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

2020 ANNUAL REPORT

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HIGHLIGHTS

Net revenues[1]
Euro 322.0 million (-12.6% on 2019)

EBITDA
Reported: Euro 35.2 million (-17.4% on 2019)
Adjusted [2]: Euro 43.3 million (-1.6% on 2019)

EBIT
Reported: Euro 15.9 million (-40.1% on 2019)
Adjusted[2]: Euro 24.0 million (-14.1% on 2019)

Profit before taxes
Euro 15.4 million (-42.9% on 2019)

Net Profit
Euro 14.9 million (-44.9% on 2019)

Net Financial Position
cash position of Euro +62.6 million (+Euro +4.7 million on December 31, 2019)

Investments
Euro 34.5 million (+Euro 5.9 million and +20.5% on 2019)

Backlog[1]
Euro 735.8 million at December 31, 2020 (+Euro 67.3 million and +10.1% on December 31, 2019)

Research and development
costs of Euro 119.8 million, net of pass-through costs incurred in 2020, equal to 37.2% of revenues net of pass-through revenues for 2020 (Euro 156.8 million net of pass-through costs incurred in 2019, equal to 42.5% of revenues net of pass-through revenues for 2019)

Employees
950 at December 31, 2020 (935 at December 31, 2019)

[1] Net of "pass-through" revenues.
[2] Net of non-recurring costs, mainly attributable to the effects of the COVID-19 epidemic.

LETTER TO THE SHAREHOLDERS

Dear Shareholders

The coronavirus pandemic that struck the world in 2020 significantly impacted and slowed down Company activities. Nevertheless, given our strategic importance for the national economy, production activities were allowed to continue in Italy following the authorisation issued by the prefecture on March 24, 2020, despite the extremely difficult situation.

At a Group level, the containment measures imposed by the French authorities and the government resulted in the temporary suspension of the casting and launch preparation activities carried out by our subsidiary Regulus SA at the Kourou base in French Guiana between March and May 2020.

The Group took action to stem the spread of the pandemic by implementing all government provisions and enacting all necessary national and international protocols.

In this regard, Avio set up an internal COVID-19 Committee, which established immediate risk mitigation actions and a document entitled "COVID-19 Crisis Management", aimed at implementing thorough provisions to help combat and contain the spread of the virus, in accordance with the Memorandum signed between the Government and social partners on March 14, 2020. These included the use and facilitation of remote working, the limitation of movements and access to plants, also applying to suppliers and consultants, new modes of conducting legally compliant meetings, and internal COVID-related communications to all employees via the IT platform.

In addition, special initiatives were launched to support all employees, such as supplementary health insurance providing benefits for workers who had caught COVID-19, and a free online mental health support desk for all workers providing helpful support in dealing with the health emergency.

Finally, in line with the Group's robust partnership with local government and the conscious role it plays with respect to the financial and social needs of local communities, in March 2020, the Company made donations of Euro 500,000 to Kourou Hospital (in French Guiana) and to the Colleferro Civil Defence Service to help combat the health emergency.

Despite the ongoing health emergency, significant production and development activities were conducted throughout the year, in compliance with the Group's strategy and operational guidelines. With regard to flight activities, three successful Ariane 5 launches took place and corrective actions were undertaken following the failure of the VV15 in order to prepare for Vega's return-to-flight with VV16 in September 2020. This return-to-flight was initially scheduled for the end of March 2020. However, the COVID-19 emergency resulted in the suspension of activities at Guiana Space Centre (CSG) from March until June, and poor weather conditions later pushed the return-to-flight back to September, resulting in delays to commercial activities. The launch took place on September 2, releasing 53 satellites into orbit as part of a single mission using the new SSMS adapter.

The subsequent VV17 flight on November 17 suffered a serious fault, resulting in further delays to commercial activities. Following the mission's failure, an Independent Commission of Inquiry chaired by ESA and Arianespace was established to quickly identify its cause and to define actions to be implemented for the launcher's return-to-flight with VV18 in April 2021.

Other important activities carried out during the year included construction works on a Space Propulsion Test Facility (SPTF) at the Salto di Quirra Inter-Force Experimental Facility in Sardinia for the building of a Liquid Rocket Engine test bench and a plant for the production of carbon-carbon components.

Technological developments included: the successful testing of the combustion chamber of the M10 motor for Vega-E at NASA's Marshall Space Flight Center in Huntsville, Alabama, progress in qualifying the new VEGA-C launcher (in preparation for its qualifying flight in 2021), delivery of the Zefiro 40 igniter (second stage of the VEGA-C project) for environmental qualification testing, which was completed in 2020, the manufacture and testing of the first flight units for the new launcher, together with mechanical, electrical, and hydraulic adaptation activities at the launch base in Kourou, and the successful completion of bench tests on the new P120 C motor.

During the year, a new contract for Vega was signed with Airbus Defense and Space. The four-satellite CO3D constellation will be developed with the French Space Agency (CNES) and will fly aboard Vega-C in rideshare mode.

New orders amounting to Euro 389 million were acquired during the year, including the signing of a development programme contract for the Space Rider, a contract to produce Aster tactical propulsion, and a Batch 4 contract for the production of ten new Vega-C launchers, starting in 2023.

The results for the 2020 financial year were largely in line with the guidance provided to the market in September, despite the health emergency, the subsequent postponement of the Vega VV16 return-to-flight activities, and the failure of the Vega VV17 in November. The Reported EBITDA was Euro 35.2 million, down on 2019 (Euro 42.6 million), mainly due to the non-recurring costs of Euro 8.1 million required to manage the pandemic. The Adjusted EBITDA was Euro 43.3 million and was substantially stable compared to the previous year (Euro 43.3 million in 2020, compared to Euro 44.0 million in 2019), demonstrating the resilience of the business. Net revenues amounted to Euro 322 million, slightly lower than forecast for 2020, and lower than Euro 369 million in 2019, mainly due to the slowdown in production and development activities resulting from the delayed return-to-flight due to COVID-19.
A solid cash position of Euro 62.6 million is reported at year-end, an increase on Euro 57.9 million in 2019 thanks to the improved operating performance, despite the increase in investments (Euro 34.5 million, compared to Euro 28.6 million in 2019) and the completion of the buy-back programme.

In fact, in October, the Company completed its treasury share buy-back programme, under the resolution passed by the Shareholders' Meeting in April 2019.
Purchases have amounted to a total of Euro 9.1 million since the programme was launched (Euro 6.4 million in 2020), and at December 31, 2020, Avio held 671,233 treasury shares, corresponding to 2.55% of the shares constituting the share capital.

The Company does not believe it is currently possible to quantitatively estimate the ongoing impact of the pandemic in 2021.
For these reasons, the Board of Directors considers it appropriate not to provide 2021 quantitative guidance at least until the approval of the H1 2021 results.
Nevertheless, thanks to a clear product roadmap – which made it possible to secure a growing order backlog following the outcome of the most recent ministerial conference – and a very robust cash position, and with the intention of continuing to provide shareholders with adequate remuneration, the Board of Directors approved the proposal to the Shareholders' Meeting of a dividend of Euro 0.285 per share and the authorisation of a second treasury share buy-back programme up to a maximum of Euro 9.1 million, in compliance with the 20% share capital limit under the relevant legislation.
The Board of Directors also updated its dividend policy to increase the pay-out ratio limit from 50% to 60% to give greater flexibility to shareholders remuneration.

During 2020 and in the initial months of 2021, private capital investments in Space Ventures through SPAC's experienced strong growth, particularly in the US market, where significant assessments are being made on the basis of the innovative projects in the pipeline for the coming years.
This confirms the sector's potential, and as such, we will continue to support the Group's future growth and to increase value for all of our stakeholders, with a sense of determination and confidence based on the resilient foundation of the business and technologically innovative projects.

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

DIRECTORS' REPORT

THE AVIO GROUP

PROFILE

The Avio Group (hereafter in this Directors' Report "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 (Vega Launcher, Ariane 5 Launcher and Ariane 6 Launcher);
- solid propulsion systems for tactical missiles (Aster, CAMM-ER, MARTE and Aspide);
- liquid propulsion systems for satellites;
- new low environmental impact propulsion systems;
- ground infrastructure for launcher preparation and launch.

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

- Ariane 5 for the launch of up to 10-ton satellites into Geostationary Earth Orbit (36,000 km). Since the end of the 1980's, Avio has supplied the liquid oxygen turbo-pump boosters (solid propulsion motors) for the Vulcain 2 engine;

- Ariane 6 currently under development. The launcher has two distinct configurations for feasible missions, guaranteeing greater payload flexibility. In particular, the A62, with two P120C solid propulsion boosters, and the A64, with four P120C solid propulsion boosters, will be used for both GEO (geostationary) satellite positioning, at an altitude of 36,000 km, and other kinds of mission, such as launches to LEO orbits, SSO (sun-synchronous) polar orbits, MEO (medium earth) orbits, 4.5 ton satellites to GEO orbits, and 20 ton satellites to LEO orbits. In this context, Avio supplies solid boosters for both Ariane 6 configurations, as well as two oxygen turbopumps for the liquid stages of the Vulcain 2 and Vinci engines;

- Vega, for the launch of up to 2-ton satellites into Low Earth Orbit (between 300 and 2,000 km above sea level). Since 2000, Avio has been developing and implementing the Vega program for the European 2,000kg payload satellite launcher, which successfully completed its first qualifying flight in February 2012, 5 flights in December 2015 under the VERTA contract for completion of the qualification process, and its first commercial flight in 2016. The success of this product has allowed Italy to enter the extremely exclusive group of countries capable of developing and producing its own space launcher;

- Vega C, the latest evolution of Vega, is a launcher under development as part of the European Space Agency's space program. Vega C is designed for a greater payload than the Vega and at the same time optimizes production costs thanks to the sharing of the new first stage (P120C) with Ariane 6.

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

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

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

The Group operates in the following business lines:

- **<u>Ariane</u>**

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

- **<u>Vega</u>**

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

- **<u>Tactical propulsion</u>**

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

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

With net revenues in 2020 of Euro 322.0 million and Adjusted EBITDA of Euro 43.3 million, net of the non-recurring costs mainly due to the effects of the COVID-19 epidemic, the Group currently occupies a leading position in the Italian and European space industry, substantially supported by its high degree of competitivity - drawing over 99% of its revenues from overseas.

The highly technological content of Avio's operations required a research and development spend - for the portion mainly commissioned by ESA, ASI and Member State ministries - accounting for approx. 37% of net revenues in 2020. 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

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

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

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

a. Member of the Appointments and Remuneration Committee
b. Member of the Control & Risks Committee
c. Member of the Sustainability Committee

In addition, the Planning and Scenarios Committee was set up with effect from the approval of the Board of Directors on September 14, 2020.

Board of Statutory Auditors

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

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

Supervisory Board

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

Alessandro De Nicola	Chairperson
Giorgio Martellino	Member
Raoul Vitulo	Member

Independent Audit Firm

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

RECENT HISTORY

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

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

2006
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.

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

2019

On August 19, 2019 the company Avio France S.A.S., with registered office in Paris and wholly-owned by Avio S.p.A., was incorporated. Its corporate scope is to undertake engineering activities to study and design space transport systems and subsystems.

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

EUROPE

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

REST OF THE WORLD

(II) (III)	Kourou - French Guyana, Avio Guyane S.A.S.
(II) (III)	Kourou - French Guyana, Regulus S.A. - loading of Ariane 5 solid propellant booster segments and their integration, integration of the VEGA launcher

Key

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

STRATEGY

In accordance with the outcomes of the December 2014, December 2016 and December 2019 Ministerial Conferences, which confirmed the European strategy for developing its launchers, and pursuant to contracts entered into in 2015, 2017 and 2020, 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 Vega-C+, an intermediate offshoot of the Vega-C launcher in view of the subsequent introduction of Vega-E, which is designed mainly to ensure the constant improvement of the competitiveness of the Vega Launch System through implementation of actions further reducing its production cost, research and demonstration of additional margins for supporting increased mission flexibility and, finally, the introduction of specific products (satellite adapters, as variants for the upper section of the launcher) capable of increasing its versatility for use with small satellites or double launch services;
- developing the Upper Stage of Vega-E, with the new cryogenic oxygen and methane propellant M10 motor, in relation to the contract obtained through ESA, with Avio and Italy together at the forefront with various other European countries. Vega-E (a three-stage launcher based on P120, Z40 and a LOx-Methane Upper Stage), in addition to cutting the launch price, will further improve: (i) Vega-C's performance and (ii) the range and flexibility of satellite services, enabling, among other benefits, more extensive orbital parameter changes than possible with Vega and Vega-C.
- the development of the Space Rider, the European return vehicle, in which Avio is the Prime Contractor of the ESA (together with TASI) for the supply of the Attitude & Vernier Upper Module Orbital Module (AOM) derived from Vega C. Space Rider is a spacecraft taken into orbit by Vega-C, capable of carrying up to 800 kg of payload for different applications, of remaining in that orbit for a period of time in the order of 2 months, in order to carry out a series of experiments or orbital services, and finally return to earth for the recovery of the payloads.

Furthermore, Vega's strategy of expanding the accessible market and, above all, the flexibility of services offered to the end-customer have been further consolidated by joining the ESA **SSMS** programme, which aims to provide a service dedicated to so-called SmallSats (small satellites in the mass range of 1 to 400 kg). These satellites, whether independent or part of so-called "constellations", represent an ever increasing share of market demand. Note that several launchers of the same class as Vega, such as the Dnepr and the PSLV, were already equipped with SSMS-like dispensers offering a multiple launch service for 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. Flight VV16 in September 2020 effectively inaugurated the first European Rideshare, with the SSMS-equipped Vega taking 53 small satellites into orbit on a single mission.

In parallel, Avio began development of a derivative of Vega-C, called **Vega-C Light**, a carrier for satellites with a mass of less than 300 kg, to be used for the small satellite 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 time. To date, Avio (i) has finalized a 3-stage reference configuration (Z40, Z9 and a new small solid propellant stage to be developed), (ii) is signing agreements with the current Vega/Vega-C supply chain for the supply of subsystems, (iii) is evaluating several options in Europe for a possible launch base (among these, Norway appears to be the most promising candidate).

The Company, through its subsidiary Avio Guyane, recently consolidated its ground activities role, i.e. mechanical, electrical and hydraulic management activities at the Kourou launch base, which was assumed in 2016 and extended its scope of expertise. This was part of an agreement reached with

Arianespace to redefine Launch System responsibilities at the French Guiana Space Centre, with Avio taking over new activities in the second launch campaign of 2017.

Avio Guyane S.A.S. acquired control of the Zone de Lancement Vega (ZLV) launch area and the management; in particular it ensures main launcher assembly installation maintenance (e.g. Control Centre, Integration and Launch building, Propellant Loading Stations).

Since 2017, the Company implemented its new model of governance in the European space industry, which it proposed through an agreement with partner companies Ariane Group (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, 2020, the share capital of Avio S.p.A. of Euro 90,964,212.90 comprised 26,359,346 ordinary shares, of which:

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

In addition, Space Holding S.p.A., the promoter of the business combination, holds 800,000 sponsor warrants, exercisable within 10 years from the effective merger date of April 10, 2017, on the condition that Avio S.p.A. share price reaches Euro 13.00, with a conversion ratio with Avio S.p.A. post-merger shares of 1 against the payment of an exercise price of Euro 13.00.
At the effective merger date (April 10, 2017, the first trading day of the Avio S.p.A. share on the MTA), the condition for the exercise of the Sponsor Warrants was satisfied. At December 31, 2020, no exercise requests were received from holders.

At December 31, 2020, on the basis of communications received as per Article 120 of the CFA and the information available to the Company, the Avio S.p.A. shareholder structure was as follows:

Shareholder	% share capital
Leonardo S.p.A.	29.63%
Space Holding S.p.A.	4.84%
In Orbit S.p.A.	4.07%
Delfin S.a.r.l.	3.79%
Treasury shares	2.55%
Remaining MTA free float	55.12%
Total	**100.00%**

FY 2020

SIGNIFICANT EVENTS IN 2020

Business

Vega return to flight

In the second half of 2019 and in the initial months of 2020, Avio introduced corrective measures according to the timeframe of the Investigatory Commission following the VV15 failure, satisfying all requirements for a return to flight with the VV16, as scheduled, by March 2020. However, 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 temporarily suspended preparations for upcoming launches at the Kourou base.

The VV16 launch campaign was therefore suspended and the launcher was placed in storage until the resumption of activities at the Kourou base at the end of May.
In order to resume the launch campaign, Avio organized a special mission of 70 people, including 60 Avio employees and 10 other representatives of Italian space sector companies, to the Kourou base, via a dedicated flight chartered, under a special health and safety protocol. Collaborating in the organization of the mission were also the Italian Presidency of the Council of Ministers, via the Interministerial Committee for Space Policies, active since 2018, and the Italian Ministry of Defence. The special health and safety protocol for resumption of the VV16 launch campaign provided for the presence of a dedicated Avio medical consultant for the entire period of the Guyana mission.

Preparation activities for the return to flight, following adaptation to the COVID-19 pandemic, therefore resumed on May 24 with the launch rescheduled for June 27.
However, the mission was once again suspended due to exceptionally strong winds at high altitudes inhibiting safe flight authorization. A second attempt was scheduled for June 29th, but with the same result. At this point, the launcher was placed once again into storage pending an improvement in weather conditions expected for early September.

The launch campaign resumed at the beginning of August, with the successful launch, on September 2, of 7 mini-satellites and approximately 50 CubeSats into sun-synchronous orbit by means of the new Small Spacecraft Mission Service (SSMS) adapter. The new adapter is a modular structure that can assume different configurations according to the number and type of satellites it will carry, thus guaranteeing greater load capacity flexibility for the VEGA launcher.

VV17 failure

On November 17, 2020 the Vega VV17 mission that carried the satellites SEOSAT-Ingenio and Taranis, approximately eight minutes from take-off, after nominal completion of propulsion by the first, second and third stages and initial ignition of the fourth-stage engine, encountered an anomaly that caused the launcher to deviate from its trajectory and thus brought the mission to a premature conclusion.
An independent commission of inquiry, chaired by Arianespace and ESA, was charged with identifying the causes of the mission failure and defining corrective actions for a reliable return to flight of the launcher. The Commission's work, fully supported by Avio, concluded on December 17, 2020 with the release of the final report, which confirmed the initial hypothesis of a problem relating to the integration of the fourth-stage AVUM engine's thrust vector control (TVC) as the cause of the loss of control of the launcher, providing recommendations to be implemented for the upcoming flights.

On the basis of the contractual provisions and the agreements between the Company and Arianespace, there are not believed to be any additional charges, beyond those set out in the contract work in progress section of these financial statements of the failure of the VV17 mission to be borne by the Company.

Space Propulsion Test Facility (SPTF) project

In January 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, 2020 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 motor 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 late 2025.

Vega-C development activities

Despite the COVID-19 pandemic and the VV17 failure, progress continued to be made in qualifying the VEGA-C launcher, whose Ground Qualification Review kicked off at the beginning of December 2020.

In October 2020, the static fire test was carried out on the Zefiro 9 motor, which implements new developments for the Vega-C launcher, in particular a new igniter and high resistance materials for the nozzle.
Finally, the Zefiro 40 igniter was delivered for environmental qualification tests, which were completed during November 2020.

In parallel, manufacturing and testing activities of the first flight units, completion of the integration of the A2 and A3 assemblies, in Colleferro, and the start of the integration activities of the A4 assembly were carried out. In Kourou, mechanical, electrical and hydraulic adaptations of the launch base to the needs of the new launcher continued.

The failure of the VV17 mission unfortunately caused the need to suspend A2 and A3 assembly shipping to Kourou and A4 assembly integration in order to verify the absence of anomalies similar to those causing the failure of the VV17 mission. ESA’s release of Vega C industrial activities took place in mid-February 2021, with the priority given to the definition and implementation of corrective measures for VEGA. On the other hand, design verification and follow-on activities concerning suppliers did not suffer any impact.

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.

Ariane

In 2020, 3 Ariane 5 launches were successfully completed. In January, VA251 took two telecommunications services satellites into orbit, EUTELSAT KONNECT and GSAT-30. In February, VA252 took into orbit the telecommunications services satellites CSAT17, for the Japanese operator SKY Perfect JSAT Corporation, and GEOKOMPSAT-2B, for the Korean Aerospace Research Institute (KARI). In August, VA253 took into orbit the video communication services satellites Galaxy 30 and BSAT-4b and the Mission Extension Vehicle-2 (MEV-2) spacecraft.

Regarding the P120C SRM programme for Ariane 6, the following activities are underway:

- Completion of the manufacturing of the casing of the motors that will equip the first Ariane 6 flight;
- Initiation of manufacture of the casings for subsequent Ariane 6 commercial flights;
- completion of integration and delivery of the motor for the QM2 static test.

The P120C QM2 bench firing, initially planned for the first half of 2020, was delayed due to the COVID-19 emergency, but was successfully carried out in September 2020. The QM2 test was dedicated to completing the qualification of the P120C motor for the Ariane 6 launcher and follows the test. The results of this static test were taken into account in the supplement to the Ariane 6 launcher qualification reviews concerning all motor components. Starting in October 2020, therefore, reviews of each main component of the motor began, which will allow the P120C motor to be qualified for use on the Ariane 6 launcher at the beginning of 2021.
The propellant casting of the two motors for the first Ariane 6 flight was performed in October 2020.

For the cryogenic propulsion, for integration purposes six liquid-oxygen turbopumps were produced for Ariane 6 production, components qualified by Avio in 2019.

Tactical propulsion

During the year, production and delivery to export customers of Aster 30 Boosters and of Mars Sustainers continued. The bench firing of an Aster 30 Booster with E-TVC, planned as a demonstrator for Booster developments, was also successfully performed.

Activities relating to the development of the CAMM-ER motor continued. In particular, the qualification programme and accelerated ageing, to verify mid and end-of-life performance, are now underway. The insensitive ammunition tests to verify the safety of the motor were performed on the Military Test Range in Nettuno. Activities are also underway for the industrialisation of the winding and line control portion.

Main agreements and contractual events of 2020

Regarding Ariane 5 and P120 production activities:

- A new MCO contract tranche was signed to cover the maintenance needs of Ariane 5 manufacturing equipment until the end of the programme at both Colleferro plant and the Regulus plant in Guyana;
- Reduction of the final Ariane 5 production batch to 8 launchers (PC8) was formalized, with the signing of the modified contract for Ariane 5 MPS;
- The Authorization To Proceed (ATP) extension was signed for the P120C production contract, pending finalization and postponed due to delays in the Ariane 6 development programme;
- The Authorization To Proceed (ATP) extension was signed for the V2 and Vinci turbo-pumps production contract, pending finalization and postponed due to delays in the Ariane 6 development programme.

Regarding the P120C SRM programme, due to the postponement of entry into production of the Ariane 6 launcher, and in order to maintain production continuity of the sites involved in the production of the motor, contacts have been initiated for contractual coverage of planned production for the two-year period 2021-2022.

With regards to Vega production, Avio S.p.A. signed:

- with the client Arianespace:
    - The first batch 3 rider contract, defining Avio and Arianespace's roles and responsibilities in conformity with the principles defined by protocol II.B - Vega C of the LEA arrangement;
    - An order for additional production batch 2 activities for the GSM part;

    - An order for additional production batch 3 activities for the preparation of the launch campaign;
    - An order for the purchase of long-term supply components for an additional 10 Vega C launchers (Batch 4) was signed at the end of the year, with deliveries of the launchers expected in the three-year period 2023-2025;
- with the client ESA:
    - A contract for production support activities for the period 2017-2020 requested by Avio's subcontractors.
    - A contract for Vega production support activities relating to the period 2020-2022;
    - Authorization to proceed with the MCO (maintenance) activities of the Vega production plants, to cover urgent activities to maintain production capacity until the end of the programme, currently scheduled for 2023-2024.

Regarding Vega development activities, the following were established:
- New return-to-flight orders for the analysis of the impact of the anomaly on Vega C;
- A contractual variant for the mission activities of the Vega C qualification flight.

Following the issuing of offers for the completion of Space Rider Phases D and E1, SSMS-C Phases D and E1 and VNE Phases C, D and E1, the related negotiations continued and were concluded in the second half of the year, with the signing of completion contracts for Space Rider and SSMS-C, and postponement of the signing of the VNE contract to the beginning of 2021.

At the beginning of the second half-year, Avio finalized offers for a first tranche of activities for:
- Vega Competitiveness Improvement Programme (CIP)
- Vega E Preparation Programme

in response to ESA's Request for Proposals. Authorizations to proceed for the initial activities of the two programmes were received towards the end of the year.

Regarding satellite propulsion activities, following Avio's offer at the beginning of the second half of 2020, the customer OHB authorised the start of activities for the development and manufacture of the Chemical Propulsion System (CPS) for the Hera probe. The probe is set to be launched at the end of 2024, as part of a joint NASA-ESA project to validate models for the deflection of asteroids at risk of impact with the Earth.

Finally, regarding the tactical sector, the first tranche of an Aster Booster production contract was acquired, covering more than five years of production.

Other significant events

COVID-19

As indicated in the "Group principal risks and uncertainties" paragraph, to which reference should be made, with the persistence of the COVID-19 pandemic, many countries have imposed, maintained or enhanced restrictions on travel and certain commercial activities, as well as restrictive quarantine measures. The interruptions were more immediate and more significant in certain sectors, such as tourism, hospitality, transport, retail and entertainment, while having an indirect effect on sectors such as manufacturing.
The pandemic had effects on the 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. In Italy, this pandemic initially mainly affected Northern Italy, and then gradually expanded, albeit less aggressively, to the rest of the country. The Italian government has issued various decrees signed by the Prime Minister, which, during the most critical months of March and April, introduced increasingly restrictive measures affecting business and social gatherings to limit the risk of transmission throughout Italy (the so-called "lockdown").

Nonetheless, on March 24, 2020, Avio was authorised by the local government office to continue its industrial operations as its business is of strategic importance to the Italian national economy, and, therefore, operations continued, albeit not under normal conditions, due to the shutdown or slowdown of activities in the production chain by Italian and international suppliers and sub-contractors. As a result, Avio focused on its own internal activities, whereas typically development-oriented activities involving third-party suppliers and sub-contractors slowed.

The epidemic and restrictions imposed by the French government and authorities led to a temporary suspension of launch preparation activities at the Kourou base in French Guiana, from March 16, 2020, and a suspension, at about 10 days from launch, of VV16 launcher integration activities, forcing Avio to reschedule the launch for the month of June. Due to unfavourable weather conditions in French Guiana, the VV16 launch was then further postponed to early September 2020.

In this context, as of February 25, 2020, Avio has dealt with the COVID-19 emergency by immediately implementing all government provisions and national protocols, and continuously updating the corporate Risk Assessment Document and its employees on COVID-19 measures and behaviours to be adopted. For this purpose, Avio has set up an internal COVID-19 Committee, which has established immediate risk mitigation actions and a document entitled "COVID 19 Crisis Management", aimed at implementing a series of increasingly stringent provisions to help combat and contain the spread of the virus, in accordance with the Memorandum signed between 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.
Regarding the ESMA Recommendation of October 28, 2020, and CONSOB Notice No. 1/21 of February 16, 2021, as part of the planning process for these financial statements, the Company sought to represent possible impacts on business goals and business risks from the COVID-19 pandemic and from the use of economic support mechanisms and their possible interruption.

In recent months there has been a series of legislative provisions designed to define the methods and rules for combating the spread of COVID-19 to establish measures of a general nature, i.e. of interest to all citizens, and to formulate regulations in work environments.
Procedures for methods of access to the company were established and implemented and cases in which such access will not in any event be permitted were clarified, along with the criteria for prompt reporting of any contact with individuals who test positive or are placed in quarantine.

A dedicated emergency procedure was prepared to plan management of a person with a suspected or verified case;

Appropriate procedures were established to manage the methods of access of external personnel implemented by the heads of the requesting departments.

Precise measures such as the following were promptly put in place:

- Temperature control upon entering the company with provision of a surgical or FFP2 mask;
- Positioning passage and common areas of dispensers for sanitising hands with hydroalcoholic solutions;
- Periodic sanitisation of offices, shuttles and company vehicles
- Collaboration with the Employer for any additional measure;
- Constant support for the "infective and tropical disease specialist physician" to collaborate in health checks of the company population and psychological support;
- Establishment for an emergency procedure to manage any internal cases;
- Limitation of access of external personnel to Avio sites;
- Reorganisation of workstations and areas of transit;

- Implementation of remote working for workers where compatible, governed by specific agreements with the union representatives and managed by the pertinent departments;
- Establishment of one-way routes in order to minimise encounters between individuals;
- Formulation of categorical rules in managing common areas such as canteens, smokers' areas and vending machines, which are subject to occupancy limits;
- Establishing of entry/exit and internal movement rules, with particular regard to shuttles and company vehicles, which were doubled to allow distancing
- Organisation of various dynamic protocols for screening to combat the spread of COVID-19. Screening is implemented for the entire working population and on a voluntary basis.
- Dedicated information and training (tutorial videos) for all employees through the official platforms and company intranet, organisation of dedicated webinars with the Chief Executive Officer and infectious disease expert
- Reorganisation of travel (travel with own vehicles, performance of incoming and outgoing swabs, observance of any quarantines)

Despite the continuation of the Company's production activities, due to the COVID-19 restrictions adopted by various governments in Europe and the rest of the world, which not only caused the temporary closure of the Kourou launch base, but also the shutdown or slowdown of Italian and foreign supplier and sub-contractor production chain activities, Avio had to focus its attention on its own internal activities, with the slowdown in activities involving the supplier and sub-contractor production chain and lower industrial costs compared to the previous half year for utilities and internal monitoring resulting in a consequent containment of the effect on margins.

The impact of the epidemic on the year reflects the adverse effect of the slowdown in the performance of activities owing to both the containment and restriction measures directly attributable to COVID-19 adopted by the various governmental authorities in Europe and the rest of the world (in particular, the temporary suspension of activities at the Kourou launch base in March, which only resumed in June 2020), and also to the indirect consequences of such measures, including the subsequent delay in the resumption of flights of the VV16 in September 2020 due to adverse weather conditions following the rescheduling of the launch date due to COVID-19, in addition to delays or slowdowns of the activities of the chain of suppliers and sub-contractors that typically affect development activities. This estimate also takes account of the non-recurring costs associated with the epidemic and the steps and measures of a financial and operational nature that the Company is already adopting to mitigate the impact of this scenario in the near and medium term.
Therefore, should the impacts continue further, 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.

MARKET PERFORMANCE AND OPERATIONS

General overview: historic and future outlook

In 2020, 114 orbital launches were performed (103 in 2019, CAGR=3% over 10 years), of which 10 recorded a failure. Globally, these launches put into orbit 1,275 satellites (498 in 2019, CAGR=24% over 10 years), with the number strongly affected by the deployment of Space X's Starlink satellite internet constellation via 14 dedicated Falcon 9 launches, placing 833 satellites into orbit, equal to a mass of 218 tons. Transported mass also set a new record of 535 tons (396 t in 2019, CAGR=5% over 10 years).
2020's numbers therefore indicate a sector in strong growth, as announced in previous years by the deployment of other low orbit satellite constellations (above all Space X's Starlink, but also those of OneWeb, O3B, and other minor operators). In particular, there continues to be strong growth in Low Earth Orbit (LEO) missions, the main target segment of Vega, and a simultaneous decrease in GTO/GEO missions, the main target segment of Ariane: 71 LEO launches (51 in 2019, CAGR=18% over 5 years) versus 17 GTO/GEO launches (29 in 2019, CAGR=-12% over 5 years). In particular, it is notable that, for the first time in history, the mass transported to LEO (289 t) has exceeded that transported to GTO/GEO (78 t).
It is also useful to underline that, of the 1,275 satellites put into orbit, approximately 1,200 were SmallSats (i.e. with a mass <500 kg), testifying to the fact that this technology, in growth since 2013, has, by now, established itself on the application market offering services such as broadband internet, Earth observation, IoT, technology demonstrations, and so on.

The effects of the COVID-19 pandemic, which led to the shut-down or slowdown of the activities of various manufacturing plants for both satellites and launchers, as well as the slowdown of activities at launch bases around the world) affected above all India (two launches compared to 5-7 a year historically) and only minimally impacted Europe's 10 launches, which were in line with previous years.

The 2020 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 suggests:

- A decline in GEO satellites (almost exclusively commercial and dedicated to telecommunication broadcasting 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, we are witnessing the affirmation of constellations of low mass satellites, typically in the order of 5-250 kg and numbers ranging from a few tens to thousands. It is, therefore, natural to expect the increase in launches to be absorbed by launchers with the technical characteristics to perform multi-load missions, such as the Company's first Rideshare service with the SSMS module in 2020, at high cadences.

Launchers market

While presenting some novel circumstances, 2020 confirmed the global trend of recent years in which few nations have had a launch service offer capable of responding not only to the strong institutional market, but also to the growing commercial market. These nations were the USA, Russia and China, covering 75% of launches, and, to a lesser extent, Europe, India and Japan, with New Zealand so far carrying out 17 launches of the Electron Mini Launcher, developed and operated by Rocket Lab;

In terms of numbers, we note that China equalled the record set in 2018 with 39 launches, while the US performed 37 launches (including 25 by Space X with Falcon 9), Russia 12 and Europe 10. The institutional share of the total number of missions remains preponderant (approximately ¾ of the total). At 325 t, the USA holds the record launch mass, followed by China at 97 t.
It is also worth mentioning the data on mini launchers: 17 launches in 2020, in particular by Electron in New Zealand and Kuaizhou in China, confirm the data from 2019, with new players operating Mini LV maiden flights, in particular LauncherOne and Astra 3.1 in the USA, and Ceres-1 in China.

It is notable that, among the countries most active in terms of fleet renewal, China is developing launchers to replace and cover all orbits and mass classes (Mini, Small, Medium and Heavy-LV). In 2021, the Company will introduce the latest iteration of Vega, Vega C, and, from 2022, Europe will be able to benefit from the new versions of Ariane 5, Ariane 62 and 64. The US is also extensively renewing its fleet, especially in the Heavy LV segment, due to space exploration ambitions.

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 2020 and 2019 "Pro-Forma" on a comparable basis (in Euro thousands):

	FY 2020	FY 2019	Change
Revenues	351,590	391,121	(39,531)
of which: Pass-through revenues	29,567	22,470	7,097
Revenues, net of pass-through revenues	**322,023**	**368,651**	**(46,628)**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	7,216	8,200	(984)
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(295,417)	(337,129)	41,712
Effect valuation of investments under equity method - operating income/(charges)	1,346	2,868	(1,522)
EBITDA	**35,168**	**42,589**	**(7,421)**
Amortisation and write-downs	(19,285)	(16,057)	(3,228)
EBIT	**15,883**	**26,532**	**(10,649)**
Interest and other financial income (charges)	(474)	452	(926)
Net financial charges	**(474)**	**452**	**(926)**
Investment income/(charges)	-	-	-
Profit before taxes	**15,409**	**26,984**	**(11,575)**
Current and deferred taxes	(536)	3	(539)
Group & minority interest net profit	**14,873**	**26,987**	**(12,114)**

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 322,023 thousand at December 31, 2020, which is Euro 46,628 thousand, or -12.6%, less than in 2019. This sharp decline is mainly attributable to the Ariane programme due to the planned phase-out of Ariane 5, partially offset by the future Ariane 6 programme and the slowdown in Vega production activities as a consequence of the delay in the resumption of flights due to the COVID-19 pandemic.

The above revenues breakdown by business line as follows:

	FY 2020	FY 2019	Change
Ariane	106,967	130,668	(23,701)
Vega	183,671	202,696	(19,025)
Tactical Propulsion	20,714	20,476	238
Liquid Propulsion	9,503	12,962	(3,459)
Other revenues	1,168	1,848	(681)
Revenues, net of pass-through revenues	**322,023**	**368,651**	**(46,628)**

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

The reduction in Vega revenues is mainly due to the slowdown in Vega production activities as a consequence of the repeated delays in the resumption of flights, which was initially planned for March 2020 but only occurred in September 2020 due to the COVID-19 pandemic, which entailed the temporary suspension of activities at the Kourou launch base, which were in addition to successive delays owing to unfavourable meteorological conditions.

In 2020 EBITDA was Euro 35,168 thousand, down by Euro 7,420 thousand on 2019, mainly due to the effect of greater non-recurring costs attributable to the COVID-19 pandemic; excluding such non-recurring costs, Adjusted EBITDA was Euro 43,315 thousand, essentially in line with Euro 44,029 thousand in 2019. EBITDA and Adjusted EBITDA were in line with the guidance for 2020 provided to the market in September 2020.

EBIT was Euro 15,883 thousand, a decrease of Euro 10,649 thousand compared to 2019, mainly due to the effect of higher non-recurring costs, chiefly attributable to the COVID-19 pandemic and higher depreciation owing to the launch of production of the P120 motors that will be used in the Vega C and the Zefiro 40 Vega C second stage motor.

The result for 2020 was also shaped by the research and development tax credit of Euro 4,387 thousand, mainly relating to research and development activities, commissioned by the European Space Agency, recognised in the results for the year on the basis of the costs incurred for the Group's long-term research and development projects to which the grant refers, as well as to the Industry 4.0 investments. The contribution recognised to the Income Statement in 2019 was substantially zero due to the above-stated retrospective application to 2017 of the authentic interpretation rule. 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 2020 and 2019 are reported below:

	FY 2020	FY 2019	Change
Adjusted EBITDA	**43,315**	**44,029**	**(714)**
Adjusted EBITDA Margin (against revenues net of pass-through revs.)	13.5%	11.9%	
Adjusted EBIT	**24,029**	**27,972**	**(3,943)**
Adjusted EBIT Margin (against revenues net of pass-through revs.)	7.5%	7.6%	

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.
Adjusted EBITDA in 2020, as commented on above, amounted to Euro 43,315 thousand, essentially in line with 2019, whereas the Adjusted EBITDA margin was 13.5% of net revenues in 2020, compared to 11.9% of net revenues in 2019, mainly owing to the effect of the contribution of the research and development tax credits, which was absent in 2019 and the different net revenue mix.

Adjusted EBIT consists of EBIT excluding non-recurring or extraordinary components, already excluded for the calculation of Adjusted EBITDA.
Adjusted EBIT amounted to Euro 24,029 thousand in 2020 (7.5% of net revenues), down by Euro 3,943 thousand in absolute value compared to Euro 27,972 thousand in 2019 (7.5% of net revenues), primarily attributable, in addition to the components that resulted in the change at the level of EBITDA, to greater depreciation in relation to the launch of production of the P120 motors that will be used in the Ariane 6 and Vega C and the Zefino 40 Vega C second stage motor.

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

			FY 2020	FY 2019	Change
A	**EBIT**		**15,883**	**26,532**	**(10,649)**
	Non-recurring Charges/(Income) comprising:		-	-	-
	- Additional issues / incentives		-	336	(336)
	- Corporate, legal and tax consultancy		415	321	94
	- Indemnities (1)		-	(248)	248
	- COVID-19 extraordinary charges		7,506	-	7,506
	- Other non-recurring charges/(income)		39	485	(446)
	- Settlements (2)		34	398	(364)
B	**Total Non-recurring Charges/(Income)**		**7,994**	**1,291**	**6,703**
A	Investor Fees		152	150	2
D	**Adjusted EBIT**	**A+B+C**	**24,029**	**27,972**	**(3,943)**
E	Net amortisation & depreciation		19,285	16,057	3,228
	Adjusted EBITDA	**D+ E**	**43,315**	**44,029**	**(714)**

(1) indemnities received in 2019 from the previous owner in relation to tax settlements concluded in the first half of the year, although relating to disputes existing before the corporate transaction of March 2017 leading to the company's stock market listing;

(2) the account for 2019 refers to the settlement with FCA Partecipazioni S.p.A. in that year regarding environmental charges.

The account "COVID-19 extraordinary charges" of Euro 7,506 thousand related to costs directly and indirectly incurred in relation to the COVID-19 epidemic and mainly includes:

- Euro 4,679 thousand of costs relating to the repeated activities associated with the VV16 launch campaign and the costs of subcontractors. In fact, while the VV16 launch campaign began in early 2020, on March 16, 2020, when the launcher had already been integrated into the launch ramp, the Guyanais Space Centre (CSG) and Arianespace announced, in implementation of the communications from the French government to combat COVID-19, their decision to temporarily suspend activities at the Kourou launch base. This meant that the launch campaign, initially planned for June 2020, had to be reorganised after the launch base was reopened and then a further postponement until September 3 – the date of the flight – had to be managed as a result of the exceptionally adverse atmospheric conditions in French Guyana.
- Euro 1,100 thousand to purchase safety devices for administrative offices in order to allow them to comply with the employee safety requirements, as well as initiatives 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; this amount also includes the charges for creating structures that would enable social distancing pursuant to anti-COVID-19 legislation;
- Euro 870 thousand, mainly due to the intensification of transport of employees in order to ensure social distancing and incentives for personnel who operated during the lockdown period;
- Euro 357 thousand due to verification of the causes of the failure of the VV17 mission;
- Euro 250 thousand for a donation to the Colleferro Civil Protection Services for the purchase of hospital equipment to respond to the COVID-19 emergency;
- Euro 250 thousand for a donation to the Kourou Central Hospital for the purchase of hospital equipment to respond to the COVID-19 emergency;

Financial results analysis

Financial charges amounted to Euro 474 thousand in 2020, compared with financial income of Euro 452 thousand in 2019, a deterioration of Euro 926 thousand.

This change was mainly due to interest income on the VAT receivables refunded during the 2019, 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):

	December 31, 2020	December 31, 2019	Change
Tangible assets and investment property	115,137	101,091	14,046
Rights-of-use	9,209	9,444	(235)
Goodwill	61,005	61,005	-
Intangible assets with definite life	125,581	122,273	3,308
Investments	9,112	7,766	1,346
Total fixed assets	**320,044**	**301,579**	**18,465**
Net working capital	**(58,224)**	**(40,559)**	**(17,665)**
Other non-current assets	74,140	78,295	(4,155)
Other non-current liabilities	(127,840)	(134,185)	6,345
Net deferred tax assets	77,975	77,784	191
Provisions for risks and charges	(31,734)	(31,892)	158
Employee benefits	(11,261)	(11,189)	(72)
Net capital employed	**243,100**	**239,834**	**3,266**
Non-current financial assets	6,259	6,106	153
Net capital employed & Non-current financial assets	**249,359**	**245,940**	**3,419**
Net Financial Position	62,635	57,943	4,692
Equity	(311,994)	(303,883)	(8,111)
Source of funds	**(249,359)**	**(245,940)**	**(3,419)**

"Total fixed assets" amounted to Euro 320,044 thousand at December 31, 2020, increasing Euro 18,465 thousand on December 31, 2019 as the effect of the following movements:

- the net increase of Property, plant and equipment of Euro 14,046 thousand, principally due to investments in progress for buildings to execute the new P120 engine frequency increase project which will equip the Vega C and Ariane 6, 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, net of depreciation in the year;

- net increase in intangible assets with indefinite useful life of Euro 3,308 attributable to investments, mainly in capitalised development costs (Vega E, Vega Light, Vega C, SPTF and software), net of the amortisation for the year;

- increase in Investments for Euro 1,346 thousand, due solely 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, 2020 to December 31, 2020; during the year, Europropulsion S.A. did not pay any dividends.

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

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

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

For further details, reference should be made to paragraphs 3.9 "Other non-current assets" and 3.23 "Other non-current liabilities", in addition to the section "Legal and tax disputes and contingent liabilities" in the Explanatory Notes.

"Net working capital" negative reports an increase of Euro 17,665 thousand, resulting in an excess of liabilities over assets of Euro 58,224 thousand. The main components are outlined in the following table (in Euro thousands):

	December 31, 2020	December 31, 2019	Change
Contract work-in-progress, net of advances	(143,011)	(104,904)	(38,107)
Inventories	51,474	41,448	10,026
Advances to suppliers	88,835	104,071	(15,236)
Trade payables	(66,454)	(100,335)	33,881
Trade receivables	2,175	6,215	(4,040)
Other current assets and liabilities	8,757	12,946	(4,189)
Net working capital	**(58,224)**	**(40,559)**	**(17,665)**

The negative current trading increased primarily due to the slowdown of certain activities by several suppliers and sub-contractors due to the pandemic.

"Other current assets and liabilities" of net working capital reported a net decrease of Euro 4,190 thousand to Euro 8,756 thousand. The main components are outlined in the following table (in Euro thousands):

	December 31, 2020	December 31, 2019	Change
VAT receivables	26,217	20,961	5,256
Research and development tax credits	1,563	6,291	(4,728)
Current tax receivables	5,315	5,910	(595)
Other current assets	8,953	9,142	(189)
Current income tax liabilities	(8,488)	(6,124)	(2,364)
Other current liabilities	(24,803)	(23,234)	(1,569)
Other current assets and liabilities	**8,757**	**12,946**	**(4,189)**

The account "VAT receivables" increased by Euro 5,256 thousand due to the effect of the VAT receivable that arose during the year, mainly due to the purchase of goods for which the VAT platform cannot be used and during the refund application stage. On February 25, 2021 the Tax Agency refunded the subsidiary Secosvim S.r.l. Euro 854 thousand, inclusive of interest of Euro 31 thousand relating to 2010 and on March 9, 2021 the Tax Agency refunded the Company Euro 7,879 thousand, inclusive of interest of Euro 39 thousand relating to 2018.

"Research and development tax credits" report a net decrease in the year of Euro 4,728 thousand, deriving from the offsetting in the year of the credit at December 31, 2019 and the recognition of the new tax credit matured in 2020.

Analysis of the financial position

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

	December 31, 2020	December 31, 2019	Change
Cash and cash equivalents	124,666	144,303	(19,637)
(A) Liquidity	**124,666**	**144,303**	**(19,637)**
(B) Current financial assets	-	-	-
(C) Total current financial assets (A+B)	**124,666**	**144,303**	**(19,637)**
Current financial payables to companies under joint control	(12,749)	(28,749)	16,000
(D) Current financial liabilities	**(12,749)**	**(28,749)**	**16,000**
Current portion of non-current bank payables	(10,063)	(8,075)	(1,988)
(E) Current portion of non-current financial payables	**(10,063)**	**(8,075)**	**(1,988)**
(F) Current financial debt (D+E)	**(22,812)**	**(36,824)**	**14,012**
(G) Net current cash position (C+F)	**101,854**	**107,479**	**(5,625)**
Non-current portion of bank payables	(32,000)	(42,000)	10,000
(H) Non-current financial liabilities	**(32,000)**	**(42,000)**	**10,000**
(I) Net cash position before lease liabilities (G-H)	**69,854**	**65,479**	**4,375**
Current lease liabilities	(2,676)	(2,647)	(29)
Non-current lease liabilities	(4,543)	(4,889)	346
(J) Total lease liabilities	**(7,219)**	**(7,536)**	**317**
(K) Net cash position after lease liabilities (I-J)	**62,635**	**57,943**	**4,692**

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 57,943 thousand at December 31, 2019 to Euro 62,365 thousand at December 31, 2020, increasing Euro 4,692 thousand, principally due to operating cash flows even during the pandemic period and despite the investments in capital expenditures during the year (Euro 34.5 million) and the purchase of treasury shares (Euro 6.4 million).

Analysis of equity

Consolidated equity at December 31, 2020 amounts to Euro 311,994 thousand, increasing Euro 8,111 thousand on December 31, 2019, as a result of the combined effect of the following main developments:

- consolidated 2020 net profit of Euro 14,873 thousand;
- decrease in acquisition of treasury shares for Euro 6,413 thousand;
- decrease due to actuarial losses of Euro 349 thousand.

RESEARCH AND DEVELOPMENT

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

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

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

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

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

Research and development costs incurred overall by the Avio Group in 2020 amounted to Euro 149.4 million (Euro 179.3 million in 2019), equating to 42.5% of gross consolidated revenues in 2020 (45.8% in 2019).
Net of pass-through costs, research and development by the Group in 2020 incurred costs of Euro 119.8 million, 37.2% of revenues net of pass-through revenues (Euro 156.8 million in 2019, equal to 42.5% of revenues net of pass-through revenues).
Self-financed and self-executed activities amounted in 2020 to Euro 12.4 million (Euro 13.7 million in 2019).
Self-financed activities in 2020 included Euro 10.4 million relating to development costs capitalised as Intangible assets with definite life (Euro 11.2 million in 2019) and Euro 2.0 million concerning research costs or development costs not capitalizable and directly recharged to the income statement (Euro 2.5 million in 2019).
The total amount of costs related to self-financed activities charged to the income statement in 2020 was Euro 7.1 million (Euro 6.1 million in 2019), comprising Euro 2.0 million of directly expensed non-capitalizable costs (Euro 2.2 million in 2019) and Euro 5.1 million for the amortisation of development costs capitalised (principally) in previous years (Euro 3.9 million in 2019).
In 2020, Avio continued its innovation in the main product lines, as a synthesis of basic research, applied research and pre-competitive development activities.

Solid Propulsion

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

In 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.

Still in terms of solid propulsion, in February 2020, the campaign in Sardinia ended with the firing of the Z23 s/n 25, which met all the success criteria for the return to flight of the VEGA launcher. In October 2020, qualification tests were carried out on the Zefiro 9 VT3 motor, enhanced for the maiden flight of the new Vega C in 2021-22.

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 exploration spacecraft.
During the first half of 2020, development of the M10 motor continued for the provision of propulsion for the third stage of the future VEGA E.
After completing the Preliminary Design Review of the motor system and successfully closing the PDR's of the main subsystems, including those on the valves, the combustion chamber and the oxygen turbo pump, the first 2 full-scale prototypes of the M10 motor's LOX/CH4 combustion chamber were built entirely in ALM, and successfully subjected to mechanical pressure and cold fluid dynamics testing at the Avio Colleferro facility. After these acceptance tests, the second model was then assembled with the rest of the equipment - including valves, tubing, sensors and harness - and configured for the firing test. The fire test campaign was successfully concluded at the end of February 2020 at NASA's Marshall Space Flight Center. This was the first test campaign for a prototype for an innovative 100KN combustion chamber with cooling channel, manufactured in ALM by implementing the Avio "Single Material Single Part" patent.
These results confirmed that additive technology can indeed be used to achieve a suitable thermal exchange for a full-scale combustion chamber with a single low thermal diffusion material (100 KN combustion chamber constructed with one piece and one material utilising ALM technology). This marks an important step forward for the development and qualification of the M10 LOx-CH4 motor (for the upper stage of the Vega E), fully using ALM.

Following these tests and throughout 2020, manufacturing activities of all components continued, including the combustion chamber, injection plate, turbo-pumps, valves, sensors and tubing, which will make up the first development model of the entire M10 motor, named DM1, whose integration expected in 2021 will culminate in the fire test campaign at the innovative Avio Space Propulsion Test Facility (SPTF) on the Salto di Quirra military range in Sardinia.

Vega E, whose first flight is scheduled for 2025, thanks to the introduction of the innovative and highly-performing M10 motor, will be capable of launching approximately three tons into orbit, that is twice the current Vega.
In addition, one of its main features, thanks to its M10 cryogenic engine, will be the release of numerous satellites in various orbits on the same mission and at competitive cost.

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

Avio has continued to self-fund the launch and the development of LOx and LCH4 cryogenic resins for a new generation of large liner-free composite tanks to be included in the future version of the Vega E Upper Stage.
In particular, during the course of 2020, tests continued in Colleferro to verify the permeability and mechanical and thermal properties of the composite structures in contact with the liquid oxygen cryogenic and oxidising environment. In the first half of 2020, tests were carried out on the first technological model of a small-scale tank produced in filament winding with fibres impregnated with Avio formulation resin. During the second half of 2020, a further two small-scale models were produced, the last of which, after passing mechanical tests, was subjected to several functional tests. Upscaling activities are planned for 2021, both for the filament winding process and the development of the Avio resin, aimed at the production of the first full-scale tank for the Vega E M10 motor power supply system.

Space Transport Systems

During the first half of 2020, Avio continued the VEGA C launcher's development, finalising the necessary documentation for the Qualification Review under the ESA VECEP contract. The new Vega C launcher is based on a first stage with 50% greater total thrust than the current Vega and a fourth stage with 15% greater total thrust. The goal, among others, is to improve the launcher's capabilities by increasing its reference payload by over 50%.
In response to increasing small satellite demand, research continued, during 2020, on the development of the new VEGA Light launcher. The performance of this new launcher will be optimised to put into circular orbit (500X500 Km SSO) a payload of approx. 250 KG.

Research continued on the unmanned and reusable space transport system called Space Rider, which, thanks to its integration with the Vega modules, will create an integrated family of services under the title of Vega Space Systems (VSS). Accordingly, on December 9, 2020, Thales Alenia Space and Avio S.p.A., as co-prime contractors, signed a contract with the European Space Agency (ESA) for the development of the Space Rider automated and reusable transport system to be deployed in low earth orbit by the new Vega C launcher. The total value of the contract amounts to Euro 167 million.

In addition, 2020 saw the completion of development activities for the new Small Spacecraft Mission Service (SSMS), a dispenser adapter for the release of many small satellites on the same mission, which can also be used for "in orbit test" and "in orbit demonstration" activities. These activities culminated in the in-flight qualification of the dispenser as part of the Vega VV16 mission, which in September 2020, using this module, released 53 satellites of various sizes into orbit on the same mission.

Tactical Propulsion

During 2020, 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. Activities are underway for the industrialisation of the winding and line control portion. In addition, AVIO supported MBDA in environmental and in flight testing with the delivery of the first 2 additional active motors.

The production and delivery of Aster 30 Boosters and of Mars Sustainers to export customers continued.

Obsolescence solution activities also continued. Activities of particular note included: 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 extension of the useful life, and the replacement of materials subject to non-European government authorisations, avoiding restrictions such as those imposed by the USA.

An initial tranche of a production contract for the re-motorisation of the Aster Booster for the Italian, French and UK armed forces was acquired. The signed contract covers 3 years of production, and others are expected to cover another five years of production.
During 2020, an Aster 30 Booster with the new Electromechanical Thrust Vector Control (E-TVC) system was also successfully bench tested. This system will be proposed for all future motors Avio is called upon to build.

Avio has also begun negotiations for new development programmes to expand its Italian Armed Forces defence offering. At the end of 2020, Avio acquired the contract for a sub-orbital target feasibility study, under the Italian National Military Research Plan (PNRM), and presented an offer for two anti-ship system boosters with MBDA. The goal is to expand our offering in the defence sector for the Italian armed forces.

HUMAN RESOURCES

At December 31, 2020, Group employees numbered 950, up from 935 at December 31, 2019.
The number of employees does not include those of the company Europropulsion S.A. (67), consolidated at equity. The majority of the workforce is employed by the parent company, Avio S.p.A., which at the same date numbered 823 (up from 815 at December 31, 2019).

Organisation

In January 2020, the corporate structure was changed.
With regards to the strategic importance of Space business institutional relations and to sharpen the impact of its operations in this area, the Institutional Relations function was separated from the External Relations and Communications Department, becoming the Institutional Relations Department and directly reporting to the CEO.
Other organisational changes were made at the Industrial Operations Department, with the most significant concerning the response to the expanded scope in terms of the integration area of the Vega launcher. The Technologies organisational area was therefore broken down into two sections, one dedicated to building technologies and the other to integration technologies.

In August 2020 the company organisation changed, resulting in a modification of the general organisation chart, with Internal Audit entrusted externally to Protiviti. Further organisational changes affected the Engineering and Industrial Operations departments.
For a more targeted and efficient development of new products, "Product Engineering" was reorganised to distinguish between products deriving from Vega, that is Vega C and Vega E, and those not deriving from Vega, such as small launch and orbital systems.
In the Industrial area, the organizational units of "Materials and Process Engineering" and "Laboratories" were merged into one. Other small modifications concerned the Purchasing, AFC, Human Resources and Technologies areas.

Following the VV17 failure and the recommendations of the Independent Commission of Inquiry, assessments of changes in the company structure are in progress

Industrial Relations

The following matters were considered with the Workers' Representative Body:

- **Management of workplace attendance and operations during the Covid-19 emergency:**

During the first half of the year, as a result of the Covid-19 pandemic emergency, the Company involved the Workers' Representative Body in reorganising several production activities.
5 trade union agreements were signed, introducing new forms of work, while re-modelling them and ensuring full compliance with all relative safety procedures.
Specifically, remote working was introduced for over 80% of white-collar/manager personnel in areas where such is possible.
For those for whom remote working was not possible, containment measures such as the following were introduced:
1) distancing of work stations;
2) doubling of company shuttle buses to maintain social distancing on-board buses;
3) increased frequency of cleaning and sanitising of offices, units, bathrooms and changing rooms;
4) distribution of masks and closure of the company canteen with alternative meal distribution methods.

A hygiene and safety protocol, currently under validation, has been drawn up in conjunction with the HSE Department.
Additional bonuses to those under the Prime Ministerial Decree for personnel undertaking industrial production activities on-site were introduced (attendance bonus for production white and blue-collar staff).
No extraordinary recourse was made to the social security schemes.
In addition, the Company signed two insurance policies: a) for intensive care needed due to Covid; b) in case of death (not only due to Covid).
In addition, as agreed with the Workers' Representative Body, an entirely free psychological support service was introduced for employees.

- **Other activities:**
  Simultaneously, agreements were signed regarding the following issues:
  - Summer closure (middle week of August);
  - Introduction of various video-surveillance systems;
  - Renewal of the Attendance Bonus agreement for an additional three-year period.

In the second half of the year, the usual meeting on the trend of production volumes was organised between top management, including the CEO, HR Director and Industrial Operations Director, and the territorial trade unions, as well as various meetings with the Workers' Representative Body on the introduction of serological screening by an external medical service and the updating of the various external COVID protocols.
The Workers' Representative Body was kept promptly informed on the results of the investigation into the VV17 failure and internal strategies aimed at reducing risks in relation to the reduction in production hours in 2021.
The Christmas closing agreements were also signed with the Workers' Representative Body.

Development and Training

In H1 2020, in line with the business support and development needs set out in the company Budget, the following personnel were hired in Avio S.p.A.: 1 executive, 1 senior manager, 5 professionals, 10 white-collar employees (total of 17), of which 94% graduates possessing various degrees of experience and specific skills in various professional areas.
In addition, 7 permanent staff leasing contracts were initiated.
Overall, 65% of new hires were in the Engineering area. During the period, targeting was also undertaken for the hiring of an additional 6 personnel in the Engineering area between July 1 and September 1.
The Covid emergency caused a slowdown in candidate searches and hires in the industrial area, although 16 blue-collar staff were taken on, of which 13 on long-term contracts and 3 for the SPTF project.

There were also fewer promotions in general. In H1 2020, 6 White-collar and Professional employees were involved in professional mobility procedures, both in terms of department and office location, in order to optimise organisational and business development. In addition to the organisational benefits, these mobility courses for the personnel involved are opportunities for professional growth. Mobility in one case followed an internal Job Posting published towards the end of the previous year. Between January-June 2020, the internal Job Posting tool was used in 2 cases, with both such candidates selected to change their role in the second half of the year.

In terms of blue-collar staff internal mobility, 25 transfers took place, mainly due to the change of production on the Ariane and Vega programmes.

Regarding Personnel Development in H1 2020, one senior manager was promoted to executive management, while 5 blue-collar workers transferred to white-collar positions.
Ahead of the Merit and Development Policy, 23 development/promotion measures were applied to 4.8% of the corporate population, including 6 promotions to the qualification of Professional Expert (the highest Manager classification), 2 promotions to the qualification of Manager, and 1 promotion to the qualification of Professional.

In the course of 2020, in line with the business support and development needs set out in the Company Budget, the following personnel were hired: 1 executive, 6 senior managers, 12 professional employees, 16 administrative employees (total of 34 managers or employees), of which 88% were graduates possessing various degrees of experience and specific skills in the various professional areas.
Of the 34 managers or employees hired, 62% were given permanent contracts (no. 21) and 38% were given fixed-term contracts (no. 13).
In addition, 13 permanent technical staff leasing contracts (for an indefinite period) were initiated, mainly in the field of product engineering. The total of white-collar employees with staff leasing contracts at 31/12/20 was 16. There were also 12 blue-collar employees, of which 5 with staff leasing contracts and 7 with fixed-term contracts.

Overall, including the employees with staff leasing contracts, 73% of hires were in relation to the professional area of engineering.
The Covid emergency caused a slowdown in candidate searches and hires in the industrial area, although 3 white-collar employees and 16 blue-collar staff were taken on, of which 12 on long-term contracts and 4 hires for the SPTF project, in Sardinia.

Professional mobility was also limited by the COVID emergency. Overall in 2020, 16 white-collar and professional employees were involved in professional mobility processes, in terms of department and office location, aimed at optimising organizational and business development. In 56% of cases (9), the personnel concerned belonged to the Industrial Operations Department, with 44% of cases (7) transfers to foreign subsidiaries and returns from foreign subsidiaries. In addition to the organisational benefits, these mobility courses for the personnel involved are opportunities for professional growth. The Job Posting tool was used in 3 cases of mobility.

With regard to Personnel Development, in 2020, one Manager was promoted to the executive category and five workers were promoted to the clerical employ category.
According to the criteria expressed in the Merit and Development Policy, 39 development/promotion measures were applied to 8.22% of the corporate population, including 7 promotions to the qualification of Professional Expert (the highest Manager classification), 10 promotions to the qualification of Manager, and 14 promotion to the qualification of Professional.

With regard to Avio Group training, in 2020, 17,222 hours of training were provided, with 5839 participations (from personnel, contractors and staff leasing) in refresher courses, professional development courses (in the first two months of the year and in the second half-year) and soft skills training. In 2020, a particular emphasis was placed on the use of webinars, seminars, conferences and information sessions that the Company addressed and proposed to all employees regarding the management of the COVID-19 emergency.

During the year, training activities were focused on the following main areas:
- training and updates on mandatory technical competences regarding safety issues;
- training on special and critical processes in manufacturing;
- soft skills training: development of managerial skills (participation at conventions and seminars);
- information sessions on health, safety, environmental and data protection issues, particularly concerning COVID-19 (translated into French for the French Guiana sites);
- support for internationalisation with a focus on individual and group language training (French language courses);
- targeted training on cyber-security involving all staff (HR, Purchasing, Legal, IT, AFC);
- motivational training to support management of the crisis.

Distance learning training, both synchronous and asynchronous, had a positive impact on the total number of hours and participations. It also allowed the delivery of courses to teleworking colleagues during the emergency period and for colleagues involved in the flight campaign. Using certified in-house trainers, safety and management training and information was provided. The e-learning platform was strengthened, in particular, in order to support: the HSE area, to provide training on safety issues and Seveso quarterly reports; the regulatory area, to provide training on Legislative Decree 231 and Trade Secrets; the on-boarding phase for newly-hired personnel via a dedicated multi-media course.
During 2020, the pilot project involving approximately 100 staff and aimed at evaluating the performance of blue-collar and white-collar personnel was launched and concluded. The project, which involves the mapping of roles and the creation/updating of the specific job descriptions of a production unit of Avio, involved the training of the department head and the production unit managers.
Regarding training methods, the structured learning organisation model was used, as it has been in previous years. This allows the organisation to learn through the active involvement of managers in the design of training activities for both direct groups and cross-departmental groups, therefore supporting increased integration among the company population.

Organisation and management of personnel

In the first half of the year, the main activities focused on handling the COVID-19 emergency, with the setting up of the emergency committee to monitor the developing situation and to establish on an ongoing basis new measures and/or amend those already adopted, through continuous meetings at periodic updates. Suspected or declared cases were managed through the publication of internal Avio procedures for the measuring of body temperatures before entering the facility, through the cleaning and sanitising of work environments etc. and through the adoption of a risk assessment document (DVR) setting the rules to be followed to prevent the spreading of the virus in the workplace environment. These rules were applied not only to the entire workforce but also to entering suppliers.
During this period, remote working was used for the entire white-collar population in order to protect the health of everyone and ensure operational continuity, creating an INAZ portal specifically to monitor the working days of employees (COVID-19 remote working reason, with 8-hour fixed blocks).

On April 30, a trade union agreement was signed in order to govern the gradual return to the company of personnel during Phase 2 of the COVID-19 emergency and providing the possibility for remote working until July 31 for employees who are parents of children aged under 14, as per Legislative Decree 34/2000 (Relaunch Decree) and for employees with certain conditions (e.g. immuno-depressant conditions).

In 2020, the new flow of healthcare reimbursement for executives was refined through the new IWS (Industria Welfare Salute) service.

In April 2020, an agreement was signed with the Workers' Representative Body regarding the Participation Bonus, which was calculated on the basis of the industrial and quality data of Avio Group's 2019 financial statements, and paid in July 2020.

On 10 July, a new "HR Travel and Expense Report Desk" was launched, offering individual consultations on travel rules and expense filing, and a channel for making reports and suggesting improvements to the service.

In September, a new "Conventions" folder was added to the corporate intranet Management - HR section, where all conventions applicable to employees were uploaded.

The Merit Ceremony was also held in September, an important moment for the Company to pay homage to the experience and professionalism of employees whose careers in Avio have spanned 25, 30, 35 and 40 years.

Given the year's schooling difficulties due to the COVID crisis, the Company decided to grant employees with children under the age of 14 a "Babysitter Bonus" of a maximum gross Euro 200.00 gross in their pay-check, from October 1 to December 31, 2020.

In November, the updated Travel Guide regarding missions to French Guiana was sent to all employees.

In November, a dynamic serological antigen screening protocol was launched to combat the spread of COVID-19 among employees. Employees can sign up on and individual and voluntary basis for monthly tests that help make monitoring and prevention within Avio as effective as possible. The protocol was implemented by Dr. Meo, an infectious disease medical practitioner, and his team from at the Cesmet Medical Centre in Rome, in collaboration with the company doctor. At the same time, an infectious disease consultancy was set up to manage any questions and requests from employees.

In December 2020, an agreement was signed with the Workers' Representative Body to offer COVID-19 screening to all Avio Group personnel in order to periodically monitor the exposure of the company population.

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

The procedures for requesting new SAP authorizations for RDA, SAL and ODA creation and approvals became operational on December 1, with new forms to be completed by the requesting employee and authorized by the Human Resources Department.

The possibility to telework was extended until April 30, 2021, both for working parents with at least one child under the age of 14, and for resources belonging to Staff Departments (i.e. HR, Communications, ICT, Legal and AFC), for a maximum of two days a week.

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

The main events in the year include:

- January 21-22, Brussels - 12th edition of the European Space Conference entitled "New Decade, Global Ambitions: Growth, Climate, Security & Defence". Giulio Ranzo attended a panel entitled "Towards a Space Partnership between Europe and Africa" on behalf of Avio;
- January 29, Cagliari - Presentation of the SPTF "Space Propulsion Test Facility" project for the construction of a test bench for liquid motors and a plant for the production of carbon-carbon components in Perdasdefogu;
- January - The intranet gained a new section, Space Spotlight, a **strategic bulletin** presenting all the latest news on space and competition in the space sector;
- February, Colleferro - Cyberchampion: conclusion of the video campaign to inform employees on Cybersecurity;
- February, Huntsville - At NASA's Marshall Space Flight Center at Huntsville, tests were undertaken on the first prototype of the full-scale combustion chamber of the M10 motor for the future LOX-CH4 third stage of the VEGA E. Production of videos and photos and social media and Intranet coverage;
- February 3-6, Silicon Valley - Avio participates with a booth at the Smallsat Symposium 2020, the world's largest conference on small satellites;
- February 6-8, Singapore - Avio attends with a booth at the GSTC, Global Space and Technology Convention;
- February 18 - Launch of the new Avio website and the new brandbook to refresh Avio's image in a coordinated manner across all internal and external communication tools;
- February 26, Rome – Avio becomes an Official Partner of AS LUISS and the Main Sponsor of the Rugby Section;
- February 27, Colleferro – Memorandum of understanding signed between Avio and the Municipality of Colleferro for "Colleferro European Space Capital 2021";
- February 27, Sardinia - Firing campaign of the Z23 s/n25, video and photography, media and social media coverage;
- March 2, Colleferro – Avio signs a letter of intent with the Luxembourg enterprise Made in Space Europe S.à.R.L., the Luxembourg branch of the US Made in Space Inc., for the development of advanced technological solutions for Orbit Servicing, including the De-Orbiting of space debris. The CEO Giulio Ranzo and the Luxembourg Economic Minister Ben Fayot - returning from the institutional meeting held in Rome with the Sub-secretary to the President of the Council with responsibility for Space, Riccardo Fraccaro - were at the signing at Avio's Colleferro plant;
- March 3, Colleferro – Global Italy event at the Music Auditorium entitled "FertilizzAzione delle opportunità del territorio" (Fertilising the region's potential) sponsored by the municipality, with the support of a number of regional enterprises and with the collaboration of Avio;
- March 7, Rome - On RAI 3, on the "Officina Italia" programme, a report entirely dedicated to Avio, with interviews with Adriano Rotondo, Erica Anna Squeo and Fabrizio Spaziani;
- March - Agreement signed with Rainbow Magicland for Avio's presence at the soon to be opened Cosmo Academy theme park, with a room dedicated to Vega, complete with a Vega C model;

- March - June: Extensive internal and external media coverage with regard to COVID-19 communications;
- May 7, Rome - Extensive media coverage for the renewal of Avio's Board of Directors;
- March - June: Extensive internal and external media coverage with regard to the Vega return to flight;
- July 29 - UNOOSA/AVIO webinar on the "Access to Space for All" agreement, aimed at offering, particularly to developing countries, the opportunity to launch their own satellites at zero cost;
- September 10 - Merit Ceremony to celebrate Avio's long-standing personnel, attended by the Mayor of Colleferro, Pierluigi Sanna;
- October 1, Sardinia - Under-Secretary of Defence Hon. Giulio Calvisi attended the qualification test of the Zefiro 9 VT3 motor, and visited the construction site of the new space activities SPTF industrial plant in Perdasdefogu;
- October 8 - UNOOSA/AVIO webinar for the launch of the "Access to Space for All" request for proposals;
- November 10 - Avio participated in Euroconsult's World Satellite Business Week on the panel entitled "The Smallsats Revolution: *Innovation, differentiation, value creation?*";
- November 16 - Avio, together with ESA, CNES and Arianespace, participated in the pre-launch event entitled Virtual, a virtual platform reserved for the media preceding and accompanying the 17th Vega launch;
- November 22 - Giulio Ranzo spoke at Focus Live, the digital event dedicated to the frontiers of human knowledge;
- November 26 - Avio participated in the annual Conference of Scientific Attachés 2020, organized by the Ministry of Foreign Affairs and entitled "Scientific Diplomacy and Integrated Promotion";
- November 26 - Avio participated in the General Space Assembly (Stati Generali sullo Spazio) on the panel "Space Projects: from qualification to applications, the complete supply chain";
- December 9, Rome - signing of the Euro 167 million ESA contract with Thales Alenia Space Italy and Avio for the Space Rider, the first European orbital robotic spacecraft;
- December 10 - Avio was represented on the Focus TV programme "Italy Among the Stars: Protagonists of the New Space Race" by CEO Giulio Ranzo and other company managers;
- December 14 - Giulio Ranzo participated in the first edition of the annual Space Economy Observatory, organized by the Polytechnic University of Milan;
- December 16, Rome - Signing of the PRIBES contract with the Naval Armaments Directorate (NAVARM) for the design of a training system for the national Armed Forces aimed at validating the performance of national tactical air defence carriers;
- January 26 - Avio participated in the SDA Bocconi Seminar on "Challenges and Opportunities in the Space Sector: the role of Italy in the international context".

GROUP PRINCIPAL RISKS AND UNCERTAINTIES

General economic risks

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

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

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

The effects of the health emergency were felt intermittently throughout 2020, and indirectly affected Avio's internal activities, as well as slowing down the activities of suppliers and sub-contractors in Italy and the rest of Europe. In particular, the Vega (flight VV16) launch activities in French Guiana were interrupted due to the pandemic in March, resumed in June, following the reopening of the launch base, and suspended once again due to adverse weather conditions. Activities finally resumed in August, and the VV16 launch was successfully carried out in early September 2020.

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

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

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

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

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

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

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

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

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

Specific business risks

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

Group business depends in addition on a limited number of programmes and therefore clients. Any interruptions, temporary suspensions, delays or cancellations to one or more major programmes constitutes a risk which may impact the Group's operations and financial statements. The backlog may therefore be subject to unexpected adjustments and 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 possible negative impacts on the Group's operations and financial statements.
In addition, for the recognition of revenues and related margins deriving from long-term works contracts, the advancement percentage method is used, based on total cost estimates for the execution of contracts and verification of the state of advancement of operations. Both these factors are by their nature significantly subject to management estimates, which in turn depend on the objective possibility and capacity to forecast future events. The occurrence of unforeseeable events, such as the persistence of the COVID-19 epidemic, and foreseeable events, to a differing degree, resulted in an increase in costs incurred for the execution of long-term contracts, possibly also in the future, with impacts on the Group's operations and financial statements. To manage this risk, the Company has put into place procedures, systems, workers and professionals that have been consolidated over time.

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

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

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

SUBSEQUENT EVENTS

Business

Vega return to flight

Flight VV18 assembly integration activities were suspended immediately on failure of VV17, and were resumed on January 21, 2021 after ESA and Arianespace approval of the Commission of Inquiry's recommendation implementation plan.

Inspection and preparation of the stages of the Vega VV18 launcher were thus performed, resulting, on March 5, 2021 in the beginning of the launch campaign for the resumption of Vega flights currently planned for the second half of April 2021.

Vega-C Launch System Ground Qualification Review

The review work on the qualification of the Vega-C launch system by the qualification team led by the ESA continued, with the involvement of the Avio Programme team.

Other significant events

Collection of VAT receivables

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

COVID-19

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

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

Outlook

In the short term, this estimate reflects the slowdown of activities due to both to the containment and restrictive measures directly ensuing from COVID-19 adopted by the various governmental authorities in Europe and the rest of the world and the indirect consequences of these measures, including delays or slowdowns in the activities of the chain of suppliers and sub-contractors, as well as in relation to the resumption of flights after the failure of the VV17 mission in November 2020.
It is also planned to complete the construction of the new Vega C launcher, whose qualification flight is expected between the end of 2021 and the beginning of 2022.

The Board of Directors of Avio S.p.A. resolved to propose to the next Shareholders' Meeting, to be held on April 29, 2021, the allocation of the 2020 net profit of Avio S.p.A., amounting to Euro 8,771 thousand, for Euro 7,321 thousand to dividends and Euro 1,450 thousand to retained earnings.

Avio S.p.A.'s Board of Directors also decided to modify the dividend policy by increasing the *"pay-out ratio" limit from 50% to 60% in order to give more flexibility to shareholders' remuneration*.
As a result of this change, the current dividend policy provides for a pay-out ratio of between 25% and 60% of consolidated net profit and a dividend yield of between 1% and 5% of market capitalization.

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

Earnings and financial results

Operating results

The following table compares the company performance in 2020 and 2019 (in Euro thousands):

	FY 2020	FY 2019	Change
Revenues	347,407	390,664	(43,257)
of which: Pass-through revenues	29,567	22,470	7,097
Revenues, net of pass-through revenues	**317,840**	**368,194**	**(50,354)**
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	8,720	7,526	1,194
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(295,970)	(337,815)	41,845
EBITDA	**30,590**	**37,905**	**(7,315)**
Amortisation, depreciation & write-downs	(20,842)	(17,901)	(2,941)
EBIT	**9,748**	**20,004**	**(10,256)**
Interest and other financial income (charges)	(667)	4	(671)
Net financial income/(charges)	**(667)**	**4**	**(671)**
Investment income/(charges)	-	5,400	(5,400)
Profit before taxes	**9,081**	**25,408**	**(16,327)**
Current and deferred taxes	(310)	3,153	(3,463)
Total net profit	**8,771**	**28,560**	**(19,789)**

Revenues gross of pass-throughs were Euro 347,407 thousand, down Euro 43,257 thousand (-11.1%) on 2019.This sharp decline is mainly attributable to the Ariane programme due to the planned phase-out of Ariane 5, partially offset by the future Ariane 6 programme and the slowdown in Vega production activities as a consequence of the delay in the resumption of flights due to the COVID-19 pandemic.

In 2020, EBITDA was Euro 30,590 thousand, down by Euro 7,315 thousand on 2019, mainly due to the effect of greater non-recurring costs attributable to the COVID-19 pandemic.

EBIT was Euro 9,748 thousand, a decrease of Euro 10,256 thousand compared to 2019, mainly due to the effect of higher non-recurring costs, chiefly attributable to the COVID-19 pandemic and higher depreciation owing to the launch of production of the P120 motors that will be used in the Vega C and the Zefiro 40 Vega C second stage motor.

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 fell from Euro 4 thousand to financial expenses of Euro 666 thousand, a change of Euro 671 thousand, primarily due to the fact that in 2019 interest income accrued on the VAT receivables collected during the year of Euro 1,086 thousand was recognised.

The other main components of net financial income and expenses also include:

- Euro 420 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 411 thousand of financial charges due to the application of amortised cost following the adoption of IFRS 16;

- Euro 204 thousand of income on the calculation of interest on medium-/long-term receivables;

- Euro 126 thousand of net foreign exchange gains.

Balance Sheet

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

	December 31, 2020	December 31, 2019	Change
Property, plant & equipment	80,398	66,766	13,632
Rights-of-use	38,224	42,955	(4,731)
Goodwill	61,005	61,005	-
Intangible assets with definite life	125,142	122,026	3,116
Investments	77,460	77,460	-
Total fixed assets	**382,229**	**370,213**	**12,015**
Net working capital	**(59,500)**	**(39,370)**	**(20,130)**
Other non-current assets	65,000	67,051	(2,051)
Other non-current liabilities	(126,782)	(132,689)	5,907
Net deferred tax assets	74,085	73,746	339
Provisions for risks and charges	(12,270)	(10,865)	(1,405)
Employee benefits	(9,057)	(8,909)	(148)
Net capital employed	**313,705**	**319,177**	**(5,471)**
Non-current financial assets	6,259	6,106	153
Net capital employed & Non-current financial assets	**319,964**	**325,283**	**(5,319)**
Net Financial Position	(25,933)	(33,261)	7,328
Equity	(294,031)	(292,022)	(2,009)
Source of funds	**(319,964)**	**(325,283)**	**5,319**

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 38,224 thousand, exceeding the Euro 9,209 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):

	31/12/2020	31/12/2019	Change
Cash and cash equivalents	121,536	142,868	(21,332)
(A) Liquidity	**121,536**	**142,868**	**(21,332)**
(B) Current financial assets	-	-	-
(C) Total current financial assets (A+B)	**121,536**	**142,868**	**(21,332)**
Current financial payables to subsidiaries and companies under joint control	(65,892)	(84,329)	18,437
(D) Current financial liabilities	**(65,892)**	**(84,329)**	**18,437**
Current portion of non-current bank payables	(10,063)	(8,075)	(1,988)
(E) Current portion of non-current financial payables	**(10,063)**	**(8,075)**	**(1,988)**
(F) Current financial debt (D+E)	**(75,955)**	**(92,404)**	**16,449**
(G) Current Net Financial Position (C+F)	**45,581**	**50,464**	**(4,883)**
Non-current portion of bank payables	(32,000)	(42,000)	10,000
(H) Non-current financial debt	**(32,000)**	**(42,000)**	**10,000**
(I) Net financial position before lease liabilities (G-H)	**13,581**	**8,464**	**5,117**
Current lease liabilities	(8,368)	(6,423)	(1,945)
Non-current lease liabilities	(31,146)	(35,302)	4,156
(J) Total lease liabilities	**(39,514)**	**(41,725)**	**2,211**
(K) Net financial position after lease liabilities (I-J)	**(25,933)**	**(33,261)**	**7,328**

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 increase in net financial position before lease liabilities was primarily due to operating cash flows even during the pandemic period, and despite the investments incurred in capital expenditures for the year (Euro 31.6 million) and the purchase of treasury shares (Euro 6.4 million).

For further, more complete information on changes in financial position, reference should be made to the preceding section "Analysis of the results and balance sheet" of the Group.

Analysis of equity

Equity at December 31, 2020 amounts to Euro 294,031 thousand, increasing Euro 2,009 thousand on pro-forma equity at December 31, 2019, as a result of the combined effect of the following main developments:

- 2020 net profit of Euro 8,771 thousand;
- decrease in acquisition of treasury shares for Euro 6,413 thousand;
- decrease due to actuarial losses of Euro 349 thousand.

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

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

OTHER INFORMATION

As per Art. 40 of Legislative Decree 127/1991, it is disclosed that, in consideration of the share buy-back programme, at December 31, 2020, the Parent Company held 671,233 shares, representing 2.5465% of the share capital.

CORPORATE GOVERNANCE

The Company adheres to the principles of the Self-Governance Code of the Corporate Governance Committee for Listed Companies, established by Borsa Italiana and promoted by Borsa Italiana, ABI, Ania, Assogestioni, Assonime and Confindustria, last updated in January 2021, and has adjusted its governance system to the regulatory provisions indicated therein. The Self-Governance Code is available on the Borsa Italiana S.p.A. website at https://www.borsaitaliana.it/comitato-corporate-governance/codice/2020.pdf.

In accordance with the regulatory obligations, the Corporate Governance and Ownership Structure Report is drawn up annually and (i) contains a general outline of the Corporate Governance System adopted by the company and (ii) information upon the ownership structure and compliance with the 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 December 31, 2020, had adopted:

i. the **Internal Dealing Policy**, as approved by the Board of Directors of Space2 on September 29, 2016, amended on September 13, 2017 by the Board of Directors of Avio S.p.A., with effect from the acquisition date.
ii. a **Related Party Transactions Policy** approved by the Board of Directors of Space2 S.p.A. on January 19, 2017, with effect from the efficacy date of the merger by incorporation and latterly amended by the Board of Directors of Avio on September 13, 2017. For a reliable analysis of information on significant transactions with related parties, see the Explanatory Notes section "7. Related party transactions";
iii. the **Inside Information processing policy**, approved on December 21, 2017 by the Company Board of Directors and amended on January 24, 2019 to incorporate regulatory changes, introduced by Legislative Decree No. 107 of August 10, 2018, concerning *"Domestic law adjustment provisions in view of regulation (EC) No. 596/2014, concerning market abuse and cancellation of Directive 2003/6/EC and Directives 2003/124/EC, 2003/125/EC and 2004/72/EC;*
iv. **an Organisation, Management and Control model, as per Legislative Decree No. 231/2001, as amended**, and updated on September 14, 2020, by the Company's Board of Directors to account for all legislative changes introduced by Legislative Decree 231/2001;

v. an **Avio Group Conduct Code**, approved on March 29, 2004 and amended latterly on June 28, 2017 by the Board of Directors of the Company, containing the requirements demanded by the company's stock market listing;

vi. the **Guidelines to the Internal Control and Risk Management System of the Company**, approved on March 29, 2004 and latterly amended on June 28, 2017 by the Board of Directors of the Company;

vii. a **Diversity Policy**, approved by the Company's Board of Directors on February 28, 2020, as per Article 123-bis, Paragraph 2, Letter d-bis, of the Consolidated Finance Act, as supplemented by Art. 10 of Legislative Decree 254/2016, as well as the Recommendations of the Self-Governance Code;

viii. an **Avio Group Anti-corruption Code**, approved by the Company's Board of Directors on March 14, 2019 in compliance with Legislative Decree 231/2001 and international best practices.

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

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

In inviting you to approve the 2020 Annual Accounts of Avio S.p.A., drawn up as per IFRS and reporting a net profit of Euro 8,771 thousand, we propose the allocation of the result as follows:

- Euro 7,321 thousand as dividend;
- Euro 1,450 thousand to retained earnings.

* * *

March 19, 2021

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET	Note	December 31, 2020	*of which related parties*	December 31, 2019	*of which related parties*
(In Euro thousands)					
ASSETS					
Non-current assets					
Property, plant & equipment	3.1	111,999		98,035	
Rights-of-use	3.2	9,209		9,444	
Investment property	3.3	3,138		3,057	
Goodwill	3.4	61,005		61,005	
Intangible assets with definite life	3.5	125,581		122,273	
Investments	3.6	9,112		7,766	
Non-current financial assets	3.7	6,259	*6,259*	6,106	*6,106*
Deferred tax assets	3.8	77,975		77,784	
Other non-current assets	3.9	74,140		78,295	
Total non-current assets		**478,418**		**463,765**	
Current assets					
Inventories and advances to suppliers	3.10	140,309	*38,232*	145,519	*42,502*
Contract work in progress	3.11	334,860	*92,792*	214,599	*44,150*
Trade receivables	3.12	2,175	*1,634*	6,215	*1,778*
Cash and cash equivalents	3.13	124,666		144,304	
Tax receivables	3.14	33,094		33,162	
Other current assets	3.15	8,954	*4*	9,142	*494*
Total current assets		**644,058**		**552,941**	
TOTAL ASSETS		**1,122,476**		**1,016,706**	

CONSOLIDATED BALANCE SHEET	Note	December 31, 2020	*of which related parties*	December 31, 2019	*of which related parties*
(In Euro thousands)					
EQUITY					
Share capital	3.16	90,964		90,964	
Share Premium Reserve	3.17	135,175		141,588	
Other reserves	3.18	13,851		14,200	
Retained earnings		49,374		23,176	
Group net profit		14,118		26,198	
Total Group Equity	3.19	**303,482**		**296,126**	
Equity attributable to non-controlling interests	3.20	**8,512**		**7,757**	
TOTAL NET EQUITY		**311,994**		**303,883**	
LIABILITIES					
Non-current liabilities					
Non-current financial liabilities	3.21	32,000		42,000	
Non-current financial liabilities for leasing	3.22	4,543	*1,107*	4,889	*1,246*
Employee provisions	3.23	11,261		11,189	
Provisions for risks and charges	3.24	19,382		20,367	
Other non-current liabilities	3.25	127,840		134,185	
Total non-current liabilities		**195,026**		**212,630**	
Current liabilities					
Current financial liabilities	3.26	12,749	*12,749*	28,749	*28,749*
Current financial liabilities for leasing	3.27	2,676	*150*	2,647	*149*
Current portion of non-current financial payables	3.28	10,063		8,075	
Provisions for risks and charges	3.24	12,352		11,526	
Trade payables	3.29	66,454	*10,257*	100,335	*2,280*
Advances from clients for contract work-in-progress	3.11	477,871	*79,515*	319,503	*62,581*
Current income tax payables	3.30	8,488		6,124	
Other current liabilities	3.31	24,803	*248*	23,234	*189*
Total current liabilities		**615,456**		**500,193**	
TOTAL LIABILITIES		**810,482**		**712,823**	
TOTAL LIABILITIES AND EQUITY		**1,122,476**		**1,016,706**	

CONSOLIDATED INCOME STATEMENT	Note	FY 2020	*of which related parties*	FY 2019	*of which related parties*
(In Euro thousands)					
Revenues	3.32	351,590	*121,072*	391,121	*26,264*
Change in inventory of finished products, in progress and semi-finished		(17)		18	
Other operating income	3.33	7,233		8,181	
Consumption of raw materials	3.34	(85,355)		(114,006)	
Service costs	3.35	(172,600)	*(67,667)*	(180,769)	*(78,667)*
Personnel expenses	3.36	(70,899)		(69,764)	
Amortisation and Depreciation	3.37	(19,285)		(16,057)	
Other operating costs	3.38	(8,086)		(7,609)	
Effect valuation of investments under equity method - operating income/(charges)	3.39	1,346		2,868	
Costs capitalised for internal works	3.40	11,955		12,549	
EBIT		**15,882**		**26,532**	
Financial income	3.41	672	*153*	2,136	*294*
Financial charges	3.42	(1,145)	*(13)*	(1,684)	*(21)*
NET FINANCIAL INCOME/(CHARGES)		**(473)**		**452**	
Other investment income/(charges)					
INVESTMENT INCOME/(CHARGES)		**-**		**-**	
PROFIT BEFORE TAXES		**15,409**		**26,984**	
Income taxes	3.43	(536)		3	
NET PROFIT		**14,873**		**26,987**	
-- of which: Owners of the parent		14,118		26,198	
Non-controlling interests		755		790	
Basic earnings per share	3.44	0.55		1.00	
Diluted earnings per share	3.44	0.53		0.97	

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT	FY 2020	FY 2019
(In Euro thousands)		
NET PROFIT (A)	**14,873**	**26,987**
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	(430)	(504)
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)	81	123
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	**(349)**	**(381)**
COMPREHENSIVE INCOME FOR THE YEAR (A+B)	**14,524**	**26,606**
-- of which: Owners of the parent	13,769	24,614
Non-controlling interests	755	1,992

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(Euro thousands)

	Share capital	Share Premium Reserve	Other reserves: *Treasury shares*	Other reserves: *Unavailable reserve for treasury shares in portfolio*	Other reserves: *Legal reserve*	Other reserves: *Actuarial gains/(losses) reserve*	Retained earnings	Group result	Total Group equity	Non-controlling interest equity	Total Equity
Equity at 31/12/2018	**90,964**	**144,256**			**18,193**	**(3,612)**	**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 company 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											
- Actuarial gains/(losses), net of tax effect						(381)			(381)	(0)	(381)
Comprehensive income for the year	0	0			0	(381)	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)**	**23,176**	**26,198**	**296,126**	**7,757**	**303,883**
Allocation of prior year result							26,198	(26,198)	0		0
Allocation to reserves											
Acquisition of treasury shares		(6,413)	(6,413)	6,413					(6,413)		(6,413)
Other changes									0		0
Comprehensive income for the year											
- Net profit for the year								14,118	14,118	755	14,873
- Other changes									0		0
- Actuarial gains/(losses), net of tax effect						(349)			(349)	0	(349)
Comprehensive income for the year	0	0	0	0	0	(349)	0	14,118	13,769	755	14,524
Equity at 31/12/2020	**90,964**	**135,175**	**(9,081)**	**9,081**	**18,193**	**(4,342)**	**49,374**	**14,118**	**303,482**	**8,512**	**311,994**

CONSOLIDATED CASH FLOW STATEMENT
(Euro thousands)

		2020	*of which related parties*	2019	*of which related parties*
OPERATING ACTIVITIES					
Net profit for the year		14,873		26,987	
Adjustments for:					
- Income taxes		536		(3)	
- (Income)/charges from measurement at equity of investment in Europropulsion S.A.		(1,346)		(2,868)	
- Financial (Income)/Charges					
- Amortisation & Depreciation		19,285		16,057	
- (Gains)/losses on sale of property, plant & equipment & other (income)/charges					
Dividends received				3,239	
Net change provisions for risks and charges		(157)		16,029	
Net change employee provisions		(277)		97	
Changes in:					
- Inventories and advances to suppliers		5,210	*4,270*	(28,301)	
- Contract work-in-progress & advances from clients		38,106	*(31,709)*	30,984	*11,626*
- Trade receivables		4,040	*144*	802	*(223)*
- Trade payables		(33,881)	*7,977*	(31,072)	*(21,843)*
- Other current & non-current assets		4,221	*490*	14,671	*(368)*
- Other current & non-current liabilities		(2,201)	*59*	20,060	*(34)*
Income taxes paid		(653)		(630)	
Interest paid		(357)		(443)	
Net liquidity generated/(employed) in operating activities	(A)	**47,400**		**65,610**	
INVESTING ACTIVITIES					
Investments in:					
- Tangible assets and investment property		(21,469)		(16,226)	
- Intangible assets with definite life		(13,131)		(13,537)	
- Equity Investments		0		(0)	
Disposal price of tangible, intangible & financial assets					
Liquidity generated (employed) in investing activities	(B)	**(34,599)**		**(29,763)**	
FINANCING ACTIVITIES					
EIB loan		(8,000)		10,000	
Centralised treasury effect with Europropulsion S.A. joint control company		(16,000)	*(16,000)*	9,500	*9,500*
Dividends paid by the parent Avio S.p.A.				(11,598)	
Dividends attributable to minorities of subsidiaries				(1,440)	
Acquisition of treasury shares		(6,413)		(2,668)	
Other changes to financial assets and liabilities		(2,025)	*(138)*	(3,773)	*1,395*
Liquidity generated (employed) in financing activities	(C)	**(32,438)**		**21**	
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C)	**(19,637)**		**35,868**	
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**144,303**		**108,435**	
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**124,666**		**144,303**	

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, 2020, Avio S.p.A. held, directly or indirectly, investments in seven subsidiary companies (Space S.p.A., Regulus S.A., Se.Co.Sv.Im. S.r.l., Avio Guyana S.A.S., Avio France S.A.S., AS Propulsion International B.V. and Avio India Aviation Aerospace Private Ltd. in liquidation) and in a jointly controlled company (Europropulsion S.A.) included in the consolidation scope of these financial statements (collectively the "Group" or the "Avio Group").

The consolidation scope was unchanged in 2020.

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Accounting standards for the preparation of the financial statements

These financial statements at December 31, 2020 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 Statement format

The financial statements at December 31, 2020 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 2020 consolidated financial statements present the comparative 2019 figures for the Balance Sheet items (Consolidated Balance Sheet) and the 2019 figures for the Income Statement items (Consolidated Income Statement, Consolidated Comprehensive Income Statement, Statement of changes in Consolidated Equity and Consolidated Cash Flow Statement).

2.4. Consolidation Principles

The consolidated financial statements include the financial statements of the parent company, its direct or indirect subsidiaries and the companies over which the Group exercises joint control with other shareholders, as specified below and defined by standards IFRS 10 - Consolidated Financial Statements, IFRS 11 - Joint control arrangements, and IAS 28 - Investments in associates and joint ventures.

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

Subsidiaries are consolidated according to the line-by-line method from the date on which the Group assumes control until the moment at which this control terminates.
Inactive subsidiaries, those for which the consolidation due to specific operating dynamics (such as non-equity based consortiums) does not produce significant effects and those with insignificant fixed assets, whether in terms of investment profile or the relative equity and earnings figures, are excluded from the consolidation. These businesses are valued according to the criteria applied for holdings in other companies.

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

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

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

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

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

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

Interests in joint ventures
Subsidiaries held directly with other shareholders where the relative agreements constitute joint ventures (or where the parties only have equity rights under the agreement) are consolidated as per IFRS 11, with the equity method applied once becoming operative.
Where agreements in place constitute a joint operation (in which the parties have rights over the assets and obligations for the liabilities of the agreement), the assets, liabilities and costs and revenues deriving from the joint operation are consolidated on a pro-rata basis.
Where necessary, adjustments are made to the financial statements of consolidated joint ventures in order to apply uniform Group accounting policies.

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

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

2.5. Translation of foreign entity financial statements

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

2.6. Consolidation scope

The consolidated financial statements at December 31, 2020 include the financial statements of the parent company, of the Italian and overseas companies in which it holds directly or indirectly at December 31, 2020 more than 50% of the share capital, consolidated under the line-by-line method, and the financial statements of the company Europropulsion S.A., held 50% jointly with another shareholder, consolidated under the equity method.

The consolidation scope at December 31, 2020 was as follows:

Companies included in the consolidation scope at December 31, 2020	**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 components are however initially measured at their transaction price.

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

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

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

Financial assets measured at amortised cost

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

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

This category includes financial assets not classified as measured at amortised cost or fair value through other comprehensive income. This category includes 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, 2020, the consolidated financial statements present deferred tax assets concerning deferred tax deductible income components, for an amount whose recovery in future periods is considered probable by management. Deferred tax assets on temporary differences and on tax losses were recorded in the accounts for the amounts whose future recovery was considered probable, on the basis of forecast assessable income, as well as based on a projection of these forecasts over a subsequent time horizon considered representative of the life cycle of the business equal to 15 years.

Doubtful debt provision

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

Inventory obsolescence provision

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

Employee benefit plans

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

Provision for risks, charges & contingent liabilities

The Group accrues a liability against disputes in progress when it considers it probable that there will be a financial payable and when the amount of the losses arising can be reasonably estimated. In the case in which a payment is considered possible, but is not yet determinable, such is reported in the financial statements.
The Group is involved in legal and tax cases regarding differing types of issues which are subject to varying degrees of uncertainty on the basis of their complexity, jurisdiction and applicable law. During the normal course of business, the Group monitors the state of cases in progress and liaises with its legal consultants and legal and tax experts; the value of the provisions for legal cases and disputes of the Group may therefore vary according to the future development of cases in progress.
In addition, the Group operates within sectors and markets where certain problems of a commercial nature may only be resolved after the lapsing of significant periods of time, requiring therefore an estimate by management on the outcome of these disputes and challenges through the monitoring of contractual conditions and the individual cases.

Valuation of contract work-in-progress

The Group operates according to particularly complex contracts, some of which recognised to the financial statements through the percentage of completion method. In these cases, the margins recognised to the income statement are dependent both on the advancement of the order and the margins expected on the entire works following completion: therefore, the correct recognition of works-in-progress and of margins upon works not yet concluded assumes a correct estimate by management on finishing costs, contractual changes, in addition to delays, extra costs and penalties which may impact the expected margin. 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 applicable from January 1, 2020

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from January 1, 2020:

- on October 31, 2018, the IASB published the document ***"Definition of Material (Amendments to IAS 1 and IAS 8)"***. The document introduced a change to the definition of "material" contained 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 adoption of this amendment does not have effects on the consolidated financial statements of the Group.;

- 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 policies when no IFRS standard is applicable to a particular transaction and, more generally, helps stakeholders to understand and interpret the Standards.
  The adoption of this amendment does not have effects on the consolidated financial statements of the Group.;

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

- on 22 October 2018, the IASB published the document ***"Definition of a Business (Amendments to IFRS 3)"***. The document provides certain clarification 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.
  The adoption of this amendment does not have effects on the consolidated financial statements of the Group.;

- on May 28, 2020, the IASB published an amendment called **"*Covid-19 Related Rent Concessions (Amendment to IFRS 16)*".** The document establishes for lessees the option to account for the reductions in rents connected with COVID-19 without having to assess, through the analysis of contracts, whether the definition of lease modification of IFRS 16 has been complied with. Therefore, lessees applying this option will be able to account for the effects of rent reductions directly in the income statement on the effective date of the reduction. This amendment applies to financial statements commencing on June 1, 2020 but [the Group/Company has made use of] the option to apply this amendment earlier to January 1, 2020. 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, 2020

- on May 28, 2020, the IASB published an amendment called **"Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)".** The amendments allow the temporary exemption from the application of IFRS 9 to be extended until January 1, 2023 for insurance companies. The amendments will enter into force from January 1, 2021. The directors do not expect this amendment to have a significant impact on the Group consolidated financial statements.

- on August 27, 2020, the IASB published, in light of the reform on interbank interest rates such as IBOR, the document "**Interest Rate Benchmark Reform-Phase 2**" which contains amendments to the following standards:
  - IFRS 9 Financial Instruments;
  - IAS 39 Financial Instruments: Recognition and Measurement;
  - IFRS 7 Financial Instruments: Disclosures;
  - IFRS 4 Insurance Contracts; and
  - IFRS 16 Leases.

  All the amendments will enter into force from January 1, 2021. The directors do not expect this amendment to have a significant impact on the Group consolidated financial statements.

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

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

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

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

- on January 23, 2020, the IASB published an amendment entitled "***Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current".*** The purpose of the document is to clarify how to classify payables and other short or long-term liabilities. These amendments shall enter into force on January 1, 2023 and early application is permitted. The directors do not expect this amendment to have a significant impact on the Group consolidated financial statements.

- on May 14, 2020, the IASB published the following amendments:
    - ***Amendments to IFRS 3 Business Combinations:*** the purpose of the amendments is to update the reference in IFRS 3 to the revised version of the Conceptual Framework, without changing the provisions of IFRS 3.
    - **Amendments to IAS 16 Property, Plant and Equipment:** the purpose of the amendments is not to allow the amount received from the sale of goods produced during the testing phase of the asset to be deducted from the cost of the asset. These sales revenues and related costs will therefore be recognised to the income statement.
    - **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets:** the amendment clarifies that in estimating the possible onerousness of a

contract, all costs directly attributable to the contract must be considered. Accordingly, the assessment of whether a contract is onerous includes not only incremental costs (such as the cost of direct material used in processing), but also all costs that the enterprise cannot avoid because it has entered into the contract (such as, for example, the share of personnel expenses and depreciation of machinery used to perform the contract).

  - **Annual Improvements 2018-2020:** the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples of IFRS 16 Leases.

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

- on 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, 2020 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, 2020 and December 31, 2019.

	31/12/2020			31/12/2019		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	14,669	-	14,669	14,669	-	14,669
Buildings	61,612	(19,317)	42,295	35,868	(17,638)	18,230
Plant & machinery	77,708	(60,196)	17,512	75,055	(56,277)	18,778
Industrial and commercial equipment	18,284	(16,940)	1,344	18,135	(16,312)	1,823
Other assets	11,208	(8,069)	3,139	10,599	(7,031)	3,568
Assets under development and payments on account	33,040	-	33,040	40,967	-	40,967
Total	**216,521**	**(104,522)**	**111,999**	**195,293**	**(97,258)**	**98,035**

The changes between December 31, 2019 and December 31, 2020 in the gross values of property, plant and equipment are illustrated in the table below (Euro thousands):

Gross value	31/12/2019	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2020
Land	14,669	-	-	-	14,669
Buildings	35,868	908	(65)	24,901	61,612
Plant & machinery	75,055	2,612	-	41	77,708
Industrial and commercial equipment	18,135	168	(24)	5	18,284
Other assets	10,599	606	(2)	5	11,208
Assets under development and payments on account	40,967	17,025	-	(24,952)	33,040
Total	**195,293**	**21,319**	**(91)**	**-**	**216,521**

The increases in the year of Euro 21,319 thousand mainly concerns:

- assets in progress and advances for Euro 17,025 thousand. These investments particularly included:
    - works for the construction of industrial buildings for the SPTF "Space Propulsion Test Facility" project for the building of a Liquid Rocket Engine (LRE) test bench and of a plant for the production of carbon-carbon components in Perdasdefogu, at the Salto di Quirra experimental inter-force training range;
    - work relating to the Group's new office located in Colleferro;
    - works on the production buildings for the P120 motor;

- production machinery for Euro 2,612 thousand.

The industrial building used to manufacture the P120C motor entered into function during the year; accordingly, its value of Euro 24,901 thousand was reclassified from "Assets under construction and payments on account" to "Buildings".

Between December 31, 2019 and December 31, 2020, the changes to accumulated depreciation were as follows (in Euro thousands):

Gross value	31/12/2019	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2020
Land	-	-	-	-	-
Buildings	(17,638)	(1,679)	-	-	(19,317)
Plant & machinery	(56,277)	(3,919)	-	-	(60,196)
Industrial and commercial equipment	(16,312)	(637)	9	-	(16,940)
Other assets	(7,031)	(1,040)	2	-	(8,069)
Total	**(97,258)**	**(7,275)**	**11**	**-**	**(104,522)**

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

3.2. RIGHT-OF-USE

The Group applied, for the preparation of these half-year financial statements, IFRS 16 - Leases, published by the IASB on January 13, 2016 and obligatory from January 1, 2019.
The Group adopted the option provided for in IFRS 16:C3, which permits reference to be made to the conclusions reached in the past regarding the contracts previously identified as leases in application of IAS 17 and IFRIC 4. This option was applied to all contracts, as provided for in IFRS 16:C4.
This standard was applied utilising the modified retrospective approach. In particular, with regard to lease contracts previously classified as operating leases, the Group recognised the following:

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

The values of Right-of-use assets at December 31, 2020 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2020			31/12/2019		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land right-of-use	2,570	(143)	2,427	2,570	-	2,570
Buildings right-of-use	5,408	(1,750)	3,658	4,350	(906)	3,444
Plant and machinery right-of-use	1,525	(274)	1,251	1,525	(137)	1,388
Other assets right-of-use	3,053	(1,180)	1,873	2,656	(614)	2,042
Total	**12,556**	**(3,347)**	**9,209**	**11,101**	**(1,657)**	**9,444**

The gross values of these rights at December 31, 2020 (in Euro thousands) are reported below:

Gross value	31/12/2019	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2020
Land right-of-use	2,570	-	-	-	2,570
Buildings right-of-use	4,350	1,436	(378)	-	5,408
Plant and machinery right-of-use	1,525	-	-	-	1,525
Other assets right-of-use	2,656	804	(407)	-	3,053
Total	**11,101**	**2,240**	**(785)**	**-**	**12,556**

The accumulated depreciation of these rights in 2020 is reported below (in Euro thousands):

Gross value	31/12/2019	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2020
Land right-of-use	-	(143)	-	-	(143)
Buildings right-of-use	(906)	(963)	119	-	(1,750)
Plant and machinery right-of-use	(137)	(137)	-	-	(274)
Other assets right-of-use	(614)	(725)	160	-	(1,180)
Total	**(1,657)**	**(1,968)**	**279**	**-**	**(3,347)**

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

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

The increase in 2020 mainly involved apartments for employees in Guyana, in addition to office buildings for distancing purposes in compliance with COVID-19 regulations.

3.3. INVESTMENT PROPERTY

The values of Investment property at December 31, 2020 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, 2020 with December 31, 2019.

	31/12/2020			31/12/2019		
	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	2,378	(1,075)	1,303	2,228	(1,005)	1,223
Total	**4,212**	**(1,075)**	**3,137**	**4,062**	**(1,005)**	**3,057**

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

The changes between December 31, 2019 and December 31, 2020 in the gross values of investment property of the Avio Group are illustrated in the table below (Euro thousands):

Gross value	31/12/2019	Increases	Decreases	Reclassifications and other changes	31/12/2020
Land	1,834	-	-	-	1,834
Buildings & facilities	2,228	150	-	-	2,378
Total	**4,062**	**150**	**-**	**-**	**4,212**

Between December 31, 2019 and December 31, 2020, the changes to accumulated depreciation were as follows (in Euro thousands):

Accumulated depreciation	31/12/2019	Depreciation	Utilisations	Reclassifications and other changes	31/12/2020
Land	-	-	-	-	-
Buildings & facilities	(1,005)	(70)	-	-	(1,075)
Total	**(1,005)**	**(70)**	**-**	**-**	**(1,075)**

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

3.4. GOODWILL

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

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

Goodwill allocated to the Space CGU was subject to an impairment test at the reporting date, the outcome of which did not indicate the need for a write-down of the carrying amount of goodwill at December 31, 2020.

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, 2020, cash flows for the Space CGU were estimated based on projections from the Business plan 2021-2025, approved by the Board of Directors on March 19, 2021. For the calculation of the terminal value, the expected cash flows for the final year were normalised according to the perpetuity method, assuming 1% rather than the 2% growth for forecast cash flows in 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, net of taxes, was 7.7% (8.2% in the previous year).

The estimates and the plan data used in the application of the above indicated parameters are calculated by directors based on past experience and forecasts concerning Group markets. It is therefore highlighted that the current international economic environment and the possible economic-financial repercussions, 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 the directors and, although considering that the production and commercialisation cycles for products cover extensive timeframes which therefore permit the recovery of any delays on plan objectives, it should be considered that goodwill may be impaired in future periods due to changes in the general environment which are currently unforeseeable. The circumstances and events which may result in further impairments are constantly monitored by the directors.

The recoverable value of the Space CGU is Euro 48 million higher than the carrying amount of the net capital employed.

In view of the above, a sensitivity analysis was conducted on the discount rate for cash flows, assuming an increase of 50 basis points, resulting in a change in recoverable amount, nonetheless in excess of the carrying amount of net invested capital by Euro 30 million.

In order to further support the analysis carried out, in view of the persistence 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, 2020 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, 2019 with December 31, 2020.

	31/12/2020			31/12/2019		
	Gross value	Accumulated amortisation	Net book value	Gross value	Accumulated amortisation	Net book value
Development costs - amortisable	117,884	(57,722)	60,162	71,188	(52,628)	18,560
Development costs - in progress	28,070	-	28,070	64,421	-	64,421
Total development costs	145,954	(57,722)	88,232	135,609	(52,628)	82,981
Assets from PPA 2017 - Programmes	44,785	(11,197)	33,588	44,785	(8,211)	36,574
Concessions, licenses, trademarks & similar rights	10,439	(7,579)	2,860	8,040	(6,455)	1,585
Other	3,709	(2,979)	730	3,485	(2,363)	1,122
Assets under development and payments on account	172	-	172	11	-	11
Total	**205,059**	**(79,477)**	**125,582**	**191,930**	**(69,657)**	**122,273**

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

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

With reference to development costs in course of completion, which are not subject to amortisation as referring to programmes which have not yet commenced commercial production, recognition under intangible assets with definite useful lives (with prior verification of the absence of impairment) is supported by the profitability forecasts of the programmes.
Following the purchase price allocation process of the Avio Group by Space2 in March 2017, two intangible assets were identified relating to the Ariane and Vega aerospace programmes for a total of Euro 44,785 thousand.
The assets deriving from this allocation were measured at fair value based on the present value of the expected future benefits of the above aerospace programmes and amortised over a period of 15 years on the basis of the average useful life of the programmes.

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

The changes between December 31, 2019 and December 31, 2020 in the gross values of Intangible assets with definite life of the Avio Group are illustrated in the table below (Euro thousands):

Gross value	31/12/2019	Increases	Decreases	Reclassifications and other changes	31/12/2020
Development costs - amortisable	71,188	-	-	46,696	117,884
Development costs - in progress	64,421	10,345	-	(46,696)	28,070
Total development costs	135,609	10,345	-	-	145,954
Assets from PPA 2017 - Programmes	44,785	-	-	-	44,785
Concessions, licenses, trademarks & similar rights	8,040	2,399	-	-	10,439
Other	3,485	212	-	12	3,709
Assets under development and payments on account	11	173	-	(12)	172
Total	**191,930**	**13,129**	**-**	**-**	**205,059**

The increases in 2020 with reference to the development costs mainly relate to design and testing costs for the construction of the new liquid oxygen and methane engines. The development costs for the new Z40 and P120 motors began to be amortised during the year.

Between December 31, 2019 and December 31, 2020, the changes to accumulated depreciation were as follows (in Euro thousands):

Accumulated amortisation	31/12/2019	Increases	Decreases	Reclassifications and other changes	31/12/2020
Development costs - amortisable	(52,628)	(5,094)	-	-	(57,722)
Development costs - in progress	-	-	-	-	-
Total development costs	(52,628)	(5,094)	-	-	(57,722)
Assets from PPA 2017 - Programmes	(8,211)	(2,986)	-	-	(11,197)
Concessions, licenses, trademarks & similar rights	(6,455)	(1,094)	-	(30)	(7,579)
Other	(2,363)	(616)	-	-	(2,979)
Total	**(69,657)**	**(9,790)**	**-**	**(30)**	**(79,477)**

3.6. INVESTMENTS

The investments held by the Avio Group at December 31, 2020 and December 31, 2019 follows (in Euro thousands).

	31/12/2020		31/12/2019		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%	4,885	50.00%	3,539	1,346
Total companies under joint control		**4,885**		**3,539**	**1,346**
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		**9,112**		**7,766**	**1,346**

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

The changes in 2020 in the investments are shown below (Euro thousands):

	31/12/2019	Increases	Decreases	Other changes	31/12/2020
Subsidiaries	63	-	-	-	63
Companies under joint control	3,539	1,346	-	-	4,885
Associated companies	3,640	-	-	-	3,640
Other companies	524	-	-	-	524
Total	**7,766**	**1,346**	**-**	**-**	**9,112**

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 1,346 thousand (due to the 50% share of profits accrued in 2020, amounting to Euro 2,692 thousand).

The investments in other associated companies (mainly consortiums) are valued at acquisition or subscription cost, as these companies are not considered significant in relation to the Group financial position and also as non-operating companies. In addition, the valuation as per the equity method would not result in a significant effect compared to valuation at cost.
There are no significant restrictions in the capacity of the associated companies to transfer funds to the owners of the company, through payment of dividends, loans or advance repayments.

The investments in other companies are valued at cost.

3.7. NON-CURRENT FINANCIAL ASSETS

The table below illustrates the non-current financial assets of the Avio Group at December 31, 2020 and at December 31, 2019 (in Euro thousands).

	31/12/2020	31/12/2019	Change
Shareholder loan to Termica Colleferro S.p.A.	6,259	6,106	153
	6,259	**6,106**	**153**

The account, amounting to Euro 6,259 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 additional information regarding Termica Colleferro S.p.A., see the specific paragraph "Other commitments" of section 5. " Commitments and risks".

3.8. DEFERRED TAX ASSETS

The Avio Group's recognised deferred tax assets amount to Euro 77,975 thousand (Euro 77,784 thousand at December 31, 2019).
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):

	31/12/2020
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.	9,021
Financial charges exceeding 30% of EBITDA	38,406
Temporary differences deriving from current corporate operations	
Provision for personnel charges, former employees and similar	3,176
Other deductible temporary differences	9,396
Total gross deferred tax assets	**59,999**
Deferred tax liability on temporary differences	
Temporary differences deriving from previous corporate operations	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(9,710)
Tax effect R&D expenses First-Time Adoption	(2,174)
Temporary differences deriving from current corporate operations	
Other temporary assessable differences	(1,171)
Total gross deferred tax liabilities	**(13,055)**
Net deferred tax assets/(liabilities)	**46,944**
Deferred tax assets on tax losses	**74,539**
Eligible deferred tax assets	**121,483**
Deferred tax assets not recorded	**(43,508)**
Net deferred tax assets (liabilities) recorded	**77,975**

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

This time period considered representative of the life cycle of the business was estimated also taking into account the meeting with the Ministers of the Member Countries of ESA held in December 2014, which resulted in the signing in August 2015 of agreements with ESA relating to the development of the new Ariane 6 launcher and the evolution of the VEGA launcher within the VEGA C programme which provides for the development and construction of the new "P120" motor, and the meeting of the Ministers of the Member Countries of ESA held on December 1, 2016 and on December 2, 2016 which confirmed the above-mentioned development programmes and gave the go ahead for the long-term development programme of the motor and of the Upper Stage of the Vega E, or rather the next step in the evolution of the Vega launcher.

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

3.9. OTHER NON-CURRENT ASSETS

The table below illustrates other non-current assets at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Other non-current assets	74,140	78,295	(4,155)
	74,140	**78,295**	**(4,155)**

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

	31/12/2020	31/12/2019	Change
Receivables from the General Electric Group	58,220	58,514	(294)
Receivables from FCA Partecipazioni	9,132	11,258	(2,126)
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	6,077	7,870	(1,793)
Guarantee deposits	572	535	37
Other non-current receivables	139	118	21
Total	**74,140**	**78,295**	**(4,155)**

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

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

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

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

- the 2018 Budget Law (see Article 1, paragraph 87, letter a), of Law 205 of December 27, 2017) amended, with effect from January 1, 2018, Article 20 of the Consolidated Registration Tax Act, limiting the ability of the revenue authorities to reclassify acts subject to registration;

- the 2019 Budget Law (see Article 1, paragraph 1084, of Law 145 of December 30, 2018) attributed retroactive effect to the provision introduced by the 2018 Budget Law, which therefore should apply to payment notices – including that served on the Company – served in years prior to 2017;

- on July 21, 2020 Italy's Constitutional Court (see judgment no. 158) ruled that there was no basis for the challenges of the constitutionality of Article 20 of the Consolidated Registration Tax Act, holding that the statute is intended to reaffirm the "transaction tax" nature of registration tax, and clarifying the object of taxation in accordance with the structure of a levy on the legal effects of the legal transaction presented for registration, without the revenue authorities being able to attach relevance to extratextual elements and linked legal transactions devoid of any textual connection with the transaction in question;

- on September 17, 2020 the Central Directorate of the Tax Agency published official clarification (see reply no. 371) in which, acknowledging the above ruling by the Constitutional Court, it clarified that "*the sale of company quotas preceded by the contribution of a business line cannot be taxed on a par with the sale of a company as a whole on the basis of the provisions of Article 20 of the Consolidated Income Tax Act.*"

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

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

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

The decrease of Euro 2,126 thousand is due to the reclassification to short-term of the residual portion at the reporting date of the receivable due within 12 months.

"Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion", amounting to Euro 6,077 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, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Inventories	140,309	145,519	(5,210)
	140,309	**145,519**	**(5,210)**

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

	31/12/2019	Change	31/12/2020
Raw material, ancillaries and consumables	36,848	10,583	47,432
Raw material, ancillary and consumables obsolescence provision	(1,742)	(632)	(2,374)
Raw material, ancillary and consumables - net value	35,106	9,952	45,058
Products in work-in-progress	5,292	(17)	5,275
Provision for the write-down of work in progress	(170)	170	-
Products in work-in-progress - net value	5,122	153	5,275
Finished products and other inventories	3,261	-	3,261
Finished products and other inventories obsolescence provision	(2,119)	-	(2,119)
Finished products and other inventories - net value	1,142	-	1,142
Advances to suppliers	104,149	(15,315)	88,834
	145,519	**(5,210)**	**140,309**

The increase in inventories of raw materials relates to greater production levels.

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

3.11. CONTRACT WORK-IN-PROGRESS

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

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

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

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

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

	31/12/2020	31/12/2019	Change
Contract work in progress	334,860	214,599	120,261
Advances for contract work-in-progress	(477,871)	(319,503)	(158,368)
Net total	**(143,011)**	**(104,904)**	**(38,107)**

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):

	31/12/2020	31/12/2019	Change
Contract work-in-progress (gross)	1,045,285	803,444	241,841
Advances for contract work-in-progress (gross)	(710,424)	(588,845)	(121,579)
Contract work-in-progress (net)	**334,860**	**214,599**	**120,261**

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):

	31/12/2020	31/12/2019	Change
Contract work-in-progress (gross)	950,265	1,050,897	(100,632)
Advances for contract work-in-progress (gross)	(1,428,136)	(1,370,400)	(57,736)
Advances for contract work-in-progress (net)	**(477,871)**	**(319,503)**	**(158,368)**

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

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

3.12. TRADE RECEIVABLES

The table below illustrates trade receivables at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Trade receivables	2,175	6,215	(4,040)
	2,175	**6,215**	**(4,040)**

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

	31/12/2020	31/12/2019	Change
Receivables from third parties	561	4,454	(3,893)
Receivables from associates and jointly controlled companies	1,028	1,146	(118)
	1,589	**5,600**	**(4,011)**
Receivables from associates and jointly controlled companies beyond one year	586	615	(29)
	586	615	(29)
Total	**2,175**	**6,215**	**(4,040)**

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):

	31/12/2020	31/12/2019	Change
Gross value	1,044	4,937	(3,893)
less: doubtful debt provision	(483)	(483)	-
Total	**561**	**4,454**	**(3,893)**

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):

	31/12/2020	31/12/2019	Change
Europropulsion S.A.	566	771	(205)
Servizi Colleferro S.C.p.A.	80	203	(123)
Potable Water Services Consortium	158	62	96
Termica Colleferro S.p.A. due within one year	224	110	114
	1,028	1,146	(118)
Termica Colleferro S.p.A. due beyond one year	586	615	(29)
	586	615	(29)
Total	**1,614**	**1,761**	**(147)**

3.13. CASH AND CASH EQUIVALENTS

The table below illustrates cash and cash equivalents at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Cash and cash equivalents	124,666	144,303	(19,637)
Total	**124,666**	**144,303**	**(19,637)**

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, 2020 and December 31,2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Tax receivables	33,094	33,162	(68)
Total	**33,094**	**33,162**	**(68)**

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

	31/12/2020	31/12/2019	Change
VAT receivables	26,217	20,961	5,256
Research and development tax credit (year 2020)	1,563		1,563
Research and development tax credit (year 2019)		6,291	(6,291)
Receivables from tax authorities	5,078	5,628	(550)
EU VAT receivables	236	282	(46)
Total	**33,094**	**33,162**	**(68)**

VAT receivables

VAT receivables, for Euro 26,217 thousand, include:

- Euro 20,610 thousand, relating to VAT reimbursement requests to the Tax Authorities;
- Euro 5,607 thousand relating to VAT receivables for which refunds have not yet been requested.

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

As stated in the paragraph, "Subsequent events" of the Directors' Report, during the period from beginning of 2021 to the date of approval of these financial statements, VAT receivables of Euro 8,557 thousand were collected, amounting to 42% of the VAT receivables for which an application was requested, as set out above.

Research and development tax credit

Regulatory framework

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

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

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

- was recognised against the investment specifically identified by the law made in the years between 2015 and 2020;

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

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

Due to the 2019 Budget Law:

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

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

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

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

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

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

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

Recognition in the Financial Statements

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

The 2020 income statement includes accruals relating to the effects on the income statement of the tax credits accrued in 2017, 2018 and 2019 according to the provisions of Article 3 of Decree-Law 145/2013, in effect until December 31, 2019.

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

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

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

As established by the 2019 Budget Law, the tax credit maturing in relation to costs incurred in 2019 was utilised as an offset in 2020, following the release of the relative "certification" from the appointed auditor, as required by the above-stated regulatory changes.

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

The effect of the tax credit accrued in 2020 pursuant to the 2020 Budget Law, amounting to Euro 1,563 thousand, was also recognised in the 2020 income statement. The tax credit in question primarily refers to internal research.

Tax receivables

Tax receivables of Euro 5,078 thousand principally concerned:

- receivables relating to the expedited VAT settlement of Se.co.sv.im. S.r.l. for Euro 1,956 thousand;
- IRAP receivables of Euro 967 thousand;
- receivables for withholding taxes on interest for Euro 947 thousand;
- tax receivables of the overseas subsidiaries Regulus and Avio France for Euro 257 thousand;
- other tax receivables of Euro 951 thousand.

EU VAT receivables

The EU VAT receivables relate to inter-EU transactions and amount to Euro 236 thousand.

3.15. OTHER CURRENT ASSETS

The table below illustrates other current assets at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Other current assets	8,954	9,142	(188)
Total	**8,954**	**9,142**	**(188)**

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

	31/12/2020	31/12/2019	Change
Economic Development Ministry for disbursements pursuant to Law 808/85	3,212	3,511	(299)
Receivables from FCA Partecipazioni	2,168	2,168	-
Employee receivables	1,033	989	44
Prepayments and accrued income	986	820	166
Grants/subsidies receivable	847	649	198
Other debtors	666	470	194
Receivables from the non-consolidated subsidiary Servizi Colleferro S.C.p.A.		494	(494)
Receivables from associated company Consorzio Servizi Acqua Potabile	4		4
Social security institutions	38	41	(3)
Total	**8,954**	**9,142**	**(188)**

Receivables from the "Economic Development Ministry for disbursements pursuant to Law 808/85", amounting to Euro 3,212 thousand, refer to the discounted value of the sums to be disbursed by the Ministry for Economic Development for projects qualifying as functional to national security or projects with common European interest, subsequent to the approval by the Interministerial Committee for the Economic Programming of Resolution No. 28 of March 22, 2006 enacting directives for the aerospace sector, which will be received in the next year.

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

Regarding the "Receivables from FCA Shares", reference should be made to the comments at paragraph "3.9 Other non-current assets" in these notes. At the end of the first half of 2020, the instalment of Euro 2,168 thousand recognised at December 31, 2019 was received; the amount recognised at December 31, 2020 is the new instalment due within 12 months, which is of an equal amount to the previous instalment.

Prepayments and accrued income increased by Euro 166 thousand and mainly relate to software licences.

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, 2020; 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, 2020 comprised 26,359,346 ordinary shares.

3.17. SHARE PREMIUM RESERVE

The share premium reserve, originally totalling Euro 144,256 thousand, is restricted for the value of the treasury shares acquired. At December 31, 2019, the available value of the share premium reserve was Euro 141,588 thousand, as treasury shares for a value of Euro 2,668 thousand had been acquired at that date.

During 2020, treasury shares of Euro 6,413 thousand had been purchased, with the available value at December 31, 2020 of the share premium reserve therefore totalling Euro 135,175 thousand.

3.18. OTHER RESERVES

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

	31/12/2020	31/12/2019	Change
Actuarial gains/(losses) reserve	(4,342)	(3,993)	(349)
Legal reserve	18,193	18,193	0
Treasury shares acquired	(9,081)	(2,668)	(6,413)
Unavailable treasury shares purchase reserve	9,081	2,668	6,413
Total	**13,851**	**14,200**	**(349)**

At December 31, 2020, following further purchases of treasury shares, Avio S.p.A. held 671,233 treasury shares, equal to 2.5465% of the share capital. The value of the treasury shares acquired amounts to Euro 9,081 thousand.

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

The reconciliation between equity at December 31, 2020 and the 2020 parent result and the corresponding consolidated financial statement amounts is outlined as follows (in Euro thousands):

	Equity at 31/12/2020	Net profit 2020
Financial Statements of Avio S.p.A.	**294,031**	**8,771**
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	134,160	3,465
Elimination of inter-company dividends	-	(200)
Other consolidation adjustments	2,585	2,082
Consolidated financial statements (attributable to the Group)	**303,482**	**14,118**

With regards to the reconciliation, the following is reported:

- the elimination of intragroup dividends relates solely to the dividends paid by the indirect subsidiary Se.Co.Sv.Im. S.r.l. in 2020 (Euro 200 thousand) to the sub-parent company ASPropulsion International B.V.;
- the other consolidation adjustments mainly relate to the measurement at equity of the jointly controlled Europropulsion S.A., amounting to Euro 1,346 thousand, and the elimination of the leasing contracts with the subsidiary Se.Co.Sv.Im..

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 (in Euro thousands):

	31/12/2020			
Consolidated companies	% Non-controlling interests	Capital and Reserves	Profit/(loss)	Equity non-controlling Interests
Spacelab S.p.A.	30.00%	2,501	17	2,518
Regulus S.A.	40.00%	5,256	738	5,994
		7,757	**755**	**8,512**

NON-CURRENT LIABILITIES

3.21. NON-CURRENT FINANCIAL LIABILIITES

The movement in the account between December 31, 2019 and December 31, 2020 is reported below (in Euro thousands):

	31/12/2020	31/12/2019	Change
Non-current financial liabilities	32,000	42,000	(10,000)
Total	**32,000**	**42,000**	**(10,000)**

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

- 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 of Euro 1,000 thousand from the third to the seventh years, of which the first maturing on April 30, 2021 and the final maturing on October 31, 2025;

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

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

The decrease of Euro 10,000 thousand relates to the short-term reclassification:
- of the two instalments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2021 and October 31, 2021, respectively;
- of the two instalments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2021 and October 31, 2021, respectively;

The total current amount of Euro 10 million to be paid is therefore recorded under item "3.26. Current financial liabilities."

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

Hedging derivatives have not been agreed on these loans.

3.22. NON-CURRENT FINANCIAL LIABILITIES FOR LEASING

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

	31/12/2020	31/12/2019	Change
Non-current financial liabilities for leasing	4,543	4,889	(346)
Total	**4,543**	**4,889**	**(346)**

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

	31/12/2020	31/12/2019	Change
Non-current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	1,109	1,246	(137)
Non-current financial liabilities to third parties as per IFRS 16	3,434	3,643	(209)
Total	**4,543**	**4,889**	**(346)**

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):

	31/12/2020	31/12/2019	Change
- Defined benefit plans:			
Post-employment benefit	4,166	4,471	(305)
Other defined benefit plans	2,988	2,720	268
	7,154	7,191	(37)
- Other long-term benefits	4,107	3,998	109
Total employee benefit provisions	**11,261**	**11,189**	**72**
of which:			
- Italy	9,526	9,398	128
- Other Countries	1,735	1,791	(56)
	11,261	**11,189**	**72**

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

	Defined benefit plans	Other long-term employee benefits	Total employee benefit provisions
At 31/12/2019	**7,191**	**3,998**	**11,189**
Financial charges/(income)	(12)		(12)
Actuarial (gains)/losses in income statement		272	272
Actuarial (gains)/losses in comprehensive income statement	430		430
Pension cost current employees	146	166	312
Other changes		(55)	(55)
Benefits paid	(601)	(274)	(875)
At 31/12/2020	**7,154**	**4,107**	**11,261**

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

	31/12/2020	31/12/2019
Discount rate	-0.17%	0.22%
Expected salary increases	2.14%	2.12%
Inflation rate	European zero-coupon inflation-indexed curve Swap at 31.12.2020	1.50%
Average employee turnover rate	4.74%	4.46%

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, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Provisions for risks and charges	31,734	31,892	(158)
Total	**31,734**	**31,892**	**(158)**

The breakdown of the provisions for risks and charges at December 31, 2020 is presented below (Euro thousands):

	31/12/2020		
	Current portion	Non-current portion	Total
Provision for variable remuneration	5,383	3,349	8,732
Provision for legal and environmental risks and charges	6,553	12,776	19,329
Provision for contractual and commercial risks and charges	416	3,257	3,673
Total	**12,352**	**19,382**	**31,734**

These provisions include:

- provisions for variable remuneration for Euro 8,732 thousand, mainly comprising employee remuneration on the achievement of individual and corporate objectives;
- provisions for legal and environmental risks and charges, against litigation and trade union disputes in course, amount to Euro 19,329 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 3,673 thousand.

The movements in current and non-current provisions in 2020 are shown below (amounts in Euro thousands):

	31/12/2019	Provisions	Other changes	Utilisations	Releases	31/12/2020
Provision for variable remuneration	7,727	5,724	-	(3,519)	(1,200)	8,732
Provision for legal and environmental risks and charges	20,633	-	110	(1,378)	(36)	19,329
Provision for contractual and commercial risks and charges	3,532	1,269	(195)	-	(933)	3,673
Total	**31,892**	**6,993**	**(85)**	**(4,897)**	**(2,169)**	**31,735**

The main changes during the year were:

- the provision for variable remuneration was utilised for Euro 3,519 thousand, in consideration of the amounts paid to employees as bonuses related to the achievement of individual and company objectives. The provision of Euro 5,724 thousand mainly relates to variable remuneration which will be paid at the beginning of 2021, on the basis of the achievement of individual and company objectives for the year 2020, in addition to a long-term incentive plan for senior Group managers;

- provisions for legal and environmental risks and charges were used for Euro 1,378 thousand to pay reclamation costs;

- provisions for contractual and commercial risks and charges were increased by Euro 1,269 thousand and partly released, for Euro 933 thousand, following an assessment of their adequacy.

3.25. OTHER NON-CURRENT LIABILITIES

The table below illustrates the account December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Non-current liabilities	127,840	134,185	(6,345)
Total	**127,840**	**134,185**	**(6,345)**

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

	31/12/2020	31/12/2019	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	5,126	10,627	(5,501)
	63,346	68,847	(5,501)
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	19,781	20,859	(1,078)
Payables to MiSE for disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	1,301	1,283	18
Deferred income on disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	483	483	-
	63,616	64,676	(1,060)
Payables due to MiSE for other subsidies	122		122
Other liabilities	137	98	39
Accrued expenses	619	564	55
Total	**127,840**	**134,185**	**(6,345)**

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

The account, amounting to Euro 58,220 thousand, refers to the settlement notice received in July 2016 from the Tax Agency relating to registration, mortgage and land tax for the above-mentioned amount, relating to the corporate operations which in 2013 resulted in the sale of the company GE Avio S.r.l. (containing the assets of the AeroEngine sector of the Avio Group) to the General Electric Group. Simultaneously a receivable was recorded from the General Electric Group for a similar amount.
The recognition of the above-mentioned receivable from the General Electric Group is based on specific contractual clauses in which this latter must indemnify Avio with reference to any liabilities which should arise in relation to indirect taxes concerning the above-mentioned operations, providing Avio the sums requested by the Tax Office within the time period for the payments.

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

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

- the 2018 Budget Law (see Article 1, paragraph 87, letter a), of Law 205 of December 27, 2017) amended, with effect from January 1, 2018, Article 20 of the Consolidated Registration Tax Act, limiting the ability of the revenue authorities to reclassify acts subject to registration;

- the 2019 Budget Law (see Article 1, paragraph 1084, of Law 145 of December 30, 2018) attributed retroactive effect to the provision introduced by the 2018 Budget Law, which therefore should apply to payment notices – including that served on the Company – served in years prior to 2017;

- on July 21, 2020 Italy's Constitutional Court (see judgment no. 158) ruled that there was no basis for the challenges of the constitutionality of Article 20 of the Consolidated Registration Tax Act, holding that the statute is intended to reaffirm the "transaction tax" nature of registration tax, and clarifying the object of taxation in accordance with the structure of a levy on the legal effects of the legal transaction presented for registration, without the revenue authorities being able to attach relevance to extratextual elements and linked legal transactions devoid of any textual connection with the transaction in question;

- on September 17, 2020 the Central Directorate of the Tax Agency published official clarification (see reply no. 371) in which, acknowledging the above ruling by the Constitutional Court, it clarified that "*the sale of company quotas preceded by the contribution of a business line cannot be taxed on a par with the sale of a company as a whole on the basis of the provisions of Article 20 of the Consolidated Income Tax Act.*"

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

Other tax payables

This account, which amounted to Euro 5,126 thousand, refers, in particular, to:

- for Euro 4,203 thousand, the long-term amount payable to the Italian Treasury as a refund of a part of the research and development tax credit and related interest, pursuant to Decree-Law No. 145/2013, relating to the 2017 tax period and already used for offsetting. In particular, in view of the shift in interpretation of the 2019 Budget Law, and of the opinions of independent advisors, the Group decided to apply the authentic interpretation rule set out in paragraph 1-*bis* of Decree-Law No. 145/2013 retrospectively to 2017 as well, and therefore to redetermine a lower tax benefit due for that year. The restatement in question was also subject to a settlement deed signed with the Italian Tax Office on July 22, 2020, with which an instalment plan was also agreed to partially refund the amount;

- Euro 746 thousand, as the long-term share of the tax payable of the subsidiary Se.co.sv.im. S.r.l. concerning the expedited settlement, following the application presented in 2019, regarding the tax dispute relating to the alleged failure to apply the tax on the reclamation costs subject to recharge to the consolidating company Avio S.p.A. for the years 2010, 2011 and 2012.

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

Liabilities relating to Law 808/85

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

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

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

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

The account, amounting to Euro 19,781 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 1,301 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.

Payables due to MiSE for other subsidies

This item, amounting to Euro 122 thousand, consists of payables due beyond one year to the Ministry of Economic Development relating to the disbursements provided for in Article 6 of the Decree of June 1, 2016, in accordance with Axis 1, action 1.1.3. of the National Operational Program "Enterprise and Competitiveness" 2014-2020 ERDF, received for the undertaking of the joint research and development project concerning "Additive Manufacturing by Mixing Elemental Powders". The payables are recorded at their discounted value.

Other payables

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

CURRENT LIABILITIES

3.26. CURRENT FINANCIAL LIABILITIES

The table below illustrates current financial liabilities at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Current financial liabilities	12,749	28,749	(16,000)
Total	**12,749**	**28,749**	**(16,000)**

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

3.27. CURRENT FINANCIAL LIABILITIES FOR LEASING

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

	31/12/2020	31/12/2019	Change
Current financial liabilities for leasing	2,676	2,647	29
Total	**2,676**	**2,647**	**29**

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

	31/12/2020	31/12/2019	Change
Current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	148	149	(1)
Current financial liabilities to third parties as per IFRS 16	2,528	2,498	30
	2,676	**2,647**	**29**

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, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Current portion of non-current financial payables	10,063	8,075	1,988
Total	**10,063**	**8,075**	**1,988**

The account, which amounted to Euro 10,063 thousand, consists of:

- the two instalments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2021 and October 31, 2021, respectively;
- the two instalments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2021 and October 31, 2021, respectively;
- interest expense on the above financial liabilities accrued at December 31, 2020 for Euro 63 thousand.

3.29. TRADE PAYABLES

The table below illustrates trade payables at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Trade payables	66,454	100,335	(33,881)
Total	**66,454**	**100,335**	**(33,881)**

Trade payables of the Avio Group at December 31, 2020 amount to Euro 66,454 thousand; this amount includes, for Euro 7,564 thousand, trade payables to associated companies, jointly controlled companies and non-consolidated subsidiaries as follows (Euro thousands):

	31/12/2020	31/12/2019	Change
Europropulsion S.A.	7,236	680	6,556
Termica Colleferro S.p.A.	445	840	(395)
Potable Water Services Consortium	(120)	(30)	(90)
Servizi Colleferro S.C.p.A.	3	241	(238)
Total	**7,564**	**1,731**	**5,833**

3.30. CURRENT TAX PAYABLES

The table below illustrates current tax liabilities at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Current income tax payables	8,488	6,124	2,364
Total	**8,488**	**6,124**	**2,364**

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

	31/12/2020	31/12/2019	Change
IRES payables	667		667
IRAP payables	41	870	(829)
Payables for withholding taxes	1,142	1,167	(25)
Other tax payables	6,246	3,810	2,436
Foreign income taxes	392	277	115
Total	**8,488**	**6,124**	**2,364**

IRES tax consolidation payables amounted to Euro 667 thousand, compared to nil in the comparison year: until December 31, 2019 the parent company, Avio S.p.A., had a tax loss sufficient to offset its own IRES taxable profits and those of the companies subject to tax consolidation. This tax loss was related to tax amortisation of goodwill concluded in 2019.

IRAP payables amount to Euro 41 thousand and were down by Euro 829 thousand on the comparison year. The greater IRAP tax in the comparison year was mainly due to the tax consequences of the settlement agreement with FCA Partecipazioni S.p.A. regarding environmental charges, entered into on August 2, 2019, whereby FCA undertook to pay the indirect subsidiary Se.Co.Sv.Im. S.r.l. the total sum of Euro 19.9 million; following the payment of this sum, Se.Co.Sv.Im. S.r.l. recognised an accrual to the provision for environmental charges of Euro 16.9 million at December 31, 2019 (at present values), which, since it was temporarily non-deductible, entailed a greater 2019 taxable profit for IRAP (and IRES) purposes than for statutory reporting purposes.
The 2019 IRAP balance payable of the indirect subsidiary Se.Co.Sv.Im. S.r.l. was then released in 2020 since the company benefited from the relief measure introduced by Article 24 of the Relaunch Decree, on the basis of which the 2019 IRAP balance payment was no longer due (along with the first 2020 IRAP payment on account).

Payables for withholding taxes, amounting to Euro 1,142 thousand, refer to employee and consultant withholding taxes. The liability is in line with the previous year.

Other Tax payables of Euro 6,246 thousand comprise the following items:

- for Euro 4,700 thousand, the short-term portion of the amount payable to the Italian Treasury as a refund of a part of the research and development tax credit and related interest, pursuant to Decree-Law No. 145/2013, relating to the 2017 tax period and already used for offsetting in 2018. In this regard, see the content of paragraph "3.25. Other non-current liabilities;

- for Euro 332 thousand, as the short-term portion of the Tax payable of the subsidiary Se.co.sv.im. S.r.l. concerning the expedited settlement, following the application presented by May 31, 2019, regarding the tax dispute relating to the alleged failure to apply the tax on the reclamation costs subject to recharge to the consolidating company Avio S.p.A. for the years 2010, 2011 and 2012.

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

- for Euro 1,214 thousand, tax liabilities in respect of ongoing tax disputes.

Payables for foreign taxes totalling Euro 392 thousand relate to the tax liabilities of the subsidiaries Regulus S.A., Avio Guyane S.A.S and Avio France S.A.S., operating in Kourou in French Guyana, a French overseas region and department in South America.

3.31. OTHER CURRENT LIABILITIES

The table below illustrates other current liabilities at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Other current liabilities	24,803	23,234	1,569
Total	**24,803**	**23,234**	**1,569**

Other current liabilities at December 31, 2020 and December 31, 2019 were as follows (Euro thousands):

	31/12/2020	31/12/2019	Change
Payables due to social security institutions	3,622	3,689	(67)
Employee payables	6,969	6,336	633
Other payables to third parties	5,558	5,526	32
Deferred income on disbursements pursuant to Law 808/85 - current portion	1,079	1,046	33
Other accrued liabilities and deferred income	7,575	6,637	938
Total	**24,803**	**23,234**	**1,569**

Amounts due to social security institutions

The account concerns amounts to be paid, amounting to Euro 3,622 thousand, relating to company and employee contributions, in accordance with regulations in force.

Employee payables

Employee payables amount to Euro 6,969 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 5,558 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 Shareholders' Meeting on April 17, 2019.
  The subsidiary Spacelab sold its launchers business unit to the parent company, Avio S.p.A., in early 2018. The contractual agreement pertaining to this transaction includes a consideration adjustment clause to take account of the fact that, at the date of sale of the business unit (March 1, 2018), the amount of the research and development tax credit accrued on the basis of the activities attributable to the unit subject to sale had yet to be definitively determined. Accordingly, on the date of sale of the unit, the parties decided to provide for the execution of a supplementary agreement to stipulate the adjustment of the price of sale of the business unit, to be entered into once any expected benefits of the tax credit attributable to the scope of the assets subject to sale has been negotiated. The period for negotiation between the parties to which the contract defining the price adjustment refers, originally set to end on December 31, 2018, was gradually extended in view, firstly, of the complexity of the rules governing tax credits and, subsequently, of the many changes to the rules in question, in some cases with retroactive effect on the period prior to the sale of the business unit.

At the reporting date of these financial statements, the parties had yet to negotiate the price adjustment. It follows that there is an insufficient basis for reliably estimating the amount of the price adjustment.
Consequently, at present, the dividends in question have not yet been paid to the shareholders in view of the failure to determine the aforementioned price adjustment; once it has been determined, the dividends may be paid in the short term;

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

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

The account, amounting to Euro 1,079 thousand (Euro 1,046 thousand at December 31, 2019), 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 7,575 thousand (Euro 6,637 thousand at December 31, 2019), mainly refers to the deferment of commercial costs and grants 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 351,590 thousand. They amounted Euro 391,120 thousand in 2019.

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

	FY 2020	FY 2019	Change
Revenues from sales	199,081	310,830	(111,749)
Revenues from services	7,028	6,031	997
	206,109	316,861	(110,752)
Changes in contract work in progress	145,481	74,260	71,221
Total	**351,590**	**391,121**	**(39,531)**

Several projects were completed in 2020, entailing the recognition of sales revenues of Euro 199,081 thousand (Euro 310,830 thousand in 2019). The main project concluded was the VERTA (Vega Research and Technology Accompaniment) programme, which regarded the completion of VEGA launches from second to sixth. In 2019 the main project completed related to tactical propulsion.

Revenues also include the effect of the recognition of research and development tax credits, governed by Law 232 of December 11, 2016, the "2017 Budget Law". These credits, recognised to the extent they are believed recoverable and useable, 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 "Group operating performance and financial and equity position" paragraph of the Directors' Report.

3.33. OTHER OPERATING REVENUES

Other operating revenues in 2020 amounted to Euro 7,233 thousand, as follows:

	FY 2020	FY 2019	Change
Income from the release of provisions	1,024	1,656	(632)
Income for the portion recognised to the income statement of the disbursements as per Law 808/85	1,064	1,466	(402)
Other income and operating grants	4,338	2,923	1,415
Over-accruals and similar in prior income	807	636	171
Insurance receivables		1,500	(1,500)
Total	**7,233**	**8,181**	**(948)**

The account comprises:

- income from the release of provisions of Euro 1,024 thousand (Euro 1,656 thousand in 2019), of which Euro 268 thousand relating to the subsidiary Regulus S.A. and Euro 756 thousand relating to the parent company Avio S.p.A.;
- income for the portion recognised to the income statement of the disbursements as per Law 808/85 for Euro 1,064 thousand (Euro 1,466 thousand in 2019);
- other income and operating grants of Euro 4,338 thousand (Euro 2,923 thousand in 2019), including, primarily:
    - recoveries of expenses for Euro 1,602 thousand;
    - grants for Euro 1,029 thousand;
    - other income for Euro 1,707 thousand;
- prior year income of Euro 807 thousand (Euro 636 thousand in 2019).

3.34. CONSUMPTION OF RAW MATERIALS

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

	FY 2020	FY 2019	Change
Purchase of raw materials	94,174	119,413	(25,239)
Change in inventories of raw materials	(8,819)	(5,407)	(3,412)
Total	**85,355**	**114,006**	**(28,651)**

3.35. SERVICE COSTS

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

	FY 2020	FY 2019	Change
Service costs	172,088	180,245	(8,157)
Rent, lease and similar costs	512	524	(12)
Total	**172,600**	**180,769**	**(8,169)**

Service costs, amounting to Euro 172,600 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 456 thousand and specific fees to internal board committees of Euro 156 thousand;
- supervisory body fees of Euro 186 thousand;
- Board of Statutory Auditors' fees of Euro 186 thousand.

The service costs therefore include the effect of the accounting of receivables for research and development activities, amounting to Euro 1,677 thousand, as described at paragraph 2.7 "Accounting policies".

3.36. PERSONNEL EXPENSES

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

	FY 2020	FY 2019	Change
Wages and salaries	47,375	45,314	2,061
Social security charges	16,366	15,492	874
Provision for variable remuneration	3,719	5,099	(1,380)
Other long-term benefits - current employees	152	130	22
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	272	417	(145)
Provision for "Other defined benefit plans"	3,015	3,312	(297)
Total	**70,899**	**69,764**	**1,135**

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 2020	FY 2019	Change
Blue-collar	387	384	3
White-collar	521	494	27
Executives	26	24	2
Total	**934**	**902**	**32**

3.37. AMORTISATION & DEPRECIATION

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

	FY 2020	FY 2019	Change
Property, plant & equipment	7,262	6,194	1,068
Rights-of-use	2,134	1,586	548
Investment property	70	64	6
Intangible assets with definite life	9,819	8,213	1,606
Total	**19,285**	**16,057**	**3,228**

Compared to 2019, amortisation & depreciation increased by Euro 3,228 thousand.

The increase relating to property, plant and equipment of Euro 1,068 thousand was due in particular to:

- the start of depreciation of the industrial building used to produce the P120C motor;
- the start of depreciation of several important installations.

The increase in the depreciation of Right-of-use of Euro 548 thousand was correlated to the new lease contracts entered into in 2020, which mainly governed apartments intended for use by employees in Guyana as well as office buildings useful for achieving the social distancing required by the COVID-19 legislation.

The increase in amortisation of intangible assets with definite life of Euro 1,606 thousand derives from the start of amortisation of capitalised development costs for the Z40 and P120 motors.

Amortization of intangible assets with a definite life primarily includes:

- amortization of capitalized development costs of Euro 5,094 thousand (Euro 3,933 thousand in 2019);
- Euro 2,986 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 2019).

3.38. OTHER OPERATING COSTS

This account amounts to Euro 8,086 thousand (Euro 7,609 thousand in 2019) and mainly comprises the following items:

- provisions for contingent liabilities of Euro 2,068 thousand (Euro 3,228 thousand in 2019);
- indirect taxes of Euro 1,894 thousand (Euro 1,848 thousand in 2019);
- prior year charges of Euro 414 thousand (Euro 466 thousand in 2019);
- other operating costs for Euro 3,171 thousand (Euro 1,006 thousand in 2019), relating to entertainment expenses, association dues, donations and contributions; The increase on the comparative period is essentially due to costs deriving from the COVID-19 emergency, including two donations of Euro 250 thousand each, one by the Avio Group to deal with the COVID-19 emergency to Colleferro Civil Protection and the other to the Kourou Hospital (in French Guyana);
- extraordinary charges of Euro 539 thousand (Euro 1,061 thousand in 2019).

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 2020, amounting to income of Euro 1,346 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 2019 was Euro 2,868 thousand.

3.40. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to costs capitalised for internally constructed assets, amounting to Euro 11,959 thousand, includes principally development costs for Euro 10,345 thousand and costs for the internal construction of tangible and intangible assets for Euro 1,610 thousand.

3.41. FINANCIAL INCOME

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

	FY 2020	FY 2019	Change
Bank interest income	-	61	(61)
Interest income on VAT and IRAP refunds		1,093	(1,093)
Financial income from amortised cost	246	439	(193)
Other financial income	0		0
	246	1,593	(1,347)
Realised exchange gains	405	515	(110)
Unrealised exchange gains	21	28	(7)
	426	543	(117)
Total	**672**	**2,136**	**(1,464)**

Financial income of Euro 672 thousand principally concerned:

- interest income from the discounting of receivables for Euro 246 thousand, of which;
  - Euro 153 thousand concerning the financial receivable of the associate Termica Colleferro S.p.A.;
  - Euro 51 thousand concerning the receivables from the Ministry for Economic Development for the disbursements as per Law 808/85;
  - Euro 42 thousand relating to receivables from FCA;
- exchange differences for Euro 426 thousand.

The decrease of Euro 1,347 thousand on 2019 was mainly due to the fact that interest income accrued on VAT receivables collected during the year of Euro 1,086 thousand was recognised during the comparative year.

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

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

3.42. FINANCIAL CHARGES

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

	FY 2020	FY 2019	Change
Interest on EIB loans	420	443	(23)
Interest expenses on other liabilities	230	519	(289)
Discounting on employee benefits	(23)	(17)	(6)
Financial charges from amortised cost	217	69	148
	844	1,014	(170)
Realised exchange losses	299	666	(367)
Unrealised exchange losses	2	4	(2)
	301	670	(369)
Total	**1,145**	**1,684**	**(539)**

Financial charges of Euro 1,145 thousand were down by Euro 539 thousand on the comparative year.

The decrease of Euro 170 thousand was due to a mix of contrasting factors including the fact that during the comparative year interest expense of Euro 443 thousand was recognised on the settlement to be reached at the time with the Tax Agency with regard to the 2017 research and development tax receivable. This settlement was then signed on July 22, 2020 and additional financial charges of Euro 181 thousand were recognised in 2020 to reflect the financial charges accrued until the date of the settlement on an accrual basis.

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

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

3.43. INCOME TAXES

"Income taxes" report a net charge of Euro 536 thousand (net income of Euro 3 thousand in the comparison year).
The charge of Euro 536 thousand (income of Euro 3 thousand in 2019) consists of:

- current taxes for IRES purposes of Euro 667 thousand (the Group did not pay IRES in 2019 since it recorded a tax loss at the consolidated level);
- current taxes for IRAP purposes of Euro 46 thousand (Euro 858 thousand in 2019); the IRAP charge for 2019 was extraordinary in nature inasmuch as it primarily derived from the tax consequences of the settlement agreement with FCA regarding environmental charges entered into August 2, 2019, on the basis of which it undertook to pay the Avio Group a total sum of Euro 19.9 million for environmental reclamation and restoration and post-operational management and maintenance. On the basis of this recognition, the environmental charges provision was booked for Euro 16.9 million (recognised in the financial statements at present values), which, since it was temporarily non-deductible, had resulted in greater IRAP of like amount;
- current taxes of foreign companies of Euro 717 thousand (Euro 649 thousand in 2019);
- income relating to the 2019 IRAP balance of the subsidiaries Se.co.sv.im. S.r.l. and Spacelab S.p.A. of approximately Euro 784 thousand following the relief measure introduced by Article 24 of the Relaunch Decree, on the basis of which payment of the 2019 IRAP balance was not due. This tax payable was released in 2020;
- income on the recognition of deferred tax assets of Euro 110 thousand (Euro 1,511 thousand in 2019).

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

	FY 2020	FY 2019
Pre-tax result	15,409	26,984
Ordinary rate applied	24.00%	24.00%
Theoretical tax charge	3,698	6,476
Effect of increases (decreases) to the ordinary rate:		
Permanent increases	6,074	13,010
Permanent decreases	(4,994)	(12,069)
Temporary difference increases	15,704	35,467
Temporary difference decreases	(15,218)	(67,159)
Total changes	1,565	(30,752)
Utilisation of fiscal losses	(9,458)	0
ACE deduction		(96)
IRES taxable income of the Group	7,516	(3,864)
Net deferred tax (income)/charge	110	1,511
Current taxes Italian companies	(666)	(858)
Extraordinary income IRAP 2019 balance net of 2020 IRAP	738	
Current taxes overseas companies	(717)	(649)
	(535)	3

3.44. EARNINGS PER SHARE

	FY 2020	FY 2019
Consolidated result (in Euro thousands)	14,118	26,198
Number of shares in circulation	26,359,346	26,359,346
Treasury shares	(671,233)	(214,500)
Number of shares entitled to profits	25,688,113	26,142,846
Basic earnings per share – in Euro	0.55	1.00
Diluted earnings per Share – in Euro	0,53[1]	0,97[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 2020, 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 950 employees at December 31, 2019. At December 31, 2019, Group employees numbered 935.

Disclosure by regional segment

The regional breakdown of Group revenues (defined based on customer country location), in 2020 (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):

	31/12/2020
Guarantees given:	
Unsecured guarantees:	
Sureties issued to third parties on behalf of Group	47,834
Other guarantees	3,402
Total guarantees given	51,236
Sureties and guarantees received	2,024
Total	**53,260**

Guarantees granted

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

Sureties and guarantees received

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

Other commitments

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

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

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. The agreement sees that 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.

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

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

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 6.2 million. With effect from December 31, 2019, there ceased to be 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, 2020, the residual payable of Termica Colleferro was Euro 12.5 million and the contractual commitment of Avio had a maximum "ceiling" of 40% of this payable, i.e. Euro 5.0 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 comply with the banking covenants, Termica Colleferro, Avio, SECI and the lending banks also signed an agreement in 2014 modifying the original loan agreement, in accordance with which Termica Colleferro has the right to remedy the potential violation of the financial covenants ("Equity cure") through the payment by the shareholders SECI and Avio to Termica Colleferro (pro-quota according to the limits of the respective share capital holdings in the company) of an amount as share capital increase and/or a shareholder loan which overall remedies the violation ("Cure amount").

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

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

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

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

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

In the interim, on February 13, 2020 the Public Prosecutor's Office of the Court of Bologna filed a petition for a declaration of bankruptcy of Seci S.p.A. following which, the Court of Bologna initially fixed the hearing for discussion on April 3, 2020
On the basis of that reported and the information available from media outlets, due in part to the concurrent effects of Covid-19, Seci S.p.A. presented on March 27, 2020 before the Bologna Court a new agreed settlement application, in so-called full form.
As of today, this petition is still awaiting the Decree of admission from the Court of Bologna and, consequently, the bankruptcy petition filed by the Public Prosecutor's Office is pending.

The first hearing in court to lift the reserve on the admission of the composition procedure and approval of the creditors plan has been scheduled for March 23, 2021; this hearing was then postponed to May 18, 2021 due to COVID-19.

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

Following a number of clarifications requested by the banks, the waiver request was resent on July 29, 2020 in order to receive a response in time for the approval of the 2019 and 2020 financial statements (according to the applicable deadlines, also in view of the extensions granted as a result of COVID-19).

Following lengthy examination of the waiver request by the banks, Termica Colleferro examined, including with the support of its external consultants, the possibility of waiting for the banks' response to the waiver request in order to approve the 2019 financial statements.

On August 6, 2020, the banks replied that, as they are awaiting information requested from the parent company Seci S.p.A. regarding the arrangement with creditors and more generally the foreseeable prospects of the overall restructuring process (also in relation to the arrangement with Officine Maccaferri S.p.A.), they are not in a position to carry out an assessment of the creditworthiness of the requests made by Termica Colleferro, while they shall not activate the acceleration clause.

Termica Colleferro immediately took action to ensure that the parent company Seci S.p.A. responded to the banks, and then made contact with the banking syndicate.

In the meantime, it should be noted that Termica Colleferro has regularly repaid the instalments of the loan due in 2020 (in February 2020 and August 2020) and that which expired in February 2021.

On the basis of the information received from the Industriale Maccaferri Group, there is an interest for the equity investment held by SECI in Termica Colleferro in the light of the expected measures in support of the thermoelectric sector.

This information was provided by Termica Colleferro to the banks within the framework of a request for discussion of the merits of the granting of a waiver by the banks, to which the lead bank responded that it discussions with the other banks participating in the pool loan were ongoing, and that it would give Termica Colleferro an answer once they had been completed.

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

<u>Criminal case against Servizi Colleferro S.C.p.A for pollution of the Sacco river</u>

As a result of the discovery of toxic substances in milk in June 2005 and the preliminary investigations of February 2009, in March 2010, the Republic of Velletri Public Prosecutor requested the citation of a number of individuals from Caffaro S.r.l., Centrale del Latte di Roma S.p.A. and Consorzio Servizi Colleferro (the legal representative and the presumed technical manager), alleging negligence causing the environmental disaster from the poisoning of the Sacco River waters and of substances intended for human consumption (milk), occurring in Colleferro, Segni and Gavignano until December 2008, and with regard to the consortium alone, the discharge of industrial wastewater without the prescribed authorisations in the same areas until November 2006. In particular, despite the fact that the Consortium was the sole party responsible for the final discharge of the industrial wastewater treatment plant of the area, its senior executives are accused of a failure to provide adequate safety measures, control systems and/or purifying treatments to prevent white water and first flush from the drainage of some areas in the area, collected by a trench facing the consortium wastewater treatment plant, flowing into the Sacco River, resulting in the contamination of the feed of dairy animals raised near the river. The Consortium operates on a non-profit basis with a main object to collect and treat waste water from the sites belonging to the consortium and sites in the industrial district of Colleferro.

The Ministry of the Environment, Land and Sea, the local municipalities and a number 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.

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

Finally, at the hearing of July 16, 2020, the Court of Velletri, in single-justice composition, fully acquitted Mr. Giovanni Paravani and Mr. Renzo Crosariol of the offense referred to in Section A) of the indictment, concerning the violation of Articles 113, 449, paragraph 1 (in relation to Article 434), 452, paragraph 1, No.3 (in relation to Article 439) of the Italian Criminal Code (negligent disaster), as judged to not have committed the act, consequently rejecting the claims brought by the civil parties against Servizi Colleferro S.C.p.A..
Updates from the legal counsel engaged regarding a possible appeal against the judgment of the first instance are expected.

Secosvim/Caffaro

The Colleferro industrial district includes an industrial area known as "Benzoin and derivatives" that until December 31, 2007 was leased to Caffaro S.p.A., which since September 2009 was subject to an extraordinary administration proceeding. For the collection of Caffaro debts, Secosvim submitted an application for admission to its insolvency proceedings, which was accepted.
At the same time, the Emergency Commissioners Office of Sacco Valley issued a claim for damages against Caffaro for land pollution for an estimated amount of approx. Euro 7 million, corresponding to the expected cost for the recovery of these areas. Caffaro challenged in the period between 2008 and 2012, before the Lazio Regional Administrative Court, a series of administrative acts (minutes of the conferences of service, notes with which Caffaro was requested to present contaminated waste disposal plans, approval deeds of characterization activities), requesting cancellation, with which the Commissioner's Office sought damages from Caffaro. These motions were notified also to Secosvim as owner of the Benzoin area (leased by Caffaro until 2007), which was therefore summoned before the court in accordance with law.
As the company Caffaro may claim these costs from Secosvim as the owner of the buildings, Secosvim therefore has requested since October 2009 before the Velletri court a prior technical declaration ("ATP") to establish any liability upon Caffaro for the contamination of the Benzoin area, which concluded with the filing of an opinion which confirmed the direct liability of Caffaro for the above-stated contamination.
In this regard, during the proceedings the State Prosecutor requested the Regional Administrative Court to assess the judicial incompatibility of the appeal decision. On conclusion of the hearing of December 6, 2016, the Lazio Regional Administrative Court consequently adopted separate ordinances (of identical tenor), with which (for each appeal) the President of the Counsel was requested to file within 90 days documented clarifications with regards to the criminal proceeding pending before the Velletri Court No. 1831/2014 (as reported in the previous paragraph, relating to the *"Criminal proceeding against Consorzio Servizi Colleferro with regards to the pollution of the Sacco river"*). The hearing to discuss these appeals was held on June 20, 2018.
The hearings are still pending before the Regional Administrative Court of Lazio and the next hearing is scheduled for June 9, 2021.

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, 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 and simultaneous cross-appeal, reaffirming the soundness of its arguments.
With regards to this dispute, on the basis of specific contractual provisions, the General Electric Group is required to indemnify Avio S.p.A. for any liabilities which may arise with regards to the indirect taxes relating to the disposal of the company GE Avio S.r.l. (containing the AeroEngine segment operations of the Avio Group), in addition to the provision to Avio S.p.A. of any amounts requested by the Tax Agency by the established payment deadlines. In this regard, on August 12, 2016, following the notification from the Tax Agency to Avio S.p.A. of the settlement notice for a total of Euro 58,220 thousand, GE Italia Holding S.p.A. confirmed to Avio S.p.A. its punctual fulfilment of the above contractual stipulations. In view of that above, and particularly the notification of the above-stated settlement notice which quantifies the alleged indirect taxes as Euro 58,220 thousand, in addition to the above payments of the contractually established indemnities and confirmed subsequently to the settlement notice at issue, a tax payable was recognised to the financial statements in relation to the liabilities which may arise from the settlement notice and a corresponding receivable from the General Electric Group recorded for the same amount of Euro 58,220 thousand.
With regard to the litigation in question, and in particular the subject-matter of the dispute, relating to the anti-avoidance provision of Article 20, headed "Interpretation of acts", of Presidential Decree No. 131/1986 ("Consolidated Registration Tax Act"), mention should be made of some circumstances post-dating the service of the payment notice. In particular:

- the 2018 Budget Law (see Article 1, paragraph 87, letter a), of Law 205 of December 27, 2017) amended, with effect from January 1, 2018, Article 20 of the Consolidated Registration Tax Act, limiting the ability of the revenue authorities to reclassify acts subject to registration;
- the 2019 Budget Law (see Article 1, paragraph 1084, of Law 145 of December 30, 2018) attributed retroactive effect to the provision introduced by the 2018 Budget Law, which therefore should apply to payment notices – including that served on the Company – served in years prior to 2017;
- on July 21, 2020 Italy's Constitutional Court (see judgment no. 158) ruled that there was no basis for the challenges of the constitutionality of Article 20 of the Consolidated Registration Tax Act, holding that the statute is intended to reaffirm the "transaction tax" nature of registration tax, and clarifying the object of taxation in accordance with the structure of a levy on the legal effects of the legal transaction presented for registration,

without the revenue authorities being able to attach relevance to extratextual elements and linked legal transactions devoid of any textual connection with the transaction in question;

- on September 17, 2020 the Central Directorate of the Tax Agency published official clarification (see reply no. 371) in which, acknowledging the above ruling by the Constitutional Court, it clarified that "*the sale of company quotas preceded by the contribution of a business line cannot be taxed on a par with the sale of a company as a whole on the basis of the provisions of Article 20 of the Consolidated Income Tax Act.*"

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 on the Company two separate assessment notices, concerning IRES and IRAP respectively. In particular:

- in the IRES assessment notice, the Office assessed Avio S.p.A. greater IRES due to tax consolidation, which it had joined in 2014, of Euro 600,959.00, plus interest, levying total penalties of Euro 542,863.00;
- in the IRAP assessment notice, the Office adjusted the net value of production to the negative amount of -Euro 9,939,291.00 from the taxable loss reported of -Euro 12,124,598.00. Since the value of production adjusted by the Office is still negative, no tax was recovered and a fixed penalty of Euro 250.00 was levied.

In the spirit of fair cooperation, 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.
With regard to the IRES assessment notice, it should be noted that, pending the settlement procedure, the Company has asked the Office to be able to offset the greater taxable profit assessed against unused prior tax losses. Granting the Company's request, in July 2020 the Office recalculated the greater IRES assessed for 2014 (and related interest), reducing it to zero and levying a single administrative fine of Euro 1,250.00.
Despite various discussions and reciprocal attempts to reach a desired settlement of the aforementioned notices, the Company - while continuing to reiterate its full and loyal cooperation with the tax authorities - does not consider the conditions correct to proceed with the settlement of the assessment notices. In particular, without prejudice to the Company's many reservations regarding the legitimacy, in fact and in law, of the aforementioned assessment notices, the Company is confident of the correctness of its actions, and considers that it has acted in full compliance with the law, including in light of the OECD Guidelines and the Ministry of Economy and Finance Decree of May 14, 2018.
Believing, therefore, that it could not achieve compliance with the terms and conditions proposed by the Agency, the Company promptly challenged the two IRES and IRAP assessment notices in June 2020.
The case hearing has been set for April 2021, subject to deferral due to the ongoing pandemic emergency.
At present, the potential liability associated with the dispute in question totals Euro 1,500, of which Euro 1,250 by way of formal IRES penalty and Euro 250 by way of formal IRAP penalty.

B) Se.Co.Sv.Im. S.r.l. -Tax audits and disputes

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

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

Period 2001 - 2005: 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 by the Customs Agency against the second level judgment in favour of Se.co.sv.im. and the relative counter appeal by Se.co.sv.im. are pending before the Court of Cassation.
In September 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 2020 the fourth and last instalment and related interest were duly paid. A declaratory judgment that the dispute has been discontinued from the Supreme Court of Cassation is currently being awaited.

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 Se.co.sv.im. 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.
Se..co.sv.im., 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 Se.co.sv.im. lodged a timely appeal against the unfavourable judgment rendered by the Rome Provincial Tax Commission.
The fixing of the hearing by the Lazio Regional Tax Commission is currently being awaited.

2012 and 2013: the dispute for the years in question concerns property tax, interest and penalties levied for a total of Euro 14 thousand.
In July 2018 Se.co.sv.im. lodged a complaint/appeal with the Rome Provincial Tax Commission.
The Rome Provincial Tax Commission rejected the Company's claims in a judgment filed in December 2019.
The Company promptly appealed the above judgment in September 2020 and is now awaiting the fixing of the hearing by the Lazio Regional Tax Commission.

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

In 2013, Se.co.sv.im. 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, Se.co.sv.im. 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. In October 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, Se.co.sv.im. complied with the expedited settlement of the pending tax disputes as per Article 6 of Legislative 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 in May 2019. In 2020 the Company paid all the instalments provided for in the instalment plan by the legal due dates.
The sums thus paid will be charged as subsequent recovery from the parent company, Avio S.p.A., under the agreements between the companies.
As of July 31, 2020, the Tax Agency had not notified the Company of any refusal of the settlement of pending litigation. The settlement of the disputes in which the company is involved must be considered definitive and legitimately reached.

B.4) Correction and settlement of increased registration, mortgage and land taxes from the reclassification as the disposal of a business, with related recalculation of goodwill relating to the business unit, of the transfer of the "Energia Colleferro" business unit to Termica Colleferro S.p.A. and the subsequent transfer of the investment in this latter to the indirect parent company Avio S.p.A.

In relation to the transfer of the "Energia Colleferro" business unit to Termica Colleferro S.p.A. and the subsequent transfer of the investment in this latter to the indirect parent company Avio S.p.A., the Bologna Tax Office had served:

a) a settlement notice for greater registration, mortgage and property registry taxes arising from the re-characterisation of the transaction as the sale of a company, for a total of Euro 142 thousand;
b) an adjustment notice relating to the redetermination of the value of the goodwill attributable to the business unit subject to the purported company sale, for a total of Euro 16 thousand.

The dispute concerning the document referred to in ***point a)*** was resolved in the Company's favour in both the first and second instances. Accordingly, on December 2, 2019 the Italian Tax Office filed an appeal against the judgment of the Emilia Romagna Regional Tax Commission before the Court of Cassation.
On January 24, 2020 the Company appeared promptly in the proceedings, filing its own counter-appeal.
The Court of Cassation has yet to schedule a hearing.
The dispute concerning the document referred to in ***point b)*** was resolved in the Company's favour in the first instance, whereas in the second instance in December 2018 the Emilia Romagna Regional Tax Commission suspended the trial pending the resolution of the dispute indicated in *point a)* above.

C) Spacelab S.p.A. (ex ELV S.p.A.) - Tax audits and disputes.

It should be noted that this company had not been and is not involved in any tax audits or disputes at the reporting date.

D) Europropulsion S.A. – Tax audits and disputes.

Europropulsion was subject to a Tax Assessment by the French Tax Authorities with regards to the "taxe professionnelle" (an indirect tax adopted in France similar to IRAP) on ESA assets used by the company initially for tax years 2009, 2010 and 2011 and subsequently for 2012 and 2013, with a risk for future years.
The amounts contested are:

- for the years from 2009 and 2011, initially amounting to Euro 1.6 million, paid by the company in 2014. This amount was thereafter reduced to Euro 0.9 million following the recognition of partial relief of Euro 684 thousand by the French tax authorities;

- for the years 2012 and 2013 amounting to approx. Euro 250 thousand.

For the years 2009-2011, Europropulsion presented a first level appeal at the competent Tax Court, which judged against the company; the company appealed this decision on September 9, 2016.
With judgment of November 11, 2017, the competent French tax authorities cancelled the challenge concerning financial year 2010.
In the course of the legal procedure, it bears mentioning that in 2020 the judicial authority, known as the "Conseil d'Etat", declared the use of ESA assets subject to taxation according to a pure interpretation of the spirit of the tax law, referring the definitive, unappealable judgment of the dispute, according to the French legal system, to the final instance, to be handed down in 2021.
In view of the aforementioned judgment rendered in 2020 the opinion of its legal counsel, in its 2020 financial statements the Company decided to recognise the total amount of the tax liability associated with the theme in question in years 2009 to 2020, which was recalculated and estimated at approximately Euro 4 million.

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 2020 and 2019.

Amounts at December 31, 2020:

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

Amounts at December 31, 2019:

In thousands of Euro	Total accounts	IFRS 9 Category		
		Assets at amortised cost	*Assets at fair value through profit or loss*	*Liabilities at amortised cost*
FINANCIAL ASSETS				
- Investments in other companies	524		524	
- Non-current financial assets	6,106	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		
	244,585	**244,061**	**524**	**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**

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 2020 and 2019.

FY 2020

	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 Statement			
Liabilities at amortised cost	637	-	-
Derivative financial instruments	-	-	-
Total categories	637	-	-

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 Statement			
Liabilities at amortised cost	511	-	-
Derivative financial instruments	-	-	-
Total categories	511	-	-

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, 2020 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 2,175 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, 2020 these are recorded net of a doubtful debt provision of Euro 483 thousand. The overdue amounts were therefore not significant and entirely relate to timing factors.

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

Liquidity risk

The Company and Group's liquidity risk concerns any difficulties in obtaining at appropriate conditions the funding necessary to support operations. The principal factors which influence liquidity are, on the one hand, the resources generated and absorbed by the operating and investment activities and on the other the conditions concerning the maturity of the payable or the liquidity of the financial commitments.

Cash flows, funding requirements and liquidity are centrally monitored and managed, also through centralised treasury systems involving the main Group Italian and overseas companies, in order to ensure the timely and efficient sourcing of funding or the appropriate investment of liquidity, optimising the management of liquidity and cash flows. The Group periodically monitors forecast and effective cash flows and updates future cash flow projections in order to optimise liquidity management and calculate any funding requirements.

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

For information on the impacts of Covid-19, reference should be made to the Directors' Report.

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 and, where applicable, on the basis of management estimates. For this reason, the treasury accounts were included in the on-demand bracket.

Amounts at December 31, 2020:

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

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 joint ventures)	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

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, 2020 had not undertaken specific cash flow hedges in relation to these types of risks.

Interest rate risk

The company has two loans with the European Investment Bank (EIB) for a residual total of Euro 42 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, 2020 and 2019 and on the Group Income Statement for 2020 and 2019 (in Euro thousands):

	At December 31, 2020									
Counterparty	**Other non-current assets**	**Inventories and Advances to suppliers**	**Trade receivables**	**Other current assets**	**Contract work-in-progress**	**Non-current financial assets**	**Trade payables**	**Other current liabilities**	**Advances for contract work in progress**	**Financial liabilities**
Leonardo S.p.A.		3,530					2,112	248		
MBDA Italia S.p.A.			17		5,465				179	
MBDA France S.A.			3		9,779				23,540	
Thales Alenia Space Italia S.p.A.					126					
Vitrociset S.p.A.					115		581		113	
Companies with a connecting relationship and relative investee companies		**3,530**	**20**	**0**	**15,485**	**0**	**2,693**	**248**	**23,832**	**0**
Termica Colleferro S.p.A.			810			6,259	445			1,257
Europropulsion S.A.		34,702	566		77,307		7,236		55,683	12,749
Potable Water Services Consortium			158	4			(120)			
Servizi Colleferro - Consortium Limited Liability Company			80				3			
Associates and jointly controlled companies	**0**	**34,702**	**1,614**	**4**	**77,307**	**6,259**	**7,564**	**0**	**55,683**	**14,006**
Total related parties	**0**	**38,232**	**1,634**	**4**	**92,792**	**6,259**	**10,257**	**248**	**79,515**	**14,006**
Total book value	**74,140**	**140,309**	**2,175**	**8,954**	**334,860**	**6,259**	**66,454**	**24,803**	**477,871**	**62,031**
% on total account items	**0.00%**	**27.25%**	**75.13%**	**0.04%**	**27.71%**	**100.00%**	**15.43%**	**1.00%**	**16.64%**	**22.58%**

	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**	**5072**	**0**
Termica Colleferro S.p.A.	725			6,106	840			1,395
Europropulsion S.A.	771		34,561		680		57,509	28,749
Potable Water Services Consortium	62				(30)			
Servizi Colleferro - Consortium Limited Liability Company	203	494			241			
Associates and jointly controlled companies	**1,761**	**494**	**34,561**	**6,106**	**1,731**	**0**	**57,509**	**30,145**
Total related parties	**1,778**	**494**	**44,150**	**6,106**	**2,280**	**189**	**62,581**	**30,145**
Total book value	**6,215**	**9,142**	**214,599**	**6,106**	**100,335**	**23,234**	**319,504**	**86,360**
% on total account items	**28.60%**	**5.40%**	**20.57%**	**100.00%**	**2.27%**	**0.81%**	**19.59%**	**34.91%**

In 2020 and in the comparative 2019, the main income statement transactions by the Group with related parties were as follows (in Euro thousands):

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

(1) The account includes revenues from sales and services and does not include the advancement of work from contract work-in-progress not yet concluded.
(2)The account includes raw material consumables, service costs and personnel expenses.

	At December 31, 2019			
Counterparty	**Operating Revenues and changes in contract work-in-progress (1)**	**Other Costs (2)**	**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**	**-**	**-**
Termica Colleferro S.p.A.	152	8,936	294	21
Europropulsion S.A.	119,285	66,892	-	-
Potable Water Services Consortium	82	273	-	-
Servizi Colleferro - Consortium Limited Liability Company	413	1172	-	-
Associates and jointly controlled companies	**119,932**	**77,273**	**294**	**21**
Total related parties	**(26,264)**	**78,667**	**294**	**21**
Total book value	**391,121**	**364,539**	**2,136**	**1,684**
% on total account items	**6.72%**	**21.58%**	**13.76%**	**1.25%**

(1) The account includes revenues from sales and services and does not include the advancement of work from contract work-in-progress not yet concluded.
(2)The account includes raw material consumables, service costs and personnel expenses.

Transactions with companies with a connecting relationship and relative investee companies

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

Transactions with non-consolidated subsidiaries

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

Transactions with associates and jointly-controlled companies

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

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

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

Transactions with other related parties

Group transactions with other related parties concern the following operations:

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

8. LIST OF GROUP COMPANIES AT DECEMBER 31, 2020

The following table presents the key details of Avio Group investees at December 31, 2020:

Companies included in the consolidation scope at December 31, 2020	**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 2020 for audit and other services by the audit firm Deloitte & Touche SPA and its network (in Euro thousands):

Type of service	Company	Service provider	2020 Fees
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	119
	Subsidiaries	Deloitte & Touche S.p.A.	8
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	115[1]
Total	**Total**		**242**

[1] This concerns the limited review of the Avio Group's Non-Financial Statement for Euro 25 thousand, ISA 805 audit activities performed in 2020 related to the statement of research and development costs incurred in 2019 for Euro 45 thousand, voluntary audit accounting activities for Euro 40 thousand and ISRS 4400 activities related to the audit of R&D costs on the Horizon 2020 program for Euro 5 thousand.

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 2020:

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 2020	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	0.51	11/12/2020	0.26
AVIO SPA	Ministry for Economic Development	80-ton solid propellant engine - P80	2010	0.29	11/12/2020	0.15
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2009	0.15	10/08/2020	0.15
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2010	0.15	10/08/2020	0.46
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2011-2012	0.29	10/08/2020	0.56
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2012-2013	0.30	10/08/2020	1.69
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for	2014-2015	0.20	10/08/2020	1.83

		filament winding applied to 40T space engines				
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2016-2017	0.24	10/08/2020	2.01
AVIO SPA	Ministry for Economic Development	LOX/LCH technology demonstrator for the first stage of the Vega E launcher	2014-2016	-	-	1.16
				2.13		**9.43**

"Receivables from the Ministry for Economic Development" for disbursements in accordance with Law 808/85, amounting to Euro 9.43 million, refer to the nominal value of the grants to be issued by the Ministry for Economic Development. The amounts by Project are broken down as follows: Euro 1.57 million for the "80 ton solid propellant motor - P80" project; Euro 6.7 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 2020**	**Collection date**	**Nominal receivable to be collected**
				(€ / mln)		**(€ / mln)**
AVIO SPA	Ministry for Economic Development	AMMEP - Additive Manufacturing by Mixing Elemental Powders	NA	0.10	06/02/2020	NA
AVIO SPA	Ministry for Economic Development	AMMEP - Additive Manufacturing by Mixing Elemental Powders	NA	0.28	24/12/2020	NA
AVIO SPA	Finpiemonte	IR^2 - Industrialization of Research Results - PISCO Project	NA	0.08	28/04/2020	NA
				0.46		**NA**

It should be noted, as stated in the section of the notes dedicated to tax receivables, that the Avio Group recognised:

- with regards to financial years 2019, 2018 and 2017, the Research and development tax credit permitted under Article 3 of Legislative Decree No. 145 of December 23, 2013 and subsequent amendments;
- in reference to 2020, the research and development tax credit pursuant to the 2020 Budget Law.

In 2020 the subsidiaries Se.co.sv.im. S.r.l. and Spacelab S.p.A. benefited from the tax relief provided for in Article 24 of Decree-Law 34 of May 19, 2020 ("Relaunch Decree"), converted, with amendments, by Law 77 July 17, 2020, "*Urgent measures in the field of health, support for work and the economy, as well as social policies related to the COVID-19 epidemiological emergency*". As is common knowledge, in response to the effects of the COVID-19 epidemiological emergency, this provision abolished the obligation to make the 2019 IRAP balance payment and the first instalment payment of the 2020 IRAP payment on account, without prejudice to the obligation to pay the IRAP payment on account due for 2020, for taxpayers with revenues of less than Euro 250 million in 2019. In addition, the same provision also established that the amount not paid by way of first instalment of the 2020 IRAP payment on account must "*nonetheless be excluded from the calculation of the tax to be paid by way of balance for the same tax period*".
The relief in question therefore does not constitute a mere deferral of payments, but a contribution in terms of exemption from payment of the IRAP balance for tax period 2019 and the first instalment of the payment on account of that same tax for tax period 2020. Accordingly, in order to be compatible with the European rules on state aid, it may be enjoyed up to Euro 800,000, on the basis of the Communication of the European Commission of March 19, 2020 C(2020) 1863 final "*Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak*".
By virtue of the relief measure introduced by Article 24 of the Relaunch Decree:

- Secosvim S.r.l.:
  - was not required to make the 2019 IRAP balance payment, since the balance in question, Euro 763,297, was lower than the maximum amount of the benefit of Euro 800,000;
  - was not required to pay the first instalment of the 2020 IRAP payment on account, amounting to Euro 21,507;

- Spacelab S.p.A.:
  - was not required to make the 2019 IRAP balance payment, since the balance in question, Euro 1,658, was lower than the maximum amount of the benefit of Euro 800,000;

The relief measure in question was thus exploited by the two companies in accordance with the limits and conditions set in the Communication of the European Commission of March 19, 2020 C(2020) 1863 final "*Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak*".
Finally, as indicated by the Tax Agency in Circular No. 25/E of 2020, the use of the relief measure in question has been specifically declared in section IS of the IRAP2020 return form relating to tax period 2019 filed by the above companies in 2020.

11. SUBSEQUENT EVENTS

Business

Vega return to flight

Flight VV18 assembly integration activities were suspended immediately on failure of VV17, and were resumed on January 21, 2021 after ESA and Arianespace approval of the Commission of Inquiry's recommendation implementation plan.

Inspection and preparation of the stages of the Vega VV18 launcher were thus performed, resulting, on March 5, 2021 in the beginning of the launch campaign for the resumption of Vega flights currently planned for the second half of April 2021.

Vega-C Launch System Ground Qualification Review

The review work on the qualification of the Vega-C launch system by the qualification team led by the ESA continued, with the involvement of the Avio Programme team.

Other significant events

Collection of VAT receivables

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

COVID-19

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

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

* * *

March 19, 2021

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

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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, 2020, 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, 2020, 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, 2020 include assets related to the execution of contracts work in progress of Euro 334,8 thousand and liabilities for the related advances of Euro 477,8 thousand. These contracts work in progress are attributable to development and production activities of space sector, whose revenues and related margins are recognized to income statement based on the progress of orders according to the percentage of completion method determined on the basis of the ratio between the costs incurred and the total estimated costs of the entire work. The Group has also estimated the effects on contracts work in progress resulting from the failure of the Vega VV17 mission occurred during the financial year, to this end, taking into account the results of the Independent Commission of Inquiry, chaired by Arianespace and ESA, in order to identify the causes and in order to define the actions necessary to restore the maximum reliability of the launcher involved in that incident. 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, 2020.

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".

The note "Significant events in 2020" reported in the explanatory notes of the financial statements illustrates the impacts of the Vega VV17 mission and the results of the analyses carried out by Management on its effects on the consolidated financial statements. .

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; • examination of the analyses carried out by the Group on the impact deriving from the failure of the Vega VV17 mission and of the relevant documentation included the minutes of the corporate committees, the final report of the Independent Commission of Inquiry and the clauses of the contract; • meetings and discussions with Management and Control Committee on the analysis related to the failure; • 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; • sample verification of contract costs with reference to the various cost components of a sample contract work in progress as of December 31, 2020; • 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.

Deloitte.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion 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, 2020, 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 2020 and on their compliance with the law, as well as to make a statement about any material misstatement.

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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, 2020 and are prepared in accordance with the law.

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

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

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

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

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

DELOITTE & TOUCHE S.p.A.

Signed by
Francesco Legrottaglie
Partner

Rome, Italy
March 31, 2021

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

FINANCIAL STATEMENTS

BALANCE SHEET	Note	December 31, 2020	*of which related parties*	December 31, 2019	*of which related parties*
(In Euro thousands)					
ASSETS					
Non-current assets					
Property, plant & equipment	3.1	80,398		66,766	
Rights-of-use	3.2	38,224		42,955	
Goodwill	3.3	61,005		61,005	
Intangible assets with definite life	3.4	125,142		122,026	
Investments	3.5	77,460		77,460	
Non-current financial assets	3.6	6,259	*6,259*	6,106	*6,106*
Deferred tax assets	3.7	74,085		73,746	
Other non-current assets	3.8	65,000	*150*	67,051	*150*
Total non-current assets		**527,573**		**517,116**	
Current assets					
Inventories and advances to suppliers	3.9	136,061	*39,042*	140,017	*42,851*
Contract work in progress	3.10	334,860	*92,792*	214,599	*44,150*
Trade receivables	3.11	5,198	*4,883*	3,485	*2,000*
Cash and cash equivalents	3.12	121,536		142,868	
Tax receivables	3.13	27,728		27,547	
Other current assets	3.14	20,870	*14,115*	21,109	*14,354*
Total current assets		**646,253**		**549,625**	
TOTAL ASSETS		**1,173,826**		**1,066,741**	

BALANCE SHEET	**Note**	**December 31, 2020**	*of which related parties*	**December 31, 2019**	*of which related parties*
(In Euro thousands)					
EQUITY					
Share capital	3.15	90,964		90,964	
Share Premium Reserve	3.16	135,175		141,588	
Other reserves	3.17	12,427		12,776	
Retained earnings		46,693		18,133	
Net income for the year		8,771		28,560	
Total Shareholders' Equity		**294,031**		**292,022**	
LIABILITIES					
Non-current liabilities					
Non-current financial liabilities	3.18	32,000		42,000	
Non-current financial liabilities for leasing	3.19	31,146	*28,238*	35,302	*31,876*
Employee provisions	3.20	9,057		8,910	
Provisions for risks and charges	3.21	6,965		5,763	
Other non-current liabilities	3.22	126,782		132,689	
Total non-current liabilities		**205,950**		**224,664**	
Current liabilities					
Current financial liabilities	3.23	65,892	*65,892*	84,329	*84,329*
Current financial liabilities for leasing	3.24	8,368	*6,375*	6,422	*4,790*
Current portion of non-current financial payables	3.25	10,063		8,075	
Provisions for risks and charges	3.21	5,305		5,102	
Trade payables	3.26	89,072	*39,502*	113,331	*22,516*
Advances from clients for contract work-in-progress	3.10	477,828	*79,515*	319,383	*62,581*
Current income tax payables	3.27	7,377		4,312	
Other current liabilities	3.28	9,940	*248*	9,101	*189*
Total current liabilities		**673,845**		**550,055**	
TOTAL LIABILITIES		**879,795**		**774,719**	
TOTAL LIABILITIES AND EQUITY		**1,173,826**		**1,066,741**	

INCOME STATEMENT	Note	FY 2020	*of which related parties*	FY 2019	*of which related parties*
(In Euro thousands)					
Revenues	3.29	347,407	*122,801*	390,664	*22,303*
Change in inventory of finished products, in progress and semi-finished		1,611		(151)	
Other operating income	3.30	7,109	*442*	7,676	*400*
Consumption of raw materials	3.31	(81,447)		(108,879)	
Service costs	3.32	(190,961)	*(101,688)*	(201,098)	*(116,428)*
Personnel expenses	3.33	(58,917)		(58,165)	
Depreciation	3.34	(20,842)		(17,902)	
Other operating costs	3.35	(6,090)		(4,640)	
Costs capitalised for internal works	3.36	11,878		12,499	
EBIT		**9,748**		**20,004**	
Financial income	3.37	629	*153*	2,137	*294*
Financial charges	3.38	(1,296)	*(318)*	(2,133)	*(502)*
NET FINANCIAL INCOME/(CHARGES)		**(667)**		**4**	
Other investment income/(charges)	3.39			5,400	
INVESTMENT INCOME/(CHARGES)		**-**		**5,400**	
PROFIT BEFORE TAXES		**9,081**		**25,408**	
Income taxes	3.40	(310)		3,153	
NET PROFIT		**8,771**		**28,561**	
Basic earnings per share	3.41	**0.34**		**1.09**	
Diluted earnings per share	3.41	**0.33**		**1.06**	

COMPREHENSIVE INCOME STATEMENT	FY 2020	FY 2019
(in Euro)		
NET PROFIT (A)	**8,771**	**28,561**
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	(430)	(501)
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)	81	124
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	**(349)**	**(377)**
COMPREHENSIVE INCOME FOR THE YEAR (A+B)	**8,422**	**28,184**

STATEMENT OF CHANGES IN EQUITY

(Euro thousands)

			Other reserves						Retained earnings	Result for the year	Total Shareholders' Equity
	Share capital	Share Premium Reserve	*Treasury shares*	*Unavailable reserve for treasury shares in portfolio*	*Legal reserve*	*Actuarial gains/(losses) reserve*	*2015 share capital increase reserve*	Under common control transactions reserve			
Equity at 31/12/2018	**90,964**	**144,256**			**18,193**	**(3,206)**	**0**	**(1,835)**	**6,386**	**23,345**	**278,103**
Allocation of prior year result									23,345	(23,345)	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										28,561	28,561
- Other changes											0
- Change in fair value of hedges											0
- Actuarial gains/(losses), net of tax effect						(376)					(376)
Comprehensive income for the year	0	0	0	0	0	(376)	0	0	0	28,561	28,183
Equity at 31/12/2019	**90,964**	**141,588**	**(2,668)**	**2,668**	**18,193**	**(3,582)**	**0**	**(1,835)**	**18,133**	**28,561**	**292,022**
Allocation of prior year result									28,561	(28,561)	0
Distribution dividends											0
Allocation to reserves											0
Acquisition of treasury shares		(6,413)	(6,413)	6,413							(6,413)
Comprehensive income for the year											
- Net profit for the year										8,771	8,771
- Other changes											0
- Actuarial gains/(losses), net of tax effect						(349)					(349)
Comprehensive income for the year	0	0	0	0	0	(349)	0	0	0	8,771	8,422
Equity at 31/12/2020	**90,964**	**135,175**	**(9,081)**	**9,081**	**18,193**	**(3,931)**	**0**	**(1,835)**	**46,693**	**8,771**	**294,031**

CASH FLOW STATEMENT

(Euro thousands)

		2020	*of which related parties*	2019	*of which related parties*
OPERATING ACTIVITIES					
Net profit for the year		8,771		28,560	
Adjustments for:					
- Income taxes		310		(3,153)	
- Financial (Income)/Charges		666		(4)	
- Amortisation & Depreciation		20,842		17,901	
- (Gains)/losses on sale of property, plant & equipment & other (income)/charges					
Net change provisions for risks and charges		1,406		1,633	
Net change employee provisions		(202)		(242)	
Changes in:					
- Inventories and advances to suppliers		3,957	3,809	(28,479)	-
- Contract work-in-progress & advances		38,184	(31,709)	30,957	11,626
- Trade receivables		(1,713)	(2,883)	163	(477)
- Trade payables		(24,259)	16,985	(28,480)	(20,744)
- Other current & non-current assets		1,460	239	28,768	(10,251)
- Other current & non-current liabilities		(2,003)	59	14,823	(1,085)
Income taxes paid				-	
Interest paid		(357)		(443)	
Net liquidity generated/(employed) in operating activities	(A)	**47,062**		**62,004**	
INVESTING ACTIVITIES					
Investments in:					
- Property, plant & equipment		(18,785)		(13,707)	
- Intangible assets with definite life		(12,774)		(13,433)	
- Equity Investments				(50)	
- Savings Bonds/Restricted Bank Deposits					
Disposal price of tangible, intangible & financial assets					
Liquidity generated (employed) in investing activities	(B)	**(31,559)**		**(27,190)**	
FINANCING ACTIVITIES					
EIB loan		(8,000)		10,000	
Centralised treasury effect with subsidiary and jointly controlled company		(18,437)	(18,437)	12,759	12,759
Dividends paid by the parent Avio S.p.A.				(11,597)	
Acquisition of treasury shares		(6,413)		(2,668)	
Other changes to financial assets and liabilities		(3,985)	(2,207)	(6,747)	36,666
Liquidity generated (employed) in financing activities	(C)	**(36,835)**		**1,747**	
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C)	**(21,332)**		**36,561**	
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**142,868**		**106,307**	
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**121,536**		**142,868**	

NOTES TO THE 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, 2020, Avio S.p.A. held, directly or indirectly, investments in seven subsidiary companies (Space S.p.A., Regulus S.A., Se.Co.Sv.Im. S.r.l., Avio Guyana S.A.S., Avio France S.A.S., AS Propulsion International B.V. and Avio India Aviation Aerospace Private Ltd. in liquidation) and in a jointly controlled company (Europropulsion S.A.) included in the consolidation scope of these financial statements (collectively the "Group" or the "Avio Group").

The consolidation scope was unchanged in 2020.

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, 2020 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. 38/2005 and other CONSOB regulations and provisions concerning financial reporting.

2.2. Financial Statement format

The financial statements relating to the year 2020 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 2020 financial statements present the comparative 2019 figures for the Balance Sheet items (Balance Sheet) and the full year 2019 figures for the Income Statement items (Income Statement, Comprehensive Income Statement, Statement of changes in Equity and Cash Flow Statement).

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	Amortisation 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%

<u>Investments</u>

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).

Inventories

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

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

Contract work-in-progress

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

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

Where the result of a construction contract may not be estimated reliably, the revenues related to the relative contract are recorded only to the extent of the project costs incurred which will probably be recovered. The project costs are recorded as expenses in the year in which they are incurred. Account is in addition taken of charges to be incurred following closure of the order and those for expected losses through accruals to the risks provisions; in particular, any losses on contracts are recognised to the income statement in their entirety once noted.

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

Trade and Other Receivables

Receivables are initially stated at fair value, corresponding to their nominal value, and subsequently measured according to the amortised cost method, net of a write-down provision.
In relation to trade receivables and other receivables, the Company has applied the simplified approach indicated by IFRS 9 to measure the doubtful debt provision as the expected loss over the life of the receivable. The Company measures the amount of expected losses in relation to these elements through the use of a provisioning matrix, estimated on the basis of historic experience of receivable losses according to creditor due dates, adjusted to reflect current conditions and estimates concerning future economic conditions. Consequently, the credit risk profile of these assets is presented according to due dates on the basis of the provisioning matrix.

The Company does not undertake the factoring of receivables.

Cash and cash equivalents

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

Research and development tax credits

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

Treasury shares

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

Financial liabilities

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

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

Employee Benefit Provisions

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

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

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

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The obligation to fund the defined benefit pension plans and the annual cost recognised to the income statement are determined by independent actuarial valuations using the projected unit credit method, on the basis of one or more factors such as age, years of service and expected future remuneration.
Actuarial gains and losses relating to defined benefit plans deriving from changes to the actuarial assumptions and adjustments based on past experience are immediately recognised in the period in which they arise to other comprehensive income/(losses) and are never reclassified to the income statement in subsequent periods.
The liabilities for post-employment benefits recorded in the balance sheet represent the present value of the liabilities for the defined benefit plans adjusted to take into account any actuarial profits and losses not recorded and reduced by the fair value of the asset plan, where existing. Any net assets calculated on this basis are recognised up to the amount of the actuarial losses and the cost for prior benefits not previously recognised, in addition to the present value of available repayments and the reductions in the future contributions to the plan.
Defined benefit plan costs are classified to personnel expenses, except for any costs associated with the increase in the present value of the obligation nearer to the payment date which are recognised under financial charges.

Up to December 31, 2006, the employee leaving indemnities were considered as defined benefit plans. The regulations of this provision were extensively modified by Law No. 296 of December 27, 2006 ("2007 Finance Act") and subsequent Decrees and Regulations. In view of these changes, and specifically with reference to companies with more than 50 employees, this fund is now to be considered a defined benefit plan exclusively for the amounts matured prior to January 1, 2007 (and not paid at the balance sheet date), while subsequent to this date they are similar to a defined contribution plan. Consequently, post-employment benefits matured subsequently to this date assume the nature of defined contribution plans, with exclusion therefore of actuarial estimate components in the calculation of the cost for the period. Post-employment benefits matured until December 31, 2006 remain valued as defined benefit plans according to actuarial processes, excluding however from the calculation the component relating to future salary increases.

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

Share based payment plans

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

Provisions for risks and charges

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

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

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

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

Trade payables

Trade payables with maturities within the normal commercial terms are not discounted and recognised at the nominal value considered representative of the settlement value.
Trade payables are recognised to current liabilities, except where the Company has the contractual right to settle its obligations beyond 12 months from the reporting date.

Payables for disbursements in accordance with Law 808/85

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

Revenue recognition

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

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

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

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

Dividends received

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

Grants

Government grants are recognised when it is reasonably certain that the conditions required to obtain them will be satisfied and that they will be received. Such grants are generally recorded in the income statement on a straight-line basis over the period in which the related costs are recorded.
In particular, grants obtained against investments in fixed assets and capitalised development costs are recognised to "Other non-current liabilities" or "Other current liabilities" in the liabilities section of the balance sheet and to the income statement on the basis of the residual duration of the depreciation of the assets to which they refer. Where a grant is awarded in a period after the start of the depreciation period of the asset, the portion of the grant relating to the prior periods is recorded in the income statement as other income.
The accounting treatment of benefits deriving from a public loan obtained at a reduced rate is similar to that for public grants. This benefit is calculated at the beginning of the loan as the difference between the initial book value of the loan (fair value plus direct costs attributable to obtaining the loan) and that received, and subsequently recorded in the income statement in accordance with the regulations for the recording of public grants.

Costs

Costs are recognised on an accruals and going concern basis of the Company, less VAT and returns, discounts and premiums. Provisions are recognised to the financial statements according to the methods described in the provisions for risks and charges note.
Interest charges are recognised on an accruals basis, according to the amount lent and the effective interest rate applicable.

Income taxes

Income taxes comprise of current and deferred taxes.

Current taxes are calculated on the estimated assessable result for the year and according to the applicable tax rates.

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

The Company and some of its Italian subsidiaries adhered to the national tax consolidation regime pursuant to Article 117/129 of the Consolidated Finance Act (CFA). Avio S.p.A. acts as the consolidating company and calculates a single assessable base for the Group of companies adhering to the tax consolidation and therefore benefits from the possibility of offsetting assessable income with assessable losses in a single tax declaration. The Group has exercised the tax consolidation option for the three-year period 2018, 2019 and 2020.

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.

Recoverability of deferred tax assets

At December 31, 2020, the consolidated financial statements present deferred tax assets concerning deferred tax deductible income components, for an amount whose recovery in future periods is considered probable by management. Deferred tax assets on temporary differences and on tax losses were recorded in the accounts for the amounts whose future recovery was considered probable, on the basis of forecast assessable income, as well as based on a projection of these forecasts over a subsequent time horizon considered representative of the life cycle of the business equal to 15 years.

Doubtful debt provision

The doubtful debt provision reflects the estimate of losses related to the 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 applicable from January 1, 2020

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from January 1, 2020:

- on October 31, 2018, the IASB published the document ***"Definition of Material (Amendments to IAS 1 and IAS 8)"***. The document introduced a change to the definition of "material" contained 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 adoption of this amendment does not have effects on the consolidated financial statements of the Group.

- 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 policies when no IFRS standard is applicable to a particular transaction and, more generally, helps stakeholders to understand and interpret the Standards.
The adoption of this amendment does not have effects on the consolidated financial statements of the Group.

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

- on October 22, 2018, the IASB published the document ***"Definition of a Business (Amendments to IFRS 3)"***. The document provides certain clarification 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.
The adoption of this amendment does not have effects on the consolidated financial statements of the Group.

- on May 28, 2020, the IASB published an amendment called **"*Covid-19 Related Rent Concessions (Amendment to IFRS 16)*".** The document establishes for lessees the option to account for the reductions in rents connected with COVID-19 without having to assess, through the analysis of contracts, whether the definition of lease modification of IFRS 16 has been complied with. Therefore, lessees applying this option will be able to account for the effects of rent reductions directly in the income statement on the effective date of the reduction. This amendment applies to financial statements commencing on June 1, 2020 but [the Group/Company has made use of] the option to apply this amendment earlier to January 1, 2020. 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, 2020

- on May 28, 2020, the IASB published an amendment called **"Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)".** The amendments allow the temporary exemption from the application of IFRS 9 to be extended until January 1, 2023 for insurance companies. The amendments will enter into force from January 1, 2021. The directors do not expect this amendment to have a significant impact on the Company's separate financial statements and on the Group consolidated financial statements.

- on August 27, 2020, the IASB published, in light of the reform on interbank interest rates such as IBOR, the document "**Interest Rate Benchmark Reform-Phase 2**" which contains amendments to the following standards:
  - IFRS 9 Financial Instruments;
  - IAS 39 Financial Instruments: Recognition and Measurement;
  - IFRS 7 Financial Instruments: Disclosures;
  - IFRS 4 Insurance Contracts; and
  - IFRS 16 Leases.

  All the amendments will enter into force from January 1, 2021. The directors do not expect this amendment to have a significant impact on the Company's separate financial statements and on the Group consolidated financial statements.

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

  The 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, 2023, although advance application is permitted, only for entities applying IFRS 9 – Financial Instruments and IFRS 15 - Revenue from Contracts with Customers. The Directors do not expect these amendments to have a significant impact on the Company's separate financial statements and the Group's consolidated financial statements.

- on January 23, 2020, the IASB published an amendment entitled "***Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current".*** The purpose of the document is to clarify how to classify payables and other short or long-term liabilities. These amendments shall enter into force on January 1, 2023 and early application is permitted. The directors do not expect this amendment to have a significant impact on the Company's separate financial statements and on the Group consolidated financial statements.

- on May 14, 2020, the IASB published the following amendments:
    - ***Amendments to IFRS 3 Business Combinations:*** the purpose of the amendments is to update the reference in IFRS 3 to the revised version of the Conceptual Framework, without changing the provisions of IFRS 3.
    - **Amendments to IAS 16 Property, Plant and Equipment:** the purpose of the amendments is not to allow the amount received from the sale of goods produced during the testing phase of the asset to be deducted from the cost of the asset. These sales revenues and related costs will therefore be recognised to the income statement.
    - **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets:** the amendment clarifies that in estimating the possible onerousness of a contract, all costs directly attributable to the contract must be considered. Accordingly, the assessment of whether a contract is onerous includes not only incremental costs (such as the cost of direct material used in processing), but also all costs that the enterprise cannot avoid because it has entered into the contract (such as, for example, the share of personnel expenses and depreciation of machinery used to perform the contract).
    - **Annual Improvements 2018-2020:** the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples of IFRS 16 Leases.

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

- on 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, 2020 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, 2020 and December 31, 2019.

	31/12/2020			31/12/2019		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	-	-	-	-	-	-
Buildings	39,913	(7,675)	32,238	14,461	(6,774)	7,687
Plant & machinery	67,371	(50,862)	16,509	65,017	(47,543)	17,474
Industrial and commercial equipment	11,970	(11,832)	138	11,894	(11,694)	200
Other assets	8,255	(5,760)	2,495	7,766	(4,965)	2,801
Assets under development and payments on account	29,018	-	29,018	38,604	-	38,604
Total	**156,527**	**(76,129)**	**80,398**	**137,742**	**(70,976)**	**66,766**

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

Gross values	31/12/2019	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2020
Land	-	-	-	-	-
Buildings	14,461	551	-	24,901	39,913
Plant & machinery	65,017	2,313	-	41	67,371
Industrial and commercial equipment	11,894	76	-	-	11,970
Other assets	7,766	489	-	-	8,255
Assets under development and payments on account	38,604	15,356	-	(24,942)	29,018
Total	**137,742**	**18,785**	**-**	**-**	**156,527**

The increases in the period of Euro 18,785 thousand mainly concerns:

- assets in progress and advances for Euro 15,536 thousand. These investments particularly included:
  - works for the construction of industrial buildings for the SPTF "Space Propulsion Test Facility" project for the building of a Liquid Rocket Engine (LRE) test bench and of a plant for the production of carbon-carbon components in Perdasdefogu, at the Salto di Quirra experimental inter-force training range;
  - works on the production buildings for the P120 motor;

- production machinery for Euro 2,313 thousand.

The industrial building used to manufacture the P120C motor entered into function during the year; accordingly, its value of Euro 24,901 thousand was reclassified from "Assets under construction and payments on account" to "Buildings".
The changes in the year of the accumulated depreciation provision of property, plant and equipment are illustrated in the table below (Euro thousands):

Gross values	31/12/2019	Increases	31/12/2020

			Decreases for disposals	Reclassifications and other changes	
Land	-	-	-	-	-
Buildings	(6,774)	(901)	-	-	(7,675)
Plant & machinery	(47,543)	(3,319)	-	-	(50,862)
Industrial and commercial equipment	(11,694)	(138)	-	-	(11,832)
Other assets	(4,965)	(795)	-	-	(5,760)
Total	**(70,976)**	**(5,153)**	**-**	**-**	**(76,129)**

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

3.2. RIGHT-OF-USE

The Company applied, for the preparation of these half-year financial statements, IFRS 16 - Leases, published by the IASB on January 13, 2016 and obligatory from January 1, 2019.
The Company adopted the option provided for in IFRS 16:C3, which permits reference to be made to the conclusions reached in the past regarding the contracts previously identified as leases in application of IAS 17 and IFRIC 4. This option was applied to all contracts, as provided for in IFRS 16:C4.
This standard was applied utilising the modified retrospective approach. In particular, with regard to "lease" contracts previously classified as operating leases, the Company recognises them as follows:

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

The values of Right-of-use assets at December 31, 2020 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2020			31/12/2019		
	Gross Value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land right-of-use	2,570	(143)	2,427	2,570		2,570
Buildings right-of-use	42,539	(9,865)	32,674	41,888	(4,933)	36,955
Plant and machinery right-of-use	1,525	(275)	1,250	1,525	(137)	1,388
Other assets right-of-use	3,053	(1,180)	1,873	2,656	(614)	2,042
Total	**49,687**	**(11,463)**	**38,224**	**48,639**	**(5,684)**	**42,955**

The gross values of these rights at December 31, 2020 (in Euro thousands) are reported below:

Gross value	31/12/2019	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2020
Land right-of-use	2,570	-	-	-	2,570
Buildings right-of-use	41,888	1,017	(366)	-	42,539
Plant and machinery right-of-use	1,525	-	-	-	1,525
Other assets right-of-use	2,656	804	(407)	-	3,053
Total	**48,639**	**1,821**	**(773)**	**-**	**49,687**

The accumulated depreciation of these rights in 2020 is reported below (in Euro thousands):

Gross value	31/12/2019	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2020
Land right-of-use	-	(143)	-	-	(143)
Buildings right-of-use	(4,933)	(5,025)	92	-	(9,866)
Plant and machinery right-of-use	(137)	(137)	-	-	(274)
Other assets right-of-use	(614)	(726)	160	-	(1,180)
Total	**(5,684)**	**(6,031)**	**252**	**-**	**(11,463)**

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

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

The increase in 2020 mainly involved apartments for employees in Guyana, in addition to office buildings for spacing purposes in compliance with COVID-19 regulations.

3.3. GOODWILL

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

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

Goodwill allocated to the *Space* CGU was subject to an impairment test at the reporting date which did not indicate the need for a write-down of the carrying amount of goodwill at December 31, 2020.

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, 2020, the cash flows of the Space CGU were estimated according to forecasts in the Business plan 2021-2025. 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, 7.7% (8.2% 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.

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, 2020 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, 2020 with December 31, 2019.

	31/12/2020			31/12/2019		
	Gross value	Accumulated amortisation	Net book value	Gross value	Accumulated amortisation	Net book value
Development costs - amortisable	116,977	(56,815)	60,162	70,281	(51,721)	18,560
Development costs - in progress	28,071	-	28,071	64,422	-	64,422
Total development costs	145,048	(56,815)	88,233	134,703	(51,721)	82,982
Assets from PPA 2017 - Programmes	44,785	(11,197)	33,588	44,785	(8,211)	36,574
Concessions, licenses, trademarks & similar rights	10,219	(7,534)	2,685	7,761	(6,397)	1,364
Other	3,060	(2,424)	636	3,084	(1,978)	1,106
Total	**203,112**	**(77,970)**	**125,142**	**190,333**	**(68,307)**	**122,026**

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

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

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

Following the purchase price allocation process of the Avio Group by Space2, two intangible assets were identified relating to aerospace programmes for Euro 44,785 thousand.
The assets deriving from this allocation were measured at fair value based on the present value of the expected future benefits of the aerospace programmes and amortised over a period of 15 years on the basis of the average useful life of the programmes to which they refer.

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

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	31/12/2019	Increases	Decreases	Reclassifications and other changes	31/12/2020
Development costs - amortisable	70,281	-	-	46,696	116,977
Development costs - in progress	64,422	10,345	-	(46,696)	28,071
Total development costs	134,703	10,345	-	-	145,048
Assets from PPA 2017 - Programmes	44,785	-	-	-	44,785
Concessions, licenses, trademarks & similar rights	7,761	2,218	-	240	10,219
Other	3,084	212	-	(236)	3,060
Total	**190,333**	**12,775**	**-**	**4**	**203,112**

The increases in the period with reference to the development costs mainly relate to design and testing costs for the construction of the mini-launchers and the new liquid oxygen and methane engines. The development costs for the new Z40 and P120 motors began to be amortised during the year.

The changes in 2020 to accumulated amortisation were as follows (in Euro thousands):

Accumulated amortisation	31/12/2019	Increases	Decreases	Reclassifications and other changes	31/12/2020
Development costs - amortisable	(51,721)	(5,094)	-	-	(56,815)
Development costs - in progress	-	-	-	-	-
Total development costs	(51,721)	(5,094)	-	-	(56,815)
Assets from PPA 2017 - Programmes	(8,211)	(2,986)	-	-	(11,197)
Concessions, licenses, trademarks & similar rights	(6,397)	(1,087)	-	(50)	(7,534)
Other	(1,978)	(492)	-	46	(2,424)
Total	**(68,307)**	**(9,659)**	**-**	**(4)**	**(77,970)**

3.5. INVESTMENTS

The breakdown of the investments held by the parent company Avio S.p.A. at December 31, 2020 follows (in Euro thousands):

Company Name	Registered Office	% held	Book value	Shareholders' Equity	Equity share	Difference Holding / Equity share
Investments in subsidiaries						
ASPropulsion International B.V.	Amsterdam (Netherlands)	100%	58,640	57,773	57,773	867
Spacelab S.p.A.	Rome	70%	1,115	8,394	5,876	(4,761)
Regulus S.A.	Kourou (French Guyana)	60%	9,590	14,984	8,990	600
Avio Guyane SAS	Kourou (French Guyana)	100%	50	245	245	(195)
Avio France S.A.S.	Paris/Kourou (French Guyana)	100%	50	83	83	(33)
Avio India Aviation Aerospace Private Limited (**)	New Delhi (India)	100%	114	100	100	14
Sub-total			**69,559**	**81,579**	**73,067**	**(3,508)**
Associates and jointly-controlled companies						
Europropulsion S.A. (*)	Suresnes (France)	50%	3,698	9,769	4,885	(1,187)
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**	**16,393**	**7,529**	**(152)**
Total Equity holdings in subsidiaries, associates and jointly-controlled companies			**76,936**	**97,972**	**80,596**	**(3,660)**
Investments in other companies			**524**			
Total			**77,460**			

(*) Companies under joint control;
(**) financial statements data at December 31, 2018.
(**) financial statements data at December 31, 2019.

The overseas subsidiary Avio India Aviation Aerospace at December 31, 2020 was in liquidation.

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 the Avio Group at December 31, 2020 and at December 31, 2019 (in Euro thousands).

	31/12/2020	31/12/2019	Change
Shareholder loan to Termica Colleferro S.p.A.	6,259	6,106	153
	6,259	**6,106**	**153**

The account, amounting to Euro 6,259 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 additional information regarding Termica Colleferro S.p.A., see the specific paragraph "Other commitments" of section 5. " Commitments and risks".

3.7. DEFERRED TAX ASSETS

Avio's recognised deferred tax assets amount to Euro 74,085 thousand (Euro 73,746 thousand at December 31, 2019).
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):

	31/12/2020
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.	9,021
Financial charges exceeding 30% of EBITDA	38,406
Temporary differences deriving from current corporate operations	
Provision for personnel charges, former employees and similar	3,084
Other deductible temporary differences	3,601
Total gross deferred tax assets	**54,112**
Deferred tax liability on temporary differences	
Temporary differences deriving from previous corporate operations	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(9,710)
Tax effect R&D expenses First-Time Adoption	(2,174)
Temporary differences deriving from current corporate operations	
Other temporary assessable differences	(675)
Total gross deferred tax liabilities	**(12,559)**
Net deferred tax assets/(liabilities)	**41,553**
Deferred tax assets on tax losses	74,539
Eligible deferred tax assets	116,092
Deferred tax assets not recorded	(42,007)
Net deferred tax assets (liabilities) recorded	**74,085**

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

This time period considered representative of the life cycle of the business was estimated also taking into account the meeting with the Ministers of the Member Countries of ESA held in December 2014, which resulted in the signing in August 2015 of agreements with ESA relating to the development of the new Ariane 6 launcher and the evolution of the VEGA launcher within the VEGA C programme which provides for the development and construction of the new "P120" motor, and the meeting of the Ministers of the Member Countries of ESA held on December 1, 2016 and on December 2, 2016 which confirmed the above-mentioned development programmes and gave the go ahead for the long-term development programme of the motor and of the Upper Stage of the Vega E, or rather the next step in the evolution of the Vega launcher.

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

3.8. OTHER NON-CURRENT ASSETS

The table below illustrates other non-current assets at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Other non-current assets	65,000	67,051	(2,051)
	65,000	**67,051**	**(2,051)**

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

	31/12/2020	31/12/2019	Change
Receivables from the General Electric Group	58,220	58,514	(294)
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	6,077	7,870	(1,793)
Deposits and other non-current assets	703	667	36
Total	**65,000**	**67,051**	**(2,051)**

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

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

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

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

- the 2018 Budget Law (see Article 1, paragraph 87, letter a), of Law 205 of December 27, 2017) amended, with effect from January 1, 2018, Article 20 of the Consolidated Registration Tax Act, limiting the ability of the revenue authorities to reclassify acts subject to registration;

- the 2019 Budget Law (see Article 1, paragraph 1084, of Law 145 of December 30, 2018) attributed retroactive effect to the provision introduced by the 2018 Budget Law, which therefore should apply to payment notices – including that served on the Company – served in years prior to 2017;

- on July 21, 2020 Italy's Constitutional Court (see judgment no. 158) ruled that there was no basis for the challenges of the constitutionality of Article 20 of the Consolidated Registration Tax Act, holding that the statute is intended to reaffirm the "transaction tax" nature of registration tax, and clarifying the object of taxation in accordance with the structure of a levy on the legal effects of the legal transaction presented for registration, without the revenue authorities being able to attach relevance to extratextual elements and linked legal transactions devoid of any textual connection with the transaction in question;

- on September 17, 2020 the Central Directorate of the Tax Agency published official clarification (see reply no. 371) in which, acknowledging the above ruling by the Constitutional Court, it clarified that "*the sale of company quotas preceded by the contribution of a business line cannot be taxed on a par with the sale of a company as a whole on the basis of the provisions of Article 20 of the Consolidated Income Tax Act.*"

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

"Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion", amounting to Euro 6,077 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, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Inventories	136,061	140,017	(3,956)
	136,061	**140,017**	**(3,956)**

The breakdown of the account at December 31, 2020 and relative movements follow (in Euro thousands):

	31/12/2019	Change	31/12/2020
Raw material, ancillaries and consumables	34,110	9,844	43,954
Raw material, ancillary and consumables obsolescence provision	(1,071)	(568)	(1,639)
Raw material, ancillary and consumables - net value	33,039	9,276	42,315
Products in work-in-progress	2,715	1,611	4,326
Provision for the write-down of work in progress	(170)	170	-
Products in work-in-progress - net value	2,545	1,781	4,326
Finished products and other inventories	7	-	7
Finished products and other inventories obsolescence provision	0	-	-
Finished products and other inventories - net value	7	-	7
Advances to suppliers	104,426	(15,014)	89,412
	140,017	**(3,957)**	**136,060**

The increase in inventories of raw materials relates to greater production levels.

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

3.10. CONTRACT WORK-IN-PROGRESS

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

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

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

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

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

	31/12/2020	31/12/2019	Change
Contract work in progress	334,860	214,599	120,261
Advances for contract work-in-progress	(477,828)	(319,383)	(158,445)
Net total	**(142,968)**	**(104,784)**	**(38,184)**

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):

	31/12/2020	31/12/2019	Change
Contract work-in-progress (gross)	1,045,284	803,444	241,840
Advances for contract work-in-progress (gross)	(710,424)	(588,845)	(121,579)
Contract work-in-progress (net)	**334,860**	**214,599**	**120,261**

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):

	31/12/2020	31/12/2019	Change
Contract work-in-progress (gross)	949,632	1,050,264	(100,632)
Advances for contract work-in-progress (gross)	(1,427,460)	(1,369,647)	(57,813)
Advances for contract work-in-progress (net)	**(477,828)**	**(319,383)**	**(158,445)**

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

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

3.11. TRADE RECEIVABLES

The table below illustrates trade receivables at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Trade receivables	5,198	3,484	1,713
	5,198	**3,485**	**1,713**

The breakdown of trade receivables is as follows:

	31/12/2020	31/12/2019	Change
Receivables from third parties	335	414	(79)
Subsidiaries	4,101	953	3,148
Receivables from associates, jointly controlled companies and non-consolidated subsidiaries	762	2,118	(1,356)
Total	**5,198**	**3,485**	**1,713**

The book value of the receivables approximates their fair value.

Receivables from third parties

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

	31/12/2020	31/12/2019	Change
Gross value	418	497	(79)
less: doubtful debt provision	(83)	(83)	-
Total	**335**	**414**	**(79)**

The receivables are all due within 12 months.

Subsidiaries

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

	31/12/2020	31/12/2019	Change
Regulus S.A.	2,253	286	1,967
Se.Co.Sv.Im. S.r.l.	543	131	412
Spacelab S.p.A.	103	87	16
Avio Guyane S.A.S.	487	344	143
Avio France S.A.S.	715	105	610
Total	**4,101**	**953**	**3,148**

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

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

	31/12/2020	31/12/2019	Change
Europropulsion S.A.	566	771	(205)
Servizi Colleferro S.C.p.A.	-	203	(203)
Potable Water Services Consortium	-	62	(62)
Termica Colleferro S.p.A.	196	81	115
Total	**762**	**1,117**	**(355)**

3.12. CASH AND CASH EQUIVALENTS

The table below illustrates cash and cash equivalents at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Cash and cash equivalents	121,536	142,868	(21,332)
Total	**121,536**	**142,868**	**(21,332)**

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, 2020 and December 31,2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Tax receivables	27,728	27,547	181
Total	**27,728**	**27,547**	**181**

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

	31/12/2020	31/12/2019	Change
VAT receivables	23,436	18,482	4,954
Research and development tax credit (year 2020)	1,563		1,563
Research and development tax credit (year 2019)		6,291	(6,291)
Receivables from tax authorities	2,492	2,492	-
EU VAT receivables	237	282	(45)
Total	**27,728**	**27,547**	**181**

VAT receivables

VAT receivables, for Euro 23,436 thousand, include:

- Euro 18,633 thousand, relating to VAT reimbursement requests to the Tax Authorities;
- Euro 4,804 thousand relating to VAT receivables for which refunds have not yet been requested.

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

As reported in the section "Subsequent events" of the Directors' Report, in the period between the beginning of 2021 and the date of approval of these financial statements, VAT receivables referable to Avio S.p.A. were collected for Euro 7,734 thousand, equal to 42% of the VAT receivables for which reimbursement was requested as reported above.

Research and development tax credit

Regulatory framework

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

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

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

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

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

Due to the 2019 Budget Law:

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

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

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

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

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

1. the system for calculating eligible costs is not incremental, but proportional, with various rates (12%, 10% or 6%) applied according to the nature of the activity eligible for relief;
2. the receivables are used as offsets over three equal annual portions from the tax period subsequent to maturation, subject to satisfaction of the certification obligations;
3. it is now mandatory to submit a report to the Ministry for Economic Development, solely to permit the Ministry to obtain the information required to assess the performance, adoption and efficacy of the relief measures;
4. the costs eligible for relief must be stated net of other subsidies or grants received in any capacity for the same eligible expenses;

5. the rule in paragraph 1-*bis* of Decree-Law No. 145/2013, which allowed resident companies to benefit from an R&D tax credit for activities carried out on behalf of non-resident principals, was not renewed.

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

Recognition in the Financial Statements

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

The 2020 income statement includes accruals relating to the effects on the income statement of the tax credits accrued in 2017, 2018 and 2019 according to the provisions of Article 3 of Decree-Law 145/2013, in effect until December 31, 2019.

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 Income Statement accounts "Service costs" and "Change in contract work-in-progress".

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

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

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

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

The effect of the tax credit accrued in 2020 pursuant to the 2020 Budget Law, amounting to Euro 1,563 thousand, was also recognised in the 2020 income statement. The tax credit in question primarily refers to internal research.

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.

3.14. OTHER CURRENT ASSETS

The table below illustrates other current assets at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Other current assets	20,870	21,109	(239)
Total	**20,870**	**21,109**	**(239)**

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

	31/12/2020	31/12/2019	Change
Subsidiaries	14,111	13,996	115
Economic Development Ministry for disbursements pursuant to Law 808/85	3,212	3,280	(68)
Employee receivables	960	816	144
Prepayments and accrued income	1,189	1,358	(169)
Grants/subsidies receivable	847	649	198
Other debtors	512	482	29
Receivables from non-consolidated subsidiaries		491	(491)
Receivables from associated company Consorzio Servizi Acqua Potabile	4	3	1
Social security institutions	36	34	2
Total	**20,870**	**21,109**	**(239)**

Receivables from subsidiaries, of Euro 14,111 thousand, comprise:

- receivables from the subsidiary Spacelab S.p.A. for a total of Euro 9,793 thousand, of which Euro 7,000 thousand for the dividend approved during the year by the subsidiary, but not yet collected, and Euro 2,793 thousand for the tax consolidation;
- receivables from the subsidiary Se.Co.Sv.Im. of Euro 4,318 thousand related to the tax consolidation.

Receivables from the "Economic Development Ministry for disbursements pursuant to Law 808/85", amounting to Euro 3,212 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).

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, 2020; 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, 2020 comprised 26,359,346 ordinary shares.

3.16. SHARE PREMIUM RESERVE

The share premium reserve, originally totalling Euro 144,256 thousand, is restricted for the value of the treasury shares acquired. At December 31, 2019, the available value of the share premium reserve was Euro 141,588 thousand, as treasury shares for a value of Euro 2,668 thousand had been acquired at that date.

During 2020, treasury shares of Euro 6,413 thousand had been purchased, with the available value at December 31, 2020 of the share premium reserve therefore totalling Euro 135,175 thousand.

3.17. OTHER RESERVES

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

	31/12/2020	31/12/2019	Change
Actuarial gains/(losses) reserve	(3,931)	(3,582)	(349)
Under common control transactions reserve	(1,835)	(1,835)	-
Legal reserve	18,193	18,193	-
Treasury shares acquired	(9,081)	(2,668)	(6,413)
Unavailable treasury shares purchase reserve	9,081	2,668	6,413
	12,427	**12,776**	**(349)**

Other reserves, in addition to the Legal reserve for Euro 18,193 thousand comprises:

- for Euro 3,931 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, 2020, following the purchases made, Avio S.p.A. holds 671,233 treasury shares, equal to 2.5465% of the number of shares comprising the share capital. The value of the treasury shares acquired amounts to Euro 9,081 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	Other reasons
Share capital	90,964				
Capital reserves:					
- Share premium reserve	144,256	A, B, C	135,175	-	-
Profit reserves:					
- Legal reserve	18,193	B			
- Actuarial gains and losses	(3,931)	-			
- Under common control transactions reserve	(1,835)	-			
Retained earnings	46,694	A, B, C	40,928	(332)	
Total	**294,341**		**176,103**		
Non-distributable amount			88,233		
Residual distributable amount			**87,870**		

Key: A: for share capital increase, B: for coverage of losses and C: for distribution to shareholders.

NON-CURRENT LIABILITIES

3.18. NON-CURRENT FINANCIAL LIABILIITES

The movement in the account between December 31, 2019 and December 31, 2020 is reported below (in Euro thousands):

	31/12/2020	31/12/2019	Change
Non-current financial liabilities	32,000	42,000	(10,000)
Total	**32,000**	**42,000**	**(10,000)**

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

- 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 of Euro 1,000 thousand from the third to the seventh years, of which the first maturing on April 30, 2021 and the final maturing on October 31, 2025;

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

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

The decrease of Euro 10,000 thousand relates to the short-term reclassification:

- of the two instalments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2021 and October 31, 2021, respectively;
- of the two instalments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2021 and October 31, 2021, respectively;

The total current amount of Euro 10 million to be paid is therefore recorded under item "3.26. Current financial liabilities."

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

Hedging derivatives have not been agreed on these loans.

3.19. NON-CURRENT FINANCIAL LIABILITIES FOR LEASING

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

	31/12/2020	31/12/2019	Change
Non-current financial liabilities for leasing	31,146	35,302	(4,156)
Total	**31,146**	**35,302**	**(4,156)**

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

	31/12/2020	31/12/2019	Change
Non-current financial liabilities to the subsidiary Se.Co.Sv.Im. S.r.l. as per IFRS 16	27,129	30,630	(3,501)
Non-current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	1,109	1,246	(137)
Non-current financial liabilities to third parties as per IFRS 16	2,908	3,426	(518)
Total	**31,146**	**35,302**	**(4,156)**

Financial liabilities as per IFRS 16

- with regards to the liabilities to subsidiaries, the lease of the complex of land and industrial buildings for instrumental use, with networks and general plants, with the subsidiary Se.Co.Sv.Im. S.r.l.;
- with regards to the financial liabilities to associates, the lease of the electro-duct and relative electrical infrastructure at the combined cycle co-generation thermo-electrical station owned by the associate Termica Colleferro S.p.A.;

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

3.20. EMPLOYEE BENEFIT PROVISIONS

The account relates to post-employment benefits and other long-term benefits.
These benefits are generally based on remuneration and years of employee service. The obligations refer to employees in service.

Post-employment benefits

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

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

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

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

Other long-term employee benefits

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

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

	31/12/2020	31/12/2019	Change
- Defined benefit plans:			
Post-employment benefit	3,868	4,157	(289)
Other defined benefit plans	2,857	2,593	264
	6,725	6,750	(25)
- Other long-term benefits	2,332	2,160	172
Total employee benefit provisions	**9,057**	**8,910**	**147**

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

	Defined benefit plans	Other long-term employee benefits	Total employee benefit provisions
At 31/12/2019	**6,750**	**2,160**	**8,910**
Financial charges/(income)	(11)	0	(11)
Actuarial (gains)/losses in income statement		272	272
Actuarial (gains)/losses in comprehensive income statement	430		430
Pension cost current employees	142	166	308
Other changes	15		15
Benefits paid	(601)	(266)	(867)
At 31/12/2020	**6,725**	**2,332**	**9,057**

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

	31/12/2020	31/12/2019
Discount rate	-0.17%	0.22%
Expected salary increases	2.14%	2.12%
Inflation rate	European Zero-Coupon Inflation-Indexed Swap curve at 31.12.2020	1.50%
Average employee turnover rate	4.74%	4.46%

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, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Provisions for risks and charges	12,271	10,865	1,405
Total	**12,271**	**10,865**	**1,405**

The breakdown of the provisions for risks and charges at December 31, 2020 is presented below (Euro thousands):

	31/12/2020		
	Current portion	Non-current portion	Total
Provision for variable remuneration	5,305	3,349	8,654
Provisions for risks and legal charges	-	164	164
Provision for contractual and commercial risks and charges	-	3,452	3,452
Total	**5,305**	**6,965**	**12,270**

These provisions include:

- provisions for variable remuneration for Euro 8,654 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 164 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 3,452 thousand.

The movements in current and non-current provisions in 2020 are shown below (amounts in Euro thousands):

	31/12/2019	Provisions	Other changes	Utilisations	Releases	31/12/2020
Provision for variable remuneration	7,652	5,647	-	(3,444)	(1,200)	8,655
Provisions for risks and legal charges	200	-	-	-	(36)	164
Provision for contractual and commercial risks and charges	3,013	1,159	-	-	(720)	3,452
Total	**10,865**	**6,806**		**(3,444)**	**(1,956)**	**12,271**

The main changes during the year were:

- the provision for variable remuneration was utilised for Euro 3,444 thousand, in consideration of the amounts paid to employees as bonuses related to the achievement of individual and company objectives. The provision of Euro 5,647 thousand mainly relates to variable remuneration which will be paid at the beginning of 2021, on the basis of the achievement of individual and company objectives for the year 2020, in addition to a long-term incentive plan for senior Group managers;

- provisions for contractual and commercial risks and charges were increased by Euro 1,159 thousand and partly released, for Euro 720 thousand, following an assessment of their adequacy.

3.22. OTHER NON-CURRENT LIABILITIES

The table below illustrates the account December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Non-current liabilities	126,782	132,689	(5,907)
Total	**126,782**	**132,689**	**(5,907)**

The breakdown of the account at December 31, 2020 is shown in the table below (Euro thousands):

	31/12/2020	31/12/2019	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	4,379	9,325	(4,946)
	62,599	67,545	(4,946)
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	19,781	20,859	(1,078)
Payables to MiSE for disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	1,301	1,283	18
			-
Deferred income on disbursements pursuant to Law 808/85 (rules as per MiSE Decree 3/07/2015) - portion beyond one year	483	483	-
	63,616	64,676	(1,060)
Payables due to MiSE for other subsidies	122		122
Other payables and deferred income	445	468	(23)
Total	**126,782**	**132,689**	**(5,907)**

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.

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

- the 2018 Budget Law (see Article 1, paragraph 87, letter a), of Law 205 of December 27, 2017) amended, with effect from January 1, 2018, Article 20 of the Consolidated Registration Tax Act, limiting the ability of the revenue authorities to reclassify acts subject to registration;

- the 2019 Budget Law (see Article 1, paragraph 1084, of Law 145 of December 30, 2018) attributed retroactive effect to the provision introduced by the 2018 Budget Law, which therefore should apply to payment notices – including that served on the Company – served in years prior to 2017;

- on July 21, 2020 Italy's Constitutional Court (see judgment no. 158) ruled that there was no basis for the challenges of the constitutionality of Article 20 of the Consolidated Registration Tax Act, holding that the statute is intended to reaffirm the "transaction tax" nature of registration tax, and clarifying the object of taxation in accordance with the structure of a levy on the legal effects of the legal transaction presented for registration, without the revenue authorities being able to attach relevance to extratextual elements and linked legal transactions devoid of any textual connection with the transaction in question;

- on September 17, 2020 the Central Directorate of the Tax Agency published official clarification (see reply no. 371) in which, acknowledging the above ruling by the Constitutional Court, it clarified that "*the sale of company quotas preceded by the contribution of a business line cannot be taxed on a par with the sale of a company as a whole on the basis of the provisions of Article 20 of the Consolidated Income Tax Act.*"

For further information, reference should be made to Note "3.8. Other non-current liabilities" and to the section "Legal and tax disputes and contingent liabilities" in the Explanatory Notes.

Other tax payables

This account, for Euro 4,379 thousand, refers to the long-term amount payable to the Italian Treasury as a refund of a part of the research and development tax credit and related interest, pursuant to Decree-Law No. 145/2013, relating to the 2017 tax period and already used for offsetting. In particular, in view of the shift in interpretation of the 2019 Budget Law, and of the opinions of independent advisors, the Group decided to apply the authentic interpretation rule set out in paragraph 1-*bis* of Decree-Law No. 145/2013 retrospectively to 2017 as well, and therefore to redetermine a lower tax benefit due for that year. The restatement in question was also subject to a settlement deed signed with the Italian Tax Office on July 22, 2020, with which an instalment plan was also agreed to partially refund the amount;

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 2020 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 19,781 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 1,301 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.

Payables due to MiSE for other subsidies

This item, amounting to Euro 122 thousand, consists of payables due beyond one year to the Ministry of Economic Development relating to the disbursements provided for in Article 6 of the Decree of June 1, 2016, in accordance with Axis 1, action 1.1.3. of the National Operational Program "Enterprise and Competitiveness" 2014-2020 ERDF, received for the undertaking of the joint research and development project concerning "Additive Manufacturing by Mixing Elemental Powders". The payables are recorded at their discounted value.

<u>CURRENT LIABILITIES</u>

3.23. CURRENT FINANCIAL LIABILITIES

The table below illustrates current financial liabilities at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Current financial liabilities	65,892	84,329	(18,437)
Total	**65,892**	**84,329**	**(18,437)**

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

	31/12/2020	31/12/2019	Change
Financial payables subsidiary Se.Co.Sv.Im.	34,366	36,615	(2,249)
Financial payables subsidiary Spacelab S.p.A.	18,777	18,965	(188)
Financial payables Europropulsion S.A. joint control company	12,749	28,749	(16,000)
	65,892	**84,329**	**(18,437)**

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 FINANCIAL LIABILITIES FOR LEASING

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

	31/12/2020	31/12/2019	Change
Current financial liabilities for leasing	8,368	6,422	1,946
Total	**8,368**	**6,422**	**1,946**

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

	31/12/2020	31/12/2019	Change
Current financial liabilities to subsidiary Se.Co.Sv.Im. as per IFRS 16	6,227	4,641	1,586
Current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	148	149	(1)
Current financial liabilities to third parties as per IFRS 16	1,993	1,632	361
	8,368	**6,422**	**1,946**

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, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Current portion of non-current financial payables	10,063	8,075	1,988
Total	**10,063**	**8,075**	**1,988**

The account, which amounted to Euro 10,063 thousand, consists of:

- the two instalments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2021 and October 31, 2021, respectively;
- the two instalments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2021 and October 31, 2021, respectively;
- interest expense on the above financial liabilities accrued at December 31, 2020 for Euro 63 thousand.

3.26. TRADE PAYABLES

The table below illustrates trade payables at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Trade payables	89,072	113,331	(24,259)
Total	**89,072**	**113,331**	**(24,259)**

Details of payables to subsidiaries are shown below (in Euro thousands):

	31/12/2020	31/12/2019	Change
Regulus S.A.	26,214	18,460	7,754
Spacelab S.p.A.	1,443	1,420	23
Se.Co.Sv.Im. S.r.l.	22	22	0
Avio Guyane S.A.S.	1,123	239	884
Avio France S.A.S.	485	122	363
	29,287	**20,263**	**9,024**

These payables include, in addition, Euro 7,236 thousand to the jointly controlled company Europropulsion and Euro 358 thousand to the associate Termica Colleferro.

3.27. CURRENT TAX PAYABLES

The table below illustrates current tax liabilities at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Current income tax payables	7,377	4,312	3,065
Total	**7,377**	**4,312**	**3,065**

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

	31/12/2020	31/12/2019	Change
IRES payables	667		667
Payables for withholding taxes	1,100	1,139	(39)
Other tax payables	5,610	3,173	2,437
Total	**7,377**	**4,312**	**3,065**

IRES tax consolidation payables amounted to Euro 667 thousand, compared to nil in the comparison year: until December 31, 2019 the parent company, Avio S.p.A., had a tax loss sufficient to offset its own IRES taxable profits and those of the companies subject to tax consolidation. This tax loss was related to tax amortisation of goodwill concluded in 2019.

Payables for withholding taxes, amounting to Euro 1,100 thousand, refer to employee and consultant withholding taxes. They are in line with the previous year.

Other Tax payables of Euro 5,610 thousand comprise the following items:

- for Euro 2,448 thousand, the short-term portion of the amount payable to the Italian Treasury as a refund of a part of the research and development tax credit and related interest, pursuant to Decree-Law No. 145/2013, relating to the 2017 tax period and already used for offsetting in 2018. In this regard, see the content of paragraph "3.25. Other non-current liabilities;
- for Euro 3,114 thousand, tax liabilities in respect of ongoing tax disputes.

3.28. OTHER CURRENT LIABILITIES

The table below illustrates other current liabilities at December 31, 2020 and December 31, 2019 (Euro thousands).

	31/12/2020	31/12/2019	Change
Other current liabilities	9,940	9,101	839
Total	**9,940**	**9,101**	**839**

The breakdown of the account at December 31, 2020 is shown in the table below (Euro thousands):

	31/12/2020	31/12/2019	Change
Payables due to social security institutions	2,583	2,562	21
Employee payables	4,949	4,000	949
Other payables to third parties	1,005	843	162
Deferred income on disbursements pursuant to Law 808/85 - current portion	1,079	1,064	15
Other accrued liabilities and deferred income	324	632	(308)
Total	**9,940**	**9,101**	**839**

Amounts due to social security institutions

The account concerns amounts to be paid, amounting to Euro 2,583 thousand, relating to company and employee contributions, in accordance with regulations in force.

Employee payables

Employee payables amount to Euro 4,949 thousand and include remuneration to be settled, in addition to vacations and other rights matured and not utilised.

Other payables to third parties

The account "Other payables to third parties", amounting to Euro 1,005 thousand, relates, among others, to liabilities to Corporate Boards in the amount of Euro 423 thousand and Euro 430 thousand for short-term instalments on tax agreements signed in 2018.

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

The account, amounting to Euro 1,079 thousand (Euro 1,064 thousand at December 31, 2019), 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 324 thousand (Euro 632 thousand at December 31, 2019), 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 347,407 thousand for the current year. They amounted Euro 390,663 thousand in 2019.

	FY 2020	FY 2019	Change
Revenues from sales	199,081	313,476	(114,395)
Revenues from services	2,845	2,928	(83)
	201,926	316,404	(114,478)
Changes in contract work in progress	145,481	74,260	71,222
Total	**347,407**	**390,664**	**(43,256)**

Several projects were completed in 2020, entailing the recognition of sales revenues of Euro 199,081 thousand (Euro 313,476 thousand in 2019). The main project concluded was the VERTA (Vega Research and Technology Accompaniment) programme, which regarded the completion of VEGA launches from second to sixth. In 2019 the main project completed related to tactical propulsion.

Revenues also include the effect of the recognition of research and development tax credits, governed by Law 232 of December 11, 2016, the "2017 Budget Law". 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 2020, the account totalled Euro 7,109 thousand (Euro 7,676 thousand in 2019) - increasing Euro 567 thousand.

	FY 2020	FY 2019	Change
Income from the release of provisions	756	843	(87)
Income for the portion recognised to the income statement of the disbursements as per Law 808/85	1,064	1,466	(402)
Other income and operating grants	2,609	1,472	1,137
Over-accruals and similar in prior periods	709	636	73
Recovery of costs, damages and other income	1,971	3,259	(1,288)
Total	**7,109**	**7,676**	**(567)**

The account comprises:

- income from the release of provisions of a commercial nature of Euro 756 thousand (Euro 843 thousand in 2019);
- 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 2,609 thousand (Euro 1,472 thousand in 2019), including, primarily:

  - grants for Euro 1,029 thousand;
  - grants for Euro 1,580 thousand;

- technical consultancy Euro 709 thousand (Euro 636 thousand in 2019);

- recovery of costs, mainly from subsidiaries, for Euro 1,971 thousand (in the comparative year, amounting to Euro 3,259 thousand related to the recovery of costs for Euro 1,759 thousand and insurance reimbursements for Euro 1,500 thousand to cover damage to semi-finished products).

3.31. CONSUMPTION OF RAW MATERIALS

The account, amounting to Euro 81,447 thousand, relates to costs for raw material purchases and changes in inventories, as shown below.

	FY 2020	FY 2019	Change
Purchase of raw materials	90,892	114,331	(23,439)
Change in inventories of raw materials	(9,446)	(5,452)	(3,994)
Total	**81,447**	**108,879**	**(27,432)**

3.32. SERVICE COSTS

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

	FY 2020	FY 2019	Change
Service costs	189,969	200,063	(10,094)
Rent, lease and similar costs	992	1,035	(43)
Total	**190,961**	**201,098**	**(10,137)**

Service costs, amounting to Euro 190,961 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 436 thousand and specific committee fees of Euro 156 thousand;
- supervisory body fees of Euro 145 thousand;
- Board of Statutory Auditors’ fees of Euro 86 thousand.

The service costs therefore includes the effect of the accounting of receivables for research and development activities, amounting to Euro 1,677 thousand, as described at paragraph 2.4 “Accounting policies”.

3.33. PERSONNEL EXPENSES

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

	FY 2020	FY 2019	Change
Wages and salaries	39,069	37,465	1,604
Social security charges	12,822	12,239	583
Provision for variable remuneration	3,648	5,004	(1,356)
Other long-term benefits - current employees	148	126	22
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	272	416	(144)
Provision for “Other defined benefit plans”	2,958	2,915	43
Total	**58,917**	**58,165**	**752**

The table below illustrates, divided by category, the average number of employees of the Company:

	FY 2020	FY 2019	Change
Blue-collar	336	329	7
White-collar	460	433	27
Executives	26	24	2
Total	**822**	**786**	**36**

3.34. AMORTISATION & DEPRECIATION

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

	FY 2020	FY 2019	Change
Property, plant & equipment	5,153	4,169	984
Rights-of-use	6,031	5,684	346
Intangible assets with definite life	9,658	8,047	1,610
Total	**20,842**	**17,902**	**2,940**

Compared to 2019, amortisation & depreciation increased by Euro 2,940 thousand.
The increase relating to property, plant and equipment of Euro 984 thousand was due in particular to:

- the start of depreciation of the industrial building used to produce the P120C motor;
- the start of depreciation of several important installations.

The increase in the depreciation of Right-of-use of Euro 346 thousand was correlated to the new lease contracts entered into in 2020, which mainly governed apartments intended for use by employees in Guyana as well as office buildings useful for achieving the social distancing required by the COVID-19 legislation.

The increase in amortisation of intangible assets with definite life of Euro 1,610 thousand derives from the start of amortisation of capitalised development costs for the Z40 and P120 motors.

Amortization of intangible assets with a definite life primarily includes:

- amortization of capitalized development costs of Euro 5,094 thousand (Euro 3,933 thousand in 2019);
- 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 2019).

3.35. OTHER OPERATING COSTS

This account amounts to Euro 6,090 thousand (Euro 4,640 thousand in 2019) and mainly comprises the following items:

- provisions for contingent liabilities of Euro 1,958 thousand (Euro 2,433 thousand in 2019);
- indirect taxes of Euro 420 thousand (Euro 479 thousand in 2019);
- prior year charges of Euro 301 thousand (Euro 437 thousand in 2019).
- other operating costs for Euro 3,149 thousand, relating to entertainment expenses, association dues, donations and contributions (Euro 247 thousand in 2019); The increase on the comparative year is essentially due to two donations of Euro 250 thousand, one by the Avio Group to deal with the COVID-19 emergency to Colleferro Civil Protection and the other to the Kourou Hospital (in French Guyana).
- extraordinary charges of Euro 262 thousand (Euro 371 thousand in 2019).

3.36. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to costs capitalised for internally constructed assets, amounting to Euro 11,878 thousand (Euro 12,499 thousand), includes the costs for the internal construction of intangible assets, and to a lesser extent, tangible assets, recorded under assets in the Balance Sheet.

The details are as follows:

- costs for the construction of internal intangible fixed assets for Euro 10,345 thousand;
- costs for the internal production of tangible assets for Euro 1,533 thousand.

3.37. FINANCIAL INCOME

The breakdown of financial income of Euro 629 thousand (Euro 2,137 thousand in 2019) is presented below:

	FY 2020	FY 2019	Change
Bank interest income	-	61	(61)
Interest income on VAT and IRAP refunds		1,093	(1,093)
Financial income from amortised cost	204	439	(235)
Other financial income	0		0
	204	1,593	(1,389)
Realised exchange gains	405	515	(110)
Unrealised exchange gains	20	29	(9)
	425	544	(119)
Total	**629**	**2,137**	**(1,508)**

Financial income of Euro 629 thousand principally concerned:

- interest income from the discounting of receivables for Euro 204 thousand, of which;
  - Euro 153 thousand concerning the financial receivable of the associate Termica Colleferro S.p.A.;
  - Euro 51 thousand concerning the receivables from the Ministry for Economic Development for the disbursements as per Law 808/85;
- exchange differences for Euro 425 thousand.

The decrease of Euro 1,389 thousand on 2019 was mainly due to the fact that interest income accrued on VAT receivables collected during the year of Euro 1,086 thousand was recognised during the comparative year.

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

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

3.38. FINANCIAL CHARGES

The breakdown of financial charges of Euro 1,296 thousand (Euro 2,133 thousand at December 31, 2019) is presented below:

	FY 2020	FY 2019	Change
Interest on EIB loans	420	443	(23)
Interest expense to subsidiaries non-leasing	6	5	1
Interest expenses on other liabilities	183	468	(285)
Discounting on employee benefits	(23)	(16)	(7)
Financial charges from amortised cost to subsidiaries	299	476	(177)
Financial charges from amortised cost to associates	13	21	(8)
Financial charges from amortised cost to third parties	98	65	33
	996	1,462	(466)
Realised exchange losses	299	666	(367)
Unrealised exchange losses	1	5	(4)
	300	671	(371)
Total	**1,296**	**2,133**	**(837)**

The account, which amounted to Euro 1,296 thousand, consists primarily of:

- interest expenses on the EIB loan of Euro 420 thousand.
- financial charges from amortised cost due to the application of IFRS 16 for contracts with subsidiaries for Euro 299 thousand;
- financial charges from amortised cost due to the application of IFRS 16 for contracts with associates for Euro 13 thousand;
- financial charges from amortised cost due to the application of IFRS 16 for contracts with third parties for Euro 98 thousand;
- exchange charges for Euro 300 thousand.

The decrease in financial expense of Euro 466 thousand was mainly due to the fact that in the comparative year interest expense of Euro 432 thousand was recognised on the settlement reached at the time with the Tax Agency with regard to the 2017 research and development tax receivable. This settlement was then signed on July 22, 2020 and additional financial charges of Euro 181 thousand were recognised in 2020 to reflect the financial charges accrued until the date of the settlement on an accrual basis.

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)

During 2020 the subsidiaries did not distribute any dividends, therefore this item is zero. Net investment income in 2019 refers to net income of Euro 5,400 thousand 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

"Income taxes" report a net charge of Euro 310 thousand (net income of Euro 3,153 thousand) comprising :

- IRES income taxes amounting to Euro 568 thousand (the parent Avio S.p.A. did not pay IRES income taxes in 2019 as a tax loss was recorded but instead recorded tax income of Euro 4,288 thousand based on its tax losses used from the tax consolidation, in particular, with the subsidiary Se.co.sv.im., which following the settlement with FCA in relation to environmental charges, signed on August 2, 2019, recorded an environment charges provision of Euro 16.9 million (recorded in the accounts at current values), which as being temporarily non-deductible, resulted in higher IRES income taxes);

- income on the recognition of deferred tax assets of Euro 257 thousand (charge of Euro 1,135 thousand in 2019).

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

	FY 2020	FY 2019
Pre-tax result	9,081	25,408
Ordinary rate applied	24.00%	24.00%
Theoretical tax charge	2,180	6,098
Effect of increases (decreases) to the ordinary rate:		
Permanent increases	5,309	11,316
Permanent decreases	(4,559)	(11,941)
Temporary difference increases	15,461	18,127
Temporary difference decreases	(13,514)	(65,039)
Total changes	2,697	(47,537)
Utilisation of fiscal losses	(9,422)	
ACE deduction		
(Tax loss)/Assessable income	2,356	(22,129)
Net deferred tax (income)/charge	264	(1,135)
Current assessable	(565)	4,288
	(301)	3,153

3.41. EARNINGS PER SHARE

	FY 2020	FY 2019
Net profit for the year (in Euro thousands)	8,771	28,560
Number of shares in circulation	26,359,346	26,359,346
Treasury shares	(671,233)	(214,500)
Number of shares entitled to profits	25,688,113	26,144,846
Basic earnings per share – in Euro	0.34	1.09
Diluted earnings per Share – in Euro	0.33 (1)	1.06 (1)

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

4. COMMITMENTS AND RISKS

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

	31/12/2020
Guarantees given:	
Unsecured guarantees:	
Sureties issued to third parties on behalf of Avio	45,223
Other guarantees	3,402
Total guarantees given	48,625
Sureties and guarantees received	2,024
Total	**50,649**

Guarantees granted

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

Sureties and guarantees received

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

Other commitments

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

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

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. The agreement sees that 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.

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

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

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 6.2 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, 2020, the residual payable of Termica Colleferro was Euro 12.5 million and the contractual commitment of Avio had a maximum "ceiling" of 40% of this payable, i.e. Euro 5.0 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 comply with the banking covenants, Termica Colleferro, Avio, SECI and the lending banks also signed an agreement in 2014 modifying the original loan agreement, in accordance with which Termica Colleferro has the right to remedy the potential violation of the financial covenants ("Equity cure") through the payment by the shareholders SECI and Avio to Termica Colleferro (pro-quota according to the limits of the respective share capital holdings in the company) of an amount as share capital increase and/or a shareholder loan which overall remedies the violation ("Cure amount").

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

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

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

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

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

In the interim, on February 13, 2020 the Public Prosecutor's Office of the Court of Bologna filed a petition for a declaration of bankruptcy of Seci S.p.A. following which, the Court of Bologna initially fixed the hearing for discussion on April 3, 2020
On the basis of that reported and the information available from media outlets, due in part to the concurrent effects of Covid-19, Seci S.p.A. presented on March 27, 2020 before the Bologna Court a new agreed settlement application, in so-called full form.
As of today, this petition is still awaiting the Decree of admission from the Court of Bologna and, consequently, the bankruptcy petition filed by the Public Prosecutor's Office is pending.

The first hearing in court to lift the reserve on the admission of the composition procedure and approval of the creditors plan has been scheduled for March 23, 2021; this hearing was then postponed to May 18, 2021 due to COVID-19.

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

Following a number of clarifications requested by the banks, the waiver request was resent on July 29, 2020 in order to receive a response in time for the approval of the financial statements according to the applicable deadlines, also in view of the extensions granted as a result of Covid-19.

Following lengthy examination of the waiver request by the banks, Termica Colleferro examined, including with the support of its external consultants, the possibility of waiting for the banks' response to the waiver request in order to approve the 2019 financial statements.

On August 6, 2020, the banks replied that, as they are awaiting information requested from the parent company Seci S.p.A. regarding the arrangement with creditors and more generally the foreseeable prospects of the overall restructuring process (also in relation to the arrangement with Officine Maccaferri S.p.A.), they are not in a position to carry out an assessment of the creditworthiness of the requests made by Termica Colleferro, while they shall not activate the acceleration clause.

Termica Colleferro immediately took action to ensure that the parent company Seci S.p.A. responded to the banks, and then made contact with the banking syndicate.

In the meantime, it should be noted that Termica Colleferro has regularly repaid the instalments of the loan due in 2020 and in particular in February 2020 and August 2021.

On the basis of the information received from the Industriale Maccaferri Group, there is an interest for the equity investment held by SECI in Termica Colleferro in the light of the expected measures in support of the thermoelectric sector.

This information was provided by Termica Colleferro to the banks within the framework of a request for discussion of the merits of the granting of a waiver by the banks, to which the lead bank responded that it discussions with the other banks participating in the pool loan were ongoing, and that it would give Termica Colleferro an answer once they had been completed.

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

<u>*Criminal case against Servizi Colleferro S.C.p.A for pollution of the Sacco river*</u>

As a result of the discovery of toxic substances in milk in June 2005 and the preliminary investigations of February 2009, in March 2010, the Republic of Velletri Public Prosecutor requested the citation of a number of individuals from Caffaro S.r.l., Centrale del Latte di Roma S.p.A. and Consorzio Servizi Colleferro (the legal representative and the presumed technical manager), alleging negligence causing the environmental disaster from the poisoning of the Sacco River waters and of substances intended for human consumption (milk), occurring in Colleferro, Segni and Gavignano until December 2008, and with regard to the consortium alone, the discharge of industrial wastewater without the prescribed authorisations in the same areas until November 2006. In particular, despite the fact that the Consortium was the sole party responsible for the final discharge of the industrial wastewater treatment plant of the area, its senior executives are accused of a failure to provide adequate safety measures, control systems and/or purifying treatments to prevent white water and first flush from the drainage of some areas in the area, collected by a trench facing the consortium wastewater treatment plant, flowing into the Sacco River, resulting in the contamination of the feed of dairy animals raised near the river. The Consortium operates on a non-profit basis with a main object to collect and treat waste water from the sites belonging to the consortium and sites in the industrial district of Colleferro.

The Ministry of the Environment, Land and Sea, the local municipalities and a number 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.

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

Finally, at the hearing of July 16, 2020, the Court of Velletri, in single-justice composition, fully acquitted Mr. Giovanni Paravani and Mr. Renzo Crosariol of the offense referred to in Section A) of the indictment, concerning the violation of Articles 113, 449, paragraph 1 (in relation to Article 434), 452, paragraph 1, No.3 (in relation to Article 439) of the Italian Criminal Code (negligent disaster), as judged to not have committed the act, consequently rejecting the claims brought by the civil parties against Servizi Colleferro S.C.p.A..
Updates from the legal counsel engaged regarding a possible appeal against the judgment of the first instance are expected.

Secosvim/Caffaro

The Colleferro industrial district includes an industrial area known as "Benzoin and derivatives" that until December 31, 2007 was leased to Caffaro S.p.A., which since September 2009 was subject to an extraordinary administration proceeding. For the collection of Caffaro debts, Secosvim submitted an application for admission to its insolvency proceedings, which was accepted.
At the same time, the Emergency Commissioners Office of Sacco Valley issued a claim for damages against Caffaro for land pollution for an estimated amount of approx. Euro 7 million, corresponding to the expected cost for the recovery of these areas. Caffaro challenged in the period between 2008 and 2012, before the Lazio Regional Administrative Court, a series of administrative acts (minutes of the conferences of service, notes with which Caffaro was requested to present contaminated waste disposal plans, approval deeds of characterization activities), requesting cancellation, with which the Commissioner's Office sought damages from Caffaro. These motions were notified also to Secosvim as owner of the Benzoin area (leased by Caffaro until 2007), which was therefore summoned before the court in accordance with law.
As the company Caffaro may claim these costs from Secosvim as the owner of the buildings, Secosvim therefore has requested since October 2009 before the Velletri court a prior technical declaration ("ATP") to establish any liability upon Caffaro for the contamination of the Benzoin area, which concluded with the filing of an opinion which confirmed the direct liability of Caffaro for the above-stated contamination.
In this regard, during the proceedings the State Prosecutor requested the Regional Administrative Court to assess the judicial incompatibility of the appeal decision. On conclusion of the hearing of December 6, 2016, the Lazio Regional Administrative Court consequently adopted separate ordinances (of identical tenor), with which (for each appeal) the President of the Counsel was requested to file within 90 days documented clarifications with regards to the criminal proceeding pending before the Velletri Court No. 1831/2014 (as reported in the previous paragraph, relating to the *"Criminal proceeding against Consorzio Servizi Colleferro with regards to the pollution of the Sacco river"*). The hearing to discuss these appeals was held on June 20, 2018.
The hearings are still pending before the Regional Administrative Court of Lazio and the next hearing is scheduled for June 9, 2021.

Company tax audits

Information is provided below on the most significant tax audits and disputes which, at the date of the present financial statements, concerned Avio S.p.A, with details on the specific disputes and the relative amounts.

A.1.)Settlement notice served on July 28, 2016 for indirect taxes on the transfer of the Aeroengine business unit from Avio S.p.A. to GE Avio S.r.l.

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, 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 and simultaneous cross-appeal, reaffirming the soundness of its arguments.
With regards to this dispute, on the basis of specific contractual provisions, the General Electric Group is required to indemnify Avio S.p.A. for any liabilities which may arise with regards to the indirect taxes relating to the disposal of the company GE Avio S.r.l. (containing the AeroEngine segment operations of the Avio Group), in addition to the provision to Avio S.p.A. of any amounts requested by the Tax Agency by the established payment deadlines. In this regard, on August 12, 2016, following the notification from the Tax Agency to Avio S.p.A. of the settlement notice for a total of Euro 58,220 thousand, GE Italia Holding S.p.A. confirmed to Avio S.p.A. its punctual fulfilment of the above contractual stipulations. In view of that above, and particularly the notification of the above-stated settlement notice which quantifies the alleged indirect taxes as Euro 58,220 thousand, in addition to the above payments of the contractually established indemnities and confirmed subsequently to the settlement notice at issue, a tax payable was recognised to the financial statements in relation to the liabilities which may arise from the settlement notice and a corresponding receivable from the General Electric Group recorded for the same amount of Euro 58,220 thousand.
With regard to the litigation in question, and in particular the subject-matter of the dispute, relating to the anti-avoidance provision of Article 20, headed "Interpretation of acts", of Presidential Decree No. 131/1986 ("Consolidated Registration Tax Act"), mention should be made of some circumstances post-dating the service of the payment notice. In particular:

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

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. In particular:

- in the IRES assessment notice, the Office assessed Avio S.p.A. greater IRES due to tax consolidation, which it had joined in 2014, of Euro 600,959.00, plus interest, levying total penalties of Euro 542,863.00;
- in the IRAP assessment notice, the Office adjusted the net value of production to the negative amount of -Euro 9,939,291.00 from the taxable loss reported of -Euro 12,124,598.00. Since the value of production adjusted by the Office is still negative, no tax was recovered and a fixed penalty of Euro 250.00 was levied.

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.
With regard to the IRES assessment notice, it should be noted that, pending the settlement procedure, the Company has asked the Office to be able to offset the greater taxable profit assessed against unused prior tax losses. Granting the Company's request, in July 2020 the Office recalculated the greater IRES assessed for 2014 (and related interest), reducing it to zero and levying a single administrative fine of Euro 1,250.00.
Despite various discussions and reciprocal attempts to reach a desired settlement of the aforementioned notices, the Company - while continuing to reiterate its full and loyal cooperation with the tax authorities - does not consider the conditions correct to proceed with the settlement of the assessment notices. In particular, without prejudice to the Company's many reservations regarding the legitimacy, in fact and in law, of the aforementioned assessment notices, the Company is confident of the correctness of its actions, and considers that it has acted in full compliance with the law, including in light of the OECD Guidelines and the Ministry of Economy and Finance Decree of May 14, 2018.
Believing, therefore, that it could not achieve compliance with the terms and conditions proposed by the Agency, the Company promptly challenged the two IRES and IRAP assessment notices in June 2020.
The case hearing has been set for April 2021, subject to deferral due to the ongoing pandemic emergency.
At present, the potential liability associated with the dispute in question totals Euro 1,500, of which Euro 1,250 by way of formal IRES penalty and Euro 250 by way of formal IRAP penalty.

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 2020 and 2019.

Amounts at December 31, 2020:

In thousands of Euro	Total accounts	IFRS 9 Category		
		Assets at amortised cost	*Assets at fair value through profit or loss*	*Liabilities at amortised cost*
FINANCIAL ASSETS				
- Investments in other companies	524		524	
- Non-current financial assets	6,259	6,259		
- Other non-current assets	65,000	65,000		
- Current financial assets	-	-		
- Trade receivables	5,198	5,198		
- Other current assets	20,870	20,870		
- Cash and cash equivalents	121,536	121,536		
	219,387	**218,863**	**524**	**0**
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	32,000			32,000
- Non-current financial payables for leasing	31,146			31,146
- Current financial liabilities	65,892			65,892
- Current lease liabilities	8,368			8,368
- Current portion of non-current financial payables	10,063			10,063
- Other non-current liabilities	126,782			126,782
- Other current liabilities	9,940			9,940
- Trade payables	89,072			89,072
	373,263	**0**	**0**	**373,263**

Amounts at December 31, 2019:

In thousands of Euro	Total accounts	IFRS 9 Category		
		Assets at amortised cost	*Assets at fair value through profit or loss*	*Liabilities at amortised cost*
FINANCIAL ASSETS				
- Investments in other companies	524		524	
- Non-current financial assets	6,106	6,106		
- Other non-current assets	67,051	67,051		
- Trade receivables	3,485	3,485		
- 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	6,422			6,422
- 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
	431,249			**431,249**

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, 2020.

Financial income and expenses recorded as per IFRS 9

The following table presents the financial income and charges generated by financial assets and liabilities, broken down by category as per IFRS 9 for 2020 and 2019.

FY 2020

	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 Statement			
Liabilities at amortised cost	830	-	-
Derivative financial instruments	-	-	-
Total categories	830	-	-

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 statement			
Liabilities at amortised cost	1,005	-	-
Derivative financial instruments	-	-	-
Total categories	1,005	-	-

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, 2020 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 5,198 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, 2020 these are recorded net of a doubtful debt provision of Euro 483 thousand. The overdue amounts were therefore not significant and entirely relate to timing factors.

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

Liquidity risk

The Company and Group's liquidity risk concerns any difficulties in obtaining at appropriate conditions the funding necessary to support operations. The principal factors which influence liquidity are, on the one hand, the resources generated and absorbed by the operating and investment activities and on the other the conditions concerning the maturity of the payable or the liquidity of the financial commitments.

Cash flows, funding requirements and liquidity are centrally monitored and managed, also through centralised treasury systems involving the main Group Italian and overseas companies, in order to ensure the timely and efficient sourcing of funding or the appropriate investment of liquidity, optimising the management of liquidity and cash flows. The Group periodically monitors forecast and effective cash flows and updates future cash flow projections in order to optimise liquidity management and calculate any funding requirements.

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

For information on the impacts of Covid-19, reference should be made to the Directors' Report.

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, 2020 had not undertaken specific cash flow hedges in relation to these types of risks.

Interest rate risk

The company has two loans with the European Investment Bank (EIB) for a residual total of Euro 42 million, at a competitive interest rate compared to the market.

Therefore, this risk is not considered applicable to the company and, therefore, to the Company.

6. 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, 2020									
Counterparty	**Other non-current assets**	**Inventories and advances to suppliers**	**Trade receivables**	**Other current assets**	**Contract work-in-progress**	**Non-current financial assets**	**Trade payables**	**Other current liabilities**	**Advances for contract work in progress**	**Financial liabilities**
Leonardo S.p.A.		3,530					2,112	248		
MBDA Italia S.p.A.			17		5,465				179	
MBDA France S.A.			3		9,779				23,540	
Thales Alenia Space Italia S.p.A.					126					
Vitrociset S.p.A.					115		581		113	
Companies with a connecting relationship and relative investee companies	**0**	**3,530**	**20**	**0**	**15,485**	**0**	**2,693**	**248**	**23,832**	**0**
Spacelab S.p.A.			103	9,793			1,443			18,777
Regulus S.A.		810	2,253				26,214			
SE.CO.SV.IM. S.r.l.	150		543	4,318			22			67,722
Avio Guyane S.A.S.			487				1,123			
Avio France S.A.S.			715				485			
Subsidiaries	**150**	**810**	**4,101**	**14,111**	**0**	**0**	**29,287**	**0**	**0**	**86,499**
Termica Colleferro S.p.A.			196			6,259	358			1,257
Europropulsion S.A.		34,702	566		77,307		7,236		55,683	12,749
Potable Water Services Consortium				4			(102)			
Servizi Colleferro - Consortium Limited Liability Company							30			
Associates and jointly controlled companies	**0**	**34,702**	**762**	**4**	**77,307**	**6,259**	**7,522**	**0**	**55,683**	**14,006**
Total related parties	**150**	**39,042**	**4,883**	**14,115**	**92,792**	**6,259**	**39,502**	**248**	**79,515**	**100,505**
Total book value	**65,000**	**136,060**	**5,198**	**20,870**	**334,860**	**6,259**	**89,072**	**9,940**	**477,828**	**147,469**
% on total account items	**0.23%**	**28.69%**	**93.94%**	**67.63%**	**27.71%**	**100.00%**	**44.35%**	**2.49%**	**16.64%**	**68.15%**

	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		34,561		680		57,509	28,749
Potable Water Services Consortium	62	3						
Servizi Colleferro - Consortium Limited Liability Company	203	491						
Associates and jointly controlled companies	**1,117**	**494**	**34,561**	**6,106**	**1,704**	**0**	**57,509**	**30,145**
Total related parties	**2,000**	**14,354**	**44,150**	**6,106**	**22,516**	**189**	**62,581**	**120,995**
Total book value	**3,484**	**21,109**	**214,599**	**6,106**	**113,331**	**9,101**	**319,383**	**176,129**
% on total account items	**57.39%**	**68.00%**	**20.57%**	**100.00%**	**19.87%**	**2.08%**	**19.59%**	**68.70%**

In 2020, and for the comparative 2019, the main income statement transactions by the Company with related parties were as follows (in Euro thousands):

	At December 31, 2020				
Counterparty	**Operating Revenues and changes in contract work-in-progress (1)**	**Other operating income**	**Other Costs (2)**	**Financial income**	**Financial Charges**
Leonardo S.p.A.	-	-	283	-	-
MBDA Italia S.p.A.	2,522	-	-	-	-
MBDA France S.A.	17,618	-	-	-	-
Thales Alenia Space Italia S.p.A.	-	-	-	-	-
Vitrociset S.p.A.	-	-	2,673	-	-
Companies with a connecting relationship and relative investee companies	**20,140**	**-**	**2,956**	**-**	**-**
Spacelab S.p.A.	-	88	1,521	-	2
Regulus S.A.	1,966	-	28,443	-	-
SE.CO.SV.IM. S.r.l.	101	210	18	-	303
Avio Guyane S.A.S.	-	70	4,044	-	-
Avio France S.A.S.	-	70	793	-	-
Subsidiaries	**2,067**	**438**	**34,819**	**-**	**305**
Termica Colleferro S.p.A.	94	-	5,757	153	13
Europropulsion S.A.	100,407	4	57,365	-	-
Potable Water Services Consortium	33	-	166	-	-
Servizi Colleferro - Consortium Limited Liability Company	60	-	625	-	-
Associates and jointly controlled companies	**100,594**	**4**	**63,913**	**153**	**13**
Total related parties	**122,801**	**442**	**101,688**	**153**	**318**
Total book value	**347,407**	**7,109**	**331,324**	**629**	**1,296**
% on total account items	**35.35%**	**6.22%**	**30.69%**	**24.32%**	**24.54%**

(1) The account includes revenues from sales and services and does not include the advancement of work from contract work-in-progress not yet concluded.
(2) The account includes raw material consumables, service costs and personnel expenses.

Counterparty	At December 31, 2019			
	Operating Revenues and changes in contract work-in-progress [1]	**Other Costs [2]**	**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**	**-**	**-**
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	293	21
Europropulsion S.A.	119,285	66,892	-	-
Potable Water Services Consortium	27	222	-	-
Servizi Colleferro - Consortium Limited Liability Company	96	609	-	-
Associates and jointly controlled companies	**119,556**	**76,392**	**293**	**21**
Total related parties	**(22,303)**	**116,428**	**294**	**502**
Total book value	**390,664**	**368,142**	**2,137**	**2,133**
% on total account items	**5.71%**	**31.63%**	**13.80%**	**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.

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 2020 for audit and other services by the audit firm Deloitte & Touche SPA and its network (in Euro thousands):

Type of service	Company	Service provider	2020 Fees
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	119
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	115[(1)]
Total	**Total**		**234**

(1) This concerns the limited review of the Avio Group's Non-Financial Statement for Euro 25 thousand, ISA 805 audit activities performed in 2020 related to the certification of the statement of research and development for tax credits in 2019 for Euro 45 thousand, voluntary audit accounting activities for Euro 40 thousand and ISRS 4400 activities related to the audit of R&D costs on the Horizon 2020 program for Euro 5 thousand.

9. INFORMATION ON PUBLIC GRANTS AS PER ARTICLE 1, PARAGRAPHS 125-129, OF LAW NO. 124/2017250

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 2020:

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 2020	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	0.51	11/12/2020	0.26
AVIO SPA	Ministry for Economic Development	80-ton solid propellant engine - P80	2010	0.29	11/12/2020	0.15
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2009	0.15	10/08/2020	0.15
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2010	0.15	10/08/2020	0.46
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2011-2012	0.29	10/08/2020	0.56
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2012-2013	0.30	10/08/2020	1.69
AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2014-2015	0.20	10/08/2020	1.83

AVIO SPA	Ministry for Economic Development	Innovative, strategic carbon epoxy prepreg materials and modified elastomeric thermal insulation formulated and produced within Italy for filament winding applied to 40T space engines	2016-2017	0.24	10/08/2020	2.01
AVIO SPA	Ministry for Economic Development	LOX/LCH technology demonstrator for the first stage of the Vega E launcher	2014-2016	-	-	1.16
				2.13		**9.43**

"Receivables from the Ministry for Economic Development" for disbursements in accordance with Law 808/85, amounting to Euro 9.43 million, refer to the nominal value of the grants to be issued by the Ministry for Economic Development. The amounts by Project are broken down as follows: Euro 1.57 million for the "80 ton solid propellant motor - P80" project; Euro 6.7 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 2020	Collection date	Nominal receivable to be collected
				(€ / mln)		**(€ / mln)**
AVIO SPA	Ministry for Economic Development	AMMEP - Additive Manufacturing by Mixing Elemental Powders	NA	0.10	06/02/2020	NA
AVIO SPA	Ministry for Economic Development	AMMEP - Additive Manufacturing by Mixing Elemental Powders	NA	0.28	24/12/2020	NA
AVIO SPA	Finpiemonte	IR² - Industrialization of Research Results - PISCO Project	NA	0.08	28/04/2020	NA
				0.46		**NA**

It should be noted, as stated in the section of the notes dedicated to tax receivables, that the Avio Group recognised:

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

  in reference to 2020, the research and development tax credit pursuant to the 2020 Budget Law.

10. SUBSEQUENT EVENTS

Business

Vega return to flight

Flight VV18 assembly integration activities were suspended immediately on failure of VV17, and will be resumed after ESA and Arianespace approval of the Commission of Inquiry's recommendation implementation plan.

Inspection and preparation of the stages of the Vega VV18 launcher were thus performed, resulting, on March 5, 2021 in the beginning of the launch campaign for the resumption of Vega flights currently planned for the second half of April 2021.

Vega-C Launch System Ground Qualification Review

The review work on the qualification of the Vega-C launch system by the qualification team led by the ESA continued, with the involvement of the Avio Programme team.

Other significant events

Collection of VAT receivables

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

COVID-19

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

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

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

In inviting you to approve the 2020 Annual Accounts of Avio S.p.A., drawn up as per IFRS and reporting a net profit of Euro 8,771 thousand, we propose the allocation of the result as follows:

- Euro 7,321 thousand as dividend;
- Euro 1,450 thousand to retained earnings.

* * *

March 19, 2021

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

Statement on the separate and consolidated financial statements pursuant to Article 81-ter of Consob Regulation No. 11971 of May 14, 1999 as amended

1. The undersigned Giulio Ranzo and Alessandro Agosti, respectively CEO and Executive Officer for Financial Reporting of Avio S.p.A. declare, also in consideration of Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of February 24, 1998:

- the conformity in relation to the characteristics of the company and

- the effective application of the administrative and accounting procedures for the compilation of the individual and consolidated financial statements financial statements in the period from January 1 to December 31, 2020.

2. The following significant aspects arose.

- an assessment was undertaken of the internal control system;
- this assessment utilised the criteria established in the "Internal Controls - Integrated Framework" model issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO");
- no significant issues were identified in the assessment of the internal control system.

3. We also declare that:

3.1 the individual and consolidated financial statements:
is drawn up in compliance with the applicable international accounting standards recognised by the European Union, in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and the Council of July 19, 2002;
b) correspond to the underlying accounting documents and records;
c) provide a true and fair view of the financial position, financial performance and cash flow of the Issuer and of the other companies in the consolidation scope.
3.2 The Directors' Report includes a reliable analysis on the performance and operating result as well as the situation of the issuer and of the companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Date:

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, 2020, 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, 2020, 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.

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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, 2020 include assets related to the execution of contracts work in progress of Euro 334,8 thousand and liabilities for the related advances of Euro 477,8 thousand. These contracts work in progress are attributable to development and production activities of space sector, whose revenues and related margins are recognized to income statement based on the progress of orders according to the percentage of completion method determined on the basis of the ratio between the costs incurred and the total estimated costs of the entire work. The Company has also estimated the effects on contracts work in progress resulting from the failure of the Vega VV17 mission occurred during the financial year, to this end, taking into account the results of the Independent Commission of Inquiry, chaired by Arianespace and ESA, in order to identify the causes and define the actions necessary to restore the maximum reliability of the launcher involved in that incident. 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, 2020. 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”. The note “Significant events in 2020” reported in the explanatory notes of the financial statements illustrates the impacts of the Vega VV17 mission and the results of the analyses carried out by Management on its effects on the financial statements.

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Audit procedures performed	As part of our audit, among other things, we performed the following audit procedures: • understanding of the accounting approach adopted by Avio 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; • examination of the analyses carried out by the Company on the impacts deriving from the failure of the Vega VV17 mission and of the relevant documentation included the minutes of the corporate committee, the final report of the independent Commission of Inquiry and the terms of the contract; • meetings and discussions with Management and Control Committee on the analysis related to the failure; • 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; • sample verification of contract costs with reference to the various cost components of a sample contract work in progress as of December 31, 2020; • review of the adequacy of disclosures provided by Avio S.p.A. and of the compliance with the related accounting standards.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

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- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

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

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

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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, 2020, 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, 2020 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, 2020 and are prepared in accordance with the law.

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

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

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

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

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

DELOITTE & TOUCHE S.p.A.

Signed by
Francesco Legrottaglie
Partner

Rome, Italy
March 31, 2021

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

BOARD OF STATUTORY AUDITORS' REPORT

in accordance with Article 153 of Legislative Decree No. 58/1998 and of Article 2429 of the Civil Code

Dear Shareholders,

this report, drawn up as per Article 153 of Legislative Decree No. 58/1998 ("CFA") and Article 2429 of the Civil Code refers to the activities carried out by the Board of Statutory Auditors of Avio S.p.A. ("Avio" or also the "Company") in the year ending December 31, 2020, in compliance with the applicable regulation, taking account also of the conduct rules for the Board of Statutory Auditors, recommended by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), of Consob's provisions concerning corporate controls and the indications contained in the Self-Governance Code promoted by Borsa Italiana.

In addition, as Avio has adopted a traditional governance model, the Board of Statutory Auditors acts as the "Internal Control and Audit Committee" upon which additional specific financial disclosure and monitoring functions fall, as per Article 19 of Legislative Decree No. 39 of January 27, 2010, as amended by Legislative Decree No. 135 of July 17, 2016.

The current Board of Statutory Auditors was appointed on May 6, 2020 by the Shareholders' Meeting of Avio, with its mandate concluding on the approval of the 2022 Annual Accounts. In 2020, the Board of Statutory Auditors, in its current and previous composition, undertook the activities within its scope, holding fourteen meetings. In the same year, the Chairman of the Board of Statutory Auditors and its members, in addition, participated at all ten meetings of the Board of Directors, the eight meetings of the Control and Risks Committee, the four meetings of the Appointments and Remuneration Committee and two meetings of the Sustainability Committee.

During the year, the Board of Statutory Auditors also met the "Organismo di Vigilanza" as per Legislative Decree No. 231/2001 to reciprocally exchange information.

1. SUPERVISORY ACTIVITY

1.1 Oversight upon legal, regulatory and By-Law compliance

The supervisory duties of the Board of Statutory Auditors are governed by Article 2403 of the Civil Code, by Legislative Decree No. 58/1998 and by Legislative Decree No. 39/2010. The Board took account of the amendments made to Legislative Decree No. 39/2010, by Legislative Decree No. 135/2016, in transposing Directive 2014/56/EC and European Regulation No. 537/2014.

On the activities undertaken during the year, as per Consob's indications of Communication of April 6, 2001, as amended and supplemented by Communication DEM/3021582 of April 4, 2003, and subsequently by Communication DEM/6031329 of April 7, 2006, the Board undertook the duties outlined below.

The Board of Statutory Auditors periodically received from the Directors, also through attending the meetings of the Board of Directors and of the internal board committees, information on the activities carried out and on the main economic, financial and equity transactions approved and executed in the year, in addition to, in accordance with Article 150 of the CFA, paragraph 1, those undertaken by the subsidiaries. Based on the information available, the Board can reasonably state that these operations were in compliance with law and the corporate objectives and were not imprudent, reckless; contrary to resolutions of the Shareholders' Meetings or such as to compromise the integrity of the Company's assets.

In addition, the transactions potentially presenting a conflict of interests were approved in compliance with law, the regulatory provisions and the By-Laws.

The main events in the year, which the Board of Statutory Auditors highlight in view of their significance, include:

- following the failure of the VV15 flight, the Company in the second half of 2019 and at the beginning of 2020 executed the corrective measures according to the timeframe indicated by the Commission of Inquiry. The next launch, after a number of postponements due to the COVID-19 pandemic, successfully took place on September 2, 2020;
- on November 17, 2020, the Vega VV17 mission encountered an anomaly that caused the launcher's trajectory to deviate, resulting in the premature termination of the mission. A Commission of Inquiry chaired by Arianespace and ESA has been appointed to identify the causes of the failure and to define the actions to be implemented for the return to flight;
- with reference to the Covid-19 pandemic, in March 2020 the Company obtained the prefectural authorization to continue its industrial activities, being among those of strategic importance for the Italian national economy. Avio therefore implemented all government measures and the national protocols, setting up an Internal COVID-19 Committee.

Among the subsequent events, the Board of Statutory Auditors highlights that on January 21, 2021 the ESA and Arianespace approved the plan to implement the recommendations issued by the

Commission of Inquiry following the VV17 flight failure. Inspection and stage preparation activities of the VV18 launcher were carried out, allowing the launch campaign to begin for the return to flight, scheduled for the second half of April 2021.

In terms of the ongoing health emergency, the Board of Statutory Auditors has systematically overseen the adoption by the Company of appropriate measures to protect the health and safety of workers. In addition, in 2020, information flows with company management and the independent audit firm were stepped up in terms of this issue.

1.2 Oversight upon compliance with the principles of correct administration and on the adequacy of the organisational structure

The Board of Statutory Auditors obtained information and verified the adequacy of the organisational structure, compliance with correct administrative principles, the adequacy of the Company's instructions to its subsidiaries in accordance with Article 114, paragraph 2 of the CFA, through the obtaining of information from the Boards of Statutory Auditors of the Italian subsidiaries, from the persons responsible for the various departments and meetings with the auditing firm for the reciprocal exchange of data and relevant information.

During the year, the Company introduced various provisions to implement measures introduced by Regulations, the Oversight Authorities, the Self-Governance Code and the Group Regulation.

The Annual Reports on the financial statements of the Board of Statutory Auditors of the Italian registered subsidiaries did not highlight any critical aspects. Similarly, no criticalities are indicated with regards to the information flows received from the Boards of Statutory Auditors of these subsidiaries.

The Directors' Report, the information received during the meetings of the Board of Directors and that received from the Chief Executive Officer, senior management, the Boards of Statutory Auditors of the subsidiaries and from the independent audit firm do not indicate the existence of atypical and/or unusual transactions with Group companies, with third parties or with related parties.

The Board of Statutory Auditors verified the Company processes undertaken to establish the remuneration policies of the Company, with particular regards to the remuneration criteria of the Chief Executive Officer and of the Senior Executives.

1.3 Oversight of the internal control and risk management system

The Board of Statutory Auditors monitored the adequacy of the internal control and risk management systems through:

- the acknowledgement of the assessment, expressed by the Board of Directors, of the adequacy of the organisational, administrative and accounting structure of Avio and of the strategically significant subsidiaries;
- the review of the report of the Control and Risks Committee on the activities carried out and on the adequacy of the internal control and risk management system;
- the review of the Annual Report of the Company's Internal Audit Manager;
- the review of the reports of the "Organismo di Vigilanza" as per Legislative Decree No. 231/2001;
- meetings with the Chief Executive Officer of Avio to review the internal control and risk management system;
- the periodic meetings, also attending the meetings of the Control and Risks Committee and of the Sustainability Committee, undertaking the internal audit function and the legal and compliance function to assess the work planning methods, based on the identification and assessment of the main process and organisational unit risks;
- the meetings with the risk management function to analyse Avio's and the Group's strategic risks;
- the meetings with senior positions regarding the organisational and operating impacts of Avio's activities;
- review of the periodic Reports of the Internal Audit Function, in coordination with the Control and Risks Committee of the Company;
- the meetings with the Executive Responsible for Financial Reporting;
- the acquisition as per paragraphs 1 and 2 of Article 151 of the CFA of information from the control boards of the Italian registered subsidiaries on events considered significant involving the Group companies and on the internal control system;
- joint meetings with the Control and Risks Committee and the Company's "Organismo di Vigilanza" as per Legislative Decree No. 231/2001;
- the discussion of the results of the work carried out by the independent audit firm;
- regular participation at the Control and Risks Committee, the Appointments and Remuneration Committee and the Sustainability Committee of the Company, covering jointly the issues of the former when deemed appropriate.

In undertaking its control activities, the Board of Statutory Auditors particularly focused on analysing the operating, accounting, economic and financial effects from the anomaly which occurred with the deviation of trajectory which led to the premature conclusion of the Vega VV17 launch mission and the management by the Company of the consequent economic-financial, reputational and operative impacts.

In general, although particularly on this occasion, the Board of Statutory Auditor coordinated its activities through ongoing liaising, also at the meetings on the issue of the Control and Risks Committee at which it took part, with the internal audit and risk management functions and the top management of the operative sector.

The Company's internal audit function which, with the favourable opinion of the Board of Statutory Auditors, is outsourced to a specialised company, operates on the basis of a multi-year plan, reviewed annually, which defines activities and processes to be audited with a view to a risk-based approach. The plan is approved by the Board of Directors, following the approval of the Control and Risks Committee and consultation with the Board of Statutory Auditors.

The activities carried out by Internal Audit during the year covered the planned scope of activities. These activities did not indicate significant criticalities, although highlighting areas for improvement, carefully monitored, to be implemented in the current year.

The Board of Statutory Auditors acknowledges that the annual report of the internal audit concludes with an opinion on the reliability of the internal controls in place and that the Control and Risk Committee has assessed the internal control and risk management system as adequate with respect to the Company's size and characteristics.

On the basis of the activities carried out, the information acquired and the content of the Internal Control Function's report, the Board of Statutory Auditors considers that no criticalities exists which may affect the control and risk management systems structure.

1.4 Oversight on the administrative-accounting system and on the financial disclosure process

The Board of Statutory Auditors monitored the process and controlled the efficacy of the internal control and risk management systems as regarding financial disclosure.

The Board of Statutory Auditors periodically met the Executive responsible for the preparation of the corporate accounting documents to exchange information on the administrative-accounting system, while also considering the reliability of this latter to correctly present operating events.

The Board of Statutory Auditors also reviewed the declarations of the Chief Executive Officer and of the Executive Officer for Financial Reporting in accordance with the provisions of Article 154-*bis*, paragraphs 3 and 4, of the CFA presented on March 19, 2021.

The Board of Directors on March 19, 2021 approved the impairment test procedure drawn up according to IAS 36, governing the methods to verify the recoverability of Avio Group's assets, in addition to the results of applying the same procedure to the relative accounts in the 2020 financial statements, also with the favourable opinion of an independent advisor.

The Board of Statutory Auditors supervised (i) on the adoption by the Board of Directors of the procedure and, subsequently (ii) the outcome of the checks made by management, with the support of an independent advisor, which confirms the recoverability of the assets subject to the impairment test.

The Board of Statutory Auditors did not highlight any deficiencies which may affect the opinion of adequacy and effective application of the administrative-accounting procedures.

The Independent Audit Firm managers, in the periodic meetings with the Board of Statutory Auditors, did not indicate critical situations which may affect the internal control system in terms of administrative and accounting procedures.

1.5 *Oversight on related party transactions*

The inter-company and related party transactions are indicated in Note 7 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 Policy ("RPT Policy") with the applicable regulation and its correct application, in addition to the procedure to adjust it to the new regulatory provisions which will enter into force in 2021.

2. INTERNAL CONTROL AND AUDIT COMMITTEE

In accordance with Article 19 of Legislative Decree 39/2010, the Board of Statutory Auditors is identified as the Internal Control and Audit Committee and carried out the required oversight activities upon the legally required audit of the statutory annual accounts and of the consolidated accounts.

The Board of Statutory Auditors periodically met with the Independent Audit Firm Deloitte & Touche, also as per Article 150, paragraph 3, of the CFA for the exchange of reciprocal information.

At these meetings, the Independent Audit Firm did not indicate any facts or events requiring indication or irregularities requiring specific reporting as per Article 155, paragraph 2, of the CFA.

For its supervision of the financial statements, the Board of Statutory Auditors periodically met with the independent audit firm to review the results from the auditing of the proper maintenance of accounting records, to review Avio and Group 2020 Audit Plan and for the state of advancement of the Audit Plan.

The Board of Statutory Auditors and the Independent Audit Firm also maintained continuous exchanges of information, also with regards to the operating difficulties emerging during the concluding phases of the audit activity, due to the worsening COVID health emergency. In particular, the Board:

i. noted an appropriate level of professional scepticism;
ii. promoted effective and timely communication with the Auditors;
iii. oversaw, without noting any criticalities, the impacts related to the "remote" working methods undertaken by the Auditor, with the support of the corporate structures.

The Board of Statutory Auditors has (i) analysed the work carried out by the Independent Auditors, and in particular, the methodological framework, the audit approach used for the various significant areas of the financial statements and the planning of the audit work and (ii) shared with the Independent Auditors the issues related to corporate risks, thus being able to appreciate the adequacy of the response planned by the auditor with the structural and risk profiles of the Company and the Group; (iv) started an in-depth analysis of the Audit Quality Indicators.

The draft financial statements at December 31, 2020, accompanied by the Directors' Report prepared by the Directors, in addition to the statement of the Chief Executive Officer and of the Executive Officer, were approved by the Board of Directors at the meeting of March 19, 2021 and simultaneously made available to the Board of Statutory Auditors in view of the Shareholders' Meeting called for April 29, 2021. On the same date of March 19, 2021, the Board of Directors of Avio also approved the consolidated financial statements, as prepared by the Executive Officer, pursuant to Article 154-*bis* of the CFA.

On March 31, 2021, the independent auditors issued, pursuant to Article 14 of Legislative Decree No. 39/2010 and Article 10 of Regulation (EU) No. 537/2014, the audit reports on the financial statements and consolidated financial statements of the Avio Group for the year ended December

31, 2020, prepared in accordance with International Financial Reporting Standards - IFRS adopted by the European Union.

With regards to the opinions and statements, the Independent Audit Firm in the Auditor's Report:

- issued an opinion indicating that the financial statements of Avio and the consolidated financial statements of the Avio Group provide a true and fair view of the equity and financial situation of the Company and of the Group at December 31, 2020, 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 separate financial statements and consolidated financial statements at December 31, 2020 and the information in the Corporate Governance and Ownership Structure Report indicated in Article 123 bis, paragraph 4 of the CFA, whose responsibility lies with the Directors of Avio, and 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 relative context acquired during the audit activities, to not having any matters to report;
- verified the approval by the Directors of the Non-Financial Report.

On March 31, 2021, the Independent Audit Firm also presented to the Board of Statutory Auditors the additional report required by Article 11 of Regulation EC No. 537/2014 and which did not indicate significant deficiencies in the internal control system with regards to the financial disclosure process requiring the attention of the Internal Control and Audit Commitee. The Board of Statutory Auditors will inform the Board of Directors on the results of the audit, transmitting for this purpose the additional report pursuant to Article 11 of the European Regulation 537/2014, accompanied by any observations, pursuant to Article 19 of Legislative Decree 39/2010.

The Independent Audit Firm presented to the Board of Statutory Auditors, in the additional report pursuant to Article 11 of the European Regulation 537/2014, the statement regarding its independence, as required by Article 6 of Regulation (EC) 537/2014, indicating no situations which may have compromised such independence.

The Independent Audit Firm was assigned additional audit appointments during 2020, as outlined in point 8 of the 2020 Annual Financial Report, on the basis of that required by Article 149-*duodecies* of the Issuers' Regulation.

3. OTHER ACTIVITIES

3.1 Method for the concrete application of the Corporate Governance rules

In exercising its functions, the Board of Statutory Auditors, as required by Article 2403 of the Civil Code and Article 149 of the CFA, oversaw the methods for the concrete implementation of the corporate governance rules set out in the conduct codes with which Avio complies. The Company complies with the Self-Governance Code (now Corporate Governance Code) prepared by the Corporate Governance Committee of Borsa Italiana and in accordance with Article 123-*bis* of the CFA drew up the "Corporate Governance and Ownership Structure Report", in which information is provided upon:

i. the effectively applied corporate governance practices;
ii. the main characteristics of the risk management and internal control systems;
iii. the mechanisms for the functioning of the Shareholders' Meetings, its main powers, the rights of Shareholders and the operating rules;
iv. the composition and functioning of the administration and control boards and of the internal committees.

The Board of Directors approved the "Corporate Governance and Ownership Structure Report" on March 19, 2021.

The Board of Statutory Auditors verified the correct application of the criteria and procedures adopted by the Board of Directors to assess the independence of its members.

The Board of Directors conducted an evaluation of its functioning, the results of which were discussed during the meeting held on March 19, 2021 and are described in the corporate governance report of Avio.

3.2 Remuneration policies

The Board of Statutory Auditors verified the Company processes undertaken to establish the remuneration policies of the Company, with particular regards to the remuneration criteria of the

Chief Executive Officer and of the Senior Executives providing, where required by law, their opinion.

3.3 Omissions or reportable events, opinions provided and initiatives undertaken

In 2020, the Board of Statutory Auditors did not receive any notices as per Article 2408 of the Civil Code, nor received petitions from third parties.

The Board of Statutory Auditors has also issued the opinions required by current regulations, especially with regard to the remuneration of directors holding specific offices.

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 mention in the present report were noted.

3.4 Non-financial report

The Board of Statutory Auditors, in undertaking its duties, oversaw compliance with the provisions of Legislative Decree No. 254 of December 30, 2016 and of the Consob Regulation implementing the Decree adopted with motion No. 20267 of January 18, 2018, with particular regard to the preparation processing content of the Non-Financial Report ("NFR") prepared by Avio.

The NFR was approved by the Board of Directors on March 19, 2021, as a separate document to the Directors' Report at December 31, 2020.

The Independent Audit Firm appointed to carry out a review of the NFR in accordance with Article 3, paragraph 10 of Legislative Decree 254/2016, in its report issued on March 31, 2021 did not indicate any matters suggesting that the NFR of the Avio Group for the year ended December 31, 2020 had not been prepared, with regards to all significant aspects, in compliance with Articles 3 and 4 of Legislative Decree 254/2016 and by the Global Reporting Initiative Sustainability Reporting Standards.

The Board of Statutory Auditors has obtained, also by attending the meetings of the Sustainability Committee, periodic updates on the preparatory activities for drawing up the NFR and, within the scope of its activities, has not become aware of any violations of the related regulatory provisions.

3.5 Board of Statutory Auditors' Self-Assessment

In accordance with Rule Q.1.1 of the Conduct Rules for Boards of Statutory Auditors of listed companies, the Board of Statutory Auditors assessed its composition, size and functioning, with the findings presented at the Board of Directors meeting of March 19, 2021. With regards to the requirements and personal and collective expertise, it emerged that:

- all statutory auditors, in addition to satisfying the standing and professionalism requirements and not finding themselves in situations of incompatibility as established by the applicable regulation, satisfy also the independence requirements of the Self-Governance Code;
- the Board of Statutory Auditors guarantees gender and generational diversity among its membership;
- each statutory auditor has a good level of knowledge and experience in a range of fields;
- overall, the Board of Statutory Auditors presents adequate expertise.

4. CONCLUSIONS

Taking account of that outlined above, the Board of Statutory Auditors, considering the content of the reports prepared by the Independent Audit Firm, noting the statements issued jointly by the Chief Executive Officer and by the Executive Officer, expresses a favourable opinion on the approval of the statutory financial statements of Avio at December 31, 2020 and on the proposal to allocate the net profit for the year of Euro 8,771 thousand, drawn up by the Board of Directors, as follows:

- Euro 7,321 thousand as dividend;
- Euro 1,450 thousand as retained earnings.

Rome, March 31, 2021

On behalf of the Board of Statutory Auditors

Vito Di Battista (Chairman)