

**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 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, 2022, 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, 2022, 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**Description of the key audit matter**

The consolidated financial statements for the year ended December 31, 2022 include assets related to the execution of contract work in progress of € 426,2 million (€ 453,8 million at December 31, 2021), liabilities for the related advances of € 667,4 million (€ 609,6 at December 31, 2021), and other provisions for risks and charges amounting to € 25,4 million at December 31, 2022.

These contract work in progress are attributable to development and production activities in the space sector, the revenues and related margins of which are recognized in the income statement according to the progress of the contracts using the percentage-of-completion method determined on the basis of the ratio of costs incurred to total estimated costs for the entire work.

The Company has also estimated among the other provisions for risks and charges both the effects resulting from the future execution of programs and those resulting from the failure of the Vega-C mission (VV22) which occurred at the end of the 2022 financial year, net of the compensation expected from the European Space Agency, , taking into account for this purpose the findings of the Independent Commission of Inquiry (IEC) on the related causes and recommendations for the return to flight.

The evaluation method of those contract work in progress and the revenue recognition are based on complex assumptions which by their nature involve the use of management judgment, in particular with reference to the forecast of costs to complete the work, including the estimate of contractual risks.

In view of the significance of contract work in progress with respect to the Company's overall business profile and the complexity of the assumptions used for forecasting the costs to complete the related contracts , influenced both by the engineering complexity of the contracts and by the particular conditions of the macroeconomic context, we consider that this topic represents a key audit matter of the Group consolidated Financial Statements as of December 31, 2022.

The information on the financial statements relating to this matter is provided in the explanatory notes to the consolidated financial statements and in particular in note 2.7 "Accounting policies", note 2.9 "Use of estimates", note 3.11 "Contract work-in-progress ", and note 3.24 "Provision for risk and charges".

Audit procedures performed

As part of our audit, we have, among other things, carried out the following procedures:

- understanding of the accounting approach adopted by Avio S.p.A. for the valuation of the contract work in progress and the revenue recognition criteria and related margin;
- analysis of the procedure, understanding of the implementation of the relevant controls put in place by the management on the process of evaluation of the contract work in progress ;
- sample analysis of the correct application of accounting standard International Financial Reporting Standards 15 on new contracts signed;
- analysis of the new contracts with customers and the related contractual modification clauses provided for them;
- analysis of the significant assumptions, in particular with regard to methodologies for determining the estimates of final costs, including foreseeable contractual risks, as well as subsequent events at the end of the financial year;
- analysis of contract reporting and interviews with project managers with particular reference to a sample of contractual variations during the period and to their reflections on the determination of final costs including any foreseeable losses;
- examination of the accuracy of the calculation of the percentage of completion and of the consequent recognition of revenues;
- comparative analysis of the main changes in contract results with respect to the original estimate and the previous year;
- verification on a sample basis of contract costs with reference to the different cost components of certain contracts in place on 31 December 2022;
- examination of orders with negative margin as of 31 December 2022 and understanding of the accounting approach adopted by Avio S.p.A. regarding the accruals in the other provisions for risks and charges;
- acquisition and examination of the analyzes carried out by the company on the impacts arising from the failure of the VV22 mission and of the relevant documentation for the estimation of the relevant provision for risks and charges;
- review of the disclosure provided by the Group and its compliance with the relevant accounting principles.

Non-recurring income related to the derecognition of liabilities regarding funding of Law 808/1985**Description of the key audit matter**

The consolidated financial statements for the year ended December 31, 2022 include € 30,8 million, recognized among other operating income, relating to the derecognition of the liability for the funding of Law 808/1985 in connection with the P80 Research and Development Project of National Security Interest (hereinafter "P80 project" or "project"), for the amount not accounted for as reduction of the relevant assets.

Following the results of an in depth analysis carried out by the management, with the support of an independent expert, the revenue recognition is connected to the amount of royalties due after a settlement with the Economic Development Ministry (hereinafter "MISE", now "MIMIT") after the adoption of Decree-Law 1 March 2022, n. 17 (hereafter "DL 22/2017") in terms of funding Law 808/1985.

In view of the regulatory complexity associated, also taking into account recent developments and the relevance of the liability derecognition, we consider the non-recurring income to be a key audit matter of the Group consolidated financial statements as of December 31, 2022.

The Management Report, in paragraphs "Other significant events" and "Group Operating performance and financial and equity position", describe the regulatory framework and management's assessments thereon.

Audit procedures performed

As part of our audit, we have, among other things, carried out the following procedures:

- examination of the main correspondence of the period with MISE, including the Ministry's audit report issued and the outcome on the declarations submitted by the Company pursuant to paragraph 2 of art. 22 of DL 22/2017;
- understanding, through meetings and discussions with management and the independent expert, of the regulatory framework, as well as of the related accounting criteria adopted;
- analysis of the report prepared by the independent expert, evaluation of their competences, capabilities and objectivity, also with the support of our specialists;
- reading of the minutes of the board of Directors for collecting further information on the subject;
- interviews with the representatives of the Ministry and with the Company's management for an examination of the information contained in the MISE audit report and of the related effects as reported for the amounts settled with reference to the P80 project;
- understanding and examining the accounting approach adopted by the Company regarding the P80 project;

- review of the relevant disclosure provided by the Company and its compliance with the relevant accounting principles.

Recoverability of goodwill

Description of the key aspect of the review

The consolidated financial statements for the year ended 31 December, 2022 record a goodwill amounting to Euro 64,1 million, of which Euro 61 million after the 2017 purchase price allocation of Space2 S.p.A.

This goodwill is allocated to the Group’s only CGU corresponding to the space sector (“CGU Space”).

Goodwill is not amortized while the Company measures its recoverability at least annually, through impairment tests of the CGU Space.

The recoverability of the values is measured by comparing the CGU net invested capital (carrying amount) with the relative recoverable amount, determined by management according to the value in use as the present value of the operating cash flows deriving from the 2023-2027 plan, approved by the Board of Directors on March 13, 2023, and the terminal value.

This methodology requires the use of forecast of market of aerospace sector scenarios which are subject to a physiological degree of uncertainty also in view of the current macroeconomic context at international level.

In view of the subjectivity of the estimates relating to the determination of the cash flows considered and the key variables of the impairment test model, we considered goodwill recoverability to be a key audit matter of the Group consolidated financial statements as of December 31, 2022.

The explanatory notes to the consolidated financial statements describe the management evaluation process. In particular, the significant assumptions and information on the impairment test are reported in the notes 2.9 “Use of estimates” and 3.5 “Goodwill”.

Audit procedures performed

As part of our audit, we have, among other things, carried out the following procedures:

- understanding of the process adopted by the Group in carrying out the impairment test and identifying of the main controls carried out on the impairment test;
- verification of the consistency of the methodological approach adopted by the Group with IAS 36 Impairment of Assets, with particular reference to the identification of the CGU and the determination of its recoverable amount;
- analysis of reasonableness, by obtaining information from the management and the expert, of the main assumptions adopted for the

- of the CGU cash flows forecasts, the discount rates (WACC) and the growth rates (g-rates) applied in the test, also taking into account the uncertainties linked to the current macroeconomic environment;
- analysis of the report prepared by the independent expert assessing their competences, capabilities and objectivity, also with the support of out specialists;
 - verification of the mathematical accuracy of the model used for the determination of the CGU value in use;
 - examination of the sensitivity analysis prepared by the management;
 - review of the disclosure and its compliance with IAS 36.
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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 Regulation (EU) 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.

Some of the information contained in the Consolidated Financial statements Explanatory Notes when extracted from the XHTML format in an XBRL instance, due to certain technical limitations may not be reproduced in the same way as the corresponding information displayed in the Consolidated Financial statements in XHTML format.

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, 2022, 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, 2022 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, 2022 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, 31 marzo 2023

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

