Avio S.p.A.

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

2019 ANNUAL REPORT

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HIGHLIGHTS

Net revenues[1]
Euro 368.7 million (-5.2% on 2018)

EBITDA
Reported: Euro 42.6 million (in line with 2018)

EBIT
Reported: Euro 26.5 million (-Euro 2.0 million and -7% on 2018)

Profit before taxes
Euro 27.0 million (-Euro 0.9 million on 2018)

Net Profit
Euro 27.0 million (+Euro 1.1 million on 2018)

Net Financial Position[2]
+Euro 57.9 million (+Euro 8.8 million on December 31, 2018 and +Euro 15.0 million on December 31, 2018 "pro-forma", due to the IFRS 16 effect)

Investments[3]
Euro 28.6 million (-Euro 5.7 million and +24.9% on 2018)

Backlog [2]
Euro 668.6 million at December 31, 2019 (-Euro 208.8 million and -23.8% on December 31, 2018)

Research and development
costs of Euro 156.8 million, net of pass-through costs incurred in 2019, equal to 42.5% of revenues net of pass-through revenues for 2018 (Euro 145.0 million net of pass-through costs incurred in 2018, equal to 37.3% of revenues net of pass-through revenues for 2018)

Employees
935 at December 31, 2019 (838 at December 31, 2018)

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[1] Net of "pass-through" revenues.
[2] Net of the IFRS 16 effect, present in 2019 and absent in 2018, comparing like-for-like figures the financial position increased Euro 15.0 million on the "pro-forma" cash position of Euro 42.5 million at December 31, 2018.
[3] Net of the IFRS 16 effect, present in 2019 for Euro 11.0 million and absent in 2018.

LETTER TO THE SHAREHOLDERS

Dear Shareholders

One Vega flight and four Ariane flights were successfully completed in 2019. The Vega flight was the 14th consecutive successful launch, carrying the Italian Space Agency's "PRISMA" satellite for Earth observation into orbit.

Qualification tests were also successfully completed for the new P120C motor, the first stage of the Vega-C launcher, and the new Zefiro 40 motor, the second stage of the Vega-C launcher. These qualification tests are major milestones for the new Vega C launcher, whose maiden flight is currently scheduled for the second half of 2020.

On July 11, 2019, for the first time in the history of the Vega launcher - after 14 consecutive successful launches - an anomaly occurred which led to the premature conclusion of the fifteenth mission. The Independent Investigatory Commission appointed by the ESA and Arianespace to ascertain the possible causes of the anomaly issued its conclusions, identifying the most probable cause as a thermal-structural problem in the area of the front cap of the Zefiro 23 motor, indicating the corrective measures and providing their recommendations to permit the Vega to resume operations by the first quarter of 2020, in compliance with the applicable safety and reliability requirements.

Avio completed the implementation of the corrective measures according to the schedule set by the Commission in order to resume flights in the first quarter of 2020 with the VV16 mission to carry the SSMS dispenser with a total of 53 satellites of various sizes into orbit.

The costs of the investigations and implementation of the corrective measures were offset by specific grants from the ESA covering these expenditures.

The ESA Ministerial Conference was held in November 2019 in Seville and was attended by senior government space personnel from the member states of the European Space Agency. Italy contributed a substantial increase in the budget to be allocated to space research programmes, and to the launchers sector in particular. The Vega C, Space Rider, Vega E and Vega C Light programmes saw substantial increases in the number of countries involved and budgets, which will allow these programmes of fundamental importance to Avio to be completed. In the coming years, these projects will enable Avio to formalise research projects with a value of nearly one billion euro.

Two additional Vega contracts were signed during the year: the ESA MicroCarb satellite, designed to survey carbon dioxide levels and emissions on the Earth's surface, to be built by Airbus, and a satellite of a South East Asian nation that will be used to study the typhoon phenomenon.

Arianespace also signed contracts with Viasat, OneWeb, the ESA and the European Commission for missions with the new Ariane 6 launcher, highlighting the strong commercial response to the new European launcher for medium and geostationary orbits, for which Avio will produce the new P120C motor.

New order intake during the year amounted to approximately Euro 160 million and primarily related to the initial portion of the first 14 launchers of the contractual batch for the production of the P120C motor for the new Ariane 6 launcher (the remainder will fall in 2020-2021), Vega C development activity and the production and development of tactical propulsion.

In January, a loan contract for Euro 10 million was signed with the European Investment Bank, in addition to the original Euro 40 million loan signed in October 2017 at the same conditions, which will further support the planned development of new technologies in view of the offering of the new Ariane 6 and Vega C launchers and the expansion of industrial capacity at the Colleferro facility required to meet the company's production volume targets for the coming years.

In April, the Shareholders' Meeting subsequent to the company's stock market listing of April 2017 approved for the second consecutive occasion the distribution of dividends, in the amount of Euro 0.44 per share - up 16% on the previous year.

Financial performance in FY 2019 was in line with expectations of continuing growth at the level of net profit and cash. The reported EBITDA was Euro 42.6 million, stable on the previous year and in line with the guidance published in March 2019. Net revenues were Euro 368.7 million, falling slightly short of the 2019 guidance and down from Euro 388.7 million in 2018, mainly due to slowing production and development activities in the second half of the year as a result of the Vega failure commented upon above.

At December 31, 2019 financial position was solid with net cash of Euro 57.9 million, up by 18% from Euro 49.1 million in December 2018, due to the improvement in operating performance and the contribution of several tax items, despite increased investments (Euro 28.6 million compared with Euro 22.9 million in 2018) and taking account of the dividends paid in May and share buy-backs.

Finally, in August the Board of Directors launched a share buy-back programme in execution of the resolution approved by the Shareholders' Meeting of April 2019. The programme is implemented through purchases carried out by an authorised intermediary acting in a fully independent manner.

As of March 25, 2020, as a result of the purchases, Avio held 297,800 treasury shares with a total value of approx. Euro 3.8 million, representing 1.130% of share capital.

The first few months of 2020 saw the test-firing of the Z23 motor, which further confirmed the reliability of this propulsion system for the resumption of Vega flights, in addition to the test at NASA's Marshall Space Flight Center facility in Huntsville, Alabama of the combustion chamber of the M10 engine based on liquid LOX-Methane technology, to be installed in the Vega E, the maiden flight for which is scheduled for 2025.

Finally, the first few months of 2020 were characterised by the global impacts of the health emergency caused by the spread of the virus Covid-19. Originating in China and now spread worldwide, it is threatening the lives of millions of citizens and the economies of a very large number of countries. This emergency has led the Italian government to impose various limitations on operations of many businesses. However, on March 24, 2020 Avio obtained authorisation from the local government office to continue industrial operations. In the meantime, launch operation activities at the Kourou base in French Guyana remain temporarily suspended, until further notice, due to the measures taken by the French government. Avio is ensuring optimal safety conditions for both its personnel at the base and the Vega launcher, which has already been integrated into the launch ramp and is ready to resume preparation for the launch as soon as possible.

Given this scenario, Avio has taken timely steps to protect the health of its personnel, suppliers and clients, including measures such as disinfection of premises and shift scheduling designed to limit transmission as much as possible and to mitigate the potential risks affecting the safe continuation of production.

In addition, agreements were reached with labour union representatives in accordance with the memoranda entered into between the social partners at the national level, calling for, among other measures, maximum safety in the workplace and the greatest possible use of flexible working methods such as remote working for activities that can be done from home or remotely.

The Company does not believe that the impact of this epidemic during the year can be estimated in quantitative terms at this time. However, in view of the current situation, it is possible that there will be a negative impact in the short term due to a partial slowing of activities as a result of the containment measures and restrictions in place or being adopted by the various government authorities in Europe and the rest of the world (with particular regard to the shutdown of the launch base in Kourou). However, the Company is already taking steps and measures of a financial and operational nature to mitigate the impact of this scenario in the near and medium term.

Among these, the Board of Directors of Avio S.p.A. has deemed it appropriate – as a precautionary measure and in order to further strengthen the financial structure of the Company – to propose that the entire 2019 net profit be allocated to retained earnings at the next Shareholders' Meeting on May 6. The Board reserves the right to assess the specific situation and outlook on closing the half-year report in September 2020. In addition, the top management has also decided, in response to the Covid-19 emergency, to defer the payment of its long-term incentive bonus until 2021.

Finally, the Board of Directors also approved two donations, for a total of Euro 500,000, to Kourou Hospital (in French Guyana) and to the Civil Protection of Colleferro to aid in combating the Covid-19 emergency.

For these reasons, the Board of Directors considers it appropriate not to provide 2020 quantitative guidance at least until the approval of the H1 2020 results.

We shall continue, with determination and trust, rooted in the structural elements of resilience of the business, to work towards supporting the Company's growth trajectory in the coming years.

Giulio Ranzo
Chief Executive Officer and General Manager

Avio S.p.A.

DIRECTORS' REPORT

THE AVIO GROUP

PROFILE

The Avio Group (hereafter in this Directors' Report "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 oxygen turbo-pump boosters (solid propulsion motors) for the Vulcain 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 2,000 kg 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 ESA and ASI with propulsion subsystems for the launching and control of several satellites, including the latest SICRAL, Small GEO and EDRS-C satellites.

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 2020, for which Avio, through its subsidiary Europropulsion, is developing and will supply (i) the solid propellant P120C engine, (ii) the liquid oxygen turbopump for the Vulcain 2 engine and (iii) the liquid oxygen turbopump for the Vinci engine.

- **Vega**

  Vega is a space program for LEO missions, whose development has been funded by the ESA, with mainly Italian funding, and for which the Group is the prime contractor for the production and integration of components for the entire launcher and for the production of the solid propulsion engines P80, Zefiro 23 and Zefiro 9 and of the AVUM liquid propulsion module. The Group also plays the role of the ESA's prime contractor for the development of the new generation of Vega Consolidated (Vega-C) and Vega Evolution (Vega-E) launchers, scheduled for the second half of 2020 and for 2025 respectively. The Group is responsible for the development and production of these entire launchers, in addition to (i) the development of the solid propulsion engine P120 C (first stage to replace the current P80), which is constructed in synergy with the Ariane program 6), (ii) the Z40 solid propellant engine (second stage to replace the current Z23) and (iii) an oxygen-methane liquid engine for the upper Vega-E stage.

- **Tactical Propulsion**

  Avio is responsible for the design and production of the following products:
  - Aster 30 - the booster and sustainer motors, actuation system (TVC) and aerodynamic control surfaces (fins);
  - Aster 15 - the sustainer motor and aerodynamic control surfaces (fins);
  - Aspide propulsion units;
  - Marte sustainer.

  Regarding development programs:
  - CAMM-ER - development of the booster and single stage sustainer motor, wiring and aerodynamic control surfaces (fins);
  - Aster 30 MLU - development of the new Aster 30 booster to replace the current one in production, from 2021, solving REACH and obsolescence issues.
  - E TVC (Electromechanical Trust Vector Control), a drive control system through the electromechanical system which will replace the current hydraulics to lengthen the maintenance times and operating life of the Aster missile.

With net revenues in 2019 of Euro 368.7 million and Reported EBITDA of Euro 42.6 million, the Group currently occupies a leading position in the Italian and European space industry, substantially supported by its high degree of competitivity - drawing over 98% of its revenues from overseas.

The highly technological content of Avio's operations has required research and development spend - for the portion principally commissioned by the ESA, ASI and Member State ministries - accounting for approx. 40% of net revenues in 2019. 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 AND COMMITTEES

Board of Directors

The term of office of the Board of Directors is three years, concluding with approval of the 2019 Annual Accounts.

Roberto Italia	Chairman
Giulio Ranzo	Chief Executive Director (c) (d)
Donatella Sciuto	Independent Director (a) (d)
Maria Rosaria Bonifacio	Independent Director (b)
Monica Auteri	Independent Director (a)
Giovanni Gorno Tempini	Independent Director (b) (c)
Vittorio Rabajoli	Director (a)
Luigi Pasquali	Director (c)
Stefano Ratti	Director (b) (d)

a. Member of the Risks Control and Sustainability Committee:
b. Member of the Appointments and Remuneration Committee
c. Member of the Investments Committee
d. Member of the Strategic Activities Committee

Board of Statutory Auditors

The term of office of the Board of Statutory Auditors is three years, concluding with approval of the 2019 Annual Accounts.

Riccardo Raul Bauer	Chairman
Claudia Mezzabotta	Statutory Auditor
Maurizio Salom	Statutory Auditor
Maurizio De Magistris	Alternate Auditor
Virginia Marini	Alternate Auditor

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

2012
In February, the European space launch system named VEGA, designed and engineered by Avio, was approved.
In December, Avio announced the signing of an agreement for the sale of its aeronautical division to General Electric.

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

2014
In December, the European Space Agency Ministerial Conference of Member States decided to finance the VEGA launcher development program until its completion, including a first rocket stage (the P120 C) to be shared with the forthcoming Ariane 6 launcher, also fully financed.

2015
The outcome of the Ministerial Conference of ESA countries, held the previous December 2014, led in August 2015 to the signing of major development contracts for the Vega-C and Ariane 6 launchers. Avio's key role was recognized thanks to its participation in the development program for Vega-C and Ariane 6's shared rocket stage, the P120, and its lead systems engineering role in the VECEP program for the development of the Vega-C launcher.
For the first time in the history of the Kourou Space Centre as many as 12 launches were made in one year, including 6 involving Ariane and 3 for Vega.

2016 - 2017

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

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

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

2018

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

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

With regards to the potential benefits from application of the research and development tax credit as per Article 3 of Legislative Decree No. 145/2013 and the related regulatory framework applied to the activities carried out by the business unit sold by ELV S.p.A. to Avio S.p.A., as at the signing date of the final business unit sales contract these overall potential benefits had not yet been precisely established among the parties as the analysis together with the tax consultants was still ongoing, the parties agreed that the tax credit from application of the above rule was to be included in the business unit sold at the signing date of the final contract, while the valuation of the business unit sold and consequently the sales price at the final contract signing date does not take into account the potential overall expected associated benefits. The parties therefore agreed that, on conclusion of the above analysis, by June 30, 2020 the value of the tax credit included in the business unit sold to Avio S.p.A. would be established, in addition to any adjustment of the consideration on the basis of the established potential overall expected benefits, taking into account regulatory provisions in course.

2019

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

BUSINESS 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

Production sites: Colleferro (Rome), Kourou (French Guyana)

INTERNATIONAL PRESENCE

ITALY

(I) (II) (III)	Colleferro (Rome), space propulsion
(II)	Villaputzu (Cagliari), space propulsion
(III)	Airola (Benevento)

EUROPE

(IV)	Suresnes – France, Europropulsion S.A.
(IV)	Evry-Courcouronnes – Francia, Arianespace Partecipation S.A.

REST OF THE WORLD

(II) (IV)	Kourou - French Guyana, loading of Ariane 5 solid propellant booster segments and their integration, integration of the VEGA launcher

Key

(I)	*Headquarters*
(II)	*Production offices or location*
(III)	*Research laboratory*
(IV)	*Joint ventures and investees*

STRATEGY

In accordance with the outcomes of the December 2014 and December 2016 Ministerial Conferences, which confirmed the European strategy for developing its launchers, and pursuant to contracts entered into in 2015 and 2017, Avio is working on:

- developing the P120 engine as a common element of Vega-C (stage one) and Ariane 6 (booster);
- developing 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;
- the development of the Upper Stage of the Vega-E with the new cryogenic Oxygen and Methane propellant M10 motor stems from the contract obtained through the ESA, with Avio and Italy together at the forefront with many other European countries. Vega-E (a three-stage launcher based on P120, Z40 and a LOx-methane upper stage), in addition to further cutting the launch price, will further improve (i) Vega-C's performance and (ii) the range and flexibility of satellite services, which enables, among other benefits, more extensive orbital parameter changes than possible with Vega and Vega-C.

Furthermore, the November 2019 Ministerial Conference in Seville confirmed all the programmes approved in the previous Ministerial Conferences. New ESA member states, including Ireland and Romania, also decided to join the Vega programme with substantial contributions, guaranteeing the necessary support to continue development right up to the next Ministerial Conference scheduled for 2022. Contract formalization and order backlog integration of these development projects is now expected in 2020 and 2021.
In addition to the aforementioned programmes, the Ministerial Conference gave the go-ahead for the development of an improved version of the Vega-C launcher, Vega-C++, which will introduce further economies of scale and thus a further market price reduction before the arrival of Vega E.

In addition, the strategy of expanding the market accessible to Vega and, above all, the greater flexibility in terms of services offered to end clients, were further consolidated through participation in the following ESA programs:

- **SSMS**, which aims to provide a dedicated service for so-called Small-Sats, single or constellations of satellites with a mass range of 1-400 kg, which are increasingly in demand. Some launchers of the same class as Vega, such as Dnepr and PSLV, are already equipped with SSMS-like dispensers that offer the multi-launching of small satellites in this mass range. The development of an ad-hoc dispenser, along with the qualities of flexibility and versatility of the Vega upper stage, will give the launcher a significant competitive advantage;

- **Space Rider** (in partnership with Thales Alenia Space Italia), a Vega-C launched spacecraft capable of carrying up to 800kg of payload in orbit for 2 months for a variety of applications such as orbital experiments or services, and ultimately earth re-entry for the recovery of Payloads.

In parallel, Avio began development of a Vega derivative and of the Vega-C (called **Vega-C Light**), to carry satellites of under 300 KG, to be utilised on the small satellites market, for dedicated customer services, or (i) the replacement of a satellite in orbit, (ii) a particular orbital service, or (iii) fast deployment to a well-defined orbit at a specific moment. Avio to date (i) has finalised the configuration of 3 stages (Z40, Z9 and a new small solid propellant stage to be developed), (ii) is signing an agreement with the current supply chain of Vega / Vega-C for "simplified" structures and avionics, (iii) is assessing options in Europe for a possible launch base (among these, Portugal and Norway seem the most promising candidates).

The Space Rider and Vega-C Light programmes also received substantial funding approval to continue development at ESA's last Ministerial Conference, in Seville, in November 2019.

The company recently consolidated its "ground" activities role i.e. mechanical, electrical and fluid activities at the launch base, begun in 2016 and which in fact extends its scope of expertise. This was part of an agreement reached with Arianespace to redefine "Launch System" responsibilities at the French Guyana Space Centre, with Avio taking over new activities in the second launch campaign of 2017.

The incorporated company AVIO Guyane S.A.S. acquired control of the Zone de Lancement Vega (ZLV) launch area and the management, in particular, of (i) launcher integration coordination and (ii) main assembly installation maintenance (e.g. Control Centre, Integration and Launch building, Propellant Loading Stations).

Since 2017, the company implemented its new model of governance in the European space industry, which it proposed through an agreement with partner companies of ArianeGroup (Prime Contractor for the Ariane 5 launcher and its successor Ariane 6), Arianespace (Launch Service Provider) and ESA as Observer. This model will allow Avio to have control of Arianespace's Business Plan regarding the marketing of the Vega launcher and its successors, in order to determine volumes and prices that allow, according to recurring launch system costs, balanced budgeting for the launcher's development. The company targets an increase in the number of annual Vega launches from the current 2-3 to a set 4-5 launches per year.

SHAREHOLDERS

At December 31, 2019, 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 ("business combination") on the STAR segment of the Italian Stock Exchange (MTA);
- 1,800,000 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 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, 2019, no exercise requests have been received from holders.

At December 31, 2019, on the basis of the communications received as per Article 120 of the CFA and the information available to the company, the Avio S.p.A. shareholder structure was as follows:

Shareholder	% share capital
Leonardo S.p.A.	25.88%
Space Holding S.p.A.	5.60%
In Orbit S.p.A.	3.97%
Remaining MTA free float	64.55%
Total	**100%**

YEAR 2019

SIGNIFICANT EVENTS IN 2019

Business

Vega

The fourteenth consecutive Vega (VV14) launch took place in March 2019, putting into orbit the "PRISMA" satellite of the Italian Space Agency for Earth observation.

On July 11, 2019, approx. two minutes after the launch of the Vega VV15 launcher (hereafter "VV15"), an anomaly occurred shortly after the second stage ignited (Zefiro 23), which led to the premature conclusion of the mission for the "Falcon Eye 1" satellite commissioned to Arianespace Société par actions simplifiée ("Arianespace") by the United Arab Emirates Government.

As set out in the contractual agreements governing relations between Avio, as Prime Contractor of the Vega launcher and Arianespace, as Launch Service Provider and Launch Operator, on the same date, the ESA and Arianespace appointed an Independent Investigatory Commission with the duty of establishing the possible causes of the anomaly.

According to the above-stated contractual agreements, from the point of the launcher's lift-off, the responsibility for the damage to third parties deriving from launcher malfunction is transferred to Arianespace, whatever the cause. Therefore, Arianespace shall exclusively be responsible for any damage from defects and/or the malfunctioning of products provided by Avio and/or by its sub-suppliers caused during the flight of the launchers as the launch operator and - where applicable - the French government.

With regards to the anomaly on the VV15, on September 5, 2019, the Independent Investigatory Commission issued its conclusions on the possible causes, identifying that most probable as a thermal-structural problem in the area of the front cap of the Zefiro 23 motor and indicating the corrective measures which should be taken, expressing their recommendations to permit the restart of Vega launches by the first quarter of 2020, in compliance with the applicable safety and reliability requirements.

On July 12, 2019, the Inter-ministerial Committee for Space and Aerospace policies, together with the Italian Space Agency, guaranteed its full support to Avio in a statement issued by the President of the Council of Ministers in terms of providing continuity to its Space access activities, which are testament to the country's strategic capacity.

In the second half of 2019 and in the initial months of 2020, Avio introduced corrective measures according to the timeframe of the Commission, satisfying all requirements for a return to flight with the VV 16, as scheduled, by March 2020. However, as reported in the "Subsequent events" section, on March 16, 2020 the "Guyanais Space Centre" (CSG) and Arianespace announced that, in implementation of the communications from the French government to combat Covid-19, the Centre had decided to temporarily suspend preparations for upcoming launches at the Kourou base.

Avio is ensuring optimal safety conditions for both its personnel at the base and the Vega launcher, which has already been integrated into the launch ramp and is ready to resume preparation for the launch as soon as possible.

According to an assessment of the implementation of the Commission's test and analysis based audit plan and the corrective actions indicated by the Commission, the economic costs of the anomaly have been fully offset under the coverage provided by Arianespace and ESA's existing contractual agreements.

New Zefiro 40 (Vega C launcher's second stage) qualification tests successfully completed

In May 2019, the second bench test of the Zefiro 40 motor took place at the Salto di Quirra Inter-forces Range in Sardinia. This is the final land qualification test of the motor and opens the way to the qualification of the Vega-C launcher.
The structural qualification test of the carbon fiber casing of the Zefiro 40 motor was successfully undertaken, culminating in the successful testing of the casing in June 2019, highlighting the significant resistance of the structure and the margins against operating conditions.
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.

P120 C motor second bench test success (Vega C launcher's first stage)

In January 2019, the second qualification test of the P120C solid propellant engine successfully took place at the European Space Centre in Kourou, French Guyana. This is the first of two qualification tests for the propulsion system of the Vega-C launcher and follows the development test of 2018. The second test, which will follow, is for the qualification of the Ariane 6 launcher. The P120C is in fact the new common motor for the Vega-C and Ariane 6 launchers. Avio plays a central role in the development of the P120C, the largest monolithic, carbon-fibre construction, solid propellant engine in the world, built at Avio's facilities in Colleferro. The engine was loaded with solid propellant produced by Regulus, a subsidiary of Avio, and forms part of the Europropulsion joint venture between Avio and ArianeGroup.

Ariane

In 2019, 4 launches were successfully completed. February saw VA247 launch telecommunications services Saudi Geostationary Satellite 1 / Hellas Sat 4 and GSAT-31 into orbit. In June, VA248 took television services T-16 satellites and EUTELSAT 7C into orbit. In August, VA249 launched Intelsat 39 video and broadband communication services satellites, as well as the European Data Relay System C (EDRS-C), the ESA satellite for data and image transmission captured by the Copernicus Earth Observation constellation, in addition to the twin satellite EDRS-A constellation. Finally, in November, VA250 launched the Egyptian government's TIBA-1 telecommunications satellite and British Inmarsat's GX5 broadband connectivity-enhancing mobile services satellite.

Tactical Propulsion

In 2019:

- 70 boosters were constructed;
- 18 Aster 30 fins were produced;
- the ASTER boosters from the MoD were maintained;
- 20 Marte Sustainers were constructed;
- 96 Aster Sustainers were constructed;

For the Aster 30 MLU programme, the following were undertaken:

- the first qualification test of the casing to check the mechanical characteristics with the new Avio fiber;
- the static bench test of the bomb with the new propellant to verify the ballistics performance was carried out;
- the PG1 review which closes the detailed design phase.

The E-TVC offer to replace the current ASTER hydraulic guide system was presented to the customer.

For the CAMM ER programme:
- 4 inert motors for the munitions level test were produced;
- 3 delivery motors were produced;
- 1 firing was performed on the qualifying bench;
- 2 missile development launches were carried out by the customer;
- 6 motors for IM tests were produced;
- The accelerated aging programme of the motors continues.

Main agreements and contractual events in 2019

With regards to Ariane 5 production:
- negotiations for the new variant of the Batch PC related to the PB production contract for the supply of the Ariane 5 solid boosters is still ongoing with the ESA, in particular for the compensation for the Ramp down of the programme. Compensation for procurement (which has been completed) has concluded and will translate into a new contract over the coming months;
- the PC contract related to the production of the Vulcain 2 oxygen turbopumps remains unchanged. The final two units shall in fact be reutilised for the Ariane 6, maintaining the continuity of current Ariane 5 production and compliance with the schedule for the initial Ariane 6 deliveries;
- new tranche of the MCO contract signed, which will cover the maintenance needs of the Ariane 5 manufacturing equipment until its completion, both for the Collefero site and for the Regulus facility in Guyana;
- initial tranche of the LEAP contract signed for the earthquake protection update to the ESA's buildings, dedicated to Ariane manufacturing;
- the variant to the PC contract for the price review for the metal parts of the nozzle of the Ariane 5 booster signed.

With reference to the P120C SRM production activity, we report the signing of the "Authorization to Proceed" between Europropulsion and Avio, for a value of Euro 70 million, which followed that between Arianegroup and Europropulsion signed on July 31, 2019 for the supply of the P120C engines of the Ariane 6 launcher. The authorization covers the manufacture and supply of 6 P120C engines as well as the start up of the following activities for the remaining engines of the Transition phase of the program. Where the Transition phase is understood as the overlapping period between the end of the production of the Ariane 5 launcher and the debut of the production phase of the Ariane 6 launcher.
Currently, the entire P120C production contract for the Ariane 6 launcher is at an advanced stage of negotiation between AGS and EUP and is expected to be closed next April 2020. This will be followed shortly by a similar contract between EUP and AVIO for the supply of the P120C subassemblies, i.e. the Loaded Motor Case (LMC) and the ignitor.
"Authorization to Proceed" signed between AGS and AVIO for the Ariane 6 production contract for the supply of Vulcain 2 and Vinci oxygen turbopumps, for a value of Euro 7 million. The authorisation covers the manufacture and supply of 8 Vulcain 2 and 8 Vinci turbopumps.

With regards to Vega production, Avio S.p.A. signed:
- with the client Arianespace:
  - an order for additional Batch 2 production activities;
  - VEGA batch 2 cadence indemnity;
- with the client ESA:
  - two conversion proposals for production assistance activities for the 2015-2016 period;
  - four conversion proposals for production assistance activities for the 2017-2019 period;
  - a contractual change (CCN) for the introduction of the qualification activities for the new detonators (ESI);
- with the client Europropulsion:
  - the P80 technical assistance contract for batch 3 of production.

With reference to the Vega development operations, a number of contractual variants were acquired which permitted:

- setting of the technical scope, the configuration and industrial organisation for Vega-C (both at launcher and launch base level, Space Rider and Vega-E);
- finalising SSMS PoC for the VV16 flight;
- a further consolidation phase for the VENUS preliminary project.

Negotiations began with the ESA regarding mission activities for the Vega-C qualification flight and the AVIO/ESA/ARIANESPACE/CNES protocol for the relative launch operations at Kourou.

With regards to tactical propulsion operations, the following are currently under negotiation:

- an additional tranche of the MLU contract;
- the post-MLU production contract;
- the Aspide Cipro propulsion unit recovery contract.

ESA Ministerial Conference - Seville - November 2019

The November 2019 Ministerial Conference in Seville confirmed all the programmes approved in the previous Ministerial Conferences. New ESA member states, including Ireland and Romania, also decided to join the Vega programme with substantial contributions, guaranteeing the necessary support to continue development right up to the next Ministerial Conference scheduled for 2022. Contract formalization and order backlog integration of these development projects is now expected in 2020 and 2021.
In addition to the aforementioned programmes, the Ministerial Conference gave the go-ahead for the development of an improved version of the Vega-C launcher, Vega-C++, which will introduce further economies of scale and thus a further market price reduction before the arrival of Vega E.

Other significant events

Research and development tax credits

Amendment of the research and development tax credits regulation

The 2020 Budget Law significantly modified the tax relief for research and development activities. In summary, the 2020 Budget Law provides for 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), is confirmed for the 2019 tax period only. Before the 2020 Budget Law this credit was also to apply to the 2020 tax period;

2) the following new tax credits are established for the 2020 tax period only to replace the previous R&D credit:
   a) a tax credit for fundamental research, industrial research and experimental development in scientific or technological fields, as defined in the "Frascati Manual". This tax credit is granted for 12% of the costs incurred in 2020, with a maximum of Euro 3 million;
   b) a tax credit for technological innovation activities, other than those set out in point a), for the development of new or substantially improved products or production processes. This tax credit is granted – separately from that set out in paragraph a), and thus cumulatively – for 6% of the costs incurred in 2020 for such activities, with a maximum of Euro 1.5 million. The relief is increased (10% of the costs incurred in 2020 for such activities, up to a maximum of Euro 1.5 million), where the technological innovation activity is intended to achieve an environmental transition or digital innovation 4.0 objective;
   c) a tax credit for the design and styling activities carried out by companies active in textiles, fashion, footwear, eyewear, jewellery, furniture and furnishings and ceramics to

create and implement new products and samples.

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

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

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

Since the amendments introduced by the 2020 Budget Law entered into effect on January 1, 2020, they do not have immediate effects on FY 2019.

Effect of regulatory changes on the 2019 financial statements of the Avio Group

It should be noted that the 2019 Budget Law introduced, among other measures - including the reduction of the tax credit from Euro 20 million to Euro 10 million as from 2019 - a rule of authentic interpretation of paragraph 1-*bis* of Decree Law No. 145/2013. Specifically, this rule seeks to establish that, where research and development is carried out on behalf of foreign principals, the tax benefit is granted to the agent exclusively in relation to the expenses concerning research and development carried out directly and in laboratories or structures located in Italy.

In consideration of the developing interpretations of the 2019 Budget Law (issued on December 31 2018) over almost the entire year 2019, as well as the opinion of independent consultants, the Group has calculated the tax credit accrued in 2019 for research and development activities, mainly commissioned by the European Space Agency, taking into account and applying, retroactively to 2017, the authentic interpretation of paragraph 1-*bis* of Article 3 of Decree-Law No. 145/2013 to establish that, where research and development is carried out on behalf of foreign principals, the tax benefit is granted to the agent exclusively in relation to the expenses concerning research and development carried out directly and in laboratories or structures located in Italy.

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.

Signing of an additional Euro 10 million loan contract with the European Investment Bank (EIB)

On January 16, 2019 the Company signed an additional Euro 10 million loan contract with the European Investment Bank (EIB). This loan is in fact in addition to, and subject to similar economic conditions as, the aforementioned original loan of Euro 40 million contracted in October 2017.

This increase will further 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.

Amendment to the dividend policy and second distribution of dividends

On April 29, 2019, the Shareholders' Meeting, simultaneous to the approval of the financial documents for the year ended on December 31, 2018, approved the amendment of the dividend policy in accordance with the principle of sustainability over the medium/long-term on the basis of the economic-financial outlook, the solidity of the capital structure and also in consideration of "capital intensive" investment cycles in the medium to long-term.

The change to the policy was as follows: a "dividend yield" (the dividend per share as a percentage of the market value of the share), from a range of 2% to 3.5% of stock market capitalization to a range of 1% to 5% of stock market capitalization.

The "payout ratio" remains unchanged however in a range of between 25% and 50% of the consolidated net profit.

Following approval by the Shareholders' Meeting of April 29, 2019 of the statutory financial statements of the parent Avio S.p.A. and of the allocation of the net profit, in May 2019 dividends were distributed for the first time to shareholders, for a total of Euro 11,598 thousand (Euro 0.44 per share).

VAT receivable collections

In 2019, following refund claims presented by the parent company Avio SpA to the Tax Agency, credits were received for previous VAT payments mainly relating to the year 2017 and totalling Euro 33.2 million, plus interest to the value of Euro 1.1 million.

Purchase of treasury shares

The Board of Directors of Avio S.p.A on August 2, 2019., in execution of that approved by the Shareholders' Meeting of April 26, 2019, launched a treasury share buy-back programme.

The programme is being executed through purchases by an appointed intermediary, Equita SIM S.p.A., which fully independently adopts its decisions with regards to purchases, also in terms of their timing, in accordance with the applicable regulation and the above-stated Shareholders' Meeting regulation.

In line with that set out by the Shareholders' Meeting motion, the treasury share buy-back programme is undertaken to:

a) efficiently utilize liquidity generated by company operations, also through medium-long-term investment in treasury shares;
b) offer shareholders an additional tool to monetize their investment;
c) use treasury shares as consideration in corporate actions, to receive funds for acquisition projects and/or in exchanges of shareholdings, or for other uses deemed of interest to the Company in financial, managerial and/or strategic terms;

The programme concerns the purchase of treasury shares for an amount not greater than Euro 5 million and up to a maximum of Euro 1,000,000.

The purchases are made on the MTA market (STAR segment) in accordance with Article 144-*bis*, paragraph 1, letter b) of Consob Regulation 11971/1999 and the other applicable provisions and in a manner which ensures compliance with the requirement for the equal treatment of shareholders as per Article 132 of the CFA, in addition to the operating means established under the Borsa Italiana S.p.A. organisation and management regulations.

The programme can be executed, within the above share value and quantity limits, until October 28, 2020, i.e. within the 18-month deadline set by the authorisation granted by the Shareholders' Meeting of April 29, 2019, subject to its withdrawal.

On December 31, 2019, following the purchases made, Avio S.p.A. holds 214,500 treasury shares, equal to 0.81% of the number of shares comprising the share capital. The value of the acquired treasury shares amounts to Euro 2,668 thousand.

Settlement with FCA Partecipazioni S.p.A. regarding environmental charges

As previously reported, under the "Agreement of Purchase and Sale" signed in 2003, FCA Partecipazioni S.p.A. was required to indemnify the Avio Group for reclamation activities, the charges to be incurred for environmental restoration, in addition to the post-operative management and maintenance of a number of areas located in the Colleferro industrial district.

Following years of collaboration between the parties in examining the indemnifiable environmental charges upon FCA Partecipazioni S.p.A. in accordance with the above-mentioned 2003 contract and the payment of indemnities to the Avio Group, in 2017 FCA Partecipazioni S.p.A. communicated to the Avio Group the lapsing, according to FCA Partecipazioni S.p.A., of the applicability of the contractual obligations as a result of the alleged "change of control" through the Space2 S.p.A./Avio S.p.A. corporate transaction at the beginning of 2017, which led to the stock market listing of Avio S.p.A..

In July 2017, the Avio Group initiated an arbitration procedure with FCA Partecipazioni S.p.A. in order to declare the continuity of the above-sated contractual guarantee.

Within the arbitration process, also on the invitation of the Board of Arbitrators, the parties began negotiations to reach a settlement.

In this regard, on August 2, 2019, the parties agreed a settlement according to which 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.

Simultaneous to the signing of the settlement, on August 2, 2019 FCA Partecipazioni S.p.A. paid the Avio Group approx. Euro 4.0 million as a portion of the overall settlement.

For further details, reference should be made to the "Legal and tax disputes and contingent liabilities" section of the Explanatory Notes.

Incorporation of the company Avio France S.A.S.

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

MARKET PERFORMANCE AND OPERATIONS

General overview: historic and future outlook

In 2019, 103 orbital launches were carried out, bringing a total of 498 satellites into orbit (up from 467 in 2018):

- 262 main satellites (185 in 2018), the majority of which for LEO orbits, and constant numbers for GEO, MEO and the ISS. These satellites are mainly "commercial", differing from 2018 in which the satellites were mainly "governmental" or, more generally, "institutional";

- 236 secondary satellites, almost exclusively in LEO orbit, confirming the decline since 2018, during whose calendar year 282 secondary satellites were sent into orbit, against 315 in 2017. The secondary satellites are generally small-mass satellites ridesharing on primary satellite launches. These satellites are almost equally distributed between "commercial" and "institutional".

The 2019 figures are in line with satellite market forecasts for the 2019-2028 ten-year period. The trend for the number of satellites requiring a launch service indicates:

- substantial stability for GEO satellites (almost exclusively commercial and dedicated to broadcasting telecommunication services);

- The LEO satellite market continues to expand for both institutional and commercial applications, especially in the fields of earth observation, navigation and telecommunications services, such as broadband internet, mobile telephony and Internet of Things. Regarding these services, there is good reason to believe that a greater prominence will be seen of so-called small satellite constellations, typically in the order of 5-250 kg with unit numbers ranging from a few dozen to thousands (this trend was particularly evident from 2013 onwards and was confirmed in 2018 and 2019). Consequently, it is expected that most of the increase in launches will be taken up by high frequency launchers with multi-load mission characteristics, for which Avio is developing the Vega-C SSMS service.

Launchers market

Although reporting some interesting new developments, 2019 confirmed the global trend of recent years, in which:

- few nations have launch services capable of responding to the consistently strong institutional market: the USA, Russia and China and, to a lesser extent, Europe, India and Japan; New Zealand in 2018 carried out to date 11 launches of the Mini Electron Launcher, developed and operated by Rocket Lab;

- an even smaller number of nations can respond to commercial market needs;
  - USA primarily, with the Falcon 9 launcher marketed by Space X establishing itself. In 2019, Falcon9 put into orbit a mass of 80 tonnes of commercial satellites, with an improving trend on the total for 2018, in which a mass of 48 tonnes was launched. The increase is partly due to the first launch of the Starlink constellation, which put into orbit a total of 60 satellites for a total mass of approx. 14 tonnes;
  - Europe with its Arianespace Ariane 5, Vega and Soyuz launcher range, with 40 tonnes of lift-off mass in 2019, of which 45% commercial, compared with a total mass of 61 tonnes in 2018, of which 38% by commercial operators, launched by Ariane 5 and Soyuz;
  - Russia, with its Soyuz 2.1a and 2.1b, had no commercial launches in 2019, except for 17 satellites that piggybacked an institutional flight totalling 260 kg;

    - India with PSLV, among Vega’s main competitors, with 5 launches in 2019 and 267 kg of small commercial piggyback satellites;
    - China, which is entering the commercial market with small CZ Class institutional launchers, but also Kuaizhou and LandSpace;
- China, in the second half of 2019, performed 23 launches (almost exclusively for institutional purposes), totalling 34 launches in 2019, down from 39 launches in 2018, which had set a new absolute record for the calendar year;
- Russia confirmed a consistent trend with 22 launches (17 in 2018), while Europe remains substantially stable with 9, including the Soyuz marketed by Arianespace (11 in 2018);
- Also of note were the start of PSLV operations for the new DL and QL versions, the first unmanned test of SpaceX’s Dragon capsule for taking astronauts to the ISS, and the fifth Starlink batch launch, taking the number of satellites in orbit to a total of 302, including two prototypes.
- with regards to “failures” in 2019 to date, we report those of the Iranian Simorgh and Safir launchers and of the Chinese CZ-4c and OS-M1 (Maiden Flight) and Vega (VV15) launchers. Over the last decade, Russia has confirmed its position as the nation with the highest number of failures (14 out of 260 launches), followed by China (10 out of 190 launches). Japan and Europe are the most successful regions with zero and three failures respectively.

Finally, 2019 confirmed that the space sector is attracting more and more capital from private investors, such as business angels and venture capitalists, destined for both established companies, such as Space X, or start-ups, such as Vector, Alpha, Orbex, Rocket Lab, and LandSpace. The last 10 years have seen investments to the tune of USD 25.7 billion, equally divided between launcher and satellite sectors, with USD 4.5B in 2017 and USD 3B in 2018. 2019 saw the value of investments reach USD 5.8B. Such capital incentives are allowing more and more companies to enter the restricted circle of business with nations acting on space ambitions; examples, in 2018, despite their first launch failures, being Rocket Lab and LandSpace. In view of the above, in addition to (i) the ever stronger market growth in 1 to 500 kg mass satellites, and (ii) the increase demand for LEO satellites typically in the 1-2 ton mass class, AVIO considers that it will be able to cover the wide range of demand through products and services supplied through Vega, Vega-C, SSMS, Space Rider, Vega Light and the various VSS modules under development for increased performance, flexibility and versatility. Meeting the challenge will require reductions in the costs of the products and services, opportune timing and responsiveness in proposing them (with several Mini-Launchers already operative outside Europe) and an aggressive commercial strategy, particularly towards commercial customers, which make up the majority of the demand.

GROUP OPERATING PERFORMANCE AND FINANCIAL AND EQUITY POSITION

Earnings and financial results

Operating results

The table below presents the operating performance of the Group for 2019 and 2018 "Pro-Forma" on a comparable basis (in Euro thousands):

	FY 2019	FY 2018	Change
Revenues	391,121	439,695	(48,575)
of which: Pass-through revenues	22,470	51,000	(28,530)
Revenues, net of pass-through revenues	**368,651**	**388,695**	**(20,045)**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	8,200	7,132	1,067
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(337,129)	(356,514)	19,385
Effect valuation of investments under equity method - operating income/(charges)	2,868	3,239	(372)
EBITDA	**42,589**	**42,552**	**36**
Amortisation, depreciation & write-downs	(16,057)	(14,032)	(2,025)
EBIT	**26,532**	**28,520**	**(1,989)**
Interest and other financial income (charges)	452	(663)	1,115
Net financial charges	**452**	**(663)**	**1,115**
Investment income/(charges)	-	-	-
Profit before taxes	**26,984**	**27,857**	**(874)**
Current and deferred taxes	3	(2,020)	2,024
Group & minority interest net profit	**26,987**	**25,837**	**1,150**

The "pass-through" revenues derive from agreements reached 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" engine for future 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 consolidated;
- a second invoice issued directly by Avio SpA, as the prime contractor, to the end-customer, the European Space Agency. This concerns a simple reinvoicing 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-throughs" amounted to Euro 368,651 thousand at December 31, 2019, which is Euro 20,045 thousand, or 5.2%, less than in 2018. This pronounced decline is primarily attributable to the slowdown in production an development activities following the Vega failure, and the transition phase involving the shift from the Ariane 5 programme to the future Ariane 6 programme.

The above revenues breakdown by business line as follows:

	FY 2019	FY 2018	Change
Ariane	143,631	161,051	(17,420)
Vega	202,696	206,489	(3,792)
Tactical Propulsion	20,476	19,271	1,205
Other revenues	1,848	1,885	(36)
Revenues, net of pass-through revenues	**368,651**	**388,695**	**(20,044)**

The reduction in Ariane revenues is mainly due to the ramp-down of Ariane 5, which will be replaced by the new Ariane 6 launcher under development.

EBITDA in 2019 amounted to Euro 42,589 thousand, in line with 2018 and with the 2019 Guidance.

EBIT was Euro 26,532 thousand, decreasing Euro 1,989 thousand on 2018, mainly due to the reduction in the research and development tax credit contribution following regulatory developments and higher amortisation and depreciation, partly offset by the VEGA batch 2 price adjustments, in addition to the differing mix of activities and the reduction in non-recurring costs.

The contribution of research and development tax credits, benefitting the Group from 2017, concerns the research and development commissioned by the European Space Agency and is recognised to the results on the basis of the advancement of costs incurred for long-term Group orders for research and development to which the contribution refers. The contribution recognised to the Income Statement in 2019 was substantially zero (Euro 7,417 thousand in 2018), due to the above-stated retrospective application to 2017 of the authentic interpretation rule. Currently, this benefit, on the basis of the state of advancement of long-term orders which have incurred costs against which the tax credit may be applied, is expected to benefit the medium-term period, although to lesser extent than previous forecasts due to the regulatory changes, with an effect on the results of each period depending on the effective level of advancement of the qualifying orders. For additional information on the nature of this contribution, reference should be made to the "Subsequent events - Research and development tax credit" section of this report.

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 2019 and 2018 are reported below:

	FY 2019	FY 2018	Change
Adjusted EBITDA	**44,029**	**47,260**	**(3,231)**
Adjusted EBITDA Margin (against revenues net of pass-through revs.)	11.9%	12.2%	
Adjusted EBIT	**27,972**	**33,228**	**(5,256)**
Adjusted EBIT Margin (against revenues net of pass-through revs.)	7.6%	8.5%	

The Adjusted EBITDA, 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, also excludes non-recurring and extraordinary components of Group operations, improving the comparability of the operating results.
The 2019 Adjusted EBITDA was Euro 44,029 thousand (11.9% of net revenues), decreasing Euro 3,231 thousand on Euro 47,260 thousand for 2018 (12.2% of net revenues), mainly due to the gradual reduction in non-recurring costs for the corporate transaction for the company's listing.

Adjusted EBIT consists of EBIT excluding non-recurring or extraordinary components, already excluded for the calculation of Adjusted EBITDA.
The 2019 Adjusted EBIT was Euro 27,972 thousand (7.6% of net revenues), decreasing Euro 5,256 thousand on Euro 33,228 thousand for 2018 (8.5% of net revenues), mainly due to, in addition to the components altering Reported EBIT, the gradual reduction in non-recurring costs for the corporate transaction for the company's listing.

The reconciliation between EBIT, Adjusted EBIT and Adjusted EBITDA for 2019 and the previous year is provided below (Euro thousands):

			FY 2019	FY 2018	Change
A	**EBIT**		**26,532**	**28,520**	**(1,988)**
	Non-recurring Charges/(Income) comprising:				
	- Additional issues / incentives [(1)]		336	1,088	(752)
	- Corporate, legal and tax consultancy and services [(2)]		321	1,474	(1,153)
	- Extraordinary tax charges			796	(796)
	- Indemnities [(3)]		(248)		(248)
	- Other non-recurring charges/(income)		485	1,201	(716)
	- Settlements [(4)]		398		398
B	**Total Non-recurring Charges/(Income)**		**1,291**	**4,558**	**(3,267)**
C	Investor Fees		150	150	-
D	**Adjusted EBIT**	**A+B+C**	**27,972**	**33,228**	**(5,256)**
E	Net amortisation & depreciation		16,057	14,032	2,025
	Adjusted EBITDA	**D+ E**	**44,029**	**47,260**	**(3,231)**

(1) One-off costs for supplementary personnel charges, mainly regarding supplements to contributions.
(2) The account refers to service and outside consultancy costs due to tax and legal firms, in addition to the advisors of an extraordinary nature and *one-off* expenses concerning Group operations.
(3) Indemnities received from the previous owner in relation to tax settlements concluded in the period, although relating to disputes existing before the corporate transaction of March 2017 leading to the company's stock market listing.
(4) The account concerns arbitration and consultancy costs for the settlement reached with FCA Partecipazioni S.p.A..

Financial results analysis

Financial income amounted to Euro 452 thousand in 2019, compared with financial charges of Euro 663 thousand in 2018, an improvement of Euro 1,115 thousand.

This change was mainly due to interest income on the VAT receivables refunded during the year, amounting to Euro 1,086 thousand.

The net balance in addition mainly includes interest expense on the loan agreement entered into with the European Investment Bank (EIB), which falls within the scope of a joint EIB, Ministry for Economic Development and Ministry for the Economy initiative supporting investment in innovation.

This contract was signed in October 2017 for an original amount of Euro 40 million, increased in January 2019 by Euro 10 million, at 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 from the third to the seventh years, of which the first maturing on April 30, 2020 and the final maturing on October 31, 2024. This is not supported by guarantees and stipulates the application of covenants (Gross Financial Debt/EBITDA and Gross Financial Debt/Equity), among other covenants. To-date, these covenants have been complied with.
Hedging derivatives have been agreed on this loan.

Balance Sheet

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

	Dec. 31, 2019	Dec. 31, 2018	Change
Tangible assets and investment property	101,091	92,260	8,832
Right-of-use	9,444	-	9,444
Goodwill	61,005	61,005	-
Intangible assets with definite life	122,273	116,954	5,319
Investments	7,766	8,138	(372)
Total fixed assets	**301,579**	**278,357**	**23,222**
Net working capital	**(40,559)**	**(30,957)**	**(9,602)**
Other non-current assets	78,295	66,521	11,774
Other non-current liabilities	(134,185)	(122,453)	(11,732)
Net deferred tax assets	77,784	76,150	1,634
Provisions for risks and charges	(31,892)	(15,864)	(16,029)
Employee benefits	(11,189)	(10,706)	(482)
Net capital employed	**239,834**	**241,049**	**(1,215)**
Non-current financial assets	6,106	5,812	294
Net capital employed & Non-current financial assets	**245,940**	**246,861**	**(921)**
Net Financial Position	57,943	49,126	8,817
Equity	(303,883)	(295,986)	(7,896)
Source of funds	**(245,940)**	**(246,861)**	**921**

"Total fixed assets" amounted to Euro 301,579 thousand at December 31, 2019, increasing Euro 23,222 thousand on December 31, 2018 as a combined effect of the following movements:

- the net increase of Property, plant and equipment of Euro 8,832 thousand, principally due to investments in progress for buildings to execute the new P120 engine project which will equip the Vega C and Ariane 6, in addition to the increase in production capacity at the Colleferro site, and for the "Space Propulsion Test Facility" (SPTF) project in Sardinia for the construction of a liquid motors test bench and a plant to build carbon-carbon components, totalling Euro 16,100 thousand, net of depreciation in the year;

- recognition, for the first time, of the "Right-of-use" following the application of the new IFRS 16, which provides for the recognition under assets of the value of assets under the right-of-use and under liabilities the present value of payables for fees relating to the same right-of-use for approx. Euro 7.5 million, as well as the right-of-use relating to the aforementioned "Space Propulsion Test Facility" (SPTF) project in Sardinia for approx. Euro 1.7 million. The amount resulting from the application of IFRS 16 mainly refers to the fleet of leased company cars and some leased assets at the launch base in French Guiana of the subsidiary Regulus S.A.;

- net increase of Intangible assets with definite life attributable to investments of Euro 13,000 thousand, principally for capitalised development costs (Vega Light, Lox Methane and software) and amortisation in the year of Euro 8,216 thousand;

- decrease in Investments for Euro 372 thousand, due to the change in the period relating to the investment in the jointly-controlled company Europropulsion S.A., which is measured at equity, increasing due to the 50% share of profits matured in the period January 1, 2019 to December 31, 2019 of Euro 2,868 thousand, net of Euro 3,240 thousand for dividends paid in the same period.

The "Other non-current assets" and "Other non-current liabilities" in the balance sheet respectively include a receivable from the General Electric Group and a related tax payable of Euro 58,220 thousand recognised in the first half of 2016, following the receipt from the Tax Agency of the settlement notice of registration tax, mortgage tax and land tax, for a total amount of Euro 58,220 thousand, relating to the corporate 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.

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 3.23 "Other non-current liabilities", in addition to the section "Legal and tax disputes and contingent liabilities" in the Explanatory Notes.

As described in the section "Significant events in the year", on August 2, 2019, the Avio Group and FCA Partecipazioni S.p.A. reached a settlement concerning environmental charges, according to which 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 resulted in the recognition of a discounted receivable from FCA Partecipazioni S.p.A. (with an increase to the other current and non-current assets account) and of a corresponding charges provision (with an increase in the risks and charges provisions), substantially balancing the full life economic and financial effects.

The increase in "Provisions for risks and charges" mainly concerns the above agreement with FCA Partecipazioni S.p.A., while the portion concerning variable remuneration charges and other provisions for legal and contractual charges remained substantially unchanged.

"Employee benefit provisions" were also substantially unchanged and principally comprise post-employment benefits and other long-term benefits.

"Net working capital" negative reports an increase of Euro 9,602 thousand, resulting in an excess of liabilities over assets of Euro -40,520 thousand. The main components are outlined in the following table (in Euro thousands):

	Dec. 31, 2019	Dec. 31, 2018	Change
Contract work-in-progress, net of advances	(104,904)	(73,921)	(30,984)
Inventories	41,448	36,444	5,004
Advances to suppliers	104,071	79,636	24,435
Trade payables	(100,335)	(131,407)	31,072
Trade receivables	6,215	7,017	(802)
Other current assets and liabilities	12,946	51,274	(38,328)
Net working capital	**(40,559)**	**(30,957)**	**(9,602)**

The negative "Net working capital" *(current trading)* increased despite the expected effect of the cyclical core business trend, which in 2019 absorbed resources from advances received in previous years, due to the collection of VAT credits requested for reimbursement amounting to Euro 33,153 thousand, plus interest of Euro 1,086 thousand.

"Other current assets and liabilities" of net working capital reported a net decrease of Euro 38,328 thousand to Euro 12,946 thousand. The main components are outlined in the following table (in Euro thousands):

	Dec. 31, 2019	Dec. 31, 2018	Change
VAT receivables	20,961	46,253	(25,292)
Research and development tax credits	6,291	12,705	(6,414)
Current tax receivables	5,910	3,817	2,094
Other current assets	9,142	7,608	1,534
Current income tax liabilities	(6,124)	(2,308)	(3,816)
Other current liabilities	(23,234)	(16,801)	(6,433)
Other current assets and liabilities	**12,946**	**51,274**	**(38,328)**

"VAT receivables" decreased by Euro 25,292 thousand due to the refund of Euro 33,153 thousand, mainly relating to the year 2017, partially offset by the credit arising in 2019 of Euro 7,861 thousand.

"Research and development tax credits" report a net decrease in the year of Euro 6,414 thousand, deriving from the offsetting in the year of the credit at December 31, 2018 and the recognition at

December 31, 2019 of the new tax credit matured in 2019 for Euro 6,291 thousand.

Analysis of the financial position

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

	Dec. 31, 2019	Dec. 31, 2018	Change
Cash and cash equivalents	144,303	108,435	35,868
(A) Liquidity	**144,303**	**108,435**	**35,868**
(B) Current financial assets	-	-	-
(C) Total current financial assets (A+B)	**144,303**	**108,435**	**35,868**
Current financial payables to companies under joint control	(28,749)	(19,249)	(9,500)
(D) Current financial liabilities	**(28,749)**	**(19,249)**	**(9,500)**
Current portion of non-current bank payables	(8,075)	(60)	(8,015)
(E) Current portion of non-current financial payables	**(8,075)**	**(60)**	**(8,015)**
(F) Current financial debt (D+E)	**(36,824)**	**(19,309)**	**(17,515)**
(G) Net Current Financial Position (C+F)	**107,479**	**89,126**	**18,353**
Non-current portion of bank payables	(42,000)	(40,000)	(2,000)
(H) Non-current financial liabilities	**(42,000)**	**(40,000)**	**(2,000)**
(I) Net financial position before lease liabilities (G-H)	**65,479**	**49,126**	**16,353**
Current lease liabilities	(2,647)		(2,647)
Non-current lease liabilities	(4,889)		(4,889)
(J) Total lease liabilities	**(7,536)**	**-**	**(7,536)**
(K) Net financial position after lease liabilities (I-J)	**57,943**	**49,126**	**8,817**

The net financial position is based on the definition contained in the CESR Recommendation of February 10, 2005: *"Recommendations for the uniform implementation of the European Commission regulation on financial statements".*

The net financial position increased from a cash position of Euro 49,126 thousand at December 31, 2018 to Euro 57,943 thousand at December 31, 2019, increasing Euro 8,817 thousand, principally due to operating cash flows.
In 2019 the international accounting standard IFRS 16 was applied for the first time, which has led to the recognition of financial liabilities for leased/leased assets amounting to Euro 7,536 thousand which were absent in 2018.
Net of the IFRS 16 effect, applied in 2019 and absent in 2018, which does not generate an actual cash outlay, comparing like-for-like figures the financial position increased from a "pro-forma" cash position of Euro 42,533 thousand at December 31, 2018 to Euro 57,943 thousand at December 31, 2019, increasing Euro 15,410 thousand (+36.2%), principally due to the collection of VAT refunds, the cyclical nature of operating cash flows, in line with expectations, notwithstanding the increased capital expenditures in the year (Euro 28.6 million) the payment of dividends, approved together with the 2018 Annual Accounts (Euro 11.6 million), and the share buyback (Euro 2,7 million.

Analysis of equity

Consolidated equity at December 31, 2019 amounts to Euro 303,883 thousand, increasing Euro 7,896 thousand on December 31, 2018, as a result of the combined effect of the following main developments:

- consolidated 2019 net profit of Euro 26,987 thousand;
- decrease of Euro 11,598 thousand for dividends distributed by Avio S.p.A.;
- decrease in acquisition of treasury shares for Euro 2,668 thousand;
- decrease of Euro 4,440 thousand in non-controlling interest equity as a result of the dividend issued by the subsidiary Regulus S.A. (held 60% by Avio S.p.A. and 40% by Airbus Safran Launchers) for Euro 1,440 thousand and the dividend to be issued by the subsidiary Spacelab S.p.A. (held 70% by Avio S.p.A. and 30% by Italian Space Agency) for Euro 3,000 thousand.

RESEARCH AND DEVELOPMENT

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

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

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

Avio has developed a network of partnerships with Universities and research bodies in Italy and Europe, among which the Italian Aerospace Research Center (CIRA), the Italian National Agency for New Technologies, Energy and Sustainable Economic Development (ENEA), the Universities of Rome, the Polytechnic University of Milan, the 'Federico II' University of Naples, the University of Padua, the University of Forlì, the Sardinian AeroSpace District (DASS) and the Polymeric and Composite Materials and Structures Engineering cluster of Campania (IMAST). Avio also forms part of various consortia between European research institutes and industrial partners for the development of 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 2019 amounted to Euro 179.3 million (Euro 196.0 million in 2018), equating to 45.8% of gross consolidated revenues in 2019 (46.0% in 2018).

Net of pass-through costs, research and development by the Group in 2019 incurred costs of Euro 156.8 million, 42.5% of revenues net of pass-through revenues (Euro 145.0 million in 2018, equal to 37.3% of revenues net of pass-through revenues).

Self-financed and executed activities amounted in 2019 to Euro 13.7 million (Euro 9.2 million in 2018).

Self-financed activities in 2019 included Euro 11.2 million relating to development costs capitalised as Intangible assets with definite life (Euro 6.9 million in 2018) and Euro 2.5 million concerning research costs or development costs not capitalisable and directly recharged to the income statement (Euro 2.3 million in 2018).

The total amount of costs related to self-financed activities charged to the income statement in 2019 was Euro 6.1 million (Euro 6.5 million in 2018), comprising Euro 2.2 million of directly expensed non-capitalisable costs (Euro 2.3 million in 2018) and Euro 3.9 million for the amortisation of development costs capitalised (principally) in previous years (Euro 4.2 million in 2018).

In 2019, Avio continued its innovation upon the main product lines, harmonising basic research, applied research and pre-competitive development activities.

Solid Propulsion

In Avio's strategic vision, solid propulsion represents a mature but competitive technology that significantly reduces the cost of launch services and keeps the European space carrier market after successfully completing the first firing bench test for the development of the P120 in the second half of 2018, in January 2019 Avio also successfully concluded the bench test of the P120 for Vega C application.

In addition to the development programs for the new propulsion shared between VEGA and Ariane (the P120C), Avio has 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.

With the Z40 Motor bench test in May 2019, development activities for the Z40 motor have concluded (for use as a second stage for VEGA C and Vega E), which supports structural compression flows of up to 2KN/mm, the maximum value achieved by a composite propellant of this class.

Research and development in materials have focused mainly 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 analyzed, 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 spacecraft exploration.
During 2019, development activities continued on the future VEGA E's M10 third-stage propulsion motor, with the completion of the Preliminary Design Reviews (PDR) of both the motor and its main subsystems, including valves, combustion chamber and oxygen turbopump.
In addition, optimisation activities continued for the ALM construction of the M10 motor, on the basis of the success of 2018 with the first European test campaign of a prototype for an innovative 20KN combustion chamber with cooling channel, manufactured in ALM by implementing the Avio "Single Material Single Part" patent.
These results confirm that additive technology can indeed be used to achieve a suitable thermal exchange for a combustion chamber with a single low thermal diffusion material, opening up therefore the road to developing a 100 KN combustion chamber (a feature of the M10 motor for Vega E), constructed with one piece and one material utilising ALM technology.
The first 2 full-scale prototypes of the M10 motor's LOX/LNG combustion chamber were then 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 2nd model was then assembled with the rest of the equipment, including valves, tubing, sensors, harness, and configured for the firing test envisaged in the 1st quarter of 2020.

Avio has continued therefore to develop breakthrough solutions in terms of configurations, technologies and materials, with the ultimate goal of developing an innovative high-performance and low-cost oxygen-methane engine to be introduced into the development of Vega E, whose first flight is expected to take place in 2024.
Vega E will be capable of launching approximately three tons into orbit, that is twice the current Vega version.
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 to be included in the future version of the Vega E Upper Stage. In particular, during 2019 three reduced-scale technological demonstrators were constructed to verify the optimal construction process with "fiber placement" technology and the mechanical and thermal characteristics of the composite structures in contact with the cryogenic and oxidising environment created by liquid oxygen.

Space Transport Systems

During 2019, Avio consolidated the VEGA C launcher's development by completing its Critical Design Review (CDR)and preparing all the necessary documentation for the Qualification Review under the ESA VECEP contract, based on first and fourth stages with a respective 50% and 15% greater total thrust than the current versions. 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, in 2019 research into developing the new VEGA Light launcher continued. The performance of this new launcher will be optimised to put into circular orbit (500X500 Km SSO) a payload of approx. 250 KG.
During 2019, the study on the optimal configuration of the Vega Light launcher was completed and the initial development phases began. The first milestone shall be the passing of the Preliminary Design Review expected in 2020.
Studies continued on the Space Rider system, unmanned and reusable space transport, which, thanks to its integration with Vega, will create an integrated family of services under the title of Vega Space Systems (VSS).
Within this scope, development of the new SSMS (Small Spacecraft Missione Service) was pursued, a dispenser adaptor for the release of numerous satellites within the same mission, usable also for orbit test or orbit demonstration activities.

Tactical Propulsion

During 2019, CAMM-ER missile motor development activities continued as planned. In particular, the qualification programme and accelerated ageing, to verify mid and end-of-life performance, are now underway. Casting, winding and line control industrialization phases have also begun. In addition, AVIO supported MBDA in environmental and in-flight testing with the delivery of the first 3 active motors.
The production and delivery to export customers of Aster 30 Boosters continued.
Obsolescence solution activities also continued. Of particular note was the use of fibre developed and produced by Avio for the construction of cases, the development of a new propellant with the same ballistic performance that maintains its mechanical characteristics at low temperatures, and the replacement of materials subject to government restrictions such as those imposed by the USA.

During 2019, development of a high-performance electromechanical TVC system also continued.
The goal is to replace the hydraulic one currently used on the Aster 30 Booster in order to increase the efficiency of the control system and reduce missile maintenance times.
The servoactuators, control unit and thermal batteries are all being developed.
AVIO has also begun negotiations for new development programmes to expand its Italian Armed Forces defence offering.

HUMAN RESOURCES

At December 31, 2019, Group employees numbered 935, including the 2 employees of the new company Avio France SAS, an increase on the 838 at December 31, 2018. The number of employees of the Group does not include the company Europropulsion S.A. (79), consolidated at equity. The majority of the workforce is employed by the parent company Avio S.p.A., which at the same date numbers 815 (up on 724 at December 31, 2018).

Industrial Relations

During the first half of the year, in agreement with the Trade Unions, the "***Measures to support work-life balance***" Regulation was drawn up. This Regulation, entering into force on February 1, 2019, sets out and governs the legal and company bodies which employees may utilise to balance their working and private life needs.

The following issues were also covered with the Trade Unions:

- **Management of commutes:**
  During the period, the *Commuting Regulation* update was sent to the RSU (trade union representative body). At the end of June, the new document to be circulated in July through the company's institutional channels (intranet, MyGovernance, notice board) was prepared.

- **Classifications:**
  At the end of June, the classification of the manual workforce was discussed with the internal trade union, continuing, after the previous year's positive results, with the development of the framework established in 2018. The profitable discussions concluded with the promotion of the under-classified manual workers. Indeed, despite the failure of VV15, in 2019, the company promoted 39 people in the manual workforce category.

Simultaneously, in the first half of 2019:

- the **2019 Participation bonus (based on the 2018 results)** was drafted;
- other issues, such as for example those regarding cleaning and company catering, were dealt with.

We highlight the usual meeting between company management (CEO, HR Manager and Industrial Operations Manager) and the Regional and chemical sector Trade Union representatives of the Cgil, Cisl, Uil and UGL. This meeting was held at Avio's headquarters in Colleferro on June 17, 2019, at which a detailed update upon the financial results, programmes, investments and the situation of personnel was provided.

During the period, a trade union agreement was signed with the RSU which introduces, in accordance with the collective contract, the "**Trade Union notice board**", a virtual space on the company intranet where the RSU may post trade union type material, including - obviously - its communications.

No strikes or actions against the company took place during the year.

Regarding job security, 11 fixed-term contracts were converted into permanent contracts, in addition to the 3 converted in June, out of a total of 20 fixed-term contracts. The remaining contracts will be renewed for a fixed term, starting on February 3, 2020.

Trade union agreements were drawn up in the second half of 2019 on the following topics:

- Smart Working: limited to certain company figures and business sectors;
- Cooperative closures: scheduling of reduced working hours (ROL) at the end of the year;

- Absence management: definition of a time limit for reporting one's absence via the IT portal;
- Industrial safety: introduction of additional CCTV cameras on certain company premises.

Development and Training

In 2019, in line with business support and development needs, the following personnel were hired: 1 executive, 7 senior managers, 20 professionals, 37 white-collar employees (total of 64), of which 97% graduates possessing specific skills in various professional areas and with varying degrees of experience.

In Engineering, 3 permanent staff leasing contracts were initiated.

In addition, 57 blue-collar workers were hired.

In 2019, 26 Professional and White-collar employees were involved in professional mobility procedures, both in terms of department and office location, in order to optimize organizational and business development. In addition to the organisational benefits, these mobility courses, in the majority of cases, are opportunities for the professional growth of the staff involved.

During the year, the internal job posting platform offered 11 opportunities for employees to develop their professional careers.

Regarding Personnel Development in 2019, two senior managers was promoted to executive management and 3 blue-collar workers were promoted to white-collar positions.

In addition, the 2019 Merit and Development Policy saw the implementation of 59 development/promotion measures applied to 13% of the corporate population, including 10 promotions to the qualification of Professional Expert (the highest Manager classification), 6 promotions to the qualification of Manager, and 5 promotions to the qualification of Professional.

In support of training at the Avio Group, in 2019, 16,961 training hours were held, involving 3,454 participations in update courses, professional development courses and informational activities.

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

- training and updates on mandatory technical competences regarding safety and environment issues;
- training on special and critical processes in manufacturing;
- soft skills training: development of managerial skills (specific courses and participation at international conventions and seminars);
- information on health, safety, environment and data protection;
- privacy policy, following the update of the organisational structure;
- support for specialist and technical expertise with updates on the new features of software applications;
- support for internationalization with a focus on individual and group language training (French, English and Russian).
- education on cyber security.

Internal training accounted for 32% of the total provision. Using certified in-house trainers, safety, environment, manufacturing (special and critical processes), Classified information protection and privacy training was undertaken.

Regarding training methods, 2019 saw the continuation of the structured learning organization model, by which the organisation learns through the active involvement of managers in the design of training activities for both direct groups and cross-departmental groups, therefore supporting

The following types of e-learning are utilised in particular: to support the HSE Area, to provide training on newly hired personnel safety and on the Seveso quarterlies; in the IT area, for "cyber security" training.

Organisation and management of personnel

2019 was characterized by activities regarding the cost containment policy, process optimization and the revision of regulations and of communications and information sharing polices, at every corporate level.

Attendance management, which had been outsourced until 31/12/2018, was insourced in order to contain costs pending the conclusion of the payroll tender to select a single supplier for both payroll and attendance, which had previously been managed by two separate suppliers.
This activity concluded mid-year with the selection of the single supplier INAZ for the three-year period 2020-2022.

In 2019, the transition to the supplementary FASI, Assidai and Hyperservices funds was completed for managers previously enrolled in the FASIF fund, and an internal manager welfare agreement was signed and introduced via the Alliance platform.

In June, in line with corporate environmental and sustainability policies, a new regulation was signed to decommission corporate diesel cars in favour of electric and hybrid cars. A project was then developed, with the support of other departments, to promote plug-in and electric car charging stations, with a view to encouraging employees to opt for low-emission hybrid cars.

In the second half of the year, new travel regulations were published, modifying the travel system authorization flow, and thus optimizing both costs and time.

In addition, the agreement with the airline Alitalia was updated to bring in various new benefits, such as the upgrading of the Millemiglia Corporate air miles card for all employees requesting it.

During the year 2019, agreements were also signed, to the benefit of employees, with certain medical practices, nurseries and the municipal swimming pool.

During the year, employee and 50% corporate contributions were recovered via a specialized company entrusted to optimize labour costs that had identified savings opportunities in terms of INPS and INAIL contributions.

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).

Events and shows

In addition to the events related to launches and the static tests commented upon in other sections of these financial statements, we highlight the following events in the year:

- January 14 - London DGI - Presentation to analysts with management of the stand and CEO interview for TV channels;
- January 22-23, Brussels – 11th Space Policy Conference, CEO contribution;
- February 5, Kourou - First Ariane 5 Flight of 2019, Saudi Geostationary Satellite 1 mission;
- March 1, Colleferro – Launch of the internal Cyber Security communication campaign, both digitally and with notice boards and roll-ups at all company offices. The "Cyber Champion" programme focuses on protecting one's self and the company from IT crime and the ongoing threats to the network, with a competition between multi-departmental teams challenging themselves on various themed modules;
- March 15, Milan – Investor Day: meetings with the financial community;
- March 19-21, Abu Dhabi - Avio participated at the Global Space Congress;
- March 20-21, Milan – STAR Conference;
- March 22, Kourou – VV14 Prisma flight, attended by delegation of journalists and joint communication with Leonardo, Telespazio, Asi and OHB Italia;
- March 29, Rome - The Risks and Sustainability Committee approved the 2018 NonFinancial Declaration, an instrument which highlights the company's commitment to pursuing concrete sustainability;
- April 8, Milan - Launch of the new company Instagram channel;
- April 9-14, Milan - Design week, Avio's offsite participation with display of a decorated Vega launcher model and stand;
- May 6-9, Washington - Avio attended Satellite 2019;
- May 7, Sardinia – Successful "Firing test" of the Zefiro 40 motor;
- May 13, Colleferro – Colleferro Space Capital 2021;
- May 22, Colleferro – Visit of the Sinspective delegation from Japan;
- May 23, Segni – Event celebrating our Senior employees with involvement of the CEO and all Senior Managers;
- May 24, Colleferro – "Cassetta delle idee": awarding of improvement proposals from employees;
- May 25, Segni – "Rocketry challenge" contest for the launch of mini rockets built by students at La Sapienza's space propulsion laboratory;
- June 7, Turin - "Legend 2019" Lavazza event on major communication projects: presentation of the decorated Vega C model;
- June 11, Colleferro – Institutional visit from the Korean Kari (Korea Aerospace Research Institute) delegation
- June 20, Kourou - Ariane 5's second flight in 2019 concluded successfully;

- June 11, Frascati – “Vega Day” Esrin event, with involvement of the CEO and various Avio PM contributions;
- June 18, Colleferro - Institutional visit by the Undersecretary for Foreign Affairs, Manlio Di Stefano;
- June 27: Colleferro - Delegation visit from the European Association of Aerospace Students EUROAVIA;
- July 11: Kourou - VV15 - Premature conclusion of the mission due to a Vega second stage (Zephyrus 23) anomaly;
- July 18: Brno - Delivery Review Board (DRB) of the SSMS Dispenser;
- August 3-8: Logan, Utah, Small Satellite Conference 2019 - Presentation of the SSMS system;
- September 6-8: Cernobbio, Ambrosetti Forum - International economics and finance event, with the participation of CEO Giulio Ranzo and President Roberto Italia;
- September 9-13: Paris, World Satellite Business Week - Major event for satellite communications sector leaders;
- September 9: Paris - Vega Users’ day at the Italian Embassy, attended by CEO Giulio Ranzo;
- September 24: New York - UNOOSA and Avio SpA collaboration agreement on the occasion of the 74th General Assembly of the United Nations for the free launch of CubeSat;
- September 27-28: Fiuggi - 41st edition of the running race Ariane Cross, with the participation of 500 athletes from aerospace companies in 10 different countries;
- October 3, 2019: Valmontone, Space to the Future - Corporate convention at Rainbow Magicland, Valmontone;
- October 16: Colleferro - Institutional visit from Lazio Region President Nicola Zingaretti and Environment Minister Sergio Costa for the opening of the Arpa2 construction site, an environmental redevelopment project involving the Colleferro Industrial District;
- October 23: London - STAR Conference, with the participation of the CEO Giulio Ranzo;
- November 8: Milan - Vega 1:1 inauguration at the Museum of Science and Technology;
- December 14 and 19. Colleferro - The “Natale Bimbi” event for the distribution of Christmas presents to the children of employees, and the “Auguri in Fabrica” Christmas party for all Avio employees.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES

General economic risks

The general economic environment has been significantly impacted by the COVID-19 epidemic, although the sector in which the company operates is currently less exposed than others to the related risks.

The epidemic and restrictions imposed by the French government and responsible authorities entailed the temporary suspension, with effect from March 16, 2020, of preparations for upcoming launches at Kourou base in French Guyana. In Italy, a new, more restrictive decree by the Italian government entered into force on March 23, 2020, suspending all non-essential businesses until April 3, 2020. Nonetheless, Avio is allowed to operate since, within the aerospace industry, its business is among those of strategic importance of the Italian national economy, and therefore it remains operational at present.

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

Therefore, should the impacts continue over the course of the year or beyond, with a progressive tightening of government intervention measures to counteract the contagion, effects may emerge, even of a significant degree, on the industrial, engineering and commercial activities of the entire aerospace sector.
In this phase, considering the high degree of uncertainty and ongoing development of the situation, it is not currently possible to estimate the future economic and financial ramifications of the pandemic.

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 which is greatly unknown.

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.
At present, however, considering the high degree of uncertainty and ongoing development of the situation, it is not currently possible to quantify the future economic and financial ramifications of the pandemic.

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

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

employment, therefore impacting the budgeting strategies of European states and consequently the spending capacity of the Space Agencies.
Although the governments and the monetary authorities have responded to this situation with extensive initiatives, including the cutting of interest rates to historic lows and the funding and bolstering of intermediaries, and although taking into consideration the signs indicating the exiting of recession for the leading economies, it currently is however not possible to predict whether and when the economy will return to pre-crisis levels, also in light of the above-mentioned COVID-19 epidemic, worsening 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 flights/launches of Group spacecraft and for new research and development programmes, with a consequent impact on the Group financial statements.

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

Specific business risks

The space programmes, due to their inherent complexity, strategic important and source of funding, are generally dependent on plans and decisions undertaken at government level in Europe, both by individual countries and as part of international agreements, implemented by specific national and supranational institutions and agencies. These plans seek to guarantee independent access to space by the European nations.
Changes to space access policies, both at a domestic and European or international level, and unfavourable economic conditions impacting the spending allocated to these policies by national governments and supranational institutions, may impact Group operational levels with possible repercussions for operations and the Group financial statements.

Group business depends in addition on a limited number of programmes and therefore clients. Any interruptions, temporary suspensions or cancellations to one or more major programmes constitutes a risk which may impact the Group's operations and financial statements. The backlog may therefore be subject to unexpected adjustments and may not therefore 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 impacts on the Group's operations and financial statements.
In addition, for the recognition of revenues and the relative margins deriving from long-term works contracts, the percentage of advancement method is utilised, based on total cost estimates for the execution of contracts and the 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 unpredictable events, such as the above-mentioned COVID-19 epidemic, or forecast to a differing degree may result in an increase in costs incurred for the execution of long-term contracts, with impacts on the Group's operations and financial statements. To oversee this risk Avio has developed a set of systems, procedures and competences consolidated over time.

The Group is not a Launch Service Provider with regards to Vega launch services sales. Although the Group has control of Arianespace's Business Plan regarding the marketing of the Vega launcher and its successors, in order to determine volumes and prices that allow, according to recurring launch system costs, balanced budgeting for the launcher's development, where the Launch Service

Provider does not correctly execute its role or adopts commercial practices which do not align with the Group's interest, this may have an impact on the operations and financial statements of the Group.

The position of Arianespace was the subject of an investigation by the European Antitrust Commission as the Ariane Group was expected to assume control of Arianespace, with the Commission approving the acquisition in December 2017. Recently, the market has significantly evolved, with demand for geostationary satellites declining (core Ariane market) and demand for low orbit satellites on the rise (Vega core market). Therefore, in February 2018 Avio prudently presented an appeal against the European Antitrust Commission before the European Court of Justice, requesting nullification of the Commission's decision of July 2016 concerning the authorisation of the "ASL / Arianespace" concentration, in order not to lose its right to request a review of the market reconstruction assumptions underlying the decision of the Commission, in view of the possible development of the market as described above.
Avio and Ariane Group have researched and verified the feasibility of a possible out-of-court settlement of the case. In particular, a satisfactory agreement was reached with Arianespace (held by AG) and ESA on certain issues that were the subject of the competition concerns underlying Avio's complaint.
As a result of this agreement, Avio has waived the proceedings, pursuant to Article 125 of the Rules of Procedure.

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 to industrial operations with impacts on Group results.

SUBSEQUENT EVENTS

Business

"Space Propulsion Test Facility" (SPTF) project

On January 29, 2020, the Space Propulsion Test Facility project for the construction of a Liquid Rocket Engine test bench and the production of carbon-carbon components was presented at the Salto di Quirra Inter-force Experimental Facility in Sardinia.

Zefiro 23 bench testing

On February 27, the Zefiro 23 engine was successfully bench tested, allowing an optimistic resumption of Vega flight operations with the VV16 launch for the SSMS mission.

Testing of the combustion chamber of the M10 engine for the Vega E

Testing of the combustion chamber of the innovative liquid M10 engine with LOX-methane technology that will be installed in the Vega E, replacing the third and fourth stages of the Vega C launcher, was completed on March 3, 2020. The tests were conducted at NASA facilities, at the Marshall Space Flight Center in Huntsville, Alabama. The first launch of the Vega E launcher is scheduled for 2025.

Vega return to flight

Despite the challenges of the Covid-19 pandemic, the launch campaign for the Vega VV16 return to flight began in 2020.

Ariane

In 2020, to date, two more Ariane 5 launches have gone ahead. The first launch, VA251, on January 16, concerned the European Eutelsat consortium and Indian GSat telecommunications satellites.

The second launch, VA252, on February 18, concerned the Japanese commercial telecommunications satellite SKY Perfect JCSat 17 and the South Korea Aerospace Research Institute's GEO-KOMPSAT 2B weather and ocean monitoring satellite.

Suspension of operations at the Kourou launch base in French Guyana

On March 16, 2020 the Guyanais Space Centre (CSG) and Arianespace announced that, in implementation of the communications from the French government to combat Covid-19, the Centre had decided to temporarily suspend preparations for upcoming launches at the Kourou base.
Avio is ensuring optimal safety conditions for both its personnel at the base and the Vega launcher, which has already been integrated into the launch ramp and is ready to resume preparation for the launch as soon as possible.
See the following paragraph for a full discussion of the Covid-19 issue.

Other significant events

COVID-19

As indicated in the "Group principal risks and uncertainties" paragraph, to which reference should be made, with the recent and rapid development of the Covid-19 pandemic, many countries have imposed restrictions on travel and certain commercial activities, as well as restrictive quarantine measures. The interruptions are more immediate and more significant in certain sectors, such as tourism, hospitality, transport, retail and entertainment, while other sectors such as manufacturing may see possible knock-on effects. Immediate effects have been seen on financial markets. Avio's shares posted a decline in value essentially in line with the STAR segment index in general.

Covid-19 began to spread around the time of December 31, 2019, with the situation continuing to evolve thereafter. It was late 2019 when certain clinical cases in Wuhan, the capital of the Chinese province of Hubei, were reported as showing symptoms of a novel "pneumonia of unknown cause". China then notified the World Health Organization (WHO) of the new virus on December 31, 2019. On January 30, 2020, the WHO International Health Regulations Emergency Committee declared the emerging epidemic "a public health emergency of international concern". Since then, many more cases have been diagnosed in many other countries. The emergency measures and policies implemented in China have also been taken up by other countries.

In Italy, this pandemic has so far mainly affected Northern Italy, and then gradually expanded to the rest of the country. The Italian government has issued various decrees signed by the Prime Minister, introducing increasingly restrictive measures affecting business and social gatherings to limit the risk of transmission throughout Italy.

The epidemic and restrictions imposed by the French government and responsible authorities entailed the temporary suspension, with effect from March 16, 2020, of preparations for upcoming launches at Kourou base in French Guyana. In Italy, a new, more restrictive decree by the Italian government entered into force on March 23, 2020, suspending all non-essential businesses until April 3, 2020. Nonetheless, Avio on the March 24, 2020, has obtained the permission to carry on its activities from the Prefect in Colleferro, as its business is among those of strategic importance of the Italian national economy, and therefore it remains operational at present.

Within this scenario, Avio has established an ad hoc Internal Covid-19 Committee, which has issued a series of increasingly stringent directives to combat and contain the spread of the virus in accordance with the Memorandum signed by the government and social partners on March 14, 2020. These include using and facilitating telecommuting and flexible working hours for tasks that may be performed remotely, restrictions on movement and access to facilities extended to suppliers and consultants, organisation of meetings in accordance with the law and internal communication techniques for the prompt circulation of Covid-19 communications to all employees via the IT platform.

In addition, initiatives have been launched in support of all employees, such as supplementary health insurance that provides economic benefits for workers infected by Covid-19 and a free online mental health support desk for all workers to provide helpful assistance with the Covid-19 emergency.

For the purposes of preparation of these financial statements, Avio believes that the events associated with Covid-19 may be characterised as "non-adjusting events" with respect to the operating results reported in the financial statements at and for the year ended December 31, 2019 and therefore provides the disclosure required by IAS 10.

In reference to the ESMA recommendations of March 11, 2020 on "Market Disclosure" and "Financial Reporting", as stated in the press release dated March 25, 2020, the Company does not believe that the impact of this epidemic during the year can be estimated in quantitative terms at this time. However, in view of the current situation, it is possible that there will be a negative impact in the short term due to a partial slowing of activities as a result of the containment measures and restrictions in place or being adopted by the various government authorities in Europe and the rest of the world (with particular regard to the shutdown of the launch base in Kourou). However, the Company confirms that it is already taking steps and measures of a financial and operational nature to mitigate the impact of this scenario in the near and medium term.

Indeed, at the Italian production facilities a series of measures to combat Covid-19 have been promptly taken in application of the relevant legislation in order to mitigate the risks associated with the safe continuation of industrial activities.

At present, therefore, the epidemic and the restrictive measures imposed by the governments and authorities have resulted only in the temporary suspension of the preparation activities for the upcoming launches from the Kourou base, while they have not significantly affected Avio's industrial, engineering and commercial activities.

If these effects were to continue, with gradual intensification of the government's initiatives to limit transmission, this would presumably result in effects on industrial, engineering and commercial activities in the aerospace sector that cannot be quantified at this time.

Given the current lack of visibility regarding the potential financial effects of the spread of Covid-19, the Board of Directors of Avio S.p.A. has deemed it appropriate – as a precautionary measure and in order to further strengthen the financial structure of the Company – to propose that the Shareholders' Meeting called to approve these draft financial statements allocate the entire 2019 net profit to retained earnings.

It is hoped that a more complete picture will be available in the half-yearly report.

Outlook

As commented upon above, the Company does not believe that the impact of the Covid-19 epidemic in 2020 can yet be estimated in quantitative terms. However, in view of the current situation, it is possible that there will be a negative impact in the short term due to a partial slowing of activities as a result of the containment measures and restrictions in place or being adopted by the various government authorities in Europe and the rest of the world (with particular regard to the shutdown of the launch base in Kourou). In any event, the Company is already taking the steps and measures of a financial and operational nature commented upon above to mitigate the impact of this scenario in the near and medium term.
Among these, the Board of Directors of Avio S.p.A. has deemed it appropriate – as a precautionary measure and in order to further strengthen the financial structure of the Company – to propose that the entire 2019 net profit be allocated to retained earnings at the next Shareholders' Meeting on May 6. The Board reserves the right to assess the specific situation and outlook on closing the half-year report in September 2020.

For these reasons, the Board of Directors considers it appropriate not to provide 2020 quantitative guidance at least until the approval of the H1 2020 results.

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

Earnings and financial results

Operating results

The following table compares the company performance in 2019 and 2018 (in Euro thousands):

	FY 2019	FY 2018	Change
Revenues	390,664	443,358	(52,694)
of which: Pass-through revenues	22,470	51,000	(28,530)
Revenues, net of pass-through revenues	**368,194**	**392,358**	**(24,164)**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	7,526	5,987	1,539
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(337,815)	(367,852)	30,037
EBITDA	**37,905**	**30,493**	**7,412**
Amortisation, depreciation & write-downs	(17,901)	(12,035)	(5,866)
EBIT	**20,004**	**18,458**	**1,546**
Interest and other financial income (charges)	4	(757)	761
Net financial charges	**4**	**(757)**	**761**
Investment income/(charges)	5,400	5,720	(320)
Profit before taxes	**25,408**	**23,421**	**1,987**
Current and deferred taxes	3,153	(76)	3,229
Total net profit	**28,560**	**23,345**	**5,215**

Revenues net of "Pass-through" revenues were Euro 368,194 thousand, down Euro 24,164 thousand (-6.2%) on 2018. This sharp decline is primarily attributable to the slowdown in production and development in the second half of the year as a consequence of the Vega failure and the transition phase involving the shift from the Ariane 5 programme to the future Ariane 6 programme.

EBITDA in 2019 amounted to Euro 37,905 thousand, up Euro 7,412 thousand (+24.3%) on 2018. This increase is mainly due to the introduction of IFRS 16, which entailed the recognition of a rise in amortisation and decrease on rents and leasing on the comparative period.

EBIT was Euro 20,004 thousand, increasing Euro 1,546 thousand on 2018.

These results – net of the IFRS 16 effects described above – reflect, on the one hand, the reduction of the contribution of research and development tax credits due to changes in the law and of higher depreciation charges, on the other, the price adjustment on Vega *batch 2*, the increase in the contribution of the different business mix conducted and the gradual reduction of non-recurring costs.

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".

Financial results analysis

Financial income amounted to Euro 4 thousand in 2019, compared with financial charges of Euro 757 thousand in 2018, an improvement of Euro 761 thousand.

This change was mainly due to interest income on the VAT receivables refunded during the year, amounting to Euro 1,086 thousand.

The other main components of net financial income and expenses are:

- Euro 443 thousand of interest expense on the loan agreement entered into with the European Investment Bank (EIB), which falls within the scope of a joint EIB, Ministry for Economic Development and Ministry for the Economy initiative supporting investment in innovation.
  This contract was signed in October 2017 for an original amount of Euro 40 million, increased in January 2019 by Euro 10 million, at 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 from the third to the seventh years, of which the first maturing on April 30, 2020 and the final maturing on October 31, 2024. This is not supported by guarantees and stipulates the application of covenants (Gross Financial Debt/EBITDA and Gross Financial Debt/Equity), among other covenants. To-date, these covenants have been complied with.
  Hedging derivatives have been agreed on this loan.

- Euro 563 thousand of financial charges due to the application of amortised cost following the adoption of IFRS 16;

Balance Sheet

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

	Dec. 31, 2019	Dec. 31, 2018	Change
Property, plant & equipment	66,766	57,227	9,539
Right-of-use	42,955		42,955
Goodwill	61,005	61,005	0
Intangible assets with definite life	122,026	116,641	5,385
Investments	77,460	84,403	(6,943)
Total fixed assets	**370,213**	**319,276**	**50,937**
Net working capital	**(39,370)**	**(42,880)**	**3,510**
Other non-current assets	67,051	66,506	545
Other non-current liabilities	(132,689)	(122,038)	(10,651)
Net deferred tax assets	73,746	74,756	(1,010)
Provisions for risks and charges	(10,865)	(9,232)	(1,633)
Employee benefits	(8,909)	(8,774)	(135)
Net capital employed	**319,177**	**277,614**	**41,562**
Non-current financial assets	6,106	5,812	294
Net capital employed & Non-current financial assets	**325,283**	**283,426**	**41,856**
Net Financial Position	(33,261)	(5,323)	(27,938)
Equity	(292,022)	(278,103)	(13,919)
Source of funds	**(325,283)**	**(283,426)**	**(41,857)**

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 42,480 thousand, exceeding the Euro 9,444 thousand presented in the consolidated financial statements, since Avio S.p.A. has leased plots of land, offices and buildings in the Colleferro business park owned by the subsidiary Se.Co.Sv.Im. S.r.l.

Analysis of the financial position

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

	31/12/2019	31/12/2018	Change
Cash and cash equivalents	142,868	106,307	36,561
(A) Liquidity	**142,868**	**106,307**	**36,561**
(B) Current financial assets	-	-	-
(C) Total current financial assets (A+B)	**142,868**	**106,307**	**36,561**
Current financial payables to subsidiaries and companies under joint control	(84,329)	(71,570)	(12,759)
(D) Current financial liabilities	**(84,329)**	**(71,570)**	**(12,759)**
Current portion of non-current bank payables	(8,075)	(60)	(8,015)
(E) Current portion of non-current financial payables	**(8,075)**	**(60)**	**(8,015)**
(F) Current financial debt (D+E)	**(92,404)**	**(71,630)**	**(20,774)**
(G) Current Net Financial Position (C+F)	**50,464**	**34,677**	**15,787**
Non-current portion of bank payables	(42,000)	(40,000)	(2,000)
(H) Non-current financial debt	**(42,000)**	**(40,000)**	**(2,000)**
(I) Net financial position before lease liabilities (G-H)	**8,464**	**(5,323)**	**13,787**
Current lease liabilities	(6,423)		(6,423)
Non-current lease liabilities	(35,302)		(35,302)
(J) Total lease liabilities	**(41,725)**	**-**	**(41,725)**
(K) Net financial position after lease liabilities (I-J)	**(33,261)**	**(5,323)**	**(27,937)**

The net financial position is based on the definition contained in the CESR Recommendation of February 10, 2005: *"Recommendations for the uniform implementation of the European Commission regulation on financial statements".*

The change principally relates to investments in the year and the net working capital movements.

Analysis of equity

Equity at December 31, 2019 amounts to Euro 292,022 thousand, increasing Euro 13,919 thousand on pro-forma equity at December 31, 2018, as a result of the combined effect of the following main developments:

- 2019 net profit of Euro 28,560 thousand;
- decrease of Euro 11,598 thousand for dividends distributed by Avio S.p.A.;
- a decrease in treasury share shares of Euro 2,668 thousand;
  decrease of Euro 377 thousand due to the negative result of the actuarial profit/losses reserve.

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

Pursuant to Art. 40 of Legislative Decree No. 127/1991, it is disclosed that, as a result of the treasury share purchase programme, as of March 25, 2020 the Parent Company held 297,500 treasury shares, representing 1.13% of its share capital.

CORPORATE GOVERNANCE

The company complies with the principles of the Self-Governance Code, prepared by the Corporate Governance Committee for listed companies, set up by Borsa Italiana and promoted by Borsa Italiana, ABI, Ania, Assogestioni, Assonime and Confindustria, latterly updated in July 2018, adjusting its Governance system to the indicated regulatory provisions. The Self-Governance Code is available on the website of Borsa Italiana S.p.A. at https://www.borsaitaliana.it/comitato-corporate-governance/codice/2018clean.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 Self-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 March 25, 2020, had adopted:

i. the **Internal Dealing Policy**, as approved by the Board of Directors of Space2 on 29/09/2016, 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 September 13, 2017.
iii. the **Inside Information processing policy**, approved on December 21, 2017 by the Board of Directors of Avio 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 (Legislative Decree 231/2001 and subsequent),** as latterly amended on May 13, 2019 by the Board of Directors of Avio, including all of the new legislative issues concerning Legislative Decree 231/2001, in addition to the amendments necessary as a result of the listing of the company and the Supervisory Board's transition from a single-member body to the current multi-member body;
v. an **Avio Group Conduct Code**, approved on March 29, 2004 and amended latterly on June 28, 2017 by the Board of Directors of Avio, 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 Avio;

vii. a **Diversity policy**, approved by the Board of Directors of Avio on March 14, 2019, 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 **Anti-corruption policy**, approved by the Board of Directors of Avio 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 25, 2020, 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 25, 2020, prepared in compliance with Article 123-*bis* of the CFA and Article 89-*bis* of Consob Regulation 11971/1999 and in view of the recommendations of the Self-Governance Code, while also taking account of the reference documents prepared by Borsa Italiana S.p.A..

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

In inviting you to approve the 2019 Annual Accounts of Avio S.p.A., drawn up as per IFRS and reporting a net profit of Euro 28,560 thousand, we propose the allocation of this result entirely to retained earnings.

*   *   *

March 25, 2020

The Board of Directors
The Chief Executive Officer and General Manager
Giulio Ranzo

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET	Note	Dec. 31, 2019	Dec. 31, 2018
(in Euro)			
ASSETS			
Non-current assets			
Property, plant & equipment	3.1	98,034,718	89,314,581
Right-of-use	3.2	9,444,011	
Investment property	3.3	3,056,614	2,945,216
Goodwill	3.4	61,005,397	61,005,397
Intangible assets with definite life	3.5	122,272,892	116,953,729
Investments	3.6	7,765,555	8,137,948
Non-current financial assets	3.7	6,106,000	5,812,000
Deferred tax assets	3.8	77,784,062	76,150,361
Other non-current assets	3.9	78,295,368	66,520,882
Total non-current assets		**463,764,617**	**426,840,114**
Current assets			
Inventories and advances to suppliers	3.10	145,519,238	116,079,957
Contract work-in-progress	3.11	24,014,546	103,151,448
Trade receivables	3.12	6,214,884	7,017,095
Cash and cash equivalents	3.13	144,303,318	108,434,880
Tax receivables	3.14	33,162,203	62,775,066
Other current assets	3.15	9,141,928	7,607,803
Total current assets		**362,356,118**	**405,066,249**
TOTAL ASSETS		**826,120,735**	**831,906,363**

CONSOLIDATED BALANCE SHEET	Note	Dec. 31, 2019	Dec. 31, 2018
(in Euro)			
EQUITY			
Share capital	3.16	90,964,212	90,964,212
Share premium reserve	3.17	141,588,361	144,255,918
Other reserves	3.18	14,199,832	14,580,499
Retained earnings		23,175,729	10,442,902
Group net profit		26,197,794	24,337,954
Total Group Equity		**296,125,929**	**284,581,484**
Equity attributable to non-controlling interests	3.20	**7,756,686**	**11,404,835**
TOTAL NET EQUITY		**303,882,615**	**295,986,319**
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	3.21	42,000,000	40,000,000
Non-current lease liabilities	3.22	4,889,396	
Employee benefit provisions	3.23	11,188,587	10,706,213
Provisions for risks and charges	3.24	19,466,579	7,841,101
Other non-current liabilities	3.25	134,185,094	122,452,889
Total non-current liabilities		**211,729,656**	**181,000,203**
Current liabilities			
Current financial liabilities	3.26	28,749,221	19,249,221
Current financial lease liabilities	3.27	2,646,697	
Current portion of non-current financial payables	3.28	8,075,000	60,000
Provisions for risks and charges	3.24	12,425,557	8,022,416
Trade payables	3.29	100,335,151	131,407,118
Advances from clients for contract work-in-progress	3.11	128,918,811	177,072,126
Tax payables	3.30	6,124,378	2,308,320
Other current liabilities	3.31	23,233,649	16,800,639
Total current liabilities		**310,508,464**	**354,919,841**
TOTAL LIABILITIES		**522,238,120**	**535,920,044**
TOTAL LIABILITIES AND EQUITY		**826,120,735**	**831,906,363**

CONSOLIDATED INCOME STATEMENT	Note	FY 2019	FY 2018
(in Euro)			
Revenues	3.32	391,120,608	439,695,356
Change in inventory of finished products, in progress and semi-finished		18,213	1,527,204
Other operating income	3.33	8,181,456	5,605,138
Consumption of raw materials	3.34	(114,005,712)	(131,840,876)
Service costs	3.35	(180,768,729)	(213,800,538)
Personnel expenses	3.36	(69,764,226)	(62,402,976)
Amortisation & Depreciation	3.37	(16,056,899)	(14,031,856)
Other operating costs	3.38	(7,609,098)	(9,393,759)
Effect valuation of investments under equity method - operating income/(charges)	3.39	2,867,607	3,239,413
Costs capitalised for internal works	3.40	12,548,644	9,924,245
EBIT		**26,531,862**	**28,521,351**
Financial income	3.41	2,136,519	813,223
Financial charges	3.42	(1,684,420)	(1,476,390)
NET FINANCIAL INCOME/(CHARGES)		**452,099**	**(663,167)**
Effect valuation of investments under equity method - financial income/(charges)			
Other investment income/(charges)			
INVESTMENT INCOME/(CHARGES)		**-**	**-**
PROFIT BEFORE TAXES		**26,983,961**	**27,858,184**
Income taxes	3.43	3,500	(2,020,269)
NET PROFIT		**26,987,461**	**25,837,916**
-- of which: Owners of the parent		26,197,794	24,337,954
Non-controlling interests		789,667	1,499,962
Basic earnings per share	3.44	0.99	0.92
Diluted earnings per share	3.44	0.96	0.90

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT	FY 2019	FY 2018
(in Euro)		
NET PROFIT (A)	**26,987,461**	**25,837,916**
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	(503,582)	(442,978)
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)	122,555	142,762
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	**(381,027)**	**(300,216)**
COMPREHENSIVE INCOME FOR THE YEAR (A+B)	**26,606,434**	**25,537,700**
-- of which: Owners of the parent	24,613,976	23,983,298
Non-controlling interests	1,992,458	1,554,402

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(Euro thousands)

			Other reserves					Retained earnings	Group result	Total Group equity	Non-controlling interest equity	Total 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*					
Equity at 31/12/2017	**90,964**	**163,897**			**7**	**(3,234)**	**(1,456)**	**3,611**	**18,361**	**272,150**	**10,055**	**282,205**
Allocation of prior year result								8,344	(8,344)	0		0
Distribution of dividends of the parent Avio S.p.A.									(10,017)	(10,017)		(10,017)
Distribution of dividends of the subsidiary Regulus S.A. (minority share)											(1,760)	(1,760)
Allocation to reserves		(19,641)			18,185		1,456					
Effect on retained earnings attributable to the Group and reserves attributable to minority interests of transactions under common control								(1,556)		(1,556)	1,556	0
Other changes								21		21		21
Comprehensive income for the year												
- Net profit for the year									24,338	24,338	1,500	25,838
- Other changes										0		0
- Actuarial gains/(losses), net of tax effect						(378)		24		(355)	54	(300)
Comprehensive income for the year	0	0			0	(378)	0	24	24,338	23,983	1,554	25,538
Equity at 31/12/2018	**90,964**	**144,256**			**18,193**	**(3,612)**	**0**	**10,443**	**24,338**	**284,581**	**11,405**	**295,986**
Allocation of prior year result								12,740	(12,740)	0		0
Distribution of dividends of the parent Avio S.p.A.									(11,598)	(11,598)		(11,598)
Distribution of dividends of the subsidiary Regulus S.A. (minority share)											(1,440)	(1,440)
Distribution of dividends of the subsidiary Spacelab S.p.A. (minority share)											(3,000)	(3,000)
Allocation to reserves												
Acquisition of treasury shares		(2,668)	(2,668)	2,668						(2,668)		(2,668)
Other changes								(7)		(7)	2	(5)
Comprehensive income for the year												
- Net profit for the year									26,198	26,198	790	26,987
- Other changes										0		0
- Actuarial gains/(losses), net of tax effect						(381)				(381)	(0)	(381)
Comprehensive income for the year	0	0	0	0	0	(381)	0	0	26,198	25,817	790	26,606
Equity at 31/12/2019	**90,964**	**141,588**	**(2,668)**	**2,668**	**18,193**	**(3,993)**	**0**	**23,176**	**26,198**	**296,125**	**7,757**	**303,882**

CONSOLIDATED CASH FLOW STATEMENT

(Euro thousands)

		2019	2018
OPERATING ACTIVITIES			
Net profit for the year		26,987	25,838
Adjustments for:			
- Income taxes		(3)	2,020
- (Income)/charges from equity investments		(2,868)	(3,239)
- Financial (Income)/Charges			
- Amortisation & Depreciation		16,057	14,032
- (Gains)/losses on sale of property, plant & equipment & other (income)/charges			
Dividends received		3,240	3,080
Net change provisions for risks and charges		16,029	(476)
Net change employee provisions		97	(200)
Changes in:			
- Inventories		(28,301)	1,466
- Contract work-in-progress & advances		30,984	(57,362)
- Trade receivables		802	1,490
- Trade payables		(31,072)	41,966
- Other current & non-current assets		14,671	9,912
- Other current & non-current liabilities		20,060	6,361
Income taxes paid		(630)	(1,474)
Interest paid		(443)	(1,476)
Net liquidity generated/(employed) in operating activities	(A)	**65,610**	**41,937**
INVESTING ACTIVITIES			
Investments in:			
- Tangible assets and investment property		(16,226)	(15,181)
- Intangible assets with definite life		(13,537)	(7,559)
- Equity Investments		(0)	(4)
Disposal price of tangible, intangible & financial assets			
Liquidity generated (employed) in investing activities	(B)	**(29,763)**	**(22,744)**
FINANCING ACTIVITIES			
New EIB loans		10,000	
Centralised treasury effect with Europropulsion S.A. joint control company		9,500	(6,014)
Dividends paid by the parent Avio S.p.A.		(11,598)	(10,017)
Dividends attributable to minorities of subsidiaries		(1,440)	(1,760)
Acquisition of treasury shares		(2,668)	
Lease payment		(3,773)	
Liquidity generated (employed) in financing activities	(C)	**21**	**(17,791)**
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C)	**35,868**	**1,402**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**108,435**	**107,033**
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**144,303**	**108,435**

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 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, 2019, 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 changed in 2019 due to the formation of the fully-owned subsidiary Avio France S.A.S.

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Accounting standards for the preparation of the financial statements

These financial statements at December 31, 2019 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 lay-out pursuant to Article 9 of Legislative Decree No. 38/2015 and other CONSOB regulations and provisions concerning financial reporting.

2.2. Financial Statements

The financial statements at December 31, 2019 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 2019 consolidated financial statements present the comparative 2018 figures for the Balance Sheet items (Consolidated Balance Sheet) and the 2018 figures for the Income Statement items (Consolidated Income Statement, Consolidated Comprehensive Income Statement, Statement of changes in Consolidated Equity and Consolidated Cash Flow Statement). Some data of the last year have been re-stated for a better comparison with the same referred to 2019.

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, 2019 include the financial statements of the parent company, of the Italian and overseas companies in which it holds directly or indirectly at December 31, 2019 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 changed due to the formation of France S.A.S.

The consolidation scope is shown in the following table:

Companies included in the consolidation scope at December 31, 2019	Holding
Parent	
Avio S.p.A.	-
Companies consolidated by the line-by-line method	
Spacelab S.p.A.	70%
Regulus S.A.	60%
SE.CO.SV.IM. S.r.l.	100% (*)
Avio Guyane S.A.S.	100%
Avio France S.A.S.	100%
ASPropulsion International B.V.	100%
Avio India Aviation Aerospace Private Limited (**)	100% (***)
Jointly controlled companies, measured at equity	
Europropulsion S.A.	50%
Associates, measured at equity	
Termica Colleferro S.p.A.	40%

(*) Holding through ASPropulsion International B.V.
(**) The company is in liquidation. No financial commitments are expected for the Group related to the liquidation.
(***) Investment held in part directly by Avio S.p.A. (95%) and in part through ASPropulsion International B.V. (5%).

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 and 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 initially recognised at cost, calculated according to the same methods indicated for property, plant and equipment. They are subsequently recognised at cost, net of depreciation (calculated for buildings at a single rate of 3% considered representative of the useful life) and any cumulative impairments. 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, 2019 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 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 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 all derivative instruments (Note 3.11) 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.

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.

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, 2018, 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. In assessing the recoverability of these assets, future assessable income calculated on the basis of results consistent with those utilised for impairment test purposes and described in the previous paragraph concerning the recoverable value of non-current assets were taken into consideration.

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. In order to better support management estimates, the Group has adopted contract risk analysis management procedures which identify, monitor and quantify risks relating to the execution of these contracts. The values recognised to the financial statements are the best estimate at that date by management, with the aid of the above-stated procedural supports.

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 applied from January 1, 2019

The Group has applied the following accounting standards, amendments and IFRS interpretations for the first time from 1 January 2019:

- on January 13, 2016, the IASB published the new standard **IFRS 16 - Leases**, which replaced IAS 17 – Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

  The standard provides a new definition of leases and introduces a criterion based on control (right-of-use) of an asset to distinguish lease contracts from service contracts, identifying essential differences: the identification of the asset, the right of replacement of the asset, the right to obtain substantially all the economic benefits from the use of the asset and the right to use the asset underlying the contract.

  It establishes a single model to recognise and measure leasing contracts for the lessee, which provides also for the recognition of operating leases under assets with a related financial payable. This standard does not contain significant amendments for lessors.

  The Group has used the practical expedient for the transition to IFRS 16 in order not to restate when a contract is or contains a lease. Therefore, the conclusion regarding the qualification of an agreement as a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to contracts entered into or amended before January 1, 2019.

  The change in the definition of a lease mainly refers to the “right-of-use” criterion. As per IFRS 16 a contract contains a lease when the client has the right to control the use of the identified asset for an established period of time in exchange for consideration. This concept is substantially different from the concept of "risks and benefits" to which significant attention is paid in IAS 17 and IFRIC 4.

  The Group applies the definition of leases and the related provisions of IFRS 16 for all leases entered into or amended on or after January 1, 2019 (regardless of whether a lessee or lessor in each lease). In view of the first-time application of IFRS 16, the Group carried out a project to assess the potential impacts and implementation of IFRS 16.

  The Group has elected to apply the standard retrospectively, and therefore to recognize the cumulative effect of the application of the Standard in shareholders’ equity with effect from January 1, 2019 (not restating the 2018 comparative figures), in accordance with IFRS 16:P7-P13. In particular, with regard to lease contracts previously classified as operating leases, the Group recognised the following:

a) a financial liability, 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;
b) 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 following table shows the impact of the adoption of IFRS 16 at the transition date (amounts in Euro million):

ASSETS	Effects at the transition date 01.01.2019 on the consolidated financial statements of the Avio Group
Non-current assets	
Right-of-use Buildings & Plant	6
Right-of-use Other assets	2
Total	**8**

LIABILITIES	Effects at the transition date 01.01.2019 on the consolidated financial statements of the Avio Group
Non-current liabilities	
Financial liabilities for non-current leases	5
Current liabilities	
Financial liabilities for current leases	3
Total	**8**

In adopting IFRS 16, the Group opted for the exemption permitted under paragraph IFRS 16:5(a) in respect of short-term leases - for the following categories of assets: hardware and EDP.

Likewise, the Group opted for the exemption permitted under IFRS 16:5(b) with regard to lease contracts for which the underlying asset qualifies as a "low-value asset" (i.e., the asset underlying the lease contract does not exceed Euro 5,000.00 when new). The contracts for which the exemption has been applied primarily fall within the following categories:

- computers, telephones and tablets;
- printers;
- other electronic devices;
- furniture and fittings.

For such contracts, the introduction of IFRS 16 entailed the recognition of the financial liability associated with the lease and relevant right of use. Rather, the lease payments are taken to the income statement on a straight-line basis over the term of the relevant contracts under "other costs" in the income statement.

In addition, with regard to the transition rules, the Group opted for the following practical expedients available in the event of the selection of the modified retrospective transition method:

- classification of contracts set to expire within 12 months of the transition date as short-term leases. The lease payments for such contracts are taken to the income statement on a straight-line basis;
- exclusion of the initial direct costs from the measurement of the right of use at January 1, 2019;
- use of the information available at the transition date to determine the lease term, with particular regard to the exercise of extension and early termination options.

- on December 12, 2017, the IASB published the ***"Annual Improvements to IFRSs 2015-2017 Cycle"*** which reflects the amendments to some standards within the annual improvements process.
  The principal changes relate to:

  - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that when an entity obtains control of a business which represents a joint

    operation, it must remeasure its previous holding in the business. This process however is not required in relation to obtaining joint control.

  - IAS 12 Income Taxes: the amendment clarifies that all tax effects relating to dividends (including payments on financial instruments classified in equity) should be accounted for on the same basis as the transaction that generated the related profits (statement of profit or loss, OCI or equity).

  - IAS 23 Borrowing costs: the amendment clarifies that loans that remain in place even after the related qualifying asset is ready for use or sale shall become part of the total loans used to calculate borrowing costs.

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

- the IASB published the document "***Plant Amendment, Curtailment or Settlement (Amendments to IAS 19"*** on February 7, 2018. The document clarifies that an entity must recognise a change (i.e. a curtailment or a settlement) of a defined benefit plan. The amendments require the entity to update their assumptions and remeasure the net liability or asset from the plan. The amendments clarify that after the occurrence of this event, an entity utilises updated assumptions to measure the current service cost and interest for the remainder of the period.

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

- on October 12, 2017, the IASB published the document "***Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)***". This document clarifies the need to apply IFRS 9, including the impairment requirements, to other long-term interests in associates and joint ventures for which the equity method is not applied.

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

- the IASB published the interpretation "***Uncertainty over Income Tax Treatments (IFRIC Interpretation 23)"*** on June 7, 2017. The document addresses the issue of uncertainty over income tax treatments. In more detail, the Interpretation requires an entity to analyse uncertain tax treatments (individually or, as a whole, depending on their characteristics) always assuming that the tax authorities will examine the tax situation in question with full knowledge of all relevant information. If the entity believes it is improbable that the tax authorities will accept the tax treatment followed, the entity shall reflect the effect of the uncertainty on the measurement of its current and deferred income taxes. In addition, the document does not contain any new disclosure obligations, but underlines that an entity should establish whether it will be necessary to provide information on considerations made by management and the relative uncertainty concerning the accounting of income taxes, in accordance with IAS 1. The new interpretation has been applied with effect from 1 January 2019.

The adoption of this amendment does not have significant effects on the consolidated financial statements of the Group.

- The IASB published an amendment to **IFRS 9 *"Prepayment Features with Negative Compensation"*** on October 12, 2017. This document specifies that instruments which provide for an advance repayment could comply with the Solely Payments of Principal and Interest ("SPPI") test also in the case where the "reasonable additional compensation" to be paid in the event of advance repayment is a "negative compensation" for the lender.

  The adoption of this amendment does not have effects on the consolidated financial statements of the Group.

IFRS and IFRIC standards, amendments and interpretations approved by the EU, not yet mandatory and not adopted in advance by the Group at December 31, 2019

- on October 31, 2018, the IASB published the document ***"Definition of Material (Amendments to IAS 1 and IAS 8)"***. The document modified the definition of "material" in IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendment aims to provide a more specific definition of "material" and introduce the concept of "obscured information" alongside the concepts of omitted or misstated information previously included in the two amended Standards. The amendment clarifies that information is "*obscured*" when it is described in such a way as to produce for primary users of financial statements an effect similar to that which would be produced if the information had been omitted or erroneous.
  The amendments introduced were approved on November 29, 2019 and apply to all transactions subsequent to January 1, 2020.

  The directors do not expect this amendment to have a significant impact on the Group consolidated financial statements.

- on March 29, 2018, the IASB published an amendment to the "***References to the Conceptual Framework in IFRS Standards***". The amendment is effective from periods beginning on or after January 1, 2020, although early application is permitted.
  The Conceptual Framework defines the fundamental concepts for financial reporting and guides the Board in developing the IFRS standards. The document helps to ensure that the Standards are conceptually consistent and that similar transactions are treated in the same way, thus providing useful information to investors, lenders and other creditors.
  The Conceptual Framework supports companies in developing accounting standards when no IFRS standard is applicable to a particular transaction and, more generally, helps stakeholders to understand and interpret the Standards.

- the IASB, on September 26, 2019, published the amendment entitled "***Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform***". The same amendment to IFRS 9 - *Financial Instruments* and IAS 39 - *Financial Instruments: Recognition and Measurement* in addition to IFRS 7 - *Financial Instruments:* Disclosures In particular, the amendment changes some of the requirements for the application of hedge accounting, establishing temporary derogations in order to mitigate the impact from the uncertainty of the IBOR reform (still in progress) on future cash flows in the period prior to its completion. The amendment also requires companies to provide additional information in their financial statements on their coverage ratios which are directly impacted by the uncertainties generated by the reform and to which the above derogations apply.

  The amendments shall enter into force on January 1, 2020, although companies may opt to apply them earlier.

As the amendment will be applied from January 1, 2020, any effects will be reflected in consolidated financial statements for periods ending after that date.

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 October 22, 2018, the IASB published the document ***"Definition of a Business (Amendments to IFRS 3)"***. The document provides certain clarifications on the definition of a business for the purposes of the proper application of IFRS 3. In particular, the amendment clarifies that while a business normally yields an output, the existence of an output is not strictly necessary to identify a business when there is an integrated set of activities and assets. However, in order to satisfy the definition of a business, an integrated set of activities/processes and assets shall include, at the very least, an input and a substantive process which, together, make a significant contribution towards the ability to create outputs. Accordingly, the IASB has replaced the term "ability to create outputs" with "ability to contribute towards the creation of outputs" in order to clarify that a business may exist even without the presence of all of the inputs and processes necessary to create an output.
  The amendment also introduced an optional test (*"concentration test"*), which allows for the exclusion of the presence of a business if the price paid is substantially attributable to a single asset or group of assets. The amendments apply to all business combinations and asset acquisitions after January 1, 2020 but early application is permitted.

  As the amendment will be applied to new acquisition transactions concluded with effect from January 1, 2020, any effects will be reflected in consolidated financial statements for periods ending after that date.

- on May 18, 2017, the IASB published **IFRS 17 - *Insurance Contracts*** which replaces IFRS 4 - Insurance Contracts.
  The new standard ensures that an entity provides pertinent information which accurately presents the rights and obligations under insurance contracts. The IASB developed the standard in order to eliminate inconsistencies and weaknesses in the existing accounting policies, providing a single principle-based framework to take account of all types of insurance contracts, including reinsurance contracts held by an insurer.
  The new standard sets out in addition presentation and disclosure requirements to improve comparability between entities belonging to the same sector.
  It measures insurance contracts on the basis of a General Model or a simplified version of such, called the Premium Allocation Approach ("PAA").
  The main features of the General Model are:
  - the estimates and assumptions of future cash flows always refer to the current portion;
  - the measurement reflects the time value of money;
  - the estimates include an extensive use of observable market information;
  - a current and clear risk measurement exists;
  - the expected profit is deferred and aggregated into groups of insurance contracts on initial recognition; and,
  - the expected profit is recognised in the period of contractual coverage, taking account of adjustments from changes in the assumptions on cash flows for each group of contracts.

  The PPA 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 PPA approach. The simplifications from application of the PPA method do not apply to the valuation of liabilities for existing claims, which are measured with the General Model. However, it is necessary to discount these cash flows where it is expected that the balance will be paid or received within one year from the date on which the claim occurred.

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

The standard is effective from January 1, 2021, although advance application is permitted, only for entities applying IFRS 9 – Financial Instruments and IFRS 15 - Revenue from Contracts with Customers.

The Directors do not expect this standard to have a significant impact on the Group consolidated financial statements.

- on January 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 Group is not 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, 2019 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).
The table illustrates the comparison between the balances in Property, plant and equipment of the Avio Group at December 31, 2019 and December 31, 2018.

	31/12/2019			31/12/2018		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	14,669		14,669	15,806		15,806
Buildings	35,868	(17,638)	18,230	33,575	(16,329)	17,246
Plant and machinery	77,951	(56,277)	21,673	75,476	(52,995)	22,480
Industrial and commercial equipment	18,136	(16,312)	1,824	17,892	(15,688)	2,205
Other assets	10,599	(7,031)	3,568	8,787	(6,361)	2,426
Assets under construction and payments on account	38,071		38,071	29,151		29,151
Total	**195,293**	**(97,259)**	**98,035**	**180,687**	**(91,372)**	**89,315**

The changes between December 31, 2018 and December 31, 2019 in the gross values of property, plant and equipment are illustrated in the table below (Euro thousands):

Gross value	31/12/2018	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2019
Land	15,806			(1,137)	14,669
Buildings	33,575	2,250	44		35,868
Plant and machinery	75,476	2,543	(68)		77,951
Industrial and commercial equipment	17,892	314	(71)		18,136
Other assets	8,787	2,025	(213)		10,599
Assets under construction and payments on account	29,151	8,920			38,071
Total	**180,687**	**16,051**	**(308)**	**(1,137)**	**195,293**

The increases in the period of Euro 16,051 thousand mainly concern purchases of development and production machinery and industrial buildings under construction.

Between December 31, 2018 and December 31, 2019, the changes to accumulated depreciation were as follows (in Euro thousands):

Gross value	31/12/2018	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2019
Buildings	(16,329)	(1,266)	(44)		(17,638)
Plant and machinery	(52,995)	(3,350)	68		(56,277)
Industrial and commercial equipment	(15,688)	(695)	71		(16,312)
Other assets	(6,361)	(883)	213		(7,031)
Total	**(91,372)**	**(6,194)**	**308**	**0**	**(97,259)**

The depreciation 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 new standard was applied utilising the modified retrospective approach. In particular, with regard to "lease" contracts previously classified as operating leases, the Company recognizes 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, 2019 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2019			01/01/2019		
	Gross Value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Rights-of-use	11,101	(1,657)	9,444	7,720	0	7,720
Total	**11,101**	**(1,657)**	**9,444**	**7,720**	**0**	**7,720**

The gross values of these rights at December 31, 2019 (in Euro thousands) are reported below:

Gross value	01/01/2019	Increases	Decreases	Reclassifications and other changes	31/12/2019
Land right-of-use	0	2,570			2,570
Buildings right-of-use	4,161	210	(21)		4,350
Plant and machinery right-of-use	1,525				1,525
Other assets right-of-use	2,033	650	(27)		2,656
Total	**7,720**	**3,430**	**(48)**	**0**	**11,101**

The accumulated depreciation of these rights in 2019 is reported below (in Euro thousands):

Gross value	01/01/2019	Increases	Decreases	Reclassifications and other changes	31/12/2019
Land right-of-use					0
Buildings right-of-use		(913)	7		(905)
Plant and machinery right-of-use		(137)			(137)
Other assets right-of-use		(615)	0		(614)
Total	**0**	**(1,664)**	**7**	**0**	**(1,657)**

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 Guyana; hiring of company cars.

3.3. INVESTMENT PROPERTY

The values of Investment property at December 31, 2019 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, 2019 with December 31, 2018.

	31/12/2019			31/12/2018		
	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	2,227	(1,005)	1,222	2,052	(941)	1,111
Total	**4,062**	**(1,005)**	**3,057**	**3,887**	**(941)**	**2,945**

Investment property refers to part of the land, buildings and facilities within the Colleferro (Rome) complex owned by the subsidiary Secosvim, leased to third parties. Secosvim undertakes property management activities.

The changes between December 31, 2018 and December 31, 2019 in the gross values of investment property of the Avio Group are illustrated in the table below (Euro thousands):

Gross value	31/12/2018	Increases	Decreases	Reclassifications and other changes	31/12/2019
Land	1,834				1,834
Buildings & facilities	2,052	175			2,227
Total	**3,887**	**175**	**0**	**0**	**4,062**

Between December 31, 2018 and December 31, 2019, the changes to accumulated depreciation were as follows (in Euro thousands):

Accumulated depreciation	31/12/2018	Depreciation	Utilisations	Reclassifications and other changes	31/12/2019
Land	-				-
Buildings & facilities	(941)	(64)			(1,005)
Total	**(941)**	**(64)**	**0**	**0**	**(1,005)**

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

3.4. GOODWILL

The goodwill recognised at December 31, 2019 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 which did not indicate the need for a write-down of the carrying amount of goodwill at December 31, 2019.

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, 2019, the cash flows of the Space CGU were estimated according to forecasts in the 2020 Budget and business plans. For the calculation of the terminal value, the expected cash flows for the final year were normalised according to the perpetuity method, assuming 2% growth for forecast cash flows, in line with the previous year and the general forecasts for the space and defence sector.

The average discount rate (average weighted cost of capital) utilised for discounting cash flows was, net of taxes, 8.2% (8.7% in the previous year).

The estimates and the plan data used in the application of the above indicated parameters are calculated by management 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, in particular 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, without however resulting in impairments to the goodwill recognised to the financial statements. However, the estimate of the recoverable value of goodwill requires subjectivity and the use of estimates by management 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 Group management.

In consideration of that indicated, the Group undertook a sensitivity analysis concerned the growth rate of the terminal value and the discount rate of the cash flows:

- for the terminal value growth rate a decrease of 20 basis points was assumed; alternatively
- for the cash flow discount rate an increase of 50 basis points was assumed.

In the base case, the recoverable value of the Space CGU is Euro 63 million higher than the carrying amount of the net capital employed.

Where the above-stated sensitivities are applied separately to the base case, the recoverable value shall however be in excess of the carrying amount of the net capital employed respectively by Euro 55 million and Euro 42 million.

In order to further support the analysis carried out, in view of the COVID-19 epidemic, an additional "execution risk" was prudently undertaken, increasing the discount rate 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.

3.5. INTANGIBLE ASSETS WITH DEFINITE LIFE

The values of Intangible assets with definite life at December 31, 2019 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, 2018 with December 31, 2019.

	31/12/2019			31/12/2018		
	Gross value	Accumulated amortisation	Net book value	Gross values	Accumulated amortisation	Net book value
Development costs – amortisable	71,188	(52,628)	18,560	71,188	(48,692)	22,496
Development costs - in progress	64,421	-	64,421	52,989	-	52,989
Total development costs	135,609	(52,628)	82,981	124,177	(48,692)	75,485
Assets from PPA 2017 – Programmes	44,785	(8,211)	36,574	44,785	(5,225)	39,560
Concessions, licenses, trademarks & similar rights	8,040	(6,455)	1,585	6,355	(5,850)	505
Other	3,336	(2,363)	973	2,916	(1,699)	1,217
Assets under construction and payments on account	160	-	160	186	-	186
Total	**191,929**	**(69,657)**	**122,272**	**178,419**	**(61,466)**	**116,953**

The amortisable development costs mainly refer to design and testing costs relating to the P80 motor, while the largest part of the development costs in progress relate to the projects for the new Z40, P120 and liquid oxygen and methane engines.

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, 2018 and December 31, 2019 in the gross values of Intangible assets with definite life of the Avio Group are illustrated in the table below (Euro thousands):

Gross value	31/12/2018	Increases	Decreases	Reclassifications and other changes	31/12/2019
Development costs – amortisable	71,188				71,188
Development costs - in progress	52,989	11,432			64,421
Total development costs	124,177	11,432	0	0	135,609
Assets from PPA 2017 – Programmes	44,785				44,785
Concessions, licenses, trademarks & similar rights	6,355	1,711	(26)		8,040
Other	2,916	302		117	3,336
Assets under construction and payments on account	186	91		(117)	160
Total	**178,419**	**13,537**	**(26)**	**0**	**191,929**

The increases in 2019 with reference to the development costs mainly relate to design and testing costs for the construction of the new Z40, P120 and liquid oxygen and methane engines within the VEGA C and Ariane 6 launcher programmes.

Between December 31, 2018 and December 31, 2019, the changes to accumulated depreciation were as follows (in Euro thousands):

Accumulated amortisation	31/12/2018	Increases	Decreases	Reclassifications and other changes	31/12/2019
Development costs – amortisable	(48,692)	(3,937)			(52,628)
Development costs - in progress	0				0
Total development costs	(48,692)	(3,937)	0	0	(52,628)
Assets from PPA 2017 - Programmes	(5,225)	(2,986)			(8,211)
Concessions, licenses, trademarks & similar rights	(5,850)	(630)	25		(6,455)
Other	(1,699)	(664)			(2,363)
Total	**(61,466)**	**(8,216)**	**25**	**0**	**(69,657)**

3.6. INVESTMENTS

The investments held by the Avio Group at December 31, 2019 and December 31, 2018 follows (in Euro thousands).

	31/12/2019		31/12/2018		Change
	Group share	Total	Group share	Total	
Subsidiaries					
- Servizi Colleferro – Consortium	52.00%	63	52.00%	63	0
Total non-consolidated subsidiaries		**63**		**63**	**0**
Companies under joint control					
- Europropulsion S.A.	50.00%	3,539	50.00%	3,911	(372)
Total companies under joint control		**3,539**		**3,911**	**(372)**
Associates					
- 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**
Other companies					
- Other companies		524		524	(0)
Total other companies		**524**		**524**	**(0)**
Total		**7,766**		**8,138**	**(373)**

Concerning the on-balance sheet value of the subsidiaries and the relative equity value pertaining Avio S.p.A. please have a look at the comparation prospectus in the "3.5. Investments" of the individual balance sheet.
The changes between December 31, 2018 and December 31, 2019 in the investments are shown below (Euro thousands):

	31/12/2018	Increases	Decreases	Other changes	31/12/2019
Subsidiaries	63	-	-	-	63
Companies under joint control	3,911	2,868	(3,240)	-	3,539
Associated companies	3,640	-	-	-	3,640
Other companies	524	-	-	-	524
Total	**8,138**	**2,868**	**(3,240)**	**0**	**7,765**

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 372 thousand (due to the 50% share of profits accrued in 2019, Euro 2,868 thousand, net of the decrease of Euro 3,240 thousand for dividends paid by the company during the year).

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, 2019 and at December 31, 2018 (in Euro thousands).

	31/12/2019	31/12/2018	Change
Shareholder loan to Termica Colleferro S.p.A.	6,106	5,812	294
	6,106	**5,812**	**294**

The account, amounting to Euro 6,106 thousand (Euro 7,440 thousand at nominal values), comprises the shareholder loan granted to the associated company Termica Colleferro S.p.A. together with the other shareholder SECI S.p.A., paid in order to ensure the long-term operational viability of this company in proportion to the share capital held; a similar contribution was made by the above-mentioned majority shareholder. This loan is non-interest bearing and repayment is subordinate to the total settlement of the bank loans of the associate, maturing in 2027.

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

For more information concerning the Termica Colleferro S.p.A. please see the "Other Commitments" in the "5. Commitments and Risks" paragraph.

3.8. DEFERRED TAX ASSETS

The deferred tax assets of the Avio Group recorded in the accounts amount to Euro 77,784 thousand.

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):

	31/12/2019
Gross deferred tax assets on temporary differences	
Temporary differences deriving from previous corporate operations	
Fiscal amortisation on previous goodwill whose tax benefits remain in the Group.	12,081
Financial charges exceeding 30% of EBITDA	40,950
Temporary differences deriving from current corporate operations	
Provision for personnel charges, former employees and similar	2,855
Other deductible temporary differences	9,433
Total gross deferred tax assets	**65,319**
Deferred tax liability on temporary differences	
Temporary differences deriving from previous corporate operations	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(10,570)
Tax effect R&D expenses First-Time Adoption	(3,189)
Temporary differences deriving from current corporate operations	
Other temporary assessable differences	(1,179)
Total gross deferred tax liabilities	**(14,938)**
Net deferred tax assets/(liabilities)	**50,381**
Deferred tax assets on tax losses	**73,620**
Deferred tax assets not recorded	**(46,217)**
Net deferred tax assets (liabilities) recorded	**77,784**

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;
- the meeting of the ministers of ESA Member States held in November 2019, which confirmed all the programmes approved in the previous Ministerial Conferences. New ESA member states, including Ireland and Romania, also decided to join the Vega programme with substantial contributions, guaranteeing the necessary support to continue development right up to the next Ministerial Conference scheduled for 2022.
  In addition to the aforementioned programmes, the Ministerial Conference gave the go-ahead for the development of an improved version of the Vega-C launcher, Vega-C++.

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, in addition to prior tax losses.

3.9. OTHER NON-CURRENT ASSETS

The table below illustrates other non-current assets at December 31, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Other non-current assets	78,295	66,521	11,775
	78,295	**66,521**	**11,775**

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

	31/12/2019	31/12/2018	Change
Receivables from the General Electric Group	58,514	58,542	(28)
Receivables from FCA Partecipazioni	11,259		11,259
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	7,870	7,357	513
Guarantee deposits	535	479	55
Other non-current receivables	118	142	(24)
Total	**78,295**	**66,521**	**11,775**

"Receivables from the General Electric Group" of Euro 58,514 thousand refer to the recharge of the following tax charges:

- Euro 58,220 thousand relates to the payment notice received in July 2016 from the Tax Agency relating to registration, mortgage and land tax for 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. This receivable is recognized against an amount payable to the Treasury of like amount among non-current liabilities;
- Euro 294 thousand of charges relating to the tax dispute pertaining to tax year 2013, which was settled in 2018.

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 either indirect taxes concerning the above-mentioned extraordinary operations in 2013 or in general to the sector of the above-mentioned sale, providing Avio the sums requested by the Tax Office within the time period for the payments.

Regarding the dispute regarding the registration, mortgage and land taxes, in 2018 an appeal was made before the Piedmont Regional Tax Commission, which in judgment 1740/18 rendered on October 24, 2018 and filed on November 7, 2018 granted the Company's appeal in full. At the reporting date, there was no record of any appeal by the Italian Tax Office of the above judgment before the Court of Cassation.

It bears remarking that lawmakers have addressed the subject-matter of this dispute, which has to do with the application of Art. 20 of Italian Presidential Decree 131/1986 (the "Consolidated Law on Registration Tax"), in paragraph 1084 of Law 145 of December 30, 2018 (the "2019 Finance Act"), expressly granting the force of an official interpretation – and thus retroactive effect – to Art. 1, paragraph 87, letter a) of Law 205 of December 27, 2017 (the "2018 Finance Act"), which amended Art. 20 of the Consolidated Law on Registration Tax, limiting the discretion of the revenue authorities in reclassifying deeds subject to registration. In the light of the provision of the 2019 Finance Act, the provision introduced by the 2018 Finance Act should therefore also apply retroactively, for the benefit of the taxpayer, with the result that there is no longer any case to answer.

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

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

On the transaction date other current and non-current assets of Euro 16.5 million were recognised, together with the charges provision of Euro 16.9 million.
On signing the agreement on August 2, 2019, the Avio Group collected, according to the settlement agreement, Euro 4.1 million (of which Euro 3 million against the above new receivable recognised and Euro 1.1 million against the receivable already recognised to the financial statements from FCA Partecipazioni S.p.A.).

In this regard, reference should be made to the more detailed 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 7,870 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, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Inventories	145,519	116,080	29,439
	145,519	**116,080**	**29,439**

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

	31/12/2018	Change	31/12/2019
Raw material, ancillary and consumables	35,844	1,004	36,848
Raw material, ancillary and consumables obsolescence provision	(4,361)	2,619	(1,742)
Raw material, ancillary and consumables - net value	31,483	3,624	35,107
Products in work-in-progress	5,382	(90)	5,292
Provision for the write-down of work in progress	(424)	254	(170)
Products in work-in-progress - net value	4,958	164	5,122
Finished products and other inventories	7	3,254	3,261
Finished products and other inventories obsolescence provision	(4)	(2,115)	(2,119)
Finished products and other inventories - net value	3	1,138	1,141
Advances to suppliers	79,636	24,513	104,149
	116,080	**29,439**	**145,519**

The increase in inventories relates to expanded production levels. The raw materials obsolescence provision was utilised for the disposal of materials no longer utilisable.

Advances to suppliers concern payments made in advance of the execution of the relative supplies based on conditions established in the purchase contracts. The change during the year reflects the ordinary business cycle.

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):

	31/12/2019	31/12/2018	Change
Contract work-in-progress	24,015	103,151	(79,137)
Advances for contract work-in-progress	(128,919)	(177,073)	48,154
Net total	**(104,904)**	**(73,921)**	**(30,983)**

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):

	31/12/2019	31/12/2018	Change
Contract work-in-progress (gross)	876,287	503,157	373,131
Advances for contract work-in-progress (gross)	(852,273)	(400,006)	(452,267)
Contract work-in-progress (net)	**24,015**	**103,151**	**(79,137)**

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):

	31/12/2019	31/12/2018	Change
Contract work-in-progress (gross)	706,181	1,150,960	(444,780)
Advances for contract work-in-progress (gross)	(835,100)	(1,328,032)	492,933
Advances for contract work-in-progress (net)	**(128,919)**	**(177,073)**	**48,153**

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 at issue 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, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Trade receivables	6,215	7,017	(802)
	6,215	**7,017**	**(802)**

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

	31/12/2019	31/12/2018	Change
Receivables from third parties	4,454	5,479	(1,025)
Receivables from associates and jointly controlled companies	1,146	939	207
	5,600	**6,418**	**(818)**
Receivables from associates and jointly controlled companies beyond one year	615	599	16
	615	599	16
Total	**6,215**	**7,017**	**(802)**

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):

	31/12/2019	31/12/2018	Change
Gross value	4,937	5,962	(1,025)
less: doubtful debt provision	(483)	(483)	0
Total	**4,454**	**5,479**	**(1,025)**

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):

	31/12/2019	31/12/2018	Change
Europropulsion S.A.	771	524	247
Servizi Colleferro S.C.p.A.	203	151	52
Potable Water Services Consortium	62	159	(97)
Termica Colleferro S.p.A. due within one year	110	105	5
	1,146	939	207
Termica Colleferro S.p.A. due beyond one year	615	599	16
	615	599	16
Total	**1,761**	**1,538**	**223**

3.13. CASH AND CASH EQUIVALENTS

The table below illustrates cash and cash equivalents at December 31, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Cash and cash equivalents	144,303	108,435	35,868
Total	**144,303**	**108,435**	**35,868**

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, 2019 and December 31,2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Tax receivables	33,162	62,775	(29,613)
Total	**33,162**	**62,775**	**(29,613)**

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

	31/12/2019	31/12/2018	Change
VAT receivables	20,961	46,253	(25,292)
Research and development tax credit (year 2019)	6,291		6,291
Research and development tax credit (year 2018)	-	10,604	(10,604)
Research and development tax credit (year 2017)	-	2,101	(2,101)
Receivables from tax authorities	5,628	3,577	2,052
EU VAT receivables	282	240	42
Total	**33,162**	**62,775**	**(29,613)**

The net decrease in tax receivables of Euro 29,613 was essentially due to the following contrasting effects:

- a net decrease in VAT receivables of Euro 25,292 thousand, due to the collection of VAT receivables of Euro 33,164 thousand relating to the second and third quarters of 2017, the 2017 annual VAT, net of the increase in VAT for the year;
- a net decrease in research and development tax credits of Euro 6,414 thousand;
- a net increase in other tax receivables of Euro 2,094 thousand relating to the expedited VAT settlement of Secosvim for Euro 1,659 thousand.

VAT receivables

VAT receivables, for Euro 20,961 thousand, include:
- Euro 12,414 thousand, relating to VAT reimbursement requests to the Tax Authorities;
- Euro 8,547 thousand relating to VAT receivables for which refunds were not requested, equal to the amount of the VAT receivable that arose during the year.

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, the VAT exemptions for intra-Community exports, transactions similar to exports and sales of goods apply to the transactions undertaken with the parties in question. This circumstance entails the quasi-absence of VAT payables on the sales transactions undertaken by the Company. On the other hand, the Company has Italian suppliers whose supplies - further to the amounts permitted under the VAT ceilings used - result in the recognition of VAT receivables. Although the amount of the VAT receivables accruing to the Parent Company already declined considerably in 2018 and 2019, further expected containment is expected, due in part to the adoption in 2019 and 2020 of new measures aimed at reinforcing the use and monitoring of the VAT exemption rules, arising from the declarations of intent mechanism.

Research and development tax credit

Regulatory framework

The research and development tax credit was introduced by Article 3 of Legislative Decree No. 145 of December 23, 2013, converted with amendments, by law No. 9 of February 21, 2014, and subsequently amended by:
- the 2017 Budget Law (Law No. 232 of December 11, 2016), published in the *Official Gazette* on December 21, 2016 and in force since January 1, 2017.
- the 2019 Budget Law (Law No. 145 of December 30, 2018), published in the *Official Gazette* on December 31, 2018 and in force since January 1, 2019;

- the 2020 Budget Law (Law No. 160 of December 27, 2019), published in the Official Gazette on December 30, 2019 and in force since January 1, 2020.

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

- was recognised against the investment specifically identified by the law made in the years between 2015 and 2020;
- was "incremental" in nature, in that it equated to, for each of the tax break periods, the excess of investments made in the year over average similar investments over the 2012-2014 three-year period ("historic benchmark average");
- was equal to 50% of the excess costs incurred in the year over the historic benchmark average (until the amendments applied by the 2019 Finance Act, as set out below);
- was utilizable for an annual maximum amount of Euro 20 million (until the amendments applied by the 2019 Finance Act, as set out below);
- may be accessed also where research and development is contracted to third parties. In this case, the break may be utilised by the commissioner, if resident in Italy;
- was automatically accessible, without the need for a request for concession or administrative authorisation, and without complying with the obligation for cost certification by the independent auditing firm.
- was utilizable exclusively as an offset from the subsequent tax period to that in which the qualifying costs are incurred (until the amendments applied by the 2019 Finance Act, as set out below).

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

Due to the 2019 Budget Law:

- the maximum amount of the tax credit that may be granted to each company was reduced from Euro 20 million to Euro 10 million with effect from January 1, 2019;
- the maximum amount of the tax credit was reduced from 50% to 25%, as limited to the costs of research and development activities not organized internally to the company, incurred in excess of the average amount of such investments undertaken in the three tax periods from 2012 to 2014. However, the 50% rate was confirmed for research and development activities organized internally to the company, i.e. for the personnel costs of employees directly assigned to such activities and, for externally commissioned activities, solely for contracts entered into with universities, research entities and organizations and innovative, independent start-ups and small and medium enterprises (SMEs). The benefit was extended to expenses incurred for the purchase of materials, supplies and other similar products directly used in 2019 R&D activities. These amendments enter into force from January 1, 2019;
- the use of the tax credit was only used after specific certification of the costs incurred had been issued by the independent auditor of the accounts. This amendment was already applicable to the tax credit accrued on the basis of the costs incurred in 2018.

- an interpretation rule was introduced for paragraph 1-*bis* of Article 3 of Decree-Law No. 145/2013 to establish that, where research and development is carried out on behalf of foreign principals, the tax benefit is granted to the agent exclusively in relation to the expenses concerning research and development carried out directly and in laboratories or structures located in Italy.

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

1) the previous tax credit provided for in Decree-Law No. 145/2013, with a maximum nominal amount of Euro 10 million (formerly Euro 20 million), is confirmed for the 2019 tax period only. Before the 2020 Budget Law this credit was also to apply to the 2020 tax period;

2) the following new tax credits are established for the 2020 tax period only to replace the previous R&D credit:
   a) a tax credit for fundamental research, industrial research and experimental development in scientific or technological fields, as defined in the "Frascati Manual". This tax credit is granted for 12% of the costs incurred in 2020, with a maximum of Euro 3 million;
   b) a tax credit for technological innovation activities, other than those set out in point a), for the development of new or substantially improved products or production processes. This tax credit is granted – separately from that set out in paragraph a), and thus cumulatively – for 6% of the costs incurred in 2020 for such activities, with a maximum of Euro 1.5 million. The relief is increased (10% of the costs incurred in 2020 for such activities, up to a maximum of Euro 1.5 million), where the technological innovation activity is intended to achieve an environmental transition or digital innovation 4.0 objective;
   c) a tax credit for the design and styling activities carried out by companies active in textiles, fashion, footwear, eyewear, jewellery, furniture and furnishings and ceramics to create and implement new products and samples.

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

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

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

Recognition in the Financial Statements

These receivables are 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, in relation to the percentage of completion of the contract work-in-progress giving rise to the costs against which the due receivable was calculated in the 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.

The estimated tax credit for 2019, pending certification from the independent auditors, totals Euro 6.3 million. However, no benefit has been recognised in the 2019 income statement, since the benefit in question has been offset by the effects on the income statement of the retroactive application of the aforementioned authentic interpretation rule.

As established by the 2019 Budget Law, the tax credit maturing in relation to costs incurred in 2018 was utilised as an offset, following the release of the relative "certification" from the appointed auditor, as required by the above-stated regulatory changes.

Since the amendments introduced by the 2020 Budget Law entered into effect on January 1, 2020, they do not have immediate effects on FY 2019.

Tax receivables

Tax receivables of Euro 5,628 thousand principally concerned:

- receivables relating to the expedited VAT settlement of Secosvim for Euro 1,956 thousand;
- IRAP receivables of Euro 1,026 thousand;
- receivables for withholding taxes on interest for Euro 947 thousand;
- tax receivables of the Guyanese subsidiary Regulus for Euro 749 thousand;
- other tax receivables of Euro 950 thousand.

EU VAT receivables

The EU VAT receivables relate to inter-EU transactions and amount to Euro 282 thousand.

3.15. OTHER CURRENT ASSETS

The table below illustrates other current assets at December 31, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Other current assets	9,142	7,608	1,534
Total	**9,142**	**7,608**	**1,534**

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

	31/12/2019	31/12/2018	Change
Economic Development Ministry for disbursements pursuant to Law 808/85	3,511	2,740	771
Receivables from FCA Partecipazioni	2,168	1,020	1,148
Employee receivables	989	1,008	(19)
Prepayments and accrued income	820	1,130	(310)
Grants/subsidies receivable	649	396	253
Other debtors	470	1,183	(713)
Other receivables from non-consolidated subsidiaries			
- *Servizi Colleferro S.C.p.A.*	494	126	367
Social security institutions	41	5	36
Total	**9,142**	**7,608**	**1,534**

Receivables from the "Economic Development Ministry for disbursements pursuant to Law 808/85", amounting to Euro 3,511 thousand, refer to the discounted value of the sums to be disbursed by the Economic Development Ministry for projects qualifying as functional to national security or projects with common European interest, subsequent to the approval by the Interministerial Committee for the Economic Programming of Resolution No. 28 of March 22, 2006 enacting directives for the aerospace sector, which will be received in the next year.

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

Regarding the "Receivables from FCA Partecipazioni", reference should be made to the comments in paragraph "10. Subsequent events" and in paragraph "3.9. Other non-current assets" of these notes.

Other debtors of Euro 470 thousand decreased on the previous year, mainly due to the release of an escrow account of Euro 675 thousand relating to the disposal of the company's aeronautical division in August 2013.

EQUITY

3.16. SHARE CAPITAL

The share capital of the parent company Avio S.p.A. amounts to Euro 90,964,212 at December 31, 2019; 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, 2019 comprised 26,359,346 ordinary shares.

3.17. SHARE PREMIUM RESERVE

An amount of the share premium reserve of Euro 144,255,918 at December 31, 2018 equal to the treasury shares purchased of Euro 2,668 thousand was unavailable.
The available value of the share premium reserve is therefore Euro 141,588,361.

3.18. OTHER RESERVES

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

	31/12/2019	31/12/2018	Change
Actuarial gains/(losses) reserve	(3,993)	(3,612)	(381)
Legal reserve	18,193	18,193	0
Treasury shares acquired	(2,668)		(2,668)
Unavailable treasury shares purchase reserve	2,668		2,668
Total	**14,200**	**14,580**	**(381)**

On December 31, 2019, following the purchases made, Avio S.p.A. holds 214,500 treasury shares, equal to 0.81% of the number of shares comprising the share capital. The value of the acquired treasury shares amounts to Euro 2,668 thousand.

3.19. RECONCILIATION BETWEEN PARENT AND CONSOLIDATED EQUITY

The reconciliation between equity at December 31, 2019 and the 2019 parent result and the corresponding consolidated financial statement amounts is outlined as follows (in Euro thousands):

	Equity at 31/12/2019	Net profit 2019
Financial Statements of Avio S.p.A.	**292,022**	**28,560**
Elimination of investments recognised to the statutory financial statements	(127,294)	
Accounting for equity and the Group's share of the profits or losses of consolidated companies	130,895	(493)
Elimination of inter-company dividends		(2,160)
Other consolidation adjustments	503	290
Consolidated financial statements (attributable to the Group)	**296,126**	**26,198**

With regards to the reconciliation, the following is reported:

- the elimination of inter-company dividends entirely concerned dividends issued by the subsidiary Regulus S.A. in 2019 (Euro 2,160 thousand);
- the elimination of gains and losses from inter-company transactions and other consolidation adjustments mainly relate to the measurement at equity of the jointly controlled Europropulsion S.A. and the elimination of the leasing contracts with the subsidiary Se.Co.Sv.Im. recognised according to IFRS 16 by the parent company Avio S.p.A.

3.20. 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:

	31/12/2019				
Consolidated companies	% Non-controlling interests	Capital and reserves		Profit/(loss)	Equity non-controlling Interests
Spacelab S.p.A.	30.00%	2,479		22	2,501
Regulus S.A.	40.00%	4,488		768	5,256
		6,967	**0**	**790**	**7,757**

NON-CURRENT LIABILITIES

3.21. NON-CURRENT FINANCIAL LIABILIITES

The account relates to the loans contracted from the European Investment Bank (EIB).
The movement in the account between December 31, 2018 and December 31, 2019 is reported below (in Euro thousands):

	31/12/2019	31/12/2018	Change
Non-current financial liabilities	42,000	40,000	2,000
Total	**42,000**	**40,000**	**2,000**

On January 16, 2019 the Company signed an additional Euro 10 million loan contract with the European Investment Bank (EIB). This loan is in fact in addition to, and subject to similar economic conditions as, the aforementioned original loan of Euro 40 million contracted in October 2017.

The two instalments of the EIB loan of Euro 40 million maturing in 2020 – equal to Euro 8 million – have been classified to the account "3.26. Current financial liabilities" (Euro 4 million due on April 30, 2020 and Euro 4 million due on October 31, 2020).

The incremental loan of Euro 10 million will further 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 two loans with the EIB have the following characteristics:

- loan of Euro 10 million 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 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 million 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 from the third to the seventh years, of which the first maturing on April 30, 2020 and the final maturing on October 31, 2024.

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 LEASE LIABILITIES

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

	31/12/2019	31/12/2018	Change
Non-current lease liabilities	4,889	0	4,889
Total	**4,889**	**0**	**4,889**

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

	31/12/2019	31/12/2018	Change
Non-current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	1,246		1,246
Non-current financial liabilities to third parties as per IFRS 16	3,643		3,643
Total	**4,889**	**0**	**4,889**

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):

	31/12/2019	31/12/2018	Change
- Defined benefit plans:			
Post-employment benefits	4,471	5,006	(535)
Other defined benefit plans	2,720	2,478	241
	7,191	7,484	(293)
- Other long-term benefits	3,998	3,222	776
Total employee benefit provisions	**11,189**	**10,706**	**482**
of which:			
- Italy	9,398	9,254	144
- Other Countries	1,791	1,452	338
	11,189	**10,706**	**482**

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

	Defined benefit plans	Other long-term benefits	Total employee benefit provisions
Values at 31/12/2018	**7,484**	**3,222**	**10,706**
Financial charges/(income)	(13)	(3)	(16)
Actuarial (gains)/losses in income statement		425	425
Actuarial (gains)/losses in comprehensive income statement	504		504
Pension cost current employees	130	489	619
Other changes	(28)	(16)	(43)
Benefits paid	(886)	(119)	(1,005)
Values at 31/12/2019	**7,191**	**3,998**	**11,189**

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

	31/12/2019	31/12/2018
Discount rate	0.22%	0.65%
Expected salary increases	2.12%	2.12%
Inflation rate	1.50%	1.50%
Average employee turnover rate	4.46%	4.76%

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, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Provisions for risks and charges	31,892	15,864	16,029
Total	**31,892**	**15,864**	**16,029**

The breakdown of the provisions for risks and charges at December 31, 2019 is presented below (Euro thousands):

	31/12/2019		
	Current portion	Non-current portion	Total
Provision for variable remuneration	6,077	1,650	7,727
Provision for legal and environmental risks and charges	5,829	14,804	20,633
Provision for contractual and commercial risks and charges	519	3,013	3,532
Total	**12,426**	**19,467**	**31,892**

These provisions include:

- provisions for variable remuneration for Euro 7,727 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 20,633 thousand;
- provisions for contractual and commercial risks and charges, mainly related to the provisions to cover potential commercial charges, penalties, charges and losses deriving from the conclusion of contracts in course, in addition to charges for rights pursuant to the provisions of Law 808/85 (regulation post 2006), amount to Euro 3,532 thousand.

The changes in 2019 in the total provisions, current and non-current portion, are illustrated in the table below (Euro thousands):

	31/12/2018	Provisions	Other changes	Utilisations	Releases	31/12/2019
Provision for variable remuneration	5,953	5,684		(3,910)		7,727
Provision for legal and environmental risks and charges	5,528	16,857	(286)	(1,466)		20,633
Provision for contractual and commercial risks and charges	3,492	1,438	1,708	(1,450)	(1,656)	3,532
Provision for tax risks	891		(421)		(470)	0
Total	**15,864**	**23,978**	**1,002**	**(6,826)**	**(2,126)**	**31,892**

The following main changes occurred in 2019:

- the provision for variable remuneration was utilised for Euro 3,910 thousand, mainly in consideration of the amounts paid to employees as bonuses related to the achievement of individual and company objectives. The provision of Euro 5,684 thousand mainly relates to variable remuneration which will be paid at the beginning of 2020, on the basis of the achievement of individual and company objectives for the year 2019, in addition to a long-term incentive plan for senior Group managers;

- the provisions for legal and environmental risks and charges increased by Euro 16,857 thousand. The increase concerned the environmental charges provision (recognised to the financial statements at present values) in relation to the settlement between the Avio Group and FCA Partecipazioni S.p.A. commented upon in the Directors' Report paragraph "10. Subsequent events" and paragraphs "3.9 Other non-current assets" and "3.15 Other current assets" of these notes.

- provisions for contractual and commercial risks and charges increased by Euro 3,146 thousand, primarily in view of the allocation of a reclamation provision for an area used for industrial purposes. These provisions were used for Euro 1,450 thousand and, following an overall assessment, released for Euro 1,656 thousand;

- the provisions for tax risks were released during the year as the provisions are no longer required.

In this regard, reference should be made to the more detailed section "Legal and tax disputes and contingent liabilities" in the Explanatory Notes.

3.25. OTHER NON-CURRENT LIABILITIES

The table below illustrates the account December 31, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Non-current liabilities	134,185	122,453	11,732
Total	**134,185**	**122,453**	**11,732**

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

	31/12/2019	31/12/2018	Change
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.	58,220	58,220	-
Other tax payables	10,627	1,096	9,530
	68,847	59,316	9,530
Liabilities relating to Law 808/85			
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	20,859	18,654	2,205
Payables to MiSE for disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	1,283	1,265	18
Deferred income on disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	483	483	-
	64,676	62,452	2,223
Other liabilities	98		98
Accrued expenses	565	684	(120)
Total	**134,185**	**122,453**	**11,732**

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

Other tax payables

This account, which amounted to Euro 10,627 thousand, refers to:

- for Euro 8,899 thousand, to the long-term part 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 particular, in view of the shift in interpretation of the 2019 Budget Law that occurred throughout 2019, and of the opinions of independent advisors, the Group decided to apply the authentic interpretation rule set out in paragraph 1-*bis* of Decree-Law No. 145/2013 retrospectively to 2017 as well, and therefore to redetermine a lower tax benefit due for that year. The restatement in question was also approved by the Italian Tax Office, with which an instalment plan was also agreed to refund the amount;

- for Euro 1,079 thousand, the Tax payable of the subsidiary Secosvim 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 of the taxes only, without penalties and interest, for a total amount of Euro 1.6 million.
  This amount will be paid in 20 equal quarterly instalments.

  For further details, reference should be made to paragraph *"B.3 Tax dispute relating to non-application of VAT on reclamation costs recharged to Avio in the years 2010, 2011 and 2012"* in the "Legal and tax cases and contingent liabilities" section;

- for Euro 426 thousand, the portion beyond 12 months of amounts payable due to the settlement of a tax dispute relating to tax year 2013 reached by the parent Avio S.p.A. with the Italian Tax Office in 2018.

- for Euro 223 thousand the liabilities relating to the settlement as per Article 5-*bis* of Legislative Decree 193/2016 (converted by Law 225 of 2016) agreed by the subsidiary Secosvim with the Customs and Monopolies Agency on September 29, 2017, with regards to the tax dispute concerning electricity sold to the companies of the Colleferro industrial district in the period between 2001 and August 2005.

Liabilities relating to Law 808/85

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

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

This payable concerning the grants as per Law 808/85 is subject to the relative provisions valid up to 2006.
In 2006 the enacting regulations of Law 808/85 were modified. In particular, a specific regulation was defined for the programmes subject to intervention by Law 808/85 considered as functional to national security or projects of common European interest, which provide for, in place of the restitution of the disbursements granted, the payment of rights relating to the sale of the products developed within the programmes. For the programmes not within the above-mentioned category, the obligation remains for the restitution without payment of interest.
It is considered, following detailed analysis undertaken also with the assistance of primary legal firms and as communicated to the Economic Development Ministry in previous years, that this new regulation is not applicable to the interventions undertaken prior to the adoption of Resolution No. 28/2006 of the Interministerial Committee for Economic Programming, in relation to the specific situation of the programmes subject to the interventions, and therefore, as during 2019 there were no mandatory changes to the regulations in force, there were no changes in the criteria utilised to-date in the recognition in the accounts of the disbursements in question.

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

The account, amounting to Euro 20,859 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 1,283 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 competitivity 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.

CURRENT LIABILITIES

3.26. CURRENT FINANCIAL LIABILITIES

The table below illustrates current financial liabilities at December 31, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Current financial liabilities	28,749	19,249	9,500
Total	**28,749**	**19,249**	**9,500**

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

3.27. CURRENT LEASE LIABILITIES

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

	31/12/2019	31/12/2018	Change
Current lease liabilities	2,647	-	2,647
Total	**2,647**	**-**	**2,647**

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

	31/12/2019	31/12/2018	Change
Current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	149		149
Current financial liabilities to third parties as per IFRS 16	2,497		2,497
	2,647	**-**	**2,647**

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, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Current portion of non-current financial payables	8,075	60	8,015
Total	**8,075**	**60**	**8,015**

The current portion of non-current financial payables concerns:
- the two instalments of the EIB loan of Euro 40 million, amounting to Euro 8 million (of which Euro 4 million due on April 30, 2020 and Euro 4 million due on October 31, 2020);
- the accrued interest at December 31, amounting to Euro 75 thousand.

3.29. TRADE PAYABLES

The table below illustrates trade payables at December 31, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Trade payables	100,335	131,407	(31,072)
Total	**100,335**	**131,407**	**(31,072)**

Trade payables of the Avio Group at December 31, 2019 amount to Euro 100,335 thousand; this amount includes, for Euro 1,731 million, trade payables to associated companies, jointly controlled companies and non-consolidated subsidiaries as follows (Euro thousands):

	31/12/2019	31/12/2018	Change
Europropulsion S.A.	680	21,190	(20,510)
Termica Colleferro S.p.A.	840	1,962	(1,122)
Potable Water Services Consortium	(30)	(135)	105
Servizi Colleferro S.C.p.A.	241	0	241
Total	**1,731**	**23,017**	**(21,286)**

3.30. CURRENT TAX PAYABLES

The table below illustrates current tax liabilities at December 31, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Tax payables	6,124	2,308	3,816
Total	**6,124**	**2,308**	**3,816**

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

	31/12/2019	31/12/2018	Change
IRAP payables	870	43	827
Payables for withholding taxes	1,167	1,200	(34)
Other tax payables	3,810	401	3,409
Foreign income taxes	277	443	(166)
Total	**6,124**	**2,088**	**4,036**

The IRAP payables increased by Euro 827 thousand, in view of the IRAP tax liabilities from the temporary non-deductibility of the accrual to the environmental risks provision.

Payables for withholding taxes, amounting to Euro 1,167 thousand, refer to employee and consultant withholding taxes.

Other Tax payables of Euro 3,810 thousand comprise the following items:

- for Euro 2,054 thousand, 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 particular, in view of the shift in interpretation of the 2019 Budget Law that occurred throughout 2019, and of the opinions of independent advisors, the Group decided to apply the authentic interpretation rule set out in paragraph 1-*bis* of Decree-Law No. 145/2013 retrospectively to 2017 as well, and therefore to redetermine a lower tax benefit due for that year. The restatement in question was also approved by the Italian Tax Office, with which an instalment plan was also agreed to refund the amount;

- for Euro 1,756 thousand, tax liabilities in respect of ongoing tax disputes.

Payables for foreign taxes relate to the tax liabilities of the subsidiaries Regulus S.A., Avio Guyana 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, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Other current liabilities	23,234	16,801	6,433
Total	**23,234**	**16,801**	**6,433**

Other current liabilities at December 31, 2019 and December 31, 2018 were as follows (Euro thousands):

	31/12/2019	31/12/2018	Change
Customer advances for the supply of goods and services	-	2,013	(2,013)
Payables due to social security institutions	3,689	3,775	(87)
Employee payables	6,336	6,448	(112)
Other payables to third parties	5,526	1,381	4,146
Deferred income on disbursements pursuant to Law 808/85 - current portion	1,046	702	343
Other accrued liabilities and deferred income	6,637	2,482	4,156
Total	**23,234**	**16,801**	**6,434**

Customer advances for the supply of goods and services

The account has a balance of zero, since the advances received in previous years from customers for supplies relating to the turbopump, on which work has been completed, were transferred to the income statement.

Amounts due to Social Security Institutions

The account concerns amounts to be paid, amounting to Euro 3,689 thousand, relating to company and employee contributions, in accordance with regulations in force.

Employee payables

Employee payables amount to Euro 6,336 thousand and include remuneration to be settled, in addition to vacations and other rights matured and not utilised.

Other payables to third parties

"Other payables to third parties" of Euro 5,526 thousand principally concern:

- liabilities towards the Italian Space Agency (ASI), minority shareholder of the subsidiary Spacelab S.p.A., for Euro 3 million, for dividends approved by the subsidiary's Shareholders' Meeting on April 17, 2019. At present, these dividends have yet to be disbursed to the shareholders pending the completion of the legal developments relating to research and development tax credits, which contributed to operating results in the years to which they refer. Once these legal developments have been completed, the dividends will be paid in short order;

- liabilities for urban development charges due to the municipalities in which the Group operates for Euro 559 thousand;

- liabilities to the Italian Treasury for Euro 450 thousand, relating to the short-term share of the settlements described above in paragraph "3.25. Other non-current liabilities";

- liabilities to third parties for Euro 1,517 thousand, of which Euro 356 thousand to company bodies.

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

The account, amounting to Euro 1,046 thousand, 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 6,637 thousand, mainly refers to the deferment of commercial costs and grant to the following year.

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 391,121 thousand. They amounted Euro 439,695 thousand in 2018.

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

	FY 2019	FY 2018	Change
Revenue from sales	310,830	7,475	303,355
Revenues from services	6,031	579	5,453
	316,862	8,054	308,808
Change in contract work-in-progress	74,259	431,641	(357,382)
Total	**391,121**	**439,695**	**(48,575)**

Several projects, including one of a tactical nature of a significant amount, were completed in 2019.

The revenues therefore include the effect of the accounting of research and development activities reported below.
Research and development tax credits (Law No. 232/2016 – "2017 Budget Law") are recognised to the financial statements to the extent that the tax credit is considered recoverable and utilisable. 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".
For further details on the revenue performance and the relative programmes, reference should be made to the "Operating results" paragraph of the Directors' Report.

3.33. OTHER OPERATING REVENUES

Other operating revenues in 2019 amounted to Euro 8,181 thousand, as follows:

	FY 2019	FY 2018	Change
Income from the release of provisions	1,656	431	1,225
Income for the portion recognised to the income statement of the disbursements as per Law 808/85	1,466	1,576	(110)
Other income and operating grants	2,923	3,109	(186)
Prior year income	636	489	148
Insurance receivables	1,500	0	1,500
Total	**8,181**	**5,605**	**2,577**

In 2019 the account comprised:

- income from the release of provisions of Euro 1,656 thousand, of which Euro 813 thousand concerning the subsidiary Regulus S.A. and Euro 843 thousand relating to Avio S.p.A.;

- income for the portion recognised to the income statement of the disbursements as per Law 808/85 for Euro 1,466 thousand;

- other income and operating grants of Euro 2,923 thousand, including, primarily:
    - grants for Euro 1,009 thousand;
    - recoveries of expenses for Euro 1,628 thousand;
    - an indemnity from the former shareholder Cinven, with regards to the partial coverage of the charges for a prior tax dispute for Euro 286 thousand;

- prior year income of Euro 636 thousand;

- insurance payouts for Euro 1,500 thousand, covering the damage to certain semi-finished products.

3.34. CONSUMPTION OF RAW MATERIALS

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

	FY 2019	FY 2018	Change
Purchase of raw materials	119,413	126,533	(7,120)
Change in inventories of raw materials	(5,407)	5,308	(10,715)
Total	**114,006**	**131,841**	**(17,835)**

3.35. SERVICE COSTS

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

	FY 2019	FY 2018	Change
Service costs	180,245	211,348	(31,103)
Rent, lease and similar costs	524	2,453	(1,929)
Total	**180,769**	**213,801**	**(33,032)**

Service costs, amounting to Euro 180,769 thousand, in particular, include costs for activities carried out by co-producers, for consultancy and technical and professional services, for outsourcing, for maintenance and for temporary personnel.

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

- directors' fees of Euro 415 thousand and specific committee fees of Euro 141 thousand;
- supervisory body fees of Euro 166 thousand;
- Board of Statutory Auditors' fees of Euro 231 thousand.

The service costs therefore includes the effect of the accounting of receivables for research and development activities as described at paragraph 2.7 "Accounting policies".

3.36. PERSONNEL EXPENSES

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

	FY 2019	FY 2018	Change
Wages and salaries	45,314	41,584	3,730
Social security charges	15,492	14,376	1,116
Provision for variable remuneration	5,099	3,582	1,517
Other long-term benefits - current employees	130	106	24
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	417	(16)	433
Provision for "Other defined benefit plans"	3,312	2,771	541
Total	**69,764**	**62,403**	**7,361**

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 2019	FY 2018	Change
Blue-collar	384	333	51
White-collar	494	456	38
Executives	24	24	0
Total	**902**	**813**	**89**

3.37. AMORTISATION & DEPRECIATION

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

	FY 2019	FY 2018	Change
Property, plant & equipment	6,194	5,792	402
Right-of-use	1,586		1,586
Investment property	64	58	6
Intangible assets with definite life	8,213	8,182	31
Total	**16,057**	**14,032**	**2,025**

This account includes from the present year depreciation on the Rights-of-use, recognised following application of IFRS 16.

Amortization of intangible assets with a definite life primarily includes:

- amortization of capitalized development costs of Euro 3,933 thousand (Euro 4,213 thousand in 2018);
- 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 2018).

3.38. OTHER OPERATING COSTS

This account amounts to Euro 7,609 thousand (Euro 9,394 thousand in 2018) and mainly comprises the following items:

- provisions for contingent liabilities of Euro 3,228 thousand;

- indirect taxes of Euro 1,848 thousand;
- prior year charges of Euro 466 thousand;
- other operating costs for Euro 1,007 thousand, relating to entertainment expenses, association dues, donations and contributions;
- extraordinary charges of Euro 1,061 thousand.

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 2019, amounting to income of Euro 2,868 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 2018 was Euro 3,239 thousand.

3.40. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to costs capitalised for internally constructed assets, amounting to Euro 12,549 thousand, includes principally development costs for Euro 11,175 thousand and costs for the internal construction of tangible and intangible assets for Euro 1,374 thousand.

3.41. FINANCIAL INCOME

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

	FY 2019	FY 2018	Change
Bank interest income	61	68	(7)
Interest income on VAT and IRAP refunds	1,093		1,093
Financial income from amortised cost	439	167	272
	1,592	235	1,357
Realised exchange gains	515	550	(35)
Unrealised exchange gains	29	28	1
	544	578	(34)
Total	**2,136**	**813**	**1,323**

Financial income of Euro 2,136 thousand principally concerned:

- interest income on bank current accounts for Euro 61 thousand;
- interest income accrued on VAT receivables collected during the year of Euro 1,086 thousand and on IRAP refunds of Euro 7 thousand;
- interest income from the application of the amortised cost of Euro 439 thousand;
- exchange differences for Euro 544 thousand.

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

Unrealised exchange gains 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 2019	FY 2018	Change
Interest on EIB loans	443	360	83
Interest expenses on other liabilities	519	128	391
Discounting on employee benefits	(17)	(25)	8
Financial charges from amortised cost	69		69
	1,014	463	551
Realised exchange losses	667	1,034	(367)
Unrealised exchange losses	4	(21)	25
	670	1,013	(343)
Total	**1,684**	**1,476**	**208**

The account, which amounted to Euro 1,684 thousand, consists primarily of:

- interest expenses on the EIB loan of Euro 443 thousand. The increase on the previous year was due to the disbursement of the additional loan of Euro 10 million, in addition to that of Euro 40 million already carried in 2018;
- interest expenses on other liabilities of Euro 519 thousand, an increase on the previous year due to the recognition of interest expenses on the settlement to be reached with the Italian Tax Office with regard to the 2017 research and development tax credit of Euro 432 thousand;
- financial charges from amortised cost due to the application of IFRS 16 for Euro 69 thousand;
- exchange charges for Euro 670 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.

3.43. INCOME TAXES

"Income taxes" report net income of Euro 3 thousand (a net charge of Euro 2,020 thousand in the comparison year).
The net income consists of a current tax charge of Euro 1,507 thousand and deferred tax asset income of Euro 1,511 thousand.

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

	FY 2019	FY 2018
Pre-tax result	26,984	27,858
Ordinary rate applied	24.00%	24.00%
Theoretical tax charge	6,476	6,686
Effect of increases (decreases) to the ordinary rate:		
Permanent increases	13,010	16,871
Permanent decreases	(12,069)	(4,408)
Temporary difference increases	35,467	16,323
Temporary difference decreases	(67,159)	(77,327)
Total changes	(30,752)	(48,542)
Utilisation of fiscal losses	0	0
ACE deduction	(96)	(29)
Group tax loss	(3,864)	(20,712)
Net deferred tax (income)/charge	1,511	(168)
Current taxes Italian companies	(858)	(366)
Current taxes overseas companies	(649)	(1,486)
	3	(2,020)

3.44. EARNINGS PER SHARE

	FY 2019	FY 2018
Group Net Profit (Euro thousands)	26,198	24,338
Weighted average number of shares in circulation	26,359,346	26,359,346
Basic earnings per share – in Euro	0.99	0.92
Diluted earnings per Share – in Euro	0.96[1]	0.90[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 2019, 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 counted a workforce of 935 employees at December 31, 2019. At December 31, 2018, Group employees numbered 838.

Disclosure by regional segment

The regional breakdown of Group revenues (defined based on customer country location), in 2019 (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):

	31/12/2018
Guarantees given:	
Unsecured guarantees:	
Sureties issued to third parties on behalf of Group	46,576
Other guarantees	3,402
Total guarantees given	49,978
Guarantees received:	
Sureties and guarantees received	1,586
	1,586

Guarantees granted

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

Sureties and guarantees received

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

Other commitments

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

functioning of the Colleferro production facility, the following is outlined.
On February 24, 2010, to assist plant construction Termica Colleferro agreed with a banking syndicate a loan for a maximum Euro 34 million, supported by secured and unsecured guarantees and concluding on February 24, 2022.
Also on February 24, 2010, the controlling shareholder SECI issued an independent guarantee for the prompt fulfilment of all payment obligations to the lending banks in the interest of Termica Colleferro, for a maximum Euro 44.2 million.
In consideration of the deteriorated electricity market conditions in the years subsequent to the signing of the loan, in order to comply with the bank covenants, in December 2016 Termica Colleferro restructured its bank debt of approx. Euro 22 million, mainly by extending the maturity of the residual debt from 2022 to 2027, reducing the interest rate spread and raising the covenant thresholds.
The loan restructuring agreement did not amend the guarantees granted by the shareholders SECI and Avio to the lending banks, with the exception of the extension of the original guarantees to the new maturity date.
For the finalisation of this agreement with the lending banks, in 2014 Termica Colleferro requested and obtained from the shareholders Seci and Avio a commitment letter by which the shareholders committed to grant a shareholder loan for maximum amounts respectively of Euro 18.2 million and Euro 12.1 million, in proportion to the share capital respectively held and cumulatively corresponding to the residual portion of the bank loan at that date. In accordance with this agreement, the shareholder loan shall be disbursed in a number of tranches on the request of Termica Colleferro, based on the operating requirements of the latter and subject to the issue of the loan to this latter by the banks.
At the reporting date, Avio has a financial receivable for the shareholder loan granted to Termica Colleferro of Euro 7.4 million, carried according to the amortized cost method at Euro 6 million. At December 31, 2019, there was no longer any residual commitment upon Avio to grant additional shareholder loans to this associate on the basis of the progressive repayment of its loan by Termica Colleferro. In fact, at December 31, 2019, the residual payable of Termica Colleferro was Euro 15.7 million and the contractual commitment of Avio had a maximum "ceiling" of 40% of this payable, i.e. Euro 6.3 million. As Avio had already disbursed to Termica Colleferro an amount of Euro 7.4 million, there are no longer residual commitments upon Avio under these agreements (the original commitment as per the 2014 agreements for Avio was Euro 12.1 million).
Avio however has not undertaken any commitment to increase the share capital of the associate.
The above loan issued to Termica Colleferro by the banks stipulates compliance by the company with the following financial covenants:
1) Net Financial Debt / Equity (NFP/E); and
2) Net Financial Debt / EBITDA (NFP/EBITDA).
In order to ensure compliance, Termica Colleferro, Avio, SECI and the lending banks signed in July 2014 an addendum to the loan contract. In accordance with this addendum, Termica Colleferro has the right to remedy violation of the financial covenants ("Equity cure") through the payment by the shareholders SECI and Avio to Termica Colleferro (pro-quota according to the limits of the respective share capital holdings in the company) of an amount as share capital increase and/or a shareholder loan which overall remedies the violation ("Cure amount").
On the basis of the information available at the reporting date from the investee Termica Colleferro S.p.A. as at June 30, 2019, the covenants established under the loan had been complied with.
Where Termica Colleferro does not comply with the covenants established by the above loan, Avio and SECI may be called to undertake additional share capital increases or grant an additional shareholder loan (subordinated) in a measure proportional to their respective holdings.

On May 31, 2019, some Seci Group companies, including the holding company Seci S.p.A, and companies operating in the energy sector, in the agro-industrial sector, in the building/real estate sector and the last in the factoring sector, presented a voluntary arrangement with creditors application to the Bologna Court, agreed following the Order issued by the delegated Judge. The

Court originally granted a deadline for the preparation and presentation of an industrial plan for the maintenance of the Group as a “performing” concern until November 4, 2019.

The associate Termica Colleferro was not included in the companies presenting an administration procedure and is continuing with its operations according to expectations, is honoring its bank loan commitments.

On January 17, 2020 the Court of Bologna ruled that the application for composition with creditors subject to a reserve filed by Seci S.p.A. on May 31, 2019 was inadmissible due to the failure by Seci S.p.A. to file the composition proposal and plan by the date January 3, 2020 fixed for this purpose by the Court of Bologna.
According to the representations made and the information available from media outlets, Seci S.p.A. purportedly then began a process leading up to submission of a new application for composition in “full” form, which, due in part to the concurrent effects of COVID-19, is expected to be filed with the Court of Bologna by the end of March 2020.
In the interim, on February 13, 2020 the Public Prosecutor’s Office of the Court of Bologna filed a petition for a declaration of bankruptcy of Seci S.p.A.
In response to this petition, the Court of Bologna fixed the hearing for discussion on April 3, 2020. If, as represented, Seci S.p.A. were to file an application for “full” composition (i.e., accompanied by a plan, any binding offers and proposal), the decision on the bankruptcy petition would depend on the outcome of the “full” composition by Seci.

In addition, Art. 83 of Decree-Law No. 18/20 of March 17 last provides for, inter alia, the suspension of certain trial periods and orders judicial offices to postpone already scheduled hearings until after April 15, 2020, with some specific exceptions. The examination of bankruptcy petitions is not among the exceptions to this rule. Accordingly, unless the Court of Bologna declares the procedure for Seci S.p.A. urgent, the Court of Bologna could postpone the hearing of April 3, 2020 until after April 15, 2020; in this case, Seci S.p.A. could file the new proposal for “full” composition by the new hearing to be fixed.

Finally, the financial crisis experienced by Seci S.p.A. could entail acceleration of the repayment terms of the bank loan granted to Termica Colleferro S.p.A. However, at present there is no obligation for guarantees from Avio that may be requested by the lenders due to the acceleration of repayment times.

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 authorizations 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.

Servizi Colleferro has commissioned a legal opinion of this dispute from its legal counsel. This opinion concludes as follows:

- At this stage of the trial, it appears likely that the defendants will be convicted in the first instance;
- Given that a conviction of the defendants appears likely, a generic judgment in the first instance ordering the civilly liable parties to pay environmental and personal injury damages, to be determined in a civil court, also appears likely;
- However, a direct award in the judgment of the first instance by the Court of Velletri to the civil claimants of environmental and personal injury damages in the amount sought (approximately Euro 35 million) appears remote, since no specific quantification of the damages or reconstruction of the amounts have yet been provided;
- The award in the judgment of the first instance by the Court of Velletri of (directly enforceable) provisional damages of the amount sought by the civil claimants appears possible;

The counsel to the defence finished its oral presentation of its case at the hearing on January 29, 2020. The prosecutor then replied for all defendants and, in respect of our position, reiterated the argument based on the significance of the "new discharge"; the consortium's supervisory position as manager of the final segment of the white water sewerage; and the causal importance of the behaviour in the light of the milk contamination identified in 2014. Our legal counsel have filed statements of case accompanying their oral defence.
The trial was adjourned until the hearing of March 19, 2020 for any rejoinders and passing of judgment, but in view of Decree-Law No. 11/2020 concerning "Extraordinary and urgent measures to combat the COVID-19 epidemiological emergency and contain the negative effects on the conduct of judicial activity", Art. 1 of which postpones all criminal hearings, the hearing of March 19 was postponed until a subsequent date yet to be determined.

At present, Servizi Colleferro S.C.p.A. is owned by the following consortium member shareholders: Avio (32%), Secosvim (20%), Termica Colleferro S.p.A. (6%), Caffaro s.r.l. in liquidation (5%), Recuperi Materie Prime S.r.l. (5%), Municipality of Colleferro (5%), EP Sistemi S.p.A. (6%), Lazio Ambiente S.p.A. (6%), Key Safety Systems S.r.l. (5%) and Simmel Difesa S.p.A. (10%).

On the advice of its legal counsel on the expected outcome of the proceedings in question and in accordance with IFRS accounting standards, the two companies Avio S.p.A. and Se.Co.Sv.Im. S.r.l., which own Servizi Colleferro S.C.p.A., have not made any provisions from the outset of the dispute, believing the possibility that, in the event of a judgment of conviction of the defendants, the criminal judge will order the defendants to pay, and quantify the amount of, damages for the civil claimants to be remote. In contrast, it appears possible that the judge might, if the defendants are convicted, order the payment of an immediately enforceable provisional award of approximately Euro 1 million, by way of partial compensation for the damages, to the extent proof is already founded to have been established, for the appearing parties who have so requested. If, as civilly liable party, the consortium were to be ordered to pay a provisional damages award, it is likely that, pending the appeal – which the defendants would certainly lodge if found guilty – the offence at issue in the trial may be declared prescribed. In this case, the criminal penalty would be extinguished, together with the offence, but the order to pay damages, including the provisional award, if any, could be upheld. It bears noting that, given the consortium fund's limited resources and the possible irreparable harm that could result for it from the immediate enforceability of the provisional award, on appeal it might apply for a stay of the provisional enforceability of the criminal judgment pursuant to Article 600, final paragraph, of the Italian Code of Criminal Procedure, in view of the consortium fund's economic condition. Where criminal charges against the defendants are proven, and if the Consortium was required, definitively to indemnify the damages resulting from the criminal offences, the current Servizi Colleferro will be liable to compensate the damages to the extent of its liability. In this scenario, currently considered remote by the legal opinion obtained, Avio S.p.A. and Se.Co.Sv.Im. S.r.l. may be called, as consortium members at the time of the offence, to provide Servizi Colleferro S.C.p.A. with the funds necessary to cover the damages for compensation or be held jointly and severally liable with the consortium's assets.

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 6.12.2016, 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 of the above appeals was held on June 20, 2018, while publication of the investigation order is awaiting publication, by which the Court will set a new deadline for the Chair of the Court to file documented clarifications to facilitate consideration of the criminal case pending before the Velletri Court.
Hearing pending before the Regional Administrative Court of Lazio and the next hearing was postponed to June 24, 2020.

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.

As part of the general audit conducted at the end of 2015 and concluding in 2017, the Finance Police challenged Avio S.p.A., 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 issue of the alleged non-payment of the indirect taxes applicable to the transfer of the business unit.

Following on from this matter, on July 28, 2016 the Tax Agency notified Avio S.p.A. of a settlement notice for registry, mortgage and land taxes for a total of Euro 58,220 thousand. These concern in particular registration tax for Euro 55,641,285, mortgage tax for Euro 1,719,057 and land taxes for Euro 859,529.00, with a total increased charge of Euro 58,219,871.

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, appealed the aforementioned settlement notice. The Piedmont Regional Tax Commission decided in the company's favour in judgment 1740/18 rendered on October 24, 2018 and 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, 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 settlement notice and a corresponding receivable from the General Electric Group recorded for the same amount of Euro 58,220 thousand.

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

On June 4, 2019 the Piedmont DRE of the Tax Agency sent Avio S.p.A. questionnaire No. Q00041/2019 requesting information and documents concerning transactions undertaken in the 2014 tax year between the company and the subsidiary Regulus S.A., in order to assess the correct tax treatment of the remuneration according to the conditions and prices which would be paid between independent parties operating under free competition conditions and in comparable circumstances in accordance with Article 110, paragraph 7 of the Income Tax Law (covering the tax treatment of "transfer pricing"), on the basis that Regulus S.A. is tax resident in French Guyana.

Avio S.p.A. acted promptly, supported also by its tax consultants, to provide the Piedmont DRE with all of the requested information and documents.

In late November 2019, when the period in which the revenue authorities were able to issue assessments in respect of the 2014 tax period was drawing to an end, the Piedmont Regional Department served two separate assessment notices, concerning IRES and IRAP respectively, on the Company. The Company promptly filed an application for a settlement, reserving the right to assess whether to seek conciliation of the dispute with the Piedmont Regional Department. The investigations of the Office are still ongoing.

B) Secosvim S.r.l. -Tax audits and disputes

A brief description of the Secosvim tax dispute, in addition to a brief description of the main related contingent liabilities, is outlined below.

B.1.) Tax dispute with the Rome Customs Agency with regards to excise and provincial/municipal additions in the electricity sector

<u>Period 2001 - 2005</u>: with regards to the audit by the Rome Finance Technical Department with regards to consumption tax and related supplements due on electricity consumption in the January 2001 - August 2005 period, the appeal against the second level judgment in favour of Secosvim by the Customs Agency and the relative counter appeal by Secosvim are pending before the Court of Cassation. On September 29, 2017 it was considered appropriate, in view of the unfavourable opinion on the outcome of the dispute, to undertake an agreed settlement procedure with the Customs

Agency pursuant to Article 5-*bis* Legislative Decree 193/2016, with payment in four annual instalments (plus interest of 2.10% annually) of the total amount of Euro 846 thousand. The settlement stipulated the cancellation of interest, late payment penalties and sanctions.
In September 2019 the third instalment and related interest were duly paid. The fourth and final instalment is to be paid in September 2020.

Period 2006 - 2010: with regards however to the issues raised by the Rome Finance Technical office, also with regards to excise and surtaxes in the electricity sector, concerning the years 2006-2010 and against which Secosvim had taken legal action, in judgment no. 24678 of October 16, 2019 the Court of Cassation denied the Company's claims. The provisional payment, activated in 2013 and paid in monthly instalments, was made in May 2018 on a cautionary basis, with request of repayment of the excess amounts following the agreed settlement procedure pursuant to Article 6 of Legislative Decree 193/2016.

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.

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 proposed an appeal at the Rome Provincial Court.
The Rome Provincial Tax Commission rejected the Company's claims in a judgment filed in December 2019.
The Company is assessing whether to lodge an appeal against the judgment.

B.3) Tax dispute relating to non-application of VAT on reclamation costs recharged to Avio in the years 2010, 2011 and 2012

In 2013, Secosvim was notified of two VAT assessments for the years 2010 and 2011 concerning the alleged non-application of taxes to reclamation costs recharged to the consolidating company S.p.A. (total amounts, including penalties and interests, of Euro 2.5 million).
The Company appealed the above assessment notices before the Rome Provincial Tax Commission, which found in favour of the Company in its judgment of September 7, 2015. The Lazio CTR on December 12, 2016 accepted the appeal of the Tax Agency against the judgement of the Rome CTP. Therefore, Secosvim appealed to the Cassation Supreme Court in June 2017. The provisional payment of this amount of Euro 2.5 million had not yet been activated, although the related request for suspension was rejected by the Rome CTP in December 2017.
On October 31, 2017 the assessment notice for the following year 2012 was received for higher taxes of Euro 644 thousand, in addition to penalties and interest of Euro 127 thousand, and against which an appeal was made to the Rome CTP. The Rome Provincial Tax Commission rejected the Company's appeal by judgment 18883/18 of November 11, 2018.
With the digitally presented application by May 31, 2019, Secosvim complied with 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. Under the expedited settlement, the company is required to pay only taxes, for a total amount of Euro 1.6 million, without the application of penalties and interest. This amount shall be paid in 20 equal quarterly instalments, the first of which was paid on May 31, 2019. The sums thus paid will be charged as subsequent recovery from the parent company, Avio, under the agreements between the companies.
The documents relating to the settlement of the disputes in question were filed with the registry of the Court of Cassation, which ordered that the hearing be postponed to a new docket number. A copy of the petition for settlement was likewise filed with the Rome Provincial Tax Commission.
It should be noted that the disputes in question are suspended by law until December 31, 2020 to allow the Italian Tax Office to perform the appropriate inquiries as to whether the settlement is in order.

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 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 IRAP) on ESA assets used 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.

The total amount of tax liabilities arising from this issue for the years from 2009 to 2017 was estimated at approx. Euro 2.190 million. However, the company has not made any accrual to the tax risks provision as considering, also on the basis of the opinion of its consultants, to have valid arguments in defense of its position.

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 2018 and 2017.

Amounts at December 31, 2019:

In Euro thousands	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	6,106	6,106		
- Other non-current assets	78,295	78,295		
- Current financial assets	-	-		
- Trade receivables	6,215	6,215		
- Other current assets	9,142	9,142		
- Cash and cash equivalents	144,303	144,303		
	244,061	**244,061**	**0**	**0**
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	42,000			42,000
- Non-current financial payables for leasing	4,889			4,889
- Current financial liabilities	28,749			28,749
- Current lease liabilities	2,647			2,647
- Current portion of non-current financial payables	8,075			8,075
- Other non-current liabilities	137,185			137,185
- Other current liabilities	20,234			20,234
- Trade payables	100,335			100,335
	344,114	**0**	**0**	**344,114**

Amounts at December 31, 2018:

In Euro thousands	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	5,812	5,812		
- Other non-current assets	66,521	66,521		
- Current financial assets	-	-		
- Trade receivables	7,017	7,017		
- Other current assets	7,608	7,608		
- Cash and cash equivalents	108,435	108,435		
	195,917	**195,393**	**524**	
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	40,000			40,000
- Current financial liabilities	19,249			19,249
- Current portion of non-current financial payables	60			60
- Other non-current liabilities	122,453			122,453
- Other current liabilities	16,801			16,801
- Trade payables	131,407			131,407
	329,970			**329,970**

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, 2019.

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 2019 and 2018.

FY 2019

	Financial income/(charges) recognised through profit or loss		Actuarial gains/(losses) recognised to comprehensive income statement
In Euro thousands	From interest	From fair value changes	From fair value changes
Assets at amortised cost		-	-
Assets at fair value through profit or loss			
Liabilities at amortised cost	511	-	-
Derivative financial instruments	-	-	-
Total categories	511	-	-

FY 2018

	Financial income/(charges) recognised through profit or loss		Actuarial gains/(losses) recognised to comprehensive income statement
In Euro thousands	From interest	From fair value changes	From fair value changes
Assets at amortised cost		-	-
Assets at fair value through profit or loss			
Liabilities at amortised cost	360	-	-
Derivative financial instruments	-	-	-
Total categories	360	-	-

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, 2019 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 6,215 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, 2019 these are recorded net of a doubtful debt provision of Euro 482 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.

Concerning the impacts of the COVID-19 more info is available in the Directors' Report section.

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. Without an established repayment date, the cash flows are included on the basis of the first date on which payment may be requested. 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	28,749	28,749	-	-	-	-	-	-	28,749
- Current lease liabilities	2,647		2,647						2,647
- Financial payables *EIB Loan*	8,075	-	8,075	-	-	-	-	-	8,075
	39,471	28,749	10,722	0	0	0	0	0	39,471
Trade payables (including companies under joint control)	100,335	-	100,335	-	-	-	-	-	100,335
	100,335	0	100,335	0	0	0	0	0	100,335
Other non-current liabilities:									
- Financial payables *EIB Loan* Euro 40 mln	32,000	-		8,000	8,000	8,000	8,000		32,000
- Financial payables *EIB Loan* Euro 10 mln	10,000			2,000	2,000	2,000	2,000	2,000	10,000
- Non-current financial payables for leasing	4,889			815	815	815	815	815	4,074
- Payables for disbursements in accordance with Law 808/85	42,051	-	-	-	-	-	-	42,051	42,051
	88,940	0	0	10,815	10,815	10,815	10,815	44,866	88,125
Other current liabilities:									
- Social security institutions	3,689	-	3,689	-	-	-	-	-	3,689
- Employee payables	6,336	-	6,336	-	-	-	-	-	6,336
- Other payables to third parties	5,526	-	5,526	-	-	-	-	-	5,526
	15,551	0	15,551	0	0	0	0	0	15,551
Total cash flows	244,297	28,749	126,608	10,815	10,815	10,815	10,815	44,866	243,483

Amounts at December 31, 2018:

	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	19,249	19,249	-	-	-	-	-	-	19,249
- Financial payables *EIB Loan*	60	-	60	-	-	-	-	-	60
	19,309	19,249	60	0	0	0	0	0	19,309
Trade payables (including companies under joint control)	131,407	-	131,407	-	-	-	-	-	131,407
	131,407	0	131,407	0	0	0	0	0	131,407
Other non-current liabilities:									
- Financial payables *EIB Loan*	40,000	-	360	8,330	8,258	8,186	8,114	8,042	41,290
- Payables for disbursements in accordance with Law 808/85	42,051	-	-	-	-	-	-	42,051	42,051
	82,051	0	360	8,330	8,258	8,186	8,114	50,093	83,341
Other current liabilities:									
- Social security institutions	3,775	-	3,775	-	-	-	-	-	3,775
- Employee payables	6,448	-	6,448	-	-	-	-	-	6,448
- Other payables to third parties	1,381	-	1,381	-	-	-	-	-	1,381
	11,604	0	11,604	0	0	0	0	0	11,604
Total cash flows	244,371	19,249	143,431	8,330	8,258	8,186	8,114	50,093	245,661

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, 2019 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 total of Euro 50 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, 2019 and 2018 and on the Group Income Statement for 2019 and 2018 (in Euro thousands):

	At December 31, 2019							
Counterparty	**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.					549	189		
MBDA Italia S.p.A.	17		2,461				1,172	
MBDA France S.A.			7,059				3,900	
Thales Alenia Space Italia S.p.A.			69					
Companies with a connecting relationship and relative investee companies	**17**	**0**	**9,589**	**0**	**549**	**189**	**5,072**	**0**
Termica Colleferro S.p.A.	725			6,106	840			1,395
Europropulsion S.A.	771		50,339		680		60,560	28,749
Potable Water Services Consortium	62				(30)			
Servizi Colleferro - Consortium Limited Liability Company	203	494			231			
Associates and jointly controlled companies	**1,761**	**494**	**50,339**	**6,106**	**1,721**	**0**	**60,560**	**30,145**
Total related parties	**1,778**	**494**	**59,928**	**6,106**	**2,270**	**189**	**65,632**	**30,145**
Total book value	**6,215**	**9,142**	**24,015**	**6,106**	**100,335**	**23,234**	**128,919**	**86,360**
% on total account items	**28.60%**	**5.40%**	**249.55 %**	**100.00%**	**2.26%**	**0.81%**	**50.91%**	**34.91%**

	At December 31, 2018							
Counterparty	**Trade receiva bles**	**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.					1,106	223		
MBDA Italia S.p.A.	17		3,460				175	
MBDA France S.A.			4,591				2,021	
Thales Alenia Space Italia S.p.A.			21				126	
Companies with a connecting relationship and relative investee companies	**17**	**0**	**8,072**	**0**	**1,106**	**223**	**2,322**	**-**
Termica Colleferro S.p.A.	704			5,812	1,962			
Europropulsion S.A.	524		31,104		21,190		43,659	19,249
Potable Water Services Consortium	159				-135			
Servizi Colleferro - Consortium Limited Liability Company	151	126						
Associates and jointly controlled companies	**1,538**	**126**	**31,104**	**5,812**	**23,017**	**-**	**43,659**	**19,249**
Total related parties	**1,555**	**126**	**39,176**	**5,812**	**24,123**	**223**	**45,981**	**19,249**
Total book value	**7,017**	**7,608**	**103,152**	**5,812**	**131,407**	**16,801**	**177,027**	**59,309**
% on total account items	**22.20%**	**1.67%**	**37.98%**	**100%**	**18.40%**	**1.30%**	**25.97%**	**32.50%**

In 2019 and in the comparative 2018, the main income statement transactions by the Group with related parties were as follows (in Euro thousands):

Counterparty	2019 Operating Revenues and changes in contract work-in-progress	Operating Costs [1]	Financial Income	Financial Charges
Leonardo S.p.A.		1,394		
MBDA Italia S.p.A.	3,389			
MBDA France S.A.	(149,585)			
Thales Alenia Space Italia S.p.A.				
Companies with a connecting relationship and relative investee companies	**(146,196)**	**1,394**	**0**	**0**
Termica Colleferro S.p.A.	148	8,669		21
Europropulsion S.A.	84,044	71,560		
Potable Water Services Consortium	75	155		
Servizi Colleferro - Consortium Limited Liability Company	870	609	-	-
Associates and jointly controlled companies	**85,137**	**80,993**	**0**	**21**
Total related parties	**(61,059)**	**82,387**	**0**	**21**
Total book value	**391,121**	**364,539**	**2,137**	**1,684**
% on total account items	**15.61%**	**22.60%**	**0.00%**	**1.27%**

[1] The account includes raw material consumables, service costs and personnel expenses.

Counterparty	2018 Operating Revenues and changes in contract work-in-progress	Operating Costs [1]	Financial Income	Financial Charges
Leonardo S.p.A.		645		
MBDA Italia S.p.A.	53			
MBDA France S.A.	0			
Thales Alenia Space Italia S.p.A.	12			
Companies with a connecting relationship and relative investee companies	**65**	**645**	**0**	**0**
Termica Colleferro S.p.A.	101	9,619		
Europropulsion S.A.	2,074	80,433		
Potable Water Services Consortium	50	140		
Servizi Colleferro - Consortium Limited Liability Company	277	489	-	-
Associates and jointly controlled companies	**2,502**	**90,681**	**0**	**0**
Total related parties	**2,567**	**91,326**	**0**	**0**
Total book value	**446,828**	**408,044**	**813**	**1,476**
% on total account items	**0.57%**	**22.38%**	**0.00%**	**0.00%**

[1] The account includes raw material consumables, service costs and personnel expenses.

Transactions with companies with a connecting relationship and relative investee companies
The transactions with Leonardo S.p.A., considered a company with whom a connecting relationship exists, concern assistance and consultancy services. Transactions with investee companies by Leonardo are typically of a commercial nature.
With regards to the client MBDA Italia S.p.A., the guarantees issued by leading credit institutions cover prompt compliance with the contractual obligations undertaken by Avio for the Camm-er orders. Their release is based on completion of the relative contractual milestones.

Transactions with non-consolidated subsidiaries
Group transactions with non-consolidated subsidiaries concern ordinary operating activities and are concluded at normal market conditions.

Transactions with associates and jointly-controlled companies
Company transactions with associates and jointly-controlled companies may be summarised as follows:

- trade receivables, relating to revenues from the sale of company core business products, as part of ordinary operations and concluded at normal market conditions. In particular, with regard to the company Europropulsion S.A., revenues are included from the sale of company core business products, as part of ordinary operations and concluded at normal market conditions.
- financial receivables, relating to short and long-term financial receivables from Termica Colleferro S.p.A.;
- trade payables, relating to costs incurred as part of ordinary operations and relating to transactions concluded at normal market conditions; in addition, with reference to the company Europropulsion S.A., costs incurred as a result of transactions within ordinary operations and concluded at normal market conditions are included;
- financial payables, relating to the short-term inter-company financial payables of Avio S.p.A. to Europropulsion S.A.;
- revenues, relating to the transactions described previously with regards to trade receivables;
- operating costs, relating to the transactions described previously with regards to trade payables;
- financial income, related to interest on the financial receivables previously stated.

The bank guarantees to the Sitab Consortium in liquidation concern supplies in previous years and, together with the Consortium, are expected to be withdrawn shortly.

Transactions with other related parties
Group transactions with other related parties concern the following operations:

- trade receivables, relating to revenues from the sale of Group core business products, as part of ordinary operations and concluded at normal market conditions.
- revenues, relating to the transactions described previously with regards to trade receivables.

8. LIST OF GROUP COMPANIES AT DECEMBER 31, 2019

The following table presents the key details of Avio Group investees at December 31, 2019:

Companies included in the consolidation scope at December 31, 2019	Holding
Parent	
Avio S.p.A.	-
Companies consolidated by the line-by-line method	
Spacelab S.p.A.	70%
Regulus S.A.	60%
SE.CO.SV.IM. S.r.l.	100% (*)
Avio Guyane S.A.S.	100%
Avio France S.A.S.	100%
ASPropulsion International B.V.	100%
Avio India Aviation Aerospace Private Limited (**)	100% (***)
Jointly controlled companies, measured at equity	
Europropulsion S.A.	50%
Associates, measured at equity	
Termica Colleferro S.p.A.	40%

(*) Holding through ASPropulsion International B.V.
(**) The company is in liquidation. No financial commitments are expected for the Group related to the liquidation.
(***) Investment held in part directly by Avio S.p.A. (95%) and in part through ASPropulsion International B.V. (5%).

9. 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 2019 for audit and other services by the audit firm Deloitte & Touche SPA and its network (in Euro thousands):

Type of service	Company	Service provider	2019 Fees
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	122
	Subsidiaries	Deloitte & Touche S.p.A.	8
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	37
Total	**Total**		167

(1) This concerns the limited audit of the Avio Group's Non-Financial Report and ISA 805 auditing services regarding the statement of research and development costs incurred in 2018 and the comparison years.

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 2019:

Grants under Law No. 808 of December 24, 1985 "*Incentives for the development and improved competitivity of the aerospace sector industries*"

Receiving company	Disbursing PA	Project	Years_costs Project	Loans issued in 2019	Collection date	Ministry for Economic Development
				(€ /mln)		(€ /mln)
AVIO SPA	Ministry for Economic Development	80-ton solid propellant engine - P80	2006-2008	-	-	1.16
AVIO SPA	Ministry for Economic Development	80-ton solid propellant engine - P80	2009	-	-	0.77
AVIO SPA	Ministry for Economic Development	80-ton solid propellant engine - P80	2010	-	-	0.44
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	17/12/2019	0.29
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	17/12/2019	0.62
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	17/12/2019	0.85
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	17/12/2019	1.99

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	17/12/2019	2.03
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	1.76	09/12/2019	2.25
AVIO SPA	Ministry for Economic Development	LOX/LCH technology demonstrator for the first stage of the Vega E launcher	2014-2016	-	-	1.16
				1.09		**11.56**

"Receivables from the Economic Development Ministry" for disbursements in accordance with Law 808/85, amounting to Euro 11.57 million, refer to the nominal value of the grants to be issued by the Economic Development Ministry. The amounts by Project are broken down as follows: Euro 2.37 million for the "80 ton solid propellant motor - P80" project; Euro 8.03 million for the "Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines" project; Euro 1.16 million for the "LOX/LCH demonstrated technology for the third stage of the Vega E launcher" project. These receivables are recorded in the accounts at the value resulting from the application of the amortised cost method, calculated utilising the effective interest rate, and are increased due to the effect of the accumulated amortisation of the difference between the initial value and the actual cash amounts and booked in the accounts under "Financial income".

Other grants

Receiving company	Disbursing PA	Project	Years_costs Project	Loans issued in 2019	Collection date	Nominal receivable to be collected
				(€ mln)		**(€ /mln)**
AVIO SPA	European community	SpaceCarbon	NA	0.44	27/11/2019	NA
AVIO SPA	European community	C3HARME	NA	0.39	29/10/2019	NA
				0.83		**NA**

As reported in the Explanatory Notes in the tax receivable paragraphs, the Avio Group has recognised with regards to financial years 2019, 2018 and 2017, the Research and development tax credit permitted under Article 3 of Legislative Decree No. 145 of December 23, 2013 and subsequent amendments.

11. SUBSEQUENT EVENTS

Business

Space Propulsion Test Facility (SPTF) project

On January 29, 2020, the Space Propulsion Test Facility project for the construction of a Liquid Rocket Engine test bench and the production of carbon-carbon components was presented at the Salto di Quirra Inter-force Experimental Facility in Sardinia.

Zefiro 23 bench testing

On February 27, the Zefiro 23 engine was successfully bench tested, allowing an optimistic resumption of Vega flight operations with the VV16 launch for the SSMS mission.

Testing of the combustion chamber of the M10 engine for the Vega E

Testing of the combustion chamber of the innovative liquid M10 engine with LOX-methane technology that will be installed in the Vega E, replacing the third and fourth stages of the Vega C launcher, was completed on March 3, 2020. The tests were conducted at NASA facilities, at the Marshall Space Flight Center in Huntsville, Alabama. The first launch of the Vega E launcher is scheduled for 2025.

Vega return to flight

Despite the challenges of the Covid-19 pandemic, the launch campaign for the Vega VV16 return to flight began in 2020.

Ariane

In 2020, to date, two more Ariane 5 launches have gone ahead. The first launch, VA251, on January 16, concerned the European Eutelsat consortium and Indian GSat telecommunications satellites.

The second launch, VA252, on February 18, concerned the Japanese commercial telecommunications satellite SKY Perfect JCSat 17 and the South Korea Aerospace Research Institute’s GEO-KOMPSAT 2B weather and ocean monitoring satellite.

Suspension of operations at the Kourou launch base in French Guyana

On March 16, 2020 the Guyanais Space Centre (CSG) and Arianespace announced that, in implementation of the communications from the French government to combat Covid-19, the Centre had decided to temporarily suspend preparations for upcoming launches at the Kourou base.
Avio is ensuring optimal safety conditions for both its personnel at the base and the Vega launcher, which has already been integrated into the launch ramp and is ready to resume preparation for the launch as soon as possible.
See the following paragraph for a full discussion of the Covid-19 issue.

Other significant events

COVID-19

As indicated in the “Group principal risks and uncertainties” paragraph, to which reference should be made, with the recent and rapid development of the Covid-19 pandemic, many countries have imposed restrictions on travel and certain commercial activities, as well as restrictive quarantine measures. The interruptions are more immediate and more significant in certain sectors, such as tourism, hospitality, transport, retail and entertainment, while other sectors such as manufacturing may see possible knock-on effects. Immediate effects have been seen on financial markets. Avio's shares posted a decline in value essentially in line with the STAR segment index in general.

Covid-19 began to spread around the time of December 31, 2019, with the situation continuing to evolve thereafter. It was late 2019 when certain clinical cases in Wuhan, the capital of the Chinese province of Hubei, were reported as showing symptoms of a novel "pneumonia of unknown cause". China then notified the World Health Organization (WHO) of the new virus on December 31, 2019. On January 30, 2020, the WHO International Health Regulations Emergency Committee declared the emerging epidemic "a public health emergency of international concern". Since then, many more cases have been diagnosed in many other countries. The emergency measures and policies implemented in China have also been taken up by other countries.

In Italy, this pandemic has so far mainly affected Northern Italy, and then gradually expanded to the rest of the country. The Italian government has issued various decrees signed by the Prime Minister, introducing increasingly restrictive measures affecting business and social gatherings to limit the risk of transmission throughout Italy.

The epidemic and restrictions imposed by the French government and responsible authorities entailed the temporary suspension, with effect from March 16, 2020, of preparations for upcoming launches at Kourou base in French Guyana. In Italy, a new, more restrictive decree by the Italian government entered into force on March 23, 2020, suspending all non-essential businesses until April 3, 2020. Nonetheless, on March 24, 2020 Avio was authorised by the local government office to continue its industrial operations since its business is of strategic importance to the Italian national economy; it therefore remains operational at present.

Within this scenario, Avio has established an ad hoc Internal Covid-19 Committee, which has issued a series of increasingly stringent directives to combat and contain the spread of the virus in accordance with the Memorandum signed by the government and social partners on March 14, 2020. These include using and facilitating telecommuting and flexible working hours for tasks that may be performed remotely, restrictions on movement and access to facilities extended to suppliers and consultants, organisation of meetings in accordance with the law and internal communication techniques for the prompt circulation of Covid-19 communications to all employees via the IT platform.

In addition, initiatives have been launched in support of all employees, such as supplementary health insurance that provides economic benefits for workers infected by Covid-19 and a free online mental health support desk for all workers to provide helpful assistance with the Covid-19 emergency.

For the purposes of preparation of these financial statements, Avio believes that the events associated with Covid-19 may be characterised as "non-adjusting events" with respect to the operating results reported in the financial statements at and for the year ended December 31, 2019 and therefore provides the disclosure required by IAS 10.

In reference to the ESMA recommendations of March 11, 2020 on "Market Disclosure" and "Financial Reporting", as stated in the press release dated March 25, 2020, the Company does not believe that the impact of this epidemic during the year can be estimated in quantitative terms at this time. However, the Company confirms that it is already taking steps and measures of a financial and operational nature to mitigate the impact of this scenario in the near and medium term.

At the Italian production facilities, a series of measures to combat Covid-19 have in fact been promptly taken in application of the relevant legislation in order to mitigate the risks associated with the safe continuation of industrial activities.

At present, therefore, the epidemic and the restrictive measures imposed by the governments and authorities have resulted only in the temporary suspension of the preparation activities for the upcoming launches from the Kourou base, while they have not significantly affected Avio's industrial, engineering and commercial activities.

If these effects were to continue, with gradual intensification of the government's initiatives to limit transmission, this would presumably result in effects on industrial, engineering and commercial activities in the aerospace sector that cannot be quantified at this time.

Given the current lack of visibility regarding the potential financial effects of the spread of Covid-19, the Board of Directors of Avio S.p.A. has deemed it appropriate – as a precautionary measure and in order to further strengthen the financial structure of the Company – to propose that the Shareholders' Meeting called to approve these draft financial statements allocate the entire 2019 net profit to retained earnings.
It is hoped that a more complete picture will be available in the half-yearly report.

***   *   ***

March 25, 2020

The Board of Directors
The Chief Executive Officer and General Manager
Giulio Ranzo

Deloitte.

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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, 2019, 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, 2019, 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.

Deloitte.

Evaluation of contracts work in progress and related income effects

Description of the key audit matter	The consolidated financial statements for the year ended December 31, 2019 include assets and liabilities respectively of Euro 214,6 thousand and Euro 319,5 thousand relating to the execution of contract work in progress and related advances. These contract work in progress are attributable to development and production activities of space sector, whose revenues and related margin 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 Group has also booked in the consolidated financial statements as at December 31, 2019 a tax credit related to research and development costs to be sold to clients and therefore included in the evaluation of contract work in progress, accounted in consistency to the progress of the related orders. The methods for evaluation those contract work in progress and the revenue recognitions are based on complex assumptions which by their nature imply recourse to the opinion 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, 2019. 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".

Deloitte.

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 the design, implementation and operating effectiveness of relevant controls put in place by Management to verify the evaluation of the contract work in progress; • analysis on the correct 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; • analysis of the accounting of the tax credit on research and development activities incurred in 2017, 2018 and 2019 financial statements and development tax credit and the effects recognized in the income statement based on the on the progress of orders according to the percentage of completion of these research and development activities; • sample verification of contract costs with reference to the various cost components of a sample contract work-in-progress as of December 31, 2019; • 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.

Deloitte.

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.

Deloitte.

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 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, 2019, 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 2019 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, 2019 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.

Deloitte.

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Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 54

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 30, 2020

SEPARATE FINANCIAL STATEMENTS

BALANCE SHEET	Note	Dec. 31, 2019	Dec. 31, 2018
(in Euro)			
ASSETS			
Non-current assets			
Property, plant & equipment	3.1	66,765,549	57,226,726
Right-of-use	3.2	42,955,300	
Goodwill	3.3	61,005,397	61,005,397
Intangible assets with definite life	3.4	122,025,800	116,641,054
Investments	3.5	77,460,491	84,402,700
Non-current financial assets	3.6	6,106,000	5,812,000
Deferred tax assets	3.7	73,746,179	74,756,323
Other non-current assets	3.8	67,051,171	66,506,252
Total non-current assets		**517,115,887**	**466,350,452**
Current assets			
Inventories and advances to suppliers	3.9	140,016,728	111,537,309
Contract work-in-progress	3.10	24,014,546	103,151,448
Trade receivables	3.11	3,484,470	3,646,540
Cash and cash equivalents	3.12	142,867,897	106,306,821
Tax receivables	3.13	27,546,989	59,077,699
Other current assets	3.14	21,109,231	10,882,507
Total current assets		**359,039,861**	**394,602,325**
TOTAL ASSETS		**876,155,748**	**860,952,776**

BALANCE SHEET	Note	Dec. 31, 2019	Dec. 31, 2018
(in Euro)			
EQUITY			
Share capital	3.15	90,964,212	90,964,212
Share premium reserve	3.16	141,588,361	144,255,918
Other reserves	3.17	12,776,229	13,152,374
Retained earnings		18,132,410	6,386,265
Net profit		28,560,398	23,344,256
Total Net Equity		**292,021,610**	**278,103,026**
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	3.18	42,000,000	40,000,000
Non-current lease liabilities	3.19	35,302,168	
Employee benefit provisions	3.20	8,909,360	8,774,459
Provisions for risks and charges	3.21	4,863,127	3,365,270
Other non-current liabilities	3.22	132,689,090	122,038,121
Total non-current liabilities		**223,763,745**	**174,177,850**
Current liabilities			
Current financial liabilities	3.23	84,329,117	71,570,289
Current financial lease liabilities	3.24	6,422,527	
Current portion of non-current financial payables	3.25	8,075,000	60,000
Provisions for risks and charges	3.21	6,001,686	5,866,418
Trade payables	3.26	113,331,194	141,810,833
Advances for contract work-in-progress	3.10	128,798,241	176,978,564
Tax payables	3.27	4,311,689	1,554,867
Other current liabilities	3.28	9,100,937	10,830,930
Total current liabilities		**360,370,392**	**408,671,900**
TOTAL LIABILITIES		**584,134,137**	**582,849,750**
TOTAL LIABILITIES AND EQUITY		**876,155,748**	**860,952,776**

INCOME STATEMENT	Note	FY 2019	FY 2018
(in Euro)			
Revenues	3.29	390,663,635	443,357,660
Change in inventory of finished products, in progress and semi-finished		(150,526)	473,336
Other operating income	3.30	7,676,457	5,513,853
Consumption of raw materials	3.31	(108,879,327)	(120,802,929)
Service costs	3.32	(201,098,464)	(253,081,216)
Personnel expenses	3.33	(58,165,061)	(48,414,244)
Amortisation & depreciation	3.34	(17,901,108)	(12,035,429)
Other operating costs	3.35	(4,640,273)	(6,309,041)
Costs capitalised for internal works	3.36	12,498,547	9,755,069
EBIT		**20,003,880**	**18,457,060**
Financial income	3.37	2,136,514	699,559
Financial charges	3.38	(2,132,703)	(1,456,334)
NET FINANCIAL INCOME/(CHARGES)		**3,812**	**(756,775)**
Effect valuation of investments under equity method - financial income/(charges)			
Other investment income/(charges)	3.39	5,400,000	5,720,000
INVESTMENT INCOME/(CHARGES)		**5,400,000**	**5,720,000**
PROFIT BEFORE TAXES AND DISCONTINUED OPERATIONS		**25,407,692**	**23,420,284**
Income taxes	3.40	3,152,706	(76,028)
NET PROFIT		**28,560,398**	**23,344,256**
Basic earnings per share	3.41	1.08	0.89
Diluted earnings per share	3.41	1.05	0.86

COMPREHENSIVE INCOME STATEMENT	FY 2019	FY 2018
(in Euro)		
NET PROFIT (A)	**28,560,398**	**23,344,256**
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	(500,908)	(593,963)
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)	124,403	114,989
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	**(376,505)**	**(478,974)**
COMPREHENSIVE INCOME FOR THE YEAR (A+B)	**28,183,893**	**22,865,282**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Euro thousands)

			Other reserves								
	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	Retained earnings	Profit for the year	Total Equity
Equity at 31.12.2017	**90,964**	**163,897**			**7**	**(2,725)**	**(1,456)**		**3,474**	**12,928**	**267,089**
Allocation of prior year result									12,928	(12,928)	0
Distribution dividends									(10,017)		(10,017)
Allocation to reserves		(19,641)			18,185		1,456				0
Other changes								(1,835)			(1,835)
Comprehensive income for the year											
- Net profit for the year										23,344	23,344
- Other changes									2		2
- Change in fair value of hedges											0
- Actuarial gains/(losses), net of tax effect						(481)					(481)
Comprehensive income for the year	0	0			0	(481)	0		2	23,344	22,865
Equity at 31/12/2018	**90,964**	**144,256**			**18,193**	**(3,206)**	**0**	**(1,835)**	**6,386**	**23,344**	**278,103**
Allocation of prior year result									23,344	(23,344)	0
Distribution dividends									(11,598)		(11,598)
Allocation to reserves											0
Acquisition of treasury shares		(2,668)	(2,668)	2,668							(2,668)
Comprehensive income for the year											
- Net profit for the year										28,560	28,560
- Other changes											0
- Actuarial gains/(losses), net of tax effect						(377)					(377)
Comprehensive income for the year	0	0	0	0	0	(377)	0	0	0	28,560	28,184
Equity at 31/12/2019	**90,964**	**141,588**	**(2,668)**	**2,668**	**18,193**	**(3,582)**	**0**	**(1,835)**	**18,132**	**28,560**	**292,021**

CASH FLOW STATEMENT

(Euro thousands)

		2019	2018
OPERATING ACTIVITIES			
Net profit for the year		28,560	23,344
Adjustments for:			
- Income taxes		(3,153)	76
- Financial (Income)/Charges		(4)	757
- Amortisation & Depreciation		17,901	12,035
- (Gains)/losses on sale of property, plant & equipment & other (income)/charges			-
Net change provisions for risks and charges		1,633	520
Net change employee provisions		(242)	(301)
Changes in:			
- Inventories		(28,479)	87,167
- Contract work-in-progress & advances		30,957	(148,154)
- Trade receivables		162	6,505
- Trade payables		(28,480)	41,760
- Other current & non-current assets		28,768	4,548
- Other current & non-current liabilities		14,823	5,254
Income taxes paid		-	-
Interest paid		(443)	(1,456)
Net liquidity generated/(employed) in operating activities	(A)	**62,004**	**32,055**
INVESTING ACTIVITIES			
Investments in:			
- Property, plant & equipment		(13,707)	(13,049)
- Intangible assets with definite life		(13,433)	(7,547)
- Equity Investments		(50)	(4)
- Savings Bonds/Restricted Bank Deposits			-
Disposal price of tangible, intangible & financial assets			(0)
Acquisition price of the launchers business unit of ELV (now Spacelab)			(20,311)
Liquidity generated (employed) in investing activities	(B)	**(27,189)**	**(40,912)**
FINANCING ACTIVITIES			
New EIB loans		10,000	
Centralised treasury effect with subsidiary and jointly controlled company		12,759	24,757
Dividends paid by the parent Avio S.p.A.		(11,598)	(10,017)
Acquisition of treasury shares		(2,668)	
Lease payment		(6,748)	
Liquidity generated (employed) in financing activities	(C)	**1,746**	**14,740**
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C)	**36,561**	**5,883**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**106,307**	**100,424**
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**142,868**	**106,307**

NOTES TO THE SEPARATE 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 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, 2019, 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 changed in 2019 due to the formation of the fully-owned subsidiary Avio France S.A.S.

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 are reported in units of Euro; 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, 2019 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.

The financial statements were prepared in accordance with the provisions of CONSOB in relation to financial statement lay-out pursuant to Article 9 of Legislative Decree No. 38/2015 and other CONSOB regulations and provisions concerning financial reporting.

2.2. Financial Statements

The financial statements relating to the year 2019 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 2019 financial statements present the comparative 2018 figures for the Balance Sheet items (Balance Sheet) and the full year 2018 figures for the Income Statement items (Income Statement, Comprehensive Income Statement, Statement of changes in Equity and Cash Flow Statement). Some data of the last year have been re-stated for a better comparison with the same referred to 2019.

2.4. 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 and 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.

<u>Intangible assets</u>

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. The Company situation at December 31, 2019 indicates a single CGU corresponding to the Space operating segment.

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 all 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).

<u>Inventories</u>

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 currently is taking advantage of the option to use the tax consolidation for the 2018-2019-2020 years.

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 rate 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 liquidity risk of the company may arise from the difficulty to obtain, at reasonable economic conditions, financing resources to support operating activities in a timely manner. 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, 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 funds and credit lines currently available, in addition to those that will be generated from operating activities and any restructuring of the current debt structure, will permit the Company to satisfy its requirements for investment activities, working capital management and the repayment of debt on maturity.

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.

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. In order to better support management estimates, the Company has adopted contract risk analysis management procedures which identify, monitor and quantify risks relating to the execution of these contracts. The values recognised to the financial statements are the best estimate at that date by management, with the aid of the above-stated procedural supports.

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 applied from January 1, 2019

The following IFRS standards, amendments and interpretations were applied for the first time by the Company from January 1, 2019:

- On January 13, 2016, the IASB published the new standard **IFRS 16 - Leases**, which replaced IAS 17 – Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

  The Standard provides a new definition of leases and introduces a criterion based on control (right of use) of an asset to distinguish lease contracts from service contracts, identifying essential differences: the identification of the asset, the right of replacement of the asset, the right to obtain substantially all the economic benefits from the use of the asset and the right to use the asset underlying the contract.

  It establishes a single model to recognise and measure leasing contracts for the lessee, which provides also for the recognition of operating leases under assets with a related financial payable. This standard does not contain significant amendments for lessors.

  The Company has used the practical expedient for the transition to IFRS 16 in order not to restate when a contract is or contains a lease. Therefore, the conclusion regarding the qualification of an agreement as a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to contracts entered into or amended before January 1, 2019.

  The change in the definition of a lease mainly refers to the right of use criterion. As per IFRS 16 a contract contains a lease when the client has the right to control the use of the identified asset for an established period of time in exchange for consideration. This concept is substantially different from the concept of "risks and benefits" to which significant attention is paid in IAS 17 and IFRIC 4.

  The Company applies the definition of leases and the related provisions of IFRS 16 for all leases entered into or amended on or after January 1, 2019 (regardless of whether a lessee or lessor in each lease). In view of the first-time application of IFRS 16, the Company carried out a project to assess the potential impacts and implementation of IFRS 16.

The Company has elected to apply the standard retrospectively, and therefore to recognize the cumulative effect of the application of the Standard in shareholders' equity with effect from January 1, 2019 (not restating the 2018 comparative figures), in accordance with IFRS 16:P7-P13. In particular, with regard to "lease" contracts previously classified as operating leases, the Company recognizes them as follows:

c) a financial liability, 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;
d) 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 following table shows the impact of the adoption of IFRS 16 at the transition date (amounts in Euro million):

ASSETS	**Impact at the transition date 01.01.2019 on the separate financial statements of Avio S.p.A.**
Non-current assets	
Right-of-use Buildings & Plant	43
Usage rights Motor Vehicles	2
Total	**45**

LIABILITIES	**Impact at the transition date 01.01.2019 on the separate financial statements of Avio S.p.A.**
Non-current liabilities	
Financial liabilities for non-current leases	40
Current liabilities	
Financial liabilities for current leases	5
Total	**45**

In adopting IFRS 16, the Company opted for the exemption permitted under paragraph IFRS 16:5(a) in respect of short-term leases - for the following categories of assets: hardware and EDP.

Likewise, the Company opted for the exemption permitted under IFRS 16:5(b) with regard to lease contracts for which the underlying asset qualifies as a "low-value asset" (i.e., the asset underlying the lease contract does not exceed Euro 5,000.00 when new). The contracts for which the exemption has been applied primarily fall within the following categories:

- computers, telephones and tablets;
- printers;
- other electronic devices;
- furniture and fittings.

For such contracts, the introduction of IFRS 16 entailed the recognition of the financial liability associated with the lease and relevant right of use. Rather, the lease payments are taken to the income statement on a straight-line basis over the term of the relevant contracts under "other costs" in the income statement.

In addition, with regard to the transition rules, the Company opted for the following practical expedients available in the event of the selection of the modified retrospective transition method:

- classification of contracts set to expire within 12 months of the transition date as short-term leases. The lease payments for such contracts are taken to the income statement on a straight-line basis;
- exclusion of the initial direct costs from the measurement of the right of use at January 1, 2019;
- use of the information available at the transition date to determine the lease term, with particular regard to the exercise of extension and early termination options.

- On December 12, 2017, the IASB published the ***"Annual Improvements to IFRSs 2015-2017 Cycle"*** which reflects the amendments to some standards within the annual improvements process.
  The principal changes relate to:

  - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that when an entity obtains control of a business which represents a joint operation, it must remeasure its previous holding in the business. This process however is not required in relation to obtaining joint control.

  - IAS 12 Income Taxes: the amendment clarifies that all tax effects relating to dividends (including payments on financial instruments classified in equity) should be accounted for on the same basis as the transaction that generated the related profits (statement of profit or loss, OCI or equity).

  - IAS 23 Borrowing costs: the amendment clarifies that loans that remain in place even after the related qualifying asset is ready for use or sale shall become part of the total loans used to calculate borrowing costs.

  The adoption of this amendment does not have effects on the company's financial statements;

- On February 7, 2018, the IASB published the document "***Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)"***. The document clarifies that an entity must recognise a change (i.e. a curtailment or a settlement) of a defined benefit plan. The amendments require the entity to update their assumptions and remeasure the net liability or asset from the plan. The amendments clarify that after the occurrence of this event, an entity utilises updated assumptions to measure the current service cost and interest for the remainder of the period.

  The adoption of this amendment does not have effects on the company's financial statements;

- On October 12, 2017, the IASB published the document "***Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)***". This document clarifies the need to apply IFRS 9, including the impairment requirements, to other long-term interests in associates and joint ventures for which the equity method is not applied.

  The adoption of this amendment does not have effects on the company's financial statements;

- The IASB published the interpretation "***Uncertainty over Income Tax Treatments"*** on June 7, 2017. The document addresses the issue of uncertainty over income tax treatments.

In more detail, the Interpretation requires an entity to analyse uncertain tax treatments (individually or, as a whole, depending on their characteristics) always assuming that the tax authorities will examine the tax situation in question with full knowledge of all relevant information. If the entity believes it is improbable that the tax authorities will accept the tax treatment followed, the entity shall reflect the effect of the uncertainty on the measurement of its current and deferred income taxes. In addition, the document does not contain any new disclosure obligations, but underlines that an entity should establish whether it will be necessary to provide information on considerations made by management and the relative uncertainty concerning the accounting of income taxes, in accordance with IAS 1. The new interpretation has been applied with effect from 1 January 2019.

The adoption of this amendment does not have significant effects on the company's financial statements.

- The IASB published an amendment to **IFRS 9 *"Prepayment Features with Negative Compensation"*** on October 12, 2017. This document specifies that instruments which provide for an advance repayment could comply with the Solely Payments of Principal and Interest ("SPPI") test also in the case where the "reasonable additional compensation" to be paid in the event of advance repayment is a "negative compensation" for the lender.

  The adoption of this amendment does not have effects on the company's financial statements.

IFRS and IFRIC standards, amendments and interpretations approved by the European Union, not yet mandatory and not adopted in advance by the Company at December 31, 2019

- on October 31, 2018, the IASB published the document ***"Definition of Material (Amendments to IAS 1 and IAS 8)"***. The document modified the definition of "material" in IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendment aims to provide a more specific definition of "material" and introduce the concept of "obscured information" alongside the concepts of omitted or misstated information previously included in the two amended Standards. The amendment clarifies that information is "*obscured*" when it is described in such a way as to produce for primary users of financial statements an effect similar to that which would be produced if the information had been omitted or erroneous.
  The amendments introduced were approved on November 29, 2019 and apply to all transactions subsequent to January 1, 2020.

  The Directors do not expect this amendment to have a significant impact on the company's financial statements;

- on March 29, 2018, the IASB published an amendment to the "***References to the Conceptual Framework in IFRS Standards***". The amendment is effective from periods beginning on or after January 1, 2020, although early application is permitted.
  The Conceptual Framework defines the fundamental concepts for financial reporting and guides the Board in developing the IFRS standards. The document helps to ensure that the Standards are conceptually consistent and that similar transactions are treated in the same way, thus providing useful information to investors, lenders and other creditors.
  The Conceptual Framework supports companies in developing accounting standards when no IFRS standard is applicable to a particular transaction and, more generally, helps stakeholders to understand and interpret the Standards.

- the IASB, on September 26, 2019, published the amendment entitled "***Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform***". The same amendment to IFRS 9 - *Financial Instruments* and IAS 39 - *Financial Instruments: Recognition and Measurement* in addition to IFRS 7 - *Financial Instruments:* Disclosures In particular, the amendment changes some of the requirements for the application of hedge accounting, establishing temporary derogations in order to mitigate the impact from the uncertainty of the IBOR reform (still in progress) on future cash flows in the period prior to its completion. The amendment also requires companies to provide additional information in their financial statements on their coverage ratios which are directly impacted by the uncertainties generated by the reform and to which the above derogations apply.

The amendments shall enter into force on January 1, 2020, although companies may opt to apply them earlier.

As the amendment will be applied from January 1, 2020, any effects will be reflected in financial statements for periods ending after that date.

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 October 22, 2018, the IASB published the document ***"Definition of a Business (Amendments to IFRS 3)"***. The document provides certain clarifications on the definition of a business for the purposes of the proper application of IFRS 3. In particular, the amendment clarifies that while a business normally yields an output, the existence of an output is not strictly necessary to identify a business when there is an integrated set of activities and assets. However, in order to satisfy the definition of a business, an integrated set of activities/processes and assets shall include, at the very least, an input and a substantive process which, together, make a significant contribution towards the ability to create outputs. Accordingly, the IASB has replaced the term "ability to create outputs" with "ability to contribute towards the creation of outputs" in order to clarify that a business may exist even without the presence of all of the inputs and processes necessary to create an output.
  The amendment also introduced an optional test (*"concentration test"*), which allows for the exclusion of the presence of a business if the price paid is substantially attributable to a single asset or group of assets. The amendments apply to all business combinations and asset acquisitions after January 1, 2020 but early application is permitted.

  As the amendment will be applied to new acquisition transactions concluded with effect from January 1, 2020, any effects will be reflected in establishments financial statements for periods ending after that date.

- on May 18, 2017, the IASB published **IFRS 17 - *Insurance Contracts*** which replaces IFRS 4 - Insurance Contracts.
  The new standard ensures that an entity provides pertinent information which accurately presents the rights and obligations under insurance contracts. The IASB developed the standard in order to eliminate inconsistencies and weaknesses in the existing accounting policies, providing a single principle-based framework to take account of all types of insurance contracts, including reinsurance contracts held by an insurer.
  The new standard sets out in addition presentation and disclosure requirements to improve comparability between entities belonging to the same sector.
  It measures insurance contracts on the basis of a General Model or a simplified version of such, called the Premium Allocation Approach ("PAA").
  The main features of the General Model are:

  - the estimates and assumptions of future cash flows always refer to the current portion;
  - the measurement reflects the time value of money;
  - the estimates include an extensive use of observable market information;
  - a current and clear risk measurement exists;
  - the expected profit is deferred and aggregated into groups of insurance contracts on initial recognition; and,

   - the expected profit is recognised in the period of contractual coverage, taking account of adjustments from changes in the assumptions on cash flows for each group of contracts.

  The PPA 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 PPA approach. The simplifications from application of the PPA method do not apply to the valuation of liabilities for existing claims, which are measured with the General Model. However, it is necessary to discount these cash flows where it is expected that the balance will be paid or received within one year from the date on which the claim occurred.

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

  The standard is effective from January 1, 2021, 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 financial statements of the Company;

- 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 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, 2019 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).
The table illustrates the comparison between the balances in Property, plant and equipment of Avio S.p.A. at December 31, 2019 and December 31, 2018.

	31/12/2019				31/12/2018			
	Gross gross	Accumulate d depreciation	Write-down provision	Net value in accounts	Gross value	Accumulated depreciation	Write-down provision	Net value in account s
Land								
Buildings	14,461	(6,774)		7,687	13,233	(6,228)		7,005
Plant and machinery	67,913	(47,543)		20,370	65,789	(44,665)		21,124
Industrial and comm. equip.	11,894	(11,694)		200	11,801	(11,607)		194
Other assets	7,766	(4,965)		2,801	6,475	(4,467)		2,008
Assets under construction and payments on account	35,708			35,708	26,895			26,895
Total	**137,741**	**(70,976)**	**0**	**66,765**	**124,194**	**(66,967)**	**0**	**57,227**

The changes in the year in the gross values of property, plant and equipment are illustrated in the table below (Euro thousands):

Gross value	31/12/2018	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2019
Land					
Buildings	13,233	1,234	(7)		14,461
Plant and machinery	65,789	2,129	(5)		67,913
Industrial and commercial equipment	11,801	93			11,894
Other assets	6,475	1,291			7,766
Assets under cons. and payments on acc.	26,895	8,812			35,708
Total	**124,194**	**13,560**	**(12)**	**0**	**137,741**

Assets in progress and advances refer, at December 31, 2019, to investments in course of completion mainly relating to the construction of the facilities for the development and construction of the P120C motor, which will be utilised in the new VEGA-C and Ariane 6 launchers.

The changes in the year in the gross values of property, plant and equipment are illustrated in the table below (Euro thousands):

Accumulated depreciation	31/12/2018	Depreciation	Decreases for disposals	Reclassifications and other changes	31/12/2019
Buildings	(6,228)	(502)	7	(51)	(6,774)
Plant and machinery	(44,665)	(2,946)	5	62	(47,543)
Industrial and commercial equipment	(11,607)	(131)		44	(11,694)
Other assets	(4,467)	(590)		92	(4,965)
Total	**(66,967)**	**(4,168)**	**12**	**147**	**(70,976)**

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 new standard was applied utilising the modified retrospective approach. In particular, with regard to "lease" contracts previously classified as operating leases, the Company recognizes 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, 2019 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2019			01/01/2019		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Right-of-use	48,640	(5,684)	42,955	45,258	0	45,258
Total	**48,640**	**(5,684)**	**42,955**	**45,258**	**0**	**45,258**

The gross values of these rights at December 31, 2019 (in Euro thousands) are reported below:

Gross value	01/01/2019	Increases	Decreases	Reclassifications and other changes	31/12/2019
Land right-of-use	0	2,570			2,570
Buildings right-of-use	41,700	210	(21)		41,888
Plant and machinery right-of-use	1,525				1,525
Other assets right-of-use	2,033	650	(27)		2,656
Total	**45,258**	**3,430**	**(48)**	**0**	**48,640**

The accumulated depreciation of these rights in 2019 is reported below (in Euro thousands):

Gross value	01/01/2019	Increases	Decreases	Reclassifications and other changes	31/12/2019
Land right-of-use					-
Buildings right-of-use		(4,940)	7		(4,933)
Plant and machinery right-of-use		(137)			(137)
Other assets right-of-use		(615)	-		(614)
Total	**0**	**(5,692)**	**7**	**0**	**(5,684)**

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 land, offices and buildings in the Colleferro industrial area, owned 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 Guyana; hiring of company cars.

3.3. GOODWILL

The goodwill recognised at December 31, 2019 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 which did not indicate the need for a write-down of the carrying amount of goodwill at December 31, 2019.

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.

In this regard, as the cash flows of the parent company are substantially similar to those of the Group, the Directors consider the results of the impairment test at Group level to be representative also of those of the parent company. Therefore, the main assumptions utilised in preparing the Group consolidated financial statements impairment test are reported below.

At December 31, 2019, the cash flows of the Space CGU were estimated according to forecasts in the 2020 Budget and business plans. For the calculation of the terminal value, the expected cash flows for the final year were normalised according to the perpetuity method, assuming 2% growth for forecast cash flows, in line with the previous year and the general forecasts for the space and defence sector.

The average discount rate (average weighted cost of capital) utilised for discounting cash flows was, net of taxes, 8.2% (8.7% in the previous year).

The estimates and the plan data used in the application of the above indicated parameters are calculated by management 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, in particular 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, without however resulting in impairments to the goodwill recognised to the financial statements. However, the estimate of the recoverable value of goodwill requires subjectivity and the use of estimates by management 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 Group management.

In consideration of that indicated, the Group undertook a sensitivity analysis concerned the growth rate of the terminal value and the discount rate of the cash flows:

- for the terminal value growth rate a decrease of 20 basis points was assumed; alternatively
- for the cash flow discount rate an increase of 50 basis points was assumed.

For the results and effects of the impairment test, reference should be made to Note 3.3 of the Consolidated Financial Statements of the Avio Group."

3.4. INTANGIBLE ASSETS WITH DEFINITE LIFE

The values of Intangible assets with definite life at December 31, 2019 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, 2019 with December 31, 2018.

	31/12/2019				31/12/2018			
	Gross value	Accumulated amortisation	Write-downs	Net book value	Gross values	Accumulated amortisation	Write-downs	Net book value
Development costs - amortisable	70,281	(51,722)		18,560	70,281	(47,785)		22,496
Development costs - in progress	64,421	0		64,421	52,989	0		52,989
Total development costs	134,703	(51,722)	0	82,981	123,271	(47,785)	0	75,485
Assets from PPA 2017 - Programmes	44,785	(8,211)		36,574	44,785	(5,225)		39,560
Concessions, licenses, trademarks & similar rights	7,761	(6,397)		1,364	6,318	(5,822)		496
Industrial patents & intellectual property rights	236	(16)		221	0	0		0
Other	2,848	(1,962)		886	2,552	(1,453)		1,099
Total	**190,333**	**(68,307)**	**0**	**122,026**	**176,925**	**(60,285)**	**0**	**116,640**

The amortisable development costs mainly refer to design and testing costs relating to the P80 motor, while the largest part of the development costs in progress (not yet amortised) relate to the future motor Z40 and the new motor P120.

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.

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 value	31/12/2018	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2019
Development costs - amortisable	70,281				70,281
Development costs - in progress	52,989	11,432			64,421
Total development costs	123,271	11,432	0	0	134,703
Assets from PPA 2017 - Programmes	44,785				44,785
Concessions, licenses, trademarks & similar rights	6,318	1,443			7,761
Industrial patents & intellectual property rights	0	236			236
Other	2,552	296			2,848
Total	**176,925**	**13,407**	**0**	**0**	**190,333**

The increases in 2019 with reference to the development costs mainly relate to design and testing costs for the construction of the new Z40, P120 and liquid oxygen and methane engines within the VEGA C and Ariane 6 launcher programmes.

The changes in 2019 to accumulated amortisation were as follows (in Euro thousands):

Accumulated amortisation	31/12/2018	Amortisation	Decreases for disposals	Reclassifications and other changes	31/12/2019
Development costs - amortisable	(47,785)	(3,937)			(51,722)
Development costs - in progress	0				0
Total development costs	(47,785)	(3,937)	0	0	(51,722)
Assets from PPA 2017 - Programmes	(5,225)	(2,986)			(8,211)
Concessions, licenses, trademarks & similar rights	(5,822)	(574)			(6,397)
Industrial patents & intellectual property rights	0	(16)			(16)
Other	(1,453)	(536)		26	(1,962)
Total	**(60,285)**	**(8,048)**	**0**	**26**	**(68,307)**

3.5. INVESTMENTS

The breakdown of the investments held by the parent company Avio S.p.A. at December 31, 2019 follows (in Euro thousands):

Company	Registered Office	% held	Book value	Net Equity	Equity share	Difference Holding / Equity share
Investments in subsidiaries						
ASPropulsion International B.V.	Amsterdam (Netherlands)	100%	58,640	57,639	57,639	1,001
Spacelab S.p.A.	Rome	70%	1,115	8,337	5,836	(4,721)
Regulus S.A.	Kourou (French Guyana)	60%	9,590	13,139	7,883	1,707
Avio Guyane SAS	Kourou (French Guyana)	100%	50	117	117	(67)
Avio France S.A.S.	Paris/Kourou (French Guyana)	100%	50	55	55	(5)
Avio India Aviation Aerospace Private Limited	New Delhi (India)	100%	114	100	100	14
Sub-total			**69,559**	**79,387**	**71,631**	**(2,071)**
Associates and jointly-controlled companies						
Europropulsion S.A. (*)	Suresnes (France)	50%	3,698	7,822	3,911	(213)
Termica Colleferro S.p.A. (**)	Bologna	40%	3,636	6,519	2,608	1,028
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**	**14,446**	**6,183**	**1,194**
Total Equity holdings in subsidiaries, associates and jointly-controlled companies			**76,936**	**93,088**	**77,813**	**(887)**
Investments in other companies			**524**			
Total			**77,460**			

(*) Companies under joint control;
(**) financial statements data at December 31, 2018.

The overseas subsidiary Avio India Aviation Aerospace at December 31, 2019 was in liquidation.

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

The investments in other companies amount to Euro 524 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 company Regulus S.A. was considered recoverable due to the strong business results reported.

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.

3.6. NON-CURRENT FINANCIAL ASSETS

The table below illustrates the non-current financial assets of Avio at December 31, 2019 and at December 31, 2018 (in Euro thousands).

	31/12/2019	31/12/2018	Change
Shareholder loan to Termica Colleferro S.p.A.	6,106	5,812	294
	6,106	**5,812**	**294**

The account, amounting to Euro 6,106 thousand (Euro 7,440 thousand at nominal values), comprises the shareholder loan granted to the associated company Termica Colleferro S.p.A. together with the other shareholder SECI S.p.A., paid in order to ensure the long-term operational viability of this company in proportion to the share capital held; a similar contribution was made by the above-mentioned majority shareholder. This loan is non-interest bearing and repayment is subordinate to the total settlement of the bank loans of the associate, maturing in 2027.

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

For more information concerning the Termica Colleferro S.p.A. please see the "Other commitments" paragraph in the "5. Commitments and risks" section.

3.7. DEFERRED TAX ASSETS

The deferred tax assets of Avio S.p.A recorded in the accounts amount to Euro 73,746 thousand.

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.

The table below illustrates deferred tax assets at December 31, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Net deferred tax assets	73,746	74,756	1,010
	73,746	**74,756**	**1,010**

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):

	31/12/2019
Gross deferred tax assets on temporary differences	
Temporary differences deriving from previous corporate operations	
Fiscal amortisation on previous goodwill whose tax benefits remain in the Company.	12,081
Financial charges exceeding 30% of EBITDA	40,950
Temporary differences deriving from current corporate operations	
Provision for personnel charges, former employees and similar	2,761
Other deductible temporary differences	3,270
Total gross deferred tax assets	**59,062**
Deferred tax liability on temporary differences	
Temporary differences deriving from previous corporate operations	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(10,570)
Tax effect R&D expenses First-Time Adoption	(3,189)
Temporary differences deriving from current corporate operations	
Other temporary assessable differences	(684)
Total gross deferred tax liabilities	**(14,443)**
Net deferred tax assets/(liabilities)	**44,620**
Deferred tax assets on tax losses	73,620
Deferred tax assets not recorded	(44,493)
Net deferred tax assets (liabilities) recorded	**73,746**

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;
- the meeting of the ministers of ESA Member States held in November 2019, which confirmed all the programmes approved in the previous Ministerial Conferences. New ESA member states, including Ireland and Romania, also decided to join the Vega programme with substantial contributions, guaranteeing the necessary support to continue development right up to the next Ministerial Conference scheduled for 2022.
  In addition to the aforementioned programmes, the Ministerial Conference gave the go-ahead for the development of an improved version of the Vega-C launcher, Vega-C++.

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, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Other non-current assets	67,051	66,506	545
	67,051	**66,506**	**545**

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

	31/12/2019	31/12/2018	Change
Receivables from the General Electric Group	58,514	58,542	(28)
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	7,870	7,357	513
Deposits and other non-current assets	668	607	60
Total	**67,051**	**66,506**	**545**

"Receivables from the General Electric Group" of Euro 58,514 thousand refer to the recharge of the following tax charges:

- Euro 58,220 thousand relates to the payment notice received in July 2016 from the Tax Agency relating to registration, mortgage and land tax for 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. This receivable is recognized against an amount payable to the Treasury of like amount among non-current liabilities;

- Euro 294 thousand of charges relating to the tax dispute pertaining to tax year 2013, which was settled in 2018.

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 either indirect taxes concerning the above-mentioned extraordinary operations in 2013 or in general to the sector of the above-mentioned sale, providing Avio the sums requested by the Tax Office within the time period for the payments.

Regarding the dispute regarding the registration, mortgage and land taxes, in 2018 an appeal was made before the Piedmont Regional Tax Commission, which in judgment 1740/18 rendered on October 24, 2018 and filed on November 7, 2018 granted the Company's appeal in full. At the reporting date, there was no record of any appeal by the Italian Tax Office of the above judgment before the Court of Cassation.

It bears remarking that lawmakers have addressed the subject-matter of this dispute, which has to do with the application of Art. 20 of Italian Presidential Decree 131/1986 (the "Consolidated Law on Registration Tax"), in paragraph 1084 of Law 145 of December 30, 2018 (the "2019 Finance Act"), expressly granting the force of an official interpretation – and thus retroactive effect – to Art. 1, paragraph 87, letter a) of Law 205 of December 27, 2017 (the "2018 Finance Act"), which amended Art. 20 of the Consolidated Law on Registration Tax, limiting the discretion of the revenue authorities in reclassifying deeds subject to registration. In the light of the provision of the 2019 Finance Act, the provision introduced by the 2018 Finance Act should therefore also apply retroactively, for the benefit of the taxpayer, with the result that there is no longer any case to answer.

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 7,870 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, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Inventories	140,017	111,537	28,479
	140,017	**111,537**	**28,479**

The breakdown of the account at December 31, 2019 and relative movements follow (in Euro thousands):

	31/12/2018	Increases	Decreases	31/12/2019
Raw material, ancillary and consumables	31,727	2,383		34,110
Raw material, ancillary and consumables obsolescence provision	(3,881)	(258)	3,068	(1,071)
Raw material, ancillary and consumables - net value	27,845	2,125	3,068	33,039
Products in work-in-progress	2,866		(151)	2,715
Provision for the write-down of work in progress	(424)	(4)	258	(170)
Products in work-in-progress - net value	2,441	(4)	107	2,545
Finished products and other inventories	7			7
Finished products and other inventories obsolescence provision	(4)		4	0
Finished products and other inventories - net value	3	0	4	7
Advances to suppliers	81,247	89,923	(66,744)	104,426
	111,537	**92,044**	**(63,565)**	**140,017**

Advances include the sums paid to suppliers in advance of the execution of the relative supplies based on conditions established in the purchase contracts.

The increase in inventories relates to expanded production levels. The raw materials obsolescence provision was utilised for the disposal of materials no longer utilisable.

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):

	31/12/2019	31/12/2018	Change
Contract work-in-progress	24,015	103,151	(79,137)
Advances for contract work-in-progress	(128,798)	(176,979)	48,180
Net total	**(104,784)**	**(73,826)**	**(30,957)**

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):

	31/12/2019	31/12/2018	Change
Contract work-in-progress (gross)	876,287	503,157	373,131
Advances for contract work-in-progress (gross)	(852,273)	(400,006)	(452,267)
Contract work-in-progress (net)	**24,015**	**103,151**	**(79,137)**

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):

	31/12/2019	31/12/2018	Change
Contract work-in-progress (gross)	705,548	1,150,328	(444,780)
Advances for contract work-in-progress (gross)	(834,346)	(1,327,306)	492,960
Advances for contract work-in-progress (net)	**(128,798)**	**(176,979)**	**48,180**

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 at issue 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, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Trade receivables	3,484	3,646	(162)
	3,484	**3,646**	**(162)**

The breakdown of trade receivables is as follows:

	31/12/2019	31/12/2018	Change
Receivables from third parties	414	554	(140)
Receivables from subsidiaries	953	1,195	(242)
Receivables from associates and jointly controlled companies	2,117	1,897	220
Total	**3,484**	**3,646**	**(162)**

The book value of the receivables approximates their fair value.

Receivables from third parties

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

	31/12/2019	31/12/2018	Change
Gross value	497	637	(140)
less: doubtful debt provision	(83)	(83)	0
Total	**414**	**554**	**(140)**

The receivables are all due within 12 months.

Receivables from subsidiaries

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

	31/12/2019	31/12/2018	Change
Regulus S.A.	286	954	(668)
Se.Co.Sv.Im. S.r.l.	131	8	123
Spacelab S.p.A.	87	60	27
Avio Guyane S.A.S.	344	173	171
Avio France S.A.S.	105		105
Total	**953**	**1,195**	**(242)**

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

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

	31/12/2019	31/12/2018	Change
Europropulsion S.A.	771	1,724	(953)
Potable Water Services Consortium	62	40	22
Servizi Colleferro S.C.p.A.	203	102	101
Termica Colleferro S.p.A.	81	31	50
Total	**1,117**	**1,897**	**(780)**

3.12. CASH AND CASH EQUIVALENTS

The table below illustrates cash and cash equivalents at December 31, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Cash and cash equivalents	142,868	106,307	36,561
Total	**142,868**	**106,307**	**36,561**

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, 2019 and December 31,2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Tax receivables	27,547	59,078	(31,531)
Total	**27,547**	**59,078**	**(31,531)**

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

	31/12/2019	31/12/2018	Change
VAT receivables	18,482	43,601	(25,119)
Research and development tax credit (year 2019)	6,291		6,291
Research and development tax credit (year 2018)	-	10,604	(10,604)
Research and development tax credit (year 2017)	-	2,101	(2,101)
Receivables from tax authorities	2,492	2,532	(40)
EU VAT receivables	282	240	42
Total	**27,547**	**59,078**	**(31,531)**

The net decrease in tax receivables of Euro 31,531 was essentially due to the following contrasting effects:

- a net decrease in VAT receivables of Euro 25,119 thousand, due to the collection of VAT receivables of Euro 33,164 thousand relating to the second and third quarters of 2017, the 2017 annual VAT, net of the increase in VAT for the year;

- a net decrease in research and development tax credits of Euro 6,414 thousand;
- increase in other tax receivables of Euro 2 thousand.

VAT receivables

VAT receivables, for Euro 18,482 thousand, include:
- Euro 10,436 thousand, relating to VAT reimbursement requests to the Tax Authorities;
- Euro 8,047 thousand relating to VAT receivables for which refunds were not requested, equal to the amount of the VAT receivable that arose during the year.

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, the VAT exemptions for intra-Community exports, transactions similar to exports and sales of goods apply to the transactions undertaken with the parties in question. This circumstance entails the quasi-absence of VAT payables on the sales transactions undertaken by the Company. On the other hand, the Company has Italian suppliers whose supplies - further to the amounts permitted under the VAT ceilings used - result in the recognition of VAT receivables. Although the amount of the VAT receivables accruing to the Parent Company already declined considerably in 2018 and 2019, further expected containment is expected, due in part to the adoption in 2019 and 2020 of new measures aimed at reinforcing the use and monitoring of the VAT exemption rules, arising from the declarations of intent mechanism.

Research and development tax credit

Regulatory framework

The research and development tax credit was introduced by Article 3 of Legislative Decree No. 145 of December 23, 2013, converted with amendments, by law No. 9 of February 21, 2014, and subsequently amended by:
- the 2017 Budget Law (Law No. 232 of December 11, 2016), published in the *Official Gazette* on December 21, 2016 and in force since January 1, 2017.
- the 2019 Budget Law (Law No. 145 of December 30, 2018), published in the *Official Gazette* on December 31, 2018 and in force since January 1, 2019;
- the 2020 Budget Law (Law No. 160 of December 27, 2019), published in the Official Gazette on December 30, 2019 and in force since January 1, 2020.

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

- was recognised against the investment specifically identified by the law made in the years between 2015 and 2020;

- was "incremental" in nature, in that it equated to, for each of the tax break periods, the excess of investments made in the year over average similar investments over the 2012-2014 three-year period ("historic benchmark average");

- was equal to 50% of the excess costs incurred in the year over the historic benchmark average (until the amendments applied by the 2019 Finance Act, as set out below);

- was utilizable for an annual maximum amount of Euro 20 million (until the amendments applied by the 2019 Finance Act, as set out below);

- may be accessed also where research and development is contracted to third parties. In this case, the break may be utilised by the commissioner, if resident in Italy;

- was automatically accessible, without the need for a request for concession or administrative authorisation, and without complying with the obligation for cost certification by the independent auditing firm.

- was utilizable exclusively as an offset from the subsequent tax period to that in which the qualifying costs are incurred (until the amendments applied by the 2019 Finance Act, as set out below).

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

Due to the 2019 Budget Law:

- the maximum amount of the tax credit that may be granted to each company was reduced from Euro 20 million to Euro 10 million with effect from January 1, 2019;

- the maximum amount of the tax credit was reduced from 50% to 25%, as limited to the costs of research and development activities not organized internally to the company, incurred in excess of the average amount of such investments undertaken in the three tax periods from 2012 to 2014. However, the 50% rate was confirmed for research and development activities organized internally to the company, i.e. for the personnel costs of employees directly assigned to such activities and, for externally commissioned activities, solely for contracts entered into with universities, research entities and organizations and innovative, independent start-ups and small and medium enterprises (SMEs). The benefit was extended to expenses incurred for the purchase of materials, supplies and other similar products directly used in 2019 R&D activities. These amendments enter into force from January 1, 2019;

- the use of the tax credit was only used after specific certification of the costs incurred had been issued by the independent auditor of the accounts. This amendment was already applicable to the tax credit accrued on the basis of the costs incurred in 2018.

- an interpretation rule was introduced for paragraph 1-*bis* of Article 3 of Decree-Law No. 145/2013 to establish that, where research and development is carried out on behalf of foreign principals, the tax benefit is granted to the agent exclusively in relation to the expenses concerning research and development carried out directly and in laboratories or structures located in Italy.

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

3) the previous tax credit provided for in Decree-Law No. 145/2013, with a maximum nominal amount of Euro 10 million (formerly Euro 20 million), is confirmed for the 2019 tax period only. Before the 2020 Budget Law this credit was also to apply to the 2020 tax period;

4) the following new tax credits are established for the 2020 tax period only to replace the previous R&D credit:
   d) a tax credit for fundamental research, industrial research and experimental development in scientific or technological fields, as defined in the “Frascati Manual”. This tax credit is granted for 12% of the costs incurred in 2020, with a maximum of Euro 3 million;
   e) a tax credit for technological innovation activities, other than those set out in point a), for the development of new or substantially improved products or production processes.

This tax credit is granted – separately from that set out in paragraph a), and thus cumulatively – for 6% of the costs incurred in 2020 for such activities, with a maximum of Euro 1.5 million. The relief is increased (10% of the costs incurred in 2020 for such activities, up to a maximum of Euro 1.5 million), where the technological innovation activity is intended to achieve an environmental transition or digital innovation 4.0 objective;

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

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

6. the system for calculating eligible costs is not incremental, but proportional, with various rates (12%, 10% or 6%) applied according to the nature of the activity eligible for relief;
7. 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;
8. it is now mandatory to submit a report to the Ministry for Economic Development, solely to permit the Ministry to obtain the information required to assess the performance, adoption and efficacy of the relief measures;
9. the costs eligible for relief must be stated net of other subsidies or grants received in any capacity for the same eligible expenses;
10. the rule in paragraph 1-*bis* of Decree-Law No. 145/2013, which allowed resident companies to benefit from an R&D tax credit for activities carried out on behalf of non-resident principals, was not renewed.

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

Recognition in the Financial Statements

These receivables are 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, in relation to the percentage of completion of the contract work-in-progress giving rise to the costs against which the due receivable was calculated in the 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.

The estimated tax credit for 2019, pending certification from the independent auditors, totals Euro 6.3 million. However, no benefit has been recognised in the 2019 income statement, since the benefit in question has been offset by the effects on the income statement of the retroactive application of the aforementioned authentic interpretation rule.

As established by the 2019 Budget Law, the tax credit maturing in relation to costs incurred in 2018 was utilised as an offset, following the release of the relative "certification" from the appointed auditor, as required by the above-stated regulatory changes.

Since the amendments introduced by the 2020 Budget Law entered into effect on January 1, 2020, they do not have immediate effects on FY 2019.

Tax receivables

The Tax receivables account for Euro 2,492 thousand principally concerns the IRAP tax receivables of Euro 916 thousand, withholding taxes on interest receivables for Euro 947 thousand and other tax receivables for Euro 629 thousand.

EU VAT receivables

The EU VAT receivables relate to inter-EU transactions and amount to Euro 282 thousand.

3.14. OTHER CURRENT ASSETS

The table below illustrates other current assets at December 31, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Other current assets	21,109	10,883	10,226
Total	**21,109**	**10,883**	**10,226**

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

	31/12/2019	31/12/2018	Change
Receivables from subsidiaries	13,996	3,599	10,397
Economic Development Ministry for disbursements pursuant to Law 808/85 - current portion	3,280	2,624	656
Prepayments and accrued income	1,358	1,062	296
Other debtors	1,131	2,497	(1,366)
Employee receivables	816	971	(156)
Other receivables from subsidiaries not consolidated and associated companies			-
- *Servizi Colleferro S.C.p.A.*	491	126	365
- *Potable Water Services Consortium*	3		3
Social security institutions	35	2	33
Total	**21,109**	**10,883**	**10,226**

Receivables from subsidiaries, of Euro 13,996 thousand, comprise:

- receivables from the subsidiary Spacelab S.p.A. for a total of Euro 9,737 thousand, of which Euro 7,000 thousand for the dividend approved during the year by the subsidiary, but not yet collected, and Euro 2,731 thousand for the tax consolidation;
- receivables from the subsidiary Se.Co.Sv.Im. of Euro 4,259 thousand related to the tax consolidation.

Receivables from the "Economic Development Ministry for disbursements pursuant to Law 808/85", amounting to Euro 3,280 thousand, refer to the discounted value of the sums to be disbursed by the Economic Development Ministry for projects qualifying as functional to national security or projects with common European interest, subsequent to the approval by the Interministerial Committee for the Economic Programming of Resolution No. 28 of March 22, 2006 enacting directives for the aerospace sector, which will be received in the next year.
The portion which will be received beyond 12 months is classified in the account "Other non-current assets" (Note 3.7).

Other debtors of Euro 1,131 thousand decreased on the previous year, mainly due to the release of an escrow account of Euro 675 thousand relating to the disposal of the company's aeronautical division in August 2013.

EQUITY

3.15. SHARE CAPITAL

The share capital of the parent company Avio S.p.A. amounts to Euro 90,964,212 at December 31, 2019; 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, 2019 comprised 26,359,346 ordinary shares.

3.16. SHARE PREMIUM RESERVE

An amount of the share premium reserve of Euro 144,255,918 at December 31, 2018 equal to the treasury shares purchased of Euro 2,668 thousand was unavailable.
The available value of the share premium reserve is therefore Euro 141,588 thousand.

3.17. OTHER RESERVES

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

	31/12/2019	31/12/2018	Delta
Actuarial gains/(losses) reserve	(3,582)	(3,206)	(376)
Under common control transactions reserve	(1,835)	(1,835)	0
Legal reserve	18,193	18,193	0
Treasury shares acquired	(2,668)		(2,668)
Unavailable treasury shares purchase reserve	2,668		2,668
Total	**12,776**	**13,152**	**(376)**

Other reserves, in addition to the Legal reserve for Euro 18,193 thousand comprises:
- for Euro 3,582 thousand the actuarial losses deriving from the application of IAS 19 revised, with the relative tax effect where applicable;
- for Euro 1,835 thousand a negative reserve consequent to the acquisition of the business unit of the subsidiary Spacelab S.p.A. (previously ELV S.p.A.) in 2018;
- treasury shares purchased and the creation of a specific restricted reserve as, on December 31, 2019, following the purchases made, Avio S.p.A. holds 214,500 treasury shares, equal to 0.81% of the number of shares comprising the share capital. The value of the acquired treasury shares amounts to Euro 2,668 thousand.

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	Summary of utilisations in previous years: Other reasons
Share capital	90,964				
Capital reserves:					
- Share premium reserve	144,256	A, B, C	141,588	-	-
Profit reserves:					
- Legal reserve	18,193	B			
- Actuarial gains and losses	(3,582)	-			
- Under common control transactions reserve	(1,835)	-			
Retained earnings	18,132			(332)	
Total	**266,129**		**141,588**		
Non-distributable amount			(82,981)		
Residual distributable amount			**58,607**		

Key: A: for share capital increase, B: for coverage of losses and C: for distribution to shareholders.

The share premium reserve is distributable for Euro 58,607 thousand, as restricted:

- for Euro 2,668 thousand for the acquisition of treasury shares;
- for Euro 82,981 thousand the amount corresponding to the residual value of the development costs subject to capitalisation.

NON-CURRENT LIABILITIES

3.18. NON-CURRENT FINANCIAL LIABILIITES

The account relates to the loans contracted from the European Investment Bank (EIB).
The movement in the account between December 31, 2018 and December 31, 2019 is reported below (in Euro thousands):

	31/12/2019	31/12/2018	Change
Non-current financial liabilities	42,000	40,000	2,000
Total	**42,000**	**40,000**	**2,000**

On January 16, 2019 the Company signed an additional Euro 10,000 thousand loan contract with the European Investment Bank (EIB). This loan is in fact in addition to, and subject to similar economic conditions as, the aforementioned original loan of Euro 40 million contracted in October 2017.

The two instalments of the EIB loan of Euro 40,000 thousand maturing in 2020 – equal to Euro 8 million – have been classified to the account "3.26. Current financial liabilities" (Euro 4,000 thousand due on April 30, 2020 and Euro 4,000 thousand due on October 31, 2020).

The incremental loan of Euro 10 million will further 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 two loans with the EIB have the following characteristics:

- loan of 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 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 from the third to the seventh years, of which the first maturing on April 30, 2020 and the final maturing on October 31, 2024.

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 LEASE LIABILITIES

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

	31/12/2019	31/12/2018	Change
Non-current lease liabilities	35,302	0	35,302
Total	**35,302**	**0**	**35,302**

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

	31/12/2019	31/12/2018	Change
Non-current financial liabilities to the subsidiary Se.Co.Sv.Im. S.r.l. as per IFRS 16	30,630		30,630
Non-current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	1,246		1,246
Non-current financial liabilities to third parties as per IFRS 16	3,426		3,426
Total	**35,302**	**0**	**35,302**

Financial liabilities recognised in the year following application of IFRS 16 concern:

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

	31/12/2019	31/12/2018	Change
- Defined benefit plans:			
Post-employment benefits	4,157	4,700	(543)
Other defined benefit plans	2,593	2,349	244
	6,750	7,049	(299)
- Other long-term benefits	2,159	1,725	434
Total employee benefit provisions	**8,909**	**8,774**	**135**

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

	Defined benefit plans	Other long-term benefits	Total employee benefit provisions
Values at 31/12/2018	**7,050**	**1,725**	**8,774**
Financial charges/(income)	(12)	(3)	(16)
Extraordinary charges/(income) from actuarial adjustment	(1)	0	(1)
Actuarial (gains)/losses in income statement		424	424
Actuarial (gains)/losses in comprehensive income statement	501		501
Pension cost current employees	126	148	274
Other changes	(28)	(16)	(43)
Benefits paid	(885)	(119)	(1,004)
Values at 31/12/2019	**6,750**	**2,159**	**8,909**

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

	31/12/2019	31/12/2018
Discount rate	0.22%	0.65%
Expected salary increases	2.12%	2.12%
Inflation rate	1.50%	1.50%
Average employee turnover rate	4.46%	4.76%

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, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Provisions for risks and charges	10,865	9,232	1,633
Total	**10,865**	**9,232**	**1,633**

The breakdown of the provisions for risks and charges at December 31, 2019 and for the comparative year is presented below (Euro thousands):

	31/12/2019		
	Current portion	Non-current portion	Total
Provision for variable remuneration	6,002	1,650	7,652
Provisions for risks and legal charges		200	200
Provision for contractual and commercial risks and charges		3,013	3,013
Total	**6,002**	**4,863**	**10,865**

These provisions include:

- provisions for variable remuneration for Euro 7,652 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 200 thousand;
- provisions for contractual and commercial risks and charges, mainly related to the provisions to cover potential commercial charges, penalties, charges and losses deriving from the conclusion of contracts in course, in addition to charges for rights pursuant to the provisions of Law 808/85 (regulation post 2006), amount to Euro 3,013 thousand.

The changes from January 1, 2019 to December 31, 2019 in the total provisions, current and non-current portion, are illustrated in the table below (Euro thousands):

	31/12/2018	Provisions	Other changes	Utilisations	Releases	31/12/2019
Provision for variable remuneration	5,888	5,607	-	(3,843)	-	7,652
Provisions for risks and legal charges	212			(12)	-	200
Provision for contractual and commercial risks and charges	2,654	944	1,708	(1,450)	(843)	3,013
Provision for tax risks	478		(8)		(470)	-
Total	**9,232**	**6,551**	**1,700**	**(5,305)**	**(1,313)**	**10,865**

The principal changes between January 1, 2019 and December 31, 2019 are shown:

- the provision for variable remuneration was utilised for Euro 3,843 thousand, mainly in consideration of the amounts paid to employees as bonuses related to the achievement of individual and company objectives. The provision of Euro 5,607 thousand mainly relates to variable remuneration which will be paid at the beginning of 2020, on the basis of the achievement of individual and company objectives for the year 2019, in addition to a long-term incentive plan for senior Group managers.

- provisions for contractual and commercial risks and charges increased by Euro 2,652 thousand, primarily in view of the allocation of a reclamation provision for an area used for industrial purposes. These provisions were used for Euro 1,450 thousand and, following an overall assessment, released for Euro 843 thousand;
- the provisions for tax risks were released during the year as the provisions are no longer required.

3.22. OTHER NON-CURRENT LIABILITIES

The table below illustrates the account December 31, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Non-current liabilities	132,689	122,038	10,651
Total	**132,689**	**122,038**	**10,651**

The breakdown of the account at December 31, 2019 is shown in the table below (Euro thousands):

	31/12/2019	31/12/2018	Change
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.	58,220	58,220	-
Other tax payables	9,325	876	8,449
	67,545	59,096	8,449
Liabilities relating to Law 808/85			
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	20,859	18,654	2,205
Payables to MiSE for disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	1,283	1,265	18
Deferred income on disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	483	483	-
	64,676	62,452	2,223
Other payables and deferred income	468	490	(22)
Total	**132,689**	**122,038**	**10,651**

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.
For further information, reference should be made to Note "3.8. Other non-current liabilities" and to the section "Legal and tax disputes and contingent liabilities" in the Explanatory Notes.

Other tax payables

This account, which amounted to Euro 9,325 thousand, refers to:

- for Euro 8,899 thousand, 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 particular, in view of the shift in interpretation of the 2019 Budget Law that occurred throughout 2019, and of the opinions of independent advisors, the Group decided to apply the authentic interpretation rule set out in paragraph 1-*bis* of Decree-Law No. 145/2013 retrospectively to 2017 as well, and therefore to redetermine a lower tax benefit due for that year. The restatement in question was also approved by the Italian Tax Office, with which an instalment plan was also agreed to refund the amount;

- for Euro 426 thousand, the portion beyond 12 months of amounts payable due to the settlement of a tax dispute relating to tax year 2013 with the Italian Tax Office in 2018.

Liabilities relating to Law 808/85

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

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

This payable concerning the grants as per Law 808/85 is subject to the relative provisions valid up to 2006.
In 2006 the enacting regulations of Law 808/85 were modified. In particular, a specific regulation was defined for the programmes subject to intervention by Law 808/85 considered as functional to national security or projects of common European interest, which provide for, in place of the restitution of the disbursements granted, the payment of rights relating to the sale of the products developed within the programmes. For the programmes not within the above-mentioned category, the obligation remains for the restitution without payment of interest.
It is considered, following detailed analysis undertaken also with the assistance of primary legal firms and as communicated to the Economic Development Ministry in previous years, that this new

regulation is not applicable to the interventions undertaken prior to the adoption of Resolution No. 28/2006 of the Interministerial Committee for Economic Programming, in relation to the specific situation of the programmes subject to the interventions, and therefore, as during 2019 there were no mandatory changes to the regulations in force, there were no changes in the criteria utilised to-date in the recognition in the accounts of the disbursements in question.

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

The account, amounting to Euro 20,859 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 1,283 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 competitivity 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.

CURRENT LIABILITIES

3.23. CURRENT FINANCIAL LIABILITIES

The table below illustrates current financial liabilities at December 31, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Current financial liabilities	84,329	71,570	12,759
Total	**84,329**	**71,570**	**12,759**

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

	31/12/2019	31/12/2018	Change
Financial payables subsidiary Se.Co.Sv.Im. S.r.l.	36,615	31,982	4,633
Financial payables subsidiary Spacelab S.p.A.	18,965	20,339	(1,374)
Financial payables Europropulsion S.A. joint control company	28,749	19,249	9,500
	84,329	**71,570**	**12,759**

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.

3.24. CURRENT LEASE LIABILITIES

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

	31/12/2019	31/12/2018	Change
Current financial liabilities for leasing	6,423	-	6,423
Total	**6,423**	**-**	**6,423**

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

	31/12/2019	31/12/2018	Change
Current financial liabilities to subsidiary Se.Co.Sv.Im. as per IFRS 16	4,641		4,641
Current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	149		149
Current financial liabilities to third parties as per IFRS 16	1,632		1,632
	6,423	**-**	**6,423**

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, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Current portion of non-current financial payables	8,075	60	8,015
Total	**8,075**	**60**	**8,015**

The current portion of non-current financial payables concerns:

- the two instalments of the EIB loan of Euro 40 million, amounting to Euro 8 million (of which Euro 4 million due on April 30, 2020 and Euro 4 million due on October 31, 2020);
- the accrued interest at December 31, amounting to Euro 75 thousand.

3.26. TRADE PAYABLES

The table below illustrates trade payables at December 31, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Trade payables	113,331	141,811	(28,480)
Total	**113,331**	**141,811**	**(28,480)**

Trade payables at December 31, 2019, apart from the payables to suppliers for the ordinary business cycle, include the following payables to subsidiaries:

- payables to Regulus for Euro 18,460 thousand;
- payables to Spacelab for Euro 1.420 thousand;
- payables to Se.Co.Sv.Im. for Euro 22 thousand;
- payables to Avio Guyane for Euro 239 thousand.
- payables to Avio France for Euro 122 thousand.

These payables include, in addition, Euro 680 thousand to the jointly controlled company Europropulsion and Euro 1,024 thousand to the associate Termica Colleferro.

3.27. CURRENT TAX PAYABLES

The table below illustrates current tax liabilities at December 31, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Tax payables	4,312	1,555	2,757
Total	**4,312**	**1,555**	**2,757**

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

	31/12/2019	31/12/2018	Change
Payables for withholding taxes	1,139	1,158	(19)
Other tax payables	3,173	397	2,776
Total	**4,312**	**1,555**	**2,757**

Payables for withholding taxes, amounting to Euro 1,139 thousand, refer to employee and consultant withholding taxes.

Other tax payables of Euro 3,173 thousand comprise:

- for Euro 2,054 thousand, 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 particular, in view of the shift in interpretation of the 2019 Budget Law that occurred throughout 2019, and of the opinions of independent advisors, the Group decided to apply the authentic interpretation rule set out in paragraph 1-*bis* of Decree-Law No. 145/2013 retrospectively to 2017 as well, and therefore to redetermine a lower tax benefit due for that year. The restatement in question was also approved by the Italian Tax Office, with which an instalment plan was also agreed to refund the amount;

- for Euro 1,060 thousand for the allocation of tax liabilities for potential tax disputes;

- for Euro 337 thousand of the short-term instalments of settlements of a tax dispute relating to tax year 2013 reached with the Italian Tax Office in 2018;

3.28. OTHER CURRENT LIABILITIES

The table below illustrates other current liabilities at December 31, 2019 and December 31, 2018 (Euro thousands).

	31/12/2019	31/12/2018	Change
Other current liabilities	9,101	10,831	(1,730)
Total	**9,101**	**10,831**	**(1,730)**

The breakdown of the account at December 31, 2019 is shown in the table below (Euro thousands):

	31/12/2019	31/12/2018	Change
Customer advances for the supply of goods and services	0	2,013	(2,013)
Payables due to social security institutions	2,562	2,547	14
Employee payables	4,000	3,349	651
Payables to subsidiaries	0	1,051	(1,051)
Other payables to third parties	843	606	237
Deferred income on disbursements pursuant to Law 808/85 - current portion	1,064	702	362
Other accrued liabilities and deferred income	632	562	70
Total	**9,101**	**10,831**	**(1,730)**

Customer advances for the supply of goods and services

The account has a balance of zero, since the advances received in previous years from customers for supplies relating to the turbopump, on which work has been completed, were transferred to the income statement.

Amounts due to social security institutions

The account concerns amounts to be paid, amounting to Euro 2,562 thousand, relating to company and employee contributions, in accordance with regulations in force.

Employee payables

Employee payables amount to Euro 4,000 thousand and include remuneration to be settled, in addition to vacations and other rights matured and not utilised.

Subsidiaries

The account at December 31, 2018 amounting to Euro 1,051 thousand, mainly included the payable to subsidiaries following the tax consolidation and some payables to be recharged. The debt was settled in the year.

Other payables to third parties

"Other payables to third parties" of Euro 843 thousand principally concern:

- liabilities to the Italian Treasury for Euro 450 thousand, relating to the short-term share of the settlements described above in paragraph "3.22. Other non-current liabilities";

- liabilities to Corporate Boards for Euro 356 thousand.

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

The account 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 632 thousand, mainly refers to the deferment of commercial costs and grant 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 390,664 thousand for the current year. They amounted Euro 443,358 thousand in 2018.

	FY 2019	FY 2018	Change
Revenue from sales	313,476	12,717	300,760
Revenues from services	2,928	1,087	1,841
	316,405	13,804	302,601
Change in contract work-in-progress	74,259	429,554	(355,295)
Total	**390,664**	**443,358**	**(52,694)**

Several projects, including one of a tactical nature of a significant amount, were completed in 2019.

The revenues therefore include the effect of the accounting of research and development activities reported below.
Research and development tax credits (Law No. 232/2016) are recognised to the financial statements to the extent that the tax credit is considered recoverable and utilisable. 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".
For further details on the revenue performance and the relative programmes, reference should be made to the "Operating results" paragraph of the Directors' Report.

3.30. OTHER OPERATING REVENUES

In 2019, the account totalled Euro 7,676 thousand (Euro 5,514 thousand in 2018) - increasing Euro 2.163 thousand.

	FY 2019	FY 2018	Change
Income from the release of provisions	843	0	843
Income for the portion recognised to the income statement of the disbursements as per Law 808/85	1,466	1,576	(110)
Other income and operating grants	1,472	2,296	(824)
Over-accruals and similar in prior periods	636	405	231
Recovery of costs, damages and other income	3,259	1,237	2,023
Total	**7,676**	**5,514**	**2,163**

At December 31, 2019 the account comprised:

- income from the release of provisions for Euro 843 thousand, mainly relating to the fund for royalties pursuant to Law 808/85;

- income for the portion recognised to the income statement of the disbursements as per Law 808/85 for Euro 1,466 thousand;

- other income and operating grants of Euro 1,472 thousand, including, primarily:
  - grants for Euro 1,009 thousand;
  - an indemnity from the former shareholder Cinven, with regards to the partial coverage of the charges for a prior tax dispute for Euro 286 thousand;
- - prior year income of Euro 636 thousand;
- recovery of costs from subsidiaries for Euro 1,759 thousand and insurance payouts for Euro 1,500 thousand, covering the damage to certain semi-finished products.

3.31. CONSUMPTION OF RAW MATERIALS

The account, amounting to Euro 108,879 thousand, relates to costs for raw material purchases and changes in inventories, as shown below.

	FY 2019	FY 2018	Change
Purchase of raw materials	114,331	118,725	(4,394)
Change in inventories of raw materials	(5,452)	2,078	(7,530)
	108,879	**120,803**	**(11,923)**

3.32. SERVICE COSTS

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

	FY 2019	FY 2018	Change
Service costs	200,063	246,357	(46,294)
Rent, lease and similar costs	1,035	6,725	(5,689)
Total	**201,098**	**253,081**	**(51,983)**

Service costs, amounting to Euro 201,098 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 395 thousand and specific committee fees of Euro 141 thousand;
- supervisory body fees of Euro 125 thousand;
- Board of Statutory Auditors' fees of Euro 164 thousand;

The service costs therefore include the effect of the accounting of receivables for research and development activities as described at paragraph 2.7 "Accounting policies".

3.33. PERSONNEL EXPENSES

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

	FY 2019	FY 2018	Change
Wages and salaries	37,465	32,008	5,457
Social security charges	12,239	10,285	1,954
Provision for variable remuneration	5,004	3,508	1,496
Other long-term benefits - current employees	126	99	27
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	416	(23)	438
Provision for "Other defined benefit plans"	2,915	2,538	378
Total	**58,165**	**48,414**	**9,751**

The table below illustrates, divided by category, the average number of employees of the Company:

	FY 2019	*FY 2018*
Blue-collar	329	278
White-collar	433	386
Executives	24	22
Total	**786**	**686**

3.34. AMORTISATION & DEPRECIATION

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

	FY 2019	FY 2018	Change
Property, plant & equipment	4,169	3,954	215
Right-of-use	5,684		5,684
Intangible assets with definite life	8,048	8,082	(33)
Total	**17,901**	**12,035**	**5,866**

This account includes from the present year depreciation on the Rights-of-use, recognised following application of IFRS 16.

Amortization of intangible assets with a definite life primarily includes:

- amortization of capitalized development costs of Euro 3,933 thousand (Euro 4,213 thousand in 2018);
- 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 2018).

3.35. OTHER OPERATING COSTS

This account amounts to Euro 4,640 thousand (Euro 6,309 thousand in 2018) and mainly comprises the following items:

- provisions for contingent liabilities of Euro 2,433 thousand;
- indirect taxes of Euro 479 thousand;
- prior year charges of Euro 437 thousand;
- other operating costs for Euro 247 thousand, relating to entertainment expenses, association dues, donations and contributions;
- extraordinary charges of Euro 371 thousand.

3.36. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to costs capitalised for internally constructed assets, amounting to Euro 12,499 thousand (Euro 9,755 thousand at December 31, 2018), 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 11,175 thousand;
- costs for the internal production of tangible assets for Euro 1,324 thousand.

3.37. FINANCIAL INCOME

The breakdown of financial income of Euro 2.137 thousand (Euro 700 thousand in 2018) is presented below:

	FY 2019	FY 2018	Change
Bank interest income	61	68	(7)
Interest income on VAT refunds	1,093	0	1,093
Financial income from amortised cost	439	162	278
	1,592	229	1,363
Realised exchange gains	515	442	73
Unrealised exchange gains	29	29	0
	544	470	74
Total	**2,137**	**700**	**1,437**

Financial income of Euro 2,137 thousand principally concerned:

- interest income on bank current accounts for Euro 61 thousand;
- interest income accrued on VAT receivables collected during the year of Euro 1,086 thousand and on IRAP refunds of Euro 7 thousand;
- interest income from the application of the amortised cost of Euro 439 thousand;
- exchange differences for Euro 544 thousand.

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

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

3.38. FINANCIAL CHARGES

The breakdown of financial charges of Euro 2,133 thousand (Euro 1,456 thousand at December 31, 2018) is presented below:

	FY 2019	FY 2018	Change
Interest on EIB loans	443	360	83
Interest expense to subsidiaries non-leasing	5	5	0
Interest expenses on other liabilities	468	115	353
Discounting on employee benefits	(16)	(22)	7
Financial charges from amortised cost to subsidiaries	476	0	476
Financial charges from amortised cost to associates	21		21
Financial charges from amortised cost to third parties	65		65
	1,463	458	1,006
Realised exchange losses	666	992	(326)
Unrealised exchange losses	4	7	(3)
	670	999	(329)
Total	**2,133**	**1,456**	**676**

The account, which amounted to Euro 2,133 thousand, consists primarily of:

- interest expenses on the EIB loan of Euro 443 thousand. The increase on the previous year was due to the disbursement of the additional loan of Euro 10 million, in addition to that of Euro 40 million already carried in 2018;
- interest expenses on other liabilities of Euro 468 thousand, an increase on the previous year due to the recognition of interest expenses on the settlement to be reached with the Italian Tax Office with regard to the 2017 research and development tax credit of Euro 432 thousand;
- financial charges from amortised cost due to the application of IFRS 16 for contracts with subsidiaries for Euro 476 thousand;
- financial charges from amortised cost due to the application of IFRS 16 for contracts with associates for Euro 21 thousand;
- financial charges from amortised cost due to the application of IFRS 16 for contracts with third parties for Euro 65 thousand;
- exchange charges for Euro 670 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)

Net investment income in 2019 refers to net income of Euro 5,400 thousand (Euro 5,720 thousand in 2018), as follows:

- dividends for Euro 2,160 thousand (Euro 2,640 thousand in 2018) received in the period from the subsidiary Regulus S.A.;

- dividends for Euro 3,240 thousand (Euro 3,080 thousand in 2018) received in the period from the jointly-controlled company Europropulsion S.A..

3.40. INCOME TAXES

Net "income taxes" amount to "Net income" of Euro 3,153 thousand, comprising income for current taxes from the tax consolidation of Euro 4,288 thousand and a deferred tax charge of Euro 1,135 thousand.

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

	FY 2019	FY 2018
Pre-tax result	25,408	23,420
Ordinary rate applied	24.00%	24.00%
Theoretical tax charge	6,098	5,621
Effect of increases (decreases) to the ordinary rate:		
Permanent increases	11,316	8,253
Permanent decreases	(11,941)	(3,851)
Temporary difference increases	18,127	16,220
Temporary difference decreases	(65,039)	(74,948)
Total changes	(47,537)	(54,325)
Utilisation of fiscal losses		
ACE deduction		
(Tax loss)/Assessable income	(22,129)	(30,905)
Net deferred tax (income)/charge	(1,135)	(26)
Current assessable	4,288	103
	3,153	76

3.41. EARNINGS PER SHARE

	FY 2019	FY 2018
Group Net Profit (Euro thousands)	28,560	23,344
Weighted average number of shares in circulation	26,359,346	26,359,346
Basic earnings per share – in Euro	1.08	0.89
Diluted earnings per Share – in Euro	1,05[1]	0,86[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):

	At 31/12/2019
Guarantees given:	
Unsecured guarantees:	
Sureties issued to third parties on behalf of Avio	44,327
Other guarantees	3,402
Total guarantees given	47,729
Sureties and guarantees received	1,586
Total	49,314

Guarantees granted

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

Sureties and guarantees received

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

Other commitments

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

On February 24, 2010, to assist plant construction Termica Colleferro agreed with a banking syndicate a loan for a maximum Euro 34 million, supported by secured and unsecured guarantees and concluding on February 24, 2022.

Also on February 24, 2010, the controlling shareholder SECI issued an independent guarantee for the prompt fulfilment of all payment obligations to the lending banks in the interest of Termica Colleferro, for a maximum Euro 44.2 million.

In consideration of the deteriorated electricity market conditions in the years subsequent to the signing of the loan, in order to comply with the bank covenants, in December 2016 Termica Colleferro restructured its bank debt of approx. Euro 22 million, mainly by extending the maturity of the residual debt from 2022 to 2027, reducing the interest rate spread and raising the covenant thresholds.

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

For the finalisation of this agreement with the lending banks, in 2014 Termica Colleferro requested and obtained from the shareholders Seci and Avio a commitment letter by which the shareholders committed to grant a shareholder loan for maximum amounts respectively of Euro 18.2 million and Euro 12.1 million, in proportion to the share capital respectively held and cumulatively corresponding to the residual portion of the bank loan at that date. In accordance with this agreement, the shareholder loan shall be disbursed in a number of tranches on the request of Termica Colleferro, based on the operating requirements of the latter and subject to the issue of the loan to this latter by the banks.

At the reporting date, Avio has a financial receivable for the shareholder loan granted to Termica Colleferro of Euro 7.4 million, carried according to the amortized cost method at Euro 6 million. At December 31, 2019, there was no longer any residual commitment upon Avio to grant additional shareholder loans to this associate on the basis of the progressive repayment of its loan by Termica Colleferro. In fact, at December 31, 2019, the residual payable of Termica Colleferro was Euro 15.7 million and the contractual commitment of Avio had a maximum "ceiling" of 40% of this payable, i.e. Euro 6.3 million. As Avio had already disbursed to Termica Colleferro an amount of Euro 7.4 million, there are no longer residual commitments upon Avio under these agreements (the original commitment as per the 2014 agreements for Avio was Euro 12.1 million).

Avio however has not undertaken any commitment to increase the share capital of the associate.

The above loan issued to Termica Colleferro by the banks stipulates compliance by the company with the following financial covenants:

1) Net Financial Debt / Equity (NFP/E); and

2) Net Financial Debt / EBITDA (NFP/EBITDA).

In order to ensure compliance, Termica Colleferro, Avio, SECI and the lending banks signed in July 2014 an addendum to the loan contract. In accordance with this addendum, Termica Colleferro has the right to remedy violation of the financial covenants ("Equity cure") through the payment by the shareholders SECI and Avio to Termica Colleferro (pro-quota according to the limits of the respective share capital holdings in the company) of an amount as share capital increase and/or a shareholder loan which overall remedies the violation ("Cure amount").

On the basis of the information available at the reporting date from the investee Termica Colleferro S.p.A. as at June 30, 2019, the covenants established under the loan had been complied with.

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

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

The associate Termica Colleferro was not included in the companies presenting an administration procedure and is continuing with its operations according to expectations, is honouring its bank loan commitments.

On January 17, 2020 the Court of Bologna ruled that the application for composition with creditors subject to a reserve filed by Seci S.p.A. on May 31, 2019 was inadmissible due to the failure by Seci S.p.A. to file the composition proposal and plan by the date January 3, 2020 fixed for this purpose by the Court of Bologna.
According to the representations made and the information available from media outlets, Seci S.p.A. purportedly then began a process leading up to submission of a new application for composition in "full" form, which, due in part to the concurrent effects of COVID-19, is expected to be filed with the Court of Bologna by the end of March 2020.

In the interim, on February 13, 2020 the Public Prosecutor's Office of the Court of Bologna filed a petition for a declaration of bankruptcy of Seci S.p.A.
In response to this petition, the Court of Bologna fixed the hearing for discussion on April 3, 2020. If, as represented, Seci S.p.A. were to file an application for "full" composition (i.e., accompanied by a plan, any binding offers and proposal), the decision on the bankruptcy petition would depend on the outcome of the "full" composition by Seci.

In addition, Art. 83 of Decree-Law No. 18/20 of March 17 last provides for, inter alia, the suspension of certain trial periods and orders judicial offices to postpone already scheduled hearings until after April 15, 2020, with some specific exceptions. The examination of bankruptcy petitions is not among the exceptions to this rule. Accordingly, unless the Court of Bologna declares the procedure for Seci S.p.A. urgent, the Court of Bologna could postpone the hearing of April 3, 2020 until after April 15, 2020; in this case, Seci S.p.A. could file the new proposal for "full" composition by the new hearing to be fixed.

Finally, the financial crisis experienced by Seci S.p.A. could entail acceleration of the repayment terms of the bank loan granted to Termica Colleferro S.p.A. However, at present there is no obligation for guarantees from Avio that may be requested by the lenders due to the acceleration of repayment times.

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 authorizations 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 of 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.

Servizi Colleferro has commissioned a legal opinion of this dispute from its legal counsel. This opinion concludes as follows:

- At this stage of the trial, it appears likely that the defendants will be convicted in the first instance;
- Given that a conviction of the defendants appears likely, a generic judgment in the first instance ordering the civilly liable parties to pay environmental and personal injury damages, to be determined in a civil court, also appears likely;
- However, a direct award in the judgment of the first instance by the Court of Velletri to the civil claimants of environmental and personal injury damages in the amount sought (approximately Euro 35 million) appears remote, since no specific quantification of the damages or reconstruction of the amounts have yet been provided;
- The award in the judgment of the first instance by the Court of Velletri of (directly enforceable) provisional damages of the amount sought by the civil claimants appears possible;

The counsel to the defence finished its oral presentation of its case at the hearing on January 29, 2020. The prosecutor then replied for all defendants and, in respect of our position, reiterated the argument based on the significance of the "new discharge"; the consortium's supervisory position as manager of the final segment of the white water sewerage; and the causal importance of the behaviour in the light of the milk contamination identified in 2014. Our legal counsel have filed statements of case accompanying their oral defence.
The trial was adjourned until the hearing of March 19, 2020 for any rejoinders and passing of judgment, but in view of Decree-Law No. 11/2020 concerning "Extraordinary and urgent measures to combat the COVID-19 epidemiological emergency and contain the negative effects on the conduct of judicial activity", Art. 1 of which postpones all criminal hearings, the hearing of March 19 was postponed until a subsequent date yet to be determined.

At present, Servizi Colleferro S.C.p.A. is owned by the following consortium member shareholders: Avio (32%), Secosvim (20%), Termica Colleferro S.p.A. (6%), Caffaro s.r.l. in liquidation (5%), Recuperi Materie Prime S.r.l. (5%), Municipality of Colleferro (5%), EP Sistemi S.p.A. (6%), Lazio Ambiente S.p.A. (6%), Key Safety Systems S.r.l. (5%) and Simmel Difesa S.p.A. (10%).

On the advice of its legal counsel on the expected outcome of the proceedings in question and in accordance with IFRS accounting standards, the two companies Avio S.p.A. and Se.Co.Sv.Im. S.r.l., which own Servizi Colleferro S.C.p.A., have not made any provisions from the outset of the dispute, believing the possibility that, in the event of a judgment of conviction of the defendants, the criminal judge will order the defendants to pay, and quantify the amount of, damages for the civil claimants to be remote. In contrast, it appears possible that the judge might, if the defendants are convicted, order the payment of an immediately enforceable provisional award of approximately Euro 1 million, by way of partial compensation for the damages, to the extent proof is already founded to have been established, for the appearing parties who have so requested. If, as civilly liable party, the consortium were to be ordered to pay a provisional damages award, it is likely that, pending the appeal – which the defendants would certainly lodge if found guilty – the offence at issue in the trial may be declared prescribed. In this case, the criminal penalty would be extinguished, together with the offence, but the order to pay damages, including the provisional award, if any, could be upheld. It bears noting that, given the consortium fund's limited resources and the possible irreparable harm that could result for it from the immediate enforceability of the provisional award, on appeal it might apply for a stay of the provisional enforceability of the criminal judgment pursuant to Article 600, final paragraph, of the Italian Code of Criminal Procedure, in view of the consortium fund's economic condition. Where criminal charges against the defendants are proven, and if the Consortium was required, definitively to indemnify the damages resulting from the criminal offences, the current Servizi Colleferro will be liable to compensate the damages to the extent of its liability. In this scenario, currently considered remote by the legal opinion obtained, Avio S.p.A. and Se.Co.Sv.Im. S.r.l. may be called, as consortium members at the time of the offence, to provide Servizi Colleferro S.C.p.A. with the funds necessary to cover the damages for compensation or be held jointly and severally liable with the consortium's assets.

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.

E) 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.

As part of the general audit conducted at the end of 2015 and concluding in 2017, the Finance Police challenged Avio S.p.A., 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 issue of the alleged non-payment of the indirect taxes applicable to the transfer of the business unit.

Following on from this matter, on July 28, 2016 the Tax Agency notified Avio S.p.A. of a settlement notice for registry, mortgage and land taxes for a total of Euro 58,220 thousand. These concern in particular registration tax for Euro 55,641,285, mortgage tax for Euro 1,719,057 and land taxes for Euro 859,529.00, with a total increased charge of Euro 58,219,871.

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, appealed the aforementioned settlement notice. The Piedmont Regional Tax Commission decided in the company's favour in judgment 1740/18 rendered on October 24, 2018 and 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, 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 settlement notice and a corresponding receivable from the General Electric Group recorded for the same amount of Euro 58,220 thousand.

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

On June 4, 2019 the Piedmont DRE of the Tax Agency sent Avio S.p.A. questionnaire No. Q00041/2019 requesting information and documents concerning transactions undertaken in the 2014 tax year between the company and the subsidiary Regulus S.A., in order to assess the correct tax treatment of the remuneration according to the conditions and prices which would be paid between independent parties operating under free competition conditions and in comparable circumstances in accordance with Article 110, paragraph 7 of the Income Tax Law (covering the tax treatment of transfer pricing), on the basis that Regulus S.A. is tax resident in French Guyana.

Avio S.p.A. acted promptly, supported also by its tax consultants, to provide the Piedmont DRE with all of the requested information and documents.

In late November 2019, when the period in which the revenue authorities were able to issue assessments in respect of the 2014 tax period was drawing to an end, the Piedmont Regional Department served two separate assessment notices, concerning IRES and IRAP respectively, on the Company. The Company promptly filed an application for a settlement, reserving the right to assess whether to seek conciliation of the dispute with the Piedmont Regional Department. The investigations of the Office are still ongoing.

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 2019 and 2018.

Amounts at December 31, 2019:

In Euro thousands	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	6,106	6,106		
- Other non-current assets	67,051	67,051		
- Trade receivables	3,484	3,484		
- Other current assets	21,109	21,109		
- Cash and cash equivalents	142,868	142,868		
	241,143	**240,619**	**524**	
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	42,000			42,000
- Non-current financial payables for leasing	35,302			35,302
- Current financial liabilities	84,329			84,329
- Current lease liabilities	6,423			6,423
- Current portion of non-current financial payables	8,075			8075
- Other non-current liabilities	132,689			132,689
- Other current liabilities	9,101			9,101
- Trade payables	113,331			113,331
	431,250			**431,250**

Amounts at December 31, 2018:

In Euro thousands	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	5,812	5,812		
- Other non-current assets	66,506	66,506		
- Current financial assets				
- Trade receivables	3,647	3,647		
- Other current assets	10,883	10,883		
- Cash and cash equivalents	106,307	106,307		
	193,678	**193,154**	**524**	
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	40,000			40,000
- Current financial liabilities	71,570			71,570
- Current portion of non-current financial payables	60			60
- Other non-current liabilities	122,038			122,038
- Other current liabilities	10,831			10,831
- Trade payables	141,811			141,811
	386,310			**386,310**

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, 2019.

Financial income and charges recognised as per IAS 39

The following table presents the financial income and charges generated by financial assets and liabilities, broken down by category as per IFRS 9 for 2019 and 2018.

FY 2019

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	443	-	-
Assets at fair value through profit or loss			
Liabilities at amortised cost	-	-	-
Derivative financial instruments	-	-	-
Total categories	443	-	-

FY 2018

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	360	-	-
Assets at fair value through profit or loss			
Liabilities at amortised cost	-	-	-
Derivative financial instruments	-	-	-
Total categories	360	-	-

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, 2019 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 3,484 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, 2019 these are recorded net of a doubtful debt provision of Euro 482 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.

Concerning the impact of the COVID-19 pandemic, please have a look in the "Directors' report" section.

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, 2019 had not undertaken specific cash flow hedges in relation to these types of risks.

Interest rate risk

The Company has only one loan with the European Investment Bank (EIB) for Euro 40 million - increased to Euro 50 million in 2019 - at a competitive fixed interest rate compared to the market.

Therefore, this risk is not considered applicable to the company and, therefore, to the Company.

6. TRANSACTIONS WITH RELATED PARTIES

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, 2019							
Counterparty	**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.					549	189		
MBDA Italia S.p.A.	17		2,461				1,172	
MBDA France S.A.			7,059				3,900	
Thales Alenia Space Italia S.p.A.			69					
Companies with a connecting relationship and relative investee companies	**17**	**0**	**9,589**	**0**	**549**	**189**	**5,072**	**0**
Spacelab S.p.A.		9,718			1,420			18,965
Regulus S.A.	286				18,460			
SE.CO.SV.IM. S.r.l.	131	4,142			22			71,886
Avio Guyane S.A.S.	344				239			
Avio France S.A.S.	105				122			
Subsidiaries	**866**	**13,860**	**0**	**0**	**20,263**	**0**	**0**	**90,851**
Termica Colleferro S.p.A.	81			6,106	1,024			1,395
Europropulsion S.A.	771		50,339		680		60,560	28,749
Potable Water Services Consortium	62	3						
Servizi Colleferro - Consortium Limited Liability Company	203	491						
Associates and jointly controlled companies	**1,117**	**494**	**50,339**	**6,106**	**1,704**	**0**	**60,560**	**30,145**
Total related parties	**2,000**	**14,354**	**59,928**	**6,106**	**22,516**	**189**	**65,632**	**120,995**
Total book value	**3,484**	**21,109**	**24,015**	**6,106**	**113,331**	**9,101**	**128,798**	**176,129**
% on total account items	**57.39%**	**68.00%**	**249.55%**	**100.00%**	**19.87%**	**2.08%**	**50.96%**	**68.70%**

	At December 31, 2018							
Counterparty	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.					1,106	223		
MBDA Italia S.p.A.	17		3,460				175	
MBDA France S.A.			4,591				2,021	
Thales Alenia Space Italia S.p.A.			21				126	
Companies with a connecting relationship and relative investee companies	**17**	**0**	**8,072**	**0**	**1,106**	**223**	**2,322**	**0**
ELV S.p.A.	60	2,709			78	31		20,338
Regulus S.A.	576	377			19,370			
SE.CO.SV.IM. S.r.l.	8	891				1,020		31,981
Subsidiaries	**644**	**3,977**	**0**	**0**	**19,448**	**1,051**	**0**	**52,319**
Termica Colleferro S.p.A.	61			5,812	1651			
Europropulsion S.A.	524		31,104		21,190		43,659	19,249
Potable Water Services Consortium	175				(135)			
Servizi Colleferro - Consortium Limited Liability Company	102	126						
Associates and jointly controlled companies	**862**	**126**	**31,104**	**5,812**	**22,706**	**0**	**43,659**	**19,249**
Total related parties	**1,523**	**4,103**	**39,176**	**5,812**	**43,260**	**1,274**	**45,981**	**71,568**
Total book value	**3,647**	**10,883**	**103,152**	**5,812**	**141,811**	**10,831**	**176,979**	**111,630**
% on total account items	**41.76%**	**37.70%**	**37.98%**	**100.00%**	**30.50%**	**11.76%**	**25.98%**	**64.11%**

In 2019, and for the comparative 2018, the main income statement transactions by the Company with related parties were as follows (in Euro thousands):

	2019			
Counterparty	**Operating Revenues and changes in contract work-in-progress**	**Operating Costs** (1)	**Financial Income**	**Financial Charges**
Leonardo S.p.A.		1,394		
MBDA Italia S.p.A.	3,389			
MBDA France S.A.	(149,585)			
Thales Alenia Space Italia S.p.A.				
Companies with a connecting relationship and relative investee companies	**(146,196)**	**1,394**	**0**	**0**
Spacelab S.p.A.	74	1,333	1	1
Regulus S.A.	3,563	35,968		
SE.CO.SV.IM. S.r.l.	282			480
Avio Guyane S.A.S.	307	1,219		
Avio France S.A.S.	111	122		
Subsidiaries	**4,337**	**38,642**	**1**	**481**
Termica Colleferro S.p.A.	148	8,669		21
Europropulsion S.A.	84,044	71,560		
Potable Water Services Consortium	75	155		
Servizi Colleferro - Consortium Limited Liability Company	870	609		
Associates and jointly controlled companies	**85,137**	**80,993**	**0**	**21**
Total related parties	**(56,722)**	**121,029**	**1**	**502**
Total book value	**390,664**	**368,143**	**2,137**	**2,133**
% on total account items	**14.52%**	**32.88%**	**0.02%**	**23.53%**

(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.

Counterparty	2018 Operating Revenues [1]	Change in contract work-in-progress	Operating Costs [2]	Financial Income	Financial Charges
Leonardo S.p.A.			645		
MBDA Italia S.p.A.	53	991			
MBDA France S.A.	0	(137)			
Thales Alenia Space Italia S.p.A.	12				
Companies with a connecting relationship and relative investee companies	**65**	**854**	**645**	**0**	**0**
ELV S.p.A.	835	(1,051)	1,396		2
Regulus S.A.	3,925		45,622		
SE.CO.SV.IM. S.r.l.	205		4,279		3
Subsidiaries	**4,965**	**(1,051)**	**51,297**	**0**	**5**
Termica Colleferro S.p.A.	97		9,318		
Europropulsion S.A.	2,074	(3,962)	80,433		
Potable Water Services Consortium	2		140		
Servizi Colleferro - Consortium Limited Liability Company	2		292	-	-
Associates and jointly controlled companies	**2,175**	**(3,962)**	**90,183**	**0**	**0**
Total related parties	**7,205**	**(4,159)**	**142,125**	**0**	**5**
Total book value	**13,804**	**429,554**	**422,298**	**700**	**1,456**
% on total account items	**52.19%**	**0.94%**	**33.66%**	**0.00%**	**0.34%**

(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.

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 2019 for audit and other services by the audit firm Deloitte & Touche SPA and its network (in Euro thousands):

Type of service	Company	Service provider	2019 Fees
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	141[1]
	Subsidiaries	Deloitte & Touche S.p.A.	8
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	37[2]
Total	**Total**		186

[1] Includes additional compensation for Euro 19 thousand

[2] This concerns the limited audit of the Avio Group's Non-Financial Report for Euro 25 thousand and ISA 805 auditing services regarding the statement of research and development costs incurred in 2018 for Euro 12 thousand.

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 2019:

Grants under Law No. 808 of December 24, 1985 "*Incentives for the development and improved competitivity of the aerospace sector industries*"

Receiving company	**Disbursing PA**	**Project**	**Years_costs Project**	**Loans issued in 2019**	**Collection date**	**Ministry for Economic Development**
				(€ /Mln)		**(€ /Mln)**
AVIO SPA	Ministry for Economic Development	80-ton solid propellant engine - P80	2006-2008	-	-	1.16
AVIO SPA	Ministry for Economic Development	80-ton solid propellant engine - P80	2009	-	-	0.77

AVIO SPA	Ministry for Economic Development	80-ton solid propellant engine - P80	2010	-	-	0.44
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	17/12/2019	0.29
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	17/12/2019	0.62
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	17/12/2019	0.85
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	17/12/2019	1.99
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	17/12/2019	2.03
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	1.76	09/12/2019	2.25
AVIO SPA	Ministry for Economic Development	LOX/LCH technology demonstrator for the first stage of the Vega E launcher	2014-2016	-	-	1.16
				1.09		**11.56**

"Receivables from the Economic Development Ministry" for disbursements in accordance with Law 808/85, amounting to Euro 11.57 million, refer to the nominal value of the grants to be issued by the Economic Development Ministry. The amounts by Project are broken down as follows: Euro 2.37 million for the "80 ton solid propellant motor - P80" project; Euro 8.03 million for the "Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines" project; Euro 1.16 million for the "LOX/LCH demonstrated technology for the third stage of the Vega E launcher" project. These receivables are recorded in the accounts at the value resulting from the application of the amortised cost method, calculated utilising the effective interest rate, and are increased due to the effect of the accumulated amortisation of the difference between the initial value and the actual cash amounts and booked in the accounts under "Financial income".

Other grants

Receiving company	Disbursing PA	Project	Years_costs Project	Loans issued in 2019	Collection date	Nominal receivable to be collected
				(€ /Mln)		**(€ /Mln)**
AVIO SPA	European community	SpaceCarbon	NA	0.44	27/11/2019	NA
AVIO SPA	European community	C3HARME	NA	0.39	29/10/2019	NA
				0.83		**NA**

As reported in the Explanatory Notes in the tax receivable paragraphs, the Avio Group has recognised with regards to financial years 2019, 2018 and 2017, the Research and development tax credit permitted under Article 3 of Legislative Decree No. 145 of December 23, 2013 and subsequent amendments.

10. SUBSEQUENT EVENTS

Business

Space Propulsion Test Facility (SPTF) project

On January 29, 2020, the Space Propulsion Test Facility project for the construction of a Liquid Rocket Engine test bench and the production of carbon-carbon components was presented at the Salto di Quirra Inter-force Experimental Facility in Sardinia.

Zefiro 23 bench testing

On February 27, the Zefiro 23 engine was successfully bench tested, allowing an optimistic resumption of Vega flight operations with the VV16 launch for the SSMS mission.

Testing of the combustion chamber of the M10 engine for the Vega E

Testing of the combustion chamber of the innovative liquid M10 engine with LOX-methane technology that will be installed in the Vega E, replacing the third and fourth stages of the Vega C launcher, was completed on March 3, 2020. The tests were conducted at NASA facilities, at the Marshall Space Flight Center in Huntsville, Alabama. The first launch of the Vega E launcher is scheduled for 2025.

Vega return to flight

Despite the challenges of the Covid-19 pandemic, the launch campaign for the Vega VV16 return to flight began in 2020.

Ariane

In 2020, to date, two more Ariane 5 launches have gone ahead. The first launch, VA251, on January 16, concerned the European Eutelsat consortium and Indian GSat telecommunications satellites.

The second launch, VA252, on February 18, concerned the Japanese commercial telecommunications satellite SKY Perfect JCSat 17 and the South Korea Aerospace Research Institute's GEO-KOMPSAT 2B weather and ocean monitoring satellite.

Suspension of operations at the Kourou launch base in French Guyana

On March 16, 2020 the Guyanais Space Centre (CSG) and Arianespace announced that, in implementation of the communications from the French government to combat Covid-19, the Centre had decided to temporarily suspend preparations for upcoming launches at the Kourou base.
Avio is ensuring optimal safety conditions for both its personnel at the base and the Vega launcher, which has already been integrated into the launch ramp and is ready to resume preparation for the launch as soon as possible.
See the following paragraph for a full discussion of the Covid-19 issue.

Other significant events

COVID-19

As indicated in the "Group principal risks and uncertainties" paragraph, to which reference should be made, with the recent and rapid development of the Covid-19 pandemic, many countries have imposed restrictions on travel and certain commercial activities, as well as restrictive quarantine measures. The interruptions are more immediate and more significant in certain sectors, such as tourism, hospitality, transport, retail and entertainment, while other sectors such as manufacturing may see possible knock-on effects. Immediate effects have been seen on financial markets. Avio's shares posted a decline in value essentially in line with the STAR segment index in general.

Covid-19 began to spread around the time of December 31, 2019, with the situation continuing to evolve thereafter. It was late 2019 when certain clinical cases in Wuhan, the capital of the Chinese province of Hubei, were reported as showing symptoms of a novel "pneumonia of unknown cause". China then notified the World Health Organization (WHO) of the new virus on December 31, 2019. On January 30, 2020, the WHO International Health Regulations Emergency Committee declared the emerging epidemic "a public health emergency of international concern ". Since then, many more cases have been diagnosed in many other countries. The emergency measures and policies implemented in China have also been taken up by other countries.

In Italy, this pandemic has so far mainly affected Northern Italy, and then gradually expanded to the rest of the country. The Italian government has issued various decrees signed by the Prime Minister, introducing increasingly restrictive measures affecting business and social gatherings to limit the risk of transmission throughout Italy.

The epidemic and restrictions imposed by the French government and responsible authorities entailed the temporary suspension, with effect from March 16, 2020, of preparations for upcoming launches at Kourou base in French Guyana. In Italy, a new, more restrictive decree by the Italian government entered into force on March 23, 2020, suspending all non-essential businesses until April 3, 2020.

Nonetheless, on March 24, 2020 Avio was authorised by the local government office to continue its industrial operations since its business is of strategic importance to the Italian national economy; it therefore remains operational at present.

Within this scenario, Avio has established an ad hoc Internal Covid-19 Committee, which has issued a series of increasingly stringent directives to combat and contain the spread of the virus in accordance with the Memorandum signed by the government and social partners on March 14, 2020. These include using and facilitating telecommuting and flexible working hours for tasks that may be performed remotely, restrictions on movement and access to facilities extended to suppliers and consultants, organisation of meetings in accordance with the law and internal communication techniques for the prompt circulation of Covid-19 communications to all employees via the IT platform.

In addition, initiatives have been launched in support of all employees, such as supplementary health insurance that provides economic benefits for workers infected by Covid-19 and a free online mental health support desk for all workers to provide helpful assistance with the Covid-19 emergency.

For the purposes of preparation of these financial statements, Avio believes that the events associated with Covid-19 may be characterised as "non-adjusting events" with respect to the operating results reported in the financial statements at and for the year ended December 31, 2019 and therefore provides the disclosure required by IAS 10.

In reference to the ESMA recommendations of March 11, 2020 on "Market Disclosure" and "Financial Reporting", as stated in the press release dated March 25, 2020, the Company does not believe that the impact of this epidemic during the year can be estimated in quantitative terms at this time. However, in view of the current situation, it is possible that there will be a negative impact in the short term due to a partial slowing of activities as a result of the containment measures and restrictions in place or being adopted by the various government authorities in Europe and the rest of the world (with particular regard to the shutdown of the launch base in Kourou). However, the Company confirms that it is already taking steps and measures of a financial and operational nature to mitigate the impact of this scenario in the near and medium term.

At the Italian production facilities, a series of measures to combat Covid-19 have in fact been promptly taken in application of the relevant legislation in order to mitigate the risks associated with the safe continuation of industrial activities.

At present, therefore, the epidemic and the restrictive measures imposed by the governments and authorities have resulted only in the temporary suspension of the preparation activities for the upcoming launches from the Kourou base, while they have not significantly affected Avio's industrial, engineering and commercial activities.

If these effects were to continue, with gradual intensification of the government's initiatives to limit transmission, this would presumably result in effects on industrial, engineering and commercial activities in the aerospace sector that cannot be quantified at this time.

Given the current lack of visibility regarding the potential financial effects of the spread of Covid-19, the Board of Directors of Avio S.p.A. has deemed it appropriate – as a precautionary measure and in order to further strengthen the financial structure of the Company – to propose that the Shareholders' Meeting called to approve these draft financial statements allocate the entire 2019 net profit to retained earnings.
However, in view of the current situation, it is possible that there will be a negative impact in the short term due to a partial slowing of activities as a result of the containment measures and restrictions in place or being adopted by the various government authorities in Europe and the rest of the world (with particular regard to the shutdown of the launch base in Kourou).
Given the current lack of visibility regarding the potential financial effects of the spread of Covid-19, the Board of Directors of Avio S.p.A. has deemed it appropriate – as a precautionary measure and in order to further strengthen the financial structure of the Company – to propose that the Shareholders' Meeting called to approve these draft financial statements allocate the entire 2019 net profit to retained earnings.
It is hoped that a more complete picture will be available in the half-yearly report.

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

In inviting you to approve the 2019 Annual Accounts of Avio S.p.A., drawn up as per IFRS and reporting a net profit of Euro 28,560 thousand, we propose the allocation of this result entirely to retained earnings.

* * *

March 25, 2020

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, 2019.

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:
a) have been prepared in accordance with applicable international accounting standards recognised in the European
Union pursuant to EU regulation No. 1606/2002 of the European Parliament and Council, of July 19, 2002;
b) correspond to the underlying accounting documents and records;
c) provide a true and fair view of the 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 30, 2020

Giulio Ranzo	Alessandro Agosti
(Chief Executive Officer)	(Executive Officer for Financial Reporting)

Deloitte.

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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, 2019, 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, 2019, 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.

Deloitte.

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, 2019 include assets and liabilities respectively of Euro 214,6 thousand and Euro 319,4 thousand relating to the execution of contract work in progress and related advances. These contract work in progress are attributable to development and production activities of space sector, whose revenues and related margin 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 Company has also booked in the financial statements as at December 31, 2019 a tax credit related to research and development costs to be sold to clients and therefore included in the evaluation of contract work in progress, accounted in consistency to the progress of the related orders. The methods for evaluation those contract work in progress and the revenue recognitions are based on complex assumptions which by their nature imply recourse to the opinion 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, 2019. 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".

Deloitte.

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 the design, implementation and operating effectiveness of relevant controls put in place by Management to verify the evaluation of the contract work in progress; • analysis on the correct 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; • analysis of the accounting of the tax credit on research and development activities incurred in 2017, 2018 and 2019 financial statements and development tax credit and the effects recognized in the income statement based on the on the progress of orders according to the percentage of completion of these research and development activities; • sample verification of contract costs with reference to the various cost components of a sample contract work in progress as of December 31, 2019; • 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.

Deloitte.

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.

Deloitte.

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 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, 2019, 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, 2019 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, 2019 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.

Deloitte.

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Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 54

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 30, 2020

BOARD OF STATUTORY AUDITORS' REPORT
in accordance with Article 153-*bis* of Legislative Decree No. 58/98

Dear Shareholders,

this report, drawn up as per Article 153 of Legislative Decree No. 58/1998 ("TUF") 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, 2019, in compliance with the applicable regulation, also taking into account the Guidance for the Board of Statutory Auditors, recommended by the Italian Certified Public Accountants professional board (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili). We state that this report is issued by the Board of Statutory Auditors, after its waiver to the legal time allowance, which starts from the approval of the draft of the financial statements by the Board of Directors, as per Article 154-*ter*, paragraph 1-*ter*, of the "Testo Unico della Finanza".

1. Appointment and activities of the Board of Statutory Auditors

The current Board of Statutory Auditors was appointed on December 1, 2016 by the Shareholders' Meeting of Avio SpA and will remain in office until the approval of the financial statements as at December 31, 2019. During the year 2019, the Board of Statutory Auditors held ten meetings in order to undertake its activities. In addition to this, in the same year, the Chairman or the other members of the Board took part in each of the seven meetings of the Board of Directors, of the ten meetings of the Control, Risks and Sustainability Committee, and of the six meetings of the Appointments and Remuneration Committee. During the year 2020 and up to the date of the present report, the Board of Statutory Auditors held three more meetings and took part in each of the three more meetings of the Board of Directors, in each of the three more meetings of the Control, Risks and Sustainability Committee, in each of the three more meetings of the Appointments and Remuneration Committee.

2. Statutory and by-law supervision activities

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, carried out by the Company and by the Group companies, also as per Article 150 of the TUF, paragraph 1. Based on the information available, the Board can reasonably state that these operations are in compliance with the law and with the Company by-laws objectives and are not imprudent, reckless, contrary to the resolutions of the Shareholders' Meetings or such as to jeopardize the integrity of the Company's assets. In addition, the transactions potentially presenting a conflict of interests were approved in compliance with legal and regulatory provisions and with the by-laws.

The main events occurred in financial year 2019, which the Board of Statutory Auditors highlights in view of their significance, include:

- the premature conclusion of the launcher Vega VV15 (from now on, "VV15") on July 11, 2019, shortly after the ignition of the second stage (Zefiro 23), which led to a sudden conclusion of the mission; in such case, as per the contractual agreements, since the liftoff of the launcher, the responsibility for damages to third parties because of a malfunctioning of the launcher is transferred to Arianespace, regardless of the cause;
- the successful completion of the qualification tests of the new engine Zefiro 40 and of the new engine P 120 C;
- the Conference of Ministries of Seville, which, in November 2019, integrally confirmed the investment programs until 2022 and decided the development of an improved version of the launchers Vega C and Vega C++;
- the modification of the law on tax credits for research and development activities and the related impacts on 2019 financial statements;
- the signature of the additional loan agreement of euro 10 million with the European Investment Bank (EIB);
- the modification of the dividend policy, as approved by the Shareholders' Meeting held on April 29, 2019;
- the cash inflow related to the VAT credit, amounting to euro 33.2 million, related to year 2017;
- the purchase of treasury shares, as deliberated by the Shareholders' Meeting held on April 29, 2019 and implemented by the Board of Directors, as per its own deliberation of August 2, 2019;
- the settlement agreement with FCA Partecipazioni SpA about environmental charges;
- the incorporation of Avio France sas.

Among the subsequent events, the Board of Statutory Auditors deems worthy to recall, given its relevance, the fact that, since March 16 2020, because of the outbreak of the Covid-19 epidemics, the suspension of the operations in the Guiana Space Center of Kourou was ordered. About the related risks and uncertainties, please refer to the Directors' report.

3. Supervision upon compliance with the principles of correct administration and on the adequacy of the organizational structure

The Board of Statutory Auditors obtained information and verified the adequacy of the organizational structure, the compliance with correct administrative principles, the adequacy of the Company's instructions to its subsidiaries in accordance with Article 114, paragraph 2 of the TUF, via the collection of information from the people responsible for various departments and via meetings with the audit firm, aimed at a reciprocal exchange of data and relevant information.

During the year, the Company implemented several provisions to implement measures introduced by laws and regulations, by the Supervisory Authorities, by the Self-Governance Code and the Group Regulation.

In accordance with Rule Q.1.1 of the Guidance for Boards of Statutory Auditors of listed companies, the Board of Statutory Auditors assessed its composition, size and functioning, the results of which were presented at the Board of Directors meeting of March 25, 2020. 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, also satisfy the independence requirements of the Self-Governance Code;
- the Board of Statutory Auditors guarantees gender and generational diversity among its members;
- each statutory auditor has a good level of knowledge and experience in a range of fields;
- the Board of Statutory Auditors has an adequate overall expertise.

The size, functioning and information flows are adequate and do not present gaps or critical areas.

The Board of Statutory Auditors attended the meeting at which the Board of Directors examined the findings of the Board Review, conducted by a company specifically appointed for this. The modalities followed in order to carry on the Board Review and its positive findings are described in the corporate governance report of Avio.

A review of the annual financial statement reports issued by the Board of Statutory Auditors of the subsidiaries does not indicate critical issues. Similarly, no criticalities emerged during the meetings held with the members of the Board of Statutory Auditors of the subsidiaries.

The Directors' report, the information received during the meetings of the Board of Directors and that received from the Chief Executive Officer, from senior management, from the Boards of Statutory Auditors of the subsidiaries and the investees 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.

Finally, the Board of Statutory Auditors verified the processes resulting in the establishment of the remuneration policies of the Company, with particular regard to the remuneration criteria of the Chief Executive Officer, the strategic senior executives and the control department manager.

4. Supervision on the internal control and risk management system

The Board of Statutory Auditors monitored the adequacy of the internal control and risk management systems through:

- meetings with the Chairman and the Chief Executive Officer of Avio to review the internal control and risk management system;
- periodic meetings, often held together with the Control, Risks and Sustainability Committee, with the internal audit department and the legal and compliance department in order to assess the methods of work planning, based on the identification and assessment of the main risks involved in the processes and in the organizational units;
- meetings with the risk management officers to analyze the strategic risks of Avio and of the Group;
- meetings with all senior positions regarding the organizational and operating impacts of Avio S.p.A. activities;
- review of the periodic reports of the control department, in coordination with the Control, Risks and Sustainability Committee of the Company;
- meetings with the Chief Financial Officer, responsible for the preparation of the financial statements of the Company;
- periodic meetings with the control bodies of the subsidiaries and investees in accordance with paragraphs 1 and 2 of Article 151 of the TUF, during which the Board of Statutory Auditors acquired information on the most significant events involving the Group companies and on the internal control system;

- joint meetings with the Control, Risks and Sustainability Committee and the Company's Oversight Board;
- the discussion of the results of the work of the independent audit firm;
- regular attendance to the meetings of the Control, Risks and Sustainability Committee, of the Appointments and Remuneration Committee and, where required, joint consideration of matters with the respective committees.

In undertaking its control activities, the Board of Statutory Auditors devoted a special attention to the analysis of the operational and financial effects due to the anomaly, which took place shortly after the ignition of the second stage (Zefiro 23), which led to the premature conclusion of the mission of the launch Vega VV 15, and to the management by the Company of the consequent economic, financial, reputational and operational impacts.

In general, but especially because of such event, the Board of Statutory Auditors coordinated its activity with a continuous exchange of information, also via the Control, Risks and Sustainability Committee, with the internal audit and the risk management departments and with the senior management of the operation activities department.

The internal audit function of the Company, outsourced to an external specialized company, operates on the basis of a yearly plan, which sets out the activities and processes subject to verification, by undertaking a risk-based approach. The plan is approved annually by the Board of Directors, subsequently to the approval of the Control, Risks and Sustainability Committee, and having heard the opinion of the Board of Statutory Auditors.

The activities carried out by the function during the year covered the scheduled scope of activities. These activities did not indicate significant criticalities, although highlighting areas for improvement in the near future.

The Board of Statutory Auditors notes that the annual internal audit report concludes with a favorable opinion about the reliability of the existing internal controls.

On the basis of the activities carried out, of the information acquired and of the contents of the control function report, the Board of Statutory Auditors considers that no criticalities exist, which may affect the structure of the control and risk management systems. It is therefore not necessary to prepare a specific adaptation plan.

5. Supervision on the administrative-accounting system and on the financial disclosure process

The Board of Statutory Auditors, in its role of Internal Control and Audit Committee, monitored the process and controlled the effectiveness of the internal control and risk management systems as far as the financial disclosure is concerned.

The Board of Statutory Auditors periodically met the Chief Financial Officer in order to exchange information on the administrative and accounting system, while also considering its reliability to provide a true and fair view of the economic and financial events.

In 2019, the activities focused on updating the mapping of Avio Group processes continued. The Group accounting standards and policies were revised and updated and finally approved by the Board of Directors of Avio S.p.A. The Board of Statutory Auditors also reviewed the statements of the Chief Executive Officer and of the Chief Financial Officer, in accordance with the provisions of Article 154-*bis* of the TUF.

The Board of Statutory Auditors did not highlight any deficiencies, which may affect the opinion of adequacy and actual application of the administrative and 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.

6. Supervision on related party transactions

The inter-company and related party transactions are indicated in the notes to the financial statements, § 6 *Related Party Transactions*, broken down by transactions with the parent company Avio and with the subsidiaries.

The Board of Statutory Auditors supervised the compliance of the Related Party Transactions procedure ("RPT procedure") with the currently enforced laws and regulations and its correct implementation.

7. Modalities of the implementation 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 TUF, supervised the methods for the implementation of the corporate governance rules set out in the Codes of Conduct, with which Avio declares to comply. The Company complies with the Self-Governance Code of Borsa Italiana S.p.A. and has prepared, in accordance with Article 123-*bis* of the TUF, the annual "Corporate Governance and Ownership Structure Report", in which information is provided upon:

i. the effectively applied corporate governance policies;
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, in addition to the other information required by Article 123-*bis* of the TUF.

The Board of Directors approved the "Corporate Governance and Ownership Structure Report" on March 25, 2020.

The Board of Statutory Auditors also verified the correct application of the criteria and procedures adopted by the Board of Directors in order to assess the independence of its members.

8. Supervision of the legal audit of financial statements

In accordance to Article 19 of Legislative Decree 39/2010, the Board of Statutory Auditors is also identified as the Internal Control and Audit Committee and carried out the required supervision 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 TUF, 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 TUF.

For its supervision of the 2019 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 the *Avio and Group Audit Plan 2019* and for the state of advancement of the same Audit Plan.

The draft of the statutory financial statements at December 31, 2019, accompanied by the Directors' report, in addition to the statement of the Chief Executive Officer and of the Chief Financial Officer, was approved by the Board of Directors at the meeting of March 25, 2020, and was simultaneously made available to the Board of Statutory Auditors in view of the Shareholders' Meeting called for May 6, 2020. As at the same date of March 25, 2020, the Board of Directors of Avio also acknowledged the consolidated financial statements, as prepared by the Chief Financial Officer, as per Article 154-*bis* of TUF.

On March 30, 2020, the independent audit firm issued in accordance with Article 14 of Legislative Decree 39/2010 and Article 10 of Regulation EC no. 537/2014, the auditor's report on the statutory financial statements of Avio and on the Group consolidated financial statements at December 31, 2019.

With regards to the opinions and statements, the independent audit firm in the auditor's report:

- issued an opinion indicating that the statutory financial statements of Avio and the consolidated financial statements of the Avio Group provide a true and fair view of the financial situation of the Company and of the Group at December 31, 2019, 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 and Article 43 of Legislative Decree 136/2015;

- issued an opinion on the consistency of the Directors' report with the statutory and consolidated financial statements at December 31, 2019 and the information in the Corporate Governance and Ownership Structure Report indicated in Article 123-*bis*, paragraph 4 of the TUF, the responsibility for which lies with the Directors of Avio S.p.A., are consistent with the documentation of the financial statements and are legally compliant;

- 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 related context acquired during the audit activities, not to have any matters to report.

- verified the approval by the Directors of the Consolidated Non-Financial Report.

On March 30, 2020, 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, whose content was outlined in advance at the meeting of March 24, 2020 and which did not indicate significant deficiencies in the internal control system with regards to the financial disclosure process requiring the attention of the officers in charge of governance activities.

The independent audit firm presented to the Board of Statutory Auditors, in the additional report as per Article 11 of Regulation EC no. 537/2014, the statement regarding its independence, as required by Article 6 of Regulation EC no. 537/2014, indicating no situations that may jeopardize such independence.

The independent audit firm in 2019 received further appointments, as described in § 6 of the annual financial report 2019, as required by Article 149-*duodecies* of the Issuer's Regulation.

9. Remuneration Policies

The Board of Statutory Auditors verified the Company processes undertaken to establish the remuneration policies of the Company itself, with particular regard to the remuneration criteria of the Chief Executive Officer and of the senior strategic executives, by providing, where required by the currently enforced laws and regulations, its opinion.

10. Omissions or reportable events, opinions provided and initiatives undertaken

In 2019, the Board of Statutory Auditors did not receive any notices as per Article 2408 of the Civil Code, nor received petitions from third parties.

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 Authority or mentioning in the present report were noted.

11. Consolidated Non-Financial Report

The Board of Statutory Auditors, in undertaking its duties, supervised the 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 process and the contents of the Consolidated Non-Financial Report ("NFR") prepared by Avio S.p.A.

The NFR was approved by the Board of Directors on March 25, 2020, as a separate document from the Directors' report to the consolidated financial statements at December 31, 2019.

The independent audit firm appointed in order to carry out a limited review of the NFR in accordance with Article 3, paragraph 10 of Legislative Decree no. 254/2016, in its report issued on March 30, 2020, did not indicate any matters suggesting that the NFR of the Avio Group for the year ended December 31, 2019 has not been prepared, with regards to all significant aspects, in compliance with Articles 3 and 4 of Legislative Decree no. 254/2016 and with the "Global Reporting Initiative Sustainability Reporting Standards"

The Board of Statutory Auditors is not aware of any violations of the related regulatory provisions.

12. Conclusions

Taking in account what above outlined, the Board of Statutory Auditors, by considering the content of the reports prepared by the independent audit firm, by acknowledging the statements issued jointly by the Chief Executive Officer and by the Chief Financial Officer, expresses a clean opinion on the approval of the statutory financial statements of Avio at December 31, 2019, and on the proposal to allocate the net profit for the year of euro 28,560 thousand, as drawn up by the Board of Directors.

Milan, March 30, 2020

The Board of Statutory Auditors

Dr. Prof. Riccardo Bauer (Chairman)

Dr. Prof. Claudia Mezzabotta (Statutory Auditor)

Dr. Maurizio Salom (Statutory Auditor)