	-	4,376
- Employee payables	7,238	-	7,238	-	-	-	-	-	7,238
- Other payables to third parties	5,214	-	5,214	-	-	-	-	-	5,214
	16,828	-	16,828	-	-	-	-	-	16,828
Total cash flows	183,260	7,749	106,709	10,950	10,950	2,950	950	43,001	183,260

Amounts at December 31, 2019:

	Book values	On demand	Within 12 months	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Over 5 years	Total cash flows
Current financial liabilities:									
- Current financial payables to companies under joint control	12,749	12,749	-	-	-	-	-	-	12,749
- Current lease liabilities	2,676	-	2,676	-	-	-	-	-	2,676
- Financial payables <i>EIB Loan</i>	10,063	-	10,063	-	-	-	-	-	10,063
	25,488	12,749	12,739	-	-	-	-	-	25,488
Trade payables (including joint ventures)	66,454	-	66,454	-	-	-	-	-	66,454
	66,454	-	66,454	-	-	-	-	-	66,454
Other non-current liabilities:									
- Financial payables <i>EIB Loan</i> Euro 40 mln	24,000	-	-	8,000	8,000	8,000	-	-	24,000
- Financial payables <i>EIB Loan</i> Euro 10 mln	8,000	-	-	2,000	2,000	2,000	2,000	-	8,000
- Non-current financial payables for leasing	4,543	-	-	757	757	757	757	757	3,785
- Payables for disbursements in accordance with Law 808/85	42,051	-	-	-	-	-	-	42,051	42,051
	78,594	0	0	10,757	10,757	10,757	2,757	42,808	77,836
Other current liabilities:									
- Social security institutions	3,622	-	3,622	-	-	-	-	-	3,622
- Employee payables	6,969	-	6,969	-	-	-	-	-	6,969
- Other payables to third parties	5,558	-	5,558	-	-	-	-	-	5,558
	16,149	-	16,149	-	-	-	-	-	16,149
Total cash flows	186,685	12,749	95,342	10,757	10,757	10,757	2,757	42,808	185,928

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 December 31, 2021 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 a residual total of Euro 32 million, 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, 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 at December 31, 2021 and 2020 and on the Group Income Statement for 2021 and 2020 (in Euro thousands):

At December 31, 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 from clients for contract work-in-progress	Financial liabilities
Leonardo S.p.A.		1,350					1,855	283		
MBDA Italia S.p.A.			17		4,779				35	
MBDA France S.A.			135		10,080				37,761	
Thales Alenia Space Italia S.p.A.					126		950		145	
Vitrociset S.p.A.					0				0	
Companies with a connecting relationship and relative investee companies		1,350	153	0	14,985	0	2,805	283	37,941	0
Termica Colleferro S.p.A.			744			6,415	6,588			1,120
Europropulsion S.A.		27,526	268		84,611		1,670		63,047	7,749
Potable Water Services Consortium			99	4			(227)			
Servizi Colleferro - Consortium Limited Liability Company			15				173			
Associates and jointly controlled companies	0	27,526	1,126	4	84,611	6,415	8,204	0	63,047	8,869
Total related parties	0	28,876	1,278	4	99,596	6,415	11,009	283	100,988	8,869
Total book value	70,926	154,732	3,696	7,376	453,808	6,415	76,927	26,383	609,634	47,454
% on total account items	0.00%	18.66%	34.58%	0.06%	21.95%	100.00%	14.31%	1.07%	16.57%	18.69%

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	0	15,485	0	2,693	248	23,832	0
Termica Colleferro 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			158	4			(120)			
Servizi Colleferro - Consortium Limited Liability Company			80				3			
Associates and jointly controlled companies	0	34,702	1,614	4	77,307	6,259	7,564	0	55,683	14,006
Total related parties	0	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 2021 and in the comparative 2020, the main income statement transactions by the Group with related parties were as follows (in Euro thousands):

At December 31, 2021				
Counterparty	Operating Revenues and changes in contract work-in-progress ⁽¹⁾	Other Costs ⁽²⁾	Financial Income	Financial Charges
Leonardo S.p.A.		4,383		
MBDA Italia S.p.A.	3,595			
MBDA France S.A.	23,714			
Thales Alenia Space Italia S.p.A.	22	950		
Vitrociset S.p.A.	(3)	0		
Companies with a connecting relationship and relative investee companies	27,329	5,333	0	0
Termica Colleferro S.p.A.	98	16,035	156	15
Europropulsion S.A.	55,925	27,315		
Potable Water Services Consortium	47	159		
Servizi Colleferro - Consortium Limited Liability Company	236	1,210	-	-
Associates and jointly controlled companies	56,306	44,719	156	15
Total related parties	83,635	50,053	156	15
Total book value	320,094	310,235	685	922
% on total account items	26.13%	16.13%	22.76%	1.58%

⁽¹⁾ The account includes revenues from sales and services and does not include the advancement of work from contract work-in-progress not yet concluded.

⁽²⁾ The account includes raw material consumables, service costs and personnel expenses.

At December 31, 2020				
Counterparty	Operating Revenues and changes in contract work-in-progress ⁽¹⁾	Other Costs ⁽²⁾	Financial Income	Financial Charges
Leonardo S.p.A.	-	283	-	-
MBDA Italia S.p.A.	2,522	-	-	-
MBDA France S.A.	17,618	-	-	-
Thales Alenia Space Italia S.p.A.	-	-	-	-
Vitrociset S.p.A.	-	2,673	-	-
Companies with a connecting relationship and relative investee companies	20,140	2,956	-	-
Termica Colleferro S.p.A.	99	5,984	153	13
Europropulsion S.A.	100,407	57,365	-	-
Potable Water Services Consortium	80	196	-	-
Servizi Colleferro - Consortium Limited Liability Company	346	1,166	-	-
Associates and jointly controlled companies	100,932	64,711	153	13
Total related parties	121,072	67,667	153	13
Total book value	351,590	328,853	672	1,145
% on total account items	34.44%	20.58%	22.77%	1.13%

⁽¹⁾ The account includes revenues from sales and services and does not include the advancement of work from contract work-in-progress not yet concluded.

⁽²⁾ 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 DECEMBER 31, 2021

The following table presents the key details of Avio Group investees at December 31, 2021:

Companies included in the consolidation scope at December 31, 2021			Holding
Parent			
Company Name	Registered office	Share capital	% Held
Avio S.p.A.	via Leonida Bissolati, 76 - Rome	Euro 90,964,212.90	N/A
Companies consolidated by the line-by-line method			
Company Name	Registered office	Share capital	% Held
Spacelab S.p.A.	via Leonida Bissolati, 76 - Rome	Euro 3,000,000.00	70%
Regulus S.A.	Centre Spatial Guyanais - BP 0073 97372 Kourou (French Guiana - France)	Euro 640,000.00	60%
SE.CO.SV.IM. S.r.l.	Via degli Esplosivi, 1 - Colleferro (RM)	Euro 53,929,691.00	100% (*)
Avio Guyane S.A.S.	Centre Spatial Guyanais - BP 506 97388 Kourou (French Guiana - France)	Euro 50,000.00	100%
Avio France S.A.S.	3 Rue du Colonel Moll - 75017 Paris (France)	Euro 50,000.00	100%
ASPropulsion International B.V.	Herikerbergweg 238, 1101 CM Amsterdam (Netherlands)	Euro 18,000.00	100%
Avio India Aviation Aerospace Private Limited (**)	Pitampura Delhi North West (India)	INR 16,060,000	100% (***)
Jointly controlled companies, measured at equity			
Europropulsion S.A.	11, rue Salomon de Rothschild 92150 Suresnes 388 250 797 RCS Nanterre	Euro 1,200,000.00	50%
Associates, measured at equity			
Termica Colleferro S.p.A.	Via degli Agresti, 4 and 6 Bologna	Euro 6,100,000.00	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. DISCLOSURE PURSUANT TO ARTICLE 149 DUODECIES OF THE CONSOB ISSUER'S REGULATION

In accordance with Article 149 duodecies of the Consob Issuer's Regulation, we report below the information concerning fees paid in 2021 for audit and other services by the audit firm Deloitte & Touche S.p.A. and its network (in Euro thousands):

Type of service	Company	Service provider	Fees
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	137 ⁽¹⁾
	Subsidiaries	Deloitte & Touche S.p.A.	34 ⁽²⁾
	Subsidiaries	Auditor	11 ⁽³⁾
Other services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	25 ⁽⁴⁾
Total	Total		207

- (1) The increase of Euro 18 thousand compared to December 31, 2020, when these fees amounted to Euro 119 thousand, relates to activities related to the European Single Electronic Format (ESEF) for reporting financial statements.
- (2) The increase of Euro 26 thousand with respect to December 31, 2020, when these fees were Euro 8 thousand, related to the audit of the financial statements of the subsidiary Se.Co.Sv.Im. S.r.l. (Euro 26 thousand).
- (3) The amount refers to the audit of the statutory financial statements of Avio Guyana S.a.s.
- (4) This amount relates to the limited review of the Group's Non-Financial Statement as of December 31, 2021.

10. Disclosure on public grants as per 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 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 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	14/12/2021	-
AVIO SPA	Ministry for Economic Development	80-ton solid propellant engine - P80	2009	0.26	14/12/2021	-
AVIO SPA	Ministry for Economic Development	80-ton solid propellant engine - P80	2010	0.15	14/12/2021	-
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	14/12/2021	-
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy	2010	0.15	14/12/2021	0.31

		for 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	2011-2012	0.29	14/12/2021	0.27
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	0.30	14/12/2021	1.39
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	2014-2015	0.20	14/12/2021	1.63
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	0.24	14/12/2021	1.77
AVIO SPA	Ministry for Economic Development	LOX/LCH technology demonstrator for the first stage of the Vega E launcher	2014-2016	0.35	15/12/2021	0.82
				3.25		6.18

“Receivables from the Ministry for Economic Development” for disbursements in accordance with Law 808/85, amounting to Euro 6.18 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 5.36 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 0.82 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
AVIO SPA	Finpiemonte	IERRE2 - Piedmont Space Components	NA	0.14	12/07/2021	NA
AVIO SPA	Ministry for Economic Development	INNOVATIVE COMPOSITE MATERIALS FOR SPACE, AERONAUTICS AND AUTOMOTIVE I.S.A.C	NA	0.78	22/12/2021	NA

				1.15		NA
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As reported in the Notes to the Consolidated Financial Statements in the paragraphs devoted to "Current assets for tax credits", it should be noted that the Avio Group benefits from concessions such as tax credits for R&D activities, tax credits for simple and 4.0 technological innovation and tax credits for the purchase of new simple and 4.0 capital goods.

In 2021, the Parent Avio S.p.A. benefited, for the amount of €59,724, from the tax credit related to sanitation expenses incurred in June, July and August 2021 (see art. 32 of Decree Law 73/2021, so-called "Sostegni-bis"). In particular, this facilitation, recognized to the extent of 30% of expenses incurred, up to a maximum of € 60,000 per beneficiary, concerned the expenses for:

- a) the sanitization of the environments in which work and institutional activities are carried out and of the instruments used in the context of these activities;
- b) the administration of swabs to those who work in the context of the working and institutional activities carried out by the beneficiaries;
- c) the purchase of personal protective equipment, such as masks, gloves, face shields and goggles, protective suits and footwear, which comply with the essential safety requirements of European legislation;
- d) the purchase of cleaning and disinfecting products;
- e) the purchase of safety devices other than those referred to in point c), such as thermometers, thermoscanners, decontaminating and sanitizing mats and tubs, which comply with the essential safety requirements of European legislation, including any installation costs;
- f) the purchase of devices to ensure interpersonal safety distance, such as barriers and protective panels, including any installation costs.

11. SUBSEQUENT EVENTS

Business

The campaign for the maiden launch of the Vega C continues (scheduled for H1 2022).

An agreement was reached with Arianegroup for the production of P120 motors.

War situation in Ukraine

The ongoing conflict situation in Ukraine, as extensively reported in the risks section of these financial statements, to which reference should be made, is a subsequent event, assessed, pursuant to IAS10, as “not adjusting” to the items recorded in the Group's consolidated financial statements at December 31, 2021.

Acquisition of treasury shares

As reported in the Press Release of February 3, 2022, the Board of Directors on the same date, in execution of that authorised by the Shareholders' Meeting of April 29, 2021, resolved to launch a share buyback program, for a total maximum value of approx. Euro 9.1 million, until the conclusion of the authorisation granted by the Shareholders' Meeting (October 30, 2022). As of December 31, 2021, the Company held 671,233 treasury shares, corresponding to 2.55% of the shares constituting the share capital. From February 3, 2022 to today's date, 364,000 treasury shares have been purchased, resulting in a total number of 1,035,233 treasury shares, corresponding to 3.93% of the number of shares constituting the share capital.

* * *

March 14, 2022

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

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

**INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014**

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Avio Group (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Avio S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Evaluation of contract work in progress and related income effects

Description of the key audit matter	The consolidated financial statements for the year ended December 31, 2021 include assets related to the execution of contract work in progress of Euro 453.8 thousand and liabilities for advances of Euro 609.6 thousand. These contract work in progress are attributable to development and production activities of space sector, whose revenues and related margins are recognized to income statement based on the progress of orders according to the percentage of completion method determined on the basis of the ratio between the costs incurred and the total estimated costs of the entire work. The evaluation method of those contract work in progress and the revenue recognition are based on complex assumptions which by their nature imply recourse to the judgement of the Management with particular reference to the estimated costs to complete the entire work including the estimate of contractual risks. In consideration of the significance of contract work in progress with respect to the overall business profile of the Group and the complexity of the assumptions used for forecasting the costs to complete the related contracts, also influenced by the engineering complexity of the mentioned contracts, we consider that this topic represents a key audit matter of the Group consolidated financial statements as at December 31, 2021. Disclosures related to this matter are reported in the explanatory notes of the financial statements and in particular in note 2.7 “Accounting policies”, note 2.9 “Use of estimates” and note 3.11 “Contract work-in-progress”.
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Audit procedures performed	As part of our audit, among other things, we performed the following audit procedures: • understanding of the accounting approach adopted by Avio Group for the evaluation of the contract work in progress and the revenue recognition criteria and related margin; • analysis of the procedure carried out and understanding of the relevant controls put in place by Management to verify the evaluation of the contract work in progress and verification of the operating effectiveness of them; • analysis on the proper application of the IFRS 15 requirements, for new contracts; • sample analysis of existing contracts with the customers and the related change contract clauses; • review of the accuracy of the calculation of the completion percentage and related revenue recognition;
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-
- comparative analysis of the main changes in contract results with respect to the original and previous year estimations;
 - analysis of the assumptions that required significant judgement from Management and in particular with the method for determining estimates of costs to complete the entire work including foreseeable contractual risks as well as the subsequent events to the closing date;
 - analysis of contract reporting and inquiry with project managers with particular reference to the contractual changes occurred during the year and the effects of these variation on the determination of costs to complete the entire work included any foreseeable losses;
 - sample verification of contract costs with reference to the various cost components of a sample contract work in progress as of December 31, 2021;
 - review of the adequacy of disclosures provided by Avio Group and of the compliance with the related accounting standards.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Avio S.p.A. has appointed us on June 15, 2017 as auditors of the Company for the years from December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**Opinion on the compliance with the provisions of the Delegated Regulation (EU) 2019/815**

The Directors of Avio S.p.A. are responsible for the application of the provisions of the European Commission Delegated Regulation (EU) 2019/815 with regard to the regulatory technical standards on the specification of the single electronic reporting format (ESEF – European Single Electronic Format) (hereinafter referred to as the “Delegated Regulation”) to the consolidated financial statements, to be included in the annual financial report.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 700B in order to express an opinion on the compliance of the consolidated financial statements with the provisions of the Delegated Regulation.

In our opinion, the consolidated financial statements have been prepared in XHTML format and have been marked up, in all material respects, in accordance with the provisions of the Delegated Regulation.

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Avio S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Avio Group as at December 31, 2021, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of the Group as at December 31, 2021 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Avio Group as at December 31, 2021 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Avio S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Francesco Legrottaglie
Partner

Rome, Italy
March 31, 2022

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

SEPARATE FINANCIAL STATEMENTS

This document is an English language translation of the official Italian version and is not provided in the European Single Electronic Format (ESEF) and hence it is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. The legally required ESEF-format is filed in Italian language with the authorised storage mechanism "eMarket STORAGE" (www.emarketstorage.com) as well as on Company's website

BALANCE SHEET	Note	December 31, 2021	December 31, 2020
<i>(In Euro thousands)</i>			
ASSETS			
Non-current assets			
Property, plant and equipment	3.1	88,779	80,398
Rights-of-use	3.2	33,713	38,224
Intangible assets with definite life	3.3	128,798	125,142
Goodwill	3.4	61,005	61,005
Investments	3.5	78,996	77,460
Non-current financial assets	3.6	6,415	6,259
- of which related parties		6,415	6,259
Deferred tax assets	3.7	75,400	74,085
Other non-current assets	3.8	63,807	65,000
- of which related parties		150	150
Total non-current assets		536,914	527,573
Current assets			
Inventories and advances to suppliers	3.9	150,791	136,061
- of which related parties		29,686	39,042
Contract work in progress	3.10	453,157	334,860
- of which related parties		99,596	92,793
Trade receivables	3.11	3,800	5,198
- of which related parties		2,922	4,883
Cash and cash equivalents	3.12	100,069	121,536
Tax receivables	3.13	14,436	27,728
Other current assets	3.14	17,536	20,870
- of which related parties		12,229	14,115
Total current assets		739,790	646,253
TOTAL ASSETS		1,276,704	1,173,827

BALANCE SHEET	Note	December 31, 2021	December 31, 2020
<i>(In Euro thousands)</i>			
EQUITY			
Share capital	3.15	90,964	90,964
Share premium reserve	3.16	135,175	135,175
Other reserves	3.17	14,008	12,427
Retained earnings		46,308	46,693
Net profit for the year		4,836	8,771
TOTAL SHAREHOLDERS' EQUITY		291,292	294,031
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	3.18	22,000	32,000
Non-current financial liabilities for leasing	3.19	26,591	31,146
- of which related parties		23,139	28,238
Employee provisions	3.20	8,427	9,057
Provisions for risks and charges	3.21	5,235	6,965
Other non-current liabilities	3.22	119,229	126,782
Total non-current liabilities		181,482	205,950
Current liabilities			
Current financial liabilities		56,645	65,892
- of which related parties	3.23	56,645	65,892
Current financial liabilities for leasing	3.24	6,748	8,368
- of which related parties		5,012	6,375
Current portion of non-current financial payables	3.25	10,048	10,063
Provisions for risks and charges	3.21	4,491	5,305
Trade payables		97,295	89,072
- of which related parties	3.26	32,205	39,501
Advances from clients for contract work-in-progress		609,540	477,828
- of which related parties	3.10	101,548	79,515
Current income tax payables	3.27	6,205	7,377
Other current liabilities		12,957	9,940
- of which related parties	3.28	302	248
Total current liabilities		803,930	673,846
TOTAL LIABILITIES		985,412	879,796
TOTAL LIABILITIES AND EQUITY		1,276,704	1,173,827

INCOME STATEMENT	Note	FY 2021	FY 2020
<i>(In Euro thousands)</i>			
Revenues	3.29	313,091	347,407
- of which related parties		83,554	122,801
Change in inventory of finished products, in progress and semi-finished		1,317	1,611
Other operating income	3.30	6,880	7,109
- of which related parties		1,305	442
Consumption of raw materials	3.31	(82,122)	(81,447)
Service costs	3.32	(165,204)	(190,961)
- of which related parties		(77,056)	(101,688)
Personnel expenses	3.33	(60,582)	(58,917)
Amortisation & Depreciation	3.34	(23,083)	(20,842)
Other operating costs	3.35	(2,475)	(6,090)
Costs capitalised for internal works	3.36	14,203	11,878
EBIT		2,025	9,748
Financial income	3.37	499	629
- of which related parties		156	153
Financial charges	3.38	(1,057)	(1,296)
- of which related parties		(332)	(318)
NET FINANCIAL INCOME/(CHARGES)		(558)	(667)
Other investment income/(charges)	3.39	2,667	
- of which related parties		2,667	
INVESTMENT INCOME/(CHARGES)		2,667	-
PROFIT BEFORE TAXES		4,134	9,081
Income taxes	3.40	703	(310)
NET PROFIT		4,836	8,771
Basic earnings per share (in Euro)	3.41	0.19	0.34
Diluted earnings per share (in Euro)	3.41	0.18	0.33

COMPREHENSIVE INCOME STATEMENT	FY 2021	FY 2020
<i>(in Euro)</i>		
NET PROFIT FOR THE YEAR (A)	4,836	8,771
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	(317)	(430)
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)	63	81
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	(254)	(349)
COMPREHENSIVE NET INCOME/(EXPENSE) FOR THE YEAR (A+B)	4,582	8,422

STATEMENT OF CHANGES IN EQUITY

(Euro thousands)

	Other reserves								Retained earnings	Result for the year	Total Shareholders' Equity
	Share capital	Share premium reserve	Treasury shares	Unavailable reserve for treasury shares in portfolio	Legal reserve	Actuarial gains/(losses) reserve	2015 share capital increase reserve	Under common control transactions reserve			
Equity at 31/12/2019	90,964	141,588	(2,668)	2,668	18,193	(3,582)	-	(1,835)	18,133	28,560	292,022
Allocation of prior year result									28,560	(28,560)	-
Distribution of dividends											-
Allocation to reserves											-
Acquisition of treasury shares		(6,413)	(6,413)	6,413							(6,413)
Comprehensive income for the year											
- Net profit for the year										8,771	8,771
- Other changes											-
- Change in fair value of hedges											-
- Actuarial gains/(losses), net of tax effect						(349)					(349)
Comprehensive income for the year	-	-	-	-	-	(349)	-	-	-	8,771	8,422
Equity at 31/12/2020	90,964	135,175	(9,080)	9,080	18,193	(3,931)	0	(1,835)	46,693	8,771	294,031
Allocation of prior year result									8,771	(8,771)	-
Distribution dividends									(7,321)		(7,321)
Allocation to reserves											-
Other changes								1,835	(1,835)		-
Comprehensive income for the year											
- Net profit for the year										4,836	4,836
- Other changes											-
- Actuarial gains/(losses), net of tax effect						(254)					(254)
Comprehensive income for the year	-	-	-	-	-	(254)	-	-	-	4,836	4,582
Equity at 31/12/2021	90,964	135,175	(9,080)	9,080	18,193	(4,185)	-	-	46,308	4,836	291,292

CASH FLOW STATEMENT

(Euro thousands)

	2021	2020
OPERATING ACTIVITIES		
Net profit for the year	4,836	8,771
Adjustments for:		
- Income taxes	(703)	310
- Financial (Income)/Charges	558	666
- Amortisation & Depreciation	23,083	20,842
- Write-down equity investments	(1,442)	
Net change provisions for risks and charges	(2,545)	1,406
Net change employee provisions	(884)	(202)
Changes in:		
- Inventories and advances to suppliers	(14,730)	3,957
- <i>of which related parties</i>	9,356	3,809
- Contract work-in-progress & advances from clients	13,415	38,184
- <i>of which related parties</i>	15,230	(31,709)
- Trade receivables	1,398	(1,713)
- <i>of which related parties</i>	1,961	(2,883)
- Trade payables	8,223	(24,259)
- <i>of which related parties</i>	(7,296)	16,985
- Other current & non-current assets	17,112	1,460
- <i>of which related parties</i>	1,886	239
- Other current & non-current liabilities	(5,706)	(2,003)
- <i>of which related parties</i>	54	59
Income taxes paid		
Interest paid	(293)	(357)
Net liquidity generated/(employed) in operating activities	(A) 42,322	(A) 47,062
INVESTING ACTIVITIES		
Investments in:		
- Property, plant & equipment	(13,703)	(18,785)
- Intangible assets with definite life	(15,109)	(12,774)
- Equity Investments	(0)	
- Savings Bonds/Restricted Bank Deposits		
Disposal price of tangible, intangible & financial assets		
Liquidity generated (employed) in investing activities	(B) (28,812)	(B) (31,559)
FINANCING ACTIVITIES		
EIB loan	(10,000)	(8,000)
Centralised treasury effect with subsidiary and jointly controlled company	(9,247)	(18,437)
- <i>of which related parties</i>	(9,247)	(18,437)
Dividends paid by the parent Avio S.p.A.	(7,321)	-
Acquisition of treasury shares	-	(6,413)
Other changes to financial assets and liabilities	(8,409)	(3,985)
- <i>of which related parties</i>	(6,617)	(2,207)
Liquidity generated (employed) in financing activities	(C) (34,977)	(C) (36,835)
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C) (21,467)	(A)+(B)+(C) (21,332)
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	121,536	142,868
NET CASH AND CASH EQUIVALENTS AT END OF YEAR	100,069	121,536

EXPLANATORY NOTES TO THE STATUTORY FINANCIAL STATEMENTS

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. Administrative offices in Colleferro (Rome), via Ariana Km 5.2.

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 the “SPAC” 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 transaction.

At December 31, 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 2021.

The financial statements are presented in Euro which is the Company’s functional currency. The Balance Sheet, the Income Statement and the Comprehensive Income Statement, the Statement of Changes in Shareholders’ Equity and the Cash Flow Statement, as well as these Explanatory Notes, are reported in thousands of Euro, where not otherwise indicated.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Accounting standards for the preparation of the financial statements

These financial statements at December 31, 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”).

These IFRS financial statements were prepared on a going concern basis.

With the exception of the provisions of IFRS 3 with reference to the business combination undertaken in 2017, which allowed Space2 S.p.A. to acquire the Avio Group, the financial statements have been drawn up according to the historical cost criteria, adjusted, where applicable, for the measurement of certain financial instruments and other assets and liabilities at fair value.

The financial statements were prepared in accordance with the provisions of CONSOB in relation to financial statement layout pursuant to Article 9 of Legislative Decree No. 38/2005 and other CONSOB regulations and provisions concerning financial reporting.

2.2. Financial Statement format

The financial statements relating to the year 2021 consist of the Balance Sheet, the Income Statement, the Comprehensive Income Statement, the Cash Flow Statement, the Statement of changes in Shareholders' Equity and the Notes to the financial statements.

The financial statements of the Company are presented as follows:

- for the 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 Income Statement, the classification of costs based on their nature;
- for the 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 Cash Flow Statement, the adoption of the indirect method.

2.3. Comparative information

In accordance with IAS 1, these 2021 financial statements present the comparative 2020 figures for the Balance Sheet items (Balance Sheet) and for the Income Statement items (Income Statement, Comprehensive Income Statement, Statement of changes in Equity and Cash Flow Statement).

2.4. Basis of preparation and accounting standards

Property, plant & equipment

Property, plant and equipment are measured at purchase or production cost, net of accumulated depreciation and any impairments.

The acquisition cost corresponds to the price paid, plus accessory charges incurred until entry into use (gross of any contributions received) and any expected dismantling and removal costs for the asset, in addition to reclamation costs for the areas on which the asset is located, where necessary and corresponding to IAS 37. For assets conferred, the cost corresponds to the value established in the relative deeds on the basis of expert opinions. The internal production cost includes all construction costs incurred until entry into service, whether direct and specifically relating to the tangible assets or relating, in general, to the construction activities and therefore to differing construction operations. Any financial charges incurred for the acquisition or production of property, plant and equipment that generally require a substantial period of time to prepare for their intended use (qualifying assets in accordance with IAS 23 - *Financial charges*) are capitalised and depreciated over the duration of the useful life of the category of assets to which they refer. All other financial charges are recognised to the income statement in the period in which they are incurred.

Costs incurred subsequently to acquisition (maintenance and repair costs and replacement costs) are recorded at the carrying amount of the assets, or are recognised as separate assets, only where it is considered probable that the future economic benefits associated with the assets may be exploited and that the cost of the assets may be measured reliably. Maintenance and repair costs or replacement costs not reflective of those reported above are recognised to the income statement in the period in which they are incurred.

The gross carrying amount of assets is depreciated on a straight-line basis over their useful life in relation to the estimated useful life and the residual value of the asset. Depreciation starts when the asset is available for use. For conferred assets, depreciation is calculated according to the residual useful life upon conferment.

The depreciation rates utilised by the Group are as follows:

Category	Depreciation rate
Buildings	3-10%
Plant & machinery	7-30%
Industrial & commercial equipment	25-40%
Other assets:	
- Furniture, equipment and EDP	12-20%
- Transport vehicles	20-25%
- Other assets	12-25%

During the year in which depreciation of the asset begins, such is calculated on the basis of the effective period of use. The useful life is re-examined annually and any changes are applied prospectively.

Capitalised costs for leasehold improvements are allocated to the categories of assets to which they refer and amortised at the lesser between the residual duration of the rental or concession contract and the residual useful life of the type of assets to which the improvements relate.

The assets composed of components, of significant amounts, and with different useful lives are considered separately for the calculation of depreciation (component approach).

The assets held through finance lease contracts within the scope of IAS 17 and for which the majority of the risks and rewards related to the ownership of an asset have been transferred to the Company are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability due to the lessor is recorded in the financial statements under financial payables.

The contracts which are not leasing contracts in a legal form, but which, in accordance with the provisions of IFRIC 4 - *Determining whether an arrangement contains a lease*, are recognised as finance lease contracts.

Land is not depreciated.

In the event of a permanent impairment in the value of an asset, regardless of the depreciation recorded to date, the asset is written down accordingly; if in future years, the reasons for the write-down no longer apply, the asset is reinstated to its original value less the depreciation which would have been provisioned where the write-down had not been made or the recoverable value, where less.

Gains and losses deriving from the disposal or sale of assets are determined as the difference between the sales revenue and the net carrying amount of the asset on disposal or sale and are recorded in the income statement in the year.

Intangible assets

An intangible asset is without physical form and recognised to the balance sheet only if identifiable, controllable, where future economic benefits are expected and its costs can be reliably calculated.

Intangible assets include goodwill acquired for consideration following a business combination.

Intangible assets with a definite life are measured at purchase or production cost, net of amortisation and cumulative impairments. Amortisation is recognised over the useful life of the asset and begins when the asset is available for use. The useful life is reviewed on an annual basis and any changes are made in accordance with future estimates.

The intangible assets with indefinite useful life are not amortised but are subject annually or, more frequently where necessary, to an impairment test.

Intangible assets recognised following a business combination are recorded separately from goodwill where their fair value can be reliably measured.

Intangible assets with indefinite life

Goodwill

The goodwill derives from the acquisition and subsequent merger of Avio S.p.a. by Space2 S.p.A. in 2017, as an allocation of the residual difference between the cancellation of the value of the investment and the corresponding fraction of the shareholders' equity of the incorporated company.

Goodwill is recognised as an asset with indefinite useful life and is not amortised, although subject annually, or more frequently where an indication that specific events or changed circumstances indicate a possible reduction in value, to an impairment test. An impairment loss is recorded immediately in the income statement and is not restated in a subsequent period. After initial recognition, goodwill is measured net of any impairments.

For the purpose of the impairment test, goodwill is considered allocated to the individual Cash Generating Units (CGU's) representing the financially independent business units through which the Company operates. On the basis of the current configuration of the Company, at December 31, 2021, a single CGU was identified corresponding to the Space operating segment, within which, however, the cash flows of the Parent Avio S.p.A. are interconnected with those of the Group and within the same industrial scope.

Intangible assets with definite life

Development costs

Development costs are capitalised only where the costs may be calculated reliably, the assets developed may be clearly identified and where there is proof that they will generate future economic benefits. In particular, for capitalisation the existence of technical feasibility and the intention to complete the asset to make it available for use or sale, the existence of adequate technical and financial resources to complete development and sale and the reliability of the valuation of the costs attributable to the asset during development are required. On meeting these conditions, the costs are recognised to the assets section of the Balance Sheet and amortised on a straight-line basis from the initiation of commercial production on the programs to which they refer. Amortisation in the initial period is proportional to the effective period of use. The useful lives are calculated on the basis of a prudent estimate of the duration of the programs from which the relative economic benefits derive and are initially estimated at 5, 10 or 15 years according to the characteristics of the relative programs. Capitalised development costs concerning programs whose production has not yet begun are amortised and maintained among definite life intangible assets, following verification of the absence of impairments, on the basis of the future earnings of the relative programs.

Research and development costs which do not meet the above conditions are recognised to the income statement when incurred and may not be capitalised in subsequent periods.

Intangible assets for Customer Relationships

The Company allocated, at the acquisition date by Space2 and with effect from financial year 2017, the cost of this acquisition recognising the assets, liabilities and contingent liabilities of the companies acquired at their relative fair values at that date. Following this allocation, the intangible assets for Customer Relationships were identified as responding to the criteria required for recognition, as per IFRS 3 and IAS 38, which were valued at fair value applying an earnings valuation method, based on the present value of future cash flows generated by the assets for the period of residual expected useful life, calculated applying a discount rate which takes account both of the possible risks associated with the assets and the time value of money. In addition, the benefit attributable to the tax savings achievable for a potential purchaser deriving from the amortisation of the recognisable intangible assets was also considered (tax amortisation benefits).

The intangible assets for Customer Relationships are amortised, in relation to the average weighted residual life of the programs to which they refer, over a period of 15 years. Against the intangible assets recognised, the relative deferred taxes were recorded, calculated through application of the tax rates which are expected to be in force on recognition to the income statement of the amortisation.

Other intangible assets

Intangible assets are recognised to the Balance Sheet only when it is probable that the use of the asset will generate future economic benefits and its cost can be reliably calculated. Having complied with these conditions, the intangible assets are recognised at the acquisition cost which corresponds to the price paid, plus accessory charges and, for the assets conferred, to the values established in the relative deeds.

The gross carrying amount of the other definite life intangible assets is broken down on a straight-line basis over the estimated useful life. Amortisation begins when the asset is available for use and is proportionate for the first year to the period of effective use. For assets conferred, the amortisation is calculated according to the residual useful life.

The amortisation rates utilised by the Company are as follows:

Category	Amortisation rate
Patents	20%
Brands	10%
Software	20-33%

Investments

The holdings in subsidiaries, associates and jointly controlled companies are recorded at cost, adjusted for loss in value. The cost is represented by the acquisition value or recognition value following the Merger and corresponding to the value of their contribution in the consolidated financial statements at the date considered in the financial statements as the acquisition date.

Any positive difference, arising on purchase, between the acquisition cost and the fair value of the share of net equity of the investment is included in the carrying value of the investment and is tested annually for impairment, comparing the entire book value of the investment with its recoverable value (the higher value between the value in use and the fair value net of selling costs).

Where an impairment loss exists, it is recognised through the income statement. Where the share of losses pertaining to the company in the investment exceeds the carrying value of the investment, and the company has an obligation to cover such losses, the investment is written down and the share of further losses is recorded as a provision under liabilities. Where an impairment loss is subsequently reversed, this is recognised through the income statement within the limit of the original recognition value.

The companies in which the Company holds between 20% and 50% of voting rights while not exercising significant influence and investments in other companies, are included in non-current assets or current assets where they are expected to remain within the Company for a period, respectively, in excess of or less than 12 months. The other investments are classified to "financial assets measured at fair value through consolidated profit or loss" (FVTPL) under current assets. On the purchase of each investment, IFRS 9 establishes the irrevocable option to recognise these assets among "financial assets measured at fair value through consolidated other comprehensive income" (FVOCI), under non-current or current assets. Other investments classified as "financial assets measured at fair value through other comprehensive income" are measured at fair value; the changes in the value of these investments are recognised to an equity reserve through other comprehensive income items (Reserve for financial assets measured at fair value recognised to other comprehensive income), without reclassification to the separate income statement, on derecognition (sale) or a definitive impairment. Dividends are however recognised to the separate consolidated income statement. Changes in the value of other investments classified as "financial assets measured at fair value through the separate consolidated income statement" are recognised directly to the separate consolidated income statement.

Impairments

The Company verifies, at least annually, the recoverability of the carrying amount of property, plant and equipment, intangible assets and investments in order to determine whether there are indications that these assets may have incurred a loss in value. Where there are indications of impairment, the carrying amount of the asset is reduced to its recoverable amount. In addition, an intangible asset with indefinite useful life is subject annually or, more frequently where there is an indication that the asset may have suffered a loss in value, to an impairment test. The loss in value of an asset corresponds to the difference between its carrying amount and its recoverable value, defined as the higher between the fair value net of sales costs and its value in use. The value in use is calculated as the present value of expected future operating cash flows, excluding cash flows from financing activities. The cash flow projection is based on company plans and reasonable and documented assumptions concerning the Company's future results and macro-economic conditions. The discount rate utilised considers the time value of money and specific sector risks.

Where it is not possible to estimate the recoverable value of an asset individually, the Company estimates the recoverable value of the cash generating unit to which the asset belongs.

When testing for impairment of investments, concerning investments in non-listed companies and whose market value cannot be reliably measured (fair value less costs to sell), in line with the requirements of paragraph 33 of IAS 28, the recoverable value ("equity value") is determined based on the value in use of the investee, intended as the sum of a) the estimated present value of the future operating cash flows of the investee, b) an estimated theoretical terminal value ("ultimate disposal") and c) the net financial position at the date of the test.

Where the recoverable value of an asset, or of a cash generating unit, is lower than the carrying amount, it is reduced to the recoverable value and the loss recognised to the income statement. Subsequently, where the loss on an asset other than on goodwill is no longer evident or reduces, the carrying amount of the asset (or of the cash generating unit) is increased, up to the new estimate of the recoverable value (which however may not exceed the net carrying amount that the asset would have had in the absence of the write-down). This recovery is immediately recognised to the income statement.

Financial assets

The Company classifies financial assets in the following categories:

- financial assets measured at amortised cost;
- financial assets measured at fair value through profit or loss for the year;
- financial assets measured at fair value through other comprehensive income items.

The Company establishes the classification on the basis of the business model used to manage financial assets and according to the characteristics of the contractual cash flows of the financial asset.

The financial assets are initially recognized at fair value, plus or minus, in the case of financial assets or liabilities not at FVTPL, the transaction costs directly attributable to the acquisition or issue of the financial asset. Trade receivables which do not contain a significant financial component are however initially measured at their transaction price.

On initial recognition, financial assets are classified to one of the above categories and may not subsequently be reclassified to other categories, except where the Company amends its business model for their management.

The Company recognises under doubtful debts the expected losses for financial assets measured at amortised costs, the assets deriving from contracts and debt securities measured at fair value through other comprehensive income. The expected losses are calculated over the full duration of the receivable, awaiting the results of various scenarios on the basis of their probability and discounting the amounts utilising the effective interest criterion.

The classification between current and non-current reflects the expectations of the management on their trading:

Financial assets measured at amortised cost

This category includes financial assets Held to Collect contractual cash flows, represented only by the payments in capital and interest on the amount of the capital to be repaid. This category includes outstanding receivables and loans. These assets are measured at amortised costs, in accordance with the effective interest criterion, reduced for impairment. These are included in current or non-current assets on the basis of whether the contractual maturity is less than or greater than twelve months from the reporting date. Interest income, exchange gains and losses and impairments are recognised to the profit or loss for the year, as are derecognition gains and losses.

Financial assets measured at fair value through profit or loss for the year

This category includes financial assets not classified as measured at amortised cost or fair value through other comprehensive income. This category includes derivative instruments and financial assets held for trading. The fair value of the financial assets held for trading is calculated on the basis of the market prices at the reporting date or the interim reports, or through financial measurement techniques and models.

Financial assets measured at fair value through other comprehensive income items

This category includes financial assets held with the dual purpose of collecting the contractual cash flows, represented only by the payment of capital and of interest on the amount of capital to be repaid, and the sale of financial assets (Held to Collect and Sell).

Inventories

Inventories are measured at the lower of the acquisition or production cost and the net market value, defined as the estimated sales price less expected completion costs and expenses necessary to carry out the sale.

In particular, raw materials, semi-finished products and work-in-progress are initially recognised at acquisition or production cost. The purchase costs include the cost paid to suppliers plus accessory charges incurred until the entry of the goods to Company warehouses, net of discounts. Production costs include costs incurred to bring the asset to its location and state at the reporting date: they include costs specific to the individual assets or categories of assets and general preparation costs (general production expenses). Inventories are generally measured according to the FIFO method. This calculation method is considered most suitable for providing a true and fair view, in addition to a uniform representation of the Company's equity position and earnings.

Inventories thus calculated may be adjusted by a write-down provision to take account of obsolete or slow moving materials on the basis of their future utility or realisation.

Contract work-in-progress

Contract work-in-progress (or construction contracts) concerns contracts specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their final use. This principally concerns development and production activities in the space sector.

Where the result of a construction contract may be reliably estimated, contract work-in-progress is valued according to the percentage of completion method, with application to the contractual value for each obligation included in the contract, whereby the costs, revenues and the relative margin are recognised according to the advancement of production activities. For the calculation of the percentage of completion, the ratio between production costs incurred to date and forecast total costs for the entire works (cost-to-cost) is adopted, on the basis of updated estimates at the reporting date. Periodically, the assumptions underlying the measurements are updated. The changes to the contract, the revision prices and the incentives are included for those amounts agreed with the buyer. Any economic effects are recognised in the period in which the updates are made.

Where the result of a construction contract may not be estimated reliably, the revenues related to the relative contract are recorded only to the extent of the project costs incurred which will probably be recovered. The project costs are recorded as expenses in the year in which they are incurred.

Account is in addition taken of charges to be incurred following closure of the order and those for expected losses through accruals to the risks provisions; in particular, any losses on contracts are recognised to the income statement in their entirety once noted.

Contract work-in-progress is stated to the assets section of the Balance Sheet net of advances invoiced to clients. The analysis is made by individual order: where the value of the individual order is greater than the advances, the positive differential is classified to the account considered in the Balance Sheet; where the value of the individual order is lesser than advances, the negative differential is classified to "Advances for contract work-in-progress" in the Balance Sheet.

Trade and Other Receivables

Receivables are initially stated at fair value, corresponding to their nominal value, and subsequently measured according to the amortised cost method, net of a write-down provision.

In relation to trade receivables and other receivables, the Company has applied the simplified approach indicated by IFRS 9 to measure the doubtful debt provision as the expected loss over the life of the receivable. The Company measures the amount of expected losses in relation to these elements through the use of a provisioning matrix, estimated on the basis of historic experience of receivable losses according to creditor due dates, adjusted to reflect current conditions and estimates concerning future economic conditions. Consequently, the credit risk profile of these assets is presented according to due dates on the basis of the provisioning matrix.

The Company does not undertake the factoring of receivables.

Cash and cash equivalents

These include cash, liquid bank deposits and other current readily tradable financial investments which may be quickly converted into cash and for which the risk of changes in value is insignificant. The bank overdrafts are recorded as a reduction of cash and cash equivalents only for the purposes of the cash flow statement.

Research and development tax credits

Research and development tax credits relating to Decree-Law No. 145 of December 23, 2013, converted, with amendments, by Law No. 9 of February 21, 2014, as amended by Law No. 232 of December 11, 2016 (the "2017 Budget Act") and the 2019 Budget Act (Art. 1, paragraphs 70-72, of Law No. 145 of December 30, 2018) are recognized to the extent that the tax credit is considered recoverable and utilizable, while ensuring that only the benefit for which it is reasonable certain that the entity has met the established requirements is quantified. These credits are initially recorded in the account "Other current assets" and recognised 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 in the accounts "Service costs" and "Revenues" deriving from change in contract work in progress.

Treasury shares

Treasury shares are recognised as a deduction from equity. The original cost of the treasury shares and the revenues deriving from any subsequent sale are recognised as equity movements.

Financial liabilities

Non-current financial liabilities and current account overdrafts are classified to this account, in addition to current and non-current payables which, although arising from commercial or however non-financial transactions, are negotiated at particular conditions as undertaken as a financial transaction, therefore de facto making them financial receivables. Current and non-current financial payables are initially recognised at fair value, less transaction costs incurred, and are subsequently valued at amortised cost utilising the effective interest rate method.

Non-current financial payables due within twelve months from the reporting date are classified to the "Current portion of non-current financial payables" account.

Employee Benefit Provisions

Employees of the Company enjoy post-employment benefits which may consist of defined contribution pension plans or defined benefit plans, and other long-term benefits.

Post-employment benefits

The accounting treatment of pension plans and of other post-employment benefits depends on their type.

Defined contribution plans are plans for benefits upon conclusion of employment for which the Company have made fixed contributions to a legally separate entity on an obligatory, contractual or voluntary basis, in the absence of which legal or implied obligations exist to make additional payments where the entity does not have sufficient assets to pay all of the pension benefits matured concerning employment services provided in the present and previous years. The contributions to be paid are recognised to the income statement on an accruals basis to personnel expenses.

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The obligation to fund the defined benefit pension plans and the annual cost recognised to the income statement are determined by independent actuarial valuations using the projected unit credit method, on the basis of one or more factors such as age, years of service and expected future remuneration.

Actuarial gains and losses relating to defined benefit plans deriving from changes to the actuarial assumptions and adjustments based on past experience are immediately recognised in the period in which they arise to other comprehensive income/(losses) and are never reclassified to the income statement in subsequent periods.

The liabilities for post-employment benefits recorded in the balance sheet represent the present value of the liabilities for the defined benefit plans adjusted to take into account any actuarial profits and losses not recorded and reduced by the fair value of the asset plan, where existing. Any net assets calculated on this basis are recognised up to the amount of the actuarial losses and the cost for prior benefits not previously recognised, in addition to the present value of available repayments and the reductions in the future contributions to the plan.

Defined benefit plan costs are classified to personnel expenses, except for any costs associated with the increase in the present value of the obligation nearer to the payment date which are recognised under financial charges.

Up to December 31, 2006, the employee leaving indemnities were considered as defined benefit plans. The regulations of this provision were extensively modified by Law No. 296 of December 27, 2006 ("2007 Finance Act") and subsequent Decrees and Regulations. In view of these changes, and specifically with reference to companies with more than 50 employees, this fund is now to be considered a defined benefit plan exclusively for the amounts matured prior to January 1, 2007 (and not paid at the balance sheet date), while subsequent to this date they are similar to a defined contribution plan. Consequently, post-employment benefits matured subsequently to this date assume the nature of defined contribution plans, with exclusion therefore of actuarial estimate components in the calculation of the cost for the period. Post-employment benefits matured until December 31, 2016 remain valued as defined benefit plans according to actuarial processes, excluding however from the calculation the component relating to future salary increases.

Other long-term benefits

The accounting treatment of other long-term benefits is similar to that for defined benefit plans, with the exception of the fact that the actuarial gains and losses are entirely recognised to the income statement in the period in which they arise.

Share based payment plans

Cash-settled share-based payments are recorded as a liability to the risks and charges provisions and are measured at fair value at the end of each reporting period until settlement. Any subsequent changes in fair value are recognized in profit or loss.

Provisions for risks and charges

The Company records provisions for risks and charges when it has a current obligation from a past event, legal or implicit, to third parties, and it is probable that it will be necessary to use resources of the Company to settle the obligation, and a reliable estimate of the amount can be made. Provisions are made based on the best estimate of the cost of fulfilling the obligation at the reporting date. Where the effect is significant, the provision is discounted and its increase due to the passage of time is subsequently recognised to the financial charges account of the Income Statement.

In the case of legal disputes, the amount of the provisions is calculated on the basis of risk assessments in order to calculate the probability, timing and the amounts involved.

In the case of liabilities for future dismantling, removal and reclamation charges relating to a tangible asset, the provision is recognised against the asset to which it refers; the charge is recognised to the income statement through the depreciation of the tangible asset to which the charge refers to.

The provisions are re-examined at each reporting date and adjusted to reflect any improvement to the present estimates; any changes to the estimate are reflected in the income statement in the period in which the change occurs.

Risks that may only potentially result in a liability are disclosed in the Explanatory Notes without any amounts being set aside.

Trade payables

Trade payables with maturities within the normal commercial terms are not discounted and recognised at the nominal value considered representative of the settlement value.

Trade payables are recognised to current liabilities, except where the Company has the contractual right to settle its obligations beyond 12 months from the reporting date.

Payables for disbursements in accordance with Law 808/85

These payables are recognised to the financial statements at nominal value and classified to “Other non-current liabilities” and “Other current liabilities”.

Revenue recognition

Revenues are recognised in accordance with the probability that the company will receive economic benefits and the amount can be determined reliably. Revenues are recognised on an accruals basis at the fair value of the amount received or due, less VAT, returns, premiums and discounts.

Revenues from the sale of goods are recognised where the Company has transferred to the purchaser the significant risks and benefits related to ownership of the goods, which generally coincides with shipping. In addition, the Group establishes whether contractual conditions are in place which represent obligations on which the consideration of the transaction should be allocated (e.g. guarantees), in addition to effects from the existence of variable payments, significant financial components or non-monetary consideration and to be paid to the client. In the case of variable payments, the amount of the consideration is estimated on the basis of the amount expected on the transfer of control of the goods to the client; this consideration is estimated on the signing of the contract and may be recognised only when highly probable. Revenues from the provision of services are recognised according to the stage of completion of the services, based on the same criteria as for contract work-in-progress. In addition, where the result from the provision of services may not be reliably estimated, revenues are recognised only to the extent to which the relative costs are recoverable.

Revenues include also the changes in contract work-in-progress concerning long-term orders recognised according to the state of advancement of works against the sales price (as described in greater detail in the Contract works-in-progress note).

Interest income is recorded on an accruals basis, according to the amount financed and the effective interest rate applicable. This is the rate at which the expected future cash flow over the life of the financial asset is discounted to equate them with the carrying amount of the asset.

Dividends received

Dividends are recognised in the period in which the right of shareholders to receive payment is established.

Grants

Government grants are recognised when it is reasonably certain that the conditions required to obtain them will be satisfied and that they will be received. Such grants are generally recorded in the income statement on a straight-line basis over the period in which the related costs are recorded.

In particular, grants obtained against investments in fixed assets and capitalised development costs are recognised to “Other non-current liabilities” or “Other current liabilities” in the liabilities section of the balance sheet and to the income statement on the basis of the residual duration of the depreciation of the assets to which they refer. Where a grant is awarded in a period after the start of the depreciation period of the asset, the portion of the grant relating to the prior periods is recorded in the income statement as other income.

The accounting treatment of benefits deriving from a public loan obtained at a reduced rate is similar to that for public grants. This benefit is calculated at the beginning of the loan as the difference between the initial book value of the loan (fair value plus direct costs attributable to obtaining the loan) and that received, and subsequently recorded in the income statement in accordance with the regulations for the recording of public grants.

Costs

Costs are recognised on an accruals and going concern basis of the Company, less VAT and returns, discounts and premiums. Provisions are recognised to the financial statements according to the methods described in the provisions for risks and charges note.

Interest charges are recognised on an accruals basis, according to the amount lent and the effective interest rate applicable.

Income taxes

Income taxes comprise of current and deferred taxes.

Current taxes are calculated on the estimated assessable result for the year and according to the applicable tax rates.

The assessable fiscal result differs from the result recorded in the income statement as it excludes positive and negative components that will be assessable or deductible in other periods and also includes accounts that are never assessable or deductible. The liability for current income taxes is calculated using the current rates at the reporting date.

The Company and some of its Italian subsidiaries adhered to the national tax consolidation regime pursuant to Article 117/129 of the Consolidated Finance Act (CFA). Avio S.p.A. acts as the consolidating company and calculates a single assessable base for the Group of companies adhering to the tax consolidation and therefore benefits from the possibility of offsetting assessable income with assessable losses in a single tax declaration. The Group has exercised the tax consolidation option for the three-year period 2021, 2022 and 2023.

Each company participating in the consolidation transfers its taxable income or tax loss to the consolidating company. Avio S.p.A. recognises a receivable for companies contributing taxable income, corresponding to the amount of IRES to be payable, in accordance with the consolidation contract. For companies contributing a tax loss, Avio S.p.A. recognises a payable for the amount of the loss actually set off at Group level, in accordance with the consolidation contract.

The IRAP payable is recorded under "Current tax payables" net of any payments of account in the year.

Deferred tax assets and liabilities are the taxes that are expected to be recovered or paid on the temporary differences between the carrying value of the assets and of the liabilities in the financial statements and the corresponding fiscal value utilised in the calculation of the assessable income, accounted under the liability method. Deferred tax liabilities are generally recorded on all temporary assessable differences, while deferred tax assets are recorded based on the probability that the future assessable results will permit the use of the temporary deductible differences. These assets and liabilities are not recognised if the temporary differences deriving from the goodwill or the initial recognition (not in business combinations) of other assets or liabilities in operations do not have an impact on the accounting result or on the assessable fiscal result. The tax benefit from the carrying forward of tax losses is recorded upon, and to the extent of its probable availability, future assessable income arises for the utilisation of the losses.

The carrying value of deferred tax assets is revised at the end of the year and reduced to the extent that it is no longer likely that there will be sufficient taxable income against which to recover all or part of the assets.

Deferred tax assets are calculated based on the fiscal rates that are expected to be in force at the moment of the realization of the asset or the settlement of the liability. Current and deferred taxes are recognised directly to the income statement with the exception of those relating to accounts directly recognised to equity, in which case the taxes are also recognised to equity. The deferred tax assets and liabilities are offset when there is a direct right to compensate the tax assets and liabilities and there is the intention to pay the amount on a net basis. The balance following the offset, where positive, is recognised to "Deferred tax assets" and, where negative, to "Deferred tax liabilities".

Dividends distributed

Dividends payable by the Company are represented as changes to equity and recognised to current liabilities in the period in which distribution is approved by the Shareholders' Meeting.

Exchange differences

The revenues and costs relating to transactions in foreign currencies are recorded at the exchange rate on the transaction date.

The monetary assets and liabilities in foreign currencies are converted into Euro applying the exchange rate at the reporting date with the exchange gains or losses recorded 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.

Any net gain deriving from the adjustment of foreign currency amounts at year-end, on the approval of the financial statements and consequent allocation of the result to the legal reserve, is recorded, for the part not absorbed by any losses for the year, in a non-distributable reserve until subsequent realisation.

At each year-end the overall unrealised exchange gains and losses are determined. Where the overall net exchange gain is higher than the equity reserve, this latter amount is released. If, however, a net gain or loss arises lower than the amount recorded in the reserve, respectively the entire reserve or the excess is reclassified in a freely distributable reserve on the preparation of the financial statements.

2.5. Risk management

Credit risk

The Company has a concentration of credit risk due to the nature of its operating markets. Overall, trade receivables have a concentration risk in the European Union market. Trade receivables are recognised net of write-downs calculated in view of counterparty non-settlement risk, assessed according to the information available upon client solvency and considering also historic data.

Liquidity risk

The Group's liquidity risk arises from the difficulty to obtain according to an acceptable timeframe and financial conditions the funding to support operating and investing activities and repayments. The principal factors which influence the liquidity of the Company 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, in order to ensure the timely and efficient sourcing of funding or the appropriate investment of liquidity.

The current difficult economic, Group market and financial environment requires a close focus on liquidity risk and therefore particularly on the generation of funding through operations and the establishment of a sufficient level of liquidity to meet Group obligations.

Management considers that the currently available funds, in addition to those that will be generated from operating and financial activities, will permit the Group to satisfy its requirements for investment activities, working capital management and the repayment of debt on maturity.

Currency and interest rate risk

The company has a loan with the European Investment Bank (EIB) for Euro 40 million - increasing Euro 50 million in 2019 - at a fixed interest rate for 7 years.

Further qualitative and quantitative information on the financial risks to which the Group is subject is reported at Note 6 "Financial instruments and risk management policies".

2.6. Use of estimates

The preparation of the financial statements and the relative Explanatory Notes in application of IFRS requires the making of estimates and assumptions on the values of the assets and liabilities recorded, on the information relating to the assets and contingent liabilities at the reporting date and on the amount of costs and revenues.

Actual results may differ from estimates due to the uncertainty regarding the assumptions and conditions upon which the estimates are based. The estimates and assumptions are reviewed periodically by the Company according to the best information on Company operations and other factors reasonably discernible from current circumstances. The effects of all changes are immediately reflected in the income statement.

The current global economic environment, impacting some of the Company's business areas, resulted in the need to make assumptions on a future outlook characterized by uncertainty, for which it cannot be excluded that results in the next year or in subsequent years will differ from such estimates and which therefore could require adjustments, clearly not possible to currently estimate or forecast, to the carrying amounts of the relative items. The estimates and assumptions are utilised in differing areas, such as non-current assets, the doubtful debt provision, the inventory obsolescence provision, the employee benefit plans, contingent liabilities and other risks provisions, in addition to an estimation of costs to complete orders and the relative state of advancement.

The principal measurement processes and key assumptions used by management in applying IFRS and which may have significant effects on the values recorded in the financial statements or give rise to significant adjustments to the accounting values of assets and liabilities in the year subsequent to the reporting date are summarised below.

Recoverable value of non-current assets

Non-current assets include Property, plant and machinery, Goodwill, Intangible assets with definite useful life and Investments. The Company periodically reviews the carrying value of the non-current assets held and utilised and of any assets to be disposed of, when events and circumstances require such. For Goodwill, this analysis is carried out at least annually and wherever required by circumstances. The recoverability analysis of the carrying amount of non-current assets is generally made utilising the estimates of the future cash flows expected from the utilisation or from the sale of the asset and adjusted by discount rates for the calculation of the fair value. When the carrying amount of a non-current asset is impaired, the Company recognises a write-down for the excess between the carrying amount of the asset and its recoverable amount through use or sale, with reference to the cash flows of the Group's most recent long-term plans.

The estimates and assumptions used for these analyses reflect the Company's knowledge upon developments concerning the business in the various sectors in which it operates and take account of reasonable estimates on future developments of the market and the aerospace sector, which remains subject to uncertainty also in view of the continued economic-financial crisis and its effect on the international economic environment. Although present Company estimates do not indicate impairments to non-current assets further than those recognised in these financial statements, any changes to this economic environment and divergent Company performances may result in differences from the originally estimates and, where necessary, adjustments to the carrying amount of certain non-current assets.

Recoverability of deferred tax assets

At December 31, 2021, the financial statements present deferred tax assets concerning deferred tax deductible income components, for an amount whose recovery in future periods is considered probable by management. 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.

Doubtful debt provision

The doubtful debt provision reflects the estimate of losses related to the Company's receivables portfolio. The accruals were made against expected losses on receivables, estimated according to past experience with regards to receivables with similar credit risk, current and historic unsettled amounts, reversals and receipts, in addition to the close monitoring of the quality of the client portfolio and present and forecast economic and market conditions.

Inventory obsolescence provision

The inventory obsolescence provision reflects management estimates on expected Company losses in value, based on past experience and historic and forecast market developments and any obsolescence or slow movement for technical or commercial reasons.

Employee benefit plans

Employee benefit provisions and net financial charges are valued according to an actuarial method which requires the use of estimates and assumptions for the calculation of the net value of the obligation. This process is based on estimates made periodically by actuarial consultants utilising a combination of statistical-actuarial factors, including statistics concerning prior years and estimates of future costs. Mortality and retirement indices, assumptions upon future discount rates, salary growth rates and inflation rates, in addition to analyses upon healthcare costs, are also considered as estimate components. Changes to any of these parameters may impact future provision contributions. Following the adoption of IAS 19 revised with regards to the recognition of actuarial gains and losses generated by the valuation of employee benefit liabilities and assets, the effects deriving from the update to the estimates of the above-indicated parameters are recorded to the Balance Sheet through recognition to Equity of a specific reserve, with presentation in the comprehensive income statement.

Provision for risks, charges & contingent liabilities

The Company accrues a liability against disputes in progress when it considers it probable that there will be a financial payable and when the amount of the losses arising can be reasonably estimated. In the case in which a payment is considered possible, but is not yet determinable, such is reported in the financial statements.

The Company is involved in legal and tax cases regarding differing types of issues which are subject to varying degrees of uncertainty on the basis of their complexity, jurisdiction and applicable law. During the normal course of business, the Company monitors the state of cases in progress and liaises with its legal consultants and legal and tax experts; the value of the provisions for legal cases and disputes of the Company may therefore vary according to the future development of cases in progress.

In addition, the Company operates within sectors and markets where certain problems of a commercial nature may only be resolved after the lapsing of significant periods of time, requiring therefore an estimate by management on the outcome of these disputes and challenges through the monitoring of contractual conditions and the individual cases.

Valuation of contract work-in-progress

The Company operates according to particularly complex contracts, some of which recognised to the financial statements through the percentage of completion method. In these cases, the margins recognised to the income statement are dependent both on the advancement of the order and the margins expected on the entire works following completion: therefore, the correct recognition of works-in-progress and of margins upon works not yet concluded assumes a correct estimate by management on finishing costs, contractual changes, in addition to delays, extra costs and penalties which may impact the expected margin.

The Company provides frameworks for managing and analysing contract risks that derive from Risk Assessment. These frameworks identify for each risk:

- the type;
- the risk owners;
- the probability of occurrence;
- the potential economic, operational, and reputational impact;
- the actions planned to monitor and manage these risks.

The identified risks essentially fall within the following types:

- Risk of mismatch between available resources and resource requirements for production and development activities;
- Risk of missed deadlines in production and development programme management;
- Risk of failure within manufacturing and/or research and development programmes;

Contract risk management and analysis frameworks include a set of procedures, processes, indicators (KPIs), meetings, and systems (including Enterprise Project Management - EPM and SAP) to oversee risks and their management.

Other

In addition to the accounts listed above, estimates were used to value certain financial assets and liabilities, remuneration plans for selected managers and to measure the fair value of assets acquired and of liabilities assumed through business combinations.

2.7. 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 March 31, 2021, the IASB published an amendment entitled "**Covid-19-Related Rent Concessions beyond June 30, 2021 (Amendments to IFRS 16)**" by which it extends by one year the period of application of the amendment issued in 2020, which provided lessees the option to account for Covid-19-related rent reductions without having to assess through contract analysis whether the definition of lease modification in IFRS 16 was met. Therefore, the

lessees who applied this option in fiscal year 2020 accounted for the effects of rent reductions directly in the income statement on the effective date of the reduction. The 2021 amendment, which is only available to entities that have already adopted the 2020 amendment, applies from April 1, 2021, and early adoption is permitted. The adoptions of these amendments do not have any effects on the Group consolidated financial statements and on the separate financial statements of the parent company;

- on June 25, 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 separate financial statements of Avio S.p.A and 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 separate financial statements of Avio S.p.A and on the consolidated financial statements of the Group.

IFRS accounting standards, amendments and interpretations approved by the EU, not yet mandatory and not adopted in advance by the Group at December 31, 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 statement of profit or loss.
 - **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.

- on 18 May 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 1 January 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.

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 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 1 January 2023 and early application is permitted. The directors do not expect this amendment to have a significant impact on the Company’s separate financial statements and 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 and on the separate financial statements of the parent company;
- 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 Company’s separate financial statements and on the Group consolidated financial statements.
- on December 9, 2021, the IASB published an amendment called “**Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information**”. The amendment is a transition option related to comparative information on financial assets presented at the date of initial application of IFRS 17. The amendment is intended to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and thus improve the usefulness of comparative information for financial statement readers. The amendments will apply from January 1, 2023, together with the application of IFRS 17. The directors do not expect this amendment to have a significant impact on the Company’s separate financial statements and on the Group consolidated financial statements.

- on January 30, 2014 the IASB published the standard - **IFRS 14 Regulatory Deferral Accounts** which permits only those adopting IFRS for the first time to continue to recognise amounts concerning Rate Regulation Activities according to the previous accounting standards adopted. As the Company/Group is a first-time adopter, this standard is not applicable.

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 December 31, 2021 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2021			31/12/2020		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	-	-	-	-	-	-
Buildings	40,384	(8,956)	31,428	39,913	(7,675)	32,238
Plant and machinery	69,381	(54,016)	15,365	67,371	(50,862)	16,509
Industrial & commercial equipment	12,172	(11,934)	238	11,970	(11,832)	138
Other assets	8,758	(6,541)	2,218	8,254	(5,760)	2,495
Assets in progress and advances	39,529	-	39,529	29,018	-	29,018
Total	170,224	(81,447)	88,778	156,527	(76,129)	80,398

The changes in the year 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	31/12/2021
Land	-	-	-	-	-
Buildings	39,913	471	-	-	40,384
Plant & machinery	67,371	2,539	-	(529)	69,381
Industrial & commercial equipment	11,970	202	-	-	12,172
Other assets	8,255	509	(5)	-	8,758
Assets in progress and advances	29,018	9,982	-	529	39,529
Total	156,527	13,703	(5)	-	170,224

The increases in the year of Euro 13,703 thousand mainly concerns:

- assets in progress and advances for Euro 9,982 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;
 - works on the production buildings for the P120 motor;
- production machinery for Euro 2,539 thousand.

The changes in the year of the accumulated depreciation provision 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	31/12/2021
Land	-	-	-	-	-
Buildings	(7,675)	(1,281)	-	-	(8,956)
Plant and machinery	(50,862)	(3,154)	-	-	(54,016)
Industrial & commercial equipment	(11,832)	(102)	-	-	(11,934)
Other assets	(5,760)	(785)	4	-	(6,541)
Total	(76,129)	(5,322)	4	-	(81,447)

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

3.2. RIGHT-OF-USE

The Company applied, for the preparation of these half-year financial statements, IFRS 16 - Leases, published by the IASB on January 13, 2016 and obligatory from January 1, 2019.

The Company 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 Company recognises them as follows:

- 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 assets at December 31, 2021 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2021			31/12/2020		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land right-of-use	2,570	(286)	2,285	2,570	(143)	2,427
Buildings right-of-use	43,050	(14,818)	28,232	42,538	(9,866)	32,673
Plant and machinery right-of-use	1,632	(447)	1,184	1,525	(274)	1,250
Other assets right-of-use	3,580	(1,568)	2,012	3,053	(1,180)	1,873
Total	50,832	(17,119)	33,713	49,687	(11,463)	38,224

The gross values of these rights at December 31, 2021 (in Euro thousands) are reported below:

Gross values	31/12/2020	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2021
Land right-of-use	2,570	-	-	-	2,570
Buildings right-of-use	42,538	709	(197)	-	43,050
Plant and machinery right-of-use	1,525	107	-	-	1,632
Other assets right-of-use	3,053	1,275	(748)	-	3,580
Total	49,687	2,091	(945)	-	50,832

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

- lease of industrial and office buildings, as well as of the areas and appurtenances of the Colleferro headquarters, by the subsidiary Se.Co.Sv.Im. S.r.l.;
- 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.

The increase in 2021 primarily related to company motor vehicles and apartments for employees in Guyana.

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

Gross values	31/12/2020	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2021
Land right-of-use	(143)	(143)	-	-	(286)
Buildings right-of-use	(9,866)	(5,126)	174	-	(14,818)
Plant and machinery right-of-use	(274)	(173)	-	-	(447)
Other assets right-of-use	(1,180)	(867)	479	-	(1,568)
Total	(11,463)	(6,309)	653	-	(17,119)

3.3. INTANGIBLE ASSETS WITH DEFINITE LIFE

The values of Intangible assets with definite life at December 31, 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 Avio S.p.A. at December 31, 2021 with December 31, 2020.

	31/12/2021			31/12/2020		
	Gross values	Accumulated amortisation	Net book value	Gross values	Accumulated amortisation	Net book value
Development costs - amortisable	123,000	(63,601)	59,400	116,977	(56,815)	60,162
Development costs - in progress	32,061	-	32,061	28,070	-	28,070
Total development costs	155,061	(63,601)	91,460	145,048	(56,815)	88,232
Assets from PPA 2017 - Programmes	44,785	(14,182)	30,603	44,785	(11,196)	33,589
Concessions, licenses, trademarks and similar rights	12,105	(8,872)	3,233	10,218	(7,534)	2,684
Other	3,080	(2,768)	311	3,060	(2,424)	636
Assets-in-progress	3,191	-	3,191	-	-	-
Total	218,221	(89,423)	128,798	203,111	(77,970)	125,141

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, two intangible assets were identified relating to aerospace programmes for 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 aerospace programmes and amortised over a period of 15 years on the basis of the average useful life of the programmes to which they refer.

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

The changes 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	31/12/2021
Development costs - amortisable	116,977	-	-	6,023	123,000
Development costs - in progress	28,070	10,013	-	(6,023)	32,061
Total development costs	145,048	10,013	-	-	155,061
Assets from PPA 2017 - Programmes	44,785	-	-	-	44,785
Concessions, licenses, trademarks and similar rights	10,218	1,886	-	-	12,105
Other	3,060	20	-	-	3,080
Assets-in-progress	-	3,191	-	-	3,191
Total	203,111	15,110	-	-	218,221

The increases in H1 2021 of Intangible Assets with definite life of Euro 15,110 thousand, of which principally:

- Euro 10,013 thousand, principally for design and testing costs for the construction of the new liquid oxygen and methane motors;
- 1.886 thousand euros for the purchase of licenses and *software*;
- Euro 3,191 thousand for investments mainly related to the review of permanent production procedures in application of IEC recommendations following the failures of Vega and and Industry 4.0 projects.

The changes in 2021 to accumulated amortisation were as follows (in Euro thousands):

Accumulated amortisation	31/12/2020	Increases	Decreases	Reclassifications and other changes	31/12/2021
Development costs - amortisable	(56,815)	(6,785)	-	-	(63,601)
Development costs - in progress	-	-	-	-	-
Total development costs	(56,815)	(6,785)	-	-	(63,601)
Assets from PPA 2017 - Programmes	(11,196)	(2,986)	-	-	(14,182)
Concessions, licenses, trademarks and similar rights	(7,534)	(1,310)	-	(28)	(8,872)
Other	(2,424)	(373)	-	28	(2,768)
Total	(77,970)	(11,453)	-	-	(89,423)

3.4. GOODWILL

The goodwill recognised at December 31, 2021 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 the reporting date, the outcome of which did not indicate the need for a write-down of the carrying amount of goodwill at December 31, 2021.

The recoverability of the amounts recognised are verified through comparing the net capital employed (carrying amount) of the CGU with the relative recoverable value. The recoverable value of goodwill is based on the calculation of the value in use i.e. the present value of future operating cash flows on the basis of the estimates included in the long-term plans approved by the Group and an adjusted terminal value, employed to express a summary estimate of future results over the explicitly considered timeframe. These cash flows are thereafter discounted according to discount rates reflecting the present market valuations of the cost of money and which take account of the specific risks of Group operations and of the CGU considered.

At December 31, 2021, cash flows for the Space CGU were estimated based on projections from the 2022-2026 Business Plan, approved by the Board of Directors on March 14, 2022.

For the calculation of the terminal value, the expected cash flows for the final year of the plan were normalised according to the perpetuity method, assuming 1.5% growth (1.0% in the previous year) for forecast cash flows (in line with forecast Italian medium/long-term inflation)¹³.

For the purposes of preparing the impairment test, cash flows were discounted at a weighted average cost of capital ("WACC") of 8.2% (7.7% in the previous year), estimated in accordance with the Capital Asset Pricing Model approach.

The estimates and the plan data used in the application of the above indicated parameters are calculated by directors based on past experience and forecasts concerning Group markets. It is therefore highlighted that the current international economic environment and the possible economic-financial repercussions, also on spending levels by national governments and supranational institutions on space access policies, may create uncertainties around the achievement of objectives and the level of activities considered in the plan. However, the estimate of the recoverable value of goodwill requires subjectivity and the use of estimates by the directors and, although considering that the production and commercialisation cycles for products cover extensive timeframes which therefore permit the recovery of any delays on plan objectives, it should be considered that goodwill may be impaired in future periods due to changes in the general environment which are currently unforeseeable. The circumstances and events which may result in further impairments are constantly monitored by the directors.

For the results and effects of the impairment test, reference should be made to Note 3.5 of the Consolidated Financial Statements of the Avio Group.

¹³ Source: database Economic Intelligence Unit

3.5. INVESTMENTS

The breakdown of the investments held by the parent company Avio S.p.A. at December 31, 2021 follows (in Euro thousands):

Company Name	Registered Office	% held	Book value	Shareholders' Equity	Equity share	Difference Holding / Equity share
Investments in subsidiaries						
ASPropulsion International B.V.	Amsterdam (Netherlands)	100%	58,640	57,728	57,728	912
Spacelab S.p.A.	Rome	70%	2,651	4,138	2,897	(247)
Regulus S.A.	Kourou (French Guyana)	60%	9,590	16,515	9,909	(318)
Avio Guyane S.A.S.	Kourou (French Guyana)	100%	50	417	417	(367)
Avio France S.A.S.	Paris/Kourou (French Guyana)	100%	50	153	153	(103)
Avio India Aviation Aerospace Private Limited (**)	New Delhi (India)	100%	114	100	100	14
Sub-total			71,095	79,051	71,204	(109)
Associates and jointly-controlled companies						
Europropulsion S.A. (*)	Suresnes (France)	50%	3,698	14,734	7,367	(3,669)
Termica Colleferro S.p.A. (**)	Bologna	40%	3,636	6,810	2,724	912
Servizi Colleferro - Consortium Limited Liability Company	Colleferro (Rm)	32%	38	125	40	(2)
Sitab Consortium in liquidation	Rome	20%	5	(20)	(4)	9
Potable Water Services Consortium	Colleferro (Rm)	25%	-	-	-	-
Sub-total			7,377	21,649	10,127	(2,750)
Total Equity holdings in subsidiaries, associates and jointly-controlled companies			78,472	100,700	81,331	(2,859)
Investments in other companies			523			
Total			78,996			

(*) Companies under joint control

(**) financial statements data at December 31, 2020.

(**) financial statements data at December 31, 2019.

The overseas subsidiary Avio India Aviation Aerospace at December 31, 2021 was in liquidation.

The investments in other companies amount to Euro 523 thousand and concern minor holdings in Arianespace, in C.I.R.A. - Centro Italiano Ricerche Aerospaziali S.c.p.A., in Imast S.c.a.r.l. and in Distretto Aerospaziale Sardegna S.c.a.r.l.

The positive difference between the value of the investment and the pro-quota share of net equity of the company ASPropulsion International B.V. was considered recoverable due to the gains deriving from the subsidiary Se.co.sv.im. S.r.l.

The positive difference between the value of the investment and the pro-quota share of net equity of the associate Termica Colleferro S.p.A. principally stems from the accounting effect from the application of the amortised cost to the non-interest bearing loan granted by the shareholders to Termica Colleferro S.p.A.. Net of this effect, the difference was zero.

The following table indicates the changes in equity investments in 2021 (amounts in Euro thousands), representing the effects of the two transactions involving the subsidiary Spacelab S.p.A.:

- the price adjustment of the business unit transferred in 2018 by the above subsidiary to the parent company Avio S.p.A.;
- the reduction of the equity of the subsidiary as exceeding the current business needs of the company.

31/12/2020	Adjustment of the transfer price of the company business unit					Reduction of Spacelab's equity	31/12/2021
	Price	IRES corp. tax	DIVIDEND received	Equity investment measurement adjustments			
Spacelab S.p.A.	1,116	8,529	(2,047)	(5,213)	1,442	(1,176)	2,651
	1,116	8,529	(2,047)	(5,213)	1,442	(1,176)	2,651

The sale of the business unit by Spacelab S.p.A. to Avio S.p.A. constitutes a "business combination under common control" and the consequent accounting management was undertaken as per OPI No. 1 (Revised), therefore ensuring "continuity of values" as per IAS/IFRS; as the difference between the consideration and the carrying amount of the business transferred is positive, the selling entity (the subsidiary Spacelab) recognise this difference as an increase to its shareholders' equity, while the acquiring entity (the parent company Avio) recognise such as an increase to the equity investment held in Spacelab S.p.A..

The above approach resulted in:

- with regards to the issue of dividends on the above-mentioned positive difference by the seller Spacelab, such were accounted for by Avio as a decrease in the equity investment;
- with regards to the issue of dividends from the retained earnings other than the above-mentioned difference and as a reduction of equity, such were recognised to Avio's income statement.

Therefore, summing the dividend distribution of Euro 18 million (based on the positive difference between the consideration and the carrying amount of the transferred business) and the reduction in equity of the subsidiary 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 to Avio and Euro 6,263 thousand to ASI.

The liability to ASI, in addition to that due to Avio, was 50% settled by November 30, deadline for the completion of the procedures for the reduction of the share capital and with 50% to be settled by July 31, 2022.

These dividends include Euro 10,000 thousand already approved by the Spacelab Shareholders' Meeting on April 17, 2019 and therefore already accounted for in the past as a decrease in the investment; these dividends had still been paid pending the aforementioned price adjustment.

The amount of Euro 5,213 thousand relates to the positive difference from the sales price adjustment against the accounting scope transferred and, therefore, recognised as a decrease in the equity investment.

The amount of Euro 1,224 thousand concerned other available reserve and was recognised to the income statement.

3.6. NON-CURRENT FINANCIAL ASSETS

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

	31/12/2021	31/12/2020	Change
Shareholder loan to Termica Colleferro S.p.A.	6,415	6,259	156
	6,415	6,259	156

The account, amounting to Euro 6,415 thousand (Euro 7,440 thousand at nominal values), comprises the shareholder loan granted to the associated company Termica Colleferro S.p.A., the original shareholder of the latter, SECI S.p.A. (which at the end of 2021 sold its shares to Cogenio S.r.l. - ENEL X) 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 year 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".

3.7. DEFERRED TAX ASSETS

Avio's recognised deferred tax assets amount to Euro 75,400 thousand (Euro 74,085 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):

	31/12/2021
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 Company.	5,441
Financial charges exceeding 30% of EBITDA	36,694
<i>Temporary differences deriving from current corporate operations</i>	
Provision for staff charges	2,639
Other deductible temporary differences	3,594
Total gross deferred tax assets	48,367
Deferred tax liability on temporary differences	
<i>Temporary differences deriving from previous corporate operations</i>	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(8,849)
Tax effect R&D expenses First-Time Adoption	(545)
<i>Temporary differences deriving from current corporate operations</i>	
Other temporary assessable differences	(155)
Total gross deferred tax liabilities	(9,549)
Net deferred tax assets/(liabilities)	38,818
Deferred tax assets on tax losses	66,463
Total deferred tax assets	105,282
Deferred tax assets not recorded	(29,882)
Net deferred tax assets (liabilities) recorded	75,400

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.

3.8. OTHER NON-CURRENT ASSETS

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

	31/12/2021	31/12/2020	Change
Other non-current assets	63,807	65,000	(1,193)
	63,807	65,000	(1,193)

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

	31/12/2021	31/12/2020	Change
Receivables from the General Electric Group	58,220	58,220	-
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	4,888	6,077	(1,190)
Deposits and other non-current assets	699	703	(4)
Total	63,807	65,000	(1,194)

"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 "3.22. Other non-current liabilities" and to the section "Legal and tax disputes and contingent liabilities" in the Explanatory Notes.

"Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion", amounting to Euro 4,888 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 3.14).

CURRENT ASSETS

3.9. INVENTORIES AND ADVANCES TO SUPPLIERS

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

	31/12/2021	31/12/2020	Change
Inventories	150,791	136,060	14,730
	150,791	136,060	14,730

The breakdown of the account at December 31, 2021 and relative movements follow (in Euro thousands):

	31/12/2021	Change	31/12/2020
Raw materials, ancillaries and consumables	49,249	5,295	43,954
Raw material, ancillary and consumables obsolescence provision	(1,864)	(224)	(1,639)
Raw material, ancillary and consumables - net value	47,385	5,071	42,315
Products in work-in-progress	5,643	1,317	4,326
Provision for the write-down of work in progress	-	-	-
Products in work-in-progress - net value	5,643	1,317	4,326
Finished products and other inventories	7	-	7
Finished products and other inventories obsolescence provision	-	-	-
Finished products and other inventories - net value	7	-	7
Advances to suppliers	97,756	8,343	89,412
	150,791	14,730	136,060

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.

3.10. 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, net of advances received from clients is as follows (in Euro thousands):

	31/12/2021	31/12/2020	Change
Contract work in progress	453,157	334,860	118,297
Advances for contract work-in-progress	(609,540)	(477,829)	(131,711)
Net total	(156,383)	(142,968)	(13,414)

The table below summarises the contract work-in-progress relating to the projects where the gross value is higher than the advances and is therefore recorded for the net value under assets in the Balance Sheet of Avio S.p.A. (Euro thousands):

	31/12/2021	31/12/2020	Change
Contract work-in-progress (gross)	1,150,937	1,045,284	105,653
Advances for contract work-in-progress (gross)	(697,780)	(710,424)	12,644
Contract work-in-progress (net)	453,157	334,860	118,297

The table below summarises the contract work-in-progress relating to the projects where the gross value is lower than the advances and is therefore recorded, net of the advances, under liabilities in the Balance Sheet of Avio S.p.A. (Euro thousands):

	31/12/2021	31/12/2020	Change
Contract work-in-progress (gross)	699,128	949,632	(250,504)
Advances for contract work-in-progress (gross)	(1,308,668)	(1,427,460)	118,792
Advances for contract work-in-progress (net)	(609,540)	(477,828)	(131,712)

The Parent Avio 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.

3.11. TRADE RECEIVABLES

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

	31/12/2021	31/12/2020	Change
Trade receivables	3,800	5,198	(1,398)
	3,800	5,198	(1,398)

The breakdown of trade receivables is as follows:

	31/12/2021	31/12/2020	Change
Receivables from third parties	1,031	335	696
Subsidiaries	2,344	4,101	(1,757)
Receivables from associates, jointly controlled companies and non-consolidated subsidiaries	425	762	(337)
Total	3,800	5,198	(1,398)

The book value of the receivables approximates their fair value.

Receivables from third parties

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

	31/12/2021	31/12/2020	Change
Gross value	1,114	497	617
less: doubtful debt provision	(83)	(83)	-
Total	1,031	414	617

The receivables are all due within 12 months. The receivables are all due within 12 months. They relate to a few large customers (ESA, Arianespace, MBDA mainly) with whom there are consolidated relations and, in addition, invoices are issued on a "work in progress" basis, therefore following prior approval by the customers.

Subsidiaries

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

	31/12/2021	31/12/2020	Change
Regulus S.A.	343	2,253	(1,910)
Se.Co.Sv.Im. S.r.l.	544	543	1
Spacelab S.p.A.	107	103	4
Avio Guyane S.A.S.	564	487	77
Avio France S.A.S.	785	715	71
Total	2,344	4,101	(1,757)

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

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

	31/12/2021	31/12/2020	Change
Europropulsion S.A.	268	566	(298)
Potable Water Services Consortium	33	0	33
Termica Colleferro S.p.A.	124	196	(72)
Total	425	762	(337)

3.12. CASH AND CASH EQUIVALENTS

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

	31/12/2021	31/12/2020	Change
Cash and cash equivalents	100,069	121,536	(21,467)
Total	100,069	121,536	(21,467)

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.

3.13. CURRENT TAX RECEIVABLES

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

	31/12/2021	31/12/2020	Change
Tax receivables	14,436	27,728	(13,292)
Total	14,436	27,728	(13,292)

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

	31/12/2021	31/12/2020	Change
VAT receivables	8,425	23,436	(15,011)
Research and development tax credits	1,285	548	737
Tax credits for simple and 4.0 technological innovation	1,103	534	569
Tax credits for the purchase of simple new capital goods and 4.0	960	481	479
Receivables from tax authorities	2,426	2,492	(66)
EU VAT receivables	237	237	-
Total	14,436	27,728	(13,292)

This item decreased by 13,292 thousand euros with respect to the previous year. This decrease is essentially due to the change, of the same sign, in VAT receivables, which decreased by 15,011 thousand euros following collection of 17,964 thousand euros, net of VAT credits accrued during the year totalling 2,953 thousand euros.

VAT receivables

VAT receivables of Euro 8,425 thousand (Euro 23,436 thousand at December 31, 2020), include:

- Euro 5,866 thousand, relating to VAT reimbursement requests to the Tax Authorities (Euro 18,633 thousand at December 31, 2020);
- Euro 2,559 thousand, relating to VAT reimbursements to date not requested for repayment (Euro 4,804 thousand at December 31, 2020).

As indicated above, Euro 17,964 thousand was collected in the year, in addition to interest of Euro 100 thousand, concerning VAT receivables relating to FY 2018, Q2 2018 and FY 2019.

In 2021 the Parent Avio S.p.A. accrued VAT receivables for €2,953 thousand. 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 2020 Budget Law (see Law No. 160 of December 27, 2019), as amended by the 2021 Budget Law (see Law No. 178 of December 30, 2020) and the 2022 Budget Law (see Law No. 234 of December 30, 2021), significantly modified the tax benefits for research and development activities by providing the following:

- 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), was confirmed for the 2019 tax period only;
- 2) in replacing the previous R&D credit, it established:
 - 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 20% of the costs incurred in 2021, with a maximum of Euro 4 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 10% of the costs incurred in 2021 for such activities, with a maximum of Euro 2 million. The relief is increased (15% of the costs incurred in 2021 for such activities, up to a maximum of Euro 2 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 addition, a tax credit was granted for the purchase of new capital goods, both tangible and intangible, both simple and functional to the so-called "new" projects. 4.0, confirmed by the Budget Act 2021.

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 (20%, 10% or 15%) to the costs incurred in the maturation year of the credit;
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. 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.

Recognition in the Financial Statements

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

The 2021 income statement includes amounts of Euro 2,248 thousand 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.

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

The effect of the tax credit accrued in 2021 pursuant to the 2020 Budget Law, amounting to Euro 1,785 thousand, was also recognised in the 2021 income statement. The receivables under review refer mainly to internal research and development projects and to some technological innovation projects, both simple and 4.0 projects. As these subsidies are intended to cover operating costs and are not dependent on the creation of a specific fixed asset, and as they accrue in the financial year in which the eligible costs are incurred, regardless of the way in which these costs are accounted for, the subsidies in question have been treated as operating grants and, for this reason, the related economic benefit has been recorded in full in the same financial year in which the eligible costs from which the subsidies in question accrue were accounted for.

Tax receivables

Tax receivables of Euro 2,426 thousand (Euro 2,492 thousand at December 31, 2020), principally concerned:

- receivables relating to the expedited VAT settlement of Se.Co.Sv.Im. S.r.l. for Euro 1,252 thousand, for which the subsidiary was challenged for the failure to apply VAT on the restoration costs recharged to Avio S.p.A. in 2010, 2011 and 2012.
In 2019, Se.Co.Sv.Im. complied with the expedited settlement of this tax dispute, according to Article 6 of Legislative Decree No. 119 of October 23, 2018, converted, with amendments, by Law No. 136 of December 17, 2018. This settlement entailed payment to the Tax Agency of only the tax to be settled, by Se.Co.Sv.Im., in 20 quarterly instalments; the first was paid on May 31, 2019, while the last shall be settled by February 28, 2024.

On the basis of the applicable VAT rules, the VAT paid by Se.Co.Sv.Im. is recharged to Avio S.p.A. as the above-mentioned instalments are paid. Avio S.p.A. presents the entire expedited settlement amount as tax receivables, which shall gradually become deductible VAT, according to the payment of the instalments of the above-mentioned expedited settlement by Se.Co.Sv.Im.;

- receivables for withholding taxes on interest for Euro 545 thousand;
- other tax receivables of Euro 630 thousand.

EU VAT receivables

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

3.14. OTHER CURRENT ASSETS

The table below illustrates other current assets at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2021	31/12/2020	Change
Other current assets	17,536	20,870	(3,334)
Total	17,536	20,870	(3,334)

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

	31/12/2021	31/12/2020	Change
Subsidiaries	12,341	14,111	(1,770)
Grants/subsidies receivable	1,488	847	641
Prepayments and accrued income	1,254	1,189	65
Economic Development Ministry for disbursements pursuant to Law 808/85	1,227	3,212	(1,985)
Employee receivables	951	960	(9)
Other debtors	258	512	(254)
Social security institutions	13	35	(22)
Receivables from associated company Consorzio Servizi Acqua Potabile	4	4	-
Total	17,536	20,870	(3,334)

Receivables from subsidiaries, of Euro 12,341 thousand, comprise:

- receivables from the subsidiary Spacelab S.p.A. for Euro 12,151 thousand (Euro 9,793 thousand at December 31, 2020), of which:
 - for dividends to be collected by July 31, 2022 of Euro 7,307 thousand (Euro 7,000 thousand at December 31, 2020);
 - for assets relating to the tax consolidation for Euro 4,844 thousand, of which Euro 2,047 thousand concerning IRES on the capital gain from the price adjustment on the sale of the business unit. The assets related to the tax consolidation amounted to Euro 2,753 thousand at December 31, 2020. The tax consolidation agreement covers the three-year period 2021-2022-2023;
- receivables from the subsidiary Se.Co.Sv.Im. S.r.l. for Euro 190 thousand (Euro 4,318 thousand at December 31, 2020) concerning the tax consolidation.

Receivables for grants and subsidies of Euro 1,488 thousand concerning various subsidised research projects. Reference should also be made to section "10. Disclosure on public grants as per Article 1, paragraphs 125-129 of Law No. 124/2017".

Receivables from the “Economic Development Ministry for disbursements pursuant to Law 808/85”, amounting to Euro 1,227 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 Inter-ministerial 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 decrease of Euro 1,985 thousand essentially concerns the collection of the final amounts for the “80 tonne solid propellant motor - P80” development project.

The residual receivable of Euro 1,227 thousand comprises:

- Euro 1,112 thousand concerning 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” development project;
- Euro 115 thousand concerning the “LOX/LCH technology demonstrator for the third stage of the Vega E launcher” development project.

The portion which will be received beyond 12 months is classified in the account “Other non-current assets” (Note 3.8).

Employee receivables of Euro 951 thousand (Euro 960 thousand at December 31, 2020) concern the Group cash advances for the coverage of mission and travel expenses.

Other receivables of Euro 258 thousand (Euro 512 thousand at December 31, 2020) mainly concern certain recharges, including of a tax nature, to a number of counterparties.

EQUITY

3.15. SHARE CAPITAL

The share capital of the parent Avio S.p.A. amounts to Euro 90,964,212 at December 31, 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 December 31, 2021 comprised 26,359,346 ordinary shares.

3.16. SHARE PREMIUM RESERVE

The share premium reserve, originally totalling Euro 144,256 thousand, is restricted for the value of the treasury shares acquired. At December 31, 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.

3.17. OTHER RESERVES

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

	31/12/2021	31/12/2020	Change
Actuarial gains/(losses) reserve	(4,185)	(3,931)	(254)
Under common control transactions reserve	-	(1,835)	1,835
Legal reserve	18,193	18,193	-
Treasury shares acquired	(9,080)	(9,080)	-
Unavailable treasury shares purchase reserve	9,080	9,080	-
	14,008	12,427	1,581

Other reserves, in addition to the Legal reserve for Euro 18,193 thousand comprises:

- for Euro 4,185 thousand the actuarial losses deriving from the application of IAS 19 revised, with the relative tax effect where applicable;
- treasury shares purchased and the creation of a specific restricted reserve as, on December 31, 2021, following the purchases made, Avio S.p.A. holds 671,233 treasury shares, equal to 2.5465% of the shares comprising the share capital. The value of the treasury shares acquired amounts to Euro 9,081 thousand.

The transactions under common control reserve, amounting to Euro 1,835 thousand at December 31, 2020, was reclassified to retained earnings, as the transaction to acquire the business unit of the subsidiary, Spacelab S.p.A. (formerly ELV S.p.A.), was completed with the definition of the price adjustment and dividends were approved based on the positive difference between the price and the accounting scope transferred.

The breakdown of the equity accounts according to their origin, utilisation and distribution, as well as utilisation in previous years, is shown in the table below (Euro thousands):

Nature/Description	Amount	Poss. of utilisation	Quota available	Summary of utilisations in previous years	
				To cover losses	Other reasons
Share capital	90,964				
Capital reserves:					
- Share premium reserve	144,256	A, B, C	135,176	-	-
Profit reserves:					
- Legal reserve	18,193	B			
- Actuarial gains and losses	(4,185)	-			
- Under common control transactions reserve	0	-			
Retained earnings	46,308	A, B, C	42,123	(332)	
Total	295,536		177,298		
Non-distributable amount			91,460		
Residual distributable amount			85,838		

Key: A: for share capital increase, B: for coverage of losses and C: for distribution to shareholders.

NON-CURRENT LIABILITIES

3.18. NON-CURRENT FINANCIAL LIABILITIES

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

	31/12/2021	31/12/2020	Change
Non-current financial liabilities	22,000	32,000	(10,000)
Total	22,000	32,000	(10,000)

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 10,000 thousand relates to the short-term reclassification:

- of the two instalments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2022 and October 31, 2022, respectively;
- of the two instalments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2022 and October 31, 2022, respectively.

The short-term portion of the loan, totalling Euro 10,048 thousand (including Euro 48 thousand for interest), is therefore recognised under item "3.25. Current portion of non-current financial payables".

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.

3.19. 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):

	31/12/2021	31/12/2020	Change
Non-current financial liabilities for leasing	26,591	31,146	(4,555)
Total	26,591	31,146	(4,555)

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

	31/12/2021	31/12/2020	Change
Non-current financial liabilities to the subsidiary Se.Co.Sv.Im. S.r.l. as per IFRS 16	22,165	27,129	(4,964)
Non-current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	974	1,109	(135)
Non-current financial liabilities to third parties as per IFRS 16	3,452	2,908	544
Total	26,591	31,146	(4,555)

Financial liabilities as per IFRS 16

- with regards to the liabilities to subsidiaries, the lease of the complex of land and industrial buildings for instrumental use, with networks and general plants, with the subsidiary Se.Co.Sv.Im. S.r.l.;
- with regards to the financial liabilities to associates, the 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.;
- 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.

3.20. EMPLOYEE BENEFIT PROVISIONS

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

These benefits are generally based on remuneration and years of employee service. The obligations refer to employees in service.

Post-employment benefits

The Company 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 Company pays the contributions to public or private insurance institutions based on legal or contractual obligations. With the payment of the contributions the company satisfies its 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, 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, the portion of the employee leaving indemnity matured subsequent to this date is treated as a defined contribution plan, as the obligation of the Company is represented exclusively by the payment to the complimentary 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.

Other long-term employee benefits

The Company also recognises to employees other long-term benefits issued on the reaching of a fixed number of years of service. In this instance, the amount of the obligation recognised in the financial statements reflects the probability that the payment will be made and the duration for which it 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 provisions are broken down as follows (in Euro thousands):

	31/12/2021	31/12/2020	Change
- Defined benefit plans:			
Post-employment benefit	3,450	3,868	(418)
Other defined benefit plans	2,917	2,857	60
	6,367	6,725	(358)
- Other long-term benefits	2,060	2,331	(271)
Total employee benefit provisions	8,427	9,057	(629)

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

	Defined benefit plans	Other long-term employee benefits	Total employee benefit provisions
At 31/12/2020	6,725	2,331	9,057
Financial charges/(income)	(21)	(4)	(26)
Actuarial (gains)/losses in income statement	-	(90)	(90)
Actuarial (gains)/losses in comprehensive income statement	317	-	317
Pension cost current employees	59	73	133
Benefits paid	(714)	(251)	(964)
At 31/12/2021	6,367	2,060	8,427

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

	31/12/2021	31/12/2020
Discount rate	0.15%	-0.17%
Expected salary increases	2.15%	2.14%
Inflation rate	European Zero-Coupon Inflation-Indexed Swap curve at 31.12.2021	European Zero-Coupon Inflation-Indexed Swap curve 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.

3.21. PROVISIONS FOR RISKS AND CHARGES

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

	31/12/2021	31/12/2020	Change
Provisions for risks and charges	9,726	12,271	(2,545)
Total	9,726	12,271	(2,545)

The breakdown of the provisions for risks and charges at December 31, 2021 is presented below (Euro thousands):

	31/12/2021		
	Current portion	Non-current portion	Total
Provision for variable remuneration	4,491	2,837	7,328
Provisions for risks and legal charges	-	105	105
Provision for contractual and commercial risks and charges	-	2,293	2,293
Total	4,491	5,235	9,726

These provisions include:

- provisions for variable remuneration for Euro 7,328 thousand, mainly comprising employee remuneration on the achievement of individual and corporate objectives;
- provisions for legal risks and charges, against litigation and trade union disputes in course, amount to Euro 105 thousand;
- provisions for contractual and commercial risks and charges for Euro 2,293 thousand, 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) and for the recovery of a concession area.

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

	31/12/2020	Provisions	Utilisations	Releases	31/12/2021
Provision for variable remuneration	8,655	4,520	(5,846)		7,328
Provisions for risks and legal charges	164		(3)	(56)	105
Provision for contractual and commercial risks and charges	3,452			(1,159)	2,293
Total	12,271	4,520	(5,849)	(1,215)	9,726

The main changes during the year were:

- the provisions for variable remuneration were utilised for Euro 5,846 thousand, in consideration of the bonuses paid to employees for the achievement of individual and company objectives. This account concerned for Euro 4,635 thousand the payment of ordinary annual result bonuses and for Euro 1,212 thousand a tranche of the long-term incentive plan for top managers.
The provision of Euro 4,520 thousand mainly relates to variable remuneration which will be paid in the first half 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 provisions for contractual and commercial risks and charges were released for Euro 56 thousand as the basis for their accrual was no longer applicable.
- the provisions for contractual and commercial risks and charges were released for Euro 1,159 thousand as the basis for their accrual was no longer applicable.

3.22. OTHER NON-CURRENT LIABILITIES

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

	31/12/2021	31/12/2020	Change
Non-current liabilities	119,230	126,782	(7,552)
Total	119,230	126,782	(7,552)

The breakdown of the account at December 31, 2021 is shown in the table below (Euro thousands):

	31/12/2021	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		4,379	(4,379)
	58,220	62,599	(4,379)
<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	16,556	19,781	(3,225)
Payables to MiSE for disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	1,320	1,301	19
			-
Deferred income on disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	483	483	-
	60,410	63,616	(3,206)
Payables due to MiSE for other subsidies	388	122	266
Other payables and deferred income	212	445	(233)
Total	119,230	126,782	(7,552)

Tax liabilities

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 item is zero at December 31, 2021.

At December 31, 2020 this account included, for Euro 4,379 thousand, the long-term 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 income tax period.

This portion was classified as short-term in these financial statements.

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 Inter-ministerial 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 16,556 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 1,320 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 388 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".

- "Additive Manufacturing by Mixing Elemental Powders" (amounting to Euro 104 thousand), and
- "Innovative composite materials for space, aeronautics and automotive I.S.A.C." (amounting to Euro 284 thousand).

The payables are recorded at their discounted value.

CURRENT LIABILITIES

3.23. CURRENT FINANCIAL LIABILITIES

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

	31/12/2021	31/12/2020	Change
Current financial liabilities	56,645	65,892	(9,247)
Total	56,645	65,892	(9,247)

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

	31/12/2021	31/12/2020	Change
Financial payables subsidiary Se.Co.Sv.Im.	32,588	34,366	(1,778)
Financial payables subsidiary Spacelab S.p.A.	16,308	18,777	(2,469)
Financial payables Europropulsion S.A. joint control company	7,749	12,749	(5,000)
	56,645	65,892	(9,247)

Payables to subsidiaries comprise the current account balances within the Group centralised treasury management undertaken by the company. These transactions are undertaken at normal market conditions.

Payables to the jointly-controlled company Europropulsion relate to the mechanism of distributing to its shareholders the financial resources available to the joint venture, in accordance with a specific treasury management contract. This contract provides for application of the 3-month Euribor as the reference rate, with an additional lending rate of -0.05% and a borrowing rate of 0.20%.

3.24. 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):

	31/12/2021	31/12/2020	Change
Current financial liabilities for leasing	6,748	8,368	(1,620)
Total	6,748	8,368	(1,620)

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

	31/12/2021	31/12/2020	Change
Current financial liabilities to subsidiary Se.Co.Sv.Im. as per IFRS 16	4,866	6,227	(1,361)
Current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	146	148	(2)
Current financial liabilities to third parties as per IFRS 16	1,736	1,993	(257)
	6,748	8,368	(1,620)

Current financial liabilities to the subsidiary Se.Co.Sv.Im. regard the lease of the complex of land and industrial buildings for instrumental use, with networks and general plants.

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.

3.25. CURRENT PORTION OF NON-CURRENT FINANCIAL PAYABLES

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

	31/12/2021	31/12/2020	Change
Current portion of non-current financial payables	10,048	10,063	(15)
Total	10,048	10,063	(15)

The account, which amounted to Euro 10,048 thousand, consists of:

- the two instalments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2022 and October 31, 2022, respectively;
- the two instalments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2022 and October 31, 2022, respectively;
- interest expense on the above financial liabilities accrued at December 31, 2021 for Euro 48 thousand.

3.26. TRADE PAYABLES

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

	31/12/2021	31/12/2020	Change
Trade payables	97,295	89,072	8,223
Total	97,295	89,072	8,223

Details of payables to subsidiaries are shown below (in Euro thousands):

	31/12/2021	31/12/2020	Change
Regulus S.A.	16,168	26,214	(10,046)
Spacelab S.p.A.	1,586	1,443	143
Se.Co.Sv.Im. S.r.l.	1,252	22	1,230
Avio Guyane S.A.S.	1,864	1,123	741
Avio France S.A.S.	578	485	93
	21,446	29,287	(7,841)

These trade payables include, in addition, Euro 1,670 thousand to the jointly controlled company Europropulsion and Euro 6,353 thousand to the associate Termica Colleferro.

3.27. CURRENT TAX PAYABLES

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

	31/12/2021	31/12/2020	Change
Current income tax payables	6,205	7,377	(1,172)
Total	6,205	7,377	(1,172)

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

	31/12/2021	31/12/2020	Change
IRES payables	705	667	38
Payables for withholding taxes	1,140	1,100	40
Other tax payables	4,359	5,610	(1,251)
Total	6,205	7,377	(1,172)

IRES payables from tax consolidation amount to Euro 705 thousand. The tax consolidation agreement relates to the years 2021-2022-2023. The companies participating in the tax consolidation are the Parent Avio S.p.A. and the Italian subsidiaries Spacelab S.p.A. and Se.Co.Sv.Im. S.r.l..

Payables for withholding taxes, amounting to Euro 1,140 thousand, refer to employee and consultant withholding taxes. The liability is in line with the previous year.

Other tax payables of Euro 4,359 thousand essentially comprise, net of a receivable item for Euro 19 thousand, liabilities of Euro 4,378 thousand concerning the short-term portion of the 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 income tax period and already used for offsetting in 2018.

3.28. OTHER CURRENT LIABILITIES

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

	31/12/2021	31/12/2020	Change
Other current liabilities	12,957	9,940	3,017
Total	12,957	9,940	3,017

The breakdown of the account at December 31, 2021 is shown in the table below (Euro thousands):

	31/12/2021	31/12/2020	Change
Employee payables	5,642	4,949	693
Payables due to social security institutions	3,120	2,583	537
Deferred income on disbursements pursuant to Law 808/85 - current portion	2,147	1,079	1,068
Other accrued liabilities and deferred income	1,209	324	885
Other payables to third parties	841	1,005	(164)
Total	12,957	9,940	3,017

Employee payables

Employee payables amount to Euro 5,642 thousand and include remuneration to be settled, in addition to vacations and other rights matured and not utilised.

Amounts due to social security institutions

The account concerns amounts to be paid, amounting to Euro 3,120 thousand, relating to company and employee contributions, in accordance with regulations in force.

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

The account, amounting to Euro 2,147 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 1,209 thousand (Euro 324 thousand at December 31, 2020), mainly refers to the deferment of commercial costs and grants to the following year.

INCOME STATEMENT

3.29. REVENUES

Total revenues, comprising the change in contract work-in-progress and revenues from product sales and the provision of services, amounted to Euro 313,091 thousand for the current year. They amounted Euro 347,407 thousand in 2020.

	FY 2021	FY 2020	Change
Revenues from sales	733,267	199,081	534,186
Revenues from services	712	2,845	(2,133)
	733,979	201,926	532,053
Changes in contract work in progress	(420,888)	145,481	(566,369)
Total	313,091	347,407	(34,316)

Company revenues decreased by Euro 34,316 thousand which, as reported in the "Group operating performance and financial and equity position" paragraph of the Directors' Report, relating also to the Company, mainly relates to the scheduled phase-out of the Ariane 5 programme and the completion of development activities on the P120 motor, which will power the future VEGA-C and Ariane 6 launchers, whose maiden launches are scheduled for 2022, partially offset by the increase in Vega C production and development activities, in addition to those for tactical and satellite propulsion.

"Revenues", amounting to Euro 733,267 thousand, refer to the completion of the following main job orders and the consequent release of advances in revenues:

- for Euro 334,692 thousand, orders for the client Arianespace, relating to the 2nd batch production of VEGA;
- for Euro 273,921 thousand, orders for the client Europropulsion, related to the production of Ariane 5 segments and igniters, batch PB+;
- for Euro 37,135 thousand, orders for the client Europropulsion, relating to the 2nd batch production of VEGA;
- for Euro 30,704 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 5,684 thousand, orders for the client Roxel;
- for Euro 3,022 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 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 in 2021 amounted to Euro 2,248 thousand, while in 2020 totalled Euro 2,710 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.

3.30. OTHER OPERATING REVENUES

In 2021, the account totalled Euro 6,880 thousand (Euro 7,109 thousand in 2020) - decreasing Euro 229 thousand.

	FY 2021	FY 2020	Change
Income from the release of provisions	324	756	(432)
Income for the portion recognised to the income statement of the disbursements as per Law 808/85	2,157	1,064	1,093
Other income and operating grants	1,874	2,609	(735)
Over-accruals and similar in prior periods	611	709	(98)
Recovery of costs, damages and other income	1,914	1,971	(57)
Total	6,880	7,109	(229)

The account comprises:

- income from the release of provisions of a commercial nature of Euro 324 thousand (Euro 756 thousand in 2020);
- income for the portion recognised to the income statement of the disbursements as per Law 808/85 for Euro 2,157 thousand (Euro 1,064 thousand in 2020);
- other income and operating grants of Euro 1,874 thousand (Euro 2,609 thousand in 2020), including, primarily:
 - grants for Euro 700 thousand (Euro 1,029 thousand in 2020);
 - other income of Euro 1,174 thousand (Euro 1,580 thousand in 2020);
- prior year income of Euro 611 thousand (Euro 709 thousand in 2020);
- recovery of costs, mainly from subsidiaries, for Euro 1,914 thousand (Euro 1,971 thousand in 2020).

3.31. CONSUMPTION OF RAW MATERIALS

The account, amounting to Euro 82,122 thousand, relates to costs for raw material purchases and changes in inventories, as shown below.

	FY 2021	FY 2020	Change
Purchase of raw materials	87,193	90,892	(3,699)
Change in inventories of raw materials	(5,071)	(9,446)	4,375
Total	82,122	81,446	676

3.32. SERVICE COSTS

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

	FY 2021	FY 2020	Change
Service costs	164,126	189,969	(25,843)
Rent, lease and similar costs	1,078	992	86
Total	165,204	190,961	(25,757)

Service costs, amounting to Euro 165,204 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 governing bodies, relating to:

- directors' fees of Euro 452 thousand and specific committee fees of Euro 164 thousand;
- supervisory body fees of Euro 138 thousand;
- Board of Statutory Auditors' fees of Euro 122 thousand.

Service costs are shown net of the recognition of accrued tax credits on certain types of costs amounting to Euro 1,785 thousand (Euro 1,677 thousand at December 31, 2020), as described in paragraph "3.14. Current tax receivables".

3.33. PERSONNEL EXPENSES

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

	FY 2021	FY 2020	Change
Wages and salaries	40,318	39,069	1,249
Social security charges	13,439	12,822	617
Provision for variable remuneration	3,821	3,648	173
Other long-term benefits - current employees	119	148	(29)
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	(158)	272	(430)
Provision for "Other defined benefit plans"	3,043	2,958	85
Total	60,582	58,917	1,665

The table below illustrates, divided by category, the average number of employees of the Company:

	FY 2021	FY 2020	Change
Blue-collar	335	336	(1)
White-collar	479	460	19
Executives	27	26	1
Total	841	822	19

3.34. AMORTISATION & DEPRECIATION

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

	FY 2021	FY 2020	Change
Property, plant and equipment	5,322	5,153	169
Rights-of-use	6,309	6,031	278
Intangible assets with definite life	11,453	9,658	1,795
Total	23,084	20,842	2,241

Compared to the previous year, amortization and depreciation increased by Euro 2,241 thousand, mainly due to higher amortization of Intangible assets with finite lives, amounting to Euro 1,805 thousand; the latter increase is essentially attributable to the full amortization in 2021 of development costs related to the Z40 engine for Euro 2,256 thousand compared to the previous year in which amortization was Euro 564 thousand, as amortization began in the fourth quarter of 2020.

Amortization of intangible assets with a definite life primarily includes:

- amortization of capitalized development costs of Euro 6,785 thousand (Euro 5,094 thousand in 2020);
- Euro 2,986 thousand for the amortisation of development costs capitalised and Euro 1,493 thousand 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 2020).

3.35. OTHER OPERATING COSTS

This account amounts to Euro 2,475 thousand (Euro 6,090 thousand in 2020) and mainly comprises the following items:

- provisions for contingent liabilities of Euro 643 thousand (Euro 1,958 thousand in 2020);
- indirect taxes of Euro 546 thousand (Euro 420 thousand in 2020);
- prior year charges of Euro 477 thousand (Euro 301 thousand in 2020);
- other operating of for Euro 809 thousand. In 2020 they amounted to Euro 3,411 thousand and concerned, among others, costs deriving from the COVID-19 emergency, including two donations for a total of Euro 500 thousand in favour of the Civil Protection of Colleferro and the Kourou Hospital (in French Guyana).

3.36. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to costs capitalised for internally constructed assets, amounting to Euro 14,203 thousand (Euro 11,878 thousand in 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 details are as follows:

- costs for the construction of internal intangible fixed assets for Euro 10,013 thousand (Euro 10,345 thousand in 2020);
- costs for the internal production of tangible fixed assets for Euro 4,190 thousand (Euro 1,533 thousand in 2020).

3.37. FINANCIAL INCOME

The breakdown of financial income of Euro 499 thousand (Euro 629 thousand in 2020) is presented below:

	FY 2021	FY 2020	Change
Bank interest income	10		10
Interest income on VAT refunds	100		100
Financial income from amortised cost	224	204	20
	334	204	130
Realised exchange gains	214	405	(191)
Unrealised exchange gains	(50)	20	(70)
	164	425	(261)
Total	498	629	(131)

Financial income of Euro 498 thousand principally concerned:

- interest on VAT receivables collected of Euro 100 thousand;
- interest income from the discounting of receivables for Euro 224 thousand, of which;
 - Euro 156 thousand concerning the financial receivable of the associate Termica Colleferro S.p.A.;
 - Euro 68 thousand concerning the receivables from the Ministry for Economic Development for the disbursements as per Law 808/85;
- exchange gains for Euro 164 thousand.

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

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

3.38. FINANCIAL CHARGES

The breakdown of financial charges of Euro 1,057 thousand (Euro 1,296 thousand at December 31, 2020) is presented below:

	31/12/2021	31/12/2020	Change
Interest on EIB loans	341	420	(79)
Interest expense to subsidiaries non-leasing	40	6	34
Interest on other payables	4	183	(179)
Discounting on employee benefits	(37)	(23)	(14)
Financial charges from amortised cost to subsidiaries	318	299	19
Financial charges from amortised cost to associates	15	13	2
Financial charges from amortised cost to third parties	19	98	(79)
	700	996	(296)
Realised exchange losses	364	299	65
Unrealised exchange losses	(5)	1	(4)
	359	300	61
Total	1,059	1,296	(237)

The account, which amounted to Euro 1,057 thousand, consists primarily of:

- interest expenses on the EIB loan of Euro 341 thousand;
- financial charges from amortised cost due to the application of IFRS 16 for contracts with subsidiaries for Euro 318 thousand;
- financial charges from amortised cost due to the application of IFRS 16 for contracts with associates for Euro 15 thousand;
- financial charges from amortised cost due to the application of IFRS 16 for contracts with third parties for Euro 19 thousand;
- exchange charges for Euro 359 thousand.

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.

3.39. INVESTMENT INCOME/(CHARGES)

This item consists of income of Euro 2,667 thousand, dividends and income from the sale of the business unit from the subsidiary Spacelab S.p.A. to the Parent Avio S.p.A.:

3.40. INCOME TAXES

“Income taxes” was net tax income of Euro 703 thousand (income tax charge of Euro 310 thousand in 2020), as follows:

- current IRES consolidated income taxes of Euro 549 thousand (Euro 568 thousand in 2020);
- income on the recognition of deferred tax assets of Euro 1,252 thousand (Euro 257 thousand in 2020).

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

	FY 2021	FY 2020
Pre-tax result	4,134	9,081
Ordinary rate applied	24.00%	24.00%
Theoretical tax charge	992	2,180
Effect of increases (decreases) to the ordinary rate:		
Permanent increases	5,465	5,309
Permanent decreases	(3,681)	(4,559)
Temporary difference increases	16,638	15,461
Temporary difference decreases	(15,386)	(13,470)
Total changes	3,037	2,742
Utilisation of fiscal losses	(4,372)	(9,458)
ACE deduction		
(Tax loss)/Assessable income	2,799	2,365
Net deferred tax (income)/charge	(1,252)	257
Current assessable	549	(568)
	(703)	(310)

In addition to current tax charge of Euro 549 thousand, deferred tax assets of Euro 1,252 thousand were recorded, resulting in a net positive effect of Euro 703 thousand in total taxation.

3.41. EARNINGS PER SHARE

	FY 2021	FY 2020
Net profit for the year (in Euro thousands)	4,836	8,771
Number of shares in circulation	26,359,346	26,359,346
Treasury shares	(671,233)	(671,233)
Number of shares entitled to profits	25,688,113	25,688,113
Basic earnings per share – in Euro	0.19	0.34
Diluted earnings per Share – in Euro	0,18 ⁽¹⁾	0,33 ⁽¹⁾

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

4. COMMITMENTS AND RISKS

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

	31/12/2021
Guarantees given:	
Unsecured guarantees:	
Sureties issued to third parties on behalf of Avio	59,131
Other guarantees	3,402
Total guarantees given	62,533
Sureties and guarantees received	1,206
Total	63,739

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

The associated company Termica Colleferro S.p.A. ("Termica Colleferro") is currently 40% owned by Avio and 60% owned by the controlling shareholder Cogenio S.r.l. ("Cogenio"), which took over SECI S.p.A. ("SECI"), on December 31, 2021. Termica Colleferro manages a thermoelectric power plant that produces energy and steam essential for the functioning of the Avio production site in Colleferro.

For the purpose of building the thermoelectric plant, Termica Colleferro stipulated, in February 2010, a loan agreement for a maximum principal amount of Euro 34 million, guaranteed by SECI with a first demand surety and with a pledge on Termica Colleferro shares for the portion held by the same, with an original maturity date of February 24, 2022.

The bank loan agreement requires Termica Colleferro to comply with typical financial covenants consisting of the ratio of financial debt to equity and of financial debt to EBITDA.

In consideration of the deterioration of the general conditions of the electricity market, in order to ensure compliance with the bank covenants, Termica Colleferro, Avio, SECI and the financing banks signed, in 2014, agreements amending the original loan agreement, according to which:

(i) the right of Termica Colleferro to cure any infringement of the financial parameters was provided for through the payment by SECI and Avio shareholders of a pro-quota amount, by way of capital increase and/or shareholders loan (the "Equity Cure"), sufficient to cure the infringement (the "Cure Amount");

(ii) it was also provided that SECI and Avio, in proportion to the shares held, would undertake, without any solidarity obligation, to grant a shareholder loan up to a maximum amount of Euro 18.2 million and Euro 12.1 million, respectively, in proportion to the share capital held in Termica Colleferro, and cumulatively corresponding to the residual portion of the bank loan outstanding at that date, payable in several instalments, upon request by Termica Colleferro, in relation to the latter's operating requirements, and subordinated to the bank loan.

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 bank debt restructuring agreement did not modify the guarantees to which the then shareholders SECI and Avio had committed themselves towards the financing banks, except for the alignment of the same to the new maturity of the bank loan.

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 a business plan for the maintenance of the Group as a "going concern". 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.

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 lending banks in April 2020, Termica Colleferro requested from them a waiver of the acceleration clause in the loan agreement.

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 of the Maccaferri Group, to which SECI S.p.A. belongs, 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 2021.

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 calling for a formal, binding expression of interest in acquiring the 60% holding in Termica Colleferro.

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.

In July 2021, the Court of Bologna declared SECI S.p.A. bankrupt on the basis of the judgement of inadmissibility of the application for "Full Agreement" with the filing of the plan for an arrangement with creditors on a going concern basis pursuant to Articles 160 - 161 and 186-bis of the Finance Law.

In consideration of 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.

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

With respect to Termica Colleferro's request, promptly submitted to the lending banks, for a waiver of the acceleration clause of the loan due to the composition with creditors of the controlling shareholder SECI, on the assumption of the normal continuation of Termica Colleferro's operations not impacted by SECI's composition with creditors, as well as Termica Colleferro's independent ability to punctually repay the instalments of the bank debt falling due, the lending banks never

manifested their willingness to avail themselves of the right granted to them by the loan agreement, and this is also reasonable in light of Termica Colleferro's ability to autonomously and punctually meet the payments due, as was the case. On September 1, 2021, the Court of Bologna ordered the auction sale of the entire equity investment (equal to 60% of the share capital) held by SECI in Termica Colleferro, which concluded, thanks also to the search for potential buyers carried out in the first half of 2021, with the final award to Cogenio, subject to satisfaction, inter alia, of the suspensive condition, to which the sale was subject, of the prior obtaining of a waiver from the lending banks.

The waiver from Termica Colleferro's lending banks was obtained on December 10, 2021 and Cogenio's takeover was finalized on December 22, 2021. Termica Colleferro's Shareholders' Meeting, held on December 22, 2021, approved the financial statements for fiscal years 2019 and 2020, with reference to which Termica Colleferro has always considered the going concern assumption to exist, even during the period in which the bank waiver was outstanding, in light of the Company's ability to independently and punctually honour the repayment of the bank debt and, more generally, the payments, as in fact occurred.

On the basis of the most recent approved financial statements of Termica Colleferro S.p.A., the financial covenants in the above loan agreement have been observed.

The shareholder loan commitment undertaken by Avio S.p.A. has a maximum limit equal to 40% of the outstanding bank debt of Termica Colleferro. At December 31, 2021, Termica Colleferro's outstanding bank debt amounts to Euro 10.6 million. The maximum limit of the commitment undertaken by Avio S.p.A., therefore, amounted to Euro 4.2 million on December 31, 2021.

At the reporting date, Avio has a financial receivable for the shareholder loan granted to Termica Colleferro of Euro 7.4 million, carried in the accounts under the amortized cost method at Euro 6.4 million.

As a consequence, due to the progressive repayment of the bank debt by Termica Colleferro, no further financial commitments existed for Avio S.p.A. towards Termica Colleferro.

On February 24, 2022, Termica Colleferro punctually repaid the instalment due on its bank loan in the amount of Euro 1.1 million, of which Euro 1.0 million in principal. Consequently, the bank debt outstanding as of today amounts to Euro 9.6 million.

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 reporting date, the Company as part of ordinary operations is involved in legal, civil and administrative proceedings (including tax judgments), both as plaintiff and respondent.

The Company established in their 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.

Company management consider the risks and charges provision estimates as appropriate with regards to the Company'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 Company 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 Company against the *ex-ante* estimates may not be excluded.

A summary of current proceedings considered by the Company 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, and the Company will appeal the decision to the Council of State.

Company 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, with details on the specific disputes and the relative amounts.

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 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.

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 to 2022 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.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Categories and fair value of financial assets and liabilities

The following table breaks down financial assets and liabilities as per IFRS 7, on the basis of the categories under IAS 9 for 2021 and 2020.

Amounts at December 31, 2019:

In thousands of Euro

	Total accounts	IFRS 9 Category		
		<i>Assets at amortised cost</i>	<i>Assets at fair value through profit or loss</i>	<i>Liabilities at amortised cost</i>
FINANCIAL ASSETS				
- Investments in other companies	523		523	
- Non-current financial assets	6,415	6,415		
- Other non-current assets	63,807	63,807		
- Current financial assets	-	-		
- Trade receivables	3,800	3,800		
- Other current assets	17,536	17,536		
- Cash and cash equivalents	100,069	100,069		
	192,150	191,627	523	0
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	22,000			22,000
- Non-current financial payables for leasing	26,591			26,591
- Current financial liabilities	56,645			56,645
- Current lease liabilities	6,748			6,748
- Current portion of non-current financial payables	10,048			10,048
- Other non-current liabilities	119,229			119,229
- Other current liabilities	12,957			12,957
- Trade payables	97,295			97,295
	351,514	0	0	351,514

Amounts at December 31, 2019:

In thousands of Euro

In thousands of Euro	Total accounts	IFRS 9 Category		
		<i>Assets at amortised cost</i>	<i>Assets at fair value through profit or loss</i>	<i>Liabilities at amortised cost</i>
FINANCIAL ASSETS				
- Investments in other companies	524		524	
- Non-current financial assets	6,259	6,259		
- Other non-current assets	65,000	65,000		
- Current financial assets	-	-		
- Trade receivables	5,198	5,198		
- Other current assets	20,870	20,870		
- Cash and cash equivalents	121,536	121,536		
	219,387	218,863	524	0
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	32,000			32,000
- Non-current financial payables for leasing	31,146			31,146
- Current financial liabilities	65,892			65,892
- Current lease liabilities	8,368			8,368
- Current portion of non-current financial payables	10,063			10,063
- Other non-current liabilities	126,782			126,782
- Other current liabilities	9,940			9,940
- Trade payables	89,072			89,072
	373,263	0	0	373,263

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 December 31, 2021.

Financial income and expenses recorded as per IFRS 9

The following table presents the financial income and charges generated by financial assets and liabilities, broken down by category as per IFRS 9 for 2021 and 2020.

FY 2021

In Euro thousands	Financial income/(charges) recognised through profit or loss		Actuarial gains/(losses) recognised to comprehensive income statement
	From interest	From fair value changes	From fair value changes
Assets at amortised cost		-	-
Assets at fair value			
Through profit or loss			
Statement			
Liabilities at amortised cost	691	-	-
Derivative financial instruments	-	-	-
Total categories	691	-	-

FY 2020

In Euro thousands	Financial income/(charges) recognised through profit or loss		Actuarial gains/(losses) recognised to comprehensive income statement
	From interest	From fair value changes	From fair value changes
Assets at amortised cost		-	-
Assets at fair value			
Through profit or loss			
Statement			
Liabilities at amortised cost	830	-	-
Derivative financial instruments	-	-	-
Total categories	830	-	-

The items presented in the tables mainly concern financial charges for the EIB loans and those related to financial liabilities as per IFRS 16.

Types of financial risks and related hedging

The Company 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).

This section provides qualitative and quantitative disclosure upon the impact of these risks on the Company and on the Group. The following quantitative data cannot be used for forecasting purposes or completely reflect the complexity and the related market reactions which can derive from any change in assumptions.

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 Company at December 31, 2021 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 3,800 thousand.

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 Company clients are government bodies and public sector clients, which by their nature do not present significant risk concentrations (European Spatial Agency, Arianespace, Airbus Safran Launchers).

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 December 31, 2021 these are recorded net of a doubtful debt provision of Euro 483 thousand. The overdue amounts were therefore not significant and entirely relate to timing factors.

For trade receivables, each financial year, an individual assessment of risk is carried out and a specific doubtful debt provision accrued, which takes account of an estimate of recoverable amounts and any disputes in progress and possible maturity extensions.

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.

Liquidity analysis

As the Company is part of a group whose activities are closely integrated, please refer to same paragraph of the consolidated financial statements.

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 December 31, 2021 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 a residual total of Euro 32 million, at a competitive interest rate compared to the market.

Therefore, this risk is not considered applicable to the company and, therefore, to the Company.

6. 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 company Avio S.p.A. 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, 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 report the related party transactions of Avio S.p.A., with balance sheet effects (in thousands of Euro):

At December 31, 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.		1,350					1,855	283		
MBDA Italia S.p.A.			17		4,779				35	
MBDA France S.A.			135		10,080				37,761	
Thales Alenia Space Italia S.p.A.					126		950		145	
Vitrociset S.p.A.					0		0		0	
Companies with a connecting relationship and relative investee companies	0	1,350	153	0	14,985	0	2,805	283	37,941	0
Spacelab S.p.A.			107	12,151			1,586			16,308
Regulus S.A.		810	343				16,168		560	
SE.CO.SV.IM. S.r.l.	150		544	73			1,252	19		59,618
Avio Guyane S.A.S.			564				1,864			
Avio France S.A.S.			786				578			
Subsidiaries	150	810	2,344	12,225	0	0	21,446	19	560	75,927
Termica Colleferro S.p.A.			124			6,415	6,353			1,120
Europropulsion S.A.		27,526	268		84,611		1,670		63,047	7,749
Potable Water Services Consortium			33	4			(192)			
Servizi Colleferro - Consortium Limited Liability Company			0				122			
Associates and jointly controlled companies	0	27,526	425	4	84,611	6,415	7,954	0	63,047	8,869
Total related parties	150	29,686	2,922	12,229	99,596	6,415	32,205	302	101,548	84,796
Total book value	63,807	150,791	3,800	17,536	453,157	6,415	97,295	12,957	609,540	122,032
% on total account items	0.24%	19.69%	76.89%	69.73%	21.98%	100.00%	33.10%	2.33%	16.66%	69.49%

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	0	3,530	20	0	15,485	0	2,693	248	23,832	0
Spacelab S.p.A.			103	9,793			1,443			18,777
Regulus S.A.		810	2,253				26,214			
SE.CO.SV.IM. S.r.l.	150		543	4,318			22			67,722
Avio Guyane S.A.S.			487				1,123			
Avio France S.A.S.			715				485			
Subsidiaries	150	810	4,101	14,111	0	0	29,287	0	0	86,499
Termica Colferro S.p.A.			196			6,259	358			1,257
Europropulsion S.A.		34,702	566		77,307		7,236		55,683	12,749
Potable Water Services Consortium				4			(102)			
Servizi Colferro - Consortium Limited Liability Company							30			
Associates and jointly controlled companies	0	34,702	762	4	77,307	6,259	7,522	0	55,683	14,006
Total related parties	150	39,042	4,883	14,115	92,792	6,259	39,502	248	79,515	100,505
Total book value	65,000	136,060	5,198	20,870	334,860	6,259	89,072	9,940	477,828	147,469
% on total account items	0.23%	28.69%	93.94%	67.63%	27.71%	100.00%	44.35%	2.49%	16.64%	68.15%

In 2021, and for the comparative 2020, the main income statement transactions by the Company with related parties were as follows (in Euro thousands):

Counterparty	At December 31, 2021					
	Operating Revenues and changes in contract work-in-progress ⁽¹⁾	Other operating revenues	Other Costs ⁽²⁾	Financial Income	Other investment income/(charges)	Financial Charges
Leonardo S.p.A.			4,383			
MBDA Italia S.p.A.	3,595					
MBDA France S.A.	23,714					
Thales Alenia Space Italia S.p.A.	22		950			
Vitrociset S.p.A.	(3)		0			
Companies with a connecting relationship and relative investee companies	27,329	0	5,333	0	0	0
Spacelab S.p.A.		65	1,545		2,667	
Regulus S.A.	202		20,620			
SE.CO.SV.IM. S.r.l.	99	241	18			318
Avio Guyane S.A.S.		70	5,030			
Avio France S.A.S.		70	782			
Subsidiaries	300	446	27,994	0	2,667	318
Termica Colleferro S.p.A.		102	15,649	156		15
Europropulsion S.A.	55,925	702	27,315			
Potable Water Services Consortium		27	134			
Servizi Colleferro - Consortium Limited Liability Company		27	631			-
Associates and jointly controlled companies	55,925	858	43,728	156	0	15
Total related parties	83,554	1,305	77,056	156	2,667	332
Total book value	313,091	6,880	307,908	499	2,667	1,057
% on total account items	26.69%	18.96%	25.03%	31.28%	100.00%	31.45%

⁽¹⁾ The account includes revenues from sales and services and does not include the advancement of work from contract work-in-progress not yet concluded.

⁽²⁾ The account includes raw material consumables, service costs and personnel expenses.

At December 31, 2020					
Counterparty	Operating Revenues and changes in contract work-in-progress ⁽¹⁾	Other operating revenues	Other Costs ⁽²⁾	Financial Income	Financial Charges
Leonardo S.p.A.	-	-	283	-	-
MBDA Italia S.p.A.	2,522	-	-	-	-
MBDA France S.A.	17,618	-	-	-	-
Thales Alenia Space Italia S.p.A.	-	-	-	-	-
Vitrociset S.p.A.	-	-	2,673	-	-
Companies with a connecting relationship and relative investee companies	20,140	-	2,956	-	-
Spacelab S.p.A.	-	88	1,521	-	2
Regulus S.A.	1,966	-	28,443	-	-
SE.CO.SV.IM. S.r.l.	101	210	18	-	303
Avio Guyane S.A.S.	-	70	4,044	-	-
Avio France S.A.S.	-	70	793	-	-
Subsidiaries	2,067	438	34,819	-	305
Termica Colleferro S.p.A.	94	-	5,757	153	13
Europropulsion S.A.	100,407	4	57,365	-	-
Potable Water Services Consortium	33	-	166	-	-
Servizi Colleferro - Consortium Limited Liability Company	60	-	625	-	-
Associates and jointly controlled companies	100,594	4	63,913	153	13
Total related parties	122,801	442	101,688	153	318
Total book value	347,407	7,109	331,324	629	1,296
% on total account items	35.35%	6.22%	30.69%	24.32%	24.54%

⁽¹⁾ The account includes revenues from sales and services and does not include the advancement of work from contract work-in-progress not yet concluded.

⁽²⁾ 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 subsidiaries

These transactions regarded centralised services provided by the Parent Avio, real estate leases by the subsidiary Secosvim, and services provided by the subsidiary Spacelab for Avio.

During 2021, a price adjustment was defined for the acquisition of the Spacelab launcher business unit by Avio.

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.

7. REGIONAL DISCLOSURE

As indicated previously, with reference to the assets and liabilities by regional location (based on the location of the counterparty), we report that all the receivables and payables at the reporting date are with counterparties located in Italy and Europe.

8. DISCLOSURE PURSUANT TO ARTICLE 149 DUODECIES OF THE CONSOB ISSUER'S REGULATION

In accordance with Article 149 duodecies of the Consob Issuer's Regulation, we report below the information concerning fees paid in 2021 for audit and other services by the audit firm Deloitte & Touche S.p.A. and its network (in Euro thousands):

Type of service	Company	Service provider	Fees
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	137 ⁽¹⁾
Other services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	25 ⁽²⁾
Total	Total		162

(1) The increase of Euro 18 thousand compared to December 31, 2020, when these fees amounted to Euro 119 thousand, relates to activities related to the European Single Electronic Format (ESEF) for reporting financial statements.

(2) These services relate to the limited review of the Group's Non-Financial Statement at December 31, 2021.

9. Disclosure on public grants as per 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 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 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	14/12/2021	-
AVIO SPA	Ministry for Economic Development	80-ton solid propellant engine - P80	2009	0.26	14/12/2021	-
AVIO SPA	Ministry for Economic Development	80-ton solid propellant engine - P80	2010	0.15	14/12/2021	-
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	14/12/2021	-
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	0.15	14/12/2021	0.31
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	0.29	14/12/2021	0.27
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	0.30	14/12/2021	1.39
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	2014-2015	0.20	14/12/2021	1.63
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	0.24	14/12/2021	1.77
AVIO SPA	Ministry for Economic Development	LOX/LCH technology demonstrator for the first stage of the Vega E launcher	2014-2016	0.35	15/12/2021	0.82
				3.25		6.18

“Receivables from the Ministry for Economic Development” for disbursements in accordance with Law 808/85, amounting to Euro 6.18 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 5.36 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 0.82 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 (€ / mln)	Collection date	Nominal receivable to be collected (€ / 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
AVIO SPA	Finpiemonte	IERRE2 - Piedmont Space COmponents	NA	0.14	12/07/2021	NA
AVIO SPA	Ministry for Economic Development	INNOVATIVE COMPOSITE MATERIALS FOR SPACE, AERONAUTICS AND AUTOMOTIVE I.S.A.C	NA	0.78	22/12/2021	NA
				1.15		NA

As reported in the Notes to the Consolidated Financial Statements in the paragraphs devoted to "Current assets for tax credits", it should be noted that the Avio Group benefits from concessions such as tax credits for R&D activities, tax credits for simple and 4.0 technological innovation and tax credits for the purchase of new simple and 4.0 capital goods.

In 2021, the Parent Avio S.p.A. benefited, for the amount of €59,724, from the tax credit related to sanitation expenses incurred in June, July and August 2021 (see art. 32 of Decree Law 73/2021, so-called "Sostegni-bis"). In particular, this facilitation, recognized to the extent of 30% of expenses incurred, up to a maximum of € 60,000 per beneficiary, concerned the expenses for:

- g) the sanitization of the environments in which work and institutional activities are carried out and of the instruments used in the context of these activities;
- h) the administration of swabs to those who work in the context of the working and institutional activities carried out by the beneficiaries;
- i) the purchase of personal protective equipment, such as masks, gloves, face shields and goggles, protective suits and footwear, which comply with the essential safety requirements of European legislation;
- j) the purchase of cleaning and disinfecting products;
- k) the purchase of safety devices other than those referred to in point c), such as thermometers, thermoscanners, decontaminating and sanitizing mats and tubs, which comply with the essential safety requirements of European legislation, including any installation costs;
- l) the purchase of devices to ensure interpersonal safety distance, such as barriers and protective panels, including any installation costs.

10. SUBSEQUENT EVENTS

Business

The campaign for the maiden launch of the Vega C continues (scheduled for H1 2022).

An agreement was reached with Ariane Group for the production of P120 motors.

War situation in Ukraine

The ongoing conflict situation in Ukraine, as extensively reported in the risks section of these financial statements, to which reference should be made, is a subsequent event, assessed, pursuant to IAS10, as “not adjusting” to the items recorded in the Group's consolidated financial statements at December 31, 2021.

Acquisition of treasury shares

As reported in the Press Release of February 3, 2022, the Board of Directors on the same date, in execution of that authorised by the Shareholders' Meeting of April 29, 2021, resolved to launch a share buyback program, for a total maximum value of approx. Euro 9.1 million, until the conclusion of the authorisation granted by the Shareholders' Meeting (October 30, 2022). As of December 31, 2021, the Company held 671,233 treasury shares, corresponding to 2.55% of the shares constituting the share capital. From February 3, 2022 to today's date, 364,000 treasury shares have been purchased, resulting in a total number of 1,035,233 treasury shares, corresponding to 3.93% of the number of shares constituting the share capital.

11. PROPOSAL FOR THE ALLOCATION OF THE RESULT OF AVIO S.P.A.

In inviting you to approve the 2021 Annual Accounts of Avio S.p.A., drawn up as per IFRS and reporting a net profit of Euro 4,836 thousand, we propose the allocation of the result as follows:

- Euro 4,500 thousand as dividend;
- Euro 336 thousand to retained earnings.

* * *

March 14, 2022

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

Statement on the separate and consolidated financial statements pursuant to Article 81-ter of Consob Regulation No. 11971 of May 14, 1999 as amended

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 compilation of the individual and consolidated financial statements financial statements in the period from January 1 to December 31, 2020.

2. The following significant aspects arose.

- an assessment was undertaken of the internal control system;
- this assessment utilised the criteria established in the “Internal Controls - Integrated Framework” model issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”);
- no significant issues were identified in the assessment of the internal control system.

3. We also declare that:

3.1 the individual and consolidated financial statements:

is drawn up in compliance with the applicable international accounting standards recognised by the European Union, in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and the Council of July 19, 2002;

b) correspond to the underlying accounting documents and records;

c) provide a true and fair view of the financial position, financial performance and cash flow of the Issuer and of the other companies in the consolidation scope.

3.2 The Directors’ Report includes a reliable analysis on the performance and operating result as well as the situation of the issuer and of the companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Date: March 14, 2022

Giulio Ranzo

Alessandro Agosti

(Chief Executive Officer)

(Executive Officer for Financial Reporting)

INDEPENDENT AUDITORS' REPORT ON THE SEPARATE FINANCIAL STATEMENTS

**INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014**

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Avio S.p.A. (the "Company"), which comprise the statement of financial position as at December 31, 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Evaluation of contract work in progress and related income effects

Description of the key audit matter

The financial statements for the year ended December 31, 2021 include assets related to the execution of contract work in progress of Euro 453.1 thousand and liabilities for advances of Euro 609.6 thousand.

These contract work in progress are attributable to development and production activities of space sector, whose revenues and related margins are recognized to income statement based on the progress of orders according to the percentage of completion method determined on the basis of the ratio between the costs incurred and the total estimated costs of the entire work.

The evaluation method of those contract work in progress and the revenue recognition are based on complex assumptions which by their nature imply recourse to the judgement of the Management with particular reference to the estimated costs to complete the entire work including the estimate of contractual risks.

In consideration of the significance of contract work in progress with respect to the overall business profile of the Company and the complexity of the assumptions used for forecasting the costs to complete the related contracts, also influenced by the engineering complexity of the mentioned contracts, we consider that this topic represents a key audit matter of the financial statements of Avio S.p.A. as at December 31, 2021.

Disclosures related to this matter are reported in the explanatory notes of the financial statements and in particular in note 2.4 "Accounting policies", note 2.6 "Use of estimates" and note 3.10 "Contract work-in-progress".

Audit procedures performed

As part of our audit, among other things, we performed the following audit procedures:

- understanding of the accounting approach adopted by Avio S.p.A. for the evaluation of the contract work in progress and the revenue recognition criteria and related margin;
- analysis of the procedure carried out and understanding of the relevant controls put in place by Management to verify the evaluation of the contract work in progress and verification of the operating effectiveness of them;
- analysis on the proper application of the IFRS 15 requirements, for new contracts;
- sample analysis of existing contracts with the customers and the related change contract clauses;
- review of the accuracy of the calculation of the completion percentage and related revenue recognition;

-
- comparative analysis of the main changes in contract results with respect to the original and previous year estimations;
 - analysis of the assumptions that required significant judgement from Management and in particular with the method for determining estimates of costs to complete the entire work including foreseeable contractual risks as well as the subsequent events to the closing date;
 - analysis of contract reporting and inquiry with project managers with particular reference to the contractual changes occurred during the year and the effects of these variation on the determination of costs to complete the entire work included any foreseeable losses;
 - sample verification of contract costs with reference to the various cost components of a sample contract work in progress as of December 31, 2021;
 - review of the adequacy of disclosures provided by Avio S.p.A. and of the compliance with the related accounting standards.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Avio S.p.A. has appointed us on June 15, 2017 as auditors of the Company for the years from December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**Opinion on the compliance with the provisions of the Delegated Regulation (EU) 2019/815**

The Directors of Avio S.p.A. are responsible for the application of the provisions of the European Commission Delegated Regulation (EU) 2019/815 with regard to the regulatory technical standards on the specification of the single electronic reporting format (ESEF – European Single Electronic Format) (hereinafter referred to as the “Delegated Regulation”) to the financial statements, to be included in the annual financial report.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 700B in order to express an opinion on the compliance of the financial statements with the provisions of the Delegated Regulation.

In our opinion, the financial statements have been prepared in XHTML format in accordance with the provisions of the Delegated Regulation.

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Avio S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Avio S.p.A. as at December 31, 2021, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Avio S.p.A. as at December 31, 2021 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Avio S.p.A. as at December 31, 2021 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Avio S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Francesco Legrottaglie
Partner

Rome, Italy
March 31, 2022

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

BOARD OF STATUTORY AUDITORS' REPORT ON THE SEPARATE FINANCIAL STATEMENTS

BOARD OF STATUTORY AUDITORS' REPORT

in accordance with Article 153 of Legislative Decree No. 58/1998 and of
Article 2429 of the Civil Code

Dear Shareholders,

this report, drawn up as per Article 153 of Legislative Decree No. 58/1998 ("CFA") and Article 2429 of the Civil Code refers to the activities carried out by the Board of Statutory Auditors of Avio S.p.A. ("Avio" or also the "Company") in the year ending December 31, 2021, in compliance with the applicable regulation, taking account also of the conduct rules for the Board of Statutory Auditors, recommended by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), of Consob's provisions concerning corporate controls and the indications contained in the Corporate Governance Code promoted by Borsa Italiana.

In addition, as Avio has adopted a traditional governance model, the Board of Statutory Auditors acts as the "Audit Committee" upon which additional specific financial disclosure and monitoring functions fall, as per Article 19 of Legislative Decree No. 39 of January 27, 2010, as amended by Legislative Decree No. 135 of July 17, 2016.

The current Board of Statutory Auditors was appointed on May 6, 2020 by the Shareholders' Meeting of Avio, with its mandate concluding on the approval of the 2022 Annual Accounts. In 2021, the Board of Statutory Auditors undertook the activities within its scope, holding fourteen meetings. In the same year, the Chairperson of the Board of Statutory Auditors and its members, in addition, participated at seven meetings of the Board of Directors, seven meetings of the Control and Risks Committee, eight meetings of the Appointments and Remuneration Committee, in addition to eight meetings of the Sustainability Committee.

During the year, the Board of Statutory Auditors also met the Supervisory Body 231 to reciprocally exchange information.

1. SUPERVISORY ACTIVITY

1.1 Oversight upon legal, regulatory and By-Law compliance



The supervisory duties of the Board of Statutory Auditors are governed by Article 2403 of the Civil Code, by Legislative Decree No. 58/1998 and by Legislative Decree No. 39/2010. The Board took account of the amendments made to Legislative Decree No. 39/2010, by Legislative Decree No. 135/2016, in transposing Directive 2014/56/EC and European Regulation No. 537/2014.

On the activities undertaken during the year, as per Consob's indications of Communication of April 6, 2001, as amended and supplemented by Communication DEM/3021582 of April 4, 2003, and subsequently by Communication DEM/6031329 of April 7, 2006, the Board undertook the duties outlined below.

The Board of Statutory Auditors periodically received from the Directors, also through attending the meetings of the Board of Directors and of the internal board committees, information on the activities carried out and on the main economic, financial and equity transactions approved and executed in the year, in addition to, in accordance with Article 150 of the CFA, paragraph 1, those undertaken by the subsidiaries. Based on the information available, the Board can reasonably state that these transactions were in compliance with law and the corporate objectives and were not imprudent, reckless, contrary to resolutions of the Shareholders' Meetings or such as to compromise the integrity of the company's assets.

In addition, the transactions potentially presenting a conflict of interests were approved in compliance with law, the regulatory provisions and the By-Laws.

The main events in the year, which the Board of Statutory Auditors highlight in view of their significance, include:

- on November 17, 2020, as communicated at the time, the Vega VV17 mission encountered an anomaly that caused the launcher's trajectory to deviate, resulting in the premature termination of the mission. The Commission of Inquiry chaired by Arianespace and the ESA, in January 2021, identified the cause and prescribed corrective actions to authorize the resumption of flight activities. The Company, after implementing corrective actions, obtained the flight authorization and during the year 2021 carried out 3 missions of the Vega launcher, all fully successful. During the same year 2021, 3 successful flights of the Ariane 5 launcher were also carried out;
- with reference to the COVID-19 pandemic, the Company has continued to strengthen the measures to combat the spread of the virus, through the publication of internal procedures and the implementation of the safeguards required by national applicable regulations and protocols.



With reference to the call for attention published by Consob on March 18, 2022, addressed to listed issuers and concerning the impact of the war in Ukraine on inside information and financial reporting, the Board of Statutory Auditors highlights the following:

- on February 25, 2022, the Company issued a press release regarding the events taking place in Ukraine, reporting that there are no impacts on the continuity of Vega's operations and that the situation is continuously monitored;
- in the Annual Financial Report, which was approved by the Board of Directors on March 14, 2022, under the note "Principal risks and uncertainties-Risks relating to the war in Ukraine," the Company, among others:
 - highlights the situation of ongoing conflict in Ukraine among the main risks and uncertainties to which the Group is exposed, as the Group's strategic suppliers, by virtue of the skills and know-how developed, as well as the qualification processes that have certified their compliance with the specific requirements, include three Ukrainian suppliers and, with two of these, has entered into technical-engineering collaboration;
 - underlines that, currently, there is no direct procurement from Russian suppliers;
 - on the basis of the investigations carried out, believes that the state of supplies allows the continuation of industrial activities without interruption with regard to the VEGA and VEGA C programs;
 - considers, however, that a worsening of the Ukrainian crisis may not be excluded, or the continuation of the current situation, could have possible future impacts on the Group's production activities with reference to the Vega and Vega C programmes;
 - affirms that the risks of effects arising from dependence on such Ukrainian strategic suppliers are qualified as possible, and that the analyses for the identification of possible alternative suppliers are underway, with the support of the European Space Agency, also analysing the process and the necessary modalities for the certification of such solutions in the qualification dossier of the Vega and Vega C launchers.

1.2 Oversight upon compliance with the principles of correct administration and on the adequacy of the organisational structure

The Board of Statutory Auditors obtained information and verified the adequacy of the organisational structure, compliance with correct administrative principles, the adequacy of the Company's instructions to its subsidiaries in accordance with Article 114, paragraph 2 of the CFA, through the obtaining of information from the Boards of Statutory Auditors of the Italian



subsidiaries, from the persons responsible for the various departments and meetings with the auditing firm for the reciprocal exchange of data and relevant information.

During the year, the company introduced various provisions to implement measures introduced by Regulations, the Oversight Authorities, in addition to the Corporate Governance Code.

The Annual Reports on the financial statements of the Board of Statutory Auditors of the Italian registered subsidiaries did not highlight any critical aspects. Similarly, no criticalities are indicated with regards to the information flows received from the Boards of Statutory Auditors of these subsidiaries.

The Directors' Report, the information received during the meetings of the Board of Directors and that received from the Chief Executive Officer, senior management, the Boards of Statutory Auditors of the subsidiaries and from the independent audit firm do not indicate the existence of atypical and/or unusual transactions with Group companies, with third parties or with related parties.

The Board of Statutory Auditors verified the company processes undertaken to establish the remuneration policies of the company, with particular regards to the remuneration criteria of the Chief Executive Officer and of the Senior Executives.

1.3 Oversight of the internal control and risk management system

The Board of Statutory Auditors monitored the adequacy of the internal control and risk management systems through:

- the acknowledgement of the assessment, expressed by the Board of Directors, of the adequacy of the organisational, administrative and accounting structure of Avio and of the strategically significant subsidiaries;
- the review of the report of the Control and Risks Committee on the activities carried out and on the adequacy of the internal control and risk management system;
- the review of the Annual Report of the head of the internal audit function;
- the review of the reports of the Supervisory Body as per Legislative Decree No. 231/2001;
- meetings with the Chief Executive Officer of Avio to review the internal control and risk management system;
- the periodic meetings, also attending the meetings of the Control and Risks Committee and of the Sustainability Committee, undertaking the internal audit function and the legal and compliance function to assess the work planning methods, based on the identification and assessment of the main process and organisational unit risks;

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- the meetings with the risk management function to analyse Avio's and the Group's strategic risks;
- the meetings with senior positions regarding the organisational and operating impacts of Avio's activities;
- review of the periodic Reports of the Internal Audit Function, in coordination with the Control and Risks Committee of the company;
- the meetings with the Manager responsible for the corporate financial documents;
- the acquisition as per paragraphs 1 and 2 of Article 151 of the CFA of information from the control boards of the Italian registered subsidiaries on events considered significant involving the Group companies and on the internal control system;
- joint meetings with the Control and Risks Committee and the company's Supervisory Board;
- the discussion of the results of the work carried out by the independent audit firm;
- regular participation at the Control and Risks Committee, the Appointments and Remuneration Committee and the Sustainability Committee of the company, covering jointly the issues of the former Committee when deemed appropriate.

In undertaking its control activities, the Board of Statutory Auditors continued the analysis on the operating, accounting, economic and financial effects from the above premature conclusion of the Vega VV17 launch mission and on the management by the company of the consequent economic-financial, reputational and operative impacts.

In general, although particularly for these analyses, the Board of Statutory Auditor coordinated its activities through ongoing liaising, also at the meetings on the issue of the Control and Risks Committee at which it took part, with the internal audit and risk management functions and the top management of the operative sector.

The Company's internal audit function which, with the favourable opinion of the Board of Statutory Auditors, is outsourced to a specialised company, operates on the basis of a multi-year plan, reviewed annually, which defines activities and processes to be audited with a view to a risk-based approach. The plan is approved by the Board of Directors, following the positive opinion of the Control and Risks Committee and consultation with the Board of Statutory Auditors.

The activities carried out by Internal Audit during the year substantially covered the planned scope of activities. These activities did not indicate significant criticalities, although highlighting areas for improvement, carefully monitored, to be implemented in the current year.



The Board of Statutory Auditors acknowledges that the annual report of the internal audit concludes with an opinion on the reliability of the internal controls in place and that the Control and Risk Committee has assessed the internal control and risk management system as adequate with respect to the company's size and characteristics.

On the basis of the activities carried out, the information acquired and the content of the Internal Control Function's report, the Board of Statutory Auditors considers that no criticalities exists which may affect the control and risk management systems structure.

1.4 Oversight on the administrative-accounting system and on the financial disclosure process

The Board of Statutory Auditors monitored the process and controlled the efficacy of the internal control and risk management systems as regarding financial disclosure.

The Board of Statutory Auditors periodically met the Manager responsible for the corporate financial documents to exchange information on the administrative-accounting system, while also considering the reliability of this latter to correctly present operating events.

The Board of Statutory Auditors also reviewed the declarations of the Chief Executive Officer and of the Manager responsible for the corporate financial documents in accordance with the provisions of Article 154-bis, paragraphs 3 and 4, of the CFA presented on March 14, 2022.

The Board of Directors on March 3, 2022 approved the impairment test procedure drawn up according to IAS 36, governing the methods to verify the recoverability of Avio Group's assets and on March 14, 2022 approved the results of applying the same procedure to the relative accounts in the 2021 financial statements, also with the support of an independent advisor.

The Board supervised (i) on the adoption by the Board of Directors of the procedure and, subsequently (ii) the outcome of the checks made by management, with the support of an independent advisor, which confirms the recoverability of the assets subject to the impairment test.

The Board of Statutory Auditors does not highlight any deficiencies which may affect the opinion of adequacy and effective application of the administrative-accounting procedures.

The Independent Audit Firm managers, in the periodic meetings with the Board of Statutory Auditors, did not indicate critical situations which may affect the internal control system in terms of administrative and accounting procedures.

1.5 Oversight on related party transactions

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The inter-company and related party transactions are indicated in Note 6 Related Party Transactions.

The related parties of the Companies are identified on the basis of IAS 24 - *Related Party Disclosures*, applicable from January 1, 2011, and are generally 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, associated and jointly-controlled companies of the Avio Group and other investee companies.

The Board of Statutory Auditors supervised the compliance of the Related Party Transactions Policy ("RPT Policy") with the applicable regulation and its continual adjustment to the relative rules.

2. AUDIT COMMITTEE

In accordance with Article 19 of Legislative Decree 39/2010, the Board of Statutory Auditors is identified as the Audit Committee and carried out the required oversight activities upon the legally required audit of the statutory annual accounts and of the consolidated accounts.

The Board of Statutory Auditors periodically met with the Independent Audit Firm Deloitte & Touche, also as per Article 150, paragraph 3, of the CFA for the exchange of reciprocal information. At these meetings, the Independent Audit Firm did not indicate any facts or events requiring indication or irregularities requiring specific reporting as per Article 155, paragraph 2 of the CFA.

For its supervision of the financial statements, the Board of Statutory Auditors periodically met with the independent audit firm to review the results from the auditing of the proper maintenance of accounting records, to review Avio and Group 2021 Audit Plan and for the state of advancement of the Audit Plan.

The Board of Statutory Auditors and the Independent Audit Firm also maintained continuous exchanges of information, also with regards to the operating difficulties emerging during the audit activity, due to the continued COVID health emergency. In particular, the Board of Statutory Auditors:

- i. noted an appropriate level of professional scepticism;
- ii. promoted effective and timely communication with the Auditors;
- iii. oversaw, without noting any criticalities, the impacts related to the "remote" working methods undertaken by the Auditor, with the support of the corporate structures.



The Board of Statutory Auditors has (i) analysed the work carried out by the Independent Auditors, and in particular, the methodological framework, the audit approach used for the various significant areas of the financial statements and the planning of the audit work and (ii) shared with the Independent Auditors the issues related to corporate risks, thus being able to appreciate the adequacy of the response planned by the auditor with the structural and risk profiles of the Company and the Group; (iii) scheduled in-depth analysis of the Audit Quality Indicators.

The financial statements at December 31, 2021, accompanied by the Directors' Report prepared by the Directors, in addition to the statement of the Chief Executive Officer and of the Manager responsible for the corporate financial documents, were approved by the Board of Directors at the meeting of March 14, 2022 and simultaneously made available to the Board of Statutory Auditors in view of the Shareholders' Meeting called for April 28, 2022. On the same date of March 14, 2022, the Board of Directors of Avio also approved the consolidated financial statements, as prepared by the Manager responsible for the corporate financial documents, pursuant to Article 154-bis of the CFA.

On March 31, 2022, the independent auditors issued, pursuant to Article 14 of Legislative Decree No. 39/2010 and Article 10 of Regulation (EU) No. 537/2014, the audit reports on the financial statements and consolidated financial statements of the Avio Group for the year ended December 31, 2021, prepared in accordance with International Financial Reporting Standards - IFRS adopted by the European Union.

With regards to the opinions and statements, the Independent Audit Firm in the Auditor's Report:

- issued an opinion indicating that the financial statements of Avio and the consolidated financial statements of the Avio Group provide a true and fair view of the equity and financial situation of the company and of the Group at December 31, 2021, of the result for the year and of the cash flows for the year ending at that date, in compliance with the International Financial Reporting Standards, adopted by the European Union, in addition to the implementation provisions of Article 9 of Legislative Decree 38/2005;
- issued an opinion, which states that the Directors' Report and some specific information in the Corporate Governance and Ownership Structure Report indicated in Article 123 bis, paragraph 4 of the CFA, whose responsibility lies with the Directors of Avio, are consistent with the documentation of the financial statements and are legally compliant;
- issued an opinion on the compliance of the financial statements and of the consolidated financial statements in XHTML format with the provisions of Delegated Regulation (EU) 2019/815;

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- declared, with regards to any significant errors in the Directors' Report, on the basis of its knowledge and understanding of the company and of the relative context acquired during the audit activities, to not having any matters to report;
- verified the approval by the Directors of the Non-Financial Report.

On March 31, 2022, the Independent Audit Firm also presented to the Board of Statutory Auditors the additional report required by Article 11 of Regulation EC No. 537/2014 and which did not indicate significant deficiencies in the internal control system with regards to the financial disclosure process requiring the attention of Audit Committee. The Board of Statutory Auditors will inform the Board of Directors on the results of the audit, transmitting for this purpose the additional report pursuant to Article 11 of the European Regulation 537/2014, accompanied by any observations, pursuant to Article 19 of Legislative Decree 39/2010.

The Independent Audit Firm presented to the Board of Statutory Auditors the statement regarding its independence, as required by Article 6 of Regulation (EC) 537/2014, indicating no situations which may have compromised it.

In 2021, the independent audit firm carried out the appointments described in point 8 of the 2021 Annual Financial Report, pursuant to the requirements of Article 149-duodecies of the Issuers' Regulations.

3. OTHER ACTIVITIES

3.1 Method for the concrete application of the Corporate Governance rules

In exercising its functions, the Board of Statutory Auditors, as required by Article 2403 of the Civil Code and Article 149 of the CFA, oversaw the methods for the concrete implementation of the corporate governance rules set out in the conduct codes with which Avio complies. The company complies with the Corporate Governance Code prepared by the Corporate Governance Committee of Borsa Italiana and in accordance with Article 123-bis of the CFA drew up the annual "Corporate Governance and Ownership Structure Report", in which information is provided upon:

- i. the effectively applied corporate governance practices;
- ii. the main characteristics of the risk management and internal control systems;
- iii. the mechanisms for the functioning of the Shareholders' Meetings, its main powers, the rights of Shareholders and the operating rules;
- iv. the composition and functioning of the administration and control boards and of the internal committees.



The Board of Directors approved the "Corporate Governance and Ownership Structure Report" on March 14, 2022.

The Board of Statutory Auditors verified the correct application of the assessment criteria and procedures adopted by the Board of Directors to assess the independence of its members and acknowledged that, on March 14, 2022, the Board of Directors defined the qualitative and quantitative criteria on the basis of which the independence requirements of Directors and Auditors are assessed, pursuant to Recommendation 7, first paragraph, letters c) and d), of Article 2 of the Corporate Governance Code.

The Board of Directors conducted an evaluation of its functioning, the results of which were discussed during the meeting held on March 14, 2022 and are described in the corporate governance report of Avio.

3.2 Remuneration policies

The Board of Statutory Auditors verified the company processes undertaken to establish the remuneration policies of the company, with particular regards to the remuneration criteria of the Chief Executive Officer and of the Senior Executives providing, where required by law, their opinion.

3.3 Omissions or reportable events, opinions provided and initiatives undertaken

In 2021, the Board of Statutory Auditors did not receive any notices as per Article 2408 of the Civil Code, nor received petitions from third parties.

The Board of Statutory Auditors also issued the opinions required by current legislation.

In the course of the activities carried out and based on the information obtained, no significant omissions, matters, irregularities or circumstances that would require reporting to the Supervisory Authorities or mention in the present report were noted.

3.4 Non-financial information report

The Board of Statutory Auditors, in undertaking its duties, oversaw compliance with the provisions of Legislative Decree No. 254 of December 30, 2016 and of the Consob Regulation implementing the Decree adopted with motion No. 20267 of January 18, 2018, with particular regard to the preparation processing content of the Non-Financial Report ("NFR") prepared by Avio.

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The NFR was approved by the Board of Directors on March 14, 2022, as a separate document to the Directors' Report at December 31, 2021.

The Independent Audit Firm appointed to carry out a review of the NFR in accordance with Article 3, paragraph 10 of Legislative Decree 254/2016, in its report issued on March 31, 2022 did not indicate any matters suggesting that the NFR of the Avio Group for the year ended December 31, 2021 had not been prepared, with regards to all significant aspects, in compliance with Articles 3 and 4 of Legislative Decree 254/2016 and with the Global Reporting Initiative Sustainability Reporting Standards.

The Board of Statutory Auditors has obtained, also by attending the meetings of the Sustainability Committee, periodic updates on the preparatory activities for drawing up the NFR and, within the scope of its activities, has not become aware of any violations of the related regulatory provisions.

3.5 Board of Statutory Auditors' Self-Assessment

In accordance with Rule Q.1.1 of the Conduct Rules for Boards of Statutory Auditors of listed companies, the Board of Statutory Auditors assessed its composition, size and functioning, with the findings presented at the Board of Directors meeting of March 14, 2022. With regards to the requirements and personal and collective expertise, it emerged that:

- all statutory auditors, in addition to satisfying the standing and professionalism requirements and not finding themselves in situations of incompatibility as established by the applicable regulation, satisfy also the independence requirements of the Corporate Governance Code;
- the Board of Statutory Auditors guarantees gender and generational diversity among its membership;
- each statutory auditor has a good level of knowledge and experience in a range of fields;
- overall, the Board of Statutory Auditors presents adequate expertise.

4. CONCLUSIONS

Taking account of that outlined above, the Board of Statutory Auditors, considering the content of the reports prepared by the Independent Audit Firm, noting the statements issued jointly by the Chief Executive Officer and by the Manager responsible for the corporate financial documents, expresses a favourable opinion on the approval of the statutory financial statements of Avio at December 31, 2021 and on the proposal to allocate the net profit for the year of Euro 4,836,213, drawn up by the Board of Directors, as follows:

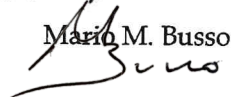
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- Euro 4,500,000 as dividend;
- Euro 336,213 to retained earnings.

Rome, March 31, 2022

The Board of Statutory Auditors

 Vito Di Battista (Chairperson)

 Mario M. Busso (Statutory Auditor)

 Michela Zeme (Statutory Auditor)