



Avio S.p.A.

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

2022 ANNUAL REPORT

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HIGHLIGHTS

Net revenues⁽¹⁾

Euro 357.3 million (+14.7% on 2021)

EBITDA

Reported: Euro 21.4 million (-28.6% on 2021)

Adjusted ⁽²⁾: Euro 27.8 million (-26.3% on 2021)

EBIT

Reported: Euro 2.2 million (-74.7% on 2021)

Adjusted⁽²⁾: Euro 8.6 million (-48.1% on 2021)

Profit before taxes

Euro 1.4 million (-83.9% on 2021)

Net Profit

Euro 1.3 million (-85.6% on 2021)

Net Financial Position

cash position of Euro +74.5 million (+Euro +17.3 million on December 31, 2021)

Investments

Euro 32.5 million (Euro 33.7 million in 2021)

Backlog⁽¹⁾

Euro 1,014.0 million (+15.6% on December 31, 2021)

Research and development

costs of Euro 150.7 million, net of pass-through costs incurred in 2022, equal to 42.2% of revenues net of pass-through revenues for 2022 (Euro 109.3 million net of pass-through costs incurred in 2021, equal to 35.1% of revenues net of pass-through revenues for 2021)

Employees

1.147 at December 31, 2022 (991 at December 31, 2021)

¹ Net of "pass-through" revenues.

² Net of non-recurring costs.

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

It is with pleasure that we present to you the 2022 Annual Financial Report, it includes for the first time the 2022 Consolidated non-financial statement, that is in its sixth edition.

The 2022 Consolidated non-financial statement has been included as separate section of the Directors' report. This section shows the 2022 non-financial performances of Avio Group, as provided for D.Lgs. 254/2016, and, on the basis of article 5 of the same D.Lgs., this consolidated non-financial statement has been characterized in order to be compliant to the one provided for the apposite law. This document includes the information related to the relevant topics provided for article 3 of the above mentioned D.Lgs., in order to allow the full comprehension of the activities operated by Avio Group, their performances and their final impact on the result of the Group. The 2022 Annual Financial Report including the Consolidated non-financial statement has the purpose to disclose not only the financial performances, but also the sustainability, social and governance activities of the Group.

The 2022 year has been characterized by the final development and qualification activities of the new launcher Vega C, whose Avio is prime contractor, culminated on July 13, 2022 with the full success of the maiden flight of this launcher from the European spaceport in Kourou (French Guiana).

The Vega C launcher has design, engineering and components fully new that allow an increased load capacity compared to Vega launcher, that operates starting from 2012. With two new and more powerful stages (respectively, the P120C derived from the P80, and the Zefiro 40, derived from the Zefiro 23) and an upgraded upper stage, Vega C raises the performance of Vega's 1.5 tons to 2.3 tons for a polar orbit at 700 km of altitude.

This success was fruit of the multi-year joint commitment of the European Space Agency (ESA), Avio and the other industrial partners of the 13 ESA member countries to carry forward the legacy of the Vega launcher system, in a new, more capable and more and technologically advanced format.

At a record-breaking altitude for Vega of 6000 km, the launch delivered to planned orbit the main payload of the Italian Space Agency's scientific mission Lares 2, in addition to the secondary payload of six research CubeSats for France, Italy and Slovenia. The success of Vega C's maiden flight boosted business for Arianespace, with the signing of a contract with the European Commission for 6 Vega C launches of low-orbit, Earth-observing Copernicus satellites between 2024 and 2026, and another contract with SES for delivering into orbit the Quantum Key Distribution (QKD) communications constellation satellite Eagle-1.

Regarding the P120C motors, manufacturing activities continued with the aim of achieving a growth in production rate up to 35 units per year by 2025. In this regard, in a press conference held on October 19, 2022, the European Space Agency and Arianespace confirmed the end of 2023 as the target date for the maiden launch of Ariane 6, the new launcher to be equipped with double and quadruple configurations of the P120C, in Ariane 62 and Ariane 64 respectively.

In April 2022, Arianespace signed the most important contract in its history, for 18 launches of Ariane 64 for the Amazon Kuiper constellation. The contract envisages 2 launches with the basic version of Ariane 64, and 16 launches with the enhanced version, equipped with P160s, bringing a performance and transport capacity upgrade of approximately 10%. The P160, an enhancement of the P120C, will also bring greater performance to Vega C and Vega E.

During the year, Vega E development activities also continued with the first 24 tests of the launcher's new M10 liquid oxygen-methane third-stage cryogenic motor, at the Space Propulsion Test Facility (SPTF) in Sardinia. This is the first motor with this technology to be tested in Europe, with over 1300 cumulative seconds of ignition in different configurations. The period also saw the development of the Space Rider system, consisting of an Avum Orbital Service Module and a Re-entry Module, designed to be launched with Vega C, ensuring a payload orbital life-cycle of approx. 6 months before landing.

In the first half-year, National Recovery and Resilience Plan (the "PNRR") activities continued, through which the Italian Government launched a number of projects, several of which addressing the development of liquid propulsion technologies and launcher-related products. As reported to the market, the PNRR and complementary funds for 2022-2026 amount to a total of approximately Euro 2.3 billion, of which approximately Euro 1.0 billion is for Earth observation projects, including the Italian satellite constellation missions to be carried out with Vega C launchers, and over Euro 300 million is for the Space Factory project. In this context, at the end of June 2022, Avio announced that it had been awarded the first two Next Generation

EU (NGEU) funded space industry initiative contracts, with the accompanying Italian Government investment of approximately Euro 340 million. Then, in March 2023, it signed two further contracts of Euro 285 million, in the presence of the Italian Minister of Enterprise and Made in Italy, for the launch of two key development programmes: the first, by 2026, for an in-flight new technology and architecture demonstrator of a small, in-orbit, two-stage, liquid propulsion launch vehicle powered by a “green” LOX-methane motor; and the second for a new high-thrust, “green” LOX-methane motor to be ground tested for qualification by 2026. Furthermore, again in March 2023, the Italian Space Agency awarded a Euro 55 million contract for the development of the orbital transport and in-orbit servicing Multi-Purpose Green Engine.

The contractualisation of the project management activities and the execution of these projects have been entrusted to ESA. These projects represent an opportunity for the Company to significantly extend its product portfolio and technological expertise, capitalizing on its ongoing experience with Vega E and the stated M10 liquid oxygen-methane motor. Simultaneously, the PNRR envisages the construction of an Italian Earth-observing satellite constellation, with project management and execution of again entrusted to ESA, and the missions to be carried out with the Vega C launcher. Project management activities entrusted to the Italian Space Agency (ASI), on the other hand, include orbital propulsion, as an application dimension of the Vega C/Vega E system, to boost in-orbit operation capabilities.

The European Space Agency Ministerial Conference was held in November 2022, in Paris, and was attended by senior government space sector personnel from ESA member states. Italy announced a substantial budget increase to space research programmes, and the launchers segment in particular. The production rate acceleration programmes for Vega C, Space Rider and Vega E, in addition to the P160 motor, as the evolution of the P120C, received substantial increases in allocations and in the number of states involved, which will allow for completion of these programmes of fundamental importance for Avio and the entire sector. In the coming years, these projects will enable Avio to formalise research projects with a value greater than Euro 700 million.

In February 2022, Russia began its invasion of Ukraine. Despite unanimous condemnation and international sanctions against Russia, the conflict between the two countries continues.

The Group’s operations involve using strategic suppliers from Ukraine for the 4th stage main motor for Vega and Vega-C launchers and for the carbon-carbon inserts used to make nozzles for the Z40 and Z9 motors of Vega-C.

However, regarding the main engine of the 4th stage for Vega and Vega-C launchers, the stock strategy adopted in Colleferro, with advance orders placed as early as 2017, will allow for the continuation of VEGA and VEGA-C industrial activities over the short to medium term.

As for carbon-carbon inserts, Avio has been investing in strengthening know-how in their production since 2019. Also in this case, Avio has procured a strategic stock of carbon-carbon inserts, to ensure the continuity of activities in response to supply risks from Ukraine.

The situation is being monitored in order to take proactive actions to protect business continuity over the long term. In this context, ESA recently decided to allocate specific financial resources to initiate technical and industrial actions to mitigate the long-term supply risk through the development of complementary technological solutions.

The above assessments, as reported in press releases on February 25, 2022, March 25, 2022, and July 17, 2022, are still accurate.

On December 21, 2022, the second flight of Vega C encountered an unexpected anomaly leading to mission failure. An independent Inquiry Commission led by ESA and Arianespace began its work immediately, with support from Avio, and on, March 3, presented its conclusions, identifying an unexpected erosion of the Zefiro 40 nozzle throat as the cause of the anomaly, due to a lack of raw material uniformity. The Inquiry Commission elaborated a series of recommendations for a prompt and safe return-to-flight of Vega, expected by the summer of 2023, and of Vega C, by the end of 2023, and for the long-term reliability of the whole launcher system. To this end, ESA has announced a dedicated support programme of approximately Euro 30 million (available from funds already allocated at the 2022 ESA Ministerial Conference) to cover the costs of the return-to-flight activities.

However, the market’s confidence in the Vega C launcher was confirmed by Arianespace and ESA’s signing process, on behalf of the Italian Government, of two missions, plus the option for a third mission, for the Italian IRIDE earth-observing constellation.

Finally, three Ariane 5 missions were successfully carried out in 2022.

In terms of financial results, Avio closed 2022 with a record order book of Euro 1,014 million, up 16% on 2021, and in excess of the 2022 Guidance, thanks to a record order intake in the year of close to Euro 500 million, mainly regarding Vega C production contracts, Vega E development, P120C production, and both production and development for tactical propulsion. The backlog does not yet reflect the effects of the ESA Ministerial Conference of November 2022 and the new Next Generation EU projects of the National Recovery and Resilience Plan that will join the backlog from 2023.

Net Revenues amounted to Euro 357 million, up 15% on the previous year, and slightly higher than the 2022 Guidance, contributed to by development activities for the Vega C maiden flight, for the M10 liquid oxygen-methane motor, and for the Space Rider, in addition to activities related to the P120C motor.

Despite the marked increase in activities, evidenced by the growth in revenues, 2022 closed with a slowdown in EBITDA compared to the previous year, albeit in line with Guidance forecasts, due to the significant rise in energy costs and inflation that occurred in 2022.

The Net Profit of Euro 1.3 million was in line with Guidance and a decrease of Euro 7.8 million on 2021.

The Net Cash Position improved substantially to Euro 74.4 million (compared to Euro 57.2 million at December 31, 2021) due to the cash contribution from operating performance and advances related to new orders, despite cash outflows for dividend distribution, completion of the treasury share buyback programme, acquisition-led growth transactions, and industrial investments for various programmes.

Despite this context of uncertainty, the financial forecasts and 2023 Guidance have been duly prepared and estimated an order book range between of Euro 1,150 million and Euro 1,250 million.

In the year, once again we had to face extraordinary and unforeseeable events, such as the Russian-Ukrainian conflict. However, thanks to its passion, high professionalism and the tenacity of its partners, Avio has already demonstrated its strong resilience, which saw Vega return to flight after one failure with three successful missions in approximately six months.

We will continue to work with determination to achieve our main milestones for 2023, consisting of the return to flight of Vega and Vega C, expected respectively by the end of the summer and by the end of the year, of the inaugural launch of Ariane 6, also expected by the end of the year, and of the laying of foundations for the company's growth objectives in the coming years through the consolidation of substantial production orders and multiple development activities, also in the broader context of the National Recovery and Resilience Plan and the ESA programmes.

In this context, the Company has been looking to the future by in-housing strategic expertise for the business, such as through the acquisition of the full stake of the avionics engineering company Temis, and part stake of its former parent company, ART, operating in the performance and sports cars infotainment sector, in light of synergies between the operations and technologies of the two companies, in particular concerning telemetry. At the same time, Avio took its first open innovation steps through a specific agreement with CDP Venture Capital and participation as a corporate partner in the aerospace start-up accelerator "Takeoff". 2022 proved to be a record year in terms of the number of launches and total mass transported into orbit, confirming space launch sector growth trends that have been ongoing for several years, in addition to the bolstering of government budgets in aerospace and defence sectors. This confirms the sector's potential, and as such, we will continue to support the Group's future growth and increase Avio's value for all of our stakeholders, with a sense of determination and confidence based on the resilient foundation of the business and its technologically innovative projects.

The year saw a significant increase in the number of employees as we sought to consolidate the company's ability to grow and develop. Also from an ESG perspective, unwavering attention and commitment to human capital lies at the heart of Avio's development plan to enhance qualities and skills.

The Avio Group's ongoing quest for continuous sustainability improvement led to the adoption of a Sustainability Policy and of a Business Plan which forms an integral part of it. In doing so, the Group began the task of integrating business and sustainability, taking an impact-based approach.

The cornerstones of the Sustainability Policy - which relate to the primary areas of action defined in Avio's industrial strategy, in line with the United Nations 2030 Agenda Sustainable Development Goals (SDGs) - are technology and innovation, around which the Avio Group centres its core business. Avio's Sustainability Policy outlines the strategic directions that guide the Company's sustainable business model development, taking into account the significance of its impact.

The policy focuses on the areas in which the Company can make a tangible contribution to sustainable development, defining specific courses of action that support and enhance business while also raising Avio's sustainability standards.

The Sustainability Plan was carefully monitored and energetically pursued in 2022. It is broken down into objectives, actions, time frames, responsibilities, and allocated resources, and inspired by the SDG Goals. Particular emphasis was placed on the topics identified as significant for all of the Company's stakeholders. These were ethics codes and policies, transparency and correctness in business, combatting corruption, cyber security, and respect for the communities in which the Avio Group operates.

The Company's responsibility towards and respect for local communities are reflected in the introduction of concrete initiatives to support them and to preserve the environments in which the Group works. Avio's relationship with the area in which it works is a key driver of its sustainability approach. Among the numerous ways in which this manifests itself, we note the courage, determination and spirit of collaboration that constantly fuel our work in the local area, and how our desire for achievement and success contributed to Colleferro being named European Capital of Space in 2022, becoming the first Italian town to achieve this prestigious recognition.

In 2022, Avio confirmed its continued membership of the Business Integrity Forum (BIF), an initiative of Transparency International Italia, which brings together large Italian companies already involved in the issues of integrity and transparency, and which through the BIF are committed to preventing and combatting corruption in business practices by adopting and circulating anti-corruption tools and practices and encouraging an improved culture of legality. The Company also cooperates assiduously with the Italian Transparency and Anti-Corruption Association (AITRA).

The fruits of this enthusiasm and determination provide the foundations of a transformation that is consistent with the concept of sustainable development. Emboldened by these first achievements, the Avio Group will continue with increasing commitment, using the SDGs as a continuous reference point, along the path towards business growth that is in harmony with the social and environmental context in which it operates, respecting the values and needs of everyone, and making a decisive contribution to societal progress.

We have great confidence in what Avio will achieve over the coming years - thanks in part to the initiatives and investments that will take shape in the future - in contributing to the great challenges posed by the goal of sustainable global development.

We would like to thank you, dear shareholders, for the trust and support that you continue to place in us.

Roberto Italia
Chairman of the Board of Directors
Avio S.p.A.

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

DIRECTORS' REPORT

THE AVIO GROUP

PROFILE

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

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

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

- space transport systems (Vega Launcher and future developments);
- solid and liquid propulsion systems for launchers (Ariane 5 Launcher and Ariane 6 Launcher, Vega family of launchers);
- solid propulsion systems for tactical missiles (Aspide, Aster, CAMM-ER, MARTE, TESEO);
- liquid propulsion systems for satellites;
- new environmentally-friendly liquid propulsion systems for future launchers and orbital modules;
- 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, which develops on the current Vega model, is an evolution of the Vega launcher which made its first flight on July 13, 2022, and is currently in the production start-up phase for commercial use. Vega C is designed for a greater payload than the Vega and at the same time optimises production costs thanks to the sharing of the new first stage (P120C) with Ariane 6.

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

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

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

The Group operates in the following business lines:

- **Ariane**

Ariane is a space program for ESA-sponsored GEO missions, in which ArianeGroup (“AG”) is the prime contractor and Avio operates as a subcontractor for the production of the P230 solid propulsion boosters and the liquid oxygen turbo pump (LOX) for the Vulcain 2 engine. Avio is also the subcontractor for the next-generation Ariane 6 launcher scheduled for 2023, for which Avio, through its subsidiary Europropulsion, is producing (i) the solid propellant P120C engine, (ii) the liquid oxygen turbopump for the Vulcain 2 engine and (iii) the liquid oxygen turbopump for the Vinci engine.

- **Vega**

Vega is a space program for LEO missions, whose development has been funded by the ESA, with mainly Italian funding, and for which the Group is the prime contractor for the production and integration of components for the entire launcher and for the production of the solid propulsion engines P80, Zefiro 23 and Zefiro 9 and of the AVUM liquid propulsion module. The Group also plays the role of the ESA's prime contractor for the development of the new generation of Vega Consolidated (Vega-C) launcher, whose test launch was carried out on July 13, 2022, and the Vega Evolution (Vega-E) launcher, whose maiden flight is scheduled for late 2026. The Group is responsible for the development and production of these entire launchers, in addition to (i) the development of the solid propulsion engine P120C (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 engine that uses oxygen-methane liquid known as M10 for the upper Vega-E stage.

- **Tactical propulsion**

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

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

Regarding development programs:

- CAMM-ER - development of the booster and single stage sustainer motor, wiring and aerodynamic control surfaces (fins);
- Aster 30 MLU - development of the new Aster 30 booster to replace the current one in production, from 2022, solving REACH and obsolescence issues.

With net revenues in 2022 of Euro 357.3 million and Reported EBITDA of Euro 21.4 million, the Group currently occupies a leading position in the Italian and European space industry, substantially supported by its high degree of competitiveness - drawing over 98% of its revenues from overseas.

The highly technological content of Avio's operations required a research and development spend - for the portion mainly commissioned by ESA, ASI and Member State ministries - accounting for approx. 42.2% of net revenues in 2022. These activities were carried out both in-house and through sub-contractors and a network of laboratories and partnerships with some of the leading domestic and international universities and research centres.

CORPORATE BOARDS & COMMITTEES

Board of Directors

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

On August 23, 2021, the non-executive and independent director and member of Avio's Sustainability Committee, Mr. Stefano Pareglio, resigned due to incompatibilities relating to new professional commitments. On December 21, 2021, the Board of Directors approved the co-opting of Ms. Marcella Logli as a non-executive and independent Director of the company, replacing Mr. Stefano Pareglio until the next shareholders' meeting called for the approval of the 2021 Annual Accounts. On April 28, 2022, the Shareholders' Meeting appointed Ms. Marcella Logli as Director, replacing Mr. Stefano Pareglio.

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

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

- a. Member of the Appointments and Remuneration Committee
- b. Member of the Control & Risks Committee
- c. Member of the Sustainability Committee
- d. Member of the Planning and Scenarios Committee

Board of Statutory Auditors

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

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

Supervisory Board

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

Alessandro De Nicola	Chairperson
Giorgio Martellino	Member
Raoul Vitulo	Member

Independent Audit Firm

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

RECENT HISTORY

1994

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

2000

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

2006

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

2012

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

2013

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

2014

In December, the European Space Agency Ministerial Conference of Member States decided to finance the VEGA launcher development program until its completion, including a first rocket stage (the P120C) 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 P120C, and its lead systems engineering role in the VECEP program for the development of the Vega-C launcher.

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

2016 - 2017

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

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

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

2018

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

Therefore, on March 1, 2018, the subsidiary ELV S.p.A. transferred to Avio S.p.A. the launchers development, production and distribution business unit. Following this reorganisation, the subsidiary ELV S.p.A. took from May

9, 2018 the new name of Spacelab S.p.A., focusing on the research and development of new technologies and space transport product testing.

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

2019-2021

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

BUSINESS DIVISIONS

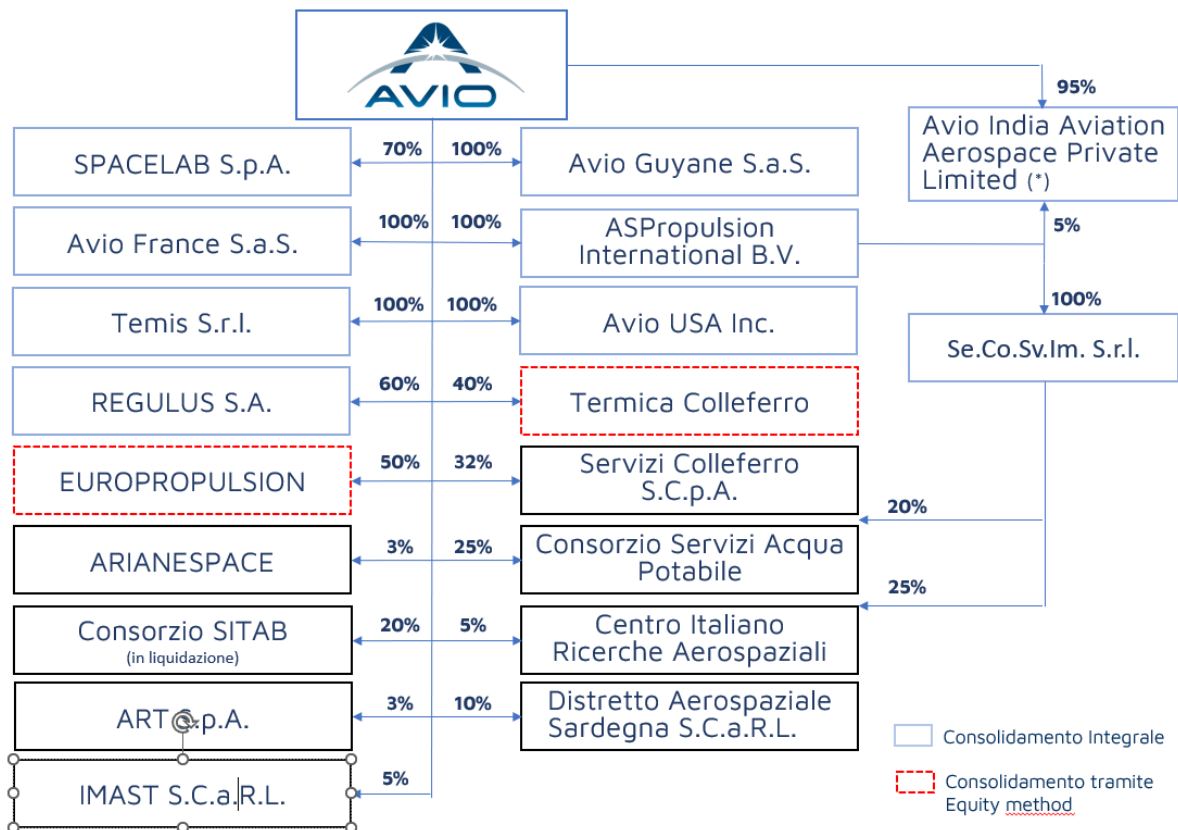
Core operations: design, development and production of solid and liquid propellant propulsion systems for space launchers; design, development and production of solid propellant propulsion systems for tactical missiles; development, integration and supply of complete light space launchers (VEGA); research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

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

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

GROUP STRUCTURE AND INTERNATIONAL PRESENCE

The Avio Group's ownership structure is reported below:



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

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

STRATEGY

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

- at national level with:
 - o the Italian Government, which, through the ASI (Italian Space Agency) and the ESA (European Space Agency) intends to implement the initiatives of the National Recovery and Resilience Plan (NRRP) regarding the Space sector,
 - o the Defence Administration and MBDA for the development, production and sale of military products,
- at European level with:
 - o the ESA for the development of new products and services in line with its activities at a national level, and
 - o Arianespace for the production, integration and batch sale of the Vega and Vega C launchers
 - o ArianeGroup for the production, integration and batch sale of the P120C motors.

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

In the area of Development Activities, in accordance with the outcomes of the 2014, 2016, 2019 and 2022 Ministerial Conferences, which confirmed the European strategy for developing its launchers (from Vega to Vega C and Ariane 5 to Ariane 62/64). In accordance with the contracts signed from 2015 onwards, Avio is therefore pursuing:

- exploitation of the **Vega C** launcher to replace the Vega launcher, enabling (i) an increase in performance of approximately 60% due to the new P120C 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 larger payload fairing in order to carry satellites with greater mass and volume and lighter structures, and finally (iv) a reduction in the k€/kg launch price, in a scenario where this key parameter in the choice of a launch service is continuously declining (effect of competition). Vega C's qualification flight was carried out on July 13, 2022;
- the increase in the cadence of production of the **P120C** motor and its successor the P160, as a common element of Vega-C (stage one) and Ariane 6 (booster);
- the development of an enhanced version of the P120C motor, the **P160**, which will have a greater quantity of solid fuel, and therefore bring a delta performance to the Vega C+ launcher of approximately 200 kg in the same reference orbit. The use of the same P160 motor for the A6 launcher will enable participation in the Kuiper Constellation deployment (16 launches contracted by Arianespace)
- the development of **enabling technologies** to further increase the performance of future launchers and reduce their cost, and in particular:
 - o Liquid fuel tanks in composite material;
 - o Modular avionics 3.0;
 - o Non-explosive stage separation systems;
 - o Sub-orbital and orbital demonstrators that incorporate the aforementioned technologies and which are considered precursors of the new Micro Launch Vehicle (MLV) class of launchers;
- the LOX/CNG based **M60 motor**, the evolution of the M10 engine that will equip the Vega E, considered the building block of the post-Vega-E Vega Next launcher (time horizon beyond 2032);
- the development of a multi-purpose **motor** called the **MPGE** motor as an alternative to the Ukrainian MEA intended to equip the Vega C as a fourth stage starting from 2025, and its adaptation for **IOS** (In Orbit Servicing) missions, including a enabling technology demonstrator provided for under the National Recovery and Resilience Plan (NRRP);
- the development of an alternative source for the supply of **Carbon-Carbon**, a material used for the manufacture of nozzle throat inserts manufactured by Avio for Vega C;

- developing **Vega E**, and, in particular, its Upper Stage, with the new M10 motor with cryogenic oxygen and methane propellants. Vega-E (a three-stage launcher based on P120C, Z40 and a LOx-Methane Upper Stage), in addition to cutting the launch price in €/kg compared to the Vega C, will further improve: (i) Vega-C's performance and (ii) the range and flexibility of satellite services, enabling, among other benefits, more extensive orbital parameter changes than possible with Vega and Vega-C;
- the development of the **Space Rider**, the European return vehicle, in which Avio is the Prime Contractor of the ESA (together with TASI) for the supply of the Attitude & Vernier Upper Module Orbital Module (AOM) derived from Vega C. Space Rider is a spacecraft taken into orbit by Vega-C, capable of carrying up to 500 kg of payload for different applications, of remaining in that orbit for a period of time in the order of 2 months, in order to carry out a series of experiments or orbital services, and finally return to earth for the recovery of the payloads;
- developing Smart Payload Adapters (**PLA**), which make it possible to adapt launches to the varying needs of commercial and institutional customers who increasingly use greater numbers of satellites with reduced masses and volumes. These PLAs can, therefore, offer different types of missions, from single/double to Piggyback and Rideshare launches via SSMS (already used in Vega flight VV16).

Regarding operations, Avio:

- intends to stabilize the frequency of flights at 4 per year, then raise it to 5 per year, through investments in French Guiana, including a new launcher stage Storage Building and new Integration Building;
- through the subsidiary Avio Guyane, acquired control of the Zone de Lancement Vega (ZLV) launch area and the management; in particular it ensures main launcher assembly installation maintenance (e.g. Control Centre, Integration and Launch building, Propellant Loading Stations). This consolidates its ground activities role, i.e. mechanical, electrical and hydraulic management activities at the Kourou launch base, which was assumed in 2016 and extended its scope of expertise.

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

SHAREHOLDERS

At December 31, 2022, the share capital of Avio S.p.A. of Euro 90,964,212.90 comprised 26,359,346 ordinary shares, of which:

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

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

At the effective merger date (April 10, 2017, the first trading day of the Avio S.p.A. share on the MTA), the condition for the exercise of the Sponsor Warrants was satisfied. At December 31, 2021, no exercise requests were received from holders.

At December 31, 2022, 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%
Cobas AM	7.04%
Servizi Cgn S.r.l.	6.24%
Space Holding S.r.l.	4.08%
In Orbit S.p.A.	4.07%
Delfin S.a.r.l.	3.79%
Treasury shares	4.14%
Remaining MTA free float	41.00%
Total	100.00%

FY 2022

SIGNIFICANT EVENTS IN 2022

Business

Successful maiden flight of the Vega-C launch vehicle

On July 13, 2022, the qualification flight of the Vega C launcher successfully took place. The mission was almost anomaly-free, and the main satellite LARES2—a scientific mission of the Italian Space Agency—and the six *CubeSats* research satellites for France, Italy and Slovenia were correctly positioned in the planned orbit.

The launch marks the crowning achievement of the long-term commitment of the ESA, of Avio as prime contractor, and of the industrial partners from 13 ESA member nations to carry forward the legacy of its predecessor, Vega.

Vega C has a significant increase in payload capacity over the Vega launcher, which has been operational since 2012. With the first two new stages and an upgraded upper stage, Vega C increases its performance from Vega's 1.5 tons to 2.3 for polar orbit at 700 km altitude.

Vega C is equipped with a new and more powerful first stage, the P120C, derived from the P80 in the Vega launcher. The new second stage, Zefiro 40, is immediately above. Then, as the third stage the Zefiro 9, already in use on the Vega launcher.

Loss of Vega C mission (failure VV22)

On December 20, 2022, about two minutes after the Vega C launcher liftoff, an anomaly occurred shortly after the second stage (Zefiro 40) was ignited, leading to the premature termination of the mission.

An Independent Commission of Inquiry ("IEC") chaired by ESA and Arianespace was immediately formed to investigate the causes of the mission's premature termination and to define the consequent requirements to be implemented for a prompt return to flight. Avio supports the Commission's work by providing the data requested, along with interpretative analysis of the malfunction observed.

Please refer to the "Subsequent events" section for the outcome of the work of the Independent Commission of Inquiry.

Development of the VEGA-E launcher

The development activities of the Vega-E launcher, the evolution of the Vega-C launcher, mainly concerned fire tests of the DM1 prototype of the M10 motor. For the latter, the testing plan was completed and the motor was disassembled to allow detailed analysis. The results of the fire test analysis and disassembled component analysis fed into the design specification of the DM3 motor, which will be implemented in H2 2023.

Work continued simultaneously on the construction of the second prototype of the M10 motor, which is expected to be completed by the end of February 2023, for a fire test campaign in H1 of the same year.

The M10 is a cryogenic liquid (oxygen and methane) propulsion motor intended for the third stage of the Vega-E launcher, replacing the Z9 solid propulsion motor and the LPS propulsion module of the fourth stage which currently equips the VEGA-C carrier.

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

System activities focused on the definition of components for the third stage (tanks and valves), the performance of the launcher, and specifications for the new launch base. The System Requirement Review (SRR) was carried out in the first half of the year, while the Kick-Off of the Preliminary Design Review was carried out in H2. The Review will be completed in February 2023.

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

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

Space Propulsion Test Facility (SPTF) project

The LRE bench for conducting fire tests of cryogenic liquid propulsion engines was built at the Space Propulsion Test Facility (SPTF), within an area granted for use by Avio at the Salto di Quirra firing range in Sardinia.

The LRE bench was used in the first half of the year to carry out fire tests of the M10 motor's DM1 prototype, which demonstrated a remarkable operational capacity. Ordinary and extraordinary maintenance activities were carried out in the second half of the year in preparation for the start of the new fire test plan of the DM2 prototype at the beginning of 2023.

Studies have also begun to install new benches for larger motor fire tests and stage-level functional tests, i.e. for motors, tanks and valves.

Space Rider

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

In the first half of the year, the system Critical Design Review (CDR) was carried out, which reoriented the responsibility for certain critical subsystems to different suppliers, leading to their redesign. The CDR Steering Board met in July to approve the reorientation and authorize the start of the qualification phase. Consequently, functional tests of some of the devices have already begun. In H2, CDR completion activities continued and subsystem-level CDRs for most equipment were finalised. In 2023, following completion of the electric power subsystem CDR, production of the first HW components and the start of system qualification testing are planned.

Ariane

The Ariane 5 launcher carried out three successful missions in 2022. The last two missions of this successful launcher are scheduled to complete its operational life in 2023.

In 2022, 16 inert casings for the P120C motor were manufactured, and 12 Europropulsion fuel-carrying segments were produced, which will equip the Ariane 6 and VEGA C launchers in accordance with the production plan. The P120C motor that equipped the first stage of the VEGA C launcher during its qualifying flight and second production flight demonstrated nominal flight behaviour.

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

Tactical propulsion

In 2022, production and delivery activities of the Aster 30 Booster (lots 1 and 2) and Marte Sustainer continued according to the production plan agreed with the customer MBDA. A production anomaly in the Aster30 enclosures produced with the new AVIO prepreg forced production to continue with the Cytec prepreg. The anomaly was resolved in late 2022, and production in 2023 will use the AVIO prepreg.

The refurbishment activities of the Aspide motors were also completed.

Activities for the qualification of the CAMM-ER motor continued with "accelerated ageing" tests to assess any deterioration in performance towards the middle and end of its operational life. These activities will continue in 2023 and are scheduled for completion by October.

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

Satellite Propulsion

The following activities have been launched:

- development and manufacturing of the chemical propulsion system (CPS) for the Hera probe. The probe is set to be launched at the end of 2024, as part of a joint NASA-ESA project to validate models for the deflection of asteroids at risk of impact with the Earth. At the end of June 2022, the integration of the satellite propulsion system was approved, to be completed in February 2023.
- development and manufacturing of the chemical propulsion system (CPS) for the orbital module and return module of the Mars Sample Return probe. Propulsion system integration began in H2 2022 and will be completed in H1 2023.

National Recovery and Resilience Plan projects managed by ESA

The initial phases were contracted and the offers relating to the completed contract were issued for the following projects:

- 1) **Development of strategic technologies and demonstrators:** the main objective is to accelerate the development and acquisition of know-how of liquid cryogenic lox-methane propulsion systems from direct in-flight test experience, and to develop several key technologies to be used in new generation launch systems in order to:
 - introduce very low shock inducing stage separation systems
 - reduce the mass of the launcher through increased use of composite materials for cryogenic tanks
 - introduce new generation avionics systems
 - demonstrate the effectiveness of the developed technologies through flight test demonstrators that validate the behaviour of the liquid motor and stage under microgravity conditions, with specific attention paid to the multiple reignition capability.
- 2) **Cryogenic High Thrust Engine (HTE) development:** the main objective is to develop a cryogenic engine suitable for use in the lower stages of future launchers, as a building block for continuing VEGA's transition to a liquid propulsion equipped system that will increase competitiveness, flexibility and environmental sustainability.

The activities carried out during the year for both projects were those relating to the presentation of architectural trade-offs and the identification of the architecture that will be used to develop the preliminary design

NRRP Multi Purpose Green Engine (MGE) Project managed by ASI

In H2 2022, a bid was made to develop an environmentally friendly motor for orbital use targeted at

- High stages of launchers to reach orbit and orbital regulation
- In Orbit Servicing applications for orbital transfers

The motor will be developed in two configurations:

- GE-C: which will mainly be used to replace the Ukrainian-made MEA motor currently used on the fourth stage of the VEGA-C launcher
- MPGE: generic variable thrust motor for orbital applications

Design activities began without contractual coverage subsequent to the offer issue to remain faithful to the planning schedule. The contract is expected by February 2023.

Main agreements and contractual events of 2022

With reference to Ariane 5 production activities, the contract variant for discounting 2021 prices was signed.

In view of the commercialisation prospects of Ariane 6, particularly for Mega-constellation launch opportunities, specific agreements on sales prices of the P120C motor have been finalized.

More generally, contracts have been signed for Ariane 6 transition phase production of the P120C motor and Oxygen Turbopumps (TPOs) for the Vulcain 2 and Vinci cryogenic motors. These contracts relate to supplies for the first 14 launchers and cover the periods to 2024 (P120C) and 2023 (TPO) respectively, and were agreed considering that in the future P120C production activities are likely to coexist with those for the development of its elongated P120C+ version.

Specific compensation orders were simultaneously issued by the ESA relating to the extra costs associated with the limited production frequency caused by the delay in the qualification of the Ariane 6 Launch System.

As regards Vega production activity, a contract was signed for the supply of 12 Vega C launchers for missions planned between early 2024 and mid-2027; complementary orders were also received for the production of specific structures dedicated to the launches planned in batch 3, orders for Vega MCO activities in the three-year period 2022-2024, and for compensation of extra costs expected in the initial phase of P120C production for Vega C.

As for Vega development activities, contract variants were acquired to support the completion of the Vega C launcher development and qualification program and the initial development activities of the new Vega E launcher, and to support the work made necessary by the crisis in Ukraine. These particularly sought to guarantee the short-term supply and medium/long-term replacement of Ukrainian components with continuity and/or obsolescence risks.

On June 29, 2022 Avio announced³ that it had been awarded the first two contracts within the scope of space-industry initiatives for implementation of Next Gen EU. This involved an Italian government investment of approx. Euro 340 million. The investment seeks to enhance the space access technological capabilities of the Italian industrial sector, with the European Space Agency (ESA) as the Contracting Authority and the supervision of the Prime Minister's Office, the Italian Space Agency (ASI) and the Minister of Technological Innovation and Digital Transition. Specifically, the first contract will begin a program to develop an in-flight demonstrator of new technologies and designs for a two-stage liquid propellant-propelled light-load launcher using liquid-oxygen and methane motors with lower environmental impacts, while the second contract covers the development of a new liquid-oxygen and methane motors with reduced environmental impacts and high thrust.

The two projects, which are scheduled to be completed by 2026, target a new generation of space transportation systems, subsequent to Vega E and based on "green" and potentially reusable liquid propulsion.

Finally, as regards work in the Defence sector, additional orders were acquired for the production of the Aster Booster, with deliveries scheduled over approximately five years, and for the development and subsequent manufacture of the Booster for the Teseo MK2-E programme.

Other significant events

Ongoing conflict in Ukraine

Please refer to the risks section with regards to the ongoing conflict in the Ukraine.

New legislation introduced in 2022 regarding the Law 808/85 and consequent definition of royalties related to the P80 Research and Development Project of National Security Interest

In order to ensure the continuity of investments in research and development within the aerospace sector, including those aimed at the ecological and digital transition, in the area of national security, already recipients of funding under Law 1985/808, the Law of April 21, 2022 converting into law Decree-Law No. 17 of March 1, 2022, provided that the royalties from the sale of products using the technologies developed under the individual funded projects shall be calculated on the proceeds received by the beneficiaries from actual sales in the 15-year period following the date of completion of each project; according to the stages of advancement of receipts based on the rates stipulated in the measures of admission to the interventions.

These provisions are applicable to those entities that have submitted to the Ministry for Economic Development (hereinafter also "Mise" and now the Ministry of Enterprise and Made in Italy) within sixty days from the date of entry into force of the said Law, a special statement certifying the amount of accrued royalties drawn up on the basis of the financial statements duly filed as of that date. The law also stipulated that the Ministry for Economic Development shall carry out appropriate checks, including random checks, on the truthfulness of the statements submitted.

The modified legislation, therefore, introduced an innovation consisting in the identification of a reference time period of 15 years for the computation of royalty accrued up to December 31, 2021, compared to the previous legislation that did not provide for any time limit, and the definition of a procedural mechanism aimed at definitively ascertaining the amount of any debts owed by the recipients of the financing.

³ See the press release of June 29, 2022 at the link: <https://syndication.teleborsa.it/Avio/Financial-Announcements/firmati-contratti-next-gen-eu-finanziati-con-340-milioni-di-euro-al-completamento-per-nuove-tecnologie-di-lancio/MXxib211bmjYXRpljE3NzEwMDAwNDMyMDIyMXwxfDlwMjIwODA1>

On the basis of this *new* legislation, Avio timely submitted within the prescribed timeframe its statement containing the quantification of the amount of royalties accrued until December 31, 2021 on the receipts from the sales of the P80 solid propellant propulsion product (which equips the Vega launcher) and pro-rata on the receipts from the sales of the P120C solid propellant propulsion product derived from the P80 (intended to equip the Vega C and Ariane 6 launchers); both the products stemming from the single P80 Research and Development Project of National Security Interest.

Following the checks carried out by the Ministry for Economic Development, the Ministry issued a verification report that definitively declared that the amount of royalties accrued until December 31, 2021 in relation to the P80 Research and Development Project of National Security Interest was Euro 1.9 million.

Consequently, on the preparation of these financial statements for the year ended December 31, 2022, the Company has recognised as a payable related to the P80 Research and Development Project of National Security Interest, only the amount determined by way of royalties, as finally ascertained by the Ministry for Economic Development. On the basis that – as mentioned before – the debt is ascertained as Euro 1.9 million, the Company has *decreased* the liability originally booked in the past given that – according to the related *standards* – there is no *obligation* for an amount exceeding the amount mentioned above, and, on the other side, has eliminated the net book value of the P80 Research and Development Project of National Security Interest capitalized costs and has booked an extraordinary income in Profit and Loss, described as “Other income” in the Explanatory Notes and as “Not recurring” item in this Directors’ report.

It should be noted, moreover, that the amount Euro 1.9 million was fully settled by the Company to the Ministry for Economic Development in December 2022. It therefore no longer appears under payables at December 31, 2022.

Incorporation of Avio USA Inc.

In 2022, the company Avio USA Inc., with registered office in the US state of Delaware (wholly-owned by Avio S.p.A.), with share capital of USD 1 million, was incorporated to explore business opportunities on the US market.

Purchase of the company Temis S.r.l. and 5% of the company ART S.p.A.

In September 2022, Avio S.p.A. completed the acquisition of the entire share capital of Temis S.r.l., previously held by ART S.p.A., for approx. Euro 3 million, partly settled with treasury shares of Avio S.p.A.; at the same time, 5% of the share capital of Art S.p.A. was acquired for approx. Euro 1.7 million.

Temis S.r.l., an existing Avio Group supplier, operates in a strategic sector of particular importance to the Group, that of avionics engineering. ART S.p.A. is a leading Italian company in the field of infotainment systems for performance cars and an industrial partner of Temis S.r.l..

The company holding the majority of the share capital of ART S.p.A. has an option right to purchase the 5% acquired by Avio S.p.A. of ART S.p.A. that can be exercised from the fifth year after the acquisition in question, or, in the case of a prospective change of control of ART S.p.A., in the 60 days preceding the change of control, at a price determined by the application of a multiplier to the 5% acquisition price of ART S.p.A. by Avio S.p.A..

Collection of VAT receivables

In June 2022, the Tax Agency reimbursed Avio for VAT receivables totalling Euro 5,235 thousand plus Euro 40 thousand in interest for the year 2020.

Treasury shares

As of December 31, 2021, the parent company Avio S.p.A. held 671,233 treasury shares, corresponding to 2.55% of the shares constituting the share capital.

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

In 2022, 539,706 treasury shares were purchased in execution of the aforementioned programme.

The total number of treasury shares held by the Company as of December 31, 2022 is 1,091,207, net of 119,732 shares used as part of the aforementioned acquisition of Temis S.r.l.; these treasury shares correspond to 4.14% of the total shares constituting Avio’s share capital.

2022 - 2024 Performance Shares Plan

On April 28, 2022, the Shareholders' Meeting of Avio S.p.A. approved the "2022-2024 Performance Share Plan," which grants Avio's top management rights to receive free of charge up to a maximum of 105,460 Company Shares, representing 0.40% of the share capital. This is subject to the achievement of predetermined performance targets at the end of the three-year period 2022-2024, based on the order intake, which reflects business sustainability and growth in the medium term and corresponds to the cumulative value of new contract acquisitions in the three-year period 2022-2024.

Since the Plan is based on the allocation of shares already held in the Company's portfolio, it will not lead to dilutive effects on Avio's share capital.

On March 28, 2022, Avio's Board of Directors approved the cancellation of the 2020-22 and 2021-23 cycles of the existing 2020-24 Monetary Long-Term Incentive Plan, whose retention and incentive purposes had ceased to exist in light of the changed circumstances following the extraordinary events of the last few years. The 2022-2024 Performance Share Plan is therefore extraordinary in nature and provides for a single grant, the amount of which was determined based on the grants for the two cycles of the incentive plan being cancelled, applying a significant reduction to the original value. The final 2022-2024 cycle of the 2020-24 Monetary Long-Term Incentive Plan remains active.

The allocation of rights to beneficiaries took place on October 26, 2022, and the vesting period will end on April 28, 2025. Therefore, the Company has recognised in these financial statements, under personnel costs, the corresponding pro-rata charge and in Equity a special stock grants reserve, as required by the applicable accounting standards.

Initiation of the cogeneration power plant project under the partnership with Cogenio/Enel X

Following the partnership with Cogenio-Enel X launched in December 2021 for the operation of a thermoelectric power plant aimed at ensuring the security of energy and steam supply at the best economic conditions, the industrial project for the reconversion of the cogeneration plant in the Colleferro industrial district, which is headed by Termica Colleferro S.p.A. (40% owned by Avio and 60% controlled by Cogenio) with financial support from the two partners, has begun.

MARKET PERFORMANCE AND OPERATIONS

General overview: historic and future outlook

In 2022, 186 orbital launches were made (compared to 145 in the same period in 2021), 7 of which recorded a failure (compared to 10 in the same period of 2021). Globally, these 187 launches put into orbit 2499 satellites (1856 in the same period of 2021), for a total transported mass of 987 tons (714 tons in the same period of 2021). 2022 saw the continuation of the trend that began in 2021 thanks to the deployment of (i) Space X's Starlink (1721 satellites in 2022, with a mass of 499 tons, over 33 dedicated launches of Falcon 9), and (ii) OneWeb (110 satellites in 2022, with a mass of 16 tons), both constellations for satellite internet access. Excluding these constellations, the market expanded slightly, with 668 satellites orbited in 2022, totalling 472 tons of mass, compared with 583 satellites orbited in 2021, totalling 411 tons of mass.

The numbers for 2022, therefore, confirm the trend in the launch sector (and space in general), due largely, as evident from 2019 onwards, to the deployment of low orbit satellite constellations, such as not only Space X's Starlink, but also OneWeb, O3B, and other minor constellations.

From the perspective of orbits, low Earth orbit (LEO) missions (Vega's target segment) continue to consistently increase, alongside a parallel decline in geostationary transfer orbit (GTO) and geostationary orbit (GEO) missions (Ariane's target segment). Globally, in 2022, there were 135 LEO launches (with a transported mass of 635 tons, excluding launches to the ISS), against 24 GTO/GEO launches (with a transported mass of 112 tons). The trend set for the first time in 2020 of LEO transported mass exceeding that of GTO/GEO is therefore confirmed, with the phenomenon largely attributable to the launch of mega-constellations.

In terms of the types of satellites, it is also useful to underline that, of the 2499 satellites put into orbit in 2022, 2342 were SmallSats (i.e. with a mass <500 kg), testifying to the fact that this technology, in growth since 2013, has established itself on the applications market, in particular for Mega-Constellations broadband internet, but also for Earth observation, IoT and technology demonstrations.

Apart from the Starlink constellation (satellites manufactured, launched and operated by Space X, without the possibility of open competition), and launches of unknown origin, missions continued to be mainly institutional (64 civil government launches, 39 military launches, 38 commercial launches), proving, once again, that, for this sector, public funds continue to be of vital importance.

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

Finally, analysis of the leading countries in the sector in 2022 reports 87 launches for the USA (718 tonnes), 64 for China (only 168 tonnes, indicating a very low filling factor of the launchers which is only possible because the launches are exclusively governmental), 21 for Russia, and 7 for Europe (due in part to the suspension of Arianespace launches with Soyuz).

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

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

Launchers market

2022 confirmed the global trend of recent years in which few nations had a launch service offer capable of responding not only to the steadfast institutional market, but also to the stable and slightly growing commercial market. As already mentioned in the previous paragraph, these countries were the USA and China (together covering 81% of launches, and 90% of the mass launched), and, to a lesser extent, Russia, Europe, India, and Japan.

Missions of new launchers and new versions of existing launchers included: (ii) Maiden Flight of Vega C (Mission VV21), (ii) Angara (Russia), which flew after the partial failure of Angara A5 in 2021, (iii) Nuri (South Korea), which flew after its 2021 failure, (iv) Maiden Flight of the Mini LV SSLV (India) and (v) Maiden Flight of the LV Jielong-3 (China). The most used "legacy" launchers remained the Falcon 9, with 61 launches, the CZ in its various versions, with 53 launches, and the Soyuz, with 19 launches, used only for 1 European launch following the outbreak of confrontations in Ukraine.

29 missions dedicated to small satellites used so-called Mini Launchers: 8 Electron launches; 5 Chinese Kuaizhou launch; 3 Astra Rocket launches; 2 LauncherOne launches, operated by Virgin Galactic. 6 missions (4 Falcon 9, 1 CZ and 1 Jielong), on the other hand, were carried out in Rideshare (one of the markets operated by Vega with the Small Spacecraft Mission Service - SSMS), which is becoming an increasingly frequent launch mode.

Data compiled by Avio from information reported on the websites <https://space.skyrocket.de>, <https://nextspaceflight.com/> and <https://www.rocketlaunch.live/>, in addition to SpaceNews Magazine.

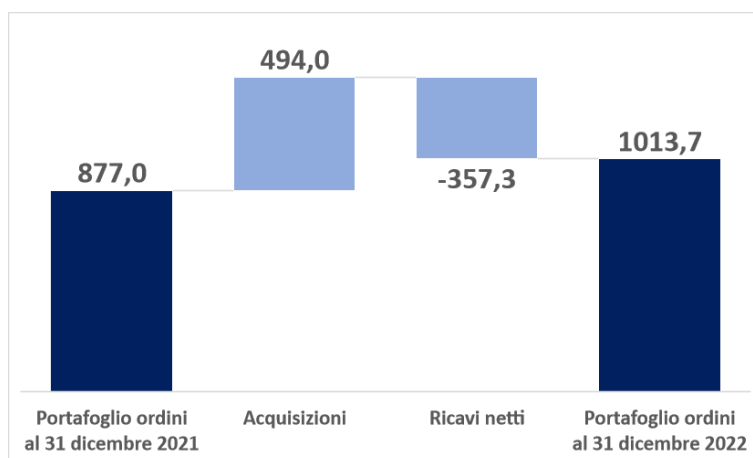
GROUP OPERATING PERFORMANCE AND FINANCIAL AND EQUITY POSITION

Backlog

The industrial sector of space programs in which Avio operates is characterised by medium-long term projects with limited volatility, associated with an order backlog that provides solid medium-long term visibility. The backlog at December 31, 2022 was Euro 1,013.7 million, a net increase of Euro 136.7 million (+15.6%) compared to Euro 877.0 million at December 31, 2021.

The order intake in 2022 totalled Euro 494.0 million, mainly concerning orders for:

- batch 4 of production of the Vega C launcher relating to Long Lead Items and accompanying improvement programmes (approx. Euro 200 million);
- the development of Vega C (approx. Euro 80 million);
- P120C production and development (approx. Euro 100 million)
- aster's tactical production (approx. Euro 30 million);



With regards to the backlog at December 31, 2022, which coincides with the remaining outstanding obligations totalling Euro 1,013.7 million, it is reasonably estimated that it shall give rise to the recognition of revenues of approx. 30% of the amount in 2023, of approx. 30% in 2024, with the remainder in 2025 and 2026.

The press release on the 2022 results of March 13, 2023⁴ reported that the growth in the backlog and cash position improved visibility on the future. It was also indicated that Avio S.p.A. closed 2022 with a backlog of Euro 1,014 million, up 16% on 2021 and in excess of Guidance 2022 (Euro 870-920 million), thanks to a record order intake in the year of close to Euro 500 million, which mainly includes production contracts for Vega C, development contracts for Vega E, production contracts for the P120C, and both production and development contracts for tactical propulsion. In addition, it was clarified that the backlog at December 31, 2022 does not yet reflect the effects of the ESA Ministerial Conference of November 2022 and the new NextGen EU projects of the National Recovery and Resilience Plan that will enter into the backlog starting from 2023.

In the same press release, Avio S.p.A. announced its 2023 Guidance, forecasting, among other items, a backlog of between Euro 1,150 and Euro 1,250 million.

In the presentation to analysts and investors concerning the 2022 results that will be published on March 14, 2023 an increase in the backlog over the 2019-2022 period at a compound growth rate of 15% was reported, along with the main order intake for 2022

The indication on the Backlog in 2022 is also reported:

- in the institutional presentations for investors and analysts on the approval of the 2022 Half-Year Report and the Additional Quarterly Disclosures of 2022 and in the relative Press Releases available on the company website in the "Investors" section;
- in the other presentations for investors and analysis other than the approval of the 2022 Half-Year Report and the Additional Quarterly Disclosures for 2022, available on the website of the Company in the "Investors" section.

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

Operating Results

The table below presents the Group operating performance for 2022 and 2021 (in Euro thousands):

	FY 2022	FY 2021	Change
Revenues	371,377	320,094	51,283
of which: Pass-through revenues	14,063	8,515	5,548
Revenues, net of pass-through revenues	357,314	311,579	45,735
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	40,699	7,627	33,072
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(374,835)	(291,678)	(83,157)
Effect valuation of investments under equity method - operating income/(charges)	(1,749)	2,482	(4,231)
EBITDA	21,429	30,010	(8,581)
Amortisation, depreciation & write-downs	(19,187)	(21,151)	1,965
EBIT	2,243	8,859	(6,616)
Interest and other financial income (charges)	(857)	(237)	(620)
Net financial charges	(857)	(237)	(620)
Investment income/(charges)	-	-	-
Profit/(loss) before taxes	1,386	8,622	(7,236)
Current and deferred taxes	(72)	510	(583)
Net profit for the year	1,314	9,133	(7,819)

During the 2022 fiscal year there have been some not recurring events represented by the failure of the VV22 launch and by the risk of the future execution of programs, that implied extraordinary accruals mainly included in costs for goods and services, not recurring charges and provisions for risks and charges in this Directors' report (and classified into the item "Consumption of raw materials" and "Service costs" of the Consolidated Income Statement and into the item "Provisions for risks and charges" of the Consolidated Balance Sheet), and furthermore by the definition with the Italian Ministry of the Economic Development of some debts for grants received according to the Law 808/85⁵ following a new law issued during 2022, that implied an extraordinary income in Profit and Loss, described as "Other operating revenues" and "Not recurring" item in this Directors' report (and as "Other income" in the Consolidated Income Statement).

The following paragraph outlines "pass-through" revenues. These revenues stem from contractual agreements between the subsidiary ELV S.p.A. (now Spacelab S.p.A.) and the European Space Agency in August 2015 for the development and construction of the new "P120C" motor for future generation Vega-C and Ariane 6 launches. As a result of the implementation of these agreements, the Avio Group consolidated revenues include the following dual invoicing:

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

Revenues net of "pass-through" revenues were Euro 357,314 thousand in 2022, up Euro 45,735 thousand (+14.7%) on 2021 and slightly above 2022 Guidance (Euro 330-350 million), as reported in the press release of March 13, 2023 relating to the 2022 results⁶. This net increase is mainly attributable to the increased

⁵ It is an Italian law for the financing of project in the space and defence industry.

⁶ Avio's website, in the "Investors" section: <https://investors.avio.com/Investors/Financial-Announcements/>;

development and production activities of the P120C motor that will equip the VEGA-C and Ariane 6 launcher, the development activities of the VEGA-C launcher that successfully completed its maiden flight in July, as well as the development activities related to the M10 liquid oxygen and methane motor and the Space Rider, partially offset by the reduced activities related to the planned phase-out of the Ariane 5 program.

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

	FY 2022	FY 2021	Change
Vega	233,975	204,404	29,571
Ariane	92,063	74,269	17,794
Tactical Propulsion	20,577	28,129	(7,552)
Satellite	10,699	4,777	5,922
Revenues, net of pass-through revenues	357,314	311,579	45,735

EBITDA in 2022 amounted to Euro 21,429 thousand, in line with Guidance for 2022 (Euro 17-25 million), as reported in the press release on the 2022 results of March 13, 2023⁷ and Euro 8,581 thousand lower than 2021.

EBIT was Euro 2,243 thousand, decreasing Euro 6,616 thousand in 2021.

The EBITDA compared to 2021, as reported in the March 13, 2022 press release⁸ and in the presentation to the market on the 2022 results that will be published on March 14, 2023, was impacted by non-recurring costs (Euro 6.4 million in 2022) resulting from extra costs concerning the maiden launch campaign in 2022 of the new Vega C launcher, and a one-time positive contribution of Euro 3.2 million resulting from the offsetting of:

- extraordinary provisions for return-to-flight charges as a result of the VV22 failure, net of ESA estimated compensations, and inflationary effects on raw materials and delays in program execution,
- one-off charges (Euro 6.4 million in 2022) deriving from extra costs, with reference to the activities of the maiden flight in 2022 of the new VEGA-C launcher, which also includes a one-off contribution of Euro 3.2 million deriving from the compensation of:
- positive effect from the new legislation introduced in 2022 regarding the funding of Law 808/85⁹ and consequent definition of some payables with the Ministry for Economic Development of royalties related to the P80 Research and Development Project of National Security Interest,
- extraordinary provisions for risks related to Vega C return-to-flight activities, net of compensation expected from the European Space Agency, and for the future execution of programs.

with offsetting effect between them resulting in an overall effect of non-recurring charges in 2022 that does not differ significantly from 2021.

For a more extensive outline of the non-recurring components of 2022 and their comparison with 2021, reference should be made to the following table of reconciliation between the reported and adjusted values.

The result for 2022 was also shaped by the research and development tax credit of Euro 4,396 thousand (Euro 4,033 thousand in 2021), mainly relating to research and development activities, commissioned by the European Space Agency, recognised in the results for the period on the basis of the costs incurred for the Group's long-term research and development projects to which the grant refers, as well as to the Industry 4.0 and technological innovation investments.

⁷ Avio's website, in the "Investors" section: <https://investors.avio.com/Investors/Financial-Announcements/>.

⁸ Avio's website, in the "Investors" section: <https://investors.avio.com/Investors/Financial-Announcements/>.

⁹ It is an Italian law for the financing of project in the space and defence industry.

For a more complete representation of the Group's earnings performance, the EBITDA and EBIT adjusted to exclude Group non-recurring and unusual components are presented below. The above adjusted amounts (in Euro thousands) and the relative margins for 2022 and 2021 are reported below:

	FY 2022	FY 2021	Change
Adjusted EBITDA	27,786	37,709	(9,923)
Adjusted EBITDA Margin (against revenues net of pass-through revs.)	7.8%	12.1%	
Adjusted EBIT	8,599	16,557	(7,957)
Adjusted EBIT Margin (against revenues net of pass-through revs.)	2.4%	5.3%	

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

2022 Adjusted EBITDA was Euro 27,786 thousand (7.8% of net revenues), excluding non-recurring costs, and is in line with 2022 Guidance (Euro 22-30 million) and decreasing Euro 9,923 thousand on Euro 37,709 thousand in 2021 (12.1% of net revenues), due to the significant increase of energy costs in 2022, as reported in the press release on the 2022 results of March 13, 2023¹⁰.

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

2022 Adjusted EBIT was Euro 8,599 thousand (2.4% of net revenues), down Euro 7,957 thousand on Euro 16,557 thousand in 2021 (5.3% of net revenues). Net of the effect of lower depreciation related to the definition of the P80 National Security Interest Research and Development Project, the decrease in Adjusted EBIT reflects the same underlying reasons as the Adjusted EBITDA movements.

¹⁰ Avio's website, in the "Investors" section: <https://investors.avio.com/Investors/Financial-Announcements/>.

The reconciliation between EBIT, Adjusted EBIT and Adjusted EBITDA for 2022 and 2021 is provided below (Euro thousands):

	FY 2022	FY 2021	Change	
A EBIT	2,243	8,859	(6,616)	
- non-recurring charges/(income) comprising:				
- settlement agreements/incentives/other personnel costs	351	1,210	(859)	
- corporate, legal and financial consultancy	1,157	696	461	
- COVID-19 extraordinary charges	766	4,112	(3,346)	
- new legislation introduced in 2022 regarding funding of Law 808/85 and consequent definition of some payables with the Italian Ministry of Economic Development of royalties related to the P80 Research and Development Project of National Security Interest	(30,842)	-	(30,842)	
- extraordinary provisions for risks associated with Vega C's return to flight, net of compensation expected from the European Space Agency, and for the future execution of programs (mainly included in provisions for risks and charges and to a lesser extent in inventory)	27,639	-	27,639	
- other non-recurring charges/(income)	723	1,016	(293)	
- one-off charges with reference to the activities of the maiden flight in 2022 of the new VEGA-C launcher	5,355	-	5,355	
- exploratory activities of potential new business	1,073	-	1,073	
- supplemental disbursements and "expansion contracts"	-	548	(548)	
- investor fees	136	116	20	
B Total Non-recurring Charges/(Income)	6,357	7,698	(1,341)	
C Adjusted EBIT	A+B	8,599	16,557	(7,957)
D Net amortisation & depreciation	19,187	21,151	(1,965)	
E Adjusted EBITDA	C+D	27,786	37,709	(9,923)

"COVID-19 extraordinary charges" concerns mainly the COVID-19 prevention procedure costs, significantly lower than in the previous year, mainly for protection and distancing equipment at employee work and transport stations.

In relation to the item "new legislation introduced in 2022 regarding funding of Law 808/85 and consequent definition with the Italian Ministry of Economic Development of royalties related to the P80 Research and Development Project of National Security Interest" reference should be made to the section "Significant events in the year 2022".

The item "extraordinary provisions for risks associated with Vega C's return to flight, net of compensation expected from the European Space Agency, and for the future execution of programs" mainly refers to risks related with for the implementation of the set of recommendations provided on March 3, 2023 by the Independent Commission of Inquiry (IEC) composed of ESA and Arianespace to ensure the safe return to flight in a short timeframe and the reliability of the Vega C launcher in the long run, as well as the future execution of programs.

The item "one-off charges with reference to the activities of the maiden flight in 2022 of the new VEGA-C launcher" refers to the extraordinary costs incurred for the successful maiden launch of the new Vega-C launcher in July 2022.

Financial results analysis

Net financial charges in 2022 amounted to Euro 857 thousand, increasing Euro 620 thousand on the previous year. The increase is mainly due to the release of financial charges to the Income Statement, amounting to Euro 603 thousand, following the review of the amortised cost criterion applied to shareholder loan receivables from the associate Termica Colleferro S.p.A. in view of their partial waiver within the recapitalisation of the company in order to undertake a new industrial project. For more information, reference should be made to the "Initiation

of the cogeneration power plant project under the partnership with Cogenio/Enel X" in the section "Significant events in 2022" in the Directors' Report.

Balance Sheet

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

	December 31, 2022	December 31, 2021	Change
Tangible assets and investment property	141,053	126,383	14,670
Right-of-use	8,535	9,456	(921)
Goodwill	64,149	61,005	3,144
Intangible assets with definite life	119,814	129,352	(9,538)
Investments	15,605	11,595	4,010
Total fixed assets	349,156	337,790	11,365
Net working capital	(131,920)	(82,997)	(48,923)
Other non-current assets	67,470	70,926	(3,457)
Other non-current liabilities	(76,471)	(119,830)	43,359
Net deferred tax assets	81,471	79,436	2,035
Provisions for risks and charges	(53,379)	(28,229)	(25,150)
Employee benefits	(9,524)	(10,344)	819
Net Capital Employed	226,801	246,752	(19,951)
Non-current financial assets	2,010	6,415	(4,405)
Net capital employed & Non-current financial assets	228,811	253,167	(24,356)
Net financial position	74,450	57,160	17,290
Equity	(303,261)	(310,327)	7,066
Source of funds	(228,811)	(253,167)	24,356

"Total fixed assets" amounted to Euro 349,156 thousand at December 31, 2022, a net increase of Euro 11,365 thousand on December 31, 2021 as a combined effect of the following main movements:

- a net increase of Euro 14,670 thousand in Property, plant and equipment and Investment property, primarily due to investment in progress, totalling Euro 21,545 thousand, net of depreciation for the year.
The above investments essentially involved:
 - works on the production buildings for the P120C motor and the construction of the new Group headquarters in Colleferro;
 - production machinery to achieve increased Vega C flight cadence;
- increase in Goodwill of Euro 3,144 thousand concerning the acquisition in 2022 of Temis S.r.l. and equal to the difference between the purchase price of 100% of the company and the shareholders' equity acquired. This difference, as per IFRS 3 "Business combinations", is being assessed in order to complete, within one year from the acquisition date, the purchase price allocation.
- net decrease in Intangible assets with definite life of Euro 9,538 thousand, net of amortisation for the year, due to the combined effect of:
 - investments of Euro 10,790 thousand mainly related to design and testing costs for the creation of new motors and avionics elements, new licenses and software implementation projects, in addition to costs related to the review of procedures focused on production efficiency;
 - reversal of the net carrying amount of some development costs, amounting to Euro 10,460 thousand, resulting in lower amortisation than in the previous year, in relation to the P80 Research and Development Project of National Security Interest in the context of the new regulations introduced in 2022 in relation to the funding of Law 808/85 and the consequent definition of royalties related to the same project previously commented upon.

- net increase in Equity Investments of Euro 4,010 thousand, due to the following effects:
 - increase of Euro 653 thousand as a result of the measurement at equity of the investment in the jointly-controlled company Europropulsion S.A;
 - net increase of Euro 1,637 thousand in the investment in the associate Termica Colleferro S.p.A.. This amount is the net of an increase in the investment of Euro 5,667 thousand as a result of the partial waiver of shareholder loan receivables, a decrease of Euro 1,628 thousand due to the elimination of capitalised borrowing costs on the investment, and a charge of Euro 2,401 thousand related to the measurement at equity of this investment.
For more information, reference should be made to the "Initiation of the cogeneration power plant project under the partnership with Cogenio/Enel X" in the section "Significant events in 2022".
 - increase of Euro 1,720 thousand related to the acquisition of 5% of the company ART S.p.A., for which reference should be made to the section "Significant events in 2022".

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

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

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

For further details, reference should be made to paragraphs 3.9 "Other non-current assets" and 3.25 "Other non-current liabilities", in addition to the section "Legal and tax disputes and contingent liabilities" in the Explanatory Notes.

The decrease in the item "Other non-current liabilities", amounting to Euro 42,051 thousand, mainly refers to the effect deriving from the new legislation introduced in 2022 regarding funding of Law 808/85 and consequent definition of royalties related to the P80 Research and Development Project of National Security Interest, for which reference should be made to the section "Significant events in 2022".

"Net working capital" was negative deriving from an excess of liabilities over assets of Euro 131,920 thousand, with an improvement on the previous year of Euro 48,923 thousand. The main components are outlined in the following table (in Euro thousands):

	December 31, 2022	December 31, 2021	Change
Contract work-in-progress, net of advances	(241,261)	(155,826)	(85,435)
Inventories	74,222	57,100	17,122
Advances to suppliers	128,351	97,632	30,719
Trade payables	(89,826)	(76,927)	(12,899)
Trade receivables	3,725	3,696	29
Other current assets and liabilities	(7,132)	(8,673)	1,541
Net working capital	(131,920)	(82,997)	(48,923)

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

The item "Other current assets and liabilities" in Net working capital is in line with the previous year. The main components are shown below (in Euro thousands):

	December 31, 2022	December 31, 2021	Change
VAT receivables	5,481	10,763	(5,282)
Research and development tax credits, technological innovation and industry 4.0.	5,381	3,348	2,033
Current tax receivables	1,685	3,545	(1,860)
Other current assets	8,358	7,376	981
Current income tax liabilities	(4,228)	(7,322)	3,094
Other current liabilities	(24,271)	(26,383)	2,112
Other current assets and liabilities	(7,594)	(8,672)	1,078

"VAT receivables" decreased Euro 5,282 thousand on the previous year, due to the collection of Euro 6,320 thousand reimbursement requested, net of VAT receivables accrued in the year of Euro 1,038 thousand.

With regards to the research and development, technological innovation and Industry 4.0 tax credits, Euro 2,033 thousand was recognised in 2022.

Analysis of the net cash position

A statement follows of the Avio Group's financial position, prepared in accordance with the ESMA Guidelines of March 4, 2021 and the subsequent attention call No. 5/21 issued by Consob in April 2021 (figures in Euro/000):

	December 31, 2022	December 31, 2021	Change
A Cash and cash equivalents	(131,403)	(104,614)	(26,789)
B Other liquidity	-	-	-
C Other current financial assets	-	-	-
D Liquidity (A+B+C)	(131,403)	(104,614)	(26,789)
E Current financial debt (including debt instruments but excluding the current portion of non-current financial debt)	29,907	10,655	19,252
F Current portion of non-current bank payables	10,033	10,048	(15)
G Current financial debt (E+F)	39,940	20,703	19,237
H Net current financial debt (G-D)	(91,463)	(83,911)	(7,552)
I Non-current financial debt (excluding current portion and debt instruments)	17,013	26,751	(9,738)
J Debt instruments	-	-	-
K Trade payables and other non-current payables	-	-	-
L Non-current financial debt (I + J + K)	17,013	26,751	(9,738)
M Total financial debt (H + L)	(74,450)	(57,160)	(17,290)

At December 31, 2022, the Avio Group reports a net cash position of Euro 74,450 thousand (Euro 57,160 thousand at December 31, 2021), with cash and cash equivalents exceeding financial liabilities.

The net cash position, reported at item "M Total financial debt (H+L)" of the table above as per the recommendations of the regulatory authorities, increased from a positive balance of Euro 57,160 thousand at December 31, 2021 to Euro 74,450 thousand at December 31, 2022, increasing Euro 17,290 thousand, principally due to the cyclical nature of operating cash flows, investments in capital expenditures and equity investments in the year, non-recurring items previously commented upon and the dividends paid by the parent company Avio S.p.A. and the purchase of treasury shares. There were no restrictions on liquidity.

The current financial debt, amounting to Euro 39,940 thousand (Euro 20,703 thousand at December 31, 2021), includes:

- current financial liabilities to the jointly-controlled company Europropulsion S.A. for Euro 27,769 thousand (Euro 7,749 thousand at December 31, 2021) arising from the cash pooling agreement with the joint venture;
- current financial liabilities for leased assets of Euro 1,879 thousand (Euro 2,906 thousand at December 31, 2021);
- the financial liability related to the current portions of two EIB loans, amounting to Euro 10,033 thousand (Euro 10,048 thousand at December 31, 2021), which includes:
 - two instalments of the total loan granted of Euro 10 million (of which Euro 5 million due on April 30, 2023 and Euro 5 million due on October 31, 2023);
 - the accrued interest amounting to Euro 33 thousand.

The non-current financial debt, amounting to Euro 17,013 thousand (Euro 26,751 thousand at December 31, 2021), includes:

- non-current financial liabilities to the EIB of Euro 12,000 thousand (Euro 22,000 thousand at December

- 31, 2021);
- non-current financial liabilities, mainly for leased assets of Euro 4,937 thousand (Euro 4,751 thousand at December 31, 2021).

Statement of changes in Equity

Consolidated equity at December 31, 2022 amounts to Euro 303,262 thousand, decreasing Euro 7,066 thousand compared to Equity at December 31, 2021, as a result of the following main movements:

- dividend distribution by Avio S.p.A. amounting to Euro 4,500 thousand;
- recognition of the 2022 consolidated net profit of Euro 1,314 thousand;
- purchase of treasury shares amounting to Euro 5,738 thousand, net of the payment of part of the price for the purchase of the 100% stake in Temis S.r.l. through treasury shares totalling Euro 1,250 thousand;
- actuarial gains of Euro 571 thousand.

RESEARCH AND DEVELOPMENT ACTIVITIES

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

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

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

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

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

Research and development costs incurred overall by the Avio Group in 2022 amounted to Euro 164.7 million (Euro 117.8 million in 2021), equating to 44.4% of gross consolidated revenues in 2022 (38.7% in 2021).

Net of pass-through costs, research and development by the Group in 2022 incurred costs of Euro 150.7 million, 42.2% of revenues net of pass-through revenues (Euro 109.3 million in 2021, equal to 35.1% of revenues net of pass-through revenues).

Self-financed and executed activities amounted in 2022 to Euro 7.8 million (Euro 12.7 million in 2021). Self-financed activities in 2022 included Euro 4.2 million relating to development costs capitalised as Intangible assets with definite life (Euro 10 million in 2021) and Euro 3.6 million concerning research costs or development costs not capitalisable and directly recharged to the income statement (Euro 2.7 million in 2021).

The total amount of costs related to self-financed activities charged to the income statement in 2022 was Euro 8.0 million (Euro 9.5 million in 2021), comprising Euro 3.6 million of directly expensed non-capitalisable costs (Euro 2.7 million in 2021) and Euro 4.4 million for the amortisation of development costs capitalised (principally) in previous years (Euro 6.8 million in H1 2021).

In 2022, 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.

2022 saw the completion of the integration of the new Avio solid-fuel motors P120C, Z40 and enhanced Z9 with the Vega C launcher, which guaranteed Vega C's maiden flight in July 2023.

At the same time, Avio further consolidated its VEGA C market position through the configuration capable of competing in the large SAR satellite segment for earth observation. In the area of solid fuel motors, Avio continued to carry out research on consolidating and optimizing qualified product production technologies for

the Ariane and VEGA launchers, in order to guarantee the performance required of the next generations of Ariane 6, VEGA C+ and VEGA E European launch vehicles.

Following the signing of an ATP with MBDA, in 2022 work continued on the development of the axial booster of the next-generation TESEO MK2/E weapon system, a long-range, dual-role, anti-ship missile with land-attack capability.

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

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

In 2022, work continued on the design and testing of the cryogenic propulsion LPM system aimed at managing the propellant needed to fuel the M10 motor. Following the ongoing development and qualification phase, this will provide the necessary performance to ensure stage 3 propulsion for the forthcoming 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. The second prototype was then assembled with the rest of the equipment - including valves, tubing, sensors and harness - and configured for the firing test. The first fire test campaign was successfully concluded at the end of February 2020 at NASA's Marshall Space Flight Center. This was the first test campaign for a prototype for an innovative 100KN combustion chamber with cooling channel, manufactured in ALM by implementing the Avio "Single Material Single Part" patent.

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

The first development model of the entire M10 motor, denominated DM1, was fully integrated during the second half of 2021, together with the turbomachinery components to support the cryogenic fuel regeneration cycle. This allowed the start and continuation, during the first half of 2022, of the fire test campaign at Avio's innovative Space Propulsion Test Facility (SPTF), inaugurated in October 2021 on the Salto di Quirra military firing range in Sardinia.

Vega E, whose first flight is scheduled for 2026, thanks to the introduction of the innovative, high-performance M10 motor, will be able to carry a payload of approximately three tons into orbit, that is, double the maximum payload mass of the current version of Vega, and significantly more than the next version of Vega C. Furthermore, thanks to the manoeuvrability features of the M10 motor, with re-ignition and active thrust control capabilities, the Vega E launcher will be able to release many satellites in different orbits during the same mission and at very 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.

2022 saw the continuation of the development of a new generation of large composite LOx and LCH₄ cryotanks without internal liners, which are potentially integrable as common bulk in future versions of the Vega E's upper stage, to obtain a further increase in the maximum payload. For this purpose, the design of a carbon fibre and thermo-plastic resin cryotank model was finalized, which was then made with "automatic fibre placement" technology. This technology will allow the introduction of a more suitable manufacturing process, and

demonstrates the feasibility of a future LOX/LCH4 common bulk tank for the optimization of the M10 motor's fuel system on the Vega E's 3rd stage.

Space Transport Systems

In 2022, Avio finalised the development and construction of the Vecep (ESA) contract Vega launcher. 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%.

To respond to increasing small satellite demand, in 2022 research also continued 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.

Space Rider is an unmanned and reusable space transport system, which, thanks to its integration with the Vega modules, will allow the creation of an integrated offer of Vega Space Systems services. Continuing in 2022 were activities for the development and production of its propulsion system, entirely entrusted to Avio, co-prime with Thales Alenia Space under the ESA-financed contract. The system's Critical Design Review (CDR) entered its final stages in Q4 2022.

Finally, in 2022 the development of the Hera propulsion system continued, with the objective of undergoing ESA's Critical Design Review by the end of H1 2023. HERA is a planetary defence project funded by ESA, involving a consortium of European companies led by OHB System AG. The ESA's Hera mission is scheduled for launch in 2024 and will be carried out in synergy with NASA's Double Asteroid Redirect Test (DART). Hera and DART will have the goal of exploration and the altering of the trajectory of a binary system of asteroids (a pair of near-Earth asteroids known as Didymos), which will be reached by the Hera spacecraft in 2026.

Tactical Propulsion

Qualification activities and those relating to the CAMM ER missile thruster ageing programme continued in 2022. Industrialisation is ongoing.

Obsolescence solution activities also continued for Aster MLU. Specifically, the components and subcomponents for qualification testing were produced. Subcomponent qualification tests were completed, while those at the Booster level have begun together.

The contract to manufacture Aster 30 Booster for Greece was acquired and the contract to increase the currently forecast production rate was negotiated.

Avio has also acquired a new development programme for an anti-ship system and is in negotiations for participation in a consortium to collaborate on the design and production of an anti-ballistic missile in order to broaden the company's offering in the defence sector. It is also in discussions with MBDA-I regarding participation in the development programme for two more motors for short- and medium-range missiles.

As regards Italy's National Military Research Plan (or "PNRM"), Avio continued to collaborate with the Polytechnic University of Milan on development of a sub-orbital target and, along with the School of Aerospace Engineering and MBDA-I, presented a development plan for a ramjet motor.

COMMUNICATION AND SOCIAL RESPONSIBILITY

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

In addition, the Company develops its own network of scientific exchange and new product development through research collaborations with Italian and international universities and research institutes and through technical and operational collaborations with major European space agencies, in particular the Italian Space Agency (ASI), the French National Centre for Space Studies (CNES) and the European Space Agency (ESA). The relaxation of COVID-19 restrictions allowed the company to ramp up its corporate and external communications activities throughout the course of 2022. In addition, as part of an integrated communication approach, emphasis was also placed on internal communication activities and on the company's social media channels.

Events and shows

The main events in the year include:

- in January, in addition to successfully completing preparations for the maiden flight of Vega C, an agreement was signed with the Italian Space Agency (ASI) to launch the Platino 1 and Platino 2 satellites between 2022 and 2024. Microcarb and NESS launch contracts were also signed with the ESA and CNES. Finally, contracts were signed with the European Space Agency for the Flex and Altius satellites, which will enter orbit by the end of 2025.
- January 26 - an article by Chief Executive Officer (CEO) Giulio Ranzo is published on the SpaceNews website. This covered important topics such as independent access to space for Europe, Vega C development status, Avio's contribution to the European Space Rider program, and testing of the new M10 methane and liquid oxygen motor.
- January 29 - The inauguration ceremony for the presidency of the CVA for 2022 is held at Colleferro's Vittorio Veneto Theatre. CEO Giulio Ranzo attends on behalf of Avio, and Mr. Marco Biagioni is in attendance as General Delegate of CVA.
- February 2 - Chief Executive Officer Giulio Ranzo, interviewed by CLASS CNBC's editor-in-chief as part of the CEO Talks program, talks about the 2021 budget and prospects for Avio's future.
- February 8 - Marking Vega's 10-year anniversary, Rainews24 devotes an in-depth interview to Avio conducted with Ms. Giovanna Manca, Head of the Launch System Preparation Department.
- February 9 - Roberto Italia, Chairperson of Avio, is interviewed on *La Repubblica's* Green&Blue Digital Talk. The discussion focuses on how to integrate sustainability into business models and the main company trends.
- March 7 - Online newspaper *Il Post* publishes an article on Avio.
- April 5 - Arianespace signs an agreement with Amazon for 18 launches using Ariane 6. For Avio, this means a major increase in the production of the P120C solid-propellant motor used for the European launcher boosters.
- April 8 - Avio signs an agreement to launch the Sentinel 1C satellite with the brand new Vega C, making the company's ongoing contribution to the Copernicus program even more significant.
- April 12 - Ms. Claudia di Trapani, Vega E Programme Manager, is a guest on Forbes' "Space Economy" programme.
- April 13 - Chief Executive Office Giulio Ranzo speaks during the Space Olympiad awards ceremony. The initiative, organised in partnership with industry associations and the Italian Space Agency and La Sapienza University, seeks to encourage young people to follow their passions.

- April 22 - Avio was centre stage in Colleferro for "Touchdown! Final show! - @Girls in ICT," an event organized by Lazio Innova. On display during the event was the Emilia 4 solar-powered car, created by the Faculty of Engineering of the University of Bologna, in part using our company's carbon fibre.
- April 27 - Avio begins its collaboration with Accenture/Dassault as part of the major "Industry 4.0" innovation project.
- May 2, Colleferro - Thomas Dermine, Belgium's Secretary of State for Economic Recovery and Science Policy, who also oversees the aerospace sector, visits Avio's facilities in Colleferro. Ambassador Pierre-Emmanuel De Bauw of Belgium is also present during the customary tour of the facilities.
- May, Kourou - Successful integrations of the various stages of Vega C take place throughout the month in preparation for the inaugural launch in July.
- May 5 - Avio's begins the educational campaign it has pushed for in collaboration with the Municipality of Colleferro. The initiative involves Colleferro's high schools and some lower grade schools.
- May, Perdasdefogu - The new M10 CNG and liquid oxygen engine successfully completes its first, second and third ignition tests at the SPTF centre in Sardinia.
- May 12, Colleferro - The second date of Avio's educational campaign, Avio Meets School, is held with the project "*Alla scoperta del mondo del lavoro*" (Discovering the world of work). On this occasion, fifth-year students at the institutions involved are also able to meet some of our managers.
- May 17, Colleferro - The project "*Metti un'idea nello Spazio - la nuova cassetta delle idee*" (Put an idea into space - the new idea box) begins, seeking to gather ideas for improvement within Avio's production departments.
- May 23, Colleferro - The customary meeting for new staff is held at the Morandi Auditorium. The event, which opens with a speech by Mr. Ranzo, continues with the participation of Mr. Stefano Bottaro (HR Director), Alessandro D'Acunzo (Industrial Op.), Roberto Mancini (Engineers) and Loredana Suanno (Improvement Programs).
- June 1, Rome - Chief Executive Officer Giulio Ranzo discusses Avio's involvement in the Kuiper project, Vega C and M10 with the leading magazine SpaceNews.
- June 1, Rome - Avio sponsors and supervises the Sapienza Rocketry Challenge event. Throughout the day, students at the Space Propulsion lab, part of the three-year degree programme in Aerospace Engineering at La Sapienza University, launched their mini-rockets.
- June 13, Colleferro - Avio is featured in the third episode of Space Walks, a significant programme focusing on space and the space economy and broadcast on Rai 4.
- June 17, Rome - A meeting is held with students from John Cabot University as part of the collaboration between Avio and POLIMI Graduate School of Management, giving the students the chance to meet professionals with a desire to acquire specific skills on the space sector.
- June 23 - Avio celebrates International Women in Engineering Day, providing a dedicated training course called the "eLearning module." It allows for reflection on the concept of inclusion and sets out the initiatives set up by the company.
- June 29, Rome - Avio is awarded the first two contracts within the scope of space-industry initiatives and implementation of "Next Gen EU". This includes Italian government investment of approximately Euro 340 million to enhance the technological capabilities of Italian industry to access space. A press lunch is held following the signing at the ministry.
- June-July, Kourou - As part of the preparation for the July 13 launch, the last additions to the launcher are finished and satellite encapsulation is carried out.
- July 5 - The Regulus event is held to celebrate the latest casting of solid propellant for Ariane 5 boosters and 30 years of operation of the Guyana Propellant Plant (UPG)

- July 13 - The Vega C qualification flight is carried out with extraordinary success, as the mission is completed smoothly and as planned. A number of Italy's leading newspapers attend the event.
- July 27 - As part of the initiatives promoted by Continuous Improvement Management in partnership with the Communications and External Relations and HR departments, Avio partners with Valore D to promote the growth and empowerment of women in the company.
- July 28 - The episode of "Our Man in Italy" with James May, filmed at the Avio plants in Colleferro, airs.
- September 1, Colleferro - As part of the CVA, and in partnership with the Municipality of Colleferro, Avio promotes the "*Alla scoperta del mondo del lavoro*" (Discovering the World of Work) contest, an educational project involving a number of vocational schools in Valmontone. The three winning students participate in a two-month internship in the various directorates.
- September 8, Rome - Marco Biagioni, General Manager of the Avio Group, represents Avio at the Roma Innovation Hub event as part of a panel on "The Horizons of the Italian Aerospace Industry." Also present at the meeting are representatives from the ESA, Thales Alenia Space Italia and GNSS Agency (GSA).
- September 11, Rome - the Avio Rugby team wins in the first Space Tournament.
- September 13, Paris - Chief Executive Officer Giulio Ranzo takes part in World Business Week in Paris, an event with more than a thousand participants in which future developments in the world of satellite communications and information are discussed.
- September 14, Paris - As is customary, Avio participates in the annual Vega Day at the Italian Embassy in Paris.
- September 21, Colleferro - The third edition of the "Get on Board Day" event is held. This is dedicated to new staff and seeks to gather business improvement feedback after their first months at the company.
- September 23, Colleferro - Avio hosts a group of master's students at Luiss University students on the Digital Innovation and Sustainability programme, conducting an interesting tour of the production facilities in Colleferro.
- September 26, Rome - Avio has a booth at a La Sapienza University careers day for recent graduates.
- October 3, Colleferro - The 13th ESA Basketball tournament ends with the Avio team in second place.
- October 5, Colleferro - Avio features in an episode of TG1 Economia, which shows the production facilities in Colleferro and includes interviews with Mr. Giulio Ranzo, Mr. Antonio Genovese and Ms. Claudia di Trapani.
- October 5, Rome - Chief Executive Officer Giulio Ranzo receives the prestigious Socrates Award for unquestionable private and professional merits at a ceremony held in Rome and attended by journalist and television writer Cesare Lanza.
- October 13, Colleferro - The last stage of "*Italia Brilla - Costellazione 2022*", an initiative promoted by the Association "*Il Cielo Itinerante*" of which Avio is the main partner, is held in Colleferro. The meeting seeks to introduce new generations to STEM studies, is sponsored by ASI and is part of a joint educational program with the ESA.
- October 20, Rome - An important Team Building day is held at AS Luiss where the 19 participants take part in four team sports to improve their teamwork.
- October 27, Colleferro - Avio hosts the board of CVA in Colleferro, where, under the guidance of Mr. Massimo Epifani, they are given a tour of the Vega family's various production facilities.
- November 7, Colleferro - AVIO4WOMEN, an event dedicated to the empowerment of women at Avio, is held and presented by Ms. Loredana Suanno. This represents the beginning of a mentorship which is accessible to all employees and which seeks to foster personal and professional growth and improve work performance.

- November 8, Segni - An event is held to recognise the company's longest-serving employees. It is attended by Chief Executive Officer Giulio Ranzo and Mayor of Colleferro Pierluigi Sanna.
- November 10, Guidonia - As part of the Educational Campaign Avio Meets School, a meeting is held with a number of schools in the municipality of Guidonia Montecelio, with the objective of bringing young people closer to STEM subjects.
- November 11, Colleferro - Avio hosts the Order of Engineers of Rome.
- November 17, Colleferro - A number of representatives of the Mechatronics section visit the production facilities, guided by Mr. Stefano Bottaro, Mr. Alessandro D'Acunzo and Mr. Adriano Rotondo.
- November 21, 2022 - Avio co-signs the "Declaration for a Responsible Space Sector," an important moment that crowns the company's efforts to democratise space access in Europe.
- November 28, Colleferro - the Undersecretary for Labour, Mr. Claudio Durigon, visits Avio at its Colleferro facilities.
- November 29, Rome - A record contract is signed to launch five Copernicus missions with the Vega C. These will be carried out between 2024 and 2026 and will enable accurate monitoring of elements that will be important for survival on Earth.
- December 1, Rome - Avio participates in the New Space Economy European Expoforum, a three-day event whose main theme is "Sustainability as a Game Changer for a New Space Economy."
- December 6, Colleferro - To reward the efforts of brilliant employees who contributed to a small but significant change in business processes, the Kaizer Corner - *Metti un'idea nello Spazio* (Put an Idea in Space) awards are held, concluding a journey that began in June.
- December 7, Frascati - A framework contract is signed at ESA-Esri for the launch of five Sentinel satellites: 2C, 3C, 1D, CO2MA and CO2MB.
- December 12, Colleferro - An additional "Get On Board Day" is held for all new hires.
- December 16, Colleferro - National Space Day, organised by Avio in collaboration with the Municipality of Colleferro.
- December 16, Turin - Avio participates in the Take Off Accelerator event held at OGR Turin. The event focuses on Open Innovation as a driver of technological development and business opportunities.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES

Risks relating to the war in Ukraine

As reported in the 2021 Annual Financial Report and in the Half Year Report at June 30, 2022, the Russian-Ukrainian crisis is an ongoing diplomatic-military confrontation between Russia and Ukraine that began in February 2014. It centres on the status of Crimea, the Donbass region, and Ukraine's possible membership in NATO.

The information provided in this section - and more generally the information provided in these financial statements on the ongoing conflict in Ukraine - takes into account Consob's calls for attention dated March 18, 2022 and May 19, 2022. The latter fully referred to the recommendations provided by ESMA in the Public Statement "*Implications of Russia's invasion of Ukraine on half-yearly financial reports*" dated May 13, 2022.

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

As previously reported in the prospectus of March 31, 2017 relating to the admission to trading on the STAR segment of the Italian Stock Exchange organised and managed by Borsa Italiana S.p.A., in undertaking transactions the Group mainly uses suppliers and sub-contractors for the supply of components, semi-finished products and raw materials. The Group's ability to fulfill its obligations to its clients also depends on the fulfillment of contractual obligations by its sub-contractors and suppliers.

Also as reported in the prospectus, certain Group suppliers and sub-contractors, considering the skills and know-how they have developed, in addition to the qualification processes that have certified their compliance with specific requirements, are difficult to replace or, in any event, their replacement may entail a lengthy period of time and significant costs.

In view of the Russian-Ukrainian crisis that had emerged even in February 2014, it was reported in the prospectus, in particular, that the then recent foreign policy events could affect the capabilities of suppliers operating in Russia and Ukraine.

The prospectus also stated that such possible non-fulfillment could concern a varying range of components (such as the propellant tanks and the fourth stage motors of the Vega launcher, the pressure regulators and valves) or raw materials (such as ammonium perchlorate and carbon fibres) and, should significant cases of non-fulfillment by the Group's suppliers or subcontractors occur or, for any reason, should such suppliers no longer be able to meet their obligations or should they need to be replaced by the Group, the latter, also on account of any delays that might ensue, could be held liable by its clients and, therefore, be subject to possible claims for damages. The occurrence of one or more of these circumstances could impact upon the Group's financial statements.

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

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

Avio had, in addition, identified an ESA-qualified Ukrainian supplier for the production of the carbon-carbon inserts used to manufacture the nozzles for the Z40 and Z9 motors of the Vega-C launcher. However, as of March 2022, following the outbreak of hostilities between Russia and Ukraine, Avio undertook a supply contract from a previously used European supplier.

In addition, as of 2019, the Group is in the process of investing in strengthening know-how in the production of carbon-carbon inserts.

Currently, there is no direct procurement from Russian suppliers.

The remaining two Vega flights, however, were not impacted as they are already equipped with the carbon carbon produced by another European supplier.

On the other hand, with regard to the main engine of the 4th stage for the Vega and Vega-C launchers, the status of supplies already in Colleferro, by virtue of advance orders placed as early as 2017, allows the

continuation without discontinuity of industrial activity with respect to the VEGA and VEGA C programs in the short and medium term.

The situation is being monitored in order to take actions aimed at protecting business continuity also in the long term: in this context, the ESA recently decided to dedicate financial resources to initiate technical and industrial actions aimed at mitigating the supply risk in the long term through the development of complementary technological solutions. On the basis of the information currently available, it cannot however be excluded that a worsening of the Ukrainian crisis, or the continuation of the current situation, could have possible future impacts on the Group's production activities with reference to the VEGA and VEGA C programmes.

As a result of regular contacts with these suppliers, production of the MEA engine continues.

As these assessments gradually matured, they were promptly reported in the press releases dated February 25, 2022, March 25, 2022, and most recently July 17, 2022, and are still accurate.

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

At December 31, 2022, Avio had outstanding advances to Ukrainian suppliers totalling Euro 4.0 million, relating to contracts for the development in Avio of Carbon-Carbon insert technology and MEA motors.

With regard to the contract for deliveries of other products, down payments amounted to Euro 2.0 million, and the recovery of these down payments is expected to be completed by the first half of 2025.

As regards the MEA motors contract, down payments amounted to Euro 2.0 million for raw materials procurement for the 8 MEA motors for Vega C Batch 4, and recovery through contractually scheduled deliveries is expected to be completed by the end 2024.

In this general context, it should be noted that the Batch 3 contract with the customer Arianespace includes the possibility - where necessary - to invoke a *force majeure* clause for the obligations assumed by Avio. At present, the application of this clause has not been invoked because, in light of the above, Avio is currently able to ensure the continuation of production activities in the short and medium term.

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

The Group has already taken action - with the support of the European Space Agency - to identify possible alternative suppliers with reference to the above products, also analyzing the process and methods necessary for the certification of these solutions in the qualification dossier of the Vega and Vega C launchers. As of today's date, ArianeGroup-manufactured carbon/carbon inserts will be used whose supply timelines ensure the continuity of Vega-C production. With regard to replacement of the MEA, with the help of the Italian Space Agency, we have identified an alternate solution that is currently being completed in order to make it operational.

General economic risks

The COVID-19 pandemic

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

2022 was significantly affected by the continuation of the disruption of the COVID-19 pandemic, which continued to spread and threaten the lives of millions of citizens, as well as the health of the world economy. In this context, Avio continued to guarantee the protection of the health of its workers, consultants, suppliers and customers, by implementing - in line with the epidemiological trends of the pandemic and regulatory provisions issued by the competent institutions - protective measures to limit the spread of the virus as much as possible, and to mitigate the potential risks associated with a safe continuation of production activities.

The effects of the health emergency were felt intermittently throughout 2022, and indirectly affected Avio's internal activities, as well as slowing down in certain cases the activities of suppliers and sub-contractors in Italy and the rest of Europe. At the moment, operations at all Avio facilities, and in Colleferro and French Guiana in particular, are continuing normally although with greater difficulty in certain cases compared to the pre-pandemic situation, in order to ensure operational objectives are achieved. Specifically, Vega C development activities continued and culminated in the highly successful maiden flight on July 13, 2022.

Should the effects of COVID-19 continue and worsen, impacts, including significant impacts, may be seen on the industrial, engineering and commercial activities of the entire aerospace sector.

In view of the above, the intrinsic risk associated with the potential effects that such an epidemic may entail is assessed as high (inherent risk high), while the control risk is assessed as medium, given that the internal control system introduced by the regulations in force is being continuously monitored and developed at an institutional

level and considering that the Crisis Committee, set up by the Company, is operating in a situation of persistent uncertainty.

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

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

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

Excluding the possible macro-economic effects of COVID-19, the economic, equity and financial position of Avio is influenced by a number of macro-economic environment factors (including GDP movements, the inflationary impacts on 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. Although the 2022 ESA Ministerial Conference had a positive response in terms of allocations for the Company together with the National Recovery and Resilience Plan (PNRR), these allocations depend on the policies adopted by governments and - in general - the economic conditions in Europe and therefore there is a risk of exposure to macroeconomic factors. The demand for launchers is therefore supported both by the public sector and the private sector.

Risks related to the current inflationary situation

Should the current inflationary effects on raw materials be prolonged or worsen, the Group's business, strategies and prospects could be adversely affected, which could have a negative impact on the Group's income statement, balance sheet and financial position.

Specific business risks

The space programmes, due to their inherent complexity, strategic important and source of funding, are generally dependent on plans and decisions undertaken at government level in Europe, both by individual countries and as part of international agreements, implemented by specific national and supranational institutions and agencies. These plans seek to guarantee independent access to space by the European nations. Although the 2022 ESA Ministerial Conference had a positive response in terms of allocations for the Company together with the National Recovery and Resilience Plan (PNRR), 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. At the end of 2022, the backlog grew 15% compared to the end of 2021. However, as a potential risk of aerospace industry groups, the backlog may be subject to unexpected adjustments and therefore may not be indicative of future revenues or operating results.

The Group operates in the space sector principally through long-term contracts, often at fixed prices or with inflation-linked price reviews. Fixed price contracts present the risk that any additional costs may not be reimbursed or are only partially reabsorbed by the customer, 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 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, may result in an increase in costs incurred for the execution of long-term contracts with impacts on the Group's operations and financial statements. Against this risk the company has put in place procedures, IT and reporting systems, as well as a trusted and professional workforce to safeguard against such risks and with the goal of monitoring current performance and considering risk elements in estimates.

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

Conclusions of the Independent Commission of Inquiry (IEC) on the causes of the failure of the Vega C mission (VV02) and recommendation for return to flight

As reported in the press release on March 3, 2023¹¹, the Independent Commission of Inquiry (IEC) composed of ESA and Arianespace completed its work concluding that the cause of the failure of the VV22 flight was a gradual deterioration of the Zefiro 40 engine nozzle. It also provided a set of recommendations to ensure the safe return to flight in a timely manner and the long-term reliability of the Vega C launcher with a portfolio of 14 flights (12 Vega C and 2 Vega). Arianespace has updated the launch schedule to assign a flight to one of the two remaining Vega launchers with an expected launch date by late summer 2023, anticipating the next flight of Vega C by the end of 2023. In the above mentioned press release an apposite reference is made to the press release issued by the Independent Commission of Inquiry¹².

In the press release related to the 2022 results on March 3, 2023 is reported that the Independent Commission of Inquiry provided several recommendations in order to allow a rapid and secure return to flight, assuring the

¹¹ Avio's website, in the "Investors" section: <https://investors.avio.com/Investors/Financial-Announcements/>.

¹² Please, see https://www.esa.int/Newsroom/Press_Releases/Loss_of_flight_VV22_Independent_Enquiry_Commission_announces_conclusions.

reliability of the launcher in the long period and that, for this purpose, the European Space Agency announced a dedicated support program amounting to Euro 30 million (already available as subscribed in the 2022 ESA Ministerial Conference) in order to cover the charges necessary to the return to flight.

Based on the recommendations provided by the Independent Commission of Inquiry to ensure the safe return to flight in the short term and the reliability of the Vega C launcher in the long term, the Company has proceeded to estimate the costs required for their implementation, both direct (e.g., ground testing of engines and strengthening of quality control procedures, among others) and indirect (e.g., among others, the increased costs resulting from a reduction in the production rate due to the implementation of these recommendations). The ESA support provided to Avio was then estimated on the basis of specific contractual provisions, a principle confirmed by ESA during the March 3, 2023 press conference, and consequently provisions for residual risks on the estimated costs borne by Avio were recorded in FY2022 under non-recurring costs, also based on detailed analysis undertaken by legal consultants concerning possible contractual and non-contractual liability exposure of Avio.

OUTLOOK

In the short term, Vega C production activities will be affected by the implementation of recommendations provided by the Independent Commission of Inquiry (IEC) to ensure the safe return to flight of Vega by the end of the summer and Vega C by the end of 2023. At the same time, recommendations will be implemented to ensure the long-term reliability of the Vega C launcher as well.

P120C engine production and tactical propulsion activities will continue as planned.

On the other hand, the intensive planned roadmap of the numerous and important product development activities will be accelerated, thanks to which the Company secured major funding allocations last year under the National Recovery and Resilience Plan (PNRR) and the 2022 ESA Ministerial Conference.

The Company has prepared forecasts for the year 2023 that take into account that outlined above, in addition to non-recurring costs.

As reported in the press release issued on the 2022 Annual Results of March 13, 2023,¹³ and in the presentation of the 2022 results that will be published to investors and analysts on March 14, 2023, the forecasts are for the Backlog at between Euro 1,150 million and Euro 1,250 million, net revenue of between Euro 330 million and Euro 350 million, Reported EBITDA of between Euro 19 million and Euro 25 million (including non-recurring costs of approx. Euro 6 million), and net profit of between Euro 2 million and Euro 6 million.

The Board of Directors of Avio S.p.A. has resolved to propose to the next Shareholders' Meeting, to be held on April 28, 2023, the allocation of the 2022 loss of Avio S.p.A., amounting to Euro 1,895 thousand, to retained earnings.

¹³ Avio's website, in the "Investors" section: <https://investors.avio.com/Investors/Financial-Announcements/>.

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

Earnings and financial results

Results

The following table compares the company performance in 2022 and 2021 (in Euro thousands):

	FY 2022	FY 2021	Change
Revenues	367,179	313,091	54,088
of which: Pass-through revenues	14,063	8,515	5,548
Revenues, net of pass-through revenues	353,116	304,576	48,540
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	37,965	8,197	29,768
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(374,779)	(287,665)	(87,114)
EBITDA	16,302	25,108	(8,807)
Amortisation, depreciation & write-downs	(21,384)	(23,083)	1,700
EBIT	(5,082)	2,025	(7,107)
Interest and other financial income (charges)	(999)	(558)	(441)
Net financial income/(charges)	(999)	(558)	(441)
Investment income/(charges)	2,400	2,667	(267)
Profit/(loss) before taxes	(3,681)	4,134	(7,815)
Current and deferred taxes	1,786	703	1,084
Profit for the year	(1,895)	4,836	(6,731)

Revenues net of "pass-through" revenues were Euro 353,116 thousand in 2022, up Euro 48,540 thousand (+15.9%) on 2021. This net increase is mainly attributable to the increased development and production activities of the P120C motor that will equip the VEGA-C and Ariane 6 launcher and the development activities of the VEGA-C launcher that successfully completed its maiden flight in July, partially offset by the reduced activities related to the planned phase-out of the Ariane 5 program.

EBITDA in 2022 was Euro 16,302 thousand, reducing Euro 8,807 thousand on 2021, mainly due to the inflationary effects on raw materials, delays in program execution and the impact of the ongoing conflict between Russia and Ukraine, which affected costs generally (also indirectly).

EBIT was a loss of Euro 6,218 thousand, decreasing Euro 7,107 thousand on 2021. Net of the effect of lower depreciation related to the definition of the P80 National Security Interest Research and Development Project, the decrease in Adjusted EBIT reflects the same underlying reasons as the Adjusted EBITDA movements.

The result for 2022 was also shaped by the research and development tax credit of Euro 4,396 thousand, mainly relating to research and development activities, commissioned by the European Space Agency, recognised in the results for the year on the basis of the costs incurred for the Group's long-term research and development projects to which the grant refers, as well as to the Industry 4.0 and technological innovation investments.

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

"Investment income/(charges)" concerns income of Euro 2,400 thousand from the dividend received from the jointly-controlled company Europropulsion S.A..

Balance Sheet

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

	December 31, 2022	December 31, 2021	Change
Property, plant and equipment	99,728	88,779	10,949
Right-of-use	27,888	33,714	(5,826)
Goodwill	61,005	61,005	-
Intangible assets with definite life	119,282	128,798	(9,516)
Investments	89,081	78,996	10,085
Total fixed assets	396,984	391,292	5,692
Net working capital	(150,410)	(86,277)	(64,133)
Other non-current assets	62,377	63,807	(1,429)
Other non-current liabilities	(76,314)	(119,229)	42,915
Net deferred tax assets	77,320	75,400	1,920
Provisions for risks and charges	(35,497)	(9,726)	(25,771)
Employee benefits	(7,606)	(8,427)	821
Net Capital Employed	266,854	306,840	(39,985)
Non-current financial assets	2,010	6,415	(4,405)
Net capital employed & Non-current financial assets	268,865	313,255	(44,390)
Net financial position	12,176	(21,963)	34,139
Equity	(281,041)	(291,292)	10,251
Source of funds	(268,865)	(313,255)	44,390

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 27,888 thousand, exceeding the Euro 8,535 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

At December 31, 2022, the parent company Avio reported a negative net financial debt (net cash) of Euro 12,716 thousand, with liquidity exceeding financial liabilities. The net financial debt in the comparative year of 2021 was Euro 21,963 thousand, with liquidity lower than financial liabilities.

A statement follows of Avio S.p.A.'s financial position, prepared in accordance with the ESMA Guidelines of March 4, 2021 and the subsequent attention call No. 5/21 issued by Consob in April 2021 (figures in Euro/000):

	December 31, 2022	December 31, 2021	Change
A Cash and cash equivalents	(125,521)	(100,069)	(25,452)
B Other liquidity	(2,842)	-	(2,842)
C Other current financial assets	-	-	-
D Liquidity (A+B+C)	(128,363)	(100,069)	(28,294)
E Current financial debt (including debt instruments but excluding the current portion of non-current financial debt)	75,165	63,393	11,772
F Current portion of non-current bank payables	10,033	10,048	(15)
G Current financial debt (E+F)	85,198	73,441	11,757
H Net current financial debt (G-D)	(43,165)	(26,627)	(16,537)
I Non-current financial debt (excluding current portion and debt instruments)	30,988	48,591	(17,602)
J Debt instruments	-	-	-
K Trade payables and other non-current payables	-	-	-
L Non-current financial debt (I + J + K)	30,988	48,591	(17,602)
M Total financial debt (H + L)	(12,176)	21,963	(34,139)

The net cash position, reported at item "M Total financial debt (H+L)" of the table above as per the recommendations of the regulatory authorities, reduced from a positive balance (liquidity < financial liabilities) of Euro 21,963 thousand at December 31, 2021 to a negative balance of Euro 12,176 thousand at December 31, 2022, decreasing Euro 34,139 thousand, principally due to the cyclical nature of operating cash flows, in addition to capital expenditures in the year. There were no restrictions on liquidity.

The current financial debt, amounting to Euro 85,198 thousand (Euro 73,441 thousand at December 31, 2021), includes:

- Current financial liabilities related to the centralised treasury with a number of subsidiaries for Euro 38,491 thousand (Euro 48,896 thousand at December 31, 2021);
- current financial liabilities to the jointly-controlled company Europropulsion S.A. for Euro 27,769 thousand (Euro 7,749 thousand at December 31, 2021) arising from the cash pooling agreement with the joint venture;
- current financial liabilities for leased assets of Euro 8,906 thousand (Euro 6,748 thousand at December 31, 2021);
- the financial liability related to the current portions of two EIB loans, amounting to Euro 10,033 thousand (Euro 10,048 thousand at December 31, 2021), which includes:
 - two instalments of the total loan granted of Euro 10 million (of which Euro 5 million due on April 30, 2023 and Euro 5 million due on October 31, 2023);
 - the accrued interest amounting to Euro 33 thousand.

The non-current financial debt, amounting to Euro 30,988 thousand (Euro 48,591 thousand at December 31, 2021), includes:

- non-current financial liabilities to the EIB of Euro 12,000 thousand (Euro 22,000 thousand at December 31, 2021);
- non-current financial liabilities, mainly for leased assets of Euro 18,988 thousand (Euro 26,591 thousand at December 31, 2021).

Analysis of equity

Equity at December 31, 2022 amounts to Euro 281,041 thousand, decreasing Euro 10,251 thousand on the equity at December 31, 2021 (Euro 294,031 thousand), as a result of the combined effect of the following:

- 2022 net profit of Euro 1,895 thousand;
- distribution of dividends for Euro 4,500 thousand;
- purchase of treasury shares for Euro 5,738 thousand;
- payment of part of the price of Temis through treasury shares allocated to ART for Euro 1,250 thousand;
- positive effect from actuarial gains of Euro 574 thousand and for the recognition of the stock grant reserve of Euro 54 thousand).

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

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

OTHER INFORMATION

As per Article 40 of Legislative Decree 127/1991, it is disclosed that, in consideration of the share buy-back programme, at December 31, 2022, the Parent Company held 1,091,207 shares, representing 4.14% of the share capital.

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

In inviting you to approve the 2022 Annual Accounts of Avio S.p.A., drawn up as per IFRS and reporting a net loss of Euro 1,895 thousand, we propose the allocation of this result to retained earnings/(accumulated losses).

• • •

March 13, 2023

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

2022 CONSOLIDATED NON-FINANCIAL STATEMENT

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METHODOLOGICAL NOTE

Applied standards

This year, for the first time, the Avio Group's Annual Financial Report has been combined with the sixth edition of its Consolidated Non-Financial Statement (referred to as the "NFS"). Avio has chosen to include its NFS in the Directors' Report of its Annual Financial Report, creating a distinct section and making reference to other parts of the latter. This edition concerns the Group's performance during the year ended December 31, 2022, in accordance with Legislative Decree No. 254/2016. Pursuant to Article 5 of this Decree, it takes the form of a report that includes specific language so as to be considered an NFS as per the regulatory requirements. It presents information relating to topics considered material and set out by Article 3 of the above Decree, to the extent necessary to ensure understanding of the Group's activities, performance, results and the impact produced.

The purpose of this Statement is to transparently communicate the Avio Group's sustainability strategies on environmental, social, and corporate governance performance.

By integrating the Statement into its Annual Financial Report, the Group takes a significant step towards incorporating sustainability topics into its business. The objective is to align business objectives with ESG (Environmental, Social, and Governance) topics. The Group's reporting is founded on the principle of "integrated thinking," which entails adopting integrated reporting practices that adequately respond to the varied requirements of all stakeholders by means of broad, transparent, comprehensive, and responsible corporate reporting processes. The objective is to provide a more in-depth overview of the Company's activities, performance, and objectives.

This Statement, published annually, was drafted in compliance with the most recent version of the "*Global Reporting Initiative Sustainability Reporting Standards*" (2021) defined by the Global Reporting Initiatives (GRI). The data and information presented in this Statement derive from the Group's IT systems and a non-financial reporting system specifically designed to meet the requirements of Legislative Decree No. 254/2016 and the GRI *Sustainability Reporting Standards*. The GRI Content Index at pages 91-100 highlights the GRI indicators associated with each topic considered as material in order to assist the reader with information in the document. References to other company documents are made in the same index and within this document.

The non-financial reporting presented, reflects the principle of materiality or relevance, an element identified by the benchmark regulation and central to the new GRI Universal Standards (2021): the topics dealt with in this Statement are those which, following consideration and assessment of materiality, as outlined of this document, were considered as material as reflecting the environmental, social and governance impacts of Group operations, or in terms of influencing stakeholders decisions. During 2023, Avio will continue the activity of aligning the materiality analysis to the requirements of the new GRI Universal Standards (2021), starting from the identification and prioritisation of impacts, positive and negative, current and potential, connected to its business activities, in accordance with "GRI 3: Material Topics 2021".

This document therefore outlines the major policies applied by the company, the management models and the Group results in 2022 relating to the topics expressly cited in Legislative Decree No. 254/2016 (environmental, social, personnel-related, respect for human rights and the fight against bribery and corruption), in addition to the main risks - both generated by or affecting the company - identified on these topics and management methods. For comparability purposes, comparisons are presented with data for 2020 and 2021. Furthermore, to accurately represent performance and to ensure that the figures are reliable, the use of estimates has been kept to a minimum. Any estimates used have been based on the best available methods and are appropriately disclosed within the document. Any restatements of the comparative data previously published is clearly indicated as such.

In 2021, the Company defined a Sustainability Policy and Sustainability Plan. These two documents are integrated with its Business Plan and Audit Plan, in line with the SDGs. The objective is to incorporate sustainability topics into the Group's strategies, which will be accomplished through the efforts of the Sustainability Committee and the Board of Directors. The Sustainability Policy, Integrated Sustainability Plan, and Audit Plan (with targeted ESG-related actions) have been approved by the Board of Directors. The results of a mapping exercise are outlined in the document's "2.1 Sustainable Development Goals and Priorities for Avio" section, which highlights the SDGs that the Group could positively impact through its business activities.

For the status of the goals and commitments stated in the 2021 NFS, please refer to the relevant sections of this NFS.

Scope of the Statement

As required by Article 4 of Legislative Decree No. 254/2016, this Consolidated Non-Financial Statement includes the data of the Parent Company (Avio S.p.A.) and its fully consolidated subsidiaries. The non-financial reporting consolidation scope coincides with the financial disclosure scope, with the exception of the companies ASPropulsion International B.V. and Avio India Aviation Aerospace Private Limited. ASPropulsion International B.V. is not included in the scope since, despite being completely consolidated, the Company's operations as a financial holding entity do not offer any insight into the Group's primary business activities in the aerospace sector, or its impact on the areas outlined in the Decree and the material topics identified. The company Avio India Aviation Aerospace Private Limited is still in liquidation in 2022. Environmental impact data does not account for Avio France S.a.S as it does not operate as a facility manager as of yet. However, since 2020, data for the company Avio Guyane S.a.S.I. has been incorporated. Additionally, starting from 2021, the scope for the "Ratio of basic salary and remuneration of women to men" indicator (GRI 405-2) also includes Avio Guyane and Avio France, which were previously excluded due to confidentiality concerns. Starting in the 2022 reporting year, the Avio Group has also included information on the subsidiary Temis S.r.l acquired on 8 September 2022 (for period September-december 2022), in its environmental indicators. the Airola site and the SPTF site in Sardinia.

Any scope limitations are expressly explained in the document and do not compromise an accurate understanding of the Group's business activities.

Please refer to the "FY 2022" chapter for more information on significant events in 2022.

Reporting process

The Avio Group's non-financial reporting process, described in the "Procedure for Drafting Consolidated Non-Financial Statements", is illustrated below. The objective is to ensure high-quality reporting and guide the definition of contents with accuracy, balance, clarity, and reliability.

The non-financial reporting process is annual and the NFS is subject to review, analysis, and approval by several players.

The Sustainability Office manages the collection and processing of data. The office was set up in 2022 within the Legal, Compliance & Corporate Affairs Department. It compiles the data collection forms sent to all relevant department heads and subsidiaries that fall within the consolidation scope.

The Sustainability Office coordinates all activities concerning the preparation of the NFS:

- definition of the work plan, ensuring that timelines for preparing the NFS align with the financial reporting process;
- preparation of material for updating the materiality analysis, carrying out stakeholder engagement activities, and updating the materiality matrix based on the data collected;
- approval of the Materiality Matrix by the Board of Directors, subject to the opinion of the Sustainability Committee;
- start of the process of collecting data and non-financial information, as recorded in the data collection documents;
- preparation of the draft consolidated NFS;
- helping the auditor effectively carry out NFS verification activities by offering its support and making itself available. This involves working alongside Data Owners and Data Specialists to provide any necessary documentary evidence when requested;
- approval of the NFS by the Board of Directors, subject to the opinion of the Sustainability Committee;
- publication of the NFS within the Annual Financial Report on the Company website and filing it in the companies register to render it accessible to all organisational stakeholders.

The designated entity – authorised to perform a limited audit (“limited assurance engagement” according to the criteria indicated by the ISAE 3000 Revised standard) – is Deloitte & Touche S.p.A. Upon completion of the audit, the latter produces a report on the conformity of the information presented in the Company’s Consolidated Non-Financial Statement with Article 3, Paragraph 10 of Legislative Decree No. 254/2016.

AVIO’S MATERIALITY MATRIX

In 2022, the Avio Group conducted an updated materiality analysis to identify its strategic sustainability priorities and define the contents of its Consolidated Non-Financial Statement. This analysis adhered to the Reporting Standards outlined by the Global Sustainability Standard Board of the Global Reporting Initiative (GRI). The objective was to identify material topics, which are economic, social, and environmental concerns that hold significance for the Avio Group and its stakeholders, and which have a substantial impact on the Company’s economic, social, and environmental performance.

During 2022, the Sustainability Office reviewed the material topics with the support of Group Management and submitted its findings to the Company’s Board of Directors for approval, having received a favourable opinion from the Sustainability Committee. This activity resulted in the emergence of a new list of material topics. It also involved reevaluating the indexing of some existing material topics, in addition to introducing a new topic, bringing the total number to 19. The most significant changes made in 2022 involved renaming four material topics and adding a 19th topic: Integrated Corporate Governance. In addition, the names of some material topics were changed: “cyber security” became “cyber security and data protection”, “links to the local area” became “social and environmental initiatives”, “quality in business processes” became “quality system management”, while “innovation” became “R&D and innovation”.

In line with GRI requirements, Management and a group of external stakeholders were involved in a structured process to update the Materiality Matrix.

External and internal stakeholders (Management) were directly involved in identifying and updating material topics through a structured Stakeholder Engagement process. The activity included an online survey, which allowed external and internal perceptions of various material topics to be analysed.

The stakeholder engagement criteria are geared towards inclusiveness, transparency, fairness, paying due attention to ethical, environmental, and social aspects, and consistency with the Group’s business activities.

We consider stakeholder engagement to be one of the fundamental pillars of our company.

The Group takes a proactive approach towards its stakeholders through dedicated departments. It regularly interacts with external stakeholders and acknowledges their needs. Avio also adopts flexible engagement practices that accommodate the unique characteristics and varying requirements of its stakeholders.

As a listed company, dialogue with shareholders has taken on a key role for Avio over the years. The primary objective is to provide the investor community – and all stakeholders generally – with full access to the business information it requires to assess the Company’s situation.

Below are the stakeholder categories and dialogue and engagement activities carried out in 2022, in addition to the stakeholder engagement activities specifically performed to update the materiality analysis, presented in the next section.

During 2023, Avio will continue the activity of aligning its materiality analysis to the requirements of the new GRI Universal Standards (2021), starting from the identification and prioritisation of impacts, positive and negative, current and potential, connected to its business activities, in accordance with “GRI 3: Material Topics 2021”.

Stakeholder categories	Commitment and activities	Involvement and communication	Stakeholder expectations
Employees and trade unions	The Group has always been committed to fostering the development and appreciating the value of its employees, by providing an engaging work atmosphere, prioritising human rights, and promoting corporate well-being. Confirming the importance of the principles of diversity and inclusion, the Company has launched several Gender Inclusion projects.	Promotion of the Code of Ethics, Anti-Corruption Code, Whistleblowing Procedure, and 231 Model, in addition to training sessions, the company intranet, dedicated meetings, and a newsletter.	<ul style="list-style-type: none"> - Safe and fair workplaces; - respect for the principles of diversity, equality, and inclusion; - job stability and corporate welfare; - professional and personal growth opportunities; - fair pay policies and merit-based systems; - compliance with labour laws.
Shareholders/investors/financial analysts	The Group remains in constant communication with investors, ensuring transparent, clear, accurate, and timely dialogue. One of the Group's main objectives is to guarantee sustainable business success, including with a view to creating added value for its shareholders. In this context, the Group guarantees constant communication by adopting the best practices on investor relations with shareholders.	Periodic financial reports, Corporate Governance Reports, Shareholders' Meetings, road shows, and annual results presentation events, participation at international investor conferences, site visits to the Kourou facility for financial analysts who watch the stock on the stock exchange, events, and sustainability questionnaires.	<ul style="list-style-type: none"> - Transparency on financial and non-financial performance; - continuous improvement in the ESG field; - growth in share value; - transparency on financial and non-financial performance.
Government institutions	The Group ensures the highest levels of integrity and honesty in its interactions with government and public-sector entities. This commitment is based on a set of principles, roles, and responsibilities established in accordance with current regulations, which seek to foster constructive collaboration that serves the common good.	Conferences, dedicated meetings.	<ul style="list-style-type: none"> - Compliance with applicable regulations; - combatting active and passive corruption; - crime prevention pursuant to Legislative Decree No. 231/2001; - professionalism and transparency concerning public sector needs.
Oversight and control authorities	The Group collaborates with supervisory and control authorities with the utmost integrity and honesty.	Technical roundtables, dedicated meetings, inspections, audits.	<ul style="list-style-type: none"> - Compliance with regulatory Requirements; - compliance with applicable regulations; - professionalism and transparency when dealing with authorities.
Customers and business partners	The Group seeks to satisfy its customers by attempting to anticipate the needs of current and prospective customers to create value in the short, medium, and long term.	Corporate website, dedicated meetings, brochures.	<ul style="list-style-type: none"> - Quality and safety of products and materials; - ongoing support and advice; - product information and training.

<p>Suppliers and sub-contractors</p>	<p>The Group encourages a dialogue that aims to establish and maintain stable and lasting partnerships, while also promoting ethical, social, and environmental responsibility towards suppliers and workers</p>	<p>Company website, dedicated meetings</p>	<ul style="list-style-type: none"> - Compliance with contractual conditions; - continuity in supply demand; - fair and non-discriminatory treatment.
<p>The media</p>	<p>The Group collaborates with the media on an ongoing basis through interviews, presentations, and dedicated events. It is committed to promoting information campaigns on sustainable innovations, new circular trends, industry news, and any actions taken in aid of the community and environment</p>	<p>Social networks, press releases, interviews, site visits to production plants</p>	<ul style="list-style-type: none"> - Timely and truthful communication of the Group's performance and of the main market news emerging; - presentation of the initiatives of social, cultural and environmental importance; - presentation of innovations developed and sustainability trends.
<p>Academia</p>	<p>The Group fosters a shared dialogue with universities, training colleges, and national and international research centres. The objective is to share its passion and expertise in the aerospace industry with new generations. In addition, the Group seeks to inspire and encourage younger generations to study STEM subjects.</p>	<p>Partnerships, conferences, dedicated meetings</p>	<ul style="list-style-type: none"> - Promotion of youth and female employment of research and development; - development of activities of interest with active involvement of students.
<p>Trade associations</p>	<p>The Group maintains constructive relations with trade unions to promote an understanding of market needs and trends, facilitate discussions, and contribute to sustainable development</p>	<p>Conferences, working tables, events, workshops, and dedicated meetings</p>	<ul style="list-style-type: none"> - Compliance with participation requirements and group's active involvement in the dialogue and to events and/or activities promoted; - sharing of relevant sector insights; - partnerships and international and national initiatives.
<p>Local communities</p>	<p>The Group pays the utmost attention to the needs of the region in which it operates when conducting business. It seeks to extend the positive impact of its business to local communities</p>	<p>Organisation of events and partnerships</p>	<ul style="list-style-type: none"> - Implementation of business practices that protect the region and promote local development.

The stakeholder engagement activities carried out to update the materiality matrix are an opportunity for two-way dialogue. This exercise helps the Group assess satisfaction levels and develop useful ways to improve its services and operational and management models, paying particular attention to ESG topics.

The joint consideration of internal and external materiality using this tool also enabled the Group to identify material topics, prioritise them, and define its 2022 materiality matrix.

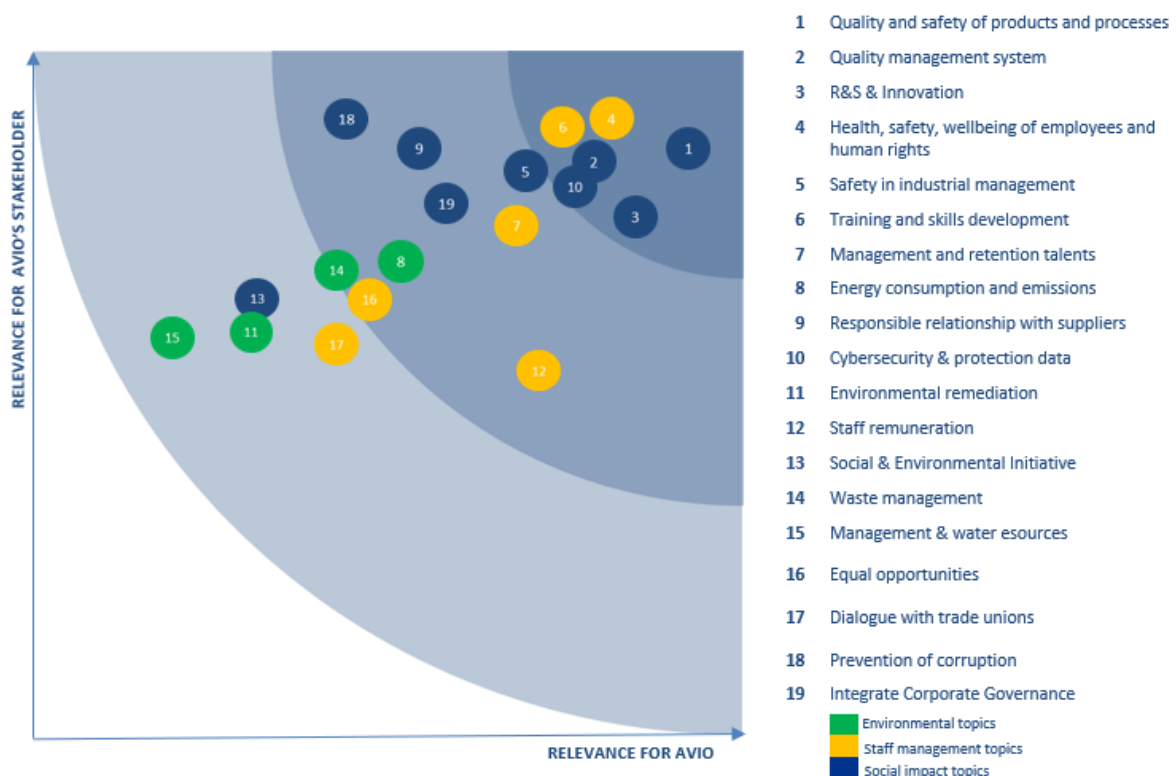
Materiality analysis is a dynamic four-step process:

- validation of all potentially significant topics identified in prior years through a review of company documents (such as the Code of Ethics, Annual Financial Report, Business Plan, Strategic Plan, 231 Model, etc.), external materials on market trends, evaluation questionnaires from sustainability rating companies, industry comparisons, and engagement with stakeholders, including investors;
- prioritisation of aspects by internal and external Group representatives through engagement activities. This exercise seeks to analyse how topics are perceived by the company and its stakeholders, on a scale of one to five;
- validation of the Materiality Matrix by the Sustainability Committee, which expressed a favourable opinion, on November 4, 2022;
- analysis presented to and approved by the Board of Directors on November 7, 2022.

More than 70 stakeholders were sent a questionnaire and 61% responded, up from 2021. Both internal senior management representatives for the Avio Group and external stakeholders were sent a questionnaire. The survey asked stakeholders to assign a value of one to five (where one signifies “irrelevant” and five signifies “very relevant”) to each material topic.

The responses were used to update the 2022 materiality matrix.

The Group analysed the results to draft a new materiality matrix, which is shown in the graph below.



Material topics	Definition
Environmental remediation	Pursue the necessary actions to remedy past situations of pollution of the territory, securing, removing and disposing of any pollutants, in agreement with the Public Administration in order to restore environmental conditions and achieve beneficial effects also for the productive, social and economic revival of the territory.
Energy consumption and emission	Activities to further improve energy efficiency and reduce direct and indirect emissions of CO2 and other substances in production processes, in the operation and maintenance of buildings, in logistical processes and in the development of new products also by monitoring climate change.
Waste management	Activities aimed at managing (in production processes) hazardous and non-hazardous waste and its recovery.
Management & water resources	Activities aimed at managing (in production processes) water efficiency, discharges and water availability.
Dialogue with trade unions	Activities aimed at promoting a constant relationship of information and sharing with trade union organisations on issues of common interest with the aim of guaranteeing compliance with regulations and ensuring the welfare and protection of workers' rights.
Training and skills development	Training and skills development activities for the consolidation and transfer of increasingly broad skills in order to ensure a continuous process of human capital enhancement and growth.
Management and retention talent	Activities and initiatives aimed at increasing the company's ability to implement strategies and policies to attract talented employees and retain them for a long time in the Group, ensuring a workplace of competent, motivated and satisfied employees.
Equal opportunities	Adoption of programmes and projects aimed at ensuring equal opportunities and promoting diversity in the company.
Staff remuneration	Adoption of a performance appraisal and remuneration system aimed at enhancing the contribution and commitment shown by employees.
Health, safety, wellbeing of employees and human rights	Management of health and safety initiatives and training and prevention programmes, as well as monitoring injury rates, occupational diseases and accidents. Commitment to the protection of human rights and working conditions of people involved in various capacities in the Group's activities.
Integrate Corporate Governance	Initiatives and activities aimed at improving and managing governance best practices and compliance processes that contribute to the maintenance of a high standard of corporate governance and active monitoring of the internal control and risk management system.
Cybersecurity and data protection	Initiatives aimed at guaranteeing the security of the IT infrastructure and the protection of personal data by combating unlawful attempts to physically or remotely access secret business information and/or unlawful attempts to breach the confidentiality, integrity or availability of personal data, which, should they occur, could both jeopardise the competitiveness of the Company's intellectual property research and development activities by making the products and services offered obsolete before time and expose the Company to risks of sanctions.
Quality management system	Managing and maintaining over time the highest levels of excellence of all company processes in terms of Quality, product performance, competitiveness and service level, in compliance with mandatory standards, and fostering the development of a quality culture based on the motivation and satisfaction of people and internal and external stakeholders.
Social & Environmental Initiative	Involvement of communities and local authorities through targeted initiatives and corporate donations to support community development, social impacts and environmental protection.
Prevention of corruption	Compliance with the corruption prevention and transparency plan; enhancement, development and implementation of an effective corruption risk management process; promotion of a risk assessment culture within the organisation, encouraging the implementation of training and awareness-raising paths for the entire staff, as well as the dissemination of an organisational culture based on integrity.
Quality and safety of products and processes	Maintaining high standards of quality and safety of products and services during use by the end user.
Responsible relationship with suppliers	Transparent supply chain management by promoting constant dialogue with suppliers and conducting engagement initiatives.
R&S e Innovation	Activities to maintain and develop the Group's ability to foster a culture of innovation, research and development of new products, technologies, materials and services that increase the Group's competitiveness in the market.
Safety in industrial management	Maintaining high standards and complying with regulatory criteria to ensure careful management of hazardous substances, production processes and sites.

The Company has analysed and studied the importance and impact of material issues on its organisation, confirming its commitment that these are safeguarded and monitored in the course of business activities.

The Company's focus on (i) training and skills development, (ii) talent management and retention, (iii) equal opportunities, (iv) staff remuneration, (v) employee health, safety and welfare, (vi) dialogue with social partners, and (vii) social and environmental initiatives has a positive impact both in creating a stimulating and competitive corporate climate, given that the Company pays attention to human capital and related wellbeing, and in attracting talent, as a distinctive trait for the activities and business in which the Group operates.

The company's continuous focus on the issues of (i) integrated corporate governance, (ii) corruption prevention, (iii) cybersecurity and data protection, (iv) security in industrial management, and (v) quality system management has a positive impact in terms of compliance with reference regulations as well as reliability towards stakeholders also in terms of reputation and corporate image, considering that the Company is listed on the stock exchange.

The Group is also committed to environmental issues and, in particular, to (i) reclamation, (ii) energy consumption and emissions, (iii) waste management, and (iv) water resource management, taking into account the positive impact both for the Group in terms of efficiency of environmental resources and in absolute terms for the community, also taking into account the commitment of the European legislator on the subject.

The Group pays particular attention to R&D and Innovation in terms of positive impact, taking into account the innovative nature characterising the Group's business.

The 19 topics identified as material are listed in the various document sections.

The 2022 update of the materiality matrix showed that the most relevant topics for the Group and its stakeholders are: Product and service quality and safety; health, safety, employee well-being, and human rights; cyber security and data protection.

Considering the historical backdrop and its relevance to Avio's sector, training and skills development, cyber security, and data protection have also increased in importance. This is an important component of Avio's business management strategy as it ensures the Group's IT infrastructure remains robust and reinforces its capacity to prevent and handle cyber attacks.

In response to the growing complexity and frequency of cyber attacks against companies of national and international strategic significance, there has been an increased focus on cyber security. As a result, it is necessary to constantly adjust company defences and procedures to safeguard IT assets.

The new material topic of "integrated corporate governance" has attracted significant attention, surpassing other topics that have traditionally been important for the company. This topic is significant for both internal management and external stakeholders, as evidenced by its high average score.

Sustainable development goals and priorities for Avio

Avio is committed to engaging in sustainable production processes and environmental protection on a daily basis. Avio works alongside local communities to protect the region in which it operates and guarantee safety at work. Avio considers a company to be sustainable when it generates value for future generations. Avio works daily to incorporate the main principles of social responsibility into its daily practices. The Group consistently strives to meet stakeholder expectations, creating a positive cycle that fosters continuous collaboration and forges a shared, proactive path forward.

For the Group, sustainability involves continually improving workplace health and safety, fostering technological innovation, promoting a responsible supply chain inspired by ESG principles, maintaining high levels of customer satisfaction and trust, engaging in dialogue with local communities and supporting them, and actively reducing its environmental impact by contributing to climate action.

Each material topic represents an area for the Group to commit to and build on. The Risk Management department periodically conducts a Risk Assessment, which involves analysing potential impacts on business and monitoring and managing them. As part of an increasingly integrated approach, the Group uses collaborative tools to protect corporate assets.

The objective of these efforts is to create a better and more sustainable tomorrow for future generations.

It is with an awareness of this responsibility that Avio has taken inspiration from the 17 UN Global Sustainable Development Goals. The Group intends to continue its path towards sustainable progress by adopting an integrated strategy that combines environmental, social and governance safeguards with healthy economic growth.



The Space sector has significant potential to contribute to the SDGs, including using various satellite applications to manage environmental resources and monitor the local effects of climate change, to facilitating telecommunications and logistics management and using satellites to monitor crops and enhance production and consumption efficiency. Again in 2022 a plan was developed to progressively increase environmental protection through research and development. These activities commit the Group to implementing new space sector products while continuing its efforts to develop more innovative products.

Sustainability Policy and objectives

The Avio Group's core business centres around technology and innovation. The proudly Italian company has been internationally recognised since its incorporation in 1912. It is an industrial leader in the technology and science industries, operating in the field of space launch systems for fifty years.

The Avio Group has demonstrated its commitment to continuous improvement in sustainability by developing a Sustainability Policy, which was approved by the Board of Directors on July 22, 2021. The Group has outlined a concrete strategy to integrate sustainability into its business, identifying the critical link between market competitiveness, productivity, and sustainability.

In 2021, the Company drafted an integrated business plan that incorporates sustainability objectives. Avio has also begun the process of integrating the plan's business and sustainability sections, with the intention of developing the latter with an impact-oriented approach.

The main objectives on which the Sustainability Policy relate to the primary areas of action defined in Avio's Industrial Strategy, in line with the United Nations 2030 Agenda Sustainable Development Goals (SDGs). These objectives concern technology and innovation, around which the Avio Group centres its core business. Avio's Sustainability Policy outlines the strategic directions that guide the Company's sustainable business model development, taking into account the significance of its impact.

The policy focuses on the areas in which Avio can make a tangible contribution to sustainable development, defining specific courses of action that support and enhance business while also raising Avio's sustainability standards.

The Sustainability Plan is broken down into objectives, actions, time frames, responsibilities, and allocated resources, and is inspired by the SDG Goals.



The pillars of our Sustainability Policy

To ensure that space missions are safe, reliable, and cost-effective, it is crucial to conduct research into new technologies and architectures to develop more efficient launchers. Making the launch system the first pillar of space industry sustainability and developing innovative alloys for ALM (Additive Layer Manufacturing) components are both top priorities. Avio intends to establish itself as a leader in technological development and innovation, including through cutting-edge products and services.

Through its technological development, the Group seeks to support and maximise the positive effects of its activities across the three impact and SDG-related dimensions defined in the policy, as detailed below.

The Sustainability Policy is aligned with the SDGs and based on several goals, including the development of a cleaner space [SDG 9], the improvement of Earth observation for sustainable development [SDGs 13 and 15], and supporting life in space [SDG 17].

In line with Sustainable Development Goal 9, Target 5 "enhance scientific research" Avio intends to become a

major international contributor to space junk removal missions. Space junk is created by separated spacecraft launchers, explosions, and collisions. Its presence in space can be dangerous as it increases the likelihood of collisions with current and future operational satellites. Avio has therefore encouraged the development of de-orbiting and post-mission disposal technologies to remove or move space debris to other orbits. At the same time, it is working to develop and deploy modules (equipped with debris-collecting devices such as robotic arms). Once brought into orbit by launchers, these modules can approach and grab debris that needs to be removed from orbit (de-orbiting).

Satellite technology is crucial for Earth observation activities [SDGs 13 and 15]. Approximately 27% of the satellites in geostationary orbit currently collect essential data for various purposes, such as ensuring the food security of at-risk regions, monitoring changes in the Earth's physical and biological coverage, observing changes to ecosystems and the loss of biodiversity, mapping the effects of climate alteration using data on ocean levels, acidification, and ice melting, and tracking migration flows to provide basic necessities and support.

Avio aims to become a key player in global networks that promote an open innovation approach, which maximises collaboration with satellite manufacturers and research centres in developing Earth observation technologies. Avio intends to contribute by launching mini-satellites to help developing countries and organisations such as universities and research centres carry out scientific experiments. This commitment has a direct impact on Sustainable Development Goal 17 and indirectly contributes to Goals 13 and 15.

Considering the ultimate objective of creating a multi-planetary civilisation that can live permanently outside Earth, in orbit, or on other planets, Avio contributes to SDG 17 by committing to becoming a key partner for launching the required number of space missions to enable humans to remain in orbit for extended periods and reach the Moon.

Our ESG-related sustainability efforts

Avio intends to contribute to precise ESG - Environmental, Social and Governance - objectives through a progressive improvement of its performance, correlated to business objectives.

In this regard, Avio is committed to:

Regarding environmental topics:

- improving environmental performance to help achieve climate neutrality;
- promoting a comprehensive plan to reduce waste and minimise its impact on the environment;
- protecting natural resources in the regions in which the Group operates.

Regarding social topics:

- becoming a European point of reference for aerospace talent by enhancing skills development and corporate welfare;
- promoting the highest standards of health and safety in full compliance with local and international standards, both internally and along the value chain;
- promoting gender equality in accordance with ISO 30415:2021;
- fostering corporate growth geared towards diversity and appreciating people's worth.

Regarding governance topics:

- adopting an integrated compliance system through the cooperation of several departments (risk management, internal audit, legal, and the Supervisory Board appointed pursuant to Legislative Decree No. 231/2001, etc.). The objective is to develop risk management methodologies that are consistent with corporate strategies and operations;
- implementing a corporate organisational cyber security model;

- promoting an anti-corruption culture by adopting preventive measures, including the implementation of a standards-compliant model, while also cooperating with sector associations such as Transparency International and AITRA [the Italian Transparency and Anti-Corruption Association].

Based on the aforementioned Sustainability Policy, the Sustainability Plan was prepared, anchored to both qualitative and quantitative ESG indicators to be developed over a five-year period, subject to monitoring by the relevant corporate owners, who report at least every six months to the Sustainability Committee.

Avio's commitment to sustainability

Avio's business model incorporates sustainability as a fundamental principle that influences the Group's business and operational decisions, guaranteeing long-term growth in line with the principles of environmental protection, the appreciation of individuals, and positive engagement with the regions and local communities in which the Group does business.

The Group actively promotes sustainability initiatives in the region through a series of activities.

To demonstrate its commitment to creating and encouraging the adoption of a culture of sustainability, Avio has taken concrete steps, such as developing communication tools to raise awareness of sustainability topics during training and induction sessions.

In 2022, Avio ramped up skills development training activities and initiated a series of training/informative actions. These efforts focused on providing a general overview of corporate sustainability, the principles contained in the NFS, and Avio's sustainability priorities according to the NRRP. In addition, Avio organised training days dedicated to diversity and inclusion, with the objective of making a concrete contribution to the Group's strategies in response to the 2030 Global Agenda. These meetings were beneficial in identifying the shared values at Avio and those that need more attention to create a Charter of Values that aligns with the company culture. Additionally, they enabled the company to address areas such as values, gender diversity, and parenthood more consistently.

Avio is aware that belongs to an ecosystem that contributes to Italy's economic and social development. It is committed, every day, to creating a robust and increasingly widespread culture of sustainability, creating value that starts internally and impacts the whole region.

Avio and Gender Inclusion.

One of the most important and relevant Gender Inclusion initiatives centres around Avio's membership of Valore D, which is "the first association of companies to advocate for gender equality and an inclusive culture to foster the growth of Italy and its businesses". Through this partnership, Avio has gained access to advanced training programmes, inter-company networks established during courses, mentorship through the Valore D programme, benchmarks and best practices in the area, the "*inclusion impact index*", which assesses an organisation's gender diversity status, and social innovation initiatives such as "*Inspiring Girl*", which seeks to establish female role models in different professions. Avio's membership of the association was a significant turning point in terms of Gender Inclusion, supporting the company's efforts to promote training opportunities for women and their inclusion in corporate settings, in turn encouraging the under-represented gender to hold leadership positions.

As part of this partnership, the first independent eLearning training materials to be developed focused on "Unconscious Bias: Unconscious Stereotypes". These materials seek to teach users how to recognise unconscious stereotypes and prejudices and understand how they impact business life.

The Group also developed a training course entitled "*leadership or female leadership?*", which was intended for employees in managerial positions at the company. The course was created after Avio joined Valore D as an ordinary member and has provided 480 hours of training to support women in management positions. 24 participants took part in a leadership awareness course that aimed to teach them how to navigate this period of significant cultural and social change. The managerial events organised by Avio were run by lecturer and role model Carlotta Landi (CEO). They provided an opportunity to reflect on different leadership styles and how we can improve our personal leadership style and relationships with others.

The Group also launched the "AVIO4WOMEN" event, focused on the growth and empowerment of women at AVIO. The KO Mentorship initiative saw some of the Group's key players participate as future mentors.

Mentoring is a personal development process that pairs a more experienced individual (senior, mentor) with a less experienced one (junior, mentee) to maximise their potential, develop their skills, and improve performance. Its objective is to promote the mentee's personal and professional growth.

In this sense, mentoring empowers individuals and the organisation to reach their full potential by acting as a strong catalyst for change. The intention of the KO Mentorship initiative is to foster this process for people within AVIO and outside the organisation, as part of a twofold objective.

The initiative's internal objectives include:

- empowering mentees;
- developing mentee skills and self-awareness;
- developing opportunities and challenges;
- facilitating the transfer of knowledge;
- sharing and suggesting experiences to develop the value of mentees;
- developing social skills;
- promoting a sense of belonging.

Externally, the scheme will increase corporate awareness, thus promoting the recruitment of women.

Avio's commitment is also demonstrated by its efforts to close the gap between women and STEM subjects. As part of these efforts, on April 22, 2022, Avio participated in the "Touchdown! Final Show! - @Girls in ICT" event, organised by Lazio Innova and held in Colleferro in collaboration with the Department of Engineering at the University of Bologna. Its objective was to introduce women to engineering subjects. The department mentioned above showcased Emilia 4, a solar-powered car built with carbon fibre structural materials supplied by Avio, under the porticoes of Colleferro town hall in Piazza Italia. The vehicle is powered by five square metres of high-performance solar panels connected to state-of-the-art lithium batteries. The project showcased never-before-seen aerospace-derived materials patented by AVIO and used for the first time in the automotive sector. Emilia 4 took part in a series of competitions, taking the AVIO brand around Europe.

To close the gap between women and STEM subjects, AVIO celebrated International Women in Engineering Day with a dedicated eLearning training package, which reflects on the concept of inclusion and illustrates the initiatives promoted by Avio. June 23 2022 is International Women in Engineering Day, established to remind the world that women can be leaders in scientific subjects, on a par with men.

Building a responsible space community

Avio has proudly announced its participation as a co-signer of the "Statement for a Responsible Space Sector", together with other industry players and representatives of the European Space Agency, on November 21, 2022.

In response to the increased expectations of European citizens and countries in light of global challenges, the parties decided to strengthen their commitment to promoting sustainable development on Earth.

The primary objective of the Statement is to establish a foundation for the sustainable development of the space industry and enhance the societal benefits of space-related activities.

The Statement highlights specific principles and values to strengthen and further develop cooperation with and between players in the space industry.

In line with the Statement, the parties will maintain their collaborative endeavours in areas of mutual concern to safeguard life, resources, humanity, and society. With this in mind, the working groups on "*Decarbonising the Space Sector*", "*Responsible Procurement*" and "*LCA and Eco-Friendly Technologies for Space Systems*" have been producing significant results. Although other key topics have yet to be addressed, the Statement offers a unique framework to promote these increasingly important aspects among players in the space industry.

For many years, Avio has played a leading role in space access in Europe, serving as the primary contractor for the Vega launcher family and as a key partner in the development of the Ariane 5 and Ariane 6 launchers for the European space fleet. Therefore, the company's primary objective is to be a forerunner for sustainability for the entire space industry.

Avio is already working with the Italian Space Agency (ASI) on the next generation of liquid-propellant rocket engines. These new products will debut with our latest-generation Vega-E launcher, whose M10 oxygen-methane engine has successfully completed 23 ignition tests with a cumulative operating time of over 1,200 seconds.

The Company has thus demonstrated that it possesses the most innovative and sustainable technology available for the cryogenic propulsion of future launchers. Avio intends to continue its efforts to promote advanced and sustainable technologies in collaboration with its partners and stakeholders, in pursuit of a cleaner future.

Avio at the New Space Economy – European Expoforum

The three-day New Space Economy - European Expoforum took place at the Fiera di Roma from December 1 to 3, 2022. The main theme of the event was "Sustainability as a Game Changer for the New Space Economy". Avio played an important role in the "Sustainable Innovation in Space: SMEs meet with AVIO to discuss future technological challenges" event as part of the "Lazio Aerospace Innovation Ecosystem".

The initiative aligns with Avio's Strategic Sustainability Plan and reflects its guiding principles, specifically:

- earth observation and sustainable development.

Objective:

- become a key player in international networks for the promotion of an open innovation approach.

Actions:

- establish collaborations and partnerships with research centres and universities with the aim of conducting sustainable development analyses;
- promote studies on the Space Economy with a view to technological and business innovation.

The following topics are covered:

- in-orbit satellite servicing: An emerging area for in-orbit applications, including refueling, refurbishing, assembling,
- manufacturing, and recycling space infrastructure;
- structural and heat-resistant composite materials;
- fast prototyping, virtualisation of manufacturing processes, and Product Life Cycle management in the space launcher market.

AVIO GROUP GOVERNANCE

As a reference model for its Corporate Governance, Avio embraces the provisions of the Corporate Governance Code promoted by Borsa Italiana, as most recently approved and published on January 31, 2020 and effective as of January 1, 2021. As indicated in the Corporate Governance and Ownership Structure Report, which can be consulted on the Group's website in the "Corporate Governance" section and to which reference should be made for further details, Avio's corporate governance system is structured according to the traditional administration and control model and features the bodies indicated below:

- Shareholders' Meeting;
- Board of Directors;
- Board of Statutory Auditors.

Pursuant to the By-Laws, the various corporate bodies within this model have distinct roles and responsibilities: through its motions, the Shareholders' Meeting, as the expression of the interest of the majority of shareholders, conveys the corporate will; for its part, the Board of Directors is vested with the broadest powers for the ordinary and extraordinary management of the Company, with the authority to carry out all acts deemed appropriate for the achievement of the corporate purpose, except those reserved by law to the Shareholders' Meeting; finally, the Board of Statutory Auditors oversees the process of financial disclosure and statutory auditing, focusing on the provision of non-audit services. As the highest governing body, Avio's current Board of Directors (elected at the Shareholders' Meeting on May 6, 2020) consists of eleven members¹⁴, seven of whom are independent in accordance with Article 148 of the CFA and Article 3 of the Corporate Governance Code. As reported below, its composition complies with gender equality provisions.

Directors are appointed by the Shareholders' Meeting and hold office for three fiscal years through a slate voting mechanism designed to ensure the presence on the Board of Directors of three Directors elected by the minority, in addition to compliance with gender balance provisions. All Directors must meet the requirements of eligibility, professionalism and integrity, while at least two must meet the requirements of eligibility, professionalism and integrity and at least two the requirements of independence.

The Board of Directors may delegate a portion of its responsibilities to an Executive Committee, determining the scope of its mandate, the number of Committee members and its operating procedures. The Board may also appoint one or more Chief Executive Officers, grant them powers and establish one or more internal Board committees.

Due to the fact that the Company is subject to the Golden Power regulations, (i) the By-Laws stipulate that matters and activities in relation to which the Italian Government has a right of objection under the Golden Power regulations applicable to companies operating in the defence and national security sectors are the sole responsibility of the Board of Directors and cannot be delegated; and (ii) an Executive has been appointed to manage the Company's strategic activities, with particular regard to the Golden Power regulations.

The Board of Statutory Auditors is composed of three Statutory Auditors and two Alternate Auditors. Slates for the election of Statutory Auditors may be presented by shareholders who, at the time of presentation of the slate, hold a shareholding that is at least equal to that determined by Consob in accordance with applicable laws and regulations.

¹⁴ As of December 31, 2022, three members of the Board of Directors are under 50 years of age, while the remaining eight are above 50. There are five men and six women on the Board.

On 13 March 2023, the Board of Directors approved the Report on Remuneration Policy and Compensation Paid Pursuant to Article 123-ter TUF and Article 84-quater Consob Issuers' Regulations, in which it is acknowledged - among other things - that the Board of Directors on the same date approved the Performance Share Plan 2023-2025, which is intended to replace the previous one approved in 2022 in which the assignment related to the last cycle of the Long-Term Monetary Incentive Plan was made. The three-year performance objectives to which the Plan is linked have been defined in continuity with the previous one and include economic-financial objectives measured over the three-year period and ESG scope objectives. The recipients of the Plan are the Chief Executive Officer/General Manager, Executives with Strategic Responsibilities and other Managers with roles of strategic impact for the Company. The Plan represents a valid instrument to incentivise and build the loyalty of the Beneficiaries, as individuals who play a key role in achieving Avio's objectives, and to align their interests with those of the shareholders. The incentivisation and retention of the Beneficiaries through the assignment of instruments representing the Company's value on the basis of the achievement of certain Performance Targets constitutes, in fact, an indispensable tool for the Company to pursue its path consistently with the objectives it has set itself.

The main changes introduced in Policies 2023 concern:

- Introduction of a new long-term incentive plan, the Performance Share Plan, which provides for the assignment of rights to receive shares, in relation to the degree of achievement of objectives measured over the three-year vesting period; assignments will be made on an annual basis.
- Review of the CEO/DG's remuneration package: in view of the benchmarking analyses carried out with the help of an independent advisor.
- Introduction of a restricted share plan, an important retention, loyalty and involvement tool, aimed at managers who play a key role in the achievement of Avio's strategic objectives, and provides for the assignment of rights to receive free shares at the end of a 36-month period.
- The Company will be able to define ex-ante the treatment in the event of termination of the employment relationship of Executives with Strategic Responsibilities.

In particular, through the adoption of the Plan, the Company intends to:

linking the remuneration of the Beneficiaries, as individuals who play a key role in the achievement of Avio's objectives, also to the achievement of specific pre-set long-term objectives consistent with the indications of the Code;

- support and reward the achievement of long-term objectives, allowing the priority objective of value creation to be pursued in the long term while orienting the Beneficiaries towards decisions that pursue the creation of value for the Company in the medium to long term;
- support attraction, retention and engagement of key resources in line with the corporate culture, while pursuing a cost-efficient choice for the Plan.

For further details, please refer to the Report on Remuneration Policy and Remuneration Paid approved on 13 March 2023 by the Board of Directors of AVIO S.p.A. and published on its website.

In accordance with the Corporate Governance Code, the Board of Directors has established¹⁵:

- the Appointments and Remuneration Committee: granted advisory and proposing functions in terms of the professional profiles required by the Board, and also in terms of setting the remuneration policy of Directors and key management personnel;
- the Control and Risks Committee: supports the Board of Directors in their assessments and decisions concerning the Internal Control and Risk Management System, and with regards to the approval of the periodic financial reports;
- the Sustainability Committee: responsible for supporting the Board of Directors in overseeing sustainability activities. In addition, the Committee is intentionally constituted of members with established experience in sustainability concerns, and for greater integration across issues the Chairperson of the Board of Directors is also a member.

Specifically, the Sustainability Committee is assigned the following responsibilities on Environmental, Social, Governance (ESG) topics:

- examining and evaluating (i) sustainability policies aimed at ensuring the creation of value over time for the collectivity of shareholders and for all stakeholders over a medium-long term period in accordance with the principles of sustainable development; (ii) the guidelines, objectives and consequent processes of sustainability and sustainability reporting submitted annually to the Board of Directors;
- monitoring international initiatives on sustainability and the Company's participation in them, aimed at consolidating the business' reputation internationally;
- monitoring the Company's positioning with financial markets on sustainability issues, with particular reference to the company's positioning in the ethical sustainability indices;
- examining the Company's profit and non-profit strategies;
- at the Board's request, expressing an opinion on other sustainability issues;
- performing any additional tasks assigned to it by the Corporate Governance Code.

The Planning and Scenarios Committee, on the other hand, was established by the Company on a voluntary basis, and provides advice regarding the approval or modification of the yearly budget, business plans, strategic plans, and investment transactions.

The gender, cultural, and professional diversity of these controlling and administrative bodies is a critical resource, and one of the greatest assets that contributes value to the corporate structure.

The Company correctly adopts the necessary processes for all corporate bodies in order to prevent possible conflicts of interest. In this regard, in addition to complying with specific regulatory provisions on independence, the Company has adopted a policy on qualitative and quantitative criteria for the assessment and significance of the independence requirements of directors and statutory auditors, approved by the Board of Directors on 14 March 2022, in accordance with Recommendation No. 7, first sentence, letters c) and d), Article 2 of the Corporate Governance Code. The Company also adopts a specific Procedure for Related Party Transactions.

In recognition of the need and importance of creating value over the medium to long term, and with a view to expanding its footprint as a socially responsible company, the Company has substantially updated its Code of Ethics, adapting it to a system inspired by the highest standards of transparency, fairness and sustainability in business management and precise ESG-related objectives, in accordance with the provisions of applicable laws and regulations, with the Corporate Governance Code of listed Companies and with international best practices.

Avio supports and promotes the diversity of race, gender, age, nationality, religion, and personal politics. This support is reflected in the Group's Code of Ethics, the *Charte Éthique* of the French subsidiary Regulus, and the Diversity Policies of the administration and control bodies (in place since 2019). The Group further strengthens its commitment to this cause by condemning all types of discrimination in every aspect of the employment

¹⁵ For further details on the composition of the Committees, please refer to the Corporate Governance and Ownership Structure Report.

relationship, from the hiring process to the delegation of duties, responsibilities and goals, the provision of training and compensation, and the termination of the employment relationship.

With a view to integrated compliance, and in line with the contents of the Corporate Governance Code and the best practices of listed companies, the Company is now equipped with:

- the Internal Dealing Policy last approved by the Board of Directors on September 13, 2017;
- a Procedure governing related party transactions policy last approved by Avio's Board of Directors on November 8, 2021;
- of the Inside Information Processing Policy, last approved by the Board of Directors on September 9, 2022;
- an Organisation, Management and Control Model (pursuant to Legislative Decree No. 231/2001), as updated by the Board of Directors of the Company on September 9, 2022 to reflect all legal changes imposed by the aforementioned Decree;
- an Avio Group Code of Ethics, last approved on December 21, 2021 by the Board of Directors of the Company;
- 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;
- a Diversity policy, approved by the Board of Directors of the Company on March 19, 2021, the second version of which was approved on 14 March 2022, in compliance with Article 123-*bis*, paragraph 2, letter d-*bis*) of the CFA, as supplemented by Article 10 of Legislative Decree No. 254/2016 and the recommendations of the Corporate Governance Code. The policy was most recently updated by the Board of Directors on March 14, 2022;
- a Shareholder Communication Policy, approved by the Company's Board of Directors on March 3, 2022, in accordance with Recommendation No. 3 of the Corporate Governance Code. The policy seeks to foster transparency in dealings with the financial community and the markets by building, maintaining and developing an active relationship of trust with investors;
- a Policy on qualitative and quantitative criteria for assessing the independence requirements of Directors and Statutory Auditors, approved by the Board of Directors on March 14, 2022 and in line with Recommendation 7, first sentence, points (c) and (d), in Article 2 of the Corporate Governance Code;
- a Cyber security Policy that places the utmost importance on protecting all of the Company's tangible and intangible assets, with particular regard to their confidentiality, availability and integrity;
- an Avio Group Anti-Corruption Code, approved by the Company's Board of Directors on March 14, 2019 in compliance with Legislative Decree No. 231/2001 and international best practices.

The Group Companies adopt corporate organisation, management and control models based on a system of principles (Vision, Mission, Values, Policies, Code of Conduct, 231 Model) and management and control tools (risk management, procedures, controls) designed to oversee relevant non-financial issues, in accordance with applicable regulations in the various countries in which they operate and the principal international standards and guidelines.

In particular, the companies Avio S.p.A., Se.Co.Sv.Im S.r.l., and Spacelab S.p.A. have adopted their own Management, Organisation and Control Models in accordance with Legislative Decree No. 231/2001 (hereinafter also referred to as the "Model" or "231 Model") and appointed their own Supervisory Boards, charged with overseeing implementation of and strict adherence to the Model. Foreign firms have implemented the 231 guidelines issued by the Company.

As a result of further regulatory changes, on September 9, 2022 Avio's Model was amended with reference to the General and Special Section. Specifically, Special Part 10 was added due to the adoption of the new Article 25-*octies*.1 to Decree 231 concerning crimes committed by means of various methods of payment. Amendments have also been made to the General Section and to the following Special Sections:

- No. 1 (Offences in relations with the Public Administration, crimes against the administration of justice and organised crime);
- No. 6 (Culpable homicide and actual or grievous bodily harm, committed in violation of the regulations on occupational health and safety);
- No. 9 (Cyber crime offences and illegal data processing);
- No. 11 (Market Abuse Crimes and Administrative Offences) of the Company's Model in order to bring them into line with recent regulatory changes.

Similarly, having equipped themselves with their own 231 Models after carrying out the appropriate controls and monitoring in order to ensure the adaptation and effectiveness of the Models in light of legislative developments and organisational changes that have taken place, the companies Spacelab and Se.Co.Sv.Im. have updated their Organisational Models. We note, however, that while the updated Model of Se.Co.Sv.Im S.r.l. was approved on September 7, 2022, that of the Company Spacelab is currently under revision. In H1 2023, the Model will be updated and the first version thereof will be drafted for Temis S.r.l., the newest company to join the Group.

Regulatory developments always have a substantial impact on the Corporate Procedures of 231 significance, which were developed and updated in 2022 to implement the 231 Model's principles and then disseminated to the corporate population via a platform.

Approach to taxation and tax governance

In accordance with the principles of responsibility outlined in its Code of Ethics, the Avio Group abides by the tax laws of the countries in which it operates, ensuring the timely fulfilment of tax obligations and adopting utmost transparency and faithful collaboration in the management of its relations with the tax authorities.

The Avio Group's approach to tax compliance is expressed, among other things:

- in the creation of a specific section within the Group's organisational structure, known as the Tax Department, entrusted with the task of overseeing compliance with national and international tax regulations;
- in the ongoing monitoring by the Tax Department of the evolution of tax regulations and related official interpretations provided by the Tax Office, with quick evaluation of the potential consequences thereof on the Group's current operations and any modifications that need to be implemented;
- in the upstream analysis by the Tax Department, with the support of external consultants, where necessary, of any tax profiles related to any corporate transactions that may affect Group entities;
- in the prior analysis by the Tax Department, with the assistance of external consultants, where necessary, of any tax profiles relevant to the main sales and purchases transactions conducted within the Group's characteristic activities with suppliers and customers outside the Group;
- in the Tax Department's ongoing evaluation, with possible assistance from external consultants, of any tax profiles associated with ongoing processes and contracts;
- in the implementation of internal procedures that involve the Tax Department in business activities targeted at the management and efficient operation of the Group's current operations;
- in the adoption of internal procedures designed to coordinate the actions of the various Departments of the Company in preparation for the prompt discharge of tax obligations. Specifically, the Group has developed a distinct procedure for the management of operations preceding the preparation of the withholding tax declaration and another for the management of activities required for the preparation of the income tax return.
- in adopting the documents necessary under national law for assessing any unfair competition in intra-Group transactions.

Regarding tax profiles associated with its core business, the Avio Group strictly adheres to tax law, in part due to its awareness of the significance of taxation in financing services for the community in which the Group operates. The corporate function responsible for overseeing tax compliance is therefore to ensure formal and

substantive compliance with all applicable laws, regulations and official interpretations, in accordance with the Group's risk profile and institutional values, and without resorting to aggressive tax planning or tax avoidance schemes.

The Group intends to increase the tax risk management process by creating a risk identification and measurement system, followed by the assignment of a "target" risk level, even if a precise internal policy has not yet been formalised at this time. To achieve this, a thorough examination of the activities that produce the identified risks will be conducted in order to gauge the efficacy of the organisational safeguards already in place to control them and, as necessary, assess the adoption of more effective strategies or corrective measures, if any, to mitigate the risk. With regard to the aforementioned process, the control system implemented by the Avio Group for the purposes of the laws outlined in Legislative Decree No. 231/2001 is synergistic. In this regard, and for further information on options for reporting potential tax fraud, please refer to the more in-depth explanation of the whistleblower process adopted by the Group.

A specific unit of the internal organisation that answers directly to the Group CFO manages and oversees the financial aspects of the Group's activities.

The Avio Group makes every effort to ensure that tax matters are as transparent as possible to outside parties.

This focus is first and foremost directed towards the tax authorities of the countries in which the Group operates, guaranteeing at all times the timely and exhaustive fulfilment of any requests for information or tax audits addressed to the Group by these entities.

Through its periodic financial disclosures, which are specifically attested by an independent audit firm, the Group is likewise committed to providing investors and the market with the most essential information regarding any tax liabilities or any tax benefits gained.

In order to safeguard the interests of investors, we underline that the Avio Group pays close attention to the ongoing monitoring and in-depth study of tax laws in order to take advantage of any tax benefits, primarily in the form of tax credits, associated with the performance of its core activities, particularly those of research and development.

In a similar fashion, the Group has markedly decreased the amount of VAT credits over the years, with a significant positive impact on financial benefits. It has done this, on the one hand, by preventing the upstream formation of the VAT credit through a widespread use of the VAT ceiling due to the fact that the parent company, Avio S.p.A., is a frequent exporter; and, on the other, by stepping up activities in support of the refund applications submitted. The Group received VAT refunds from the tax authorities of roughly Euro 6.3 million in 2022.

After ascertaining that it complies with all legal standards for dependability, including fiscal ones, in accordance with European regulations Avio has been granted AEO (Authorised Economic Operator) status with respect to the management of customs-related matters.

The Avio Group operates:

- in Italy, where the parent company Avio and subsidiaries Se.Co.Sv.Im. S.r.l., Spacelab S.p.A. and Temis S.r.l. are resident for tax purposes;
- in French Guiana, an overseas territory of the French Republic, where the subsidiaries Regulus S.A. and Avio Guyana S.A.S. are resident for tax purposes;
- in France, where the subsidiary Avio France S.A.S. is resident for tax purposes;
- and in the United States, where the subsidiary Avio USA Inc. is resident for tax purposes.

According to the OECD's recommended practices, fees for inter-company relations are set at market rates. A master file and a national document describing the main intra-Group transactions between entities established in different countries and their fairness criteria are therefore drawn up with the assistance of external consultants.

On the basis of information from the Group's Annual Financial Report for 2022, the following provides an overview of the tax effects of Group entities, broken down by country. As per GRI 207-4-c, the amount for Company income taxes accrued on profits/losses represents current taxes accrued on revenue for the period, excluding deferred tax assets and liabilities.

Country by country	Italy	France	French Guyana	U.S.A.	Aggregate
Company	Avio S.p.A. Secosvim S.r.l. SpaceLab S.p.A. Temis S.r.l.	Avio France S.A	Regulus S.A Avio Guyana S.A	Avio U.S.A. Inc.	
Number of employees	1,039	5	103		1,147
Revenue from sales to third parties	368,239,664	-	3,137,091		371,376,756
Revenue from inter-company transactions with other tax jurisdictions		818,302	33,823,720		34,642,022
Pre-tax profit/loss	- 1,860,975	53,608	5,774,718	- 1,081,580	2,885,770
Corporate income tax accrued on profit/loss	1,500,309	-13,377	-1,559,357		72,425

Consob point of information

As the COVID-19 pandemic has persisted, 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. Against this backdrop, Avio has consistently acted and worked to cope with the epidemiological emergency arising from COVID-19 by immediately enacting all governmental provisions and by putting all national protocols into practice.

The exogenous effect of soaring energy prices had an influence on Avio's industrial activity in the second half of the year.

With anticipation for the National Recovery and Resilience Plan and the 2022 ESA Ministerial Conference, new contract acquisitions supported the order portfolio.

For further details, please refer to the "Other Significant Events" section of the 2022 Annual Financial Report.

DISCLOSURE ON THE EU TAXONOMY FOR SUSTAINABLE ACTIVITIES

Regulatory framework

The European Union has developed an ambitious sustainable finance strategy designed to redirect capital flows to boost sustainable and inclusive growth. Against this backdrop, Regulation (EU) 2020/852 (also referred to as the "EU Taxonomy Regulation" or "Regulation") seeks to provide investors, companies, and public institutions with a classification system for identifying economic activities that can be considered environmentally sustainable, thereby enhancing the transparency and consistency of the classification of such activities.

Articles 3 and 9 of the Regulation define the criteria for establishing the environmental sustainability of an investment. An activity is considered environmentally sustainable, i.e. aligned with the Taxonomy Regulation, when it:

- Contribute substantially to the achievement of at least one of the six environmental objectives defined in Article 9 of the same Regulation¹⁶:
 - climate change mitigation;
 - climate change adaptation;
 - sustainable use and protection of water and marine resources;
 - transition to a circular economy;

¹⁶ In line with last year, at the time of writing this report, technical screening criteria are only available for the climate change mitigation and adaptation objectives. The specific criteria for the technical screening of economic activities can be found in Annexes I and II of the Commission Delegated Regulation (EU) 2021/2139 (Delegated Regulation on Climate). To ensure proper reporting in the future, the Company will perform the required evaluations, considering any changes in the regulatory landscape.

- pollution prevention and control;
- protection and restoration of biodiversity and ecosystems.
- It does no significant harm to any of the environmental objectives defined in the Regulation (Do No Significant Harm - DNSH);
- Be carried out in compliance with minimum social guarantees, recognising the importance of international rights and standards;
- Comply with the technical screening criteria, which identify, on the basis of scientific evidence, the minimum conditions that must be met for the contribution of an economic activity to one of the defined environmental objectives to be recognised as substantial. The criteria differ for each environmental objective and activities are considered to be aligned if they fulfil the technical benchmark criteria.

As of January 1, 2022, Article 8 of the EU Taxonomy Regulation mandates new disclosure obligations for companies subject to the non-financial reporting requirements outlined in Directive 2014/95/EU (NFRD), which was transposed in Italy by Legislative Decree No. 254 of December 30, 2016. These obligations specify the methods and extent to which a company's operations align with environmentally sustainable economic activities. The details and methodology to be used for reporting purposes required under the Taxonomy Regulation are defined in Delegated Regulation (EU) 2021/2178.

Starting on January 1, 2023, non-financial reporting companies must disclose the portion of their share of turnover, capital expenditure (Capex), and total operating expenditure (Opex) that is attributed to products and/or services linked to taxonomy-aligned economic activities. Reference must be made to the first two objectives of the EU Taxonomy, which concern climate change mitigation and adaptation.

Activities of the Avio Group

To identify its share of taxonomy-aligned turnover, Capex, and Opex, the Avio Group assessed the activities and investments in economic activities made by each Group company against the criteria set out in the Delegated Regulation on Climate.

This analysis did not identify any operations or investments that aligned with the relevant regulations. Avio also did not find any notable capital expenditure (Capex) or operating expenditure (Opex) linked to the procurement of outputs from Taxonomy-eligible economic activities or individual measures taken to reduce the Group's activity-based emissions.

The information shown here is based on the most up-to-date facts and methodology and may be updated to reflect changes in the applicable regulatory environment.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Internal Control and Risk Management System (hereinafter "ICRMS"), inspired by current best practices, and in particular by the international standard *Enterprise Risk Management-Integrated Framework* (ERM Integrated Framework), is a qualifying and essential element of the Corporate Governance of the Avio Group (Avio S.p.A. and its subsidiaries).

The definition and operation of the ICRMS are outlined in Avio S.p.A.'s Internal Control and Risk Management System Guidelines. These provide a concise summary of the ICRMS requirements with which subsidiaries of Avio must comply, limited to what is applicable to their business and corporate structure, without prejudice to conformity with the regulations applicable in the countries where these Companies are based.

Avio possesses a structure dedicated specifically to the management of the Group's broad strategic risks. Among the functions of Avio's internal control system is the provision of various forms of cooperation and coordination. For example:

- the activities of the various supervisory bodies, such as the Control and Risks Committee, Sustainability Committee, Board of Statutory Auditors, Supervisory Board, and Internal Audit, are carried out regularly, in an integrated and coordinated manner;
- information flows and coordination activities are provided between the Group's internal control system functions, Avio's Board of Statutory Auditors and those of its subsidiaries, and between Avio's Supervisory Board and those of its subsidiaries;
- functions that comprise the "first/second/third level of control" are defined technically.

The Group adopts an integrated risk management strategy (Enterprise Risk Management - ERM) that encompasses the entire corporate organisation, according to specific competences. The primary purpose of ERM operations is to ensure optimal risk identification, measurement, management and monitoring. The ERM model takes into account all potential threats to the attainment of a Company's strategic goals.

According to the nature of their impact on Avio’s operations, risks are classified into the following categories:

- Strategic Risks- risks inherent in the strategies employed to achieve company objectives.
- Operational Risks - risks inherent in the Company’s implementation and support processes for the operation of the organisational structure, executing business strategy and managing process change.
- Financial Risks - inherent risks associated with the Company’s capacity to meet its financial obligations.
- Compliance Risks - risks inherent in potential judicial or administrative sanctions or reputational damage for violating interpretative rules (of law or regulations) or self-regulations;
- Context Risks - risks inherent to the occurrence of changes in the Company’s external environment (regulatory changes at national or European level, changes in the requirements for accessing EU financing sources, etc.);
- Information Systems Risks - risks inherent in the malfunctioning of or tampering with information systems, for private economic gain;
- Cyber Risks: the possibility that information handled via the Company’s computer system could be hacked, stolen, deleted or tampered with as a result of unintentional occurrences or malicious deeds.

During the 2022 risk assessment (which included ESG risks, risks related to various material topics, and climate change risk), all risks and the heads of the related business sectors (risk owners) accountable for risk management, the related control system, and the implementation and improvement of mitigation actions, were identified.

Area	Risks	Main safeguards and mitigation actions
Social Security in products, facilities and classified information	Design flaws that can lead to safety-compromising incidents.	Avio has delegated control of the risks of non-compliance of the product design with the specifications to the Engineering and Product Development Department which, in conjunction with the head of the Quality Department, signs the qualification status.
	Negative effects resulting from the usage of explosive substances in facilities.	Group Companies manage product quality and safety, along with the prevention of significant incidents, through their unique management systems and in compliance with the accepted policies and organisational structures in this area.
	Loss of data and classified information.	Procedures and regulations are in place that specify duties and responsibilities surrounding classified information in relation to the risk of data loss. Avio delivers training sessions regarding the handling of classified information. Lastly, with regard to the risk of data loss in electronic format, the ICT Department is responsible for monitoring this and is committed to ensuring that classified information is handled according to the applicable regulation. The Chief Information Security Officer (CISO) is also accountable for information security within the organisation. This individual is responsible for formulating an information security strategy and implementing risk protection and mitigation programmes.

	Danger of unauthorised external or internal parties obtaining fraudulent access to strategic areas, stealing information or strategic materials, and causing harm to facilities, equipment, goods and people.	The Company has cutting-edge security systems (including video surveillance cameras, security guards and alarm systems), in addition to a set of protocols outlining duties and responsibilities regarding security matters.
Social Supply chain	Lack of transparency in the supplier selection processes.	<p>Procurement management for Avio S.p.A., SpaceLab S.p.A., Se.Co.Sv.Im S.r.l. and Avio France S.a.S. is centralised under the purview of the Purchasing Department. The selection process is structured under internal qualification and performance evaluation procedures.</p> <p>The Purchasing Department has also drafted a "Supplier Sustainability Survey" to be completed when performing sustainability assessments before enrolling suppliers in the dedicated register. The survey is used to verify suppliers' adopted policies, strategies, and action plans, ensuring they are adequate and comply with Avio's standards, including those related to sustainability</p> <p>Temis and Regulus manages its suppliers independently, adopting the principles and guidelines issued by the parent companies (Avio S.p.A. and Ariane Group).</p>
Governance Ethics and integrity, prevention of corruption, and regulatory compliance	Instances of corruption in Group processes and activities.	<p>The Company has embraced the Code of Ethics, which sets out the preventive principles applicable to all Group companies in the area of corruption. In addition, pursuant to Legislative Decree No. 231/2001, each Italian subsidiary of the Group has an Organisation and Management Model that specifies the control standards for active and passive corruption. The 231 Model has been adopted for both Avio S.p.A. and its subsidiaries SE.CO.SV.IM. and Spacelab. It is currently in the process of being adopted at Temis S.r.l. In addition, the Anti-Corruption Code was introduced for both Avio and Regulus in 2018, in line with the provisions of the regulations in force in the various countries.</p> <p>The Group also disseminates policies on anti-corruption to all personnel through communication and training activities.</p>
Environment	Liability for environmental pollution.	<p>Environmental context analysis and technical and operational risk assessments.</p> <p>Certification of the Environmental Management System in accordance with ISO 14001.</p>

	Insufficient management of remediation measures.	<p>Group Companies manage reclamation activities through Programme Agreements signed with the competent authorities and with permits and authorisations issued by the latter.</p> <p>Group Companies also apply procedures designed under current management systems in accordance with international principles and standards.</p>
Personnel	Occupational health and safety risks.	The Group has adopted an Occupational Health and Safety Management System in accordance with UNI 45001. It has also adopted safety management systems designed in accordance with the Seveso III Directive and national transposition laws (Legislative Decree No. 105/2015).
	Compliance with Legislative Decree No. 81/2008.	Environmental context analysis and technical and operational risk assessments. Occupational Health and Safety Management System certified according to the "health and safety of workers" certification in accordance with UNI 45001.
	Work-related injuries.	Performance of technical and operational risk analysis carried out through risk assessment in accordance with Legislative Decree No. 81/2008. Occupational Health and Safety Management System certified according to UNI 45001.
	Risks associated with the use of explosive substances.	Inability to make unauthorised alterations to facilities. Existence of certifications regarding plant safety. Insurance policies have been taken out.
	Work-related injuries (Avio subcontractors).	<p>Procedures outlining duties and responsibilities are in place.</p> <p>Existence of a health and safety management system. Training and auditing of external firms concerning health and safety.</p>

	<p>Work-related injuries (Avio subcontractors) Loss of strategic and technical know-how.</p>	<p>The internal control system has been formalised and structured in accordance with Legislative Decree No. 81/2008 (occupational health and safety).</p> <p>The Company has gradually established a range of retention methods comprising a variety of incentives, among other things. Provisions are in place for monitoring skills and granting variable rewards on the basis of merit. In addition, pay increases have been scheduled. With respect to the adoption of succession plans, the Company has designed a structured delegation framework for handling prospective losses of key resources and has completed the “mapping” of potential successors. A salary analysis (market benchmark) and weighting of Executives, functionaries and middle managers relative to the total workforce were conducted.</p>
<p>Personnel</p>	<p>Mismanagement of relations with trade unions.</p>	<p>Avio is constantly striving for fruitful and positive relations with trade unions. In this regard, it plans frequent meetings, both formal and informal, between different Group Companies and unions. For instance, updates to Company regulations are shared during such meetings. The Chief Executive Officer meets at least once a year with union representatives.</p>
	<p>Inadequate recruitment procedure for attracting and integrating talent.</p>	<p>Avio has established a framework of personnel selection procedures that outlines responsibilities and functions. In addition, it enhances brand awareness, emphasising the Group’s relevance to Italy in the aerospace sector as a recruiting tool for new talent. The recruiting procedure is aided by partnership with headhunting firms in order to perform targeted searches for candidates with the technical skills required by the Group.</p>
	<p>Risk related to the physical person and safety of Avio employees operating abroad in the event of violence (acts of terrorism, riots, accidents, etc.) or weather emergencies (earthquakes, typhoons, floods, etc.).</p>	<p>The Group has implemented structured procedures that outline roles and obligations pertaining to the safety of Avio staff overseas or on assignment.</p>

	Human rights violations.	The Group has reaffirmed to management and staff the human rights-related ethical values contained in Code of Ethics, the 231 Guidelines and the Organisational Model.
	Risk associated with increased energy consumption due to external climate change.	Avio is fitted with metering devices that allow it to monitor consumption on an ongoing basis and evaluate the economic repercussions of any abrupt spikes in absorption caused by external weather conditions.
Climate change	Risk associated with increased energy consumption due to external climate change.	Avio is fitted with metering devices that allow it to monitor consumption on an ongoing basis and evaluate the economic repercussions of any abrupt spikes in absorption caused by external climate change.

The risks, the evaluation of the internal control system to be monitored, and the relevant mitigation actions, are recorded in the Risk Register, which is periodically updated in conjunction with the risk owners and risk specialists based on an annual plan approved by the Board of Directors and subject to the approval of the Control and Risks Committee.

Upon completion of the risk assessment activity, the file register is made accessible to the Internal Audit function for the development of its Audit Plan from a risk-based perspective, including ESG areas.

The Internal Audit structure, on the other hand, is responsible for giving independent assurance on the ICRMS, with the goal of enhancing the organisation's effectiveness and efficiency, and for ensuring that the ICRMS is operational and proportionate to the Group's size and operations. Internal Audit also checks that risks are managed in accordance with Board of Directors motions, external requirements and Group internal regulations.

In addition, Avio has a Quality Management System adopted voluntarily and in accordance with ISO 9001/EN 9100 international and European standards.

In contrast, the Company's other Management Systems (Occupational Health and Safety, Major Accident Prevention and Environment), which comply with UNI ISO 45001 and UNI EN ISO 14001, have dedicated management procedures and operating instructions in accordance with the requirements of the applicable standards for the management of specific risks. Examination of individual risks in the areas of Environment, Health, Safety and "Seveso" plants is congruent with what has been established at corporate level by the Risk Management unit.

RESPONSIBLE MANAGEMENT OF AVIO'S BUSINESS

A management and organisational model based on ethics, quality, innovation, and safety, which is Avio's common heritage, is shared, on the one hand, in the Code of Ethics and the various Company Policies and, on the other with management and control instruments. These include risk management operations and the adoption of procedures that monitor the conduct of Company activities, in the awareness of the need to operate in the best interests of all stakeholders and the community in general, as enshrined in the Group's Code of Ethics.

Pillars of our Identity and our Values

Avio intends to develop a growth plan that will prioritise the design and delivery of innovative services as its core business strategy. The principles of responsibility underpinning this approach are embodied in a management model that strengthens the relationship of solid trust with all stakeholders and decision-makers, prevents the risks of a constantly changing scenario, and identifies and interprets the emerging needs of the business in accordance with the requirements of investment and sustainable growth.

Avio pursues a strategy centred on the creation of value, characterised by choices aimed at increasing maximum customer satisfaction through the provision of innovative products and services. It does this in constant compliance with the principles of fairness and correctness in the management of labour relations, worker safety regulations and applicable laws. It further conforms with ethical standards and transparency, professional development, well-being and quality of work, the defence of equal opportunities and the promotion of a corporate culture that fosters diversity.

To ensure that this goal is always pursued, the Avio Group requires its employees to adhere to the highest standards of conduct as set out in the Code of Ethics.

The Code of Ethics is consistent with the mission and values of Integrity, Trust, Accountability, Transparency, Respect for Diversity, Commitment, Professionalism and Confidentiality contained in the predecessor Code of Conduct, which have been duly taken up and elaborated upon in the Code of Ethics.

Code of Ethics

In recognition of the need and significance of creating value over the medium to long term, the Company has revised its Code of Ethics to bring it into line with increasing public awareness and applicable rules.

The work of reviewing and updating the Code of Ethics began with its name. In pursuit of a spontaneous adaptation to Group values, it was changed from "Code of Conduct" to "Code of Ethics". The revision also entailed the adoption of the phrase "Person" in place of "Employee" to demonstrate the inclusiveness sought by the Group. Finally, the corporate conduct standards were incorporated in the "Environmental", "Social", "Governance", "Human Rights", "Confidentiality" and "Health, Safety and Hygiene" areas.

Last but not least, the Code of Ethics was revised in accordance with the Company's maturation and expansion strategy in the field of cyber security, with the goal of preserving compliance with the management and application standards of the latest regulatory requirements.

In line with the provisions of the Code of Ethics, the Corporate Governance Code system seeks to contribute to the achievement of sustainable success, maximise value for stakeholders, ensure the highest levels of transparency and integrity in the conduct of business activities, and oversee the corporate risk control system.

Most recently updated in 2021, the Group's Code of Ethics therefore seeks to identify and express to its recipients the values and standards of conduct to which they must adhere when carrying out the Company's activities and interacting with those with whom the Group does business (stakeholders, customers and suppliers).

The Code of Ethics applies to the entire Avio Group and defines the principles of conduct that constitute the practical articulation of the ethical principles to which all recipients of the Code of Ethics must adhere. Along with the policies, the Code of Ethics also identifies the Company's appointed bodies to monitor and control the application of the principles of conduct and the undertakings and responsibilities of employees, and constitutes the programme to ensure effective prevention, including in terms of health, safety, hygiene and the environment.

Likewise, the Code of Ethics is addressed to the corporate bodies of Avio S.p.A. and its subsidiaries, to all employees of the Group companies and to all other individuals or companies that act in the name and on behalf of one or more Group companies or with which it maintains long-term business relations (suppliers, consultants, experts, agents and dealers). By accepting and signing the Code of Ethics, all recipients undertake to observe the values set out therein.

Each individual is required to abide by the laws and regulations applicable to the various geographic contexts in which Avio operates, and to conduct themselves in accordance with the terms of the Code of Ethics.

The Code of Ethics is the guidance to be followed in order to stimulate and maintain the Company's sense of belonging and its ability to compete fairly on the market, improve customer satisfaction, increase shareholder value, and foster the skills and the human and professional development of its staff.

It is a crucial component of the Avio Group's organisational model of internal control, which it is committed to enhancing and executing continually.

The Code of Ethics is based on the following guiding values:

- Ethical principles of fairness, transparency, honesty and integrity to which internal staff, collaborators, suppliers and those with whom Avio has close business relationships must conform. These are the ethical principles which inspire Avio to compete effectively and fairly in the marketplace, meet the expectations of the communities in the areas in which it operates, improve the satisfaction of its customers, increase shareholder value, and develop the skills and professional growth of its staff.
- Rules of Conduct: these define the guidelines and standards to which all recipients of the Code of Ethics must adhere to in order to comply with the general principles and prevent the risk of unethical behaviour. The rules of conduct in the Code of Ethics cover the non-financial issues addressed in this Statement.
- Methods of implementation and control: these define the Company's appointed bodies in charge of supervising the application of the Code of Ethics, the reporting systems available to recipients, and the monitoring system for enacting its principles and for compliance with the Code of Ethics and its continuous improvement.

Following the example of the parent company and in line with the high standards adopted by it, Regulus has developed the *Charte Etique* (hereinafter also referred to as the "Charter of Ethics"), which is broken down into three themes (namely, protection and respect for employees, compliance with laws, rules and regulations, and, finally, specifications for partners) and applies to all Company employees, both internally and externally, to the extent that an external commitment may be affected by a clause in the Charter.

The focus on human rights in Avio

Respect for the integrity of each collaborator has always been an essential priority for Avio in the conduct of its business and a prerequisite for the development of a collaborative and reputable work environment inspired by loyalty, fairness, and regard for corporate principles and applicable legal provisions.

The Group is therefore committed to avoiding any association with suppliers, partners and customers who engage in practices traceable to human rights violations or abuses. Indeed, Avio demands that its suppliers and subcontractors contractually accept the Company's Code of Ethics in order to ensure adherence to the same standards as Avio in the conduct of their activities.

To spread these concepts and bring employees up to date on policies and processes linked to respect for human rights, Avio offers planned and continuing training sessions.

Within the Regulus Code of Ethics and Charter of Ethics, the Group makes clear its responsibility to protect employees from any form of harassment or unwanted behaviour, including actions based on race, gender, religion or other personal characteristics that violate the dignity of the individual, and to combat any such phenomenon whenever they appear. Avio also condemns unlawful labour relations, the use of child labour and all forms of exploitation and undue advantage arising therefrom.

These ethical principles are also explicitly referred to in the Company's Organisational Model and 231 Guidelines. Failure to comply with them could expose the Group to sanctions and legal proceedings related to offences falling within the scope of Legislative Decree No. 231/2001. Regarding this latter risk, again in 2022 a targeted course was delivered to all employees in e-learning mode.

In addition, the Group acts with regard for the dignity of its employees, building a system of relationships and constructive dialogue with staff that fosters their motivation and sense of belonging and encourages their direct participation.

During the course of the year, no real or even alleged instances of discrimination or violation of human rights were detected or reported.

Environmental, Social, and Governance Corporate Policy System

In addition to the Code of Ethics, the Group has adopted corporate policies addressing the principal areas of operation, and which are briefly outlined below. These policies express the Company's responsibility to ensure socially responsible behaviour and to regulate the business processes most relevant to its operations.

The Quality Policy: this is applicable to the activities conducted at the Colleferro and Airola sites, and contains the principles that the Company is committed to upholding in the conduct of its activities in order to ensure complete customer satisfaction, active participation, and efficient commitment of resources in order to improve its effectiveness continually by assessing risks and opportunities. The Quality Management System conforms to the requirements of EN 9100:2018 international standard, is certified by an independent external body, and is subject to periodic reviews, as required under the above standard.

The Group views quality as a core component of its business strategy and promotes compliance with it at all organisational levels by spreading and bolstering its commitment to meeting the criteria of the Quality Management System.

Applicable to all Avio S.p.A. sites, the Occupational Health and Safety and Major Accident Prevention Policy outlines the Company's priorities in the conduct of its activities. These are the protection of the health and safety of workers and the community, the safety of plants, the control and minimisation of risks and their elimination, where possible, and the prevention of accidents and work-related ill health, at all times in full compliance with applicable legislation and other requirements endorsed on the matter of workers' health and safety. It hinges on the Integrated Management System for Health and Safety and the prevention of significant risks, which has been certified in accordance with ISO 45001 by an independent external body and is subject to periodic updates, as required by that standard.

In addition to pursuing improvements in occupational health and safety and with regard to internal resources, Avio invests in the safety of its operating environment so that employees can work in a safe and comfortable setting.

The Environmental Policy contains the principles to which the Company is committed in rigorously carrying out its activities, across all Group companies, to prevent and mitigate potential negative effects on the environment,

protect the ecosystem, and increase positive impacts, while contributing through its projects to addressing major global environmental challenges. It hinges on the Environmental Management System certified in accordance with ISO14001 by an independent external body and subject to periodic updates, as required by the standard.

The Product Safety Policy is based on compliance with Company policies, customer requirements, and current regulations, and is supplemented by continuous worker training and information on safety during maintenance tasks, in addition to Human Factor risk analysis and assessment. The Group operates in a complex and heterogeneous regulatory environment, which necessitates continuing vigilance and compliance with the requirements established by the current jurisdiction, subject to continuous monitoring.

Since 2014, in accordance with Avio S.p.A.'s policies mentioned above, Regulus has had a *Politique en matière de Qualité, de Santé et Sécurité au travail et de respect l'Environnement* (hereinafter also "Quality, Occupational Health and Safety and Environmental Policy") in which it specifies the objectives underpinning its business conduct, namely, people's health and safety, respect for the environment and customer satisfaction, articulated in a series of pledges designed to achieve the greatest levels of environmental protection and worker health and safety.

Business ethics and anti-corruption

Integrity and anti-corruption are core values for the Group, embodied in a corporate governance and policy model based on ethical principles and a commitment to fair and transparent business management, designed to counter any risk of corruption in accordance with the regulatory framework and with the Code of Ethics.

In this respect, of particular relevance are the risks related to:

- possible fraudulent conduct by employees such as bribery or donations to a public official and/or third parties;
- non-compliance with the rules governing relations between States in the field of import/export, resulting in the loss of the licenses required to operate;

Based on the provisions of the Group Code of Ethics and the Charter of Ethics:

- Directors, Executives, employees and other recipients of the Code of Ethics and the Charter of Ethics must comply with the standards of integrity, honesty and fairness in all dealings inside and outside the Group;
- any kind of corruption, whether of public officials or private citizens, is condemned.

Attention to the "active" prevention of crimes is ensured by the Management, Organisation and Control Model (hereinafter also "231 Model") adopted and implemented in Italy by the Board of Directors pursuant to Legislative Decree No. 231/2001 (hereinafter also "Decree 231"), and by the Supervisory Board (hereinafter also "Supervisory Board"), which is tasked, among other things, with supervising the Model's effectiveness and observance and updating it. The system provides for appropriate policies and measures to ensure that activities are carried out in compliance with the law and to identify and eliminate situations that may give rise to the risk of offences. Indeed, as noted in the Code of Ethics, the Group adheres rigorously to current rules in its business areas and to the provisions issued by the Supervisory Board, swiftly complying with any of its requests and avoiding obstructionist conduct.

As mentioned above, the Code of Ethics and the 231 Model are subject to periodic revisions and updates, which guarantee that they are adapted to both legislative and organisational changes that may occur.

Likewise, the Anti-Corruption Code, drawn up in 2019, is designed to:

- underscore Avio's commitment to the fight against corruption and to ensuring regulatory compliance;
- set down principles for the detection and prevention of potential acts of corruption in order to protect the Group's integrity and reputation;
- communicate clearly the anti-corruption principles to stakeholders inside and outside the Group.

The Anti-Corruption Code applies to all Group employees and, more generally, to all those with whom Avio comes into contact when conducting its business.

The 231 Model represents an opportunity to enhance corporate governance, while at the same time sensitising and guiding all staff working on behalf of the Company with regard to issues related to business process control. In particular, following the corporate integration of Avio with Space2 S.p.A., the listing of the Company on the STAR segment of Borsa Italiana S.p.A., and the subsequent corporate restructuring, it was necessary to update

the 231 Model with regard to bribery among private individuals, and by including the new Special Part dedicated to the crimes and administrative offences of market abuse.

Following additional regulatory changes, most recently on September 9, 2022, Avio's Model was updated with reference to the General and Special Parts; Specifically, Special Part 10 was incorporated due to the enactment of Decree 231's new Article 25-*octies*.1 pertaining to crimes committed using various means of payment. Amendments have also been made to the General Section and to the following Special Sections:

- No. 1 (Offences in relations with the Public Administration, crimes against the administration of justice and organised crime);
- No. 6 (Culpable homicide and actual or grievous bodily harm, committed in violation of the regulations on occupational health and safety);
- No. 9 (Cyber crime offences and illegal data processing);
- No. 11 (Market Abuse Crimes and Administrative Offences) of the Company's Model in order to bring them into line with recent regulatory changes.

Similarly, SpaceLab and Se.Co.Sv.Im, both of which have their own 231 Model and which have undergone the necessary controls and monitoring to ensure their Models' adaptation and effectiveness in light of both legislative and organisational changes, updated their Organisational Models in September 2022, switching from a structure focused on possible criminal offences to one focused on corporate processes. In particular, while the new Model of Se.Co.Sv.Im S.r.l. was approved on September 7, 2022, the Model of the Company SpaceLab is presently undergoing review. In H1 2023, the Model will be updated and the first version thereof will be drafted for Temis S.r.l., the newest company to join the Group.

Regulatory developments always have a substantial impact on the Corporate Procedures with 231 relevance which were implemented and modified in 2022 to give effect to the principles contained in 231 Model and then disseminated to the corporate population via a telematics platform.

In 2018, the Board of Directors of Avio approved the *Whistleblowing* Procedure referenced in the updated 231 Model, which aims to regulate the management of the process of receiving, analysing, and processing reports of possible crimes, unlawful conduct, and, more generally, any anomalous behaviour or action contrary to Company policies. The Group has therefore created a Supervisory Board e-mail address which ensures the confidentiality of the reporting party and protection from any form of retaliation. This regards a channel to promote the reporting of any dysfunctions within the organisational structure or the internal control system, in addition to any other regularities concerning management or the violation of the rules governing Avio's operations.

The 231 Organisational Model is disseminated and communicated through continuous information and training of personnel, delivered both in e-learning mode and through in-person attendance at classroom courses.

In addition to training for at-risk persons, the Code of Ethics and its periodic modifications are submitted for signature for acceptance by all employees, including new hires, of Italian Companies. Regulus, on the other hand, communicated the Charter of Ethics to all staff, including new hires, in 2022, despite not offering ad hoc training courses on these topics.

As regards Regulus, it should be noted that in 2018 the subsidiary adopted its own Anti-Corruption Code in accordance with the provisions of the Sapin 2 Law.

In 2022, Avio confirmed its continued membership of the *Business Integrity Forum (BIF)*, an initiative of *Transparency International Italia*, which brings together large Italian companies already involved in the issues of integrity and transparency, and which through the BIF are committed to preventing and combatting corruption in business practices by adopting and circulating anti-corruption tools and practices and encouraging an improved culture of legality.

In particular, for Avio, membership of the Forum has the precise objective of continuing to raise awareness of the issues important to the Company, relating to transparency, integrity and corporate social responsibility, expressing its support for the fight against corruption in order to make an impact at system level.

In 2022, Avio also participated with BIF members and other invited companies in a variety of scheduled online meetings, at which the activities planned for 2022 were presented and various themes discussed.

In 2022, Avio participated in the various events organised by Transparency Italy, in particular:

- on June 10 and June 17, 2022, the BIF Academy event on “*Regulatory News and News in the Company*”, discussing Italy’s steps forward on transparency and integrity issues, the voluntary initiatives to propose “the value of values”, and on “*The Integrity Supply Chain*”, which sees large companies advance a sense of responsibility to the care and discipline of supply chains. Another form of integrity is the soundness of principles, values, and behaviours in the highest and most pervasive sphere of influence;
- on September 23, 2022, the “*INVITE BIF Talks*” event in Pisa, with the theme “*The Code of Ethics as a timeless, ever-valid strategic plan that must be enhanced and revitalised*”. Culture is the first custodian of integrity, and the statements of various top corporate managers provided immediate instruction. Consequently, the tools adopted and the expansion of awareness incorporating human rights and sustainability plans gained more credibility, expanding the perimeter of responsibility and fostering trust. On this occasion, Avio’s General Counsel spoke in person, explaining how our Company uses the Culture of Anti-Corruption through the Code of Ethics, the 231 Model and the Anti-Corruption Code;
- on November 25, 2022, the event “*Is Anti-Corruption at the Heart of the Country’s Agenda?*” was held, gathering opinions and accounts from experts and observers who energised two round table debates, and lastly, two projects targeted at the issues of culture and innovation were introduced.

The Company also works in close collaboration with the Italian Transparency and Anti-Corruption Association (AITRA), which, in conjunction with the National Council of Certified Public Accountants and the National Foundation of Certified Public Accountants, most recently developed a position paper titled “The discipline of whistleblowing” in November 2022. Specifically, an analysis was conducted on the similarities and differences in whistleblowing in the public and private sectors. Also addressed were aspects of the regulations affecting the responsibilities of the supervisory bodies principally involved, the corruption prevention officer and the Supervisory Board, whose roles tend to overlap in certain instances.

In addition, the AITRA Association signed a memorandum of understanding with the Data Protection Authority. Within their respective areas of competence, the Authority and the Association are engaged in the development of activities to prevent and combat corruption and illegality in government administration, with particular reference to the issues of transparency and access to information, data and documents.

To this end, AITRA organised several webinars in 2022 on the topics of Anti-Corruption and the development of anti-bribery compliance systems that encompass business integrity and sustainability. The Company’s representatives participated in these webinars, of which the most relevant ones are listed below:

- Complete Sustainability and Responsible Finance for Ethical Development;
- Justice and Gender Representation;
- Integrated Compliance and Organisational Arrangements under the Business Crisis Code;
- Whistleblowing, for consistent understanding;
- The first decade of Italy’s Corruption Prevention System.

With regards to the Group overseas companies, Avio has drawn up specific “231 Guidelines”¹⁷, in line with the Model adopted in accordance with Legislative Decree No. 231/2001, which outline the general and specific conduct to be undertaken in terms of sensitive activities, in compliance with the rules applicable in the countries in which they operate. The Guidelines are a point of reference for the Group’s foreign Companies.

Lastly, we note that all Group companies provide for periodic assessment and audit activities on business processes, as outlined in the various Audit Plans, including those areas that may have an impact on corruption risk (such as purchasing, financial transactions, and/or relations with public entities and/or bodies).

¹⁷ The document was approved by the Board of Directors on September 13, 2018.

[GRI 205-1] Number and percentage of Group operations assessed for risks related to corruption¹⁸

Operations assessed for risks related to corruption	unit	2020	2021	2022
Processes assessed for corruption risks	No.	20	20	21
Total operations		34	33	37
Processes assessed for corruption risks	%	59	60	57

Avio's commitment to integrity, corruption prevention and regulatory compliance was repaid by the absence of competition and antitrust lawsuits in 2022, and by the lack of monetary and non-monetary sanctions received for breach of economic and social laws and violation of regulations.

In 2022, there were also no recorded incidents of corruption.

AVIO'S PEOPLE

Constant attention and commitment to human capital are the founding pillars on which Avio has defined a development plan targeted at enhancing qualities and skills, based on specific selection, training, management and remuneration policy processes.

Human resources are an "essential corporate asset" and the Group's "real driving force," whose development is a key factor in achieving the targets set. These are closely anchored to sustainability goals, where the full engagement of staff in adopting the concept of sustainability is not limited to the Company's internal activities, but spreads like a teaching within its community, creating essential value in promoting and disseminating a culture marked by sustainability values and supporting conscious and responsible behaviours.

In the framework outlined, as of December 31, 2022, the total number of Group employees¹⁹ was 1,147, an increase of 156. The total also includes the 24 employees of Temis S.r.l., acquired in September 2022.

The majority of the workforce is employed by the parent company, Avio S.p.A., which at the same date had 1,015 staff, an increase on the 887 individuals employed by the company at December 31, 2021.

In order to promote stable employment and long-term relations, a high number of Group employees (98%) have permanent employment contracts.

With regard to Avio, at December 31, 2022, there were 29 workers on temporary contracts and 59 consultants. In 2022, Avio engaged 31 consultants in an effort to stabilise the organisation's skill set.

Concerning Regulus, outside personnel are usually employed for two main reasons: temporary back-up during periods of peak activity and maintenance work on technical services.

However, Italy is the location where the majority of the corporate population is concentrated. As a direct result of Avio's business model, the job categories with the largest number of employees are white-collar and blue-collar workers.

The majority of employees (70%) are aged between 30 and 50 years. The average age of employees is 42 for the Group's Italian Companies, 34 for Avio France, 45 for Regulus and 45 for Avio Guyane. With regard to corporate seniority, there is a greater concentration in the "0-5 years" and "11-20 years" brackets (about 36% and 26% of the population, respectively), a figure that confirms the Group's growth and strong sense of belonging in 2022.

¹⁸ The statistic represents the total number of Avio, Sescovim and SpaceLab and Regulus operations that underwent corruption risk assessment in 2022. However, we note that research was also conducted on other companies that are not included in the consolidation scope for NFS purposes, such as Servizi Colleferro.

¹⁹ The term "Group" refers to all fully consolidated Companies (Avio S.p.A., SpaceLab S.p.A., Se.Co.Sv.Im. S.r.l., Temis S.r.l., Regulus S.A., Avio France S.a.S and Avio Guyane S.a.S.).

The table below shows data on the breakdown of employees by job category, age group and gender:

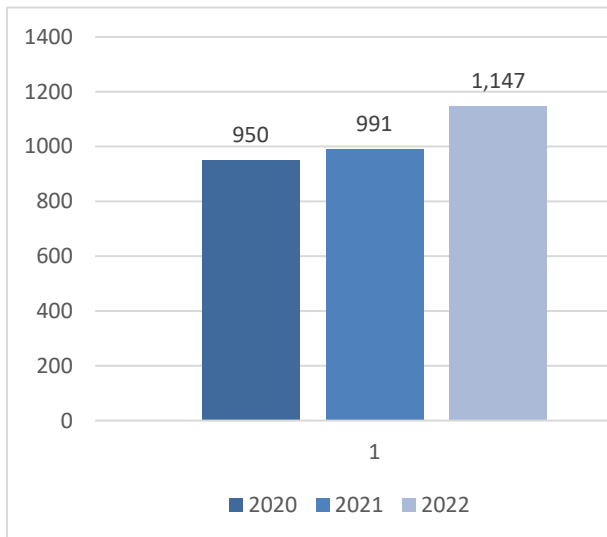
[GRI 405-1] Composition and breakdown of employees by job category, gender and age.

Employee category	2020			2021			2022		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Executives	25	1	26	28	1	29	30	1	31
Under 30	0	0	0	0	0	0	0	0	0
Between 30 and 50	8	0	8	9	0	9	8	0	8
Over 50	17	1	18	19	1	20	22	1	23
Managers	199	34	233	208	45	253	234	57	291
Under 30	3	2	5	3	1	4	4	0	4
Between 30 and 50	125	25	150	137	36	173	157	44	201
Over 50	71	7	78	68	8	76	73	13	86
White-collar	253	78	331	273	73	346	361	88	449
Under 30	21	5	26	48	8	56	81	23	104
Between 30 and 50	187	63	250	183	57	240	240	59	299
Over 50	45	10	55	42	8	50	40	6	46
Blue-collar	338	22	360	341	22	363	351	25	376
Under 30	24	0	24	16	0	16	13	1	14
Between 30 and 50	250	18	268	262	19	281	274	21	295
Over 50	64	4	68	63	3	66	64	3	67
Total	815	135	950	850	141	991	976	171	1,147

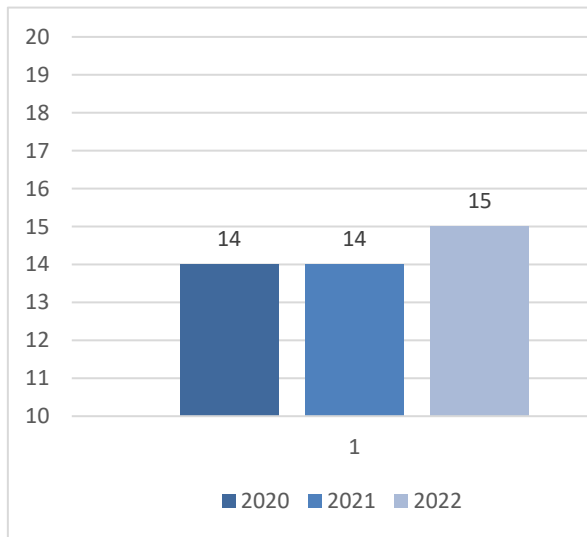
[GRI 2 - 8] Non-employees

Non-employees	Unit	2022		
		Male	Female	Total
Contractors	No.	39	4	43
Consultants		50	9	59
Total		89	13	102

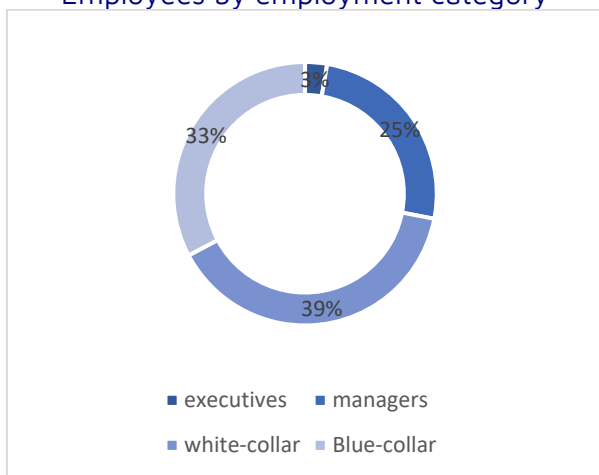
Group employees



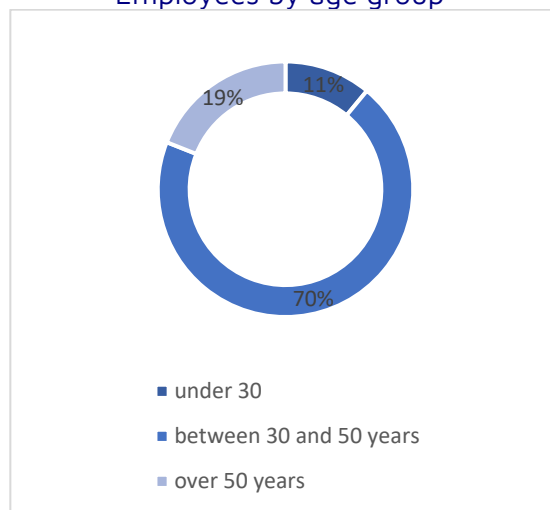
Percentage of female employees in the Group



Employees by employment category



Employees by age group



The following data pertains to the Group's contract type and employment by gender and geographical area²⁰:

[GRI 2-7] Number of employees by type of contract (fixed-term and permanent), by geographic area and gender²¹

Type of contract	2020		2021		2022	
	Italy*	French Guiana	Italy*	French Guiana	Italy*	French Guiana
Fixed-term	19	4	25	6	24	4
Permanent	824	103	867	93	1,020	99
Total employees	843	107	892	99	1,044	103

*As of 2022, the Italy figure includes not only the employees of the company Avio France (5) but also of Temis (24)

Type of contract	2020			2021			2022		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Fixed-term	20	3	23	23	8	31	21	7	28
Permanent	795	132	927	827	133	960	955	164	1,119
Total employees	815	135	950	850	141	991	976	171	1,147

²⁰ Operating personnel in French Guiana includes staff of the company Avio Guyane and of the company Regulus (comprising seconded employees of the company Avio S.p.A. and seconded employees of Ariane Group). The specifics of the Agreements governing the employment relationship of seconded workers are spelled out in a Site Agreement established with the interests of the employer and worker representatives in mind. The term "seconded" refers to people who are placed on leave with Avio and who are contractually employed by the relevant French company (EUP, Regulus, Avio Guyane).

²¹ As of 2019, data for Italy include Avio France and as of 2022 also Temis S.r.l.

[GRI 2-7] Number of employees by employment type (full-time or part-time) and gender.

Type of contract	2020			2021			2022		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Full-time contract	814	134	948	849	140	989	974	171	1,145
Part-time contract	1	1	2	1	1	2	2	0	2
Total employees	815	135	950	850	141	991	976	171	1,147

The inclusion of people with disabilities is also an issue on which the Company has focused its attention. Avio manages diversity in accordance with the rules and practices set out in applicable laws, and incentivises the various Company departments to include disabled staff, who, as of December 31, 2022, number 25 in Italy (22 men and 3 women) and 1 (a woman) in French Guiana.

Human capital management and talent retention

Avio’s Human Resources and Organisation Department, which reports directly to the Chief Executive Officer, manages all aspects of Avio’s people management. This function also relies on the assistance of the directorates in defining requirements and, if necessary, utilises external companies specialising in selection and evaluation processes to strengthen head-hunting activities. This is done in accordance with established processes and procedures, aligned with best practices found nationally and internationally despite the absence of formalised policies.

The Group bases its personnel management policy on the principles outlined in the Corporate Code of Ethics and the Regulus Charter of Ethics, including respect for moral integrity in all its facets, protection of workers within a framework of constant attention to human capital, and compliance with national laws and the fundamental Conventions of the International Labor Organization (ILO) at each stage of personnel management. The Group operates in an exceptionally specialised field that necessitates the employment of highly skilled workers. Avio is therefore keen to attract and identify outstanding individuals with strong technical-professional and managerial abilities that are difficult to replace, and is determined to develop and retain the finest personnel while ensuring a diverse, inclusive and innovative workplace environment.

Avio’s personnel management model features continuous professional development achieved through the constant acquisition of new skills accompanied by generational turnover, generating a reorganisation path designed to making the corporate structure efficient and develop an operating model capable of supporting business growth in a sustainable manner.

With this in mind, personnel selection plays a crucial role in the ability to discover highly qualified skills and professionalism, recognise and enhance them on a long-term path, and effectively contribute to the achievement of business objectives by leveraging the professionalism of new talent and motivating the most qualified resources already present in the Company.

Consistent with this approach, the Group establishes methods for managing people selection and recruitment processes in accordance with corporate principles in order to fill corporate roles with qualified personnel. This procedure applies to the entire Group, consistent with the internal rules and regulations of the foreign Companies and defines the operating procedures necessary for:

- defining and validating requirements (i.e. criteria in terms of responsibilities, planned activities, technical and management skills, schooling, professional experience), and monitoring their outcomes in relation to the needs expressed;
- defining the process of people recruitment and selection;
- managing the intake and subsequently the induction of new hires.

The Group recognises the significance of developing and training its staff in order for them to become the added value required to reach a leadership position on the market in which the Group operates and to continue enhancing its positive reputation.

Following this criterion, the Group is committed to continuously ensuring the personal growth of its people by fostering a stimulating and constructive work environment through investments in training and development, targeted strategies to enhance talents and diversity, and cultivating initiatives to foster a strong sense of inclusion and belonging within the Group.

The selection phase is as crucial as the actual induction into the Company. A structured induction procedure was therefore designed to assist new hires in settling in quickly, establishing relations and becoming acquainted with the Group's organisational culture.

In 2022, in line with the need to maintain and develop the business and, in particular, to deal with the activities related to the Vega C and Vega E programmes and the orbital launch systems, the Company began a substantial hiring plan that led to an increase in workforce compared to 2021 levels.

Mostly graduates, the hired personnel possess specific skills relating to various professional areas and have different degrees of experience.

In support of the corporate organisation's objectives and in accordance with the allocation of assignments and responsibilities for the various corporate programmes, along with a view to enhancing its retention plan, for 2022 the Company implemented a comprehensive "Merit and Development Plan" covering 43% of the population and concluding with 79 measures (including 44 developments) targeting the workforce.

On the topic of welfare, given the ongoing COVID-19 emergency, and in accordance with Article 90 of the Relaunch Decree, working parents with at least one child under the age of 14 have continued to benefit from agile work and measures to broaden remote working have been designed for other categories of workers.

Having met the legislative requirements for the 10% substitute tax, employees were also given the option to convert the bonus, or a portion thereof, into welfare benefits through the use of a dedicated platform.

In Q4 2022, a climate analysis, in which the Company Avio Guyane also participated, was conducted through an online survey. An analysis of the organisational climate gives a snapshot of the Company as perceived by the people who work there. Measuring it means getting to know organisational well-being and the level of personal satisfaction.

Avio is devoted to managing its staff and especially business changes in order to avoid repercussions to its business. During 2022, 205 people were hired in Italy and France and 21 in French Guiana. Among those hired in Italy, 34,63% are under the age of 30, demonstrating the Group's commitment to investing in the younger generation. During the year, negative turnover was 7.37% in Italy and 16,50% in French Guiana, a total of 94 people leaving the Group due to retirement, resignations and lay-offs.

The following is a breakdown of new hires and employees who have left the Group²²:

[GRI 401-1] Total number and rate of new employee hires by age group, gender and region.

Employee category	2020			2021			2022		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
	Italy								
Under 30	17	0	17	34	8	42	52	19	71
Between 30 and 50 years	35	5	40	63	14	77	109	16	125
Over 50	2	0	2	3	2	5	7	2	9
Total Italy (no.)	54	5	59	100	24	124	168	37	205
Total Italy (%)	7.5	4.2	7.0	13.1	18.9	13.9	18.9	23.8	19.6
	Guyana								
Under 30	2	1	3	1	0	1	1	0	1
Between 30 and 50 years	4	2	6	7	2	9	11	6	17
Over 50	5	0	5	1	0	1	3	0	3
Total French Guiana	11	3	14	9	2	11	15	6	21
Total French Guiana (%)	12.0	20.0	13.1	10.6	14.3	11.11	17.2	37.5	20.4

*The figure for Italy also includes employees of Avio France (5) and Temis (24)

²² Early retirement covered the following categories: 1) Quota 100 (62 years of age and 38 years of pension contributions); 2) Retirement for seniority or early retirement (42 years and 10 months of pension contributions); 3) Retirement due to old age (67 year age limit). In addition, the tool of the "Expansion Contract" was also activated, allowing redundant employees to receive welfare payments and leading to the early exit of five Group employees.

[GRI 401-1] Total number and rate of employee turnover by age group, gender and region.

Employee category	2020			2021			2022		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
	Italy								
Under 30	5	1	6	4	1	5	12	3	15
Between 30 and 50	22	1	23	30	12	42	42	11	53
Over 50	16	2	18	24	4	28	9	0	9
Total Italy (no.)	43	4	47	58	17	75	63	14	77
Total Italy (%)	6.0	3.4	5.6	7.6	13.4	8.4	7.1	9.0	7.4
	Guyana								
Under 30	1	0	1	0	1	1	0	0	0
Between 30 and 50	7	0	7	10	2	12	7	3	10
Over 50	3	1	4	6	0	6	6	1	7
Total French Guiana (no.)	11	1	12	16	3	19	13	4	17
Total French Guiana (%)	12.0	13.3	12.2	18.8	21.4	19.2	14.9	25.0	16.5

*The figure for Italy also includes employees of Avio France (5) and Temis (24)

Training and skills development

Avio considers training and education to be essential tools for achieving the objectives of professional growth and employee satisfaction.

The primary objective of the Human Resources Department is to implement a strategy that enables individual employees to develop and consolidate their professional and personal skills.

With this in mind, the Group pays particular attention to training and professional development systems geared to achieving long-term results that attract talent and improve the Group's ability to retain and motivate key resources, reduce turnover, and ensure management stability and continuity.

In a highly competitive labour market, the main organisational risks concerning employee retention relate to more attractive competitor remuneration and professional development policies.

To avoid repercussions on its business, in accordance with the Group's Code of Ethics and Regulus' Charter of Ethics, the Group is committed to offering equal opportunities in work and career development to all of its employees. Particular attention is paid to individuals, their professional growth and pay, and their ongoing enthusiasm and commitment.

In this regard, Avio has defined a specific employee training procedure that seeks to establish a process and criteria for maintaining knowledge, fostering skills acquisition and development, and raising awareness of the role played by employees. Based on the guidelines defined by Avio's Human Resources department, the various Group Companies define and implement an annual Training Plan to develop and broaden the organisation's knowledge, guaranteeing a company experience that aligns with competitors in the region.

The Group Companies collaborate with the Human Resources department to identify training needs based on new business requirements and company changes. They allocate a budget for relevant training activities to enhance knowledge and skills and determine appropriate training methods to address any gaps.

To support the training paths offered by the Avio Group, 2022 saw the provision of refresher courses, professional development courses, individual courses and soft skills and technical skills deployment training. Avio relied on classroom training and live and independent e-learning to train workers, thus facilitating upskilling and reskilling processes.

Combining these various delivery methods has made it possible to provide an increasingly varied, tailored training programme that meets departmental needs. AVIO provides all Group employees with technical and specialised training opportunities in the engineering, manufacturing, laboratory, and quality fields. At the same time, the Group focuses on improving language skills, particularly French, and strengthening soft skills.

In 2022, Avio consolidated its Get on Board Day initiative. The objective of the project is to survey the opinions of new employees through classroom activities and the distribution of an anonymous questionnaire. Facilitating a positive company climate, ensuring staff well-being, and providing a warm welcome are crucial factors that enhance quality performance and promote the smooth functioning of the entire organisation. Avio intends to create an organisation that promotes a high-quality working life, thus stimulating the engagement, satisfaction, and motivation of its employees, and new employee hires specifically.

The initial phase of the Educational Campaign, promoted by Avio with the backing of the Municipality of Colleferro and designed to introduce young people to STEM, concluded in 2022. Avio also met with 436 students from local primary, middle, and high schools. The pupils who submitted the best entries to the its "Exploring the World of Work" competition won a two-month training placement at Avio starting in September 2022. Meanwhile, primary and secondary school children actively participated in a Space Lab by contributing to a project developed by Avio to produce a model of the solar system.

In addition, to promote the inclusion of women in STEM (Science, Technology, Engineering and Mathematics), Avio will be granting scholarships to the daughters of individuals employed in these departments in 2023. Training also focused on the concept of teamwork and its different facets. A pilot project was launched to explore the dynamics of production team working. Its objective was to identify and define the characteristics of working groups and explore various communication and leadership styles suitable for different types of groups.

A training initiative for Avio's Senior Management team was developed using a sports metaphor based on a "practical team-building training" methodology. The process allowed the Group to build a dedicated course for middle managers involved in cross-departmental teams at Avio. The aim of this initiative is to make participants aware of the need to work as a team to effectively achieve company objectives. It also intends to foster team spirit by consolidating collaboration, improving mutual trust, and putting effective communication processes in place.

Avio continues its commitment to promoting gender equality

Avio has extended the scope of the Valore A project to include Inclusion and Gender Diversity by arranging practical training schemes focused around women's leadership. The objective is to make a tangible contribution to the Group's efforts towards achieving the 2030 Global Agenda. These events represented a useful opportunity to discuss and gain a better understanding of the values shared by Avio and those that require more attention. The objective is to create an increasingly "inclusive" environment. The following topics were addressed: the organisation's gender culture; leadership strengths, areas for improvement, untapped potential, and internal hurdles; intelligent leadership: learning to identify our emotions and appreciate those of others, knowing how to manage relationships effectively; time management: strategies for achieving a healthy work-life balance. Follow-up meetings are expected to take place in 2023.

Avios developed an in-house e-learning course entitled the "The Right to Count" on the topic of gender differences to celebrate International Women in Engineering Day on June 23. The day was created to remind the world that women can take on leadership roles in scientific fields, on a par with men! The eLearning course allows us to reflect on the concept of inclusion and illustrate the initiatives promoted by the Company.

As mentioned above, Avio has become a member of VALORE D, which is the first association of companies in Italy to address the topic of gender equality and promote a culture of inclusion that fosters innovation, progress, and the growth of Italy and its organisations. Through this membership, the entire Group population has access to courses on Gender Bias and can follow specific paths in support of their career development, with a specific focus on women.

Avio has also launched a Mentorship programme to foster the growth of talent and individuals who want to join the Avio team by giving them access to the expertise and professionalism of mentors while promoting gender

balance and a more inclusive culture. Mentoring seeks to appreciate people’s qualities, stimulate engagement and empowerment, increase motivation levels and the feeling of belonging to the organisation, expand the range of solutions and opportunities, and foster the growth of internal expertise by accelerating the learning and enhancement of soft skills.

A course on team work was organised for the first time in French Guiana for Avio Guyane employees with the aim of fostering integration between Italian, French and Guyanese personnel.

2022 was a year of organisational change for Avio Guyane. In response, the Company initiated soft skills training activities to supplement the mandatory safety and update training mandated by the spaceport. In line with Avio's Human Resources department, all employees were invited to participate in Gender Equality initiatives and took part in language learning courses (in Italian and English), team building, and informal exchange days.

A welcome booklet and a specific and stimulating integration pathway for new employees was introduced for Regulus.

The Group’s Overseas Companies also launched “Junior Project Guyana”, which invited participants to work on improvement projects, observe launch campaign activities, and visit other Avio Group facilities, including Regulus. In 2022, Regulus launched a specific project with a dedicated Individual Action Plan, which was shared with Company Management.

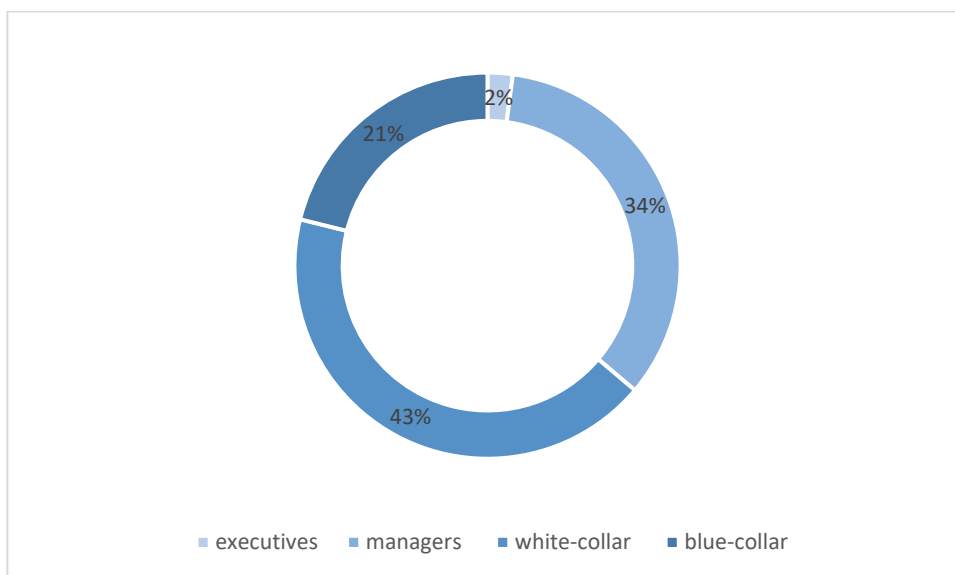
The Group offers various types of training courses to its employees, depending on their professional roles and responsibilities. These training courses are structured and categorised into different types, such as general training on quality management concepts, targeted training on specific specialised activities, and technical training for personnel whose operational skills impact product quality, including qualifications in accordance with applicable regulations.

41,548 hours of training were provided to Group employees in 2022, distributed as follows: 2% Executives; 34% managers; 43% white-collar workers; 21% blue-collar workers²³.

Training hours by employee category and gender.

Employee category	Unit	2020			2021			2022		
		Male	Female	Total	Male	Female	Total	Male	Female	Total
Executives	No.	757	5	762	317	52	369	876	10	886
Managers		3,758	1,011	4,769	4,775	1,390	6,165	11,415	2,874	14,289
White-collar		5,558	1,749	7,307	9,177	3,775	12,952	14,574	2,921	17,495
Blue-collar		4,028	356	4,384	5,608	337	5,945	8,295	583	8,878
Total	No.	14,101	3,121	17,222	19,877	5,554	25,431	35,160	6,388	41,548

²³ The training hours of Temis were estimated and refer to period september-december 2022.

Percentage of training hours by professional category - 2022

[GRI 404-1] Average hours of training per capita by employee category and gender.

Employee category	Unit	2020			2021			2022		
		Male	Female	Total	Male	Female	Total	Male	Female	Total
Executives	No.	30	5	29	11	52	13	29	10	29
Managers		19	30	22	23	31	24	49	50	49
White-collar		22	22	22	34	32	37	41	35	40
Blue-collar		12	16	12	16	15	16	23	23	23
Total (average hours)	No.	17	23	18	23	39	26	36	37	36

Of particular note are the Group's partnerships with leading Italian and European universities, with which Avio is committed to launching and promoting research projects on aerospace activities.

Finally, with a view to appreciating and contributing to the development of its employees, Avio S.p.A. has defined a framework in its Corporate Quality Policy, within which it places employee appraisals and development systems and actions. The Group is specifically committed to appreciating and respecting its employees from the perspective of mobilising their expertise, motivation levels, and personal satisfaction.

Avio has developed two specific appraisal systems:

- the Performance Appraisal System, which annually appraises the performance of a segment of the company population (managers and Executives) against personal and company targets set for the year. Appraisals are carried out by managers, who are responsible for assigning and sharing annual work targets with employees. The Appraisal System is explained in writing to the relevant individuals and all assigned objectives and appraisals are tracked on a company application;
- the Skills Assessment System consists of a project to redefine the managerial skills model. The objective is to modify the system to better meet future challenges. In 2021, a working group was established to map the skills, including the technical abilities, associated with the roles held by the employees involved in the launch campaign.

No changes were made to the Performance Appraisal System in 2022.

2022 was dedicated to the preliminary activities of developing an IT solution on the Skills Assessment System platform.

Following on from previous years, the model was used in staff appraisals, and pre-promotion appraisals specifically.

TEMIS staff are assessed annually on their acquired skills and those required for the specific role set out in the job description. Assessments are performed using the Skills Matrix. In addition to providing a rating for each skill required for the specific role, the matrix also provides a space for comments and instructions on areas for improvement. In 2023, Temis will join the Avio Group's training plan, which will give it access to a much broader and more structured training offer.

In 2022, the Career Committee continued to analyse roles and prospects for the professional development of all staff at Regulus. The Career Committee inserts the outputs of annual individual interviews and the main takeaways collected into a monitoring table. In addition, significant resources were allocated to management training in 2022. All Regulus managers at all levels participated in a multidisciplinary project lasting about six months.

Staff remuneration

The Group updates its remuneration policies in line with updates to the regulatory framework, its Code of Ethics, and its corporate social responsibility principles. Through a merit-based remuneration policy, Avio pursues the objective of attracting and retaining professionally qualified people, developing their skills and capabilities, and supporting their sense of belonging through professional development and merit enhancement.

In this regard, the Group has adopted a Remuneration Policy in line with market best practices, based on the principles of fairness, equal opportunities, and meritocracy. This Policy expresses Avio's commitment to creating development pathways for employees, managers, and workers that are based on a dedicated budget. Centrally defined by the Human Resources department, the Policy is subsequently shared and validated by General Management, which is responsible for signing off bonuses and setting overall thresholds in advance.

Remuneration packages contain a balance of fixed and variable components. Fixed remuneration relates to how valuable the employee's role and/or skills are for the organisation, using the reference values of national collective bargaining agreements (CCNL) as a basis, in addition to routine pay analyses carried out by external specialised companies. These packages are complemented by a variable portion linked to the achievement of general company performance targets. In French Guiana, variable remuneration is also linked to the contributions owed to personnel in their capacity as spaceport workers according to the Site Agreements.

The portion is appraised collectively with the Participation Bonus (PdP) and individually, for some employees categories, based on their achievement of the annual objectives established for the Variable Bonus. Performance is appraised by the employee's line manager with respect to the established objectives, in compliance with the principles of fairness, consistency, and objective judgement.

On an annual basis, the Avio Senior Management team issues a Merit and Development Policy, inspired by differentiation. Qualitative and quantitative selectivity criteria, consistent with employee roles and responsibilities, are defined in the policy for salary and category-based adjustments. We also note that – in addition to the variable remuneration paid to employees based on the achievement of individual and corporate targets – the Group has adopted a long-term incentive plan for the Group's senior managers based on economic-financial and ESG indicators.

In 2022, the Group remains committed to encouraging department heads to participate more actively in job role assessments. The objective is to increase the organisation's awareness that levels are linked to objective parameters, measured according to an internationally recognised methodology (the Hay Method).

The following tables show the ratio of basic salary and average remuneration broken down by gender, employee category, and region. The table shows the high impact of variable remuneration in French Guiana, which exceeds 50% of total remuneration for all staff. This is due to the specifics of production site activities and the related allowances provided for by local legislation, which amount to 65% of basic pay. This system guarantees staff adequate economic benefits in accordance with the Site Agreement.

[GRI 405-2] Ratio of the basic salary and remuneration of women to men for each employee category and region²⁴.

Employee category	2020		2021		2022	
	Italy	French Guiana	Italy*	French Guiana	Italy*	French Guiana
Executives	78%	-	95%	-	101%	-
Managers	99%	86%	105%	72%	97%	85%
White-collar	102%	100%	96%	98%	94%	103%
Blue-collar	95%	-	95%	-	90%	-

*The figure for Italy also includes employees of Avio France (5) and Temis (24)

[GRI 405-2] Ratio of the salary and remuneration of women to men for each employee category and region.²⁵

Employee category	2020		2021		2022	
	Italy	French Guiana	Italy*	French Guiana	Italy*	French Guiana
Executives	72%	-	101%	-	99%	-
Managers	99%	56%	103%	52%	96%	71%
White-collar	99%	93%	93%	89%	91%	66%
Blue-collar	86%	-	88%	-	82%	-

*The figure for Italy also includes employees of Avio France (5) and Temis (24)

In addition to basic pay, average remuneration in Italy includes a Participation Bonus (PdP), variable (VRL and ILT) and overtime pay. In French Guiana, it includes variable bonuses governed by the Spaceport Agreement.

The GRI 2.21 "Annual total compensation ratio" requires reporting the ratio of the annual total compensation of the organisation's highest paid person to the median annual total compensation of all employees, and the ratio of the percentage increase in the annual total compensation of the organisation's highest paid employee to the median percentage increase in the annual total compensation of all employees (excluding the highest paid person).²⁶

This information is quantified in the Group's consolidated figure: 25.4.²⁷ The Group undertakes, for the 2023 NFS, to expand the perimeter of the data to also include the other consolidated companies.

Employee health, safety and well-being

At Avio, occupational health and safety plays an important role. Indeed, employee well-being is not only a moral duty, but key to successful performance at individual and Group levels. For this reason, the Group pays special attention to and invests a great deal of energy in managing occupational health and safety issues in order to keep injuries at its offices and production sites to a minimum.

In compliance with the regulations, the Group takes a preventive approach that consists of ongoing improvement to general measures to protect Occupational Health and Safety, activities to involve its employees so that they are consulted, informed, trained and made aware of the issue, and the development of research and technological innovation for the promotion of substances, products and processes that are increasingly

²⁴ Starting in 2021, the figures also include Avio Guyane and Avio France. It should also be noted that starting in 2021, data are rounded to the nearest whole number.

²⁵ Starting in 2021, the figures also include Avio Guyane and Avio France. It should also be noted that starting in 2021, data are rounded to the nearest whole number.

²⁶ To obtain this ratio, the percentage increase of the 2022 salary compared to the 2021 salary of all employees (excluding the highest paid) was calculated by comparing the two databases as at 31.12 - adjusted for any hirings that occurred during 2022 - the median of the calculated percentage increases was then compared to the percentage increase from one year to the next of the highest paid person.

²⁷ The disclosure, required by GRI 2-21 a), refers only to the Italian companies of the Group, excluding Temis. Disclosure 2-21 b) required by the GRI Standards is not applicable for the Avio Group as there has been no increase in the remuneration of the highest paid individual.

aligned with the safety of workers and protecting their health. In addition, Avio is aware of the importance, on the one hand, of also informing and raising awareness among suppliers and contractors, and on the other hand, of checking that their behaviours, practices and procedures are consistent with the principles of the Occupational Health and Safety (OHS) - Major Accident Prevention (MAP) Policy.

The main risks assessed by the organisation concern the use of explosive and other hazardous materials used for launcher and missile propulsion systems and the corresponding regulatory changes linked to operating permits. Although various and specific activities are conducted in accordance with current regulations, the use and production of hazardous materials could give rise to accidents that, in addition to personal injury, could lead to delays or interruptions in industrial activities with possible negative effects in terms of reputation and on the equity and financial situation of the Group.

In order to fully protect and guarantee the health and safety of workers and the prevention of major accidents in all its activities, the Group has policies and procedures in place to ensure proper and uniform management of these issues.

In the Regulus Code of Ethics and Charter of Ethics the Group sets out its commitment to ensuring effective management of worker health, safety and hygiene and considers these factors crucial to its success. Therefore, in keeping with the company's values, the Group is committed to promoting the application of the highest standards in terms of health and safety and the prevention of major accidents, and protecting the physical and moral integrity of individuals, starting with the prevention and continuous monitoring of risks in the workplace, and culminating with the provision of specific measures to mitigate them, and consolidating a culture of safety by fostering communication, involvement and awareness on the part of all individuals

Specifically, Avio S.p.A. has implemented an Occupational Health and Safety (OSH) management system, in accordance with ISO 45001, and certified by an external body, and a Safety Management System for Major Accident Prevention (MAP) that complies with the Seveso III Directive on Major Accident Hazards as per Legislative Decree No. 105/2015, as amended, and the Consolidated Act of 18/06/1931, as amended, of public safety laws - TULPS. In 2022, the external certifying body carried out an integrated surveillance audit for the maintenance of the certification in order to check it was being applied correctly, following on from 2021, which saw the health and safety system transition from the OHSAS 18001 standard to the new international standard UNI EN ISO 45001.

The HSEIS Organisational Unit has overall responsibility for the implementation and control of the integrated OHS-MAP management system.

In line with this system, Avio S.p.A. has adopted the Occupational Health and Safety and Major Accident Prevention Policy and the Major Accident Prevention Policy Document, in which it describes the targets it intends to pursue in the field of occupational health and safety and major accident prevention and control to safeguard workers, the community and the environment. In addition, the Company has adopted an OHS-MAP Integrated Management System Manual and has laid down a set of procedures to govern the activities of the various Entities and Functions to coordinate their actions, identify potential accidents and emergency situations and produce suitable response plans to prevent and mitigate the relevant risks. Specifically, the response to emergency situations is defined by the preparation of an "Internal Emergency Plan" (IEP). Employees at the facility undergo awareness-raising, education and training on the IEP, and the procedures contained within it are rehearsed to verify and improve their effectiveness by involving the parties covered where possible, including third-parties. In the interests of maintaining the highest levels of excellence in occupational health and safety over time, Avio S.p.A. has set itself the goals of "zero occupational accidents and zero cases of work-related ill health" and "zero potentially major accident hazard events."

The French company Regulus has adopted the Manuel Qualité, Sécurité, Environnement (the "**Quality, Safety and Environment Manual**"), describing its integrated management system, which, in the field of safety, is mainly inspired by the international standard ISO 45001. The focus on protecting workers' health and safety is also clear from the Quality, Occupational Health and Safety and Environmental Policy, through which Regulus has set specific commitments and targets. Specifically, the French company Regulus seeks to foster continuous improvement by adopting an appropriate and effective organisational model, ensuring rigorous management of hazardous chemical agents and adopting practices and processes that minimise risks and reduce the likelihood of accidents occurring. The Safety and Environmental Manager is responsible for issues concerning workers' health and safety, and the ACACIA database (*Analyse des Causes et Conséquences d'Incidents et d'Accidents* - Analysis of Causes and Consequences of Incidents and Accidents) has been set up. This enables incidents, accidents or potentially dangerous/unsafe situations to be reported. Regulus has also formally adopted an Occupational Health and Safety and Major Accident Prevention Policy in accordance with Directive 2012/18/EU of July 4, 2012 (known as Seveso 3).

The Avio Guyane company was established in 2018 and acquired responsibility for the VEGA launch production site at the CSG (*Centre Spatial Guyanais*) in French Guiana in 2020.

The well-being of Avio Guyane employees is not only a moral duty, but key to successful performance at individual and Group levels. With reference to occupational health and safety management and major accident prevention, the main risks assessed by the Company concern the use of explosive/pyrotechnic materials (solid and liquid propellants). Although there are specific risk reduction obligations (planning and implementing activities in accordance with the schedule, risk analysis carried out for each activity, every transaction being based on a written and approved procedure), the use of explosive/pyrotechnic materials in significant tonnages could give rise to accidents that, first and foremost, could cause significant personal injury, and might also lead to delays or interruptions of industrial activities with possible negative effects in terms of reputation and on the equity and financial situation of the Avio Group.

Specifically, Avio Guyane has implemented a Safety Management System for Major Accident Prevention (MAP), complying with the Seveso III Directive on major accident hazards and, in 2021, passed audits carried out by the French ministerial body.

Up to 2021, Avio Guyane's worker participation and consultation activities were carried out through direct contact with workers. By 2023, Avio Guyane will have a Social Economic Committee.

All annual training activities required and governed by the French labour code are carried out. Specifically, basic training activities are provided on general and specific training for workers and qualifications on electrical skills, work at height, third category devices, pyro 2 and emergency plans. Deadlines are managed and the relevant updates are scheduled and performed. As specific needs arise, additional health and safety training activities and/or training on related themes are planned and delivered.

Finally, the Company has taken out a voluntary supplementary health insurance policy for each employee.

In 2022, at the Avio Colleferro facility, there was one work-related injury and two²⁸ that occurred on the home-work commute and may therefore be categorised as off-site injuries, and two injuries in French Guiana.

Overall, no fatal accidents were recorded, either among employees or sub-contracted staff, and no cases of work-related ill health were noted. In addition, there were no injuries to Group employees²⁹.

In addition, standard prevention initiatives continued in 2022, and included:

- 1) sharing the findings of root cause analysis with both managers and workers through their representatives;
- 2) reminders of compliance with safety regulations in a vigilant and proactive spirit, and in particular raising awareness of near miss reporting;
- 3) progress on monitoring fortnightly briefings on departmental RADs.

²⁸ On 21/03/2023, INAIL recognized an accident during the journey declassified in the year 2022, leading to a number equal to 3 for those during the journey.

²⁹ The hours worked by the Group's workers in Italy were 40,225 in 2019, 38,838 in 2020 and 47,754 in 2021, and so the injury rate for both years is 0. The estimated hours worked by Group employees in French Guiana were 8,600 in 2019, 9,400 in 2020, and 5,488 in 2021, and so consequently the injury rate for both years is 0.

[403-9 403-10] Work-related injuries ³⁰

Employees and non-employees	2020	2021	2022
	Italy		
Total recordable injuries	4	0	1
Total fatalities as a result of work-related injuries	-	-	-
Total work-related injuries with serious consequences (excluding deaths)	-	-	1
Cases of work-related ill health	-	-	-
of which "fatalities"	-	-	-
Total number of hours worked	1,479,466	1,517,488	1,688,467
Total recordable injury rate³¹	2.7	0.0	0.6
Rate of death due to work-related injury³²	-	-	-
Rate of injuries with serious consequences³³	-	-	-
	French Guiana		
Total recordable injuries	1	0	2
Total fatalities as a result of work-related injuries	-	-	-
Total number of work-related injuries with serious consequences (excluding fatalities)	-	-	2
Cases of work-related ill health	-	-	-
of which "fatalities"	-	-	-
Total number of hours worked	135,743	135,630	140,287
Total recordable injury rate	7.4	0.0	14.2
Rate of death due to work-related injury	-	-	-
Rate of injuries with serious consequences	-	-	-

*The figure for Italy also includes employees of Avio France (5)

³⁰ 2020 marked the beginning of reporting of injury data using the new GRI Standard 403, published by the Global Reporting Initiative (GRI) in 2018, replacing the 2016 version. For this reason, data for 2019 have been reported with respect to the requirements of the new indicator.

³¹ Recordable work accident rate: no. recordable work injuries/hours worked *1,000,000

³² Death rate: no. total deaths due to accidents at work/hours worked *1,000,000

³³ Accident rate with serious consequences (excluding deaths): no. accidents with serious consequences (excluding deaths)/hours worked *1,000,000

Dialogue with social partners

The Group undertakes to promote the ongoing exchange of information and advice with trade unions on issues of common interest to ensure the well-being of its workers and the protection of their rights.

Dialogue is conducted through constant liaison in order to promote a participatory corporate culture, ensuring constructive dialogue to achieve an ongoing understanding of the organisation's needs.

The principles of transparency, independence and integrity underpin the relations maintained by the relevant corporate functions with trade union organisations.

Seeking to ensure strict compliance with the legislation, Avio's employment contracts with its employees comply with applicable national and international standards.

In this regard, it should be noted that all Group employees in both Italy and French Guiana are covered by collective bargaining agreements.

Nonetheless, the Group is potentially exposed to the risk of conflict (e.g. strikes or petitions) in the workplace connected with disputes over specific company decisions (e.g. negotiation of contractual conditions that are not advantageous to individual workers or specific categories of workers) or with external factors (e.g. national and/or industry protests against government actions). The occurrence of such situations and strikes or work stoppages at the Group's facilities may expose it to the risk of a worsening working environment, leading to lower productivity, higher staff turnover, and, potentially, even a deterioration in the company's reputation.

In this context, regular liaison with the trade unions is particularly important, in order to put in place ongoing and advance communication about business-related issues that may impact workers.

In 2022, elections for the new General Workers' Representative Body (RSU) were held as scheduled. Union agreements were signed with the body on various issues: ROL (reduced work hours) management, summer and Christmas closure, funded training plans, the profit participation bonus and the extension of "non-emergency" and voluntary smart working, with individual agreement.

In addition, the RSU was also involved in the following issues: development of the Company and initiatives introduced by it, corporate economic performance, merit and development policy with special focus on blue-collar workers, meeting with the Chief Executive Officer on the company's end-of-year situation.

In H2 2022, the annual meeting with the Regional Representatives was also held in order to set out the company's performance in the presence of Company Management.

In 2022, the Overseas Company Regulus also signed three agreements with trade union representatives on remote working, purchasing power protection, and NAO (Négotiation Annuelle Obligatoire). In 2022, factors related to the assessment of psycho-social risks were monitored. These included the reduction of activities, variable remuneration, and communication. In 2022, the RPS (Risques Physico Sociaux) Committee continued its work and subgroups endeavoured to improve working conditions. In addition, the QVCT ("Quality of Life and Working Conditions") evaluation method was consolidated with a periodic survey. We also note the launch of a free psychological telephone help desk in 2021.

In the event of significant operational changes, it is important to note how Group companies manage the notice period provided to employees. Each Group company refers to local regulations on this point. For Italy, the notice period depends on the applicable regulations. With regard to the Regulus, a foreign company, we highlight that in French Guiana notice is governed by the "*Convention Collective Nationale des Industries Chimiques (CCNIC)*," and provides for an information and consultation meeting to be held at least two months before the organisational change.

COVID-19

In 2022, measures remained in place to counter the spread of COVID-19, through the publication of internal Avio procedures to measure body temperatures before entering the facility, check green passes, manage suspected or confirmed cases of infection, clean and sanitise work environments, for the distribution of masks (initially FFP2 masks then later surgical ones), the use of sanitation kits in meeting rooms, further expansion of office space, the immediate diagnostic service of antigen swabs and PCR etc. and through the adoption of a risk assessment document (RAD) 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 third-party employees and visitors.

In January 2022, we also provided all employees with a medical chat service based on innovative technology and design features aimed at improving access to primary care, while developing a convenient, accessible service to make first contact with a general practitioner.

Until March 31, 2022, the Company granted the possibility of remote work for parents with at least one child under the age of 14, as per Article 90 of Italian Decree-Law No. 34/2020, the "Relaunch Decree", and for "special-needs" employees with certain medical conditions. Subsequently, remote working was extended from April 1 to December 31 and also covered workers to whom Article 90 did not apply, giving the option to use the measure four to six days per month.

"Non-emergency" and voluntary smartworking, by individual agreement, was then extended to December 31, 2022, and further extended to March 31, 2023.

As of November 2022, in line with the June 30, 2022 protocol, the rules for reducing the risk of COVID infection in private environments lapsed and as of that date, mask distribution to employees in the company ceased. Masks remained mandatory only for entry to the Infirmary as per the Ministry of Health's October 31, 2022 order. Distances between workstations in offices and meeting rooms were also reduced. However, the rule of antigen swab tests when going to and returning from French Guiana remained in effect.

INNOVATION

Identifying, interpreting and promoting change are the three key components for creating a culture of innovation, ensuring the development of new products and safeguarding Avio's competitiveness in an ever-changing market.

Since its establishment, Avio has demonstrated its ability to lead and direct innovation through technologies untrammelled by borders, projects that constantly look to the future and a strong commitment to constant improvement.

The aerospace industry, characterised by rapidly changing technologies and a high level of competition, is a unique sector in the economy, and the businesses operating within it must carry out significant research and development activities to produce cutting-edge technologies and products. In this context and in line with its corporate mission, products and services research and innovation form the foundation for Avio's competitive advantage.

In 2022 the Group continued its technology development activities in the following main areas:

- Developing new materials and processes for the fabrication of structures and components for liquid propulsion systems, including researching innovative alloys for the production of components in ALM (Additive Layer Manufacturing) and optimising the associated manufacturing process through the design of an intelligent manufacturing centre for the production of space engine components;
- Researching new ceramic matrix composites and polymer matrix thermal protection;
- Extending the production chain for High Performance Composite Materials in the cryogenic field for the creation of large cryogenic composite tanks; developing and manufacturing these tanks in thermoset and thermoplastic materials on a 600 mm scale;
- Looking for new propulsion systems, based on green propellants, not only for launch applications, where Avio's LOx-LNG technology is now ready for industrial development, but also for orbital applications, for which the ability to store propellants for long periods of time is essential. In this context, work began in 2022 designing the architecture of a 1000-4000 N class green engine able to replace the Avum engine and at the same time provide the Italian industry with a green engine for orbital applications. In addition, research continued on new generations of green energy molecules for applications in solid propulsion;
- following the inauguration in October 2021 of a test stand for testing cryogenic liquid thrusters in the 10-tonne thrust engines class (M10 engine), the development of new test stands for testing

higher thrust class engines (M60) and entire cryogenic propulsion systems (LPM- IFD) has also begun at the same facility;

- continuation of architecture and feasibility studies of a high specific impulse LOx-LNG engine in the 60-tonne thrust class (M60);
- researching future applications and versions of the Vega launcher as a starting point for new research and exploration opportunities, such as: affordable solar system exploration projects on NEO (near-earth objects) routes, in-orbit servicing missions, conducting low-cost experiments for educational and scientific purposes, and payload recovery with re-entry and landing on airport runways;
- continuation of development activities for a paraffin-based hybrid propulsion system whose possible application was identified as the last stage in a future iteration of the VEGA launcher. The accompanying studies for the future generation of space transport services for small and medium payloads.

AVIO began a new research path in electronics/avionics in 2022. A collaboration began with the department of electronics at Tor Vergata University, focusing on the following topics:

- evolution of the system for developing and processing launcher control systems and orbital transport systems with degree theses courses involving application experimentation at AVIO;
- innovative SW simulation techniques of launcher control systems with degree courses for implementing a “digital twin” for the launcher control system;
- innovative techniques for evaluating the effects of the cosmic environment (radiation) on electronic components

In 2022, research activities were also carried out at the systems level through:

- research on in-flight demonstrators to characterise the operation of cryogenic systems in microgravity and research on stage re-entry for the purposes of reuse;
- system management techniques using the model-based system engineering approach to streamline processes, documents, development time and costs

The space sector economy currently features rapid technological progress and a high level of competition. As a result, companies operating in this market are required to carry out significant research and development activities in order to create the cutting-edge technologies required to offer competitive products. To this end, Avio also extends its network of scientific exchange and new product development partnerships through research collaboration with prestigious Italian and international universities and research centres. In addition, Avio supports technical and operational collaborations with the main European space agencies, in particular the Italian Space Agency (ASI), the French National Centre for Space Studies (CNES) and the European Space Agency (ESA).

Dependency on the research and development activities of public contracting authorities (such as the ESA, ASI, ministries of member states, etc.) and/or public subsidies provided by national or European Community funds or other entities exposes the Group to the risk of failing to procure the funds needed to carry out such activities should the Italian government or other national and Community public authorities definitively discontinue such funding.

Avio plans research and development activities in competitive and pre-competitive areas by revising its research plan on an annual and five-year basis, in line with the company's mission and vision, including self-funded or partially co-funded activities. All activities in the Research Plan are managed according to the classic enterprise project development method, and the resulting entries are recorded in the EPM (Enterprise Project Management) system, which monitors their progress levels. In addition, the activities are formally reviewed three times each year.

Compared with the previous year, the level of self-funded and co-funded research activities remained steady, due to a focus on the targets of developing technology to adapt Avio's products to a fast-changing and highly competitive market, preparing for the transition to technologies with lower environmental impact, including through infrastructure investment.

To ensure high levels of research and innovation and to expand its role in the aerospace sector, Avio is committed to widening its network of scientific exchange and partnerships for new product development with various players on the international scene, and has joined trade associations such as the Union of Industrialists of Rome (in the Confindustria circuit) and Assonime.

In the same context, and with a view to adding value to the link with the region and the local community, the Group has promoted several involvement and sponsorship initiatives in Italy to incubate technical skills in the space sector.

The company is also active in the areas of the environment, the local region and social inclusion through various initiatives promoted as part of development processes:

- sponsoring the master's in space transportation systems at the Sapienza University of Rome;
- granting scholarships for doctorates in technical disciplines;
- providing curricular internships for theses on technical disciplines through agreements with Italian and foreign universities;
- sponsoring events (national and international conferences and workshops);
- sponsoring educational visits for master's students in technical disciplines;
- identifying and implementing investments in research, innovation or new technologies in Italy, with the involvement of SMEs, universities and research institutions.

In addition, AVIO has partnership agreements with the Sapienza University of Rome, the Polytechnic University of Milan and the University of Bologna-Forlì.

All these activities carried out by the company impact the region and local communities. The various benefits include the creation of revenue in innovative and critical technologies opening up to SME value chains in the region, the creation and incubation of state-of-the-art skills in the technical field for the space sector, with opportunities for the internalisation of exchanges and spin-offs to other industrial sectors and services to raise awareness among the community and in the region of the opportunities provided by the availability of space access systems. Some examples are space missions proposed by Italian universities or research institutions, including those for in-orbit demonstration or training purposes, based on access to space through Vega.

Avio's ability to innovate and to use its know-how as a strategic lever to maintain its technological and commercial competitiveness can also be measured by the patents it has filed over time. In order to protect intellectual rights, as of the end of 2022 there are 18 patents filed (already acknowledged or pending acknowledgement by the relevant offices), mainly focused on products and technologies integrated into manufacturing processes.

QUALITY AND SAFETY AT AVIO

Quality in business processes ensures product and service quality and safety

The quality and reliability of a product and service depend directly on the Group's ability to adopt the appropriate technologies and processes to manufacture products. Advanced technologies constitute the key to optimising manufacturing processes, ensuring products with excellent quality standards, which are also able to protect employee health and safety and respect the environment.

As evidence of the emphasis that the Group places on quality in its business development strategies, every implementation process that goes into the design, development and creation of a product or service, along with the auxiliary or supporting processes, is mapped using quality management systems that meet the ISO 9001:2015 and EN 9100:2018 standards for Avio and ISO 9001:2015 for Regulus.

As required by the rules for maintaining certification, Avio underwent a certification renewal audit carried out by the certification body RINA in January 2023.

These systems are documented and maintained and are designed to ensure that the products and services provided meet customer expectations and applicable mandatory requirements, while also enabling continuous performance improvement, improving competitive market positioning. The systems constitute a fundamental tool in defining the rules and limits to be applied to quality control at all levels. The main processes are therefore governed by procedures and practices that incorporate contractual standards and rules to maximise the quality levels of each product and process.

The Group's commitment to the quality and safety of its products and services is underlined in both Avio's corporate Quality Policy and Regulus' Quality, Occupational Health and Safety and Environmental Policy. Both of these policies express a commitment to achieving and maintaining over time the highest standards of excellence in quality, product performance, competitiveness and service, at all times in compliance with mandatory standards. Avio's Quality Policy, presented in the Quality Manual and disseminated and communicated to all personnel, is based on the following key principles and objectives:

- Proactivity: anticipating the expectations of customers regarding the product and service provided;
- Compliance: meeting customers' needs and expectations in a timely fashion;
- Improvement: maintaining a continuous improvement process that extends to all business processes;
- Competitiveness: designing and producing products and services competitively;
- Integration: establishing relationships with suppliers that are mutually beneficial;
- Communication: facilitating transparent access to information.

Avio's product safety policy set out the following guiding principles: compliance with regulations issued by Control Authorities, company procedures, and customer requirements, continuous staff training on and awareness of the issue, and Human Factor risk analysis and assessment.

2022 saw consolidation in the operation of the corporate organisational structure, which was updated in 2021.

The new organisational structure as implemented represents a further improvement in product safety within space transportation systems. The main developments are:

- the Quality Department, dedicated to overseeing the planning and progress of projects and promoting improvement and cost reduction initiatives;
- the introduction of a Chief Technical Officer (CTO), to ensure an additional barrier/independent verification for technical decisions.

In the process to introduce a new product (set out in the Quality System Procedures), requirements or objectives concerning safety, the environment, availability, maintainability and reliability are identified in the early stages of development and tracked as early as the high-level specifications.

Most safety requirements are mandatory and are therefore derived from national laws, international laws, or the laws of the country in which the product's operational life will take place. During the development and qualification process, alongside the issue of the design baseline, the status of justification, verification, and requirements validation is subject to design review, and any remaining critical issues are examined and assessed during the implementation status. For operational applications, review is normally carried out by government agencies using a principal process of enabling or disabling transactions involving the product and/or its operation. Product Engineering is responsible for ensuring that the product complies with the requirements, and signs off on its qualification status alongside the Product Quality Manager. The process of establishing a product's conformity with requirements is organised throughout the chain of technical responsibilities, which corresponds to the product's technical organisation chart.

In accordance with contractual requirements, when selling its products (components, assemblies or integrated launchers), the Group must certify their compliance with requirements and highlight any deviations using the Register of Individual Controls (RCI). The compliance status of a product under development (including as regards safety requirements) is identified at key design review events through the compliance status tracked in the "compliance matrices", which are often gathered in the "Verification Control Document" or the Justification Dossier. The status of critical issues (particularly as regards operational security) is tracked in the Critical Item List booklet. These records, which are may potentially be revised during the development phases, become final during qualification and/or certification. Since the company's industrial activities involve chemical products - the use of which is subject to legal requirements both in terms of personnel and safety and environmental impacts - any regulatory changes in this regard may require industrial adjustment measures to protect the environment and ensure safety, which may in turn have economic consequences and affect business continuity.

The Quality Department is responsible for monitoring the quality of the product and business processes and certifying that the product produced conforms to the requirements set out in the project. This Department works closely with the Technical Bodies responsible for preparing and validating technical files that certify the conformity of manufactured components with acceptance specifications. The role of these functions is critical for a Group like Avio, where products and service quality and safety must be ensured from the product design stage. For Avio to design unsafe and unreliable products would mean risking the loss of space missions and consequently more than merely economic consequences for the company, but also for customers and in some areas (e.g. in the event that surveillance and/or telecommunications systems become unavailable) for national security. A total of 45 audits were therefore conducted in 2022, of which seven were product audits, 15 process audits, 16 supplier audits, and seven subcontractor audits.

As regards the assessment of risks relating to product health and safety, all qualified products undergo a hazard analysis carried out by Avio S.p.A. (which has design authority over the products). For products in development, the process relates to the level of maturity.

To date, of 32 final products in portfolio, 26 have been analysed for health and safety risks.

The Avio Group considers it essential that its relationships with its customers are based on the pursuit of maximum transparency and fairness, in its constant commitment to satisfying their expectations. It therefore emphasises, including in the Company Code of Ethics, that Group Companies are required to develop honest, fair, professional and transparent relationships with customers in order to maintain profitable and lasting relationships, offering safety, service, quality and value through continuous innovation. In this regard, and as required by the quality management system, Avio S.p.A. undergoes customer satisfaction assessment, once the metrics for evaluating its performance have been agreed with said customers. The Group uses this survey to understand customer expectations regarding the quality (absence of defects) of the product delivered or service provided, and also in terms of meeting contractual deadlines (punctuality). The results of these surveys are periodically analysed, and where any critical issues emerge during implementation, these results allow improvement action plans to be developed.

As regards environmental aspects, one of the objectives with the highest value in the medium to long term is to shift product development towards "green" propulsion technologies. This will see the development of another evolution of the Vega-E Launcher, equipped with a single stage with a Methane/Oxygen liquid propellant engine to replace the engines of the last two stages of the current Vega configuration, which use solid propellant and storable liquid propellant.

A number of particularly significant events occurred during 2022, which are listed below:

- July 13, 2022 - VEGA C completes its maiden flight, inserting the primary payload LARES-2 (an Italian Space Agency science mission) into its planned orbit, with six research CubeSats from France, Italy and Slovenia flown as secondary payloads;
- the first test campaign of the full scale DM1 model of the complete M10 engine including fire tests is successfully carried out on the new SPTF test stand in Sardinia. This involves, in brief:
 - March 16, 2022 - Test Readiness Review for the Firing Test;
 - May 5, 2022 - First Firing Test successful;
 - September 22, 2022 - 10 Test days and Firing Test campaign conclude.

LOx-LNG propulsion is considered, due to its non-toxicity and reduced emissions, a promising option for future evolutions of the VEGA launcher, and the M10 engine in particular is planned to equip the last stage of the VEGA-E launcher. Studies for the development of an attitude control system based on "green" monopropellant technology and the development of a storable "green" liquid propellant last-stage motor were also pursued during the year, both domestically and in Europe.

Also worth highlighting was the increase in P120C production frequency (16 units in 2022).

On November 22, 2022 the Council Ministerial Meeting for ESA member states was held in Paris. This saw the budget for space research and development programs allocated for the period 2023- 2025, with a 17% increase at the European level and a 35% increase at the Italian level in the funds allocated compared to the previous three-year period. Specifically, programmes in which Avio is Prime Contractor have seen a significant increase.

In terms of product development with a view to greater environmental sustainability, Avio's goal is to finalise the developments of LOX/LNG cryogenic liquid propellant engines, which are due to reach maturity for in-flight use in 2026. Development of a new generation of green storable single-propellant thrusters for attitude control should also have concluded by that date. This generation of thruster will set a new green standard for the space applications of chemical propulsion. The main business functions involved in development processes will contribute to achieving the goal, with the Engineering Department overseeing technical management and the participation of various national and international partners.

Safety in industrial management

The Group ensures that facility health and safety requirements are considered from the start of each phase of new project activities, thereby guaranteeing its commitment to an appropriate and effective industrial and plant model.

Responsibility for compliance with Occupational Health and Safety policies rests with the Employer and the Executives delegated by the Employer, who are in turn supported by the duly trained and appointed Supervisors. The Employer and the Executives are supported by the PPS (Prevention and Protection Service) and HSE Entities in assessing specific risks and defining the prevention and protection measures to be enacted.

In order to provide proper support for its technical, industrial, and management processes, Avio uses a number of applications that make up the Information and Communications Technology (ICT) platform. The Group has planned significant investment in the construction and implementation of safety equipment and means of protection within its infrastructure. Any anomalies are duly recorded and reported through the conduct of periodic audits and reviews.

Activities at Avio's Colleferro Facility that involve the use of substances and preparations classified as explosive and/or comburent are authorised and controlled by the Ministry of the Interior to ensure that they are planned and carried out in compliance with the safety criteria established by the Regulation of Execution of the Consolidated Text of 18/06/1931 of the Laws of Public Safety (Royal Decree No. 635 of 06/05/40). Avio S.p.A.'s Colleferro facility falls under the obligations of Legislative Decree No. 105/2015 (upper threshold) for the possession of substances classified as Comburent and Explosive. The Group has therefore put in place a set of company procedures to ensure that they are correctly used and managed in line with applicable laws and regulations. Specifically, reference is made to the adoption of the Integrated Management System for Occupational Health and Safety and Prevention of Major Hazards, which encompasses all procedures pertaining to safety management and has been certified by an external Competent Authority since 2010, moving from OHSAS 18001 to the current ISO45001.

Activities at the Avio Facility in Colleferro that involve the use of radiogenic machines for X-Ray testing of propulsion system components are also subject to the requirements of Law No. 230/95, as amended, which regulates the possession and use of radiogenic sources.

With the specific objective of establishing the rules of conduct and defining the operating methods of both individuals and the various company functions involved in emergency management, the Internal Emergency Plan (IEP) was prepared for the Avio S.p.A. facility in Colleferro, in accordance with Article 20 of Legislative Decree No. 105/2015. Specifically, this document is designed to control and contain accidents, enacting the necessary measures to protect human health and safety and the environment from the consequences of major accidents, adequately informing workers and relevant local departments or authorities, and guiding the environmental restoration and cleanup in the wake of a major incident. Employees at the facility undergo awareness-raising, education and training on the IEP, and the procedures contained within it are rehearsed to verify and improve their effectiveness by involving the parties covered. In the interests of maintaining the highest levels of excellence in occupational health and safety over time, Avio S.p.A. has set itself the goals of "zero occupational accidents and zero cases of work-related ill health" and "zero potentially major accident hazard events."

In relation to the workings of industrial transactions and explosive/chemical materials, the most significant risks are those set out in Legislative Decree No. 81/2008. These include, for example, explosion risk, chemical and carcinogenic risk, electrical risk, fire risk, handling and transportation of active materials. Any industrial-type events caused by human error or the failure of a safety organ or related to a natural disaster, the probability of which could be mitigated through proper assessment of the relevant risks, could adversely affect production.

The Group recognises and is cognizant that the use of hazardous, explosive or comburent substances is an operation with a potential impact that could extend beyond the scope of the facility. This impact, in fact, is carefully controlled by the Colleferro industrial oversight organisation, which assesses its risks both in the Risk Assessment Document (RAD) and in the Safety Report pursuant to Legislative Decree No. 105/2015, which accurately reports on the different areas of impact, reversibility and probability of occurrence for each possible event. Similarly, every building at the facility in French Guiana, all of which comply with local French legislation and are located at an appropriate distance from the city's urban center, are carefully monitored in terms of their impacts on local communities. As of the date of this document, no significant residual risks to the outside population related to these issues have been identified.

In line with the aforementioned international standard OHSAS 18001 and local regulations regarding major accident prevention, the management system adopted by the Group companies on Occupational Health and Safety and Major Accident Hazard Prevention provide for the presence of resources that reflect adequate management of health and safety and prevention of related risks in the work environment. Specifically, for Avio's Colleferro facility, the head of the Industrial Operations Department, as the Holder of the licenses for the possession, manufacture, transportation, and sale of explosives and explosive products under the implementing regulations of the Consolidated Law on Public Security (TULPS), is responsible for the application of and compliance with the TULPS and its implementing regulations as regards the manufacture of explosives. The

Head of the Production Department is the MAP (Major Accident Prevention) Manager pursuant to Legislative Decree No. 105/2015. As the person in charge of plant maintenance, s/he is delegated operational powers to manage facilities at risk of major accidents.

Among the organisational functions involved, Avio S.p.A. has also identified the Materials Engineering and Processes and Health, Safety and Environment structures with overall responsibility for the application and control of the Occupational Health and Safety and Major Accident Prevention Management System (OHS-MAP MS). The head of this Department assumes the role of Management Representative for the Occupational Health and Safety Management System (OSHMS) and Environmental Management System (EMS), in addition to Employer Representative for the Major Accident Prevention Management System (MAP MS).

At Regulus, the Industrial Department and the Safety and Environment service are responsible for implementing and maintaining an appropriate management system in line with the relevant international standard, an adequate safety system designed to assess the importance of production impacts and risks, in addition to ensuring the protection of industrial sites and the people within them (workers or visitors). Safety information and training programmes for workers and refresher training for safety professionals are also defined and enacted.

Site access security

Given the nature of Avio's business, the physical security of people and property, including premises, documentation and any other assets necessary for the company's operations, is of particular importance. Avio therefore makes use of an in-house corporate security body, which is responsible for physical security and management of classified documentation. For the protection of the Site, this body is supported by a Security Company.

This company holds a Prefectural Licence issued by the Prefect of Rome and provides armed security guards in the concierge area, contributes to the protection and safeguarding of sensitive and classified information, materials and premises through a whole series of activities by enacting the provisions of the Prefectural Licence.

The Security & Facility & Risk Management function carries out its activities in accordance with the guidelines of its various operating instructions and, to the extent within its remit, of the requirements set out in the procedures contained in the Major Accident Prevention (MAP) management system. All of this is carried out in strict compliance with the applicable regulations, including, for importance, Law No. 124 of 2007 and Ministerial Decree No. 3 of October 2, 2017 ("Provisions for the administrative protection of State Secrets and Classified and Exclusively Disclosed Information"), as amended, and in line with the applicable company Policies.

In this regard, we highlight the relationship of active cooperation with the relevant national security authorities established by the function which is designed to maximise the benefits of the national system.

The function intends to install licence plate reading cameras in 2023, including on secondary gates, to ensure improved efficiency in controlling vehicles entering and circulating in the facility, and will also install an additional set of security cameras. A gate blocking access to unauthorised vehicles from the municipal provincial road has also been added.

The Company is assessing the possibility of adapting the procedure for sealing sensitive containers shipped from the Colleferro site to include additional type of metal seals. The objective is to optimise the length of time required to complete the process while maintaining guaranteed safety levels.

Cyber security

The holistic approach that Avio takes to security places great emphasis on safeguarding the organisation's information assets. The Group has access to sensitive and confidential information, and as described in its Code of Ethics, Avio is therefore committed to handling this information in compliance with all applicable laws on confidentiality in order to prevent the serious crisis situations that could occur in the event of unauthorised access and dissemination of this information. Data breach events could - for example - jeopardise competitiveness associated with research and development, potentially render products and services prematurely obsolete, or cause the Group to incur contractual penalties, generating negative effects on its business and its prospects.

When performing public contracts for the construction of classified material which therefore require the handling of confidential information covered by state secret or classified under the North Atlantic Treaty, the European Union or international agreements, as governed by Law No. 124 of August 3, 2007, ("Information System for the Security of the Republic and New Discipline on Secrecy") as amended, Avio guarantees that its

classified activities are carried out in compliance with the applicable regulations regarding the protection and safeguarding of classified information (Ministerial Decree No. 5/2015 - "Provisions for the administrative protection of State Secrets and Classified and Exclusively Disclosed Information" as amended and supplemented by Ministerial Decree No. 3/2017), and is authorised to process this information on the basis of specific clearances (Nulla Osta Security - NOS and Nulla Osta Industrial Security - NOSI). All classified information is processed in dedicated areas, created in accordance with the criteria set out in the relevant regulations; access to classified information is regulated according to the security criteria and procedures provided for the processing and consultation of classified material, and the IT management of classified information within the designated areas complies with and applies all security policies described in Ministerial Decree No. 3/2017. In 2022, Avio underwent an inspection visit by the relevant bodies of the Prime Minister's Office, which sought to verify compliance with the requirements imposed by applicable regulations on the protection and safeguarding of classified information. The inspection committee identified no particular critical issues and made suggestions for improvement, which are now being enacted.

In 2022, Avio continued to strengthen its cyber security measures by finalising the release of (i) an Endpoint Detection & Response (EDR) solution used to protect enterprise devices from the most sophisticated attacks while ensuring zero-trust access to enterprise applications, and (ii) a Network Access Control (NAC) solution to detect, classify, and assess the compliance of devices connecting to the enterprise network in order to proactively reduce the attack surface and respond quickly to security events.

From an infrastructural point of view, we note (i) the introduction of an additional IPS (Intrusion Prevention System) to protect the data center from any lateral movements made from within the corporate network, (ii) the introduction of an additional backup infrastructure designed to ensure high standards of RTI (Recovery Time Objective) and RPO (Recovery Point Objective) in the event of damage to the physical infrastructure of the CED (e.g. a collapse), and (iii) ongoing efforts focusing on the timely removal of obsolescent hardware and software associated with the lifecycle of the various elements constituting the corporate IT infrastructure.

Finally, as a consequence of the outbreak of the conflict between Russia and Ukraine, Avio adopted a series of precise measures to adapt and update its protection systems, including (i) the constant updating of compromise indicators (carried out punctually on the basis of the security bulletins issued periodically by the Italian CSIRT - Computer Security Incident Response Team) (ii) the inhibition of data traffic to and from Ukraine and the Russian Federation, (iii) the introduction of mandatory prior sandbox scanning of files downloaded from the Internet and (iv) the introduction of the mandatory prior classification of sites visited while surfing the Internet.

At all times bearing in mind that the first line of defence is the human element, and cognisant of the increase in criminal cyber activity associated with rising international tensions, the Company also invested in training by delivering a new "Cyber security awareness" training plan designed to improve all employees' awareness of cyber security topics such as Data Protection, the most frequent attack tactics (Smishing, Vishing, Social Engineering, Spear Phishing, etc.), the importance of proper "digital hygiene" (Clean Desk Policy) and the need for responsible use of Bluetooth and Wi-Fi.

No requests were received from the Privacy Authority in 2022, and the Company received no complaints referring to alleged violations of privacy compliance. Avio appointed a Data Protection Officer (DPO) for each Group company in 2022, in compliance with the GDPR regulation.

RESPONSIBLE SUPPLIER RELATIONSHIPS

Responsible supply chain management plays a key role in improving the Avio Group's competitiveness. Avio carefully selects its suppliers in order to ensure sustainability and relative traceability of supplies.

As part of its business, the Group mainly uses suppliers and sub-contractors to supply components, semi-finished products and raw materials. Replacing certain suppliers and sub-contractors is difficult and always involves significant additional costs and long qualification times.

The Group's production model requires raw materials and components, classifiable as Direct materials, which can be traced to the following macro commodity areas for the manufacture of its products (engines and launchers):

- Commodity: chemicals/metallic materials;
- Flight components: solid and liquid propulsion engines/stage components/electronic components/structural components.

Furthermore, to ensure the internal operation and production of the products delivered to Customers, Avio procures Indirect materials (plant, equipment, personal protective equipment, etc.) and Services (ICT, Security, Transportation etc.). Procurement policies for these Indirect materials and Services follow the same rules as for Direct materials and are governed by common internal procedures.

The supplier system also plays a key role within the Avio Group. To consistently ensure maximum customer satisfaction, the Group selects suppliers based on their ability to deliver in terms of quality, innovation, cost and service. As set out in the company's Code of Ethics and in Regulus' Charter of Ethics, the performance indicators that guide the Group in choosing suppliers are based on appropriate and objective methods, taking into consideration, in addition to quality, innovation, costs and services offered, the subjective requirements of integrity, reputation and professionalism.

Considering the business sector in which it operates and the uniqueness of its supply chain, the absence of any past or present suspicion of involvement in terrorist activities or subversion of public order is of particular importance in supplier selection. Avio is committed to verifying that suppliers are not included in the reference lists for entities linked to international terrorism, i.e. in the "Black Lists" issued by the European Community, the U.S. Treasury Department and the UN, to help prevent and combat money laundering and the financing of international terrorism.

The Avio Group also guarantees all suppliers equal opportunity and equal treatment in the negotiation, conclusion and execution of contracts in terms of the availability of information, supply terms and conditions, and technical decision-making criteria. Specifically, as regards the contract stipulation phase, the Group's Italian companies require their suppliers and sub-contractors, both international and Italian, to sign the company's Code of Ethics when they sign the contract. If they have a Code of Ethics of their own its equivalence is checked. Suppliers managed by the companies in French Guiana, meanwhile, are required to sign the Group's Charter of Ethics.

Regulus manages its suppliers independently, adopting the principles and guidelines issued by the parent companies (Avio S.p.A. and Ariane Group). In 2021 Regulus also adopted a Supplier Charter of Ethics (*Charte Etique Fournisseur*) to include clauses on respecting human rights, the principles of the anti-corruption code, and the values of social responsibility and sustainable development in its contractual relations.

Regulus requires that its suppliers hold a Fiscal and Social Regularity Certificate and that they accept the general purchasing conditions of the Supplier Charter of Ethics (*Charte Etique Fournisseur*).

Avio requires its Italian suppliers to produce a *Documento Unico di Regolarità Contributiva* (Insurance Contribution Certificate).

The survey linked to the MANF module (for supplier inclusion in master data) continued to be delivered, collecting environmental and social data through a checklist to be filled in by suppliers and then taken into consideration by the Purchasing Department when defining shortlists of suppliers for tenders (PR4.3.1-2 Issue of request for proposal).

As per the procedure, the survey was forwarded to all suppliers added to the registry in 2022 (100%). 97% of suppliers responded to the survey (reflecting an increase in supplier sensitivity to non-financial issues).

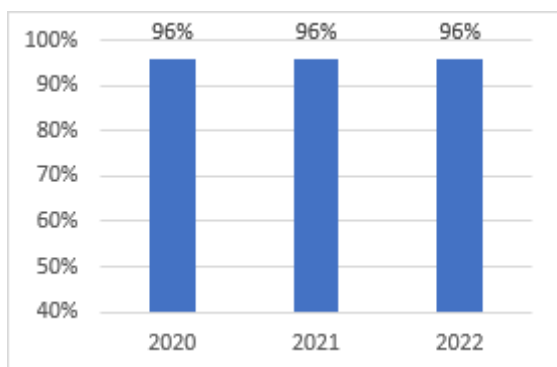
The Purchasing Department continues to use the process to verify Supplier Master Information using the Excel database managed by the aforementioned Department. Constant monitoring of the supplier base has allowed the Purchasing function to consolidate the percentage of suppliers used who share the values set out in the company's Code of Ethics.

In 2022:

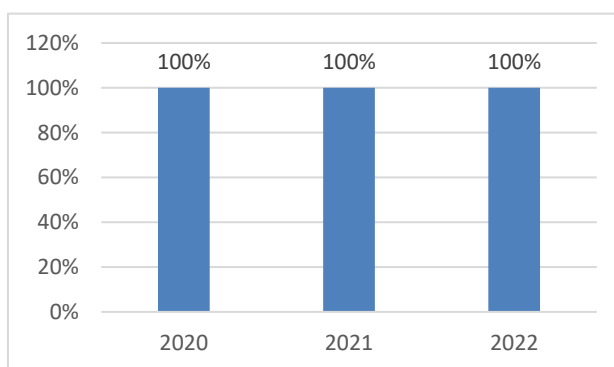
- the number of suppliers used was 488 (533 in 2021), of which 384 (about 83%) have signed the company's Code of Ethics, compared to 435 (82%) last year [GRI 412-3].
- 96% of the suppliers used adopt a Code of Ethics with values shared with Avio:
 - 83% of the suppliers handled have signed Avio's Code of Ethics;

- 13% have their own Code of Ethics that shares Avio's values³⁴;
- 100% of new suppliers introduced and used in 2022 adopt a Code of Ethics with values shared with Avio:

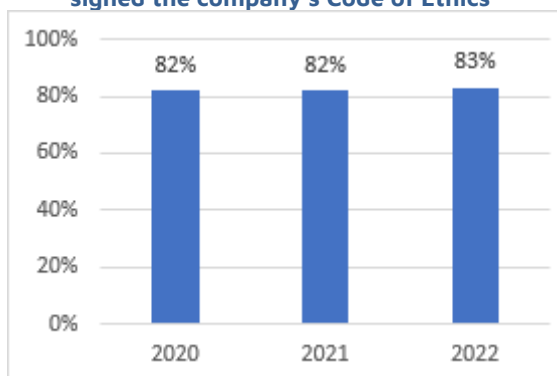
Percentage of suppliers used in the year who shared the company's Code of Ethics



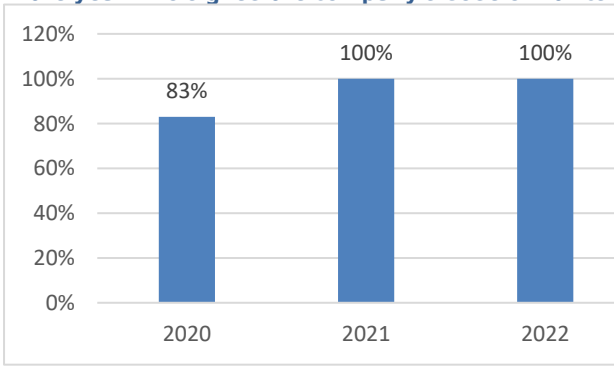
Percentage of new suppliers introduced in the year who shared the company's Code of Ethics



Percentage of suppliers used in the year who signed the company's Code of Ethics



Percentage of new suppliers introduced and used in the year who signed the company's Code of Ethics



Subcontractors for flight components are selected during development from companies that have worked or are working in similar areas on other European launchers. Selection is made at the development stage on the basis of individual ESA member states' contributions to the programme. In this case, compliance with local ethical-legal, social-environmental, occupational health and safety and environment laws is ensured by the mechanisms activated through the ESA for subcontractors from a European member country. Non-European subcontractors are an exception to this rule and are selected based on their expertise gained from the construction of non-European launchers. Since, however, these are companies participating in government programmes in their respective countries, the same principle on compliance with national laws is applied as it is for European suppliers.

For commodities, suppliers are selected on the basis of expertise in the specific commodity class. In the pre-selection phase, suppliers undergo a verification process regarding their compliance with technical and industrial competence requirements, and more generally, their compliance with ethical-legal, environmental, social, and health and safety requirements is verified qualitatively. To be included in the supplier registry, a supplier must undergo a technical validation process and must sign Avio's general purchasing conditions and the declaration in accordance with Legislative Decree No. 231/2001, the Anti-Corruption Code and the Company's Code of

³⁴ The figure refers to large suppliers, for whom Avio, by sharing Codes of Conduct, in any case verifies the adoption of the same principles.

Ethics. By doing so, they effectively self-certify their compliance with these requirements. Commodities are procured in Europe, the USA, and Japan.

The Group pursues a policy of preferring suppliers with whom it has established long-standing relationships and who have participated with similar products in other launcher development programmes. Due to the nature of aerospace products, subcontractors and major suppliers undergo a certification process. Relations with these parties are managed mainly with multi-year contracts to ensure production continuity for these suppliers, and to deliver economic benefits associated with higher volumes. In the event of serious non-performance or inefficiency of strategic suppliers or their unavailability, the Group required to replace them. To limit such occurrences, where economically feasible the Group has adopted a dual sourcing supplier selection policy, which provides for the availability of two suppliers.

Subsequent procurement management at Group companies is overseen by the relevant Department and formalised in internal qualification and performance evaluation procedures. Suppliers are constantly monitored on the basis on indices regarding the quality and punctuality of supplies and through specific audits that allow critical issues to be identified and corrective action to be taken.

Avio has adopted a general policy geared toward the gradual minimisation and - where possible - elimination of raw materials that are hazardous to health under REACH, and therefore the reduction of suppliers of such materials. The type and significance of the Group's supplies exclude the use of supplies from conflict countries. This includes conflict minerals. Procurement management at Group companies is overseen by the relevant functions and formalised in internal qualification and performance evaluation procedures.

Avio has judged the Supplier Portal tender and will begin enacting this from early 2023. The project lasts approximately 12 months and will afford Group Companies (Avio, Se.Co.Sv.Im., Spacelab) more transparent, referenced and effective communication with suppliers.

In 2022, the Purchasing Department revised the General Terms and Conditions of Purchase and operating procedures and instructions to reinforce, among other matters, issues relating to Legislative Decree No. 231/2001 and Cyber Security.

In 2021, Avio decided to participate in an initiative promoted by the company CRIF, proposing itself as Lead Partner. Membership of the initiative seeks to invite suppliers in the registry to obtain the CRIBIS ESG certificate, an internationally recognised certification of sustainability levels. The initiative has begun, and in 2022 27% of providers invited to participate enrolled, while 54% completed the questionnaire and received the certificate.

THE AVIO GROUP'S ENVIRONMENTAL IMPACT³⁵

The Avio Group has had an Environmental Policy in place for several years. In addition to reaffirming its unwavering focus on compliance with all applicable legislative and other regulatory requirements, the Policy formalises the company's commitment to continuously improving its environmental performance while minimising the impact of its production site and facilities. In particular, environmental protection at Avio means not polluting, constantly optimising the use of natural resources and developing products that are increasingly environmentally friendly. The policy is an essential aspect of the Environmental Management System (EMS), which is outlined below. Likewise, Regulus makes explicit in its Charter of Ethics its commitment to pursuing eco-efficiency. The French company recognises its responsibility to the local community as regards environmental protection and expresses its willingness to orientate its choices towards reducing its environmental footprint, while simultaneously complying with applicable environmental regulations and provisions.

Considering the context in which it operates and in light of its operations, the main environmental risks for the Group may arise from uncertainties and changes in the regulatory framework and interpretive practice, failure to obtain and renew necessary environmental permits, incomplete or inadequate environmental impact assessments of products, and adverse environmental conditions (e.g. extreme natural or weather events). Proper monitoring and assessment of risks and related management and mitigation action is particularly significant for optimised use of natural resources. These events could result in potentially negative impacts on operations and consequently on the Group's equity and financial situation, and may cause repercussions in terms of image and reputation.

³⁵ Data on environmental impacts do not include Avio France SAS, as it is not currently a facility operator.

In line with the need to manage sustainability for all environmental aspects and in compliance with international standards, Avio has therefore adopted a certified Environmental Management System that meets the international standard UNI EN ISO 14001. This focuses more on new concepts such as context analysis, parameter recording using operational control procedures, and systematic risk assessment. The system consists of internal environmental management standards adopted to ensure rapid identification of the most significant environmental impacts and the adoption of the most effective management and mitigation measures using a structured performance monitoring system.

Avio S.p.A.'s activities at the Colleferro site are subject to Integrated Environmental Authorisation obtained from the Province of Rome on June 30, 2010 by R.U. Managerial Determination 4730 pursuant to Legislative Decree No. 59/2005, for the exercise of activities related to chemical plants for the manufacture of explosives. Subsequent non-substantial modifications related to facility changes and improvements led to subsequent motions, the most recent being DD 3991 of October 1, 2018. In compliance with Legislative Decree No. 152/06, as amended, in 2019 Avio submitted an application for reconsideration of the IEA. At the date of this document, preliminary investigations into the application are ongoing. This permit requires that Avio adhere to certain operational requirements and specific emissions limits. The permit also requires the Group to guarantee periodic monitoring of the environmental impacts of the activities carried out at the facility, based on a Defined Control Monitoring Plan, and to report the data obtained to the relevant agencies.

As set out in the paragraphs above, as part of the Environmental Management System (EMS), Avio S.p.A. has adopted an Environmental Policy. This contains the principles that govern and ensure correct management of Avio S.p.A.'s environmental performance: compliance with legal requirements on environmental issues, protection and prevention (in terms of optimising the use of resources, minimising environmental impacts and monitoring indicators), and integration, with a view to sharing the Policy with interested parties.

The Environmental Policy puts consistent focus on environmental protection as the basis of its management and development strategies and maintains a specific commitment designed to prevent pollution and pursue continuous improvement in environmental performance. This document is orientated towards ensuring:

- compliance with European, national and regional environmental legal requirements;
- optimising use of resources, reducing resource consumption and improving resource utilisation as early as the process design stage;
- identifying the best available techniques to minimise the environmental impacts of production processes and manufactured products;
- continuous monitoring to prevent accidents;
- that environmental principles and commitments are shared with suppliers;
- the engagement of employees and external staff through awareness raising, information and training;
- transparent reporting of environmental achievements.

Consistent with these principles, the Company issues and adopts an Improvement Programme which constitutes the framework for defining the organisation's goals, objectives and, therefore, action to ensure ongoing improvement in environmental performance. In line with its production processes, the Company has established a number of improvement goals relating to its main environmental impacts, with the intention of governing and minimising them. The objectives defined were as follows:

- improvements to the atmospheric emissions from facilities;
- improvement in energy consumption management;
- improved efficiency in the Environmental Management System;
- improved waste management;
- reduction in the use of harmful and environmentally hazardous substances and preparations.

To achieve these, the Company took several measures during the year. As in the previous year, chief among these was the monitoring of water consumption that led to further efficiency gains, and a number of measures were planned to improve waste management.

Senior Management has appointed the Head of the HSE, Infrastructure and Services Department (HSEIS) as the Plant Environmental Manager, pursuant to Legislative Decree No. 152/2006, as amended, and as the Management Representative for the Environmental Management System.

HSEIS also has overall responsibility for enacting and controlling all HSE Management Systems and, in particular, the Environmental Management System.

To support the Environment Manager/EMS, senior management has created a Health, Safety and Environment (HSE) Department, which carries out its role through a function that includes:

- Health & Safety (HS);
- Environment and Management System;
- Seveso Law compliance.

The financial resources to be allocated to the environmental improvement programme are determined at the budget stage at the beginning of the year.

At Se.Co.Sv.Im., on the other hand, the choice of operating methods for dealing with environmental aspects are the responsibility of the company's Sole Director who, with the support of their staff, adopts management methods and practices in line with the management model of the parent company.

In compliance with the general principles set out in the Group's Code of Ethics, Regulus has adopted a Quality, Occupational Health and Safety and Environmental Policy and a Quality, Safety, and Environment Manual which, with as regards environmental management, is inspired by the provisions of the international standard UNI EN ISO 14000. The Company has therefore established a dedicated function of experts who are delegated to manage and oversee environmental areas. As per local legislation, Regulus prepares and sends an annual Directors' Report environmental and energy management to the DGTM (*Direction Générale des Territoires et de la MER*, formerly DEAL) authority, which then audits the French company on specific environmental areas, also annually. In this regard, Regulus has undertaken to intensify its monitoring indicators, thereby further strengthening its environmental performance monitoring system. Regulus has set a goal to gain ISO 14001 certification in the coming years.

As part of its production process, the Group generates impacts mainly related to emissions of air pollutants, management of water withdrawal and discharge, and waste disposal.

The following sections provide data and information on Group companies' performance (including Avio Guyane) in the most relevant environmental areas (energy consumption and waste generation) in 2022.

Energy consumption and emissions

Energy provision to the Colleferro site includes electricity, thermal energy, and fuel consumption for the company vehicle fleets. The electricity and steam consumed are supplied by the nearby Termica Colleferro cogeneration plant. In compliance with the requirements of Legislative Decree No. 102/2014 in Italy in 2017 and with those of Law 10/91, energy audits were conducted, highlighting a number of possible action areas to improve the Company's energy performance. The Colleferro Thermal Power Plant operates exclusively on methane combustion. As such it is consistent with the recent guidelines of the European Commission, which is assessing the options for including this fuel among "green" sources.

From 2022, energy consumption in Italy also includes the Airola facility.

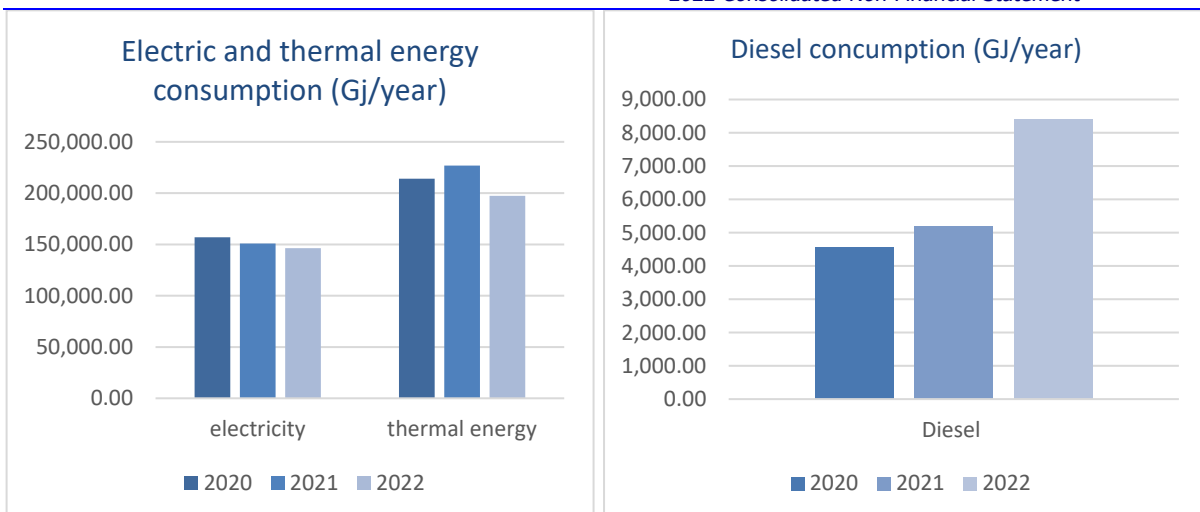
Energy for French Guiana considers only electricity and diesel energy used for company vehicle fleets and a group generator.

[GRI 302-1] Energy consumption³⁶

Type of consumption (in GJ/year)	2020			2021			2022		
	Italy	French Guiana	Total	Italy	French Guiana	Total	Italy	French Guiana	Total
Electricity	89,315.82	67,690.70	157,006.5₂	89,684.73	61,194.04	150,878.77	88,248.49	58,088.46	146,336.95
from non-renewable sources	89,315.82	67,690.70	157,006.5₂	89,684.73	61,194.04	150,878.77	88,248.49	58,088.46	146,336.95
from renewable sources	-	-	-	-	-	0	-	-	-
Thermal energy	214,049.12	-	214,049.12	226,913.80	0	226,913.8₀	197,387.17	-	197,387.17
from non-renewable sources	214,049.12	-	214,049.12	226,913.80	0	226,913.8₀	197,387.17	-	197,387.17
from renewable sources	-	-	-	-	-	-	-	-	-
Diesel	2,079.10	2,498.46	4,574.89	2,365.94	2,824.13	5,190.07	3,627.95	4,678.25	8,306.20
Total	305,444,04	70,189,16	375,630.5₃	318,964,47	60,018,17	382,982.6₃	289,344,19	62,768,65	352,030.3₂

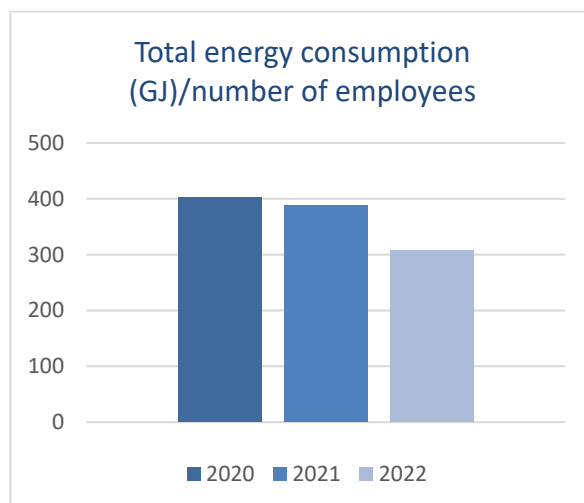
*The Italy figure includes from 2022 data for the SPTF site in Sardinia.

³⁶ For electricity and heat, the conversion factor used is 0.0036 GJ/kWh (Source: GRI Sustainability Reporting Guidelines, Version 3.1). For Diesel, the conversion coefficient has been updated: in 2022: 1 L = 0.0382 GJ (Source: DEFRA 2022 – Diesel Average Biofuel Blend), in 2021: 1 L = 0.0382 GJ (Source: DEFRA 2021 – Diesel Average Biofuel Blend), which is slightly different equal to the coefficient used for 2020 (1 L = 0.0381 GJ [Source: DEFRA 2020 – Diesel average biofuel blend])



[GRI 302-3] Energy intensity.

Energy intensity	2020			2021			2022		
	Italy	French Guiana	Total	Italy	French Guiana	Total	Italy	French Guiana	Total
Total energy consumption (GJ)/number of employees	364.49	723.6	401.74	359.6	646.65	388.42	278.41	609.39	308.26



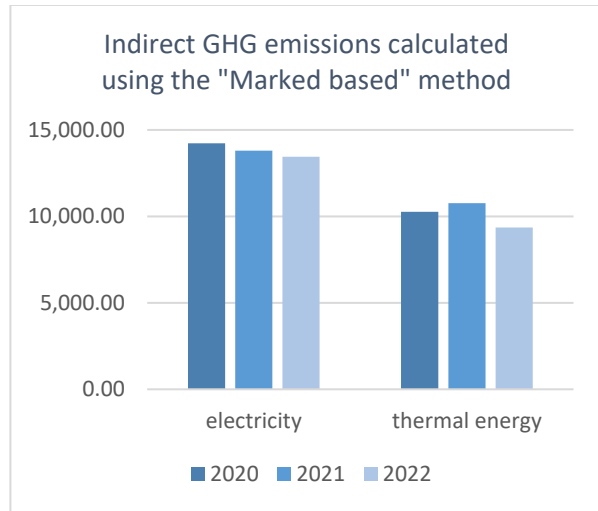
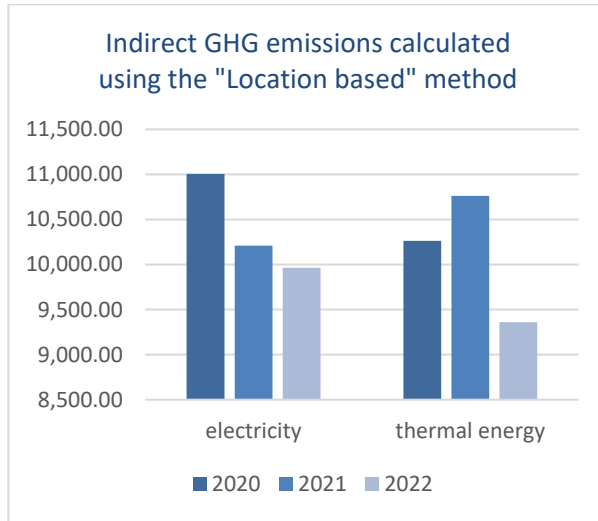
In general, energy consumption for the current year is notably less than that of 2021. The decrease in electricity consumption compared to last year can be attributed to the optimisation of highly energy-intensive spaces and the adoption of the minimum legal temperature limits for air conditioning systems, wherever feasible. Thermal energy consumption also decreased on 2021, thanks to milder weather during the autumn months and the action taken to reduce consumption. The main sources of energy consumption are the production spaces, where certain temperature and humidity values must be maintained for process reasons. Weather conditions in the summer and winter months can therefore greatly impact total power draws for the year.

The drop in consumption in French Guiana is consistent with the production schedule.

[GRI 305-2] Indirect GHG emissions by type of energy consumption (Scope 2).³⁷

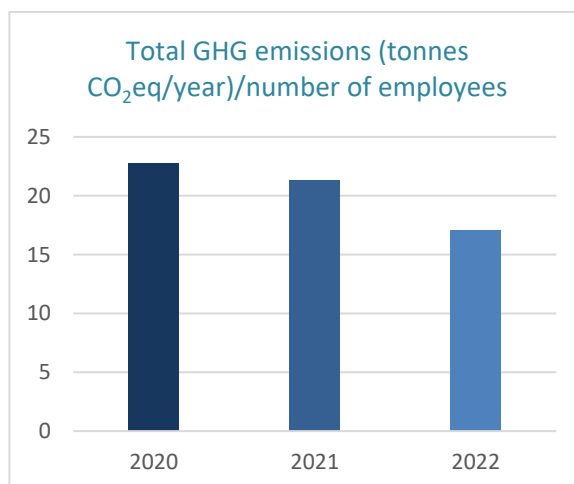
Indirect GHG emissions* by type of energy consumption (in tonnes CO ₂ eq/year)	2020			2021			2022		
	Italy	French Guiana	Total	Italy	French Guiana	Total	Italy	French Guiana	Total
Location-based									
Electricity	8,336.14	2,670.02	11,006.16	7,847.41	2,362.77	10,210.18	7,721.74	2,242.86	9,964.6
Thermal energy	10,263.06		10,263.06	10,761.39		10,761.39	9,361.09		9,361.09
Total	18,599.20	2,670.02	21,269.22	18,608.80	2,362.77	20,971.57	17,082.83	2,242.86	19,325.69
Market-based									
Electricity	11,561.44	2,670.02	14,231.46	11,434.80	2,362.77	13,797.57	11,202.66	2,242.86	13,445.52
Thermal energy	10,263.06		10,263.06	10,761.39		10,761.39	9,361.09		9,361.09
Total	21,824.50	2,670.02	24,494.52	22,196.19	2,362.77	24,558.96	20,563.74	2,242.86	22,806.61

³⁷ The reporting standard used (GRI sustainability reporting standards 2016) establishes two different calculation methods for Scope 2 emissions, "Location-based" and "Market-based." The "location-based" method requires the use of average national emission factors related to the specific energy mix used to produce electricity. The emission factor used for electricity has been updated for 2022 [for Italy: 315 gCO₂/kWh. Source: Terna 2019 "International comparisons"; for French Guyana, in line with previous years, the coefficient for Brazil must be used: 139 gCO₂/kWh. Source: Terna 2019 "International comparisons"]. The emission factor used for electricity was updated for 2021 [for Italy: 315 gCO₂/kWh. Source: Terna 2019 "International comparisons"; Brazil's coefficient was also used for French Guiana, in line with previous years: 139 gCO₂/kWh. Source: Terna 2019 "International comparisons", compared to 2020 for Italy: 336 gCO₂/kWh. Source: Terna 2018 "International comparisons"; Brazil's coefficient was also used for French Guiana: 142 gCO₂/kWh. Source: Terna 2018 "International comparisons" For Italian thermal energy, emission coefficient was updated in 2022 [170.73 gCO₂eq/kWh. Source: DEFRA 2022]; the emission coefficient was updated in 2021 [170.73 gCO₂eq/kWh. Source: DEFRA 2021] compared to 2020 [172.61 gCO₂eq/kWh. Source: DEFRA 2020] and in 2019 [176.06 gCO₂eq/kWh. Source: DEFRA 2019]. The market-based approach uses emission factors based on the contractual agreement for the provision of electricity. Given the absence of specific electricity agreements between the companies of the Group and the suppliers (e.g. a Guarantee of origin purchase), for this calculation an emission factor related to the national "residual mix" [for Italy: in 2022 equal to 457 gCO₂eq/kWh, Source: European Residual Mixes 2021 (source: AIB 2022). For 2022, in line with previous years, the Brazil coefficient provided by Terna must be used for French Guyana: 139 gCO₂/kWh (Source: Terna 2019 "International comparisons"); was used [for Italy in 2021: 459 gCO₂eq/kWh, Source: European Residual Mixes 2021 (source: AIB 2021); in 2020: 466 gCO₂eq/kWh, Source: European Residual Mixes 2019 (source: AIB 2020); in 2019: 487 gCO₂eq/kWh, Source: European Residual Mixes 2018). For 2021, as in previous years, the Brazil coefficient provided by Terna was used for French Guiana: 139 gCO₂/kWh (Source: Terna 2019 "International Comparisons"; in 2020: 142 gCO₂/kWh (Source: Terna 2017 "International Comparisons" and in 2019: 157 gCO₂/kWh. Source: Terna 2017 "International Comparisons"). For thermal energy, the emission coefficient for Italy was updated in 2021: 170.73 gCO₂eq/kWh [Source: DEFRA 2021] compared to 2020 [172.61 gCO₂eq/kWh. Source: DEFRA 2020] Finally, Scope 2 Location-based emissions are expressed in tons of CO₂. However, the effect of methane and nitrous oxide on total greenhouse gas emissions (CO₂ equivalents) is negligible, as stated in the related technical literature.



[GRI 305-4] Emissions intensity³⁸

Emissions intensity	2020			2021			2022		
	Italy	French Guiana	Total	Italy	French Guiana	Total	Italy	French Guiana	Total
Total GHG emissions (tonnes CO₂/year)/number of employees	22.19	27.53	22.75	20.9	23.87	21.27	16.64	21.70	16.92



The Group also estimated the environmental impact of employee travel for professional reasons. CO₂ emissions associated with employee travel by company vehicle amount to 157.43 tCO₂eq/l in 2022 for the Avio facility and 321.84 relating to Regulus. With reference to atmospheric pollutant emissions, Company production processes do not produce nitrogen oxides (NO_x) or sulphur oxides (SO_x). Emissions are only produced by auxiliary engines at the Regulus facility. These sources are not monitored and the responsibility lies with the facility manager in French Guiana. Information on other emissions is provided by the Companies in the measurement units required by local regulations and submitted to the competent authorities (the average concentration is shown in mg/Nm₃ for Avio and in kg/year for Regulus).

[GRI 305-7] Polluting air emissions.

Relevant pollutants (average concentration in mg/Nm ₃)	2020	2021	2022
	Italy		
Volatile organic compounds (VOCs)	1.61	1.62	0.53
Total particulate matter	0.34	0.74	0.42
Total	1.95	2.36	0.95

³⁸ Emissions intensity is calculated using Scope 2 location-based emissions. Employee data for Italy do not include Avio France.

[GRI 305-7] Polluting air emissions³⁹.

Relevant pollutants (in kg/year)	2020	2021	2022
	French Guiana		
Volatile organic compounds (VOCs)	993	608	852
Total	993	608	852

Atmospheric emissions resulting from facility activities are managed by air extraction and pollutant abatement systems, as mandated in the IEA authorisation. These emissions undergo annual analysis, in compliance with the requirements stipulated by the Integrated Environmental Authorisation.

The average VOC concentration values comply with the requirements and sit significantly below the limits set by the IEA. This figure is in line with previous years.

Regulus' emissions of relevant pollutants are largely the same as last year. 2022 production levels were essentially equal to 2021.

No atmospheric emissions were produced during management of the Avio Guyane facility in 2022.

Management of water resources

Water resources are mainly used by the Group for industrial and domestic purposes. Italian companies withdraw water for three different purposes with regard to water supply management.

- industrial water: supplied by the Colleferro Services Consortium Company (*Società Consortile Servizi Colleferro*) (CC). Industrial water is withdrawn from the River Sacco or authorised industrial water wells. Alternatively it is recirculated from the purification facility. Output water from the consortium purification facility is analysed and fed into the industrial water network if it meets legal limits. This helps limit water withdrawals from natural sources;
- fire water: supplied by the Consortium Company (*Società Consortile*) (CC). It is categorised as industrial water but is stored in reservoirs in case of emergency;
- drinking water: supplied by the Drinking Water Consortium (*Consorzio delle Acque Potabili*) (DWCC), which is owned by Avio S.p.A. and Se.Co.Sv.Im. The consortium manages drinking water wells sourced from deep aquifers. Se.Co.Sv.Im. oversees authorisations.

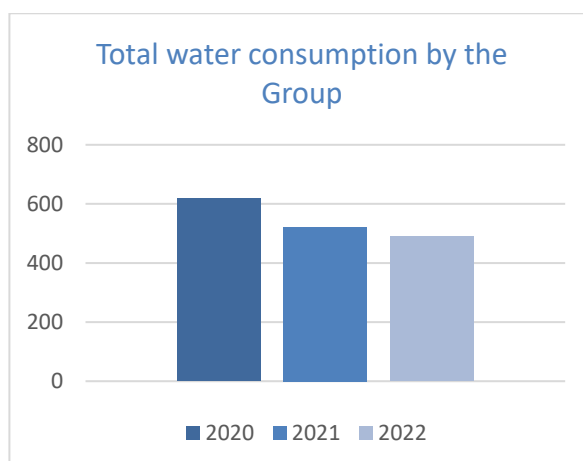
At the overseas company Regulus, all water resource management activities are regularly inspected by the *Direction Générale des Territoires et de la Mer* (formerly DEAL) to obtain and/or maintain the authorisations required to operate.

In 2022, 477.12 megalitres of water were consumed in Italy and 12.39 megalitres were consumed in French Guiana, amounting to a total of 488.52 megalitres. The adoption of water system improvement initiatives in Italy starting from 2019 has resulted in a significant reduction in consumption. These results are expected to continue in the coming years. We will continue to monitor water consumption to identify potential future areas for improvement.

³⁹ Data estimated based on the quantity of material used and product characteristics.

[GRI 303-3] Volumes of water⁴⁰ supplied by source⁴¹.

Water withdrawal by source (megalitres)	2020			2021			2022		
	Italy	French Guiana	Total	Italy	French Guiana	Total	Italy	French Guiana	Total
Surface water (industrial water)	494.921	-	494.921	392.560	0,429	392.995	369.030	-	369.030
Groundwater (drinking water)	119.24	-	119.24	120.347	-	120.347	108.095	-	108.095
Seawater	-	-	-	-	-	-	-	-	-
Produced water	-	3.618	3.618	-	6.621	6.621	-	11.702	11.702
Third-party water resources	-	-	-	-	0.978	0.978	-	0.690	0.690
Total	614.16	3.618	617.77	512.91	8.025	520.94	477.125	12.392	488.517



In Italy, water discharge management is directly linked to national legislation. Avio complies with the requirements of the Integrated Environmental Authorisation (IEA) and Italy's national regulations (Legislative Decree No. 152/2006). Waste water is discharged and managed by the Consortium Company (CC). Avio's facility uses a mixed sewerage system that collects both industrial and domestic sewage and directs it to a purification facility.

Once treated, the sewage can be released into the surface water of the River Sacco by the Consortium Company. Alternatively, as substantially adopted in 2020, sewage water can be fed back into the industrial water circuit at the facility's inlet. An effective circuit for using industrial water has therefore been created in

⁴⁰ Freshwater

⁴¹ 2019 marked the beginning of reporting of water consumption data using the new GRI Standard 303, published by the Global Reporting Initiative (GRI) in 2018, replacing the 2016 version. For this reason, data for 2019 have been reported with respect to the requirements of the new indicator.

agreement with Avio and other consortium members. The circuit maximises the reuse of water once it has been treated by the company Servizi Colleferro Società Consortile a responsabilità limitata. This reduces the need to withdraw water from the River Sacco, thus indirectly reducing the consumption of water from natural sources.

Waste management

Waste management is a significant topic for the Group given the presence of hazardous waste requiring specific management.

Waste management is still a major focus for Avio, which strives for continuous improvement. Against this backdrop, Avio has updated its waste generation map, which has resulted in a decrease in hazardous waste volume since mapping activities began in 2021. This activity is ongoing and includes the verification of analytical and ADR classifications.

Measures continued in 2022 to:

- ensure the separate collection of waste closely linked to production;
- maximise the amount of waste sent for recovery.

Whenever the contractual agreements establish the contractor as the producer of waste resulting from activities, the Company complies with the management system procedures and applies the necessary control measures to ensure the proper management of waste by third parties.

Data on waste are collected as part of the monitoring activities foreseen by the Integrated Environmental Authorisation and Environmental Management System. These specific data collection processes are governed by the management system procedures.

Avio generated less waste in 2022 than in 2021. This improvement is owed to the Avio Group's continued focus on environmental topics and the reduction in non-recurring engine regeneration activities in 2022. These activities generate wash water, which is managed by AVIO through a third-party company. The water is delivered to the company as waste, which treats it before eventually returning it to the water network. On a like-for-like basis, the volume of waste related to ordinary factory operations is consistent with 2021.⁴²

The company Secosvim does not formally produce any type of hazardous waste. If waste is generated during routine and/or special maintenance activities on site, it is managed under the contracts agreed with the contractors mentioned above and/or under existing service contracts with the management company Servizi Colleferro SCpA. Hazardous waste from office activities (e.g. toner) is handled by the printing service provider under a contract agreed with the parent company. Secosvim oversees the appropriate management of administrative obligations related to the handling of various types of waste generated on site. Secosvim therefore does not produce special hazardous waste.

The only waste produced by SECOSVIM is municipal waste during office activities, which is managed through the public service.

⁴² To facilitate comparison with data from previous years, and in line with note 8 on page 77 of the 2021 NFS, we present the following breakdown of non-hazardous waste sent for disposal by type:
In 2021: 8.4 tonnes from normal production activities, 940.76 tonnes from non-recurring casing regeneration activities.
In 2022: 7.9 tonnes from normal production activities, • 120.94 tonnes from non-recurring casing regeneration activities.

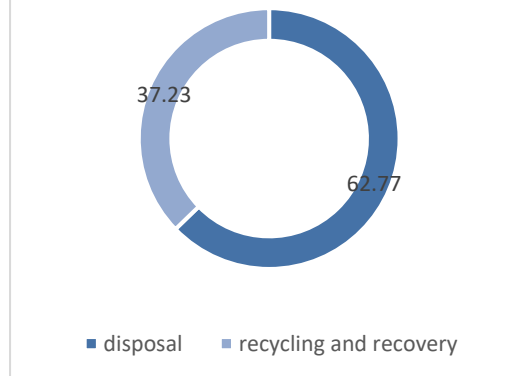
[GRI 306-3] Quantities of hazardous and non-hazardous waste generated by type of disposal⁴³.

Total weight of waste (tonne/year) *	2020			2021			2022		
	Italy	French Guiana	Total	Italy	French Guiana	Total	Italy	French Guiana	Total
	Hazardous waste								
Recycling and recovery	1.61	29.38	30.99	3.79	16.64	20.43	1.20	2.50	3.70
Disposal	152.89	172.49	325.38	146.68	286.03	432.71	169.68	345.35	515.03
Total hazardous waste	154.5	201.87	356.37	150.47	302.68	453.14	170.88	347.85	518.73
	Non-hazardous waste								
Recycling and recovery	314.79	107.12	421.91	244.79	109.42	354.21	258.30	133,77	392.07
Disposal	879.04	76.27	955.31	949.16	80.72	1,029.88	132.22	34.44	166.66
Total non-hazardous waste	1,193.83	183.39	1,377.22	1,193.94	190.14	1,384.08	390.52	168.21	558.73
Total waste	1,348.33	385.26	1,733.59	1,344.41	492.82	1,837.22	561.40	516.06	1,077,46



⁴³ Waste data has included the Airola facility since 2019. For now, the reporting scope includes Avio, Regulus, and Guyane.

Breakdown of waste produced by destination - 2022



Remediation and management of areas of potential environmental concern

The industrial district owned by Secosvim is located in an area of Colleferro that was labelled the River Sacco Basin Site of National Interest in November 2016. Soil, subsoil, and groundwater monitoring and remediation activities are managed by Secosvim, the Avio Group's real estate company. The company acquired the Colleferro industrial site in the mid-1990s and has inherited problems caused by its previous owner. It is therefore not responsible for the pollution. These pollution incidents have been the subject of rulings to which Secosvim is obviously not party. Despite not being responsible for the pollution, the company has made significant financial investments to carry out remediation works, which are typically the legal obligation of the property owners.

The Group's strategic approach is strengthened by Secosvim's well-established partnerships with several institutions. The Group is dedicated to the region's comprehensive redevelopment, and its partnerships demonstrate its commitment to supporting sustainable policies, including minimising environmental pressures and securely relocating hazardous zones. Our involvement in environmental remediation efforts reflects our belief that such work is not only important for the conservation and restoration of the environment, but also serves as a crucial prerequisite for the development and economic growth of the region.

Due to historical and topographical factors, SECOSVIM is fully integrated into Colleferro's urban landscape. The Company played a significant role in the town's growth in the early 1900s and still owns a considerable portion of the municipality's land. Against this backdrop, the Company has already pursued social development initiatives, including the transfer of a portion of land near Via Ariana to the Colleferro municipality, which intends to build a cycle path. Additional measures to promote urban development are in the pipeline, and during 2023, joint efforts with Avio will be undertaken to prepare the necessary infrastructure for the sites (e.g. fencing, etc.). In the meantime, part of Via Romana will be transferred to the Municipality of Colleferro in the near future. During the December 2022 Santa Barbara celebrations, the public was given a guided tour of the pagodas located in an old area of the factory, marking the first time such a tour had been offered.

All remaining land remediation and permanent safety work activities will be carried out in accordance with the Programme Agreements signed with the competent authorities during government-appointed commission activities (at the Valle del Sacco Regional Office), in addition to other provisions resulting from specific consultations with local stakeholders. The Ministry of Ecological Transition will coordinate these efforts. To ensure the works are completed in a timely manner, Secosvim intends to cooperate with the public sector by carrying out any necessary additional activities, including sending reports and monitoring data in the interest of fostering a collaborative relationship.

Potential new regulations limiting or further regulating the areas in which Secosvim operates, or changes to existing legislation and/or interpretative practice, could impact Company finances and have repercussions affecting its reputation. We note that in 2022 no monetary or non-monetary penalties were received for non-compliance with environmental laws and regulations. [GRI 307-1]. In 2022, the company formalised its integrated environmental and safety management system, enabling it to strengthen its direct and indirect environmental and safety control measures, with a particular focus on soil and subsoil remediation.

The main remediation works carried out by Secosvim are summarised below:

- safety works on the Pozzolana Quarry site;
- ARPA 1 site remediation works;
- construction of a permanent storage site for remediation of the ARPA 1 and Benzoino sites;
- safety works at the ARPA 2 site (by the Lazio Region, started in 2019 and still in progress);
- emergency safety works and remediation of aquifers using hydraulic dam systems, equipped with specific pre-treatment plants.

All of the above activities, with the exception of ARPA 2, have been completed and are awaiting the conclusion of relevant administrative procedures by the competent bodies. The construction site for the ARPA 2 safety works was opened in October 2019, in the presence of public institutions.

Se.co.sv.im. is dedicated to continuing the Remediation Plan and responsibly addressing environmental concerns on an ongoing basis. The Company's primary objective is to obtain certification for completed works, restore uncontaminated areas to their intended use, and adopt appropriate post-operational management measures in accordance with timelines agreed with competent authorities. Additionally, the Company seeks to finish remediating residual hotspots connected to the safety works on ARPA 2. In this regard, we note that two operational remediation projects were approved in October 2022 relating to the "Goods Entry and Heating Plant Area" and "OCR Area". Meanwhile, an initial local authorities planning conference for the PZAA87 and PEAA20 operational reclamation projects is scheduled for March 2023.

In July 2022, the integrated environment and safety management system was formalised, outlining the overall objectives laid out by Management in the policy for continuously improving the Organisation's performance.

ENVIRONMENTAL AND SOCIAL INITIATIVES

Avio views and considers its relationship with local communities as an opportunity. The development of communities local to the Group contributes to fostering and maintaining an environment that favours business and innovation, both of which are key to the Group's growth.

The Group has always played an active role in supporting the region in which it operates.

Avio's participation in numerous projects in Italy and abroad highlights its commitment to fostering sustainable and long-lasting business practices through its support of local communities.

The Group has sought to offer concrete help to the local community through various initiatives over time, reinforcing an already strong bond defined by values that continue to foster:

- a sense of duty to give back through various local community, resources, energy, and skills development initiatives;
- the commitment to actively helping promote Italian culture around the globe.

The Group intends to continue promoting the community's social and cultural development by strengthening its leadership team and building collaborative relationships with various stakeholders, including organisations, institutions, and associations.

Avio renewed its membership to the Civita Association, a group that advocates for the strategic involvement of businesses in the protection and promotion of Italy's cultural and environmental heritage. Additionally, in 2022, Avio embraced gender inclusion by joining VALORE D, an "association committed to promoting gender balance and an inclusive company culture that fosters the growth of Italy and its businesses". This partnership has given and will give the Company access to high-level training programmes, inter-company networks, and mentorship programmes in the future.

Avio also attempts to publicise its efforts and mark important occasions through the media. On February 2, 2022, Avio's Chief Executive Officer was interviewed by CLASS CNBC's editor-in-chief as part of the CEO Talks program. The CEO discussed the budget and prospects for the Group's future. On February 8, 2022, *Rainews24* interviewed an Avio employee at the Colleferro production plant to mark Vega's ten-year anniversary. On February 9, 2022, the Chairperson of Avio was interviewed by Riccardo Luna on *La Repubblica's Green&Blue Digital Talk*. Discussion at the event focuses on how to integrate sustainability into business models and the main company trends. Avio's Colleferro facility was featured in an episode of "Our Man in Italy", which was broadcast on July 28, 2022. On October 5, 2022, Avio featured in an episode of *TG1 Economia*, which showed the

production facilities in Colleferro and included interviews with the Chief Executive Officer and several company engineers.

In addition, two noteworthy social events took place in Paris. World Business Week kicked off on September 13, 2022. The event was attended by the Chief Executive Officer, in addition to more than a thousand participants, who discussed future developments in the world of satellite communications and information. The following day (September 14, 2022), Avio participated in the annual Vega Day at the Italian Embassy in Paris. The event is intended for customers and partners of the Vega family and was attended by the Chief Executive Officer Giulio Ranzo and several Avio employees. Participants discussed future prospects and sustainability with regard to the new M10 liquid oxygen and methane engine. Meanwhile, a “merit” ceremony was held on November 8, 2022 in Segni to celebrate the Group’s longest-serving employees.

The Chief Executive Officer also participated in the inauguration ceremony for the presidency of the CVA for 2022 at Colleferro’s Vittorio Veneto Theatre.

On October 5, 2022, the Chief Executive Officer Giulio Ranzo made the whole company proud when he received the prestigious Socrates Award for unquestionable private and professional merits at a ceremony held in Rome and attended by the journalist and television writer Cesare Lanza.

2022 also saw several key figures grace Avio with their participation in visits and meetings. On May 2, 2022, Thomas Dermine, Belgium’s Secretary of State for Economic Recovery and Science Policy, who also oversees the aerospace sector, visits Avio’s facilities in Colleferro. Ambassador Pierre-Emmanuel De Bauw of Belgium was also present during the customary tour of the facilities and was welcomed by the Chief Executive Officer, together with the entire delegation. On June 22, 2022, Avio welcomed a delegation of representatives from the space agencies and other authorities in Latin America, members of the Italo-Latin America Institute (IILA). On November 28, 2022, Avio also received a visit from the Undersecretary for Labour.

Alongside this ongoing commitment, the Company devotes attention to supporting local sports teams and promoting sports values.

Noteworthy among these initiatives is the promotion of sports through sponsorships and agreements with leading local sports organisations, including Colleferro Sport Village, *Pallacanestro Colleferro*, and *Scuola Barchiesi di Colleferro*, in addition to cultural associations and schools such as *Associazione Civita* and Summer School UniRoma.

Among the most relevant sporting activities in 2022 was the first edition of the Città dello Spazio Rugby Tournament. Meanwhile, on December 4, the Men’s Rugby Seniores Series C Championship kicked off, with the Luiss SSD Avio Rugby team playing an away game at ASD Appia Rugby. Avio also attended the award ceremony for the company padel tournament on June 15, 2022 and the kick-off of the ninth Vega Shooting Clay Pigeon Shooting Tournament on June 25, 2022. This year also saw the organisation of an Avio BPD Club eight-a-side football tournament, the proceeds of which were donated to La Chiocciola group home in Labico. The Group sponsored a tennis tournament and, in partnership with Barchiesi School in Colleferro, the 13th ESA Basketball Tournament in 2022. Around 80 employees from various companies operating in the European space market met in Colleferro to participate in the tournament. Avio also participated in and sponsored the Swimming Travel event, which took place on September 2, 2022 and challenged participants to swim the Strait of Messina.

In addition, Avio promoted an important internal initiative. In May 2022, the “Launch an Idea into Space - the New Ideas Box” initiative was rolled out to collect suggestions for improvement across Avio’s production departments.

Throughout 2022, the Company launched several initiatives to support those in need and promote volunteering to benefit underprivileged communities. With its passion and active involvement, Avio provided the assistance needed to carry out these endeavours, all designed to create added value for the Company and individuals.

Avio has made substantial donations to anti-COVID-19 efforts, demonstrating its employees’ ties to the region and ongoing commitment to supporting social projects.

With a view to promoting the inclusion of women in the technical and scientific sectors, in 2022, Avio made several scholarships available to the daughters of employees who attend or are enrolled in STEM university courses (in engineering, science and technology, physics, and mathematics). Six scholarships have been awarded thus far.

In addition, although the Group’s roots are firmly planted in the local community, its commitment to charitable endeavours extends well beyond regional borders. With a strong global presence, the Group is dedicated to supporting the well-being of people on a larger scale. To this end, Avio is committed to collaborating in projects

and initiatives with international scope, in order to share the value it has created over many years of history and excellence.

Avio's impressive business growth sets it apart from its competitors. In January, in addition to successfully completing preparations for the maiden flight of Vega C, an agreement was signed with the Italian Space Agency (ASI) to launch the Platino 1 and Platino 2 satellites between 2022 and 2024. Microcarb and NESS launch contracts were also signed with the ESA and CNES. Finally, contracts were signed with the European Space Agency for the Flex and Altius satellites, which will enter orbit by the end of 2025. On April 5, 2022, Arianespace signed an agreement with Amazon for 18 launches using Ariane 6. For Avio, this means a major increase in the production of the P120C solid-propellant motor used for the French launcher boosters. Three days later, Avio signed a major agreement to launch the Sentinel 1C satellite with the brand new Vega C, making the company's ongoing contribution to the Copernicus program even more significant. On May 3, 2022, the group of Avio employees involved in developing Space Rider started the Critical Design Review phase, submitting more than 200 documents to reviewers. This phase plays a key role in transitioning from the design phase to the construction phase.

On June 29, 2022, Avio was awarded the first two contracts within the scope of space-industry initiatives and implementation of "Next Gen EU". This includes Italian government investment of approximately Euro 340 million to enhance the technological capabilities of Italian industry to access space. The calendar year ended with the signing of two major contracts. On November 29, 2022, a record contract was signed to launch five Copernicus missions with the Vega C. These will be carried out between 2024 and 2026 and will enable accurate monitoring of elements that will be important for survival on Earth. On December 7, 2022, a framework contract was signed at ESA for the launch of five Sentinel satellites: 2C, 3C, 1D, CO2MA and CO2MB.

Throughout May, the various Vega C stages were successfully integrated ahead of the maiden launch on July 13, 2022. These activities led to the extraordinarily successful Vega C qualification flight, which completed its mission as planned without a hitch.

In May 2022, the new liquid oxygen and methane engine successfully completed the first three ignition tests at the SPTF centre in Sardinia.

Avio supports scientific research and innovation

Avio promotes and supports several activities that seek to foster a culture of innovation and research, and the pursuit of scientific projects with the contribution of academics and experts.

Avio sponsored the Rocketry Challenge event at the Sapienza University of Rome. Students taking the Space Propulsion laboratory module as part of the Aerospace Engineering degree programme launched their mini rockets under the Group's supervision.

Avio's R&D activities have strong ties to the academic world. As such, Avio has formalised its collaboration with the Luiss Guido Carli University as an Official AS Luiss Partner and the Main Sponsor of its rugby society. This demonstrates the Company's desire to open its doors to a young and active group of university students. Rugby's guiding principles are based on mutual respect, teamwork, and fair play. These values underpin Avio's role as an Official Partner for the Luiss Sports Association and its partnership with the Municipality of Colferro, united by a desire to promote the positive messages conveyed by sport.

The close partnership between Avio and Luiss Guido Carli University was exemplified by an event held on September 23, 2022. Avio opened its doors to a group of students from LUISS University's master's degree programme in Digital Innovation and Sustainability, showcasing the Company's commitment to supporting the next generation of innovators. The students were given a tour of the facilities and got to witness the different stages of Vega C first-hand.

Avio participated in the following educational campaign in collaboration with the Municipality of Colferro: Avio Meets School, which seeks to introduce young people to STEM. These meetings involved 436 students from local primary, middle, and high schools. The pupils who submitted the best entries to the its "Exploring the World of Work" competition won a two-month training placement at Avio. As part of the campaign, Avio joined the ITS 4US training and orientation project created and organised by Unindustria with the contribution of Rome's Chamber of Commerce. The project fosters communication between students, companies, and ITSs (vocational high schools). Training and orientation sessions and specific project activities were organised as part of the project on various topics of corporate interest, including social and environmental sustainability, women's empowerment, and gender equality.

Also in partnership with the Municipality of Colleferro, Avio promoted the “*Alla scoperta del mondo del lavoro*” (Discovering the World of Work) contest, an educational project involving a number of secondary schools in the area. Participants were asked to write an essay on a topic related to the world of work, innovation, or environmental sustainability, with the goal of encouraging students to explore these important themes and the role played by Avio S.p.A, a leading aerospace company, in these areas. Avio awarded the three best entries with a two-month training placement. After completing their internships, the students were presented a certificate on October 27, 2022.

Similarly to Avio Guyane, Regulus strengthened its ties with the local area by financing school educational projects in the city of Kourou. The Company also donated to a voluntary association for managing emergencies at sea and an association that promotes the employment of women in industrial sectors.

All together, these activities and local initiatives create significant benefits, including the creation and incubation of state-of-the-art skills in the technical field for the space sector, with opportunities for the internalisation of exchanges and spin-offs to other industrial sectors and services; the creation of induced effects in critical, innovative technologies that become available to the SME supply chain and the local area; increased awareness among the community and in the region of the opportunities provided by the availability of space access systems. Some examples are space missions proposed by Italian universities or research institutions, including those for in-orbit demonstration or training purposes, based on access to space through Vega.

Initiatives in support of Italy's artistic and cultural heritage

Participation and local identity play a key role in promoting cultural activities that protect and promote artistic, historical, and cultural heritage.

Culture drives local growth.

The Group's efforts to restore and enhance artistic and historical artefacts, in addition to its support for cultural initiatives, have contributed to the region's appeal, creating more opportunities for development.

Due to historical and topographical factors, Se.Co.Sv.Im. is fully integrated into Colleferro's urban landscape. It was the very first BPD industry to contribute to the town's growth in the early 1900s. The Company obtained the piece of land home to Avio's industrial site from its previous owner in the mid-1990s and still owns a significant portion of the area.

Against this backdrop, the Company has already established social development programmes and maintained those put in place in previous years.

The transfer of a free loan to the BPD Club Sports Association, which was established in 1937 and owns the area where the tennis facilities are located, is ongoing. The Company also provides water and energy services to the association for the benefit of sports programmes open to Avio Group employees, their families, and the wider community.

During 2021, a piece of land located near Via Ariana was transferred to the Municipality of Colleferro for the construction of a cycle path. Additionally, the Group has decided to continue in this direction by agreeing to transfer Via Romana to the Municipality. This road links the Scalo suburb to the town centre and will soon accommodate a new cycle path.

The cycle path will play an important role in the redevelopment of the entire Scalo area.

Due to the sheer size of the Industrial Park, which is necessary for industrial activities involving explosives and entails maintenance costs described in the “Real Estate” section of this statement, the Company seeks to enhance the value of the surrounding natural environment and protect green spaces.

As mentioned, sunflowers and herbs are also periodically replanted along the site's perimeter. As a result of ongoing preservation work over several decades, fauna is also showing signs of integrating with the area. Foxes, pheasants, porcupines, buzzards, and various bird species are regularly observed in the area. Cormorants and herons are also regularly sighted at the River Sacco intake tanks, having evidently adapted to the protected area.

Colleferro is the 2022 European Capital of Space

The city's successful bid is a win for innovation and regional development and is owed to the teamwork between institutions and industry. Colleferro is an innovative activity hub that showcases the scientific and technological culture of the aerospace sector. At the heart of the project are European launchers that carry satellites into orbit. This local and national excellence should be shared and promoted globally as a valuable heritage.

Aerospace is an extremely topical subject for the Company, which relies on innovation, technological development, and scientific research to adopt new approaches to the world of communication and land monitoring, in addition to new ways of pursuing geolocation, travel, and efficient technological connections.

The city where Avio resides will soon launch its ambitious Archaeology from the Future programme and unveil the Spazio Colleferro, a multi-purpose cultural hub located on the former IPIA Architectural Complex. The project, which involves Ri-Gymnasium, Tic Media Art, and Expositore, is located where the administrative city (agora), factory city, garden city, and residential areas meet. Spazio Colleferro will be home to the new Riccardo Morandi Public Library, the 1900s Colleferro Documentary Centre, a Higher Education Institute, the Piazza dello Spazio, and Colleferro SPACE Museum.

Colleferro's nomination as Europe's Capital of Space – which has seen the city work alongside Avio in 2022 – not only strengthened Italy's global image as a country at the cutting edge of technological and aerospace innovation, but also represented an investment in local social, cultural, and economic development.

It therefore promotes the shared values of sustainable development and highlights its unbreakable bond with innovation within the aerospace industry.

Table linking material topics to GRI Standards

Legislative Decree No. 254/2016 topics	Material topics identified	GRI standard	Scope of impact		Type of impact
			External impact	Limitations	
Environmental	Energy consumption and emissions	Energy; Emissions	The Group; The Community	Data on environmental impacts do not include Avio France S.a.S, as it is not currently an site operator.	Caused by the Group; To which the Group contributes
Environmental	Remediation	Environmental compliance	Se.Co.Sv.Im.; Local communities		
Environmental	Waste management	Effluents and waste	The Group; The Community		
Environmental	Management of water resources	Water	The Group; The Community		
Social	Links to the local area	Local communities	The Group; Local communities	-	Caused by the Group; To which the Group contributes
Social	Cyber security	Customer privacy	The Group; Customers	-	Caused by the Group; To which the Group contributes
Social	Safety in industrial management	Local communities	The Group; Local Communities; Customers	-	Caused by the Group; To which the Group contributes
Social	Quality of business processes	Customer health and safety	The Group; Local Communities; Customers		Caused by the Group
Social	Product and service quality and safety	Customer health and safety	The Group; Customers	-	Caused by the Group; To which the Group contributes
Personnel-related	Staff remuneration	Diversity and equal opportunity	Group	Disclosure GRI 2-21 a) refers to the Italian companies of the Group, excluding Temis	Caused by the Group
	Equal opportunities	Diversity and equal opportunity	Group	-	
	Talent management and retention	Employment	Group	-	
	Training and skills development	Training and education	Group		
	Dialogue with social partners	Employment; Labour/management Relations	Group	-	
Personnel Related; Social; Human Rights	Employee health, safety and well-being and human rights	Occupational health and safety; Non-Discrimination	Group		Caused by the Group
Combating active and passive corruption	Corruption prevention	Anti-corruption; Anti-competitive behaviour; Socioeconomic compliance	Group; Suppliers	-	Caused by the Group; Caused by the Group and directly connected through a business relationship
Social; Human Rights	Responsible supplier relationships	Supplier social assessment; Human rights assessment	Group; Suppliers	-	Caused by the Group; Caused by the Group and directly connected through a business relationship
Social	Innovation	N/A	The Group; Customers	-	Caused by the Group; To which the Group contributes

GRI Content Index

The location of the disclosure can be found through the page number in this document and reference to other sections of the Management Report or other external documents (page numbers refer to the section of the DNF that includes the disclosure).

Declaration of use		Avio S.p.A. submitted a report in accordance with GRI Standards for the period 01 January 2022 - 31 December 2022.		
Used GRI 1		GRI 1 - Fundamental Principles - Version 2021		
Relevant GRI sector standards		N/A		
Standard Disclosure	Description of the indicator	Page number	Omissions	GRI industry standard reference no.
GRI 1: FUNDAMENTAL PRINCIPLES				
GRI 2: GENERAL INFORMATION				
ORGANISATION PROFILE				
2-1	Organisation details	Avio S.p.A. p. 11 et seq.		
2-2	Entities included in the organisation's sustainability reporting	p. 57		
2-3	Reporting period, frequency and point of contact	p. 57		comunicazione@avio.com investor.relations@avio.com
2-4	Review of information	p. 57		
2-5	External Assurance	At the end of the document, the Report of the Independent Auditors is included.		
ACTIVITIES AND WORKERS				
2-6	Activities, value chain and other business relations	pp. 11 et seq. pp. 113 et seq.		
2-7	Employees	pp. 89-93		
2-8	Non-employees	p. 90		

GOVERNANCE				
2-9	Governance structure and composition	pp. 70-74		
2-10	Appointment and selection of the highest governing body	pp. 70-74		
2-11	President of the highest governing body	pp. 70-74		
2-12	Role of the highest governing body in impact management control	pp. 70-74		
2-13	Delegation of responsibility for impact management	pp. 70-72		
2-14	Role of the highest governing body in sustainability reporting	pp. 72-74		
2-15	Conflicts of interest	pp. 72-74		
2-16	Notification of criticalities	p. 58-64; 86		
2-17	Collective knowledge of the highest governing body	pp. 70-74		
2-18	Performance evaluation of the highest governing body	pp. 70-74		
2-19	Remuneration policies	pp. 71; 100-101		
2-20	Procedures for determining remuneration	pp. 71; 100-101		
2-21	Annual total remuneration ratio	p. 101	<p>The Group is committed to extending the 2-21 (a) disclosure to all companies. Disclosure 2-21 b) required by the GRI Standards is not applicable for the Avio Group as there was no increase in the remuneration of the highest paid individual.</p>	
STRATEGIES, POLICIES AND PRACTICES				
2-22	Sustainable Development Strategy Statement	pp. 62-63; 77-84		
2-23	Policy commitment	pp. 65-70		

2-24	Integration of policy commitments	pp. 65-70		
2-25	Processes to remedy negative impacts	pp. 62-63; 77-84		
2-26	Mechanisms for requesting clarification and raising concerns	pp. 59-64; 85-90		
2-27	Compliance with laws and regulations	pp. 83-89	In 2022, demonstrating the fact that the Group operates in compliance with all applicable laws and regulations, no monetary and/or non-monetary sanctions received for violations were recorded.	
2-28	Membership of associations	pp. 129- 139		

STAKEHOLDER INVOLVEMENT

2-29	Approach to stakeholder engagement	pp. 56 et seq.		
2-30	Collective Bargaining Agreements	pp. 105		

GRI 3: MATERIAL TOPICS

GUIDANCE ON HOW TO DETERMINE MATERIAL THEMES

3-1	Process of determining material topics	pp. 58-63		
3-2	List of material topics	pp. 61-62		
3-3	Management of material themes	pp. 58-69		

TOPIC-SPECIFIC DISCLOSURES

QUALITY AND SAFETY OF PRODUCTS AND PROCESSES

3-3	Description of the quality and safety of the Group's products and the policies adopted and formalised in this regard	pp. 58-69; pp. 108 et seq.		
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HEALTH, SAFETY, WELBEING OF EMPLOYEES AND HUMAN RIGHT

3-3	Policies and initiatives concerning health and safety protection in the workplace	pp. 58-69; pp. 101 et seq.		
403 - 1	Occupational Health and Safety Management System	pp. 101 et seq.		
403 - 2	Hazard identification, risk assessment and accident investigation	pp. 77 ss, 101 et seq.		
403 - 3	Occupational health services	pp. 101 et seq.		
403 - 4	Worker participation and consultation and communication on occupational health and safety	pp. 101 et seq.		
403 - 5	Worker training in occupational health and safety	pp. 97		
403 - 6	Promoting the health of workers	pp. 101 et seq.		
403 - 7	Promotion and mitigation of occupational health and safety facilities within business relations	pp. 101 et seq.		
403 - 8	Workers covered by an occupational health and safety management system	pp. 101 et seq.		
403 - 9	Accidents at work	pp. 103-104		
403 - 10	occupational diseases	p. 104		
QUALITY MANAGEMENT SYSTEM				
3-3	Policies and initiatives concerning quality system management	pp. 58-69; pp. 108 et seq.		
TRAINING AND SKILLS DEVELOPMENT				
3-3	Policies and initiatives concerning the management of internal staff training	pp. 58-69; pp. 96 et seq.		
205 - 2	Communication activities and training on policies and procedures to prevent and fight corruption	pp. 86 et seq.	During 2019, the Group's new Anti-Corruption Code was approved and disseminated to all new suppliers and/or business partners introduced in Italy during the year. The Group's target for 2019 was achieved during 2020.	

			With regard to Regulus, ISO certifications and Social and Fiscal regularity certifications are currently enhancing elements of the supplier selection process, to which the awareness and implementation of the principles of the Charte Etique will be added in the next two years.
404 - 1	Average hours of training per topic and employee category	p. 98	
CYBERSECURITY & DATA PROTECTION			
3-3	Policies and initiatives concerning the management of internal staff training	pp. 58-69; pp. 112-113	
418 - 1	Number of documentary complaints related to privacy breaches and loss of consumer data	pp. 112-113	
R&S E INNOVATION			
3-3	Policies and initiatives concerning the management of research and development and innovation.	pp. 58-69; pp. 106 et seq.	
416 - 1	End products for which health and safety impacts are assessed	pp. 108 et seq.	
SAFETY IN INDUSTRIAL MANAGEMENT			
3-3	Plant safety policies and initiatives	pp. 58-69; pp. 110 et seq.	
413 - 2	Areas of operation with significant current and potential negative impacts on local communities	pp. 129 et seq.	
MANAGEMENT AND RETENTION TALENTS			
3-3	Personnel selection policies and initiatives	pp. 58-69; pp. 93 et seq.	
401 - 1	Total number and rate of recruitment and turnover	pp. 95-96	

RESPONSIBLE RELATIONSHIP WITH SUPPLIERS

3-3	Policies concerning supplier management	pp. 58-69; p. 113		
308 - 1	New suppliers assessed on the basis of environmental and social criteria.	p. 114-115	The Purchasing Department has achieved the target set in 2020. With regard to Regulus, ISO certifications and Social and Fiscal Regularity certificates are currently enhancing elements in the supplier selection process, to which will be added in the next two years the awareness and implementation of the principles of the Charte Etique.	
414 - 1	Negative social impacts in the supply chain and actions taken	p. 113-115		

INTEGRATED CORPORATE GOVERNANCE

3-3	Policies and initiatives concerning corporate and integrated governance	pp. 58-69		
207 - 1	Approach to taxation	pp. 74 et seq.		
207 - 2	Governance, control and fiscal risk management	pp. 74 et seq.		
207 - 3	Stakeholder Engagement and Addressing Tax Concerns	pp. 74 et seq.		
207 - 4	Geographic reporting	p. 76		
405 -1	Diversity of governing bodies	p. 70		

PREVENTION OF CORRUPTION

3-3	Policies and initiatives undertaken for corruption risk management	pp. 58-69; pp. 86 et seq.		
205 -1	Percentage and total number of processes/group	p. 87-89		

	companies subjected to corruption risk assessment in the reporting period			
205 - 3	Any incidents of corruption encountered and improvement activities implemented.	p. 87-89		
206 - 1	Actions for anti-competitive behaviour, antitrust and monopolistic practices	p. 87-89		
STAFF REMUNERATION				
3-3	policies and initiatives concerning staff remuneration	pp. 58-69; pp. 100 et seq.		
405 - 2	Ratio of basic salary (RAL) to total remuneration (including variable part) of women compared to men, by level and function.	p. 101		
ENERGY CONSUMPTION AND EMISSIONS				
3-3	policies and initiatives concerning energy consumption and emissions	pp. 58-69; p. 116 et seq.		
302 - 1	Electricity and heat consumption for the operation of offices and facilities split between renewable and non-renewable	p. 118		
302 - 3	Energy intensity	p. 119		
302 - 4	Reduced energy consumption achieved through specific activities and initiatives	p. 119		
305 - 1	Emissions from fuel consumption within the organisation	p. 123		
305 - 2	Emissions from electricity and heat consumption for the operation of offices and facilities	p. 121		
305 - 4	Emissive intensity	p. 123		
EQUAL OPPORTUNITIES				
3-3	Equal opportunities policies and initiatives	pp. 58-69; pp. 97 et seq.		
405 - 1	Composition and breakdown of employees per category with respect to gender, age groups, geographical area, minority group membership and other diversity indicators	p. 90		

405 - 2	Ratio of basic salary and remuneration of women to that of men	p. 101		
406 - 1	Incidents of discrimination and actions taken	In 2022, demonstrating that the Group operates in compliance with all applicable laws and regulations, no incidents of discrimination were recorded.		
WASTE MANAGEMENT				
3-3	policies and initiatives concerning waste management	pp. 58-69; p. 126		
306 - 1	Waste generation and significant waste-related impacts	p. 126		
306 - 2	Management of significant waste-related impacts	p. 126		
306 - 3	Waste generated	p. 127		
DIALOGUE WITH TRADE UNIONS				
3-3	Policies and initiatives on dialogue with social partners	pp. 58-69; pp. 105 et seq.		
402 - 1	Indication of the minimum notice period established for the communication of significant organisational changes	pp. 105 et seq.		
ENVIROMENTAL REMEDIATION				
3-3	Policies and initiatives concerning the protection of the natural environment and areas subject to potential environmental criticality	pp. 58-69; pp. 129 et seq.		
SOCIAL & ENVIROMENTAL INITIATIVE				
3-3	Policies and initiatives concerning the protection of the natural environment. Specifically, in terms of energy consumption and atmospheric emissions, waste management and water resource use.	pp. 58-69; pp. 129 et seq.		
413 - 1	Activities involving local community involvement, impact assessments and development programmes.	pp. 129 et seq.		
MANAGEMENT & WATER RESOURCES				

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3-3	policies and initiatives concerning water management	pp. 58-69; p. 124-125		
303 - 1	Interaction with water as a shared resource	p. 124-125		
303 - 2	Management of impacts related to water discharge	p. 124-125		
303 - 3	Water withdrawal	p. 124-125		

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET	<i>Note</i>	December 31, 2022	December 31, 2021
<i>(in Euro)</i>			
ASSETS			
Non-current assets			
Property, plant and equipment	<i>3.1</i>	137,573,354	123,171,430
Right-of-use		8,534,535	9,455,596
- of which related parties	<i>3.2</i>	975,889	1,113,124
Investment property	<i>3.3</i>	3,479,277	3,211,128
Intangible assets with definite life	<i>3.4</i>	119,813,995	129,351,638
Goodwill	<i>3.5</i>	64,149,492	61,005,397
Investments	<i>3.6</i>	15,604,979	11,594,981
Non-current financial assets		2,010,172	6,415,000
- of which related parties	<i>3.7</i>	2,010,172	6,415,000
Deferred tax assets	<i>3.8</i>	81,471,150	79,435,789
Other non-current assets	<i>3.9</i>	67,469,542	70,926,224
Total non-current assets		500,106,496	494,567,183
Current assets			
Inventories and advances to suppliers		202,573,023	154,732,163
- of which related parties	<i>3.10</i>	49,828,384	28,876,340
Contract work-in-progress		426,181,595	453,807,958
- of which related parties	<i>3.11</i>	99,185,251	99,595,770
Trade receivables		3,725,455	3,696,299
- of which related parties	<i>3.12</i>	2,119,624	1,278,074
Cash and cash equivalents	<i>3.13</i>	131,403,014	104,614,266
Tax receivables	<i>3.14</i>	13,009,300	17,655,714
Other current assets		8,357,546	7,376,377
- of which related parties	<i>3.15</i>	2,208	4,093
Total current assets		785,249,933	741,882,777
TOTAL ASSETS		1,285,356,429	1,236,449,960

CONSOLIDATED BALANCE SHEET	<i>Note</i>	December 31, 2022	December 31, 2021
<i>(in Euro)</i>			
EQUITY			
Share capital	<i>3.16</i>	90,964,212	90,964,212
Share premium reserve	<i>3.17</i>	130,686,924	135,175,614
Other reserves	<i>3.18</i>	14,196,872	13,596,835
Retained earnings		58,249,082	54,263,653
Group net profit		(434,767)	8,479,652
Total Group Equity		293,662,323	302,479,966
Equity attributable to non-controlling interests	<i>3.20</i>	9,598,904	7,847,258
TOTAL NET EQUITY		303,261,227	310,327,224
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	<i>3.21</i>	12,076,229	22,000,000
Non-current financial liabilities for leasing	<i>3.22</i>	4,937,099	4,750,980
<i>- of which related parties</i>		<i>836,508</i>	<i>974,000</i>
Employee provisions	<i>3.23</i>	9,524,486	10,343,919
Provisions for risks and charges	<i>3.24</i>	29,921,216	17,364,250
Other non-current liabilities	<i>3.25</i>	76,471,119	119,830,433
Total non-current liabilities		132,930,149	174,289,582
Current liabilities			
Current financial liabilities	<i>3.26</i>	28,028,069	7,749,245
<i>- of which related parties</i>		<i>27,768,866</i>	<i>7,749,245</i>
Current financial liabilities for leasing	<i>3.27</i>	1,878,679	2,905,817
<i>- of which related parties</i>		<i>152,433</i>	<i>146,000</i>
Current portion of non-current financial payables	<i>3.28</i>	10,033,000	10,048,000
Provisions for risks and charges	<i>3.24</i>	23,458,025	10,864,556
Trade payables	<i>3.29</i>	89,825,718	76,926,918
<i>- of which related parties</i>		<i>17,586,964</i>	<i>11,009,133</i>
Advances from clients for contract work-in-progress	<i>3.11</i>	667,442,685	609,633,812
<i>- of which related parties</i>		<i>146,219,587</i>	<i>100,988,173</i>
Current income tax payables	<i>3.30</i>	4,227,923	7,321,796
Other current liabilities	<i>3.31</i>	24,270,954	26,383,010
<i>- of which related parties</i>		<i>318,264</i>	<i>283,264</i>
Total current liabilities		849,165,053	751,833,154
TOTAL LIABILITIES		982,095,202	926,122,736
TOTAL LIABILITIES AND EQUITY		1,285,356,429	1,236,449,960

CONSOLIDATED INCOME STATEMENT	Note	FY 2022	FY 2021
<i>(in Euro)</i>			
Revenues	3.32	371,377,130	320,094,424
- of which related parties		80,023,198	83,634,735
Change in inventory of finished products, in progress and semi-finished		1,322,572	166,454
Other operating income	3.33	39,376,006	7,460,529
- of which related parties		629,140	
Consumption of raw materials	3.34	(117,208,246)	(83,768,771)
Service costs	3.35	(190,531,122)	(154,069,676)
- of which related parties		(60,335,609)	(50,052,881)
Personnel expenses	3.36	(80,340,198)	(72,396,383)
Amortisation & Depreciation	3.37	(19,186,631)	(21,151,470)
Other operating costs	3.38	(8,261,569)	(4,177,876)
Effect valuation of investments under equity method - operating income/(charges)	3.39	(1,748,588)	2,482,454
Costs capitalised for internal works	3.40	7,443,280	14,219,204
EBIT		2,242,634	8,858,889
Financial income	3.41	860,004	685,348
- of which related parties		-	156,000
Financial charges	3.42	(1,716,537)	(922,102)
- of which related parties		(635,354)	(14,601)
NET FINANCIAL INCOME/(CHARGES)		(856,533)	(236,754)
Other investment income/(charges)			
INVESTMENT INCOME/(CHARGES)		-	-
PROFIT/(LOSS) BEFORE TAXES		1,386,101	8,622,135
Income taxes	3.43	(72,425)	510,378
NET PROFIT/(LOSS)		1,313,676	9,132,513
-- of which: Owners of the parent		(434,767)	8,479,652
Minority interests		1,748,443	652,861
Basic earnings/(losses) per share	3.44	(0.02)	0.33
Diluted earnings/(losses) per share	3.44	(0.02)	0.32

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT	FY 2022	FY 2021
<i>(in Euro)</i>		
NET INCOME FOR THE YEAR (A)	1,313,676	9,132,513
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	730,033	(314,791)
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)	(158,569)	61,053
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	571,464	(253,738)
COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR (A+B)	1,885,140	8,878,775
-- of which: Owners of the parent	133,494	8,224,929
Non-controlling interests	1,751,646	653,846

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(Euro thousands)

	Share capital	Share premium reserve	Treasury shares	Other reserves				Retained earnings	Group result	Total Group equity	Non-controlling interest equity	Total Equity	
				Unavailable reserve for treasury shares in portfolio	Legal reserve	Actuarial gains/(losses) reserve	Stock grant reserve						Translation reserve
Equity at 31/12/2020	90,964	135,175	(9,080)	9,081	18,193	(4,342)	0	0	49,374	14,118	303,482	8,512	311,994
Allocation of prior year result									6,797	(6,797)	0		0
Distribution of dividends of the parent company Avio S.p.A.										(7,321)	(7,321)		(7,321)
Effect on retained earnings attributable to the Group and reserves attributable to minority interests of transactions under common control and approved dividends of Spacelab SpA									(1,907)		(1,907)	(1,318)	(3,225)
Other changes											0		0
Comprehensive income for the year													
- Net profit for the year										8,480	8,480	653	9,133
- Other changes											0		0
- Actuarial gains/(losses), net of tax effect						(254)					(254)	1	(253)
Comprehensive income for the year	0	0	0	0	0	(254)	0	0	0	8,480	8,226	654	8,880
Equity at 31/12/2021	90,964	135,175	(9,080)	9,081	18,193	(4,596)	0	0	54,263	8,480	302,480	7,847	310,327
Allocation of prior year result									3,980	(3,980)	0		0
Distribution of dividends of the parent company Avio S.p.A.										(4,500)	(4,500)		(4,500)
Use of treasury shares for the acquisition of Temis S.r.l.		1,250	1,250	(1,250)							1,250		1,250
Acquisition of treasury shares		(5,739)	(5,739)	5,739							(5,739)		(5,739)
Other changes						(4)	54	(21)	6		35	3	38
Comprehensive income for the year													
- Net profit for the year										(435)	(435)	1,748	1,314
- Other changes											0		0
- Actuarial gains/(losses), net of tax effect						571					571		571
Comprehensive income for the year	0	0	0	0	0	571	0	0	0	(435)	137	1,748	1,885
Equity at 31/12/2022	90,964	130,687	(13,569)	13,569	18,193	(4,029)	54	(21)	58,249	(435)	293,662	9,599	303,261

CONSOLIDATED CASH FLOW STATEMENT

(Euro thousands)

	2022	2021
OPERATING ACTIVITIES		
Net income/(loss) for the year	1,314	9,133
Adjustments for:		
- Income taxes	72	(510)
- (Income)/charges from measurement at equity of investment in Europropulsion S.A.	1,749	(2,482)
- Financial (Income)/Charges		
- Amortisation & Depreciation	19,187	21,151
Net change provisions for risks and charges	25,150	(3,505)
Net change employee provisions	(248)	(1,170)
Changes in:		
- Inventories and Advances to suppliers	(47,841)	(14,423)
- <i>of which related parties</i>	(20,952)	9,356
- Contract work-in-progress & advances from clients	85,435	12,815
- <i>of which related parties</i>	45,642	14,669
- Trade receivables	(29)	(1,521)
- <i>of which related parties</i>	(842)	356
- Trade payables	12,899	10,473
- <i>of which related parties</i>	6,578	752
- Other current & non-current assets	5,087	18,675
- <i>of which related parties</i>	2	(0)
- Other current & non-current liabilities	(35,323)	(6,677)
- <i>of which related parties</i>	35	35
Income taxes paid	(1,495)	(409)
Interest paid	(218)	(293)
Net liquidity generated/(employed) in operating activities	(A) 65,739	41,257
INVESTING ACTIVITIES		
Investments in:		
- Tangible assets and investment property	(21,545)	(18,319)
- Intangible assets with definite life	(10,970)	(15,395)
- Equity Investments	(1,720)	-
Disposal price of tangible, intangible & financial assets	-	-
Liquidity generated (employed) in investing activities	(B) (34,235)	(33,714)
FINANCING ACTIVITIES		
EIB loan	(10,000)	(10,000)
Centralised treasury effect with Europropulsion S.A. joint control company	20,020	(5,000)
- <i>of which related parties</i>	20,020	(5,000)
Dividends paid by the parent Avio S.p.A.	(4,500)	(7,321)
Dividends attributable to minorities of subsidiaries	(3,132)	(3,132)
Acquisition of treasury shares	(5,739)	-
Other changes to financial assets and liabilities	(1,365)	(2,141)
- <i>of which related parties</i>	4,411	(137)
Liquidity generated (employed) in financing activities	(C) (4,716)	(27,594)
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C) 26,788	(20,051)
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	104,615	124,666
NET CASH AND CASH EQUIVALENTS AT END OF YEAR	131,403	104,615

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Avio S.p.A. (the "Company" or the "Parent Company") is a limited liability company incorporated in Italy and registered at the Rome Companies Registration Office, with Registered Office at Rome, Via Leonida Bissolati, No. 76. The administrative headquarters is in Colleferro (Rome), via Ariana Km 5.2.

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

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

At December 31, 2022, Avio S.p.A. held, directly or indirectly, investments in nine subsidiary companies (Spacelab S.p.A., Regulus S.A., Se.Co.Sv.Im. S.r.l., Avio Guyane S.A.S., Avio France S.A.S., Temis S.r.l., Avio USA Inc., AS Propulsion International B.V. and Avio India Aviation Aerospace Private Ltd. in liquidation) and in a jointly controlled company (Europropulsion S.A.) included in the consolidation scope of these financial statements (collectively the "Group" or the "Avio Group").

The consolidation scope changed in 2022 following the acquisition of Temis S.r.l. on September 8, 2022 and the incorporation of Avio USA Inc. on April 25, 2022.

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, 2022 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. Consolidated financial statements

The consolidated financial statements at December 31, 2022 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 2022 consolidated financial statements present the comparative 2021 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, 2022 include the financial statements of the parent company, of the Italian and overseas companies in which it holds directly or indirectly 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, 2022 was as follows:

Companies included in the consolidation scope at December 31, 2022			Holdin g
Parent			
Company Name	Registered office	Share capital	% Held
Avio S.p.A.	via Leonida Bissolati, 76 - Rome	Euro 90,964,212.9 0	N/A
Companies consolidated by the line-by-line method			
Company Name	Registered office	Share capital	% Held
Spacelab S.p.A.	via Leonida Bissolati, 76 - Rome	Euro 3,000,000.0 0	70%
Regulus S.A.	Centre Spatial Guyanais - BP 0073 97372 Kourou (French Guiana - France)	Euro 640,000.00	60%
SE.CO.SV.IM. S.r.l.	Via degli Esplosivi, 1 - Colferro (RM)	Euro 53,929,691.0 0	100% (*)
Avio Guyane S.A.S.	Centre Spatial Guyanais - BP 506 97388 Kourou (French Guiana - France)	Euro 50,000.00	100%
Avio France S.A.S.	3 Rue du Colonel Moll - 75017 Paris (France)	Euro 50,000.00	100%
Temis S.r.l.	Via Gaetano Donizetti, 20 - Corbetta (Milan)	Euro 100,000.00	100%
Avio USA Inc.	Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of Newcastle, Delaware 19801 (USA)	2.00 (USD)	100%
ASPropulsion International B.V.	Herikerbergweg 238, 1101 CM Amsterdam (Netherlands)	Euro 18,000.00	100%

Avio India Aviation Aerospace Private Limited (**)	Pitampura Delhi North West (India)	INR 16,060,000	100% (***)
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Jointly controlled companies, measured at equity

Europropulsion S.A.	11, rue Salomon de Rothschild 92150 Suresnes 388 250 797 RCS Nanterre	Euro 1,200,000.00	50%
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Associates, measured at equity

Termica Colleferro S.p.A.	Via degli Agresti, 4 and 6 Bologna	Euro 6,100,000.00	40%
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(*) Holding through ASPropulsion International B.V.

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

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

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

2.7. Accounting policies

Property, plant & equipment

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

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

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

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

The depreciation rates utilised by the Group are as follows:

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

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

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

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

Land is not depreciated.

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

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

Investment property

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

Intangible assets

An intangible asset is without physical form and recognised to the balance sheet only if identifiable, controllable, where future economic benefits are expected and its costs can be reliably calculated. Intangible assets include goodwill acquired for consideration following a business combination.

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

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

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

Intangible assets with indefinite life

Goodwill

The goodwill deriving from business combinations is initially recorded at the acquisition cost, as per the

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

For the purpose of the impairment test, goodwill is considered allocated to the individual Cash Generating Units (CGU's) representing the financially independent business units through which the Group operates. The Group situation at December 31, 2022 indicates a single CGU corresponding to the Space operating segment.

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

Intangible assets with definite life

Development costs

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

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

Intangible assets for Customer Relationships

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

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

Other intangible assets

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

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

The amortisation rates utilised by the Group are as follows:

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

Investments

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

Impairments

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

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

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

Financial assets

The Group classifies financial assets in the following categories:

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

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

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

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

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

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

Financial assets measured at amortised cost

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

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

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

Financial assets measured at fair value through other comprehensive income items

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

Inventories

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

Contract work-in-progress

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

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

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

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

Trade and Other Receivables

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

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

The Group does not undertake the factoring of receivables.

Cash and cash equivalents

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

Research and development tax credits

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

Treasury shares

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

Financial liabilities

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

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

Employee Benefit Provisions

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

Post-employment benefits

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

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

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

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

The liabilities for post-employment benefits recorded in the balance sheet represent the present value of the liabilities for the defined benefit plans adjusted to take into account any actuarial profits and losses not recorded and reduced by the fair value of the asset plan, where existing. Any net assets calculated on this basis are recognised up to the amount of the actuarial losses and the cost for prior benefits not previously recognised, in addition to the present value of available repayments and the reductions in the future contributions to the plan. Defined benefit plan costs are classified to personnel expenses, except for any costs associated with the increase in the present value of the obligation nearer to the payment date which are recognised under financial charges.

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

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

Other long-term benefits

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

Share based payment plans

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

Provisions for risks and charges

The Group records provisions for risks and charges when it has a current obligation from a past event, legal or implicit, to third parties, and it is probable that it will be necessary to use resources of the Group to settle the

obligation, and a reliable estimate of the amount can be made. Provisions are made based on the best estimate of the cost of fulfilling the obligation at the reporting date. Where the effect is significant, the provision is discounted and its increase due to the passage of time is subsequently recognised to the financial charges account of the Income Statement.

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

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

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

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

Trade payables

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

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

Payables for disbursements in accordance with Law 808/85

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

Revenue recognition

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

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

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

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

Dividends received

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

Grants

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

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

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

Costs

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

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

Income taxes

Income taxes comprise of current and deferred taxes.

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

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

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

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

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

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

with regards to the consolidation adjustments.

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

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

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

Dividends distributed

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

2.8. Risk management

Credit risk

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

Liquidity risk

The Group's liquidity risk arises from the difficulty to obtain according to an acceptable timeframe and financial conditions the funding to support operating and investing activities and repayments. The principal factors which influence the liquidity of the Group are, on the one hand, the resources generated and absorbed by the operating and investment activities and on the other the conditions concerning the maturity of the payable or the liquidity of the financial commitments.

Cash flows, funding requirements and liquidity are centrally monitored and managed, in order to ensure the timely and efficient sourcing of funding or the appropriate investment of liquidity.

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

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

Currency and interest rate risk

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

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

2.9. Use of estimates

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

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

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

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

Recoverable value of non-current assets

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

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

Recoverability of deferred tax assets

At December 31, 2022, the consolidated financial statements present deferred tax assets concerning deferred tax deductible income components, for an amount whose recovery in future periods is considered probable by management. Deferred tax assets on temporary differences and on tax losses were recorded in the accounts for the amounts whose future recovery was considered probable, on the basis of forecast assessable income, as well as based on a projection of these forecasts over a subsequent time horizon considered representative of the life cycle of the business equal to 15 years.

Doubtful debt provision

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

addition to the close monitoring of the quality of the client portfolio and present and forecast economic and market conditions.

Inventory obsolescence provision

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

Employee benefit plans

Employee benefit provisions and net financial charges are valued according to an actuarial method which requires the use of estimates and assumptions for the calculation of the net value of the obligation. This process is based on estimates made periodically by actuarial consultants utilising a combination of statistical-actuarial factors, including statistics concerning prior years and estimates of future costs. Mortality and retirement indices, assumptions upon future discount rates, salary growth rates and inflation rates, in addition to analyses upon healthcare costs, are also considered as estimate components.

Changes to any of these parameters may impact future provision contributions. Following the adoption of IAS 19 revised with regards to the recognition of actuarial gains and losses generated by the valuation of employee benefit liabilities and assets, the effects deriving from the update to the estimates of the above-indicated parameters are recorded to the Balance Sheet through recognition to Group Equity of a specific reserve, with presentation in the comprehensive income statement.

Provision for risks, charges & contingent liabilities

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

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

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

Valuation of contract work-in-progress

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

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

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

The identified risks essentially fall within the following types:

- Risk of mismatch between available resources and resource requirements for production and development activities;

- Risk of missed deadlines in production and development programme management;
- Risk of failure within manufacturing and/or research and development programmes;

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

Other

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

2.10. New accounting standards

IFRS Standards, Amendments and Interpretations applied from January 1, 2022

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from January 1, 2022:

- On May 14, 2020, the IASB published the following amendments:
 - **Amendments to IFRS 3 Business Combinations:** the purpose of the amendments is to update the reference in IFRS 3 to the revised version of the Conceptual Framework, without changing the provisions of the standard.
 - **Amendments to IAS 16 Property, Plant and Equipment:** the purpose of the amendments is not to allow the amount received from the sale of goods produced during the testing phase of the asset to be deducted from the cost of the asset. These sales revenues and related costs will therefore be recognised to the income statement.
 - **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets:** the amendment clarifies that in estimating the possible onerousness of a contract, all costs directly attributable to the contract must be considered. Accordingly, the assessment of whether a contract is onerous includes not only incremental costs (such as the cost of direct material used in processing), but also all costs that the enterprise cannot avoid because it has entered into the contract (such as, for example, the share of depreciation of machinery used to perform the contract).
 - **Annual Improvements 2018-2020:** the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples of IFRS 16 Leases.

The adoptions of these amendments do not have any effects on the Group consolidated financial statements.

IFRS accounting standards, amendments and interpretations approved by the EU, not yet mandatory and not adopted in advance by the Group at December 31, 2022

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

- the expected profit is deferred and aggregated into groups of insurance contracts on initial recognition; and,
- the expected profit is recognised in the period of contractual coverage, taking account of adjustments from changes in the assumptions on cash flows for each group of contracts.

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

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

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

- On December 9, 2021, the IASB published an amendment called **"Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information"**. The amendment is a transition option related to comparative information on financial assets presented at the date of initial application of IFRS 17. The amendment is intended to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and thus improve the usefulness of comparative information for financial statement readers. The amendments will apply from January 1, 2023, together with the application of IFRS 17. The Directors do not expect this amendment to have a significant impact on the Group consolidated financial statements.
- On February 12, 2021, the IASB published two amendments entitled **"Disclosure of Accounting Policies—Amendments to IAS 1 and IFRS Practice Statement 2"** and **"Definition of Accounting Estimates—Amendments to IAS 8"**. The changes are intended to improve disclosure on accounting policies to provide more useful information to investors and other primary users of financial statements and to help companies distinguish between changes in accounting estimates and changes in accounting policies. The amendments will be applicable from January 1, 2023, although advance application is permitted. The Directors do not expect these amendments to have a significant impact on the Group consolidated financial statements.
- On May 7, 2021, the IASB published an amendment called **"Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction"**. The document clarifies how deferred taxes should be accounted for on certain transactions that can generate assets and liabilities of equal amounts, such as leases and decommissioning obligations. The amendments will be applicable from January 1, 2023, although advance application is permitted. The Directors do not expect this amendment to have a significant impact on the Group consolidated financial statements.

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

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

- On January 23, 2020, the IASB published an amendment entitled **"Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current"** and on October 31, 2022 published an amendment entitled **"Amendments to IAS 1 Presentation of Financial Statements: Non-Current Liabilities with Covenants"**. The purpose of the documents is to clarify how to classify payables and other short or long-term liabilities. These amendments shall enter into force on January 1, 2024 and early application is permitted. The Directors do not expect this amendment to have a significant impact on the Group consolidated financial statements.
- On September 22, 2022, the IASB published an amendment entitled **"Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback"**. The document requires the seller-lessee to measure the

lease liability arising from a sale & leaseback transaction so as not to recognise income or losses relating to the retained right of use. The amendments will be applicable from January 1, 2024, although advance application is permitted. The Directors do not expect this amendment to have a significant impact on the Group consolidated financial statements.

- On January 30, 2014 the IASB published **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, 2022 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2022			31/12/2021		
	Values value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	14,651	-	14,651	14,651	-	14,651
Buildings	64,786	(23,194)	41,592	62,550	(21,257)	41,293
Plant and machinery	84,685	(67,012)	17,673	79,933	(63,719)	16,214
Industrial & commercial equipment	18,989	(17,835)	1,154	18,522	(17,353)	1,170
Other assets	13,837	(10,166)	3,671	12,048	(9,097)	2,951
Assets in progress and advances	58,832	-	58,832	46,893	-	46,893
Total	255,780	(118,207)	137,573	234,597	(111,425)	123,171

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

Gross values	31/12/2021	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2022
Land	14,651	-	-	-	14,651
Buildings	62,550	2,236	-	-	64,786
Plant and machinery	79,933	4,752	-	-	84,685
Industrial & commercial equipment	18,522	504	(56)	19	18,989
Other assets	12,048	1,656	(55)	188	13,837
Assets in progress and advances	46,893	12,050	(82)	(29)	58,832
Total	234,597	21,199	(194)	178	255,780

The increases in the year of Euro 21,199 thousand mainly concerns:

- assets in progress and advances for Euro 12,050 thousand. These investments particularly concern the works on the production buildings for the P120C motor and the construction of the new Group offices in Colleferro;
- production machinery amounting to Euro 4,752 thousand, mainly to achieve increased flight cadence;
- buildings amounting to Euro 2,236 thousand, mainly relating to extraordinary maintenance and restructuring;
- other assets amounting to Euro 1,656 thousand, primarily relating to IT hardware.

The following movements in accumulated depreciation are reported in 2022 (in Euro thousands):

Gross values	31/12/2021	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2022
Land	-	-	-	-	-
Buildings	(21,257)	(1,937)	-	-	(23,194)
Plant and machinery	(63,719)	(3,280)	(13)	-	(67,012)
Industrial & commercial equipment	(17,353)	(358)	(124)	-	(17,835)
Other assets	(9,097)	(1,086)	18	-	(10,166)
Total	(111,425)	(6,662)	(120)	-	(118,207)

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

3.2. RIGHT-OF-USE

The values of Right-of-use assets at December 31, 2022 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2022			31/12/2021		
	Values value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land right-of-use	2,570	(428)	2,142	2,570	(286)	2,285
Buildings right-of-use	6,207	(2,321)	3,886	7,687	(3,712)	3,974
Plant and machinery right-of-use	1,632	(620)	1,012	1,632	(447)	1,185
Other assets right-of-use	3,379	(1,884)	1,495	3,580	(1,568)	2,012
Total	13,788	(5,253)	8,535	15,469	(6,013)	9,456

The gross values of these rights at December 31, 2022 (in Euro thousands) are reported below:

Gross values	31/12/2021	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2022
Land right-of-use	2,570				2,570
Buildings right-of-use	7,687	156	(586)	(1,050)	6,207
Plant and machinery right-of-use	1,632				1,632
Other assets right-of-use	3,580	676	(877)		3,379
Total	15,469	832	(1,463)	(1,050)	13,788

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 Corbetta (Lombardy), Airola (Campania) and Villaputzu (Sardinia); leasing of apartments for employees in French Guyana; hiring of company cars.

The increases in the year of Euro 832 thousand mainly concern the new company use vehicle lease contracts and the new apartment lease contracts/renewals for the employees in Guyana, where the spaceport is located.

Reclassifications and other changes include the present value of the lease of the building located in Corbetta by Temis, a company that was acquired in September 2022.

The decreases of Euro 1,463 thousand concerned the accounts outlined above and were due to the conclusion of the lease contracts.

The accumulated depreciation of these rights in 2022 is reported below (in Euro thousands):

Gross values	31/12/2021	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2022
Land right-of-use	(286)	(143)	-	-	(428)
Buildings right-of-use	(3,712)	(1,094)	425	2,061	(2,321)
Plant and machinery right-of-use	(447)	(173)	-	-	(620)
Other assets right-of-use	(1,568)	(938)	622	-	(1,884)
Total	(6,013)	(2,348)	1,046	2,061	(5,253)

3.3. INVESTMENT PROPERTY

The values of Investment property at December 31, 2022 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2022			31/12/2021		
	Values value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	1,834	-	1,834	1,834	-	1,834
Buildings & facilities	2,872	(1,226)	1,645	2,526	(1,149)	1,377
Total	4,706	(1,226)	3,480	4,360	(1,149)	3,211

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 in 2022 in the gross values of investment property of the Avio Group are illustrated in the table below (Euro thousands):

Gross values	31/12/2021	Increases	Decreases	Reclassifications and other changes	31/12/2022
Land	1,834	-	-	-	1,834
Buildings & facilities	2,526	346	-	-	2,872
Total	4,360	346	-	-	4,706

The following movements in accumulated amortisation are reported in 2022 (in Euro thousands):

Accumulated depreciation	31/12/2021	Depreciation	Utilisations	Reclassifications and other changes	31/12/2022
Land	-	-	-	-	-
Buildings & facilities	(1,149)	(78)	-	-	(1,226)
Total	(1,149)	(78)	-	-	(1,226)

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

3.4. INTANGIBLE ASSETS WITH DEFINITE LIFE

The values of Intangible assets with definite life at December 31, 2022 are shown net of the accumulated amortisation provisions, as illustrated in the table below (Euro thousands).

	31/12/2022			31/12/2021		
	Gross values	Accumulated amortisation	Net book value	Gross values	Accumulated amortisation	Net book value
Development costs - amortisable	68,229	(12,557)	55,672	123,000	(64,507)	58,493
Development costs - in progress	25,396	-	25,396	32,967	-	32,967
Total development costs	93,624	(12,557)	81,068	155,967	(64,507)	91,460
Assets from PPA 2017 - Programmes	44,785	(17,168)	27,617	44,785	(14,182)	30,603
Concessions, licenses, trademarks and similar rights	15,599	(11,307)	4,292	12,362	(8,977)	3,384
Other	8,768	(3,897)	4,872	4,102	(3,434)	669
Assets in progress and advances	1,966	-	1,966	3,236	-	3,236
Total	164,742	(44,928)	119,814	220,452	(91,100)	129,352

The development costs being amortised primarily refer to design and testing costs relating to the Z40 and P120C motors. Most development costs under completion refer to projects relating to the new liquid oxygen and methane motors.

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

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

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

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

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

The changes in the gross values of Intangible assets with definite life of the Avio Group are illustrated in the table below (Euro thousands):

Gross values	31/12/2021	Increases	Decreases	Reclassifications and other changes	31/12/2022
Development costs - amortisable	123,000		(67,251)	12,480	68,229
Development costs - in progress	32,967	4,207		(11,778)	25,396
Total development costs	155,967	4,207	(67,251)	702	93,624
Assets from PPA 2017 - Programmes	44,785				44,785
Concessions, licenses, trademarks and similar rights	12,362	3,126		111	15,599
Other	4,102	3,625	(80)	1,120	8,768
Assets in progress and advances	3,236	12		(1,282)	1,966
Total	220,452	10,970	(67,331)	651	164,742

The increases in 2022 of Intangible Assets with finite useful lives amounted to Euro 10,970 thousand, of which principally:

- Euro 4,207 thousand, principally for design and testing costs for the construction of the new motors and avionics elements;
- Euro 3.126 thousand concerning software licenses and introduction projects;
- Euro 3,625 thousand, mainly concern the review of the procedures to streamline production and to draw up the business plans..

The changes in 2022 to accumulated amortisation were as follows (in Euro thousands):

Accumulated amortisation	31/12/2021	Increases	Decreases	Reclassifications and other changes	31/12/2022
Development costs - amortisable	(64,507)	(4,445)	56,791	(396)	(12,557)
Development costs - in progress	-	-	-	-	-
Total development costs	(64,507)	(4,445)	56,791	(396)	(12,557)
Assets from PPA 2017 - Programmes	(14,182)	(2,986)	-	-	(17,168)
Concessions, licenses, trademarks and similar rights	(8,977)	(2,239)	-	(90)	(11,307)
Other	(3,434)	(429)	-	(33)	(3,897)
Total	(91,100)	(10,099)	56,791	(519)	(44,928)

In the year, the net carrying amount of development costs related to the P80 motor, amounting to Euro 10,460 thousand, following the completion of that program;

3.5. GOODWILL

Goodwill was recognised at December 31, 2022 of Euro 64,149 thousand, of which:

- Euro 61,005 thousand concerning the residual portion of the price paid by Space2 S.p.A. in 2017, after the purchase price allocation and allocated to the sole Group CGU corresponding to the Space sector;
- Euro 3,144 thousand concerning the acquisition in 2022 of Temis and equal to the difference between the purchase price of 100% of the company and the shareholders' equity acquired. This difference, as per IFRS 3 "Business combinations", paragraph 45 is being assessed in order to complete, within one year from the acquisition date, the purchase price allocation.

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 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, 2022.

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, 2022, cash flows for the Space CGU were estimated based on projections from the 2023-2027 Business Plan, approved by the Board of Directors on March 13, 2023.

The assumptions underlying the projections of future cash flows of the Space CGU of the 2023-2027 long-range plan approved by Avio's Board of Directors on March 13, 2023 included, first of all, the order backlog at the date of preparation and approval of the plan. In particular, as more fully described in the Directors' Report in the section "Group operating performance and financial and equity position" as of December 31, 2022 the order backlog amounted to Euro 1,014.0 million, a net increase of Euro 137.0 million (+15.6%) compared to Euro 877.0 million as of December 31, 2021, thanks to new orders acquired in 2022 amounting to Euro 494.3 million (+9% compared to order intake of Euro 452.7 million in 2021) for which reference should be made, for more information, to the same section of the Directors' Report.

It is reasonably estimated that such backlog as of December 31, 2022 will result in the recognition of revenue in the 2023-2027 business plan of approximately 26% of such amount in 2023, approximately 27% in 2024 and the remainder primarily in 2025 and 2026.

In addition to what has been stated above with reference to the order backlog, the cash flow projections of the 2023-2027 multi-year plan are based on the following additional main assumptions, corroborated by separate external sources by type of revenue, i.e. on the one hand launcher production activities and on the other research and development activities.

- Globally, we are seeing the value of the space industry grow from the current \$386 billion to about \$650 billion in 2030 (at a CAGR of 5%), according to a Morgan Stanley report⁴⁴. The space launch business segment is expected to grow, again according to the same Morgan Stanley⁶ report up to USD 12.1 billion in 2030, with a CAGR of 5%.
- The growth forecast for total mass demand to be launched into space, based on the study by the company Euroconsult⁴⁵, for the period 2022-2031 is 9,166 tons compared to 5.2.908 tons actually launched in the period 2012-2021, with an overall CAGR of +12%.
- Market demand as an average between the estimates of the Morgan Stanley and Euroconsult reports (made in both quantity and value) can therefore be reasonably estimated at between 5% and 6% CAGR on a ten-year basis.
- Regarding the projections of production revenues for the Vega and Ariane BUs, we report contract signings by Arianespace for the Copernicus constellations (5 launches) and Kuiper for Amazon (18 launches) for Vega C 3 and Ariane 64 respectively⁴⁶.
- With respect to the 2023-2027 plan's R&D revenue projections, the demand for publicly funded new technology development activities is based primarily on expectations for government spending on space activities. In Europe, the budgets of the national space agencies and the European Space Agency (hereinafter also "ESA") have grown by an average of more than 5% per year in the last five years, as

⁴⁴ "Investment Implications of the Final Frontier," Morgan Stanley Research, published October 12, 2017.

⁴⁵ "Satellites to be built & launched" 2022 25th edition, Euroconsult Report, published in December 2022.

⁴⁶ See related press releases:

Vega C Copernicus: <https://syndication.teleborsa.it/Avio/Financial-Announcements/contratto-per-lancio-di-5-missioni-copernicus-su-vega-c/MXxb211bmljYXRpLjE3NzEwMDAwNjlyMDlyMXwxfDlwMjMwMzA4;>

Ariane 6 Kuiper: <https://syndication.teleborsa.it/Avio/Financial-Announcements/arianespace-firma-contratto-con-amazon-per-18-lanci-di-ariane-6/MXxb211bmljYXRpLjE3NzEwMDAwMzE0MDlyMDlyMXwxfDlwMjMwMzA4;>

geo-political changes arising from the conflict between Russia and Ukraine.

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

For the calculation of the terminal value, the expected cash flows for the final year of the plan were normalised according to the perpetuity method, assuming 2.0% growth (1.5% in the previous year) for forecast cash flows (in line with forecast Italian medium/long-term inflation).

For the purposes of preparing the impairment test, cash flows were discounted at a weighted average cost of capital ("WACC") of 9.1% (8.2% in the previous year), estimated in accordance with the Capital Asset Pricing Model approach.

On the basis of that stated above, the recoverable value of the Space CGU is Euro 39 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 25 million; a further sensitivity analysis was carried out by assuming, in order to determine the terminal value, a reduction in the g-rate of 50 basis points, resulting in a recoverable value that is in any case higher than the book value of net capital employed by Euro 28 million.

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

It should also be noted that the discount rate (weighted average cost of capital) that would make the recoverable value of the Space CGU equal to the book value of the net capital employed recognised to the financial statements is 10.6%.

The impairment test was conducted by the Company with the external support of a leading consulting firm.

3.6. INVESTMENTS

The table below illustrates the equity investments of the Avio Group at December 31, 2022 and at December 31, 2021 (in Euro thousands).

	31/12/2022		31/12/2021		Change
	Group share	Total	Group share	Total	
<i><u>Subsidiaries</u></i>					
- Servizi Colleferro – Consortium	52.00%	63	52.00%	63	0
Total non-consolidated subsidiaries		63		63	0
<i><u>Companies under joint control</u></i>					
- Europropulsion S.A.	50.00%	8,021	50.00%	7,368	653
Total companies under joint control		8,021		7,368	653
<i><u>Associates</u></i>					
- Termica Colleferro S.p.A.	40.00%	5,273	40.00%	3,635	1638
- Other consortiums		5		5	0
Total associates		5,278		3,640	1,638
<i><u>Other companies</u></i>					
- Other companies		2,244		524	1,720
Total other companies		2,244		524	1,720
Total		15,605		11,595	4,011

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

The changes in 2022 in the investments are shown below (Euro thousands):

	31/12/2021	Valuation at equity	Increases	Decreases	Other changes	31/12/2022
Subsidiaries	63	-	-	-	-	63
Companies under joint control	7,368	653	-	-	-	8,021
Associated companies	3,640	(2,401)	5,667	-	(1,628)	5,277
Other companies	524	-	1,720	-	-	2,244
Total	11,595	(1,749)	7,387	-	(1,628)	15,605

"Jointly controlled companies" includes only the investment in Europropulsion S.A.. The movement in the year is due to its measurement at equity, resulting in a net increase of Euro 653 thousand (due to the increase for the 50% share of the profit for 2022, amounting to Euro 3,053 thousand, net of the decrease of Euro 2,400 thousand following the reduction in company's equity due to the dividends paid to Avio S.p.A.).

"Associated companies" includes the investment in Termica Colleferro S.p.A., totalling Euro 5,273 thousand and in a number of consortiums, for Euro 5 thousand.

The movements for the year all relate to the investment in Termica Colleferro, which is valued at equity; in view of the associate's new project to install a new thermal and electric power plant to ensure the supply of constant, uninterrupted heat and power to Avio S.p.A., partially replacing the components of the company's current cogeneration plant, the company has written down a substantial portion of its assets in the 2021

financial statements. This write-down resulted in negative shareholders' equity of Euro 3,526 thousand to the financial statements.

The company's two shareholders, Cogenio S.r.l. (60%) and Avio S.p.A. (40%), carried out the following transactions with reference to the company to December 2022:

- recapitalisation of the company by waiving a portion of the existing shareholder loans, totalling Euro 14,167 thousand, including Euro 8,500 thousand from Cogenio and Euro 5,667 thousand from Avio;
- new pro-rata funding, through non-interest-bearing shareholder loans (subordinate to the full repayment of Termica Colleferro's lending banks, whose maturity date is February 24, 2027), to support the capex for the new business plan. Cogenio and Avio have, therefore, made a total payment of Euro 3,252 thousand, including Euro 3,015 thousand from the former and Euro 237 thousand from the latter.

In addition to the effect of the valuation at equity, the investment in Termica Colleferro, therefore, reflected an increase due to the partial waiver of the shareholder loan for Euro 5,667 thousand and a decrease of Euro 1,628 thousand due to the write-down of previously capitalised financial charges on the investment.

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

The remaining investments in other associates (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.

"Other companies" include the following minor interests in Arianespace, C.I.R.A. - Centro Italiano Ricerche Aerospaziali S.c.p.A., Imast S.c.a.r.l., Distretto Aerospaziale Sardegna S.c.a.r.l. and ART S.p.A..

The interest in the latter company, amounting to 5% of its shares, was acquired in fiscal year 2022 at a value of Euro 1,720 thousand. ART is a leading Italian infotainment systems for performance and luxury cars enterprise and an industrial partner, in addition to the former parent of Temis S.p.A., of which Avio also acquired control in 2022.

As part of the acquisition of the stake in ART, an agreement was signed between Avio and GEF S.r.l., owner of the remaining 85% of the company, whereby Avio granted the other shareholder a pre-emption right to purchase the 5% stake in ART. This option may be exercised at the earlier of the following dates: (i) the conclusion of the fifth year from the date of completion of Avio's purchase of the investment; and (ii) in the case of a proposed change of control of the company, 60 days prior to the change of control. The option price is calculated by applying a multiplier to the aforementioned 5% acquisition price of the company, determined on the basis of the year following the date of completion of the transaction, starting from the fifth year.

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, 2022 and at December 31, 2021 (in Euro thousands).

	31/12/2022	31/12/2021	Change
Shareholder loan to Termica Colleferro S.p.A.	2,010	6,415	(4,405)
	2,010	6,415	(4,405)

The changes in 2022 were as follows:

	31/12/2021	Increase	Decrease	Other changes	31/12/2022
Shareholder loan to Termica Colleferro S.p.A.	6,415	237	(5,667)	1,025	2,010
	6,415	237	(5,667)	1,025	2,010

In this regard, please refer to paragraph "3.6. Equity investments" specifically with regard to the recapitalisation of Termica Colleferro and the allocation to the company of new funding, through the shareholder loan, in order to pursue the objectives of the new business plan. The remaining shareholder loan, amounting to Euro 2,010 thousand, is interest-free and is subordinated to the full repayment by Termica Colleferro of the loan previously granted by the lending banks, which matures on February 24, 2027.

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 81,471 thousand (Euro 79,436 thousand at December 31, 2021).

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):

	31/12/2022
Gross deferred tax assets on temporary differences	
<i>Temporary differences deriving from previous corporate operations</i>	
Fiscal amortisation on previous goodwill whose tax benefits remain in the Company.	2,729
Financial charges exceeding 30% of EBITDA	33,643
<i>Temporary differences deriving from current corporate operations</i>	
Provision for staff charges	2,371
Other deductible temporary differences	13,155
Provisions for risks and charges	12
Tax liabilities	18
Provisions for risks and legal charges	5,033
Doubtful debt provision - trade and other receivables	96
Total gross deferred tax assets	57,057
Deferred tax liability on temporary differences	
<i>Temporary differences deriving from previous corporate operations</i>	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(7,989)
Tax effect R&D expenses First-Time Adoption	(363)
<i>Temporary differences deriving from current corporate operations</i>	
Other temporary assessable differences	(1,013)
Total gross deferred tax liabilities	(9,365)
Net deferred tax assets/(liabilities)	47,692
Deferred tax assets on tax losses	63,250
Total deferred tax assets	110,942
Deferred tax assets not recorded	(29,471)
Net deferred tax assets (liabilities) recorded	81,471

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 "P120C" 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, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Other non-current assets	67,470	70,926	(3,457)
	67,470	70,926	(3,457)

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

	31/12/2022	31/12/2021	Change
Receivables from the General Electric Group	58,220	58,220	-
Receivables from FCA Partecipazioni	5,083	7,109	(2,025)
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	3,191	4,888	(1,696)
Guarantee deposits	586	568	17
Other non-current receivables	390	142	248
Total	67,470	70,926	(3,457)

"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 corporate transactions that led to the transfer of the AeroEngine business by the Avio Group to the General Electric Group in 2013. This receivable is recognised against an amount payable to the Treasury of like amount among non-current liabilities.

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

We note that the aforementioned 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. At the date of this report, the Court of Cassation 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 "3.25. Other non-current liabilities" and to the section "Legal and tax disputes and potential 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 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 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 2,025 thousand is due to the reclassification to short-term of the portion of the receivable due within 12 months.

"Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion", amounting to Euro 3,191 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, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Inventories	202,573	154,732	47,841
	202,573	154,732	47,841

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

	31/12/2021	Change	31/12/2022
Raw materials, ancillaries and consumables	53,041	(18,631)	71,672
Raw material, ancillary and consumables obsolescence provision	(2,614)	2,600	(5,214)
Raw material, ancillary and consumables - net value	50,427	(16,031)	66,458
Products in work-in-progress	5,553	(1,091)	6,644
Provision for the write-down of work in progress	-	-	-
Products in work-in-progress - net value	5,553	(1,091)	6,644
Finished products and other inventories	3,104	-	3,104
Finished products and other inventories obsolescence provision	(1,985)	-	(1,985)
Finished products and other inventories - net value	1,119	-	1,119
Inventories and advances to suppliers	97,632	(30,719)	128,351
	154,732	(47,841)	202,573

The increase in inventories mainly relates to provisioning needed in order to support expected future production levels, net of an amount of Euro 2,278 thousand related to extraordinary provision for the future execution of program.

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):

	31/12/2022	31/12/2021	Change
Contract work-in-progress	426,181	453,808	(27,627)
Advances for contract work-in-progress	(667,442)	(609,634)	(57,808)
Net total	(241,261)	(155,826)	(85,435)

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):

	31/12/2022	31/12/2021	Change
Contract work-in-progress (gross)	782,947	989,609	(206,662)
Advances for contract work-in-progress (gross)	(356,766)	(535,801)	179,035
Contract work-in-progress (net)	426,181	453,808	(27,627)

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):

	31/12/2022	31/12/2021	Change
Contract work-in-progress (gross)	1,204,584	699,128	505,456
Advances for contract work-in-progress (gross)	(1,872,026)	(1,308,762)	(563,264)
Advances for contract work-in-progress (net)	(667,442)	(609,634)	(57,808)

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, 2022 and December 31, 2021 (in Euro thousands).

	31/12/2022	31/12/2021	Change
Trade receivables	3,725	3,696	29
	3,725	3,696	29

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

	31/12/2022	31/12/2021	Change
Receivables from third parties	2,445	2,570	(125)
Receivables from associates and jointly controlled companies	752	569	183
	3,197	3,139	58
Receivables from associates and jointly controlled companies beyond one year	528	557	(29)
	528	557	(29)
Total	3,725	3,696	29

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):

	31/12/2022	31/12/2021	Change
Gross value	2,928	3,053	(125)
less: doubtful debt provision	(483)	(483)	-
Total	2,445	2,570	(125)

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):

	31/12/2022	31/12/2021	Change
Europropulsion S.A.	323	268	55
Servizi Colleferro S.C.p.A.	1	15	(14)
Potable Water Services Consortium	124	99	25
Termica Colleferro S.p.A. due within one year	304	187	117
	752	569	183
Termica Colleferro S.p.A. due beyond one year	528	557	(29)
	528	557	(29)
Total	1,280	1,126	154

3.13. CASH AND CASH EQUIVALENTS

The table below illustrates cash and cash equivalents at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Cash and cash equivalents	131,403	104,614	26,789
Total	131,403	104,614	26,789

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 presents tax assets at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Tax receivables	13,010	17,656	(4,646)
Total	13,010	17,656	(4,646)

The following table presents the net changes by type of tax credit and tax (in Euro thousands):

	31/12/2022	31/12/2021	Change
VAT receivables	5,481	10,763	(5,282)
Research and development tax credits	2,311	1,285	1,026
Tax credits for simple and 4.0 technological innovation	1,430	1,103	327
Tax credits for the purchase of simple new capital goods and 4.0	1,640	960	680
Receivables from tax authorities	1,444	3,309	(1,865)
Tax credit on energy	463	-	463
EU VAT receivables	241	237	5
Total	13,010	17,656	(4,646)

The reduction in the account on the previous year was Euro 4,646 thousand. This decrease is mainly due to the reduction in the VAT receivable by Euro 5,282 thousand following the collection of Euro 6,320 thousand, net of VAT receivables matured in the year for Euro 1,038 thousand.

VAT receivables

VAT receivables of Euro 5,481 thousand (Euro 10,763 thousand at December 31, 2021), include:

- Euro 1,238 thousand, relating to VAT reimbursement requests to the Tax Authorities (Euro 6,961 thousand at December 31, 2021);
- Euro 4,243 thousand, relating to VAT reimbursements to date not requested for repayment (Euro 3,802 thousand at December 31, 2021).

As indicated above, Euro 6,320 thousand was collected in the year, in addition to interest of Euro 53 thousand, concerning VAT receivables relating to FY 2017, FY 2018 and FY 2020.

The Group matured VAT receivables in 2022 of Euro 1,038 thousand. The maturation of the VAT relates to the fact that the parent company's Avio's main clients are non-resident, such as the European Space Agency (ESA) for the development of launchers and Ariane Group for their production/distribution, in addition to the jointly-controlled company Europropulsion for both of these phases. In particular, for the transactions carried out with these parties, Avio S.p.A. acts as a habitual exporter for VAT purposes, as the VAT exempt system for exports and the exemption for transactions treated as exports and the intra-EU supplies of goods are applicable to these transactions. This circumstance entails the quasi-absence of VAT payables on the sales transactions undertaken by the Company. On the other hand, the Company however has Italian suppliers whose supplies - further to the amounts for which declarations of intent are issued due to the fact that Avio S.p.A. is a habitual exporter - result in the recognition of VAT receivables.

Research and development and technological innovation tax credit

These tax credits totalled Euro 5,381 thousand (Euro 3,348 thousand at December 31, 2021).

Regulatory framework

The 2020 Budget Law (see Law No. 160 of December 27, 2019), as amended by the 2021 Budget Law (see Law No. 178 of December 30, 2020) and the 2022 Budget Law (see Law No. 234 of December 30, 2021), establishes:

- a) a tax credit for fundamental research, industrial research and experimental development in scientific or technological fields, as defined in the "Frascati Manual". This tax credit is granted for 20% of the costs incurred in 2022, with a maximum of Euro 4 million;
- b) a tax credit for technological innovation activities, other than those set out in point a), for the development of new or substantially improved products or production processes. This tax credit is granted - separately from that set out in paragraph a), and thus cumulatively - for 10% of the costs incurred in 2022 for such activities, with a maximum of Euro 2 million. The relief is increased (15% of the costs incurred in 2022 for such activities, up to a maximum of Euro 2 million), where the

- technological innovation activity is intended to achieve an environmental transition or digital innovation 4.0 objective;
- c) a tax credit for the design and styling activities carried out by companies active in textiles, fashion, footwear, eyewear, jewellery, furniture and furnishings and ceramics to create and implement new products and samples.

In addition, a tax credit was arranged for the purchase of new capital goods and other property, plant, equipment and intangible assets, both generic and functional for the Industry 4.0 project, as confirmed by the 2021 Budget Law.

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

1. the system for calculating eligible costs is not incremental, but proportional, with various rates (20%, 10% or 15%) to the costs incurred in the maturation year of the credit;
2. the receivables are used as offsets over three equal annual portions from the tax period subsequent to maturation, subject to satisfaction of the certification obligations;
3. the rule in paragraph 1-bis of Decree-Law No. 145/2013, which allowed resident companies to benefit from an R&D tax credit for activities carried out on behalf of non-resident principals, was not renewed.

Recognition in the Financial Statements

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

The 2022 income statement includes amounts of Euro 2,363 thousand relating to the effects on the income statement of the tax credits accrued in 2017, 2018 and 2019 according to the provisions of Article 3 of Decree-Law 145/2013, in effect until December 31, 2019.

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

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

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

R&D tax credits accrued in 2020, 2021 and 2022 pursuant to the 2020 Budget Law

The effect of the tax credit accrued in 2022 pursuant to the 2022 Budget Law, amounting to Euro 2,033 thousand, was also recognised in the 2021 income statement. The receivables under review refer mainly to internal research and development projects and to some technological innovation projects, both simple and 4.0 projects. As these subsidies are intended to cover operating costs and are not dependent on the creation of a specific fixed asset, and as they accrue in the financial year in which the eligible costs are incurred, regardless of the way in which these costs are accounted for, the subsidies in question have been treated as operating grants and, for this reason, the related economic benefit has been recorded in full in the same financial year in which the eligible costs from which the subsidies in question accrue were accounted for.

Tax receivables

Tax receivables of Euro 1,444 thousand (Euro 3,309 thousand at December 31, 2021), principally concerned:

- receivables relating to the VAT settlement of the subsidiary Se.Co.Sv.Im. S.r.l. for Euro 415 thousand, for which the subsidiary was challenged for the failure to apply VAT on the restoration costs recharged to Avio S.p.A. in 2010, 2011 and 2012.

In 2019, Se.Co.Sv.Im. complied with the expedited settlement of this tax dispute, according to Article 6 of Legislative Decree No. 119 of October 23, 2018, converted, with amendments, by Law No. 136 of December 17, 2018. This settlement entailed payment to the Tax Agency of only the tax to be settled, by Se.Co.Sv.Im., in 20 quarterly instalments; the first was paid on May 31, 2019, while the last shall be settled by February 28, 2024.

On the basis of the applicable VAT rules, the VAT paid by Se.Co.Sv.Im. is recharged to Avio S.p.A. as the above-mentioned instalments are paid. Avio S.p.A. presents the entire expedited settlement amount as tax receivables, which shall gradually become deductible VAT, according to the payment of the instalments of the above-mentioned expedited settlement by Se.Co.Sv.Im.;
- other tax credits of Euro 1,029 thousand.

Tax credit on energy

The Group at December 31, 2022 has a tax credit for electricity expenses of Euro 463 thousand.

In order to offset the rising electricity and gas costs for businesses caused by the ongoing international crises in Ukraine, the Italian Government recognised in 2022 an extraordinary contribution, in the form of a tax credit, in favour of businesses to purchase electricity. Initially, the subsidy was granted only to "energy-intensive enterprises" according to the parameters established by Ministerial Decree of December 21, 2017. It was subsequently also granted, to a reduced degree, to enterprises ("non-energy-intensive enterprises") with electricity meters with an available power of 16.5 kW or more. In both cases, the relief is granted provided that the expenditure incurred in 2022 exceeded 30% of the corresponding average price for the same period in the year 2019. The measures adopted for 2022 were as follows.

BENEFICIARY RELIEF	2022					
	Q1	Q2		Q3	Q4	
	Decree Support-ter	Decree Ukraine	Decree Supports	Decree Aid-bis	Decree Aid-ter	Decree Aid-quater
	DL 4/2022	DL 17/2022	DL 50/2022	DL 115/2022	DL 144/2022	DL 176/2022
Energy-intensive enterprises	20%	25%		25%	40%	
Non-energy intensive enterprises	-	15%		15%	30%	

As not being within the consumption parameters to be considered an "energy-intensive enterprise", in 2022 Avio S.p.A. accrued a tax credit recognised to "non-energy-intensive enterprises" for a total amount of Euro 1,148 thousand, as detailed below.

ENERGY EXPENSE TAX CREDIT	Euro/000
Energy expenses Q2 2022	225
Energy expenses Q3 2022	461
Energy expenses October and November 2022	270
Energy expenses December 2022	193
Total	1,148

This credit was used:

- for Euro 686 thousand by December 31, 2022, and
- for the remaining Euro 463 thousand in February 2023.

Therefore, as of the date of these financial statements, this credit amounted to Euro 463 thousand.

EU VAT receivables

The EU VAT receivables relate to inter-EU transactions and amount to Euro 241 thousand (Euro 237 thousand at December 31, 2021).

3.15. OTHER CURRENT ASSETS

The table below illustrates other current assets at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Other current assets	8,358	7,376	981
Total	8,358	7,376	981

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

	31/12/2022	31/12/2021	Change
Economic Development Ministry for disbursements pursuant to Law 808/85 – current portion	2,924	1,227	1,696
Receivables from FCA Partecipazioni	2,168	2,168	-
Employee receivables	1,248	1,098	150
Grants/subsidies receivable	951	1,488	(536)
Prepayments and accrued income	689	938	(249)
Other debtors	357	436	(79)
Social security institutions	18	16	1
Receivables from associated company Consorzio Servizi Acqua Potabile	2	4	(2)
Total	8,358	7,376	981

Receivables from the “Economic Development Ministry for disbursements pursuant to Law 808/85 – current portion”, amounting to Euro 2,924 thousand, refer to the discounted value of the sums to be disbursed by the Ministry for Economic Development according to the Law 808/85, 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” amounting to Euro 2,168 thousand, reference should be made to the comments at paragraph “3.9 Other non-current assets” in these notes. At the end of the first half of 2022, the instalment of Euro 2,168 thousand recognised at December 31, 2021 was received; the amount recognised at December 31, 2022 is the new instalment due within 12 months, which is of an equal amount to the previous instalment.

Receivables for grants and subsidies of Euro 951 thousand concerning various subsidised research projects. Reference should also be made to section “10. Disclosure on public grants as per article 1, paragraphs 125-129, of Law No. 124/2017.

Employee receivables of Euro 1,248 thousand concern the Group cash advances for the coverage of mission and travel expenses.

Other receivables of Euro 357 thousand mainly concern certain recharges, including of a tax nature, to a number of counterparties.

EQUITY

3.16. SHARE CAPITAL

The share capital of the parent Avio S.p.A. amounts to Euro 90,964,212 at December 31, 2022; 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, 2022 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, 2022, the available value of the share premium reserve was Euro 130,687 thousand, with treasury shares recognised to the financial statements amounting to Euro 13,569 thousand.

3.18. OTHER RESERVES

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

	31/12/2022	31/12/2021	Change
Legal reserve	18,193	18,193	-
Treasury shares acquired	(13,569)	(9,080)	(4,489)
Unavailable treasury shares purchase reserve	13,569	9,080	4,489
Actuarial gains/(losses) reserve	(4,029)	(4,596)	567
Stock grant reserve	54	-	54
Translation reserve	(21)	-	(21)
Total	14,197	13,597	600

At December 31, 2022, following further purchases of treasury shares, Avio S.p.A. held 1,091,207 treasury shares, equal to 4.14% of the share capital. The value of the treasury shares acquired amounts to Euro 13,569 thousand.

The stock grant reserve represents the cost for 2022 of the 2022-2024 plan to grant treasury shares to top management.

The translation reserve, negative and amounting to Euro 21 thousand, relates to the subsidiary Avio USA Inc., incorporated in 2022 and consolidated for the first time.

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, 2022 and the 2022 parent result and the corresponding consolidated financial statement amounts is outlined as follows (in Euro thousands):

	Equity at 31/12/2022	Net profit 2022
Financial Statements of Avio S.p.A.	281,041	(1,895)
Elimination of investments recognised to the statutory financial statements	(133,150)	-
Accounting for equity and the Group's share of the profits or losses of consolidated companies	138,237	2,956
Other consolidation adjustments	7,535	(1,496)
Consolidated financial statements (attributable to the Group)	293,662	(435)

For the reconciliation of the net result of Avio S.p.A. and the consolidated result, the other consolidation adjustments, totalling a net charge of Euro 1,496 thousand, mainly concern:

- the valuation at equity of the associate Termica Colleferro S.p.A., involving the recognition of a charge to the consolidated financial statements of Euro 2,401 thousand;
- the valuation of the joint venture Europropulsion S.A. at equity, which led to the recognition of income of Euro 653 thousand to the consolidated financial statements;
- the elimination of lease contracts with Group companies, in particular Se.Co.Sv.Im. S.r.l., resulting in the recognition of income to the consolidated financial statements of Euro 302 thousand;
- other adjustments for a total charge of Euro 50 thousand.

For the reconciliation of the shareholders' equity of Avio S.p.A. and consolidated shareholders' equity, the other consolidation adjustments mainly concern:

- the positive difference of Euro 3,144 thousand between the acquisition price in 2022 of Temis and the shareholders' equity acquired;
- the valuation at equity of Europropulsion S.A. as a cumulative effect as referring also to the previous years, in addition to 2022, for a final positive effect of Euro 4,322 thousand;
- the valuation at equity of Termica Colleferro S.p.A., previously mentioned above;
- to other effects, positive in the amount of Euro 2,470 thousand, mainly related to the elimination of lease contracts, in particular with Se.Co.Sv.Im.

3.20. EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

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

	31/12/2022			
Consolidated companies	% Non-controlling interests	Capital and Reserves	Profit/(loss)	Equity non-controlling Interests
Spacelab S.p.A.	30.00%	1,245	138	1,383
Regulus S.A.	40.00%	6,606	1,610	8,216
		7,850	1,748	9,599

NON-CURRENT LIABILITIES

3.21. NON-CURRENT FINANCIAL LIABILITIES

The movement in 2022 is presented in the following table (in Euro thousands):

	31/12/2022	31/12/2021	Change
Non-current financial liabilities to EIB	12,000	22,000	(10,000)
Other non-current financial liabilities	76	-	76
Total	12,076	22,000	(9,924)

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

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

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

The decrease of Euro 10,000 thousand relates to the short-term reclassification:

- of the two installments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2023 and October 31, 2023, respectively;
- of the two installments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2023 and October 31, 2023, respectively.

The short-term portion of the loan, totalling Euro 10 million (including Euro 33 thousand for interest), is therefore recognised under item "3.28. Current portion of non-current financial payables".

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

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):

	31/12/2022	31/12/2021	Change
Non-current financial liabilities for leasing	4,937	4,751	186
Total	4,937	4,751	186

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

	31/12/2022	31/12/2021	Change
Non-current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	837	974	(137)
Non-current financial liabilities to third parties as per IFRS 16	4,101	3,777	323
Total	4,937	4,751	186

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 Corbetta (Lombardy), 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):

	31/12/2022	31/12/2021	Change
- Defined benefit plans:			
Post-employment benefits	3,578	3,646	(68)
Other defined benefit plans	2,418	3,005	(587)
	5,996	6,651	(655)
- Other long-term benefits	3,529	3,693	(165)
Total employee benefit provisions	9,524	10,344	(819)
<i>of which:</i>			
- Italy	8,132	8,742	(611)
- Other Countries	1,393	1,602	(209)
	9,524	10,344	(819)

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 31/12/2021	6,651	3,693	10,344
Financial charges/(income)	(26)	(8)	(34)
Extraordinary charges/(income) from actuarial adjustment	-	-	-
Actuarial (gains)/losses in income statement	-	-	-
Actuarial (gains)/losses in comprehensive income statement	(730)	-	(730)
Pension cost current employees	72	176	248
Other changes	329	(196)	133
Benefits paid	(299)	(136)	(436)
Values at 31/12/2022	5,996	3,529	9,524

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

	31/12/2022	31/12/2021
Discount rate	3.48%	0.15%
Expected salary increases	2.16%	2.15%
Inflation rate	European Zero-Coupon Inflation-Indexed Swap curve at 30.12.2022	European Zero-Coupon Inflation-Indexed Swap curve at 31.12.2021
Average employee turnover rate	4.64%	4.75%

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, 2022 and December 31, 2021 (in Euro thousands).

	31/12/2022	31/12/2021	Change
Provisions for risks and charges	53,379	28,229	25,150
Total	53,379	28,229	25,150

The breakdown of the provisions for risks and charges at December 31, 2022 is presented below (Euro thousands):

	31/12/2022		
	Current portion	Non-current portion	Total
Provision for variable remuneration	4,535	1,770	6,305
Provision for legal and environmental risks and charges	5,233	12,281	17,514
Other provisions for risks and charges	13,691	15,870	29,561
Total	23,458	29,921	53,379

These provisions include:

- provisions for variable remuneration for Euro 6,305 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 17,514 thousand;
- other provisions for risks and charges for Euro 29,561 thousand, mainly related to the extraordinary provisions for risks connected to the return to flight of Vega C launcher, net of compensation expected from the European Space Agency, and for the future execution of programs for an amount of Euro 25,361 thousand disclosed in the section "Group operating performance and financial and equity position" of the Directors' report; these provisions include, furthermore, charges for the recovery of concession areas and rights pursuant to the provisions of Law 808/85.

The movements in current and non-current provisions in 2022 are shown below (amounts in Euro thousands):

	31/12/2021	Provisions	Other changes	Utilisations	Releases	31/12/2022
Provision for variable remuneration	7,399	4,078	624	(4,153)	(1,643)	6,305
Provision for legal and environmental risks and charges	18,431	-	177	(1,095)	-	17,514
Other provisions for risks and charges	2,399	27,878	1,270	(1,942)	(44)	29,561
Total	28,229	31,957	2,070	(7,190)	(1,687)	53,379

The main changes during the year were:

- the provisions for variable remuneration were utilised for Euro 4,153 thousand, in consideration of the bonuses paid to employees for the achievement of individual and company objectives. This account mainly concerned thousand the payment of ordinary annual result bonuses.
The provision of Euro 4,078 thousand mainly relates to variable remuneration which will be paid in the first half of 2023, on the basis of the achievement of individual and company objectives for the year 2022.
Proceeds of Euro 1,643 thousand resulted from the cancellation of the 2020-22 and 2021-23 cycles of the existing 2020-24 Monetary Long-Term Incentive Plan, as set out in the Directors' Report.
- the risks and legal and environmental charge provisions were utilised for Euro 1,095 thousand, mainly concerning environmental charges;
- other provisions for risks and charges include an amount of Euro 25,361 thousand related to the extraordinary provisions for risks connected to the return to flight of Vega C launcher, net of compensation expected from the European Space Agency, and for the future execution of programs disclosed in the section "Group operating performance and financial and equity position" of the Directors' report.

3.25. OTHER NON-CURRENT LIABILITIES

The table below presents the account at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Non-current liabilities	76,471	119,830	(43,359)
Total	76,471	119,830	(43,359)

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

	31/12/2022	31/12/2021	Change
Tax liabilities			
<i>Payables to the Tax Authorities for registration, mortgage and land tax relating to the corporate transaction 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.</i>	58,220	58,220	-
Other tax payables	0	407	(407)
	58,220	58,626	(407)
Liabilities relating to Law 808/85			
Payables to the Economic Development Ministry (MiSE) for disbursements pursuant to Law 808/85	-	42,051	(42,051)
Deferred income on disbursements pursuant to Law 808/85 - beyond one year	15,568	16,556	(988)
Payables to MiSE for disbursements pursuant to Law 808/85 (as per MiSE Decree 3/07/2015) - portion beyond one year	1,320	1,320	-
Deferred income on disbursements pursuant to Law 808/85 (as per MiSE Decree 3/07/2015) - portion beyond one year	483	483	-
	17,371	60,410	(43,039)
Other liabilities			
Payables due to MiSE for other subsidies	511	388	123
Accrued expenses	369	406	(37)
Total	76,471	119,830	(43,359)

Tax liabilities

Payables to the Tax Authorities for registration, mortgage and land tax relating to the corporate transaction 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. At the date of this report, the Court of Cassation has not yet set a date for the hearing.

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

Other tax payables

This item has a zero balance at December 31, 2022, as the balance of Euro 406 thousand at December 31, 2021, has been reclassified as short-term.

This amount related to the long-term portion 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 installments 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 - portion beyond one year

With reference to this item and related 2022 variation, please see the section "Significant events in 2022" and "Group operating performance and financial and equity position" of the Directors' report.

Deferred income on disbursements pursuant to Law 808/85 - beyond one year

The account, amounting to Euro 15,568 thousand, represents the initial counter-entry of the receivable from the Ministry for Economic Development against the grants pursuant to Law 808/85, relating to the projects qualifying as functional to national security, 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 (as per MiSE Decree 3/07/2015) - portion beyond one year

Disclosure upon the payable to MiSE for disbursements as per Law 808/85 according to the ex MiSE Decree of 3/07/2015 of Euro 1,320 thousand is presented below.

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

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

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

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

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

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 (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 511 thousand, consists of payables due beyond one year to the Ministry for Economic Development relating mainly 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 projects concerning the projects:

- "Additive Manufacturing by Mixing Elemental Powders", and
- "Innovative composite materials for space, aeronautics and automotive I.S.A.C."

The payables are recorded at their discounted value.

CURRENT LIABILITIES

3.26. CURRENT FINANCIAL LIABILITIES

The table below presents current financial liabilities at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Current financial liabilities to Europropulsion	27,769	7,749	20,020
Other current financial liabilities	259	-	259
Total	28,028	7,749	20,279

The account mainly comprises financial payables to the jointly-controlled company Europropulsion, relating to the mechanism of distributing to its shareholders the financial resources available to the joint venture, in accordance with a specific treasury management contract. This contract provides for application of the 3-month Euribor as the reference rate, with an additional lending rate of -0.05% and a borrowing rate of 0.20%.

3.27. CURRENT FINANCIAL LIABILITIES FOR LEASING

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

	31/12/2022	31/12/2021	Change
Current financial liabilities for leasing	1,879	2,906	(1,027)
Total	1,879	2,906	(1,027)

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

	31/12/2022	31/12/2021	Change
Current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	152	146	6
Current financial liabilities to third parties as per IFRS 16	1,726	2,760	(1,033)
	1,879	2,906	(1,027)

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 Corbetta (Lombardy), 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, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Current portion of non-current financial payables	10,033	10,048	(15)
Total	10,033	10,048	(15)

The account, which amounted to Euro 10,033 thousand, consists of:

- the two installments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2023 and October 31, 2023, respectively;
- the two installments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2023 and October 31, 2023, respectively;
- interest expense on the above financial liabilities accrued at December 31, 2022 for Euro 33 thousand.

3.29. TRADE PAYABLES

The table below illustrates trade payables at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Trade payables	89,826	76,927	12,899
Total	89,826	76,927	12,899

Trade payables of the Avio Group at December 31, 2022 amount to Euro 89,826 thousand; this amount includes, for Euro 14,053 thousand, trade payables to associated companies, jointly controlled companies and non-consolidated subsidiaries as follows (Euro thousands):

	31/12/2022	31/12/2021	Change
Europropulsion S.A.	10,361	1,670	8,691
Termica Colleferro S.p.A.	3,517	6,588	(3,071)
Potable Water Services Consortium	(24)	(227)	202
Servizi Colleferro S.C.p.A.	200	173	27
Total	14,053	8,204	5,850

3.30. CURRENT TAX PAYABLES

The table below presents current tax liabilities at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Current income tax payables	4,228	7,322	(3,094)
Total	4,228	7,322	(3,094)

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

	31/12/2022	31/12/2021	Change
IRES payables	454	705	(251)
IRAP payables	54	72	(18)
Payables for withholding taxes	1,605	1,203	402
Other tax payables	606	5,004	(4,398)
Foreign income taxes	1,509	338	1,171
Total	4,228	7,322	(3,094)

IRES payables from tax consolidation amount to Euro 454 thousand, while IRAP payables total Euro 54 thousand.

Payables for withholding taxes, amounting to Euro 1,605 thousand, refer to employee and consultant withholding taxes. The increase on the previous year is due to the higher number of Group employees.

Other Tax payables of Euro 606 thousand comprise the following items:

- for Euro 415 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 installments of the taxes only, without penalties and interest;

- for Euro 191 thousand, tax liabilities in respect of ongoing tax disputes.

The decrease from December 31, 2021, is due to the instalment paid in 2022 related to both the repayment of a portion of the 2017 R&D tax credit (the payment plan concluded in the year) and the expedited settlement of VAT by Se.Co.Sv.Im.

Payables for foreign taxes totalling Euro 1,509 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 presents other current liabilities at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Other current liabilities	24,271	26,383	(2,112)
Total	24,271	26,383	(2,112)

This account is broken down below (in Euro thousands):

	31/12/2022	31/12/2021	Change
Other accrued liabilities and deferred income	7,758	7,409	349
Employee payables	8,827	7,238	1,588
Other payables to third parties	2,009	5,214	(3,206)
Payables due to social security institutions	4,358	4,376	(17)
Deferred income on disbursements pursuant to Law 808/85 - current portion	1,320	2,147	(827)
Total	24,271	26,383	(2,112)

Accrued liabilities and deferred income

This account, amounting to Euro 7,758 thousand (Euro 7,409 thousand at December 31, 2021), mainly refers to the deferment of commercial costs and grants to the following year.

Employee payables

Employee payables amount to Euro 8,827 thousand (Euro 7,238 thousand at December 31, 2021) and include remuneration to be settled, in addition to vacations and other rights matured and not utilised. The increase of Euro 1,638 thousand on the previous year is due to the increased headcount.

Other payables to third parties

This account, amounting to Euro 2,009 thousand (Euro 5,214 thousand at December 31, 2021), concerns:

- liabilities for urban development charges due to the municipalities in which the Group operates for Euro 465 thousand;
- other liabilities to third parties for Euro 1,544 thousand.

The decrease of Euro 3,206 thousand on the previous year concerns the payment to the Italian Space Agency (ASI) of dividends and reimbursements of a portion of the share capital of Spacelab S.p.A. (the former being a minority shareholder of the latter) for Euro 3,132 thousand, following the setting on June 29, 2021 of the sales price of the launchers business unit between Spacelab as the seller and Avio as the buyer. The setting of the price resulted in a gain for Spacelab, which was partially distributed in 2021 and partially in 2022.

Amounts due to social security institutions

The account concerns amounts to be paid, amounting to Euro 4,358 thousand (Euro 4,376 thousand at December 31, 2021), relating to company and employee contributions, in accordance with regulations in force.

Deferred income on disbursements pursuant to Law 808/85 - current portion

The account, amounting to Euro 1,320 thousand (Euro 2,147 thousand at December 31, 2021), concerns the accrual of the contribution, with regards to the portion expected to be recognised as income to the income statement within the next 12 months.

INCOME STATEMENT

3.32. REVENUES

Total revenues, comprising the change in contract work-in-progress and revenues from product sales and the provision of services, amounted to Euro 371,377 thousand. They amounted Euro 320,094 thousand in 2021.

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

	FY 2022	FY 2021	Change
Revenues from sales	68,262	733,052	(664,791)
Revenues from services	4,956	7,930	(2,974)
	73,218	740,983	(667,765)
Changes in contract work in progress	298,159	(420,888)	719,047
Total	371,377	320,094	51,283

For information on revenues as compared to the previous period, reference should be made to the "Group operating performance and financial and equity position" paragraph of the Directors' Report.

In terms of the recognition of revenues, in order to present a breakdown and comparison of revenues in the clearest manner possible, it should be noted that contracts totalling Euro 733,052 thousand were completed during the comparative year, the effects of which are shown under "Revenues from sales" for the proceeds from the related advances received and under "Changes in contract work in progress" for the closure of the contracts from work in progress.

The revenues from advancement include the effect from the recognition of research and development credits for the years 2017, 2018 and 2019 under Article 3 of Legislative Decree No. 145/2013 and subsequent amendments in force until December 2019. This income amounted to Euro 2,363 thousand in 2022, while in 2021 totalled Euro 2,248 thousand. These credits, recognised to the extent they are considered recoverable and usable, are initially recorded in the account "Current tax receivables", with counter-entry to the income statement under "Service costs", and rediscounted to reflect their recognition to the Income Statement in each period on an accruals basis, according to the differing types of costs supported, in relation to the percentage of completion of the contract work-in-progress giving rise to the costs against which the credit was calculated. The accrual has been recognised on the balance sheet under "Contract work in progress" and its release has been recognised on the income statement as "Changes in contract work in progress".

As reported in the "Significant events in 2022" section of the Directors' Report, on July 13, 2022 the maiden flight of the new Vega C launcher was fully successful, while on December 21, 2022 its first commercial flight failed. This launcher was the first to be equipped with the new P120C motor, which shall be used also for the new Ariane 6 launcher. Two new launchers VEGA C and Ariane 6 to are therefore currently being brought to market, while the Ariane 5 launcher is being phased out. This transition phase includes the contractual provision of ramp-down/ramp-up ESA contributions for industrial fixed cost absorption effects. As regards the ESA, contributions for the effects of COVID-19 are also planned. In 2022, the Group recognised variable payments in these cases to the extent that they are likely to be recognised by customers and in accordance with IFRS 15. The portion of these fees currently accounts for approx. 4.1% of revenues.

3.33. OTHER OPERATING REVENUES

The account in 2022 amounted to Euro 39,376 thousand, as follows:

	FY 2022	FY 2021	Change
Other income	33,300	3,351	29,949
Dividends from the jointly-controlled company Europropulsion S.A.	2,400		2,400
Income from the release of provisions	1,950	638	1,311
Income for the portion recognised to the income statement of the disbursements as per Law 808/85	1,294	2,157	(863)
Grants related to income	334	700	(366)
Over-accruals and similar in prior periods	99	615	(516)
Total	39,376	7,461	31,915

"Other income", amounting to Euro 33,300 thousand, includes Euro 30,842 thousand from the application of the new legislation introduced in 2022 regarding the Law 808/85 and consequent definition of royalties related to the P80 Research and Development Project of National Security Interest, which is disclosed in "Significant events in 2022" and "Group operating performance and financial and equity position" sections of the Directors' report.

"Income from the release of provisions" of Euro 1,950 thousand includes for Euro 1,643 thousand the impact from the cancellation of the 2020-22 and 2021-23 cycles of the 2020-24 Monetary Long Term Incentive Plan and for Euro 307 thousand the release of maintenance provisions.

3.34. CONSUMPTION OF RAW MATERIALS

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

	FY 2022	FY 2021	Change
Purchase of raw materials	135,517	89,138	46,379
Change in inventories of raw materials	(18,308)	(5,369)	(12,939)
Total	117,208	83,769	33,439

The item "Consumption of raw materials" includes extraordinary provisions for risks connected to the future execution of programs disclosed in the section "Group operating performance and financial and equity position" of the Directors' report.

3.35. SERVICE COSTS

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

	FY 2022	FY 2021	Change
Service costs	189,400	153,399	36,001
Rent, lease and similar costs	1,131	671	460
Total	190,531	154,070	36,461

Service costs, amounting to Euro 189,400 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 and, furthermore, extraordinary provisions for risks connected to the return to flight of Vega C launcher, net of compensation expected from the European Space Agency disclosed in the section "Group operating performance and financial and equity position" of the Directors' report.

The account also includes the amount of the emoluments due to the Avio Group's corporate boards, relating to:

- directors remuneration of Euro 763 thousand (Euro 668 thousand in 2021) and to the board committees for Euro 170 thousand (Euro 164 thousand in 2021);
- Supervisory Body fees of Euro 166 thousand (Euro 177 thousand in 2021);
- Board of Statutory Auditors fees of Euro 171 thousand (Euro 178 thousand in 2021);

Service costs are shown net of the recognition of accrued tax receivables on certain types of costs amounting to Euro 2,033 thousand (Euro 1,785 thousand at December 31, 2021), as described in paragraph "3.14. Current tax receivables".

3.36. PERSONNEL EXPENSES

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

	FY 2022	FY 2021	Change
Wages and salaries	54,538	48,491	6,047
Social security charges	18,188	16,944	1,245
Provision for variable remuneration	4,131	3,904	227
Other long-term benefits - current employees	70	122	(52)
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	-	(162)	162
Provision for "Other defined benefit plans"	3,413	3,099	314
Total	80,340	72,396	7,944

3.37. AMORTISATION & DEPRECIATION

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

	FY 2022	FY 2021	Change
Intangible assets with definite life	10,099	11,624	(1,525)
Property, plant and equipment	6,662	6,999	(338)
Right-of-use	2,348	2,454	(107)
Investment property	78	74	4
Total	19,187	21,151	(1,965)

Amortization of Intangible assets with a definite life primarily includes:

- amortisation of capitalised development costs of Euro 4,445 thousand (Euro 6,785 thousand in 2021);
- Euro 2,986 thousand for the amortisation of development costs capitalised and for the amortisation of intangible assets regarding the Ariane and Vega programmes, identified following the purchase price allocation process regarding the Group by Space2 in 2017 (same amount in 2021).

3.38. OTHER OPERATING COSTS

This account amounts to Euro 8,262 thousand (Euro 4,178 thousand in 2021) and mainly comprises the following items:

- indirect taxes of Euro 2,009 thousand (Euro 1,692 thousand in 2021);
- prior year charges of Euro 110 thousand (Euro 553 thousand in 2021);

- net extraordinary charges of Euro 4,076 thousand (Euro 1.290 thousand in 2021).

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

The account, resulting in a net charge of Euro 1,749 thousand, includes the effects from the application of the equity method to measure the investments:

- in the jointly-controlled company Europropulsion S.A.; in this regard, income of Euro 653 thousand was recognised, corresponding to Avio's share of the change in the company's equity in 2022;
- in the associate Termica Colleferro S.p.A., amounting to a charge of Euro 2,401 thousand.

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 above equity investments in terms of the Avio Group's business.

3.40. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to internal costs capitalised, amounting to Euro 7,443 thousand (Euro 14,219 thousand in 2021), mainly includes:

- development costs for Euro 4,207 thousand (Euro 10,013 thousand in 2021);
- costs for the construction of internal tangible and intangible assets for Euro 3,236 thousand (Euro 4,206 thousand in 2021);

3.41. FINANCIAL INCOME

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

	FY 2022	FY 2021	Change
Bank interest income	5	10	(5)
Interest income on VAT refunds	53	131	(78)
Financial income from amortised cost	143	380	(237)
	201	521	(320)
Realised exchange gains	630	214	416
Unrealised exchange gains	29	(50)	79
	659	164	495
Total	860	685	175

Financial income of Euro 860 thousand (Euro 685 thousand in 2021) mainly includes interest income on the VAT receivables collected for Euro 53 thousand and interest income from the discounting of receivables of Euro 143 thousand.

Realised exchange gains concern the collection of receivables and the settlement of payables in foreign currencies, while unrealised exchange gains concern the adjustment to the period-end exchange rate of receivables and payables in foreign currencies.

3.42. FINANCIAL CHARGES

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

	FY 2022	FY 2021	Change
Interest on EIB loans	251	341	(90)
Interest expenses on other liabilities	629	32	596
Discounting on employee benefits	(34)	(37)	2
Financial charges from amortised cost	214	228	(14)
	1,059	564	495
Realised exchange losses	578	364	214
Unrealised exchange losses	80	(5)	85
	658	358	299
Total	1,717	922	794

The increase in financial charges of Euro 794 thousand is mainly due to the recognition of financial charges, amounting to Euro 603 thousand, following the review of the amortised cost criterion applied to shareholder loan receivables from the associate Termica Colleferro S.p.A. in view of their partial waiver, amounting to Euro 5,667 thousand. This waiver was made as part of the recapitalisation of the company for the purpose of pursuing a new industrial project. Please refer in particular to the "Initiation of the cogeneration power plant project under the partnership with Cogenio/Enel X" paragraph of the "Significant events in 2022" section of the Directors' Report.

Realised exchange losses concern the collection of receivables and the settlement of payables in foreign currencies, while unrealised exchange losses concern the adjustment to the period-end exchange rate of receivables and payables in foreign currencies.

3.43. INCOME TAXES

"Income taxes" report a net positive balance of Euro 72 thousand (the comparative year charge of Euro 512 thousand).

The cost of Euro 72 thousand comprises:

- current IRES income taxes of Euro 447 thousand (Euro 440 thousand in 2021);
- current IRAP regional taxes of Euro 149 thousand (Euro 23 thousand in 2021);
- current taxes of foreign companies of Euro 1.573 thousand (Euro 425 thousand in 2021);
- income on the recognition of deferred tax assets of Euro 2,097 thousand (Euro 1.399 thousand in 2021).

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

	Rate	FY 2022	FY 2021
Pre-tax result		(1,994)	8,621
Ordinary rate applied		24.00%	24.00%
Theoretical tax charge	(24%)	(479)	2,069
<i>Effect of increases (decreases) to the ordinary rate:</i>			
Permanent increases	(64.24%)	5,337	6,132
Permanent decreases	97.24	(8,091)	(4,903)
Temporary difference increases	(527.16%)	43,796	17,430
Temporary difference decreases	268.54%	(22,310)	16,606
Total changes		18,732	2,053
Utilisation of fiscal losses	161.18%	(13,390)	(4,372)
IRES taxable income of the Group	(40.29%)	3,348	6,303
Theoretical IRES taxation	(40.29%)	(803)	1,513
Prior year taxes		501	
Net deferred tax (income)/charge		2,097	1,399
Current taxes Italian companies		(149)	(464)
Current taxes overseas companies		(1,573)	(425)
		72	512

3.44. EARNINGS/(LOSS) PER SHARE

An explanatory statement is reported below (in Euro):

	FY 2022	FY 2021
Group Consolidated Result	(434,767)	8,479,652
Number of shares in circulation	26,359,346	26,359,346
Treasury shares	(1,091,207)	(671,233)
Number of shares entitled to profits	25,268,139	25,688,113
Basic earnings per share – in Euro	(0.02)	0.33
Diluted earnings per Share – in Euro	(0.02) ⁽¹⁾	0.32 ⁽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 2022, the Avio Group continued operating activities in line with previous years, exclusively in the Space business. Consequently, all the assets and liabilities, costs and revenues refer exclusively to a single sector of activity, which corresponds to the consolidation scope of the Group.

The Group workforce totalled 1,148 employees at December 31, 2022 (991 at December 31, 2021).

Disclosure by regional segment

The regional breakdown of Group revenues (defined based on customer country location), in 2022 (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):

	31/12/2022	31/12/2021
Guarantees given:		
Unsecured guarantees:		
Sureties issued to third parties on behalf of Group	64,426	59,131
Other guarantees	3,402	3,402
Total guarantees given	67,828	62,533
Guarantees received:		
Sureties and guarantees received	1,206	1,206
	1,206	1,206

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.

The increase in guarantees granted compared to December 31, 2021, is mainly due to a surety granted to the Italian Tax Agency for reimbursement of the VAT receivable of Avio S.p.A. related to fiscal year 2020.

Sureties and guarantees received

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

Other commitments

The associated company Termica Colleferro S.p.A. ("Termica Colleferro") is currently 40% owned by Avio and 60% owned by the controlling shareholder Cogenio S.r.l. ("Cogenio"), which took over SECI S.p.A. ("SECI") on December 22, 2021.

Termica Colleferro manages a thermoelectric power plant that produces energy and steam essential for the functioning of the Avio production site in Colleferro.

For the purpose of building the thermoelectric plant, Termica Colleferro stipulated, in February 2010, a loan agreement for a maximum principal amount of Euro 34 million, guaranteed by SECI with a first demand surety

and with a pledge on Termica Colleferro shares for the portion held by the same, with an original maturity date of February 24, 2022.

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

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

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

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

In December 2016, Termica Colleferro restructured its remaining bank debt of approx. Euro 22 million, mainly by extending the duration of the repayment plan from 2022 to 2027, reducing the interest rate spread and raising the covenant thresholds.

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

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

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

As the presentation by the parent company SECI S.p.A. of the application for an arrangement with creditors is, under the terms of the Termica Colleferro bank loan agreement, an acceleration clause for repayment of the loan, in order to define its position vis-à-vis the lending banks in April 2020, Termica Colleferro requested from them a waiver of the acceleration clause in the loan agreement.

In August 2020, the banks indicated that they are not in a position to carry out an assessment of the creditworthiness of the requests made by Termica Colleferro, while they shall not activate the acceleration clause.

After taking steps with SECI S.p.A. such that SECI S.p.A. could respond to requests for information from the banks, Termica Colleferro continued to pay the instalments of the loan.

In the first half of 2021, in pursuit of the objective to sell the stake in Termica Colleferro, SECI S.p.A. mandated an energy sector consulting firm to contact the leading industry players and issued a process letter to them calling for a formal, binding expression of interest in acquiring the 60% holding in Termica Colleferro.

This action led a number of parties potentially interested in acquiring stakes in Termica Colleferro to contact Avio in order to ask about potential future collaborations should they be awarded the equity interest.

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

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

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

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

With respect to Termica Colleferro's request, promptly submitted to the lending banks, for a waiver of the acceleration clause of the loan due to the composition with creditors of the controlling shareholder SECI, on the assumption of the normal continuation of Termica Colleferro's operations not impacted by SECI's composition with creditors, as well as Termica Colleferro's independent ability to punctually repay the instalments of the bank debt falling due, the lending banks never manifested their willingness to avail themselves of the right

granted to them by the loan agreement, and this is also reasonable in light of Termica Colleferro's ability to autonomously and punctually meet the payments due, as was the case.

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

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

On December 12, 2022, data on financial requirements as per Annex 8.5 - Section A to the Loan Agreement (as amended) as of December 31, 2021 were communicated. The data show that the covenants stipulated in the above-mentioned loan agreement have been met. Subsequently, on December 12, 2022, the business plan showing the divestment of the existing cogeneration plant and the new investment was submitted to the lead bank. Based on the plan, the lenders, on December 22, 2022, issued the waiver whereby they waived the right to exercise the clause in Article 12.5 (*Effects of Forfeiture, Termination and Resolution*) of the loan agreement.

In view of the associate's new project to install a new thermal and electric power plant to ensure the supply of constant, uninterrupted heat and power to the Avio Group, partially replacing the components of the company's current cogeneration plant, the associate has written down a substantial portion of its assets in the 2021 financial statements. This write-down resulted in negative shareholders' equity of Euro 3,526 thousand to the financial statements.

The company's two shareholders, Cogenio S.r.l. (60%) and Avio S.p.A. (40%), carried out the following transactions with reference to the company to December 2022:

- recapitalisation of the company by waiving a portion of the existing shareholder loans, totalling Euro 14,167 thousand, including Euro 8,500 thousand from Cogenio and Euro 5,667 thousand from Avio;
- new pro-rata funding, through non-interest-bearing shareholder loans (subordinate to the full repayment of Termica Colleferro's lending banks, whose maturity date is February 24, 2027), to support the capex for the new business plan. Cogenio and Avio have, therefore, made a total payment of Euro 3,252 thousand, including Euro 3,015 thousand from the former and Euro 237 thousand from the latter.

The residual receivable after the above transactions, for Avio S.p.A.'s shareholder loan to Termica Colleferro, amounted to Euro 2,010 thousand at December 31, 2022.

The shareholder loan commitment undertaken by Avio S.p.A. has a maximum limit equal to 40% of the outstanding bank debt of Termica Colleferro. At December 31, 2022, Termica Colleferro's outstanding bank debt amounts to Euro 6.922 thousand. The maximum limit of the commitment undertaken by Avio S.p.A. at December 31, 2022 therefore amounted to Euro 2,769 thousand.

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

There are however no risks of interruptions to the supply of electricity and heat by Termica Colleferro as, following the partnership with Cogenio-Enel launched in December 2021 for the operation of a thermoelectric power plant aimed at ensuring the security of energy and steam supply at the best economic conditions, the industrial project began, as outlined above, for the reconversion of the cogeneration plant in the Colleferro industrial district, which is headed by Termica Colleferro S.p.A. (40% owned by Avio and 60% controlled by Cogenio) with financial support from the two partners, has begun.

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

Secosvim/Caffaro

The Colleferro industrial district includes an industrial area known as "Benzoin and derivatives" owned by Secosvim, until December 31, 2007 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 proposed before the Lazio Regional Administrative Court (over the period between 2008 and 2012) seven separate appeals, challenging 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), by which the Commissioner's Office stated that, in the event of non-compliance with the orders issued, claims would be made against Caffaro. These motions were notified also to Secosvim as owner of the Benzoin area, 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 the pending rulings by the Lazio Regional Administrative Court, the State Prosecutor requested the 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. The hearing to discuss these appeals has been postponed multiple times as we await completion of the criminal proceedings. The last hearing was held on June 9, 2021.

With ruling No. 12946/2021 issued on December 15, 2021, the Lazio Regional Administrative Court, following a meeting of the court, rejected the seven separate appeals filed by Caffaro against deeds issued by the Commissioner's Office for the emergency in the area around the Sacco river in the provinces of Rome and Frosinone within the scope of managing the emergency.

This decision was appealed by Caffaro on March 15, 2022; therefore, the ruling is pending as we await a decision by the Council of State, Section IV, RG No. 2645/2022.

Secosvim duly entered an appearance, and the hearing was held on December 16, 2022. Publication of the ruling is pending.

Group tax audits

Information is provided below on the most significant tax audits and disputes which, at the date of the present financial statements, concerned Avio S.p.A. and its subsidiaries, with details on the specific disputes and the relative amounts.

A) Avio S.p.A. tax audits and disputes

A.1.) *Settlement notice served on July 28, 2016 for indirect taxes on the transfer of the Aeroengine business unit from Avio S.p.A. to GE Avio S.r.l.*

On July 28, 2016, the Tax Agency notified Avio S.p.A. of a settlement notice for registration, mortgage and cadastral taxes totalling Euro 58,220 thousand, re-categorising the conferment of the Aeroengine business unit from Avio S.p.A. to GE Avio S.r.l., and the subsequent sale of the shares of this latter company, during 2013, as a direct transfer of the business unit and, consequently, raised the alleged non-payment of the indirect taxes applicable to the above declared transfer of the business unit.

Convinced that there were extremely valid arguments for considering the charges brought by the revenue authorities to be baseless, Avio S.p.A. - in coordination with the General Electric Group, jointly appearing with Avio S.p.A. - appealed the aforementioned settlement notice. The Piedmont Regional Tax Commission decided in the company's favour in judgment 1740/18 filed on November 7, 2018, in which it granted the Company's appeal in full.

In 2020 the Italian Tax Office appealed the above judgment before the Court of Cassation. The Company appeared promptly in the proceedings with its own counter-appeal and simultaneous cross-appeal, reaffirming the soundness of its arguments.

With regards to this dispute, on the basis of specific contractual provisions, the General Electric Group is required to indemnify Avio S.p.A. for any liabilities which may arise with regards to the indirect taxes relating to the disposal of the company GE Avio S.r.l. (containing the AeroEngine segment operations of the Avio Group), in addition to the provision to Avio S.p.A. of any amounts requested by the Tax Agency by the established payment deadlines. In this regard, on August 12, 2016, following the notification from the Tax Agency to Avio S.p.A. of the settlement notice for a total of Euro 58,220 thousand, GE Italia Holding S.p.A. confirmed to Avio S.p.A. its punctual fulfilment of the above contractual stipulations. In view of that above, and particularly the notification of the above-stated settlement notice which quantifies the alleged indirect taxes as Euro 58,220 thousand, in addition to the above payments of the contractually established indemnities and confirmed subsequently to the settlement notice at issue, a tax payable was recognised to the financial statements in relation to the liabilities which may arise from the dispute regarding the settlement notice and a corresponding receivable from the General Electric Group recorded for the same amount of Euro 58,220 thousand.

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

At the reporting date, the Court of Cassation has yet to schedule a hearing.

A.2.) *Questionnaire of the Piedmont DRE of June 4, 2019 concerning transfer prices between Avio S.p.A. and Regulus S.A. - 2014 Tax period*

In November 2019, the Piedmont Tax Agency served two separate assessment notices on the Company, respectively for IRES and IRAP, in relation to the 2014 tax year, concerning the application of "transfer pricing" tax regulations to transactions between Avio S.p.A. and its subsidiary Regulus S.A., on the assumption that the latter is a tax resident in French Guyana.

With regard to the IRES assessment notice, it should be noted that, pending the settlement procedure, the Company has asked the Office to be able to offset the greater taxable profit assessed against unused prior tax losses. Granting the Company's request, in July 2020 the Office recalculated the greater IRES assessed for 2014 (and related interest), reducing it to zero and levying a single administrative fine of Euro 1,250.00.

With regard to the IRAP assessment notice, since the value of production adjusted by the Office is still negative, no tax was recovered and a fixed penalty of Euro 250.00 was levied. Therefore, the liability associated with this dispute amounts to a total of Euro 1,500.

In June 2020, the Company filed timely appeals of two notices of assessment of IRES and IRAP taxes, being confident of the correctness of its actions and considering that it has acted in full compliance with the law.

In a ruling filed on June 24, 2022, the Turin Provincial Tax Commission upheld both of the Company's appeals concerning IRES and IRAP, citing the calculation of comparables performed by the Turin regional office and noted that the determination of the range of transfer prices was manipulated by that office without cause and in a debatable manner, whereas the documentation provided by the Company met the criteria set by OECD guidelines for determination of "normal value" as specified under Article 9(3) of the Consolidated Income Tax Law.

In January 2013, the Piedmont Regional Directorate of the Tax Agency appealed the ruling of the Turin Provincial Tax Commission. The Company promptly took action, with the support of its consultants, to counter the Agency's appeal and request confirmation of the first instance ruling.

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

The following is a brief description of the tax disputes of Se.Co.Sv.Im. S.r.l. and of the main related contingent liabilities.

B.1) 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 Secosvim lodged a timely appeal against the unfavourable judgment rendered by the Rome Provincial Tax Commission.

In the ruling dated October 11, 2022, the Lazio Regional Tax Commission rejected the appeal brought by the Company, which is considering whether to appeal to the Court of Cassation or to accept the agreed settlement as per the Budget Law 2023, if applicable.

2012 and 2013: the dispute for the years in question concerns property tax, interest and penalties levied for a total of Euro 14 thousand.

In July 2018, Secosvim lodged a complaint/appeal with the Rome Provincial Tax Commission.

The Rome Provincial Tax Commission rejected the Company's claims in a judgment filed in December 2019.

The Company promptly appealed the above judgment in September 2020 and is now awaiting the fixing of the appeal hearing by the Lazio Regional Tax Commission.

B.2) Tax dispute relating to non-application of VAT on reclamation costs recharged to Avio in the years 2010, 2011 and 2012

These disputes concern three notices of assessment for VAT related to 2010, 2011 and 2012, disputing the Company's alleged failure to apply VAT to reclamation costs billed to Avio S.p.A. in these years for a total, including interest and penalties, of Euro 3,568,202.

In 2019, the company decided to agree to the expedited settlement of the pending tax disputes as per Article 6 of Legislative Decree No. 119 of October 23, 2018, converted with amendments by Law No. 136 of December 17, 2018. This settlement resulted in the payment of the taxes alone, without any past-due interest or penalties. The total amount due for all settlements is Euro 1,659,486.05, which is to be paid in 20 quarterly instalments. The first instalment was paid on May 31, 2019, and the final payment must be made by February 28, 2024.

As at July 31, 2020, the Tax Agency had not notified the Company of any refusal of the settlement of pending litigation, as a result of the provisions of Article 6 of Decree-Law No. 119/2018, the settlement of the disputes by the Company must be considered final and legitimately carried out.

For the year 2022, the amount paid in the form of agreed settlement was Euro 340,202.81, of which Euro 331,897 tax and Euro 8,305.61 interest.

B.3) Correction and settlement of increased registration, mortgage and land taxes from the reclassification as the disposal of a business, with related recalculation of goodwill relating to the business unit, of the transfer of the "Energia Colleferro" business unit to Termica Colleferro S.p.A. and the subsequent transfer of the investment in this latter to the indirect parent company Avio S.p.A..

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

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

The dispute concerning the document referred to in *point a)* was resolved in the Company's favour in both the first and second instances. Accordingly, on December 2, 2019 the Italian Tax Office filed an appeal against the judgment of the Emilia Romagna Regional Tax Commission before the Court of Cassation.

On January 24, 2020 the Company appeared promptly in the proceedings, filing its own counter-appeal.

The Court of Cassation has yet to schedule a hearing.

The dispute concerning the document referred to in *point b)* was resolved in the Company's favour in the first instance, whereas in the second instance in December 2018 the Emilia Romagna Regional Tax Commission suspended the trial pending the resolution of the dispute indicated in *point a)* above.

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

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

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

Europropulsion was subject to a Tax Assessment by the French Tax Authorities with regards to the "*taxe professionnelle*" (an indirect tax adopted in France similar to the Italian IRAP) on ESA assets provided for use by the Company initially for tax years 2009, 2010 and 2011 and subsequently for 2012 and 2013.

The amounts contested are:

- for the years from 2009 and 2011, initially amounting to Euro 1.6 million, paid by the company in 2014. This amount was thereafter reduced to Euro 0.9 million following the recognition of partial relief of Euro 684 thousand by the French tax authorities;
- for the years 2012 and 2013 amounting to approx. Euro 250 thousand.

For the years 2009-2011, Europropulsion presented a first level appeal at the competent Tax Court, which judged against the company; the Company appealed this decision on September 9, 2016.

With judgment of November 11, 2017, the competent French tax authorities cancelled the challenge concerning financial year 2010.

In the course of the legal procedure, it bears mentioning that in 2020 the judicial authority, known as the "Conseil d'Etat", declared the use of ESA assets subject to taxation according to an interpretation of the spirit of the tax law, referring the judgment to the next level, in accordance with the French legal system.

The last instance judgment was issued by the "*Cour Administrative d'Appel de Paris*" and was unfavourable for the Company. In view of the judgment rendered in 2020 and 2021 and the opinion of its legal counsel, in its 2020 and 2021 financial statements the Company decided to recognise the total amount of the tax liability associated with the matter for the years 2009 to 2020, which was recalculated and estimated at approx. Euro 4 million. Therefore, the financial statements of these joint ventures at December 31, 2022, still reflect this allocation.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Categories and fair value of financial assets and liabilities

The following table presents a detailed analysis of financial assets and liabilities at December 31, 2022, as per IFRS 7, according to the categories established by IFRS 9.

In thousands of Euro	Total accounts	IFRS 9 Category		
		<i>Assets at amortised cost</i>	<i>Assets at fair value through profit or loss</i>	<i>Liabilities at amortised cost</i>
FINANCIAL ASSETS				
- Investments in other companies	2,244		2,244	
- Non-current financial assets	2,010	2,010		
- Other non-current assets	67,470	67,470		
- Current financial assets	-	-		
- Trade receivables	3,725	3,725		
- Other current assets	8,358	8,358		
- Cash and cash equivalents	131,403	131,403		
	215,209	212,966	2,244	0
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	12,076			12,076
- Non-current financial payables for leasing	4,937			4,937
- Current financial liabilities	28,028			28,028
- Current lease liabilities	1,879			1,879
- Current portion of non-current financial payables	10,033			10,033
- Other non-current liabilities	76,471			76,471
- Other current liabilities	24,271			24,271
- Trade payables	89,826			89,826
	247,521	-	-	247,521

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, 2022.

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 2022.

In Euro thousands	Financial income/(charges) recognised through profit or loss		Actuarial gains/(losses) recognised to comprehensive income statement
	From interest	From fair value changes	From fair value changes
Assets at amortised cost		-	-
Assets at fair value			
Through profit or loss			
Statement			
Liabilities at amortised cost	465	-	-
Derivative financial instruments	-	-	-
Total categories	465	-	-

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

Types of financial risks and related hedging

The Avio Group through its operating activities is exposed to financial risks, in particular:

- credit risks, related to commercial transactions with clients and funding operations;
- liquidity risk, related to the availability of financial resources and access to the credit market;
- market risks;
- interest rate risk

These financial risks are continually monitored, undertaking initiatives to offset and contain potential impacts through appropriate policies and, where in general considered necessary, also through specific hedging instruments (currently not necessary as the loan interest rate with the EIB is fixed and competitive compared to the market).

This section provides qualitative and quantitative disclosure upon the impact of these risks on the Company and on the Group.

The following quantitative data cannot be used for forecasting purposes or completely reflect the complexity and the related market reactions which can derive from any change in assumptions.

Credit Risk

Credit risk represents the exposure of the Company and of the Group to potential losses due to the non-compliance with obligations by commercial and financial counterparties.

The exposure to credit risk is essentially related to receivables recognised to the financial statements, particularly trade receivables and guarantees provided in favour of third parties.

The maximum theoretical exposure to the credit risk for the Group at December 31, 2022 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 3,725 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, 2022 these are recorded net of a doubtful debt provision of Euro 483 thousand. The overdue amounts were therefore not significant and entirely relate to timing factors.

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

Liquidity risk

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

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

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

Liquidity analysis

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

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

	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	27,769	27,769	-	-	-	-	-	-	27,769
- Current lease liabilities	1,879		1,879						1,879
- Financial payables <i>EIB Loan</i>	10,033	-	10,033	-	-	-	-	-	10,033
	39,681	27,769	11,912	-	-	-	-	-	39,681
Trade payables (including companies under joint control)	90	-	90	-	-	-	-	-	90
	90	-	90	-	-	-	-	-	90
Other non-current liabilities:									
- Financial payables <i>EIB Loan</i> Euro 40 mln	8,000	-		8,000	8,000				16,000
- Financial payables <i>EIB Loan</i> Euro 10 mln	4,000			2,000	2,000	2,000			6,000
- Non-current financial payables for leasing	4,937			987	987	987	987	987	4,937
	16,937	-	-	10,987	10,987	2,987	987	987	26,937
Other current liabilities:									
- Social security institutions	4,358	-	4,358	-	-	-	-	-	4,358
- Employee payables	8,827	-	8,827	-	-	-	-	-	8,827
- Other payables to third parties	2,009	-	2,009	-	-	-	-	-	2,009
	15,194	-	15,194	-	-	-	-	-	15,194
Total cash flows	71,901	27,769	27,195	10,987	10,987	2,987	987	987	81,901

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, it is deemed that significant market risks from fluctuations in exchange rates or interest rates on financial receivables and payables do not exist.

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, 2022 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 22 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, 2022 and on the Group Income Statement for 2017 (in Euro thousands):

At December 31, 2022											
Counterparty	Right-of-use assets	Other non-current assets	Inventories and Advances to suppliers	Trade receivables	Other current assets	Contract work-in-progress	Non-current financial assets	Trade payables	Other current liabilities	Advances for contract work in progress	Financial liabilities
Leonardo S.p.A.			1,140					2,988	318		
MBDA Italia S.p.A.				0		3,161				3,161	
MBDA France S.A.				839		8,558				48,746	
Thales Alenia Space Italia S.p.A.								350			
Vitrociset S.p.A.						0		196		0	
Companies with a connecting relationship and relative investee companies	0	0	1,140	839	0	11,719	0	3,534	318	51,908	0
Termica Colferro S.p.A.	976		1,000	832			2,010	3,517			989
Europropulsion S.A.			47,688	323		87,467		10,361		94,312	27,769
Potable Water Services Consortium				124	2			(24)			
Servizi Colferro - Consortium Limited Liability Company				1				200			
Associates and jointly controlled companies	976	0	48,688	1,280	2	87,467	2,010	14,053	0	94,312	28,758
Total related parties	976	0	49,828	2,120	2	99,185	2,010	17,587	318	146,220	28,758
Total book value	8,535	67,470	202,573	3,725	8,358	426,182	2,010	89,826	24,271	667,443	56,953
% on total account items	11.43%	0.00%	24.60%	56.90%	0.03%	23.27%	100.00%	19.58%	1.31%	21.91%	50.49%

In 2022, the main income statement transactions by the Group with related parties were as follows (in Euro thousands):

At December 31, 2022					
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.			3,475		
MBDA Italia S.p.A.	1,181				
MBDA France S.A.	18,866				
Thales Alenia Space Italia S.p.A.	(22)		1350		
Vitrociset S.p.A.	0		196		
Companies with a connecting relationship and relative investee companies	20,025	0	5,020	0	0
Termica Colleferro S.p.A.	4	69	20,020	0	616
Europropulsion S.A.	59,712	491	33,713		20
Potable Water Services Consortium	47	27	350		
Servizi Colleferro - Consortium Limited Liability Company	235	42	1,232	-	-
Associates and jointly controlled companies	59,998	629	55,315	0	635
Total related parties	80,023	629	60,336	0	635
Total book value	371,377	39,376	388,080	860	1,717
% on total account items	21.55%	1.60%	15.55%	0.00%	37.01%

⁽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 customer 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, 2022

The following table presents the key details of Avio Group investees at December 31, 2022:

Companies included in the consolidation scope at December 31, 2022			Holding
Parent			
<i>Company Name</i>	<i>Registered office</i>	<i>Share capital</i>	<i>% Held</i>
Avio S.p.A.	via Leonida Bissolati, 76 - Rome	Euro 90,964,212.90	N/A
Companies consolidated by the line-by-line method			
<i>Company Name</i>	<i>Registered office</i>	<i>Share capital</i>	<i>% Held</i>
Spacelab S.p.A.	via Leonida Bissolati, 76 - Rome	Euro 3,000,000.00	70%
Regulus S.A.	Centre Spatial Guyanais - BP 0073 97372 Kourou (French Guiana - France)	Euro 640,000.00	60%
SE.CO.SV.IM. S.r.l.	Via degli Esplosivi, 1 - Colleferro (RM)	Euro 53,929,691.00	100% (*)
Avio Guyane S.A.S.	Centre Spatial Guyanais - BP 506 97388 Kourou (French Guiana - France)	Euro 50,000.00	100%
Avio France S.A.S.	3 Rue du Colonel Moll - 75017 Paris (France)	Euro 50,000.00	100%
Temis S.r.l.	Via Gaetano Donizetti, 20 - Corbetta (Milan)	Euro 100,000.00	100%
Avio USA Inc.	Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of Newcastle, Delaware 19801 (USA)	2.00 (USD)	100%
ASPropulsion International B.V.	Herikerbergweg 238, 1101 CM Amsterdam (Netherlands)	Euro 18,000.00	100%
Avio India Aviation Aerospace Private Limited (**)	Pitampura Delhi North West (India)	INR 16,060,000	100% (***)
Jointly controlled companies, measured at equity			
Europropulsion S.A.	11, rue Salomon de Rothschild 92150 Suresnes 388 250 797 RCS Nanterre	Euro 1,200,000.00	50%
Associates, measured at equity			
Termica Colleferro S.p.A.	Via degli Agresti, 4 and 6 Bologna	Euro 6,100,000.00	40%

(*) Holding through ASPropulsion International B.V.

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

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

9. DISCLOSURE PURSUANT TO ARTICLE 149 *DUODECIES* OF THE CONSOB ISSUER'S REGULATION

In accordance with Article 149 *duodecies* of the Consob Issuer's Regulation, we report below the information concerning fees paid in 2022 for audit and other services by the audit firm Deloitte & Touche S.p.A. and its network (in Euro thousands):

Type of service	Company	Service provider	2022 Fees
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	227 ⁽¹⁾
	Subsidiaries	Deloitte & Touche S.p.A.	47 ⁽²⁾
	Subsidiaries	Parent audit firm network	12 ⁽³⁾
Other services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	51 ⁽⁴⁾
Total	Total		336

(1) The amount includes Euro 58 thousand regarding activities for 2022 related to the European Single Electronic Format (ESEF) of financial statement communication;

(2) The amount concerns the audit of the subsidiaries Spacelab S.p.A., Se.Co.Sv.Im. S.r.l. and Temis S.r.l.;

(3) The amount refers to the audit of the statutory financial statements of Avio Guyana S.a.S.;

(4) The amount refers to the limited review of the Avio Group's Non-Financial Statement for Euro 34 thousand, ISA 805 audit activities performed in 2022 related to the statement of research and development costs incurred in 2020 for Euro 12 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 2021:

Avio S.p.A.

The parent company Avio S.p.A. benefited from the following grants during the year:

- ISAAC project: receipt of Euro 85,523.37 and Euro 45,233.16 on 19/01/2022 as contribution for the Sustainable Growth Fund reserved for less developed regions (Horizon 2020 PON);
- Magic project: receipt of Euro 1,184.63 on 11/02/2022 and Euro 3,634.88 on 12/10/2022 from ENEA;
- AMMEP project: receipt of Euro 235,215.31 and Euro 132,845.25 on 8/06/2022 as contribution for the Sustainable Growth Fund reserved for less developed regions (Horizon 2020 PON);
- Finpiemonte project: receipt of Euro 388,698.78 on 22/07/2022;
- Enlighten project: receipt from ArianeGroup of Euro 1,310,706.80 on 30/11/2022;
- SALTO project: receipt from ESA of Euro 2,440,115.90 on 30/11/2022.

Other Italian companies in the Avio Group

The Avio Group's other Italian companies did not receive any public disbursements in this fiscal year.

11. SUBSEQUENT EVENTS

Business

Conclusions of the Independent Commission of Inquiry (IEC) on the causes of the failure of the Vega C mission (VV02) and recommendation for return to flight

As reported in the press release on March 3, 2023⁵¹, the Independent Commission of Inquiry (IEC) composed of ESA and Arianespace completed its work concluding that the cause of the failure of the VV22 flight was a gradual deterioration of the Zefiro 40 engine nozzle. It also provided a set of recommendations to ensure the safe return to flight in a timely manner and the long-term reliability of the Vega C launcher with a portfolio of 14 flights (12 Vega C and 2 Vega). Arianespace has updated the launch schedule to assign a flight to one of the two remaining Vega launchers with an expected launch date by late summer 2023, anticipating the next flight of Vega C by the end of 2023. In the above mentioned press release an apposite reference is made to the press release issued by the Independent Commission of Inquiry⁵².

In the press release related to the 2022 results on March 3, 2023 is reported that the Independent Commission of Inquiry provided several recommendations in order to allow a rapid and secure return to flight, assuring the reliability of the launcher in the long period and that, for this purpose, the European Space Agency announced a dedicated support program amounting to Euro 30 million (already available as subscribed in the 2022 ESA Ministerial Conference) in order to cover the charges necessary to the return to flight.

Based on the recommendations provided by the Independent Commission of Inquiry to ensure the safe return to flight in the short term and the reliability of the Vega C launcher in the long term, the Company has proceeded to estimate the costs required for their implementation, both direct (e.g., ground testing of engines and strengthening of quality control procedures, among others) and indirect (e.g., among others, the increased costs resulting from a reduction in the production rate due to the implementation of these recommendations). The ESA support provided to Avio was then estimated on the basis of specific contractual provisions, a principle confirmed by ESA during the March 3, 2023 press conference, and consequently provisions for residual risks on the estimated costs borne by Avio were recorded in FY2022 under non-recurring costs, also based on detailed analysis undertaken by legal consultants concerning possible contractual and non-contractual liability exposure of Avio.

* * *

March 13, 2023

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

⁵¹ Avio's website, in the "Investors" section: <https://investors.avio.com/Investors/Financial-Announcements/>.

⁵² Please, see https://www.esa.int/Newsroom/Press_Releases/Loss_of_flight_VV22_independent_Enquiry_Commission_announces_conclusions.

SEPARATE FINANCIAL STATEMENTS

BALANCE SHEET	<i>Note</i>	December 31, 2022	December 31, 2021
<i>(In Euro thousands)</i>			
ASSETS			
Non-current assets			
Property, plant and equipment	3.1	99,728,410	88,779,314
Right-of-use	3.2	27,887,548	33,713,995
- of which related parties		22,119,998	26,776,963
Intangible assets with definite life	3.3	119,282,335	128,797,976
Goodwill	3.4	61,005,397	61,005,397
Investments	3.5	89,080,792	78,995,605
Non-current financial assets	3.6	2,010,172	6,415,000
- of which related parties		2,010,172	6,415,000
Deferred tax assets	3.7	77,319,785	75,400,000
Other non-current assets	3.8	62,377,475	63,806,806
- of which related parties		150,000	150,000
Total non-current assets		538,691,914	536,914,093
Current assets			
Inventories and advances to suppliers	3.9	198,430,510	150,791,454
- of which related parties		49,934,499	29,686,340
Contract work-in-progress	3.10	425,530,637	453,157,000
- of which related parties		99,185,251	99,595,770
Trade receivables	3.11	4,857,424	3,800,313
- of which related parties		4,525,773	2,921,934
Cash and cash equivalents	3.12	125,520,693	100,068,879
Current financial assets	3.13	2,842,463	-
- of which related parties		2,842,463	-
Tax receivables	3.14	11,463,779	14,435,793
Other current assets	3.15	10,285,938	17,536,387
- of which related parties		4,093,851	12,228,649
Total current assets		778,931,444	739,789,826
TOTAL ASSETS		1,317,623,358	1,276,703,919

BALANCE SHEET	<i>Note</i>	December 31, 2022	December 31, 2021
<i>(In Euro thousands)</i>			
EQUITY			
Share capital	<i>3.16</i>	90,964,212	90,964,212
Share premium reserve	<i>3.17</i>	130,686,924	135,175,614
Other reserves	<i>3.18</i>	14,635,692	14,007,655
Retained earnings		46,648,903	46,307,900
Net profit		(1,894,795)	4,836,213
TOTAL NET EQUITY		281,040,936	291,291,594
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	<i>3.19</i>	12,000,000	22,000,000
Non-current financial liabilities for leasing - of which related parties	<i>3.20</i>	18,988,469 <i>16,205,185</i>	26,590,637 <i>23,139,000</i>
Employee provisions	<i>3.21</i>	7,606,211	8,427,288
Provisions for risks and charges	<i>3.22</i>	18,467,293	5,235,123
Other non-current liabilities	<i>3.23</i>	76,313,983	119,229,419
Total non-current liabilities		133,375,956	181,482,467
Current liabilities			
Current financial liabilities - of which related parties	<i>3.24</i>	66,259,555 <i>66,259,555</i>	56,645,416 <i>56,644,783</i>
Current financial liabilities for leasing - of which related parties	<i>3.25</i>	8,905,816 <i>7,655,851</i>	6,748,000 <i>5,012,000</i>
Current portion of non-current financial payables	<i>3.26</i>	10,033,000	10,048,000
Provisions for risks and charges	<i>3.22</i>	17,029,943	4,490,863
Trade payables - of which related parties	<i>3.27</i>	115,396,402 <i>49,641,979</i>	97,294,997 <i>32,205,288</i>
Advances from clients for contract work-in-progress - of which related parties	<i>3.10</i>	667,349,122 <i>146,779,478</i>	609,540,250 <i>101,548,064</i>
Current income tax payables	<i>3.28</i>	1,887,780	6,204,890
Other current liabilities - of which related parties	<i>3.29</i>	16,344,848 <i>1,032,321</i>	12,957,442 <i>302,406</i>
Total current liabilities		903,206,466	803,929,858
TOTAL LIABILITIES		1,036,582,422	985,412,325
TOTAL LIABILITIES AND EQUITY		1,317,623,358	1,276,703,919

INCOME STATEMENT	Note	FY 2022	FY 2021
<i>(In Euro thousands)</i>			
Revenues	3.30	367,178,604	313,091,050
- of which related parties		80,103,641	83,554,183
Change in inventory of finished products, in progress and semi-finished		859,142	1,316,541
Other operating revenues	3.31	37,105,413	6,880,388
- of which related parties		1,158,209	1,304,708
Consumption of raw materials	3.32	(115,229,672)	(82,121,840)
Service costs	3.33	(208,164,324)	(165,204,127)
- of which related parties		(92,918,185)	(77,055,907)
Personnel expenses	3.34	(67,297,435)	(60,582,239)
Depreciation	3.35	(21,383,564)	(23,083,309)
Other operating costs	3.36	(5,552,130)	(2,474,586)
Costs capitalised for internal works	3.37	7,401,983	14,203,028
EBIT		(5,081,983)	2,024,906
Financial income	3.38	775,967	498,772
- of which related parties		42,183	156,000
Financial charges	3.39	(1,774,998)	(1,056,710)
- of which related parties		(892,670)	(332,362)
NET FINANCIAL INCOME/(CHARGES)		(999,031)	(557,938)
Other investment income/(charges)	3.40	2,399,977	2,666,571
- of which related parties		2,399,977	2,666,571
INVESTMENT INCOME/(CHARGES)		2,399,977	2,666,571
PROFIT/(LOSS) BEFORE TAXES		(3,681,037)	4,133,538
Income taxes	3.41	1,786,241	702,675
NET PROFIT/(LOSS)		(1,894,796)	4,836,213
Basic earnings/(losses) per share	3.42	(0.07)	0.19
Diluted earnings/(losses) per share	3.42	(0.07)	0.18

STATEMENT OF COMPREHENSIVE INCOME	FY 2022	FY 2021
<i>(in Euro)</i>		
NET INCOME FOR THE YEAR (A)	(1,894,796)	4,836,213
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	732,547	(317,434)
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)	(158,751)	63,157
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	573,796	(254,277)
COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR (A+B)	(1,321,000)	4,581,936

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Euro thousands)

	Other reserves										Total Equity
	Share capital	Share premium reserve	Treasury shares	Unavailable reserve for treasury shares in portfolio	Legal reserve	Actuarial gains/(losses) reserve	Stock grant reserve	Under common control transactions reserve	Retained earnings	Loss for the year	
Equity at 31/12/2020	90,964	135,175	(9,080)	9,080	18,193	(3,931)	0	(1,835)	46,693	8,771	294,031
Allocation of prior year result									8,771	(8,771)	0
Distribution of dividends									(7,321)		(7,321)
Other changes								1,835	(1,835)		0
Comprehensive income for the year											
- Net profit for the year										4,836	4,836
- Other changes											0
- Change in fair value of hedges											0
- Actuarial gains/(losses), net of tax effect						(254)					(254)
Comprehensive income for the year	0	0	0	0	0	(254)	0	0	0	4,836	4,582
Equity at 31/12/2021	90,964	135,175	(9,080)	9,080	18,193	(4,185)	0	0	46,308	4,836	291,292
Allocation of prior year result									4,836	(4,836)	0
Distribution of dividends									(4,500)		(4,500)
Use of treasury shares for the acquisition of Temis S.r.l.		1,250	1,250	(1,250)							1,250
Acquisition of treasury shares		(5,739)	(5,739)	5,739							(5,739)
Other changes							54	0	4		59
Comprehensive income for the year											
- Net profit for the year										(1,895)	(1,895)
- Other changes											0
- Actuarial gains/(losses), net of tax effect						574					574
Comprehensive income for the year	0	0	0	0	0	574	0	0	0	(1,895)	(1,321)
Equity at 31/12/2022	90,964	130,687	(13,569)	13,569	18,193	(3,612)	54	0	46,649	(1,895)	281,041

CASH FLOW STATEMENT

(Euro thousands)

	2022	2021
OPERATING ACTIVITIES		
Net profit for the year	(1,895)	4,836
Adjustments for:		
- Income taxes	(1,786)	(703)
- Financial (Income)/Charges	999	558
- Amortisation & Depreciation	21,384	23,083
- Write-down equity investments		(1,442)
Net change provisions for risks and charges	25,771	(2,545)
Net change employee provisions	(247)	(884)
Changes in:		
- Inventories and advances to suppliers	(47,639)	(14,730)
- of which related parties	(20,248)	9,356
- Contract work-in-progress & advances from clients	85,435	13,415
- of which related parties	45,642	15,230
- Trade receivables	(1,057)	1,398
- of which related parties	(1,604)	1,961
- Trade payables	18,101	8,223
- of which related parties	17,437	(7,296)
- Other current & non-current assets	11,518	17,112
- of which related parties	8,135	1,886
- Other current & non-current liabilities	(31,996)	(5,706)
- of which related parties	730	54
Income taxes paid		
Interest paid	(218)	(293)
Net liquidity generated/(employed) in operating activities	(A) 78,370	42,322
INVESTING ACTIVITIES		
Investments in:		
- Property, plant & equipment	(16,056)	(13,703)
- Intangible assets with definite life	(10,958)	(15,109)
- Equity Investments	(6,047)	-
Disposal price of tangible, intangible & financial assets		
Liquidity generated (employed) in investing activities	(B) (33,061)	(28,812)
FINANCING ACTIVITIES		
EIB loan	(10,000)	(10,000)
Centralised treasury effect with subsidiary and jointly controlled company	20,020	(9,247)
- of which related parties	20,020	(9,247)
Dividends paid by the parent Avio S.p.A.	(4,500)	(7,321)
Acquisition of treasury shares	(5,739)	-
Other changes to financial assets and liabilities	(19,639)	(8,409)
- of which related parties	1,929	(6,617)
Liquidity generated (employed) in financing activities	(C) (19,858)	(34,977)
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C) 25,451	(21,467)
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	100,069	121,536
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD	125,520	100,069

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

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

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

At December 31, 2022, Avio S.p.A. held, directly or indirectly, investments in nine subsidiary companies (Spacelab S.p.A., Regulus S.A., Se.Co.Sv.Im. S.r.l., Avio Guyane S.A.S., Avio France S.A.S., Temis S.r.l., Avio USA Inc., AS Propulsion International B.V. and Avio India Aviation Aerospace Private Ltd. in liquidation) and in a jointly controlled company (Europropulsion S.A.) included in the consolidation scope of these financial statements (collectively the "Group" or the "Avio Group").

The consolidation scope changed in 2022 following the acquisition of Temis S.r.l. on September 8, 2022 and the incorporation of Avio USA Inc. on April 25, 2022.

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Accounting standards for the preparation of the financial statements

These financial statements at December 31, 2022 were prepared in accordance with International Accounting Standards (hereafter also "IFRS") issued by the International Accounting Standards Board ("IASB") and approved by the European Union. IFRS refers to the International Financial Reporting Standards, the revised international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") - previously known as the Standing Interpretations Committee ("SIC").

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

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

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

2.2. Financial Statements

The financial statements relating to the year 2022 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 2022 financial statements present the comparative 2021 figures for the Balance Sheet items (Balance Sheet) and for the Income Statement items (Income Statement, Comprehensive Income Statement, Statement of changes in Equity and Cash Flow Statement).

2.4. Accounting policies

Property, plant & equipment

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

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

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

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

The depreciation rates utilised by the Group are as follows:

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

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

Capitalised costs for leasehold improvements are allocated to the categories of assets to which they refer and

amortised at the lesser between the residual duration of the rental or concession contract and the residual useful life of the type of assets to which the improvements relate.

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

Land is not depreciated.

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

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

Intangible assets

An intangible asset is without physical form and recognised to the balance sheet only if identifiable, controllable, where future economic benefits are expected and its costs can be reliably calculated. Intangible assets include goodwill acquired for consideration following a business combination.

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

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

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

Intangible assets with indefinite life

Goodwill

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

For the purpose of the impairment test, goodwill is considered allocated to the individual Cash Generating Units (CGU's) representing the financially independent business units through which the Company operates. On the basis of the current configuration of the Company, at December 31, 2022, a single CGU was identified corresponding to the Space operating segment, within which, however, the cash flows of the Parent Avio S.p.A. are interconnected with those of the Group and within the same industrial scope.

Intangible assets with definite life

Development costs

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

benefits derive and are initially estimated at 5, 10 or 15 years according to the characteristics of the relative programs. Capitalised development costs concerning programs whose production has not yet begun are amortised and maintained among definite life intangible assets, following verification of the absence of impairments, on the basis of the future earnings of the relative programs.

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

Intangible assets for Customer Relationships

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

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

Other intangible assets

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

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

The amortisation rates utilised by the Company are as follows:

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

Investments

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

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

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

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

Impairments

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

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

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

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

Financial assets

The Company classifies financial assets in the following categories:

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

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

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

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

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

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

Financial assets measured at amortised cost

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

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

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

Financial assets measured at fair value through other comprehensive income items

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

Inventories

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

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

Contract work-in-progress

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

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

are updated. The changes to the contract, the revision prices and the incentives are included for those amounts agreed with the buyer. Any economic effects are recognised in the period in which the updates are made.

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

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

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

Trade and Other Receivables

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

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

The Company does not undertake the factoring of receivables.

Cash and cash equivalents

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

Research and development tax credits

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

Treasury shares

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

Financial liabilities

Non-current financial liabilities and current account overdrafts are classified to this account, in addition to current and non-current payables which, although arising from commercial or however non-financial transactions, are negotiated at particular conditions as undertaken as a financial transaction, therefore de facto

making them financial receivables. Current and non-current financial payables are initially recognised at fair value, less transaction costs incurred, and are subsequently valued at amortised cost utilising the effective interest rate method.

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

Employee Benefit Provisions

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

Post-employment benefits

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

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

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

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

The liabilities for post-employment benefits recorded in the balance sheet represent the present value of the liabilities for the defined benefit plans adjusted to take into account any actuarial profits and losses not recorded and reduced by the fair value of the asset plan, where existing. Any net assets calculated on this basis are recognised up to the amount of the actuarial losses and the cost for prior benefits not previously recognised, in addition to the present value of available repayments and the reductions in the future contributions to the plan. Defined benefit plan costs are classified to personnel expenses, except for any costs associated with the increase in the present value of the obligation nearer to the payment date which are recognised under financial charges.

Up to December 31, 2006, the employee leaving indemnities were considered as defined benefit plans. The regulations of this provision were extensively modified by Law No. 296 of December 27, 2006 ("2007 Finance Act") and subsequent Decrees and Regulations. In view of these changes, and 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 Company records provisions for risks and charges when it has a current obligation from a past event, legal or implicit, to third parties, and it is probable that it will be necessary to use resources of the Company to settle the obligation, and a reliable estimate of the amount can be made. Provisions are made based on the best estimate of the cost of fulfilling the obligation at the reporting date. Where the effect is significant, the provision is discounted and its increase due to the passage of time is subsequently recognised to the financial charges account of the Income Statement.

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

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

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

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

Trade payables

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

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

Payables for disbursements in accordance with Law 808/85

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

Revenue recognition

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

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

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

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

Dividends received

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

Grants

Government grants are recognised when it is reasonably certain that the conditions required to obtain them will be satisfied and that they will be received. Such grants are generally recorded in the income statement on a straight-line basis over the period in which the related costs are recorded.

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

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

Costs

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

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

Income taxes

Income taxes comprise of current and deferred taxes.

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

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

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

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

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

Deferred tax assets and liabilities are the taxes that are expected to be recovered or paid on the temporary differences between the carrying value of the assets and of the liabilities in the financial statements and the corresponding fiscal value utilised in the calculation of the assessable income, accounted under the liability method. Deferred tax liabilities are generally recorded on all temporary assessable differences, while deferred tax assets are recorded based on the probability that the future assessable results will permit the use of the

temporary deductible differences. These assets and liabilities are not recognised if the temporary differences deriving from the goodwill or the initial recognition (not in business combinations) of other assets or liabilities in operations do not have an impact on the accounting result or on the assessable fiscal result. The tax benefit from the carrying forward of tax losses is recorded upon, and to the extent of its probable availability, future assessable income arises for the utilisation of the losses.

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

Deferred tax assets are calculated based on the fiscal rates that are expected to be in force at the moment of the realization of the asset or the settlement of the liability. Current and deferred taxes are recognised directly to the income statement with the exception of those relating to accounts directly recognised to equity, in which case the taxes are also recognised to equity. The deferred tax assets and liabilities are offset when there is a direct right to compensate the tax assets and liabilities and there is the intention to pay the amount on a net basis. The balance following the offset, where positive, is recognised to "Deferred tax assets" and, where negative, to "Deferred tax liabilities".

Dividends distributed

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

Exchange differences

The revenues and costs relating to transactions in foreign currencies are recorded at the exchange rate on the transaction date.

The monetary assets and liabilities in foreign currencies are converted into Euro applying the exchange rate at the reporting date with the exchange gains or losses recorded in the income statement. Non-monetary assets valued at historical cost in currencies other than the functional currency are not translated at the current exchange rate at the reporting date.

Any net gain deriving from the adjustment of foreign currency amounts at year-end, on the approval of the financial statements and consequent allocation of the result to the legal reserve, is recorded, for the part not absorbed by any losses for the year, in a non-distributable reserve until subsequent realisation.

At each year-end the overall unrealised exchange gains and losses are determined. Where the overall net exchange gain is higher than the equity reserve, this latter amount is released. If, however, a net gain or loss arises lower than the amount recorded in the reserve, respectively the entire reserve or the excess is reclassified in a freely distributable reserve on the preparation of the financial statements.

2.5. Risk management

Credit risk

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

Liquidity risk

The Company liquidity risk arises from the difficulty to obtain according to an acceptable timeframe and financial conditions the funding to support operating and investing activities and repayments. The principal factors which influence the liquidity of the Company are, on the one hand, the resources generated and absorbed by the operating and investment activities and on the other the conditions concerning the maturity of the payable or the liquidity of the financial commitments.

Cash flows, funding requirements and liquidity are centrally monitored and managed, in order to ensure the timely and efficient sourcing of funding or the appropriate investment of liquidity.

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

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

Currency and interest rate risk

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

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

2.6. Use of estimates

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

Actual results may differ from estimates due to the uncertainty regarding the assumptions and conditions upon which the estimates are based. The estimates and assumptions are reviewed periodically by the Company according to the best information on Company operations and other factors reasonably discernable 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, 2022, the financial statements present deferred tax assets concerning deferred tax deductible income components, for an amount whose recovery in future periods is considered probable by management. Deferred tax assets on temporary differences and on tax losses were recorded in the accounts for the amounts whose future recovery was considered probable, on the basis of forecast assessable income, as well as based on a projection of these forecasts over a subsequent time horizon considered representative of the life cycle of the business equal to 15 years.

Doubtful debt provision

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

Inventory obsolescence provision

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

Employee benefit plans

Employee benefit provisions and net financial charges are valued according to an actuarial method which requires the use of estimates and assumptions for the calculation of the net value of the obligation. This process is based on estimates made periodically by actuarial consultants utilising a combination of statistical-actuarial factors, including statistics concerning prior years and estimates of future costs. Mortality and retirement indices, assumptions upon future discount rates, salary growth rates and inflation rates, in addition to analyses upon healthcare costs, are also considered as estimate components.

Changes to any of these parameters may impact future provision contributions. Following the adoption of IAS 19 revised with regards to the recognition of actuarial gains and losses generated by the valuation of employee benefit liabilities and assets, the effects deriving from the update to the estimates of the above-indicated parameters are recorded to the Balance Sheet through recognition to Equity of a specific reserve, with presentation in the comprehensive income statement.

Provision for risks, charges & contingent liabilities

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

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

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

Valuation of contract work-in-progress

The Company operates according to particularly complex contracts, some of which recognised to the financial statements through the percentage of completion method. In these cases, the margins recognised to the

income statement are dependent both on the advancement of the order and the margins expected on the entire works following completion: therefore, the correct recognition of works-in-progress and of margins upon works not yet concluded assumes a correct estimate by management on finishing costs, contractual changes, in addition to delays, extra costs and penalties which may impact the expected margin.

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

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

The identified risks essentially fall within the following types:

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

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

Other

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

2.7. New accounting standards

IFRS Standards, Amendments and Interpretations applied from January 1, 2022

The following IFRS standards, amendments and interpretations were applied for the first time by the Company from January 1, 2022:

- On May 14, 2020, the IASB published the following amendments:
 - **Amendments to IFRS 3 Business Combinations:** the purpose of the amendments is to update the reference in IFRS 3 to the revised version of the Conceptual Framework, without changing the provisions of the standard.
 - **Amendments to IAS 16 Property, Plant and Equipment:** the purpose of the amendments is not to allow the amount received from the sale of goods produced during the testing phase of the asset to be deducted from the cost of the asset. These sales revenues and related costs will therefore be recognised to the income statement.
 - **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets:** the amendment clarifies that in estimating the possible onerousness of a contract, all costs directly attributable to the contract must be considered. Accordingly, the assessment of whether a contract is onerous includes not only incremental costs (such as the cost of direct material used in processing), but also all costs that the enterprise cannot avoid because it has entered into the contract (such as, for example, the share of depreciation of machinery used to perform the contract).
 - **Annual Improvements 2018-2020:** the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples of IFRS 16 Leases.

The adoption of these amendments do not have any effects on the separate financial statements.

IFRS accounting standards, amendments and interpretations endorsed by the European Union, not yet mandatorily applicable and not adopted early by the Company as of December 31, 2022

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

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

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

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

- On December 9, 2021, the IASB published an amendment called **"Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information"**. The amendment is a transition option related to comparative information on financial assets presented at the date of initial application of IFRS 17. The amendment is intended to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and thus improve the usefulness of comparative information for financial statement readers. The amendments will apply from January 1, 2023, together with the application of IFRS 17. The Directors do not expect this amendment to have a significant impact on the company's separate financial statements.
- On February 12, 2021, the IASB published two amendments entitled **"Disclosure of Accounting Policies—Amendments to IAS 1 and IFRS Practice Statement 2"** and **"Definition of Accounting Estimates—Amendments to IAS 8"**. The changes are intended to improve disclosure on accounting policies to provide more useful information to investors and other primary users of financial statements and to help companies distinguish between changes in accounting estimates and changes in accounting policies. The amendments will be applicable from January 1, 2023, although advance application is permitted. The Directors do not expect these amendments to have a significant impact on the separate financial statements.

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

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

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

- On January 23, 2020, the IASB published an amendment entitled "**Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current**" and on October 31, 2022 published an amendment entitled "**Amendments to IAS 1 Presentation of Financial Statements: Non-Current Liabilities with Covenants**". The purpose of the documents is to clarify how to classify payables and other short or long-term liabilities. These amendments shall enter into force on January 1, 2024 and early application is permitted. The Directors do not expect this amendment to have a significant impact on the company's separate financial statements.
- On September 22, 2022, the IASB published an amendment entitled "**Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback**". The document requires the seller-lessee to measure the lease liability arising from a sale & leaseback transaction so as not to recognise income or losses relating to the retained right of use. The amendments will be applicable from January 1, 2024, although advance application is permitted. The Directors do not expect this amendment to have a significant impact on the company's separate financial statements.
- On January 30, 2014 the IASB published **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, 2022 and December 31, 2021 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2022			31/12/2021		
	Values value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	-	-	-	-	-	-
Buildings	41,825	(10,215)	31,610	40,385	(8,957)	31,428
Plant & machinery	73,968	(56,969)	17,000	69,382	(54,015)	15,367
Industrial and commercial equipment	12,367	(12,052)	315	12,172	(11,934)	238
Other assets	10,273	(7,316)	2,957	8,758	(6,540)	2,218
Assets in progress and advances	47,846	-	47,846	39,529	-	39,529
Total	186,281	(86,552)	99,729	170,225	(81,446)	88,779

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

Gross values	31/12/2021	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2022
Land	-	-	-	-	-
Buildings	40,385	1,440	-	-	41,825
Plant & machinery	69,382	4,587	-	-	73,968
Industrial and commercial equipment	12,172	196	-	-	12,367
Other assets	8,758	1,515	-	-	10,273
Assets in progress and advances	39,529	8,318	-	-	47,846
Total	170,225	16,056	-	-	186,281

The increases in the year of Euro 16,056 thousand mainly concerns:

- assets in progress and advances for Euro 8,318 thousand. These investments particularly concern the works on the production buildings for the P120C motor;
- production machinery amounting to Euro 4,587 thousand, mainly to achieve increased flight cadence;
- other assets amounting to Euro 1,515 thousand, primarily relating to IT hardware.
- buildings amounting to Euro 1,440 thousand, mainly relating to extraordinary maintenance and restructuring.

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	31/12/2021	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2022
Land	-	-	-	-	-
Buildings	(8,957)	(1,258)	-	-	(10,215)
Plant & machinery	(54,015)	(2,954)	-	-	(56,969)
Industrial and commercial equipment	(11,934)	(118)	-	-	(12,052)
Other assets	(6,540)	(776)	-	-	(7,316)
Total	(81,446)	(5,106)	-	-	(86,552)

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

3.2. RIGHT-OF-USE

The values of Right-of-use assets at December 31, 2022 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2022			31/12/2021		
	Values value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land right-of-use	2,570	(428)	2,142	2,570	(286)	2,285
Buildings right-of-use	42,806	(19,568)	23,238	43,050	(14,818)	28,232
Plant and machinery right-of-use	1,632	(620)	1,012	1,632	(447)	1,184
Other assets right-of-use	3,380	(1,884)	1,495	3,580	(1,568)	2,012
Total	50,387	(22,501)	27,887	50,832	(17,119)	33,713

The gross values of these rights at December 31, 2022 (in Euro thousands) are reported below:

Gross values	31/12/2021	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2022
Land right-of-use	2,570	-	-	-	2,570
Buildings right-of-use	43,050	156	(399)	-	42,806
Plant and machinery right-of-use	1,632	-	-	-	1,632
Other assets right-of-use	3,580	676	(877)	-	3,380
Total	50,832	832	(1,276)	-	50,387

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 increases in the year of Euro 832 thousand mainly concern the new company use vehicle lease contracts and the new apartment lease contracts/renewals for the employees in Guyana, where the spaceport is located.

The decreases of Euro 399 thousand concerned the accounts outlined above and were due to the conclusion of the lease contracts.

The accumulated depreciation of these rights in 2022 is reported below (in Euro thousands):

Gross values	31/12/2021	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2022
Land right-of-use	(286)	(143)	-	-	(428)
Buildings right-of-use	(14,818)	(5,090)	339	-	(19,568)
Plant and machinery right-of-use	(447)	(173)	-	-	(620)
Other assets right-of-use	(1,568)	(938)	622	-	(1,884)
Total	(17,119)	(6,343)	961	-	(22,501)

3.3. INTANGIBLE ASSETS WITH DEFINITE LIFE

The values of Intangible assets with definite life at December 31, 2022 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, 2022 with December 31, 2021.

	31/12/2022			31/12/2021		
	Gross values	Accumulated amortisation	Net book value	Gross values	Accumulated amortisation	Net book value
Development costs - amortisable	68,229	(11,230)	56,998	123,000	(63,601)	59,400
Development costs - in progress	23,788	-	23,788	32,061	-	32,061
Total development costs	92,016	(11,230)	80,786	155,061	(63,601)	91,460
Assets from PPA 2017 - Programmes	44,785	(17,168)	27,617	44,785	(14,182)	30,603
Concessions, licenses, trademarks and similar rights	15,231	(11,036)	4,195	12,105	(8,872)	3,233
Other	9,816	(3,131)	6,685	3,080	(2,768)	311
Assets-in-progress	-	-	-	3,191	-	3,191
Total	161,848	(42,566)	119,283	218,221	(89,423)	128,798

The development costs being amortised primarily refer to design and testing costs relating to the Z40 and P120C motors. Most development costs under completion refer to projects relating to the new liquid oxygen and methane motors.

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

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

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

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

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

The changes in the gross values of Intangible assets with definite life of Avio S.p.A. are illustrated in the table below (Euro thousands):

Gross values	31/12/2021	Increases	Decreases	Reclassifications and other changes	31/12/2022
Development costs - amortisable	123,000	-	(67,251)	12,480	68,229
Development costs - in progress	32,061	4,207	-	(12,480)	23,788
Total development costs	155,061	4,207	(67,251)	-	92,016
Assets from PPA 2017 - Programmes	44,785	-	-	-	44,785
Concessions, licenses, trademarks and similar rights	12,105	3,126	-	-	15,231
Other	3,080	-	(80)	6,816	9,816
Assets-in-progress	3,191	3,625	-	(6,816)	-
Total	218,221	10,958	(67,331)	-	161,848

The increases in 2022 of Intangible Assets with definite life amounted to Euro 10,958 thousand, of which principally:

- Euro 4,207 thousand, principally for design and testing costs for the construction of the new motors and avionics elements;
- Euro 3.126 thousand concerning software licenses and introduction projects;
- Euro 3,606 thousand, mainly concern the review of the procedures to streamline production and to draw up the business plans..

The changes in 2022 to accumulated amortisation were as follows (in Euro thousands):

Accumulated amortisation	31/12/2021	Increases	Decreases	Reclassifications and other changes	31/12/2022
Development costs - amortisable	(63,601)	(4,421)	56,791	-	(11,230)
Development costs - in progress	-	-	-	-	-
Total development costs	(63,601)	(4,421)	56,791	0	(11,230)
Assets from PPA 2017 - Programmes	(14,182)	(2,986)	-	-	(17,168)
Concessions, licenses, trademarks and similar rights	(8,872)	(2,140)	-	(24)	(11,036)
Other	(2,768)	(387)	-	24	(3,131)
Total	(89,423)	(9,934)	56,791	-	(42,566)

In the year, the net carrying amount of development costs was eliminated related to the P80 motor, amounting to Euro 10,460 thousand, following the completion of that program;

3.4. GOODWILL

The goodwill, recognised to the financial statements at December 31, 2022 for Euro 61,005 thousand, concerns the residual portion of the price paid by Space2 S.p.A. in 2017, after the purchase price allocation and allocated to the sole Group CGU corresponding to the Space sector;

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 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, 2022.

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, 2022, cash flows for the Space CGU were estimated based on projections from the 2022-2026 Business Plan, approved by the Board of Directors on March 13, 2023. For the calculation of the terminal value, the expected cash flows for the final year of the plan were normalised according to the perpetuity method, assuming 2.0% growth (1.5% in the previous year) for forecast cash flows (in line with forecast Italian medium/long-term inflation).

For the purposes of preparing the impairment test, cash flows were discounted at a weighted average cost of capital ("WACC") of 9.1% (8.2% in the previous year), estimated in accordance with the Capital Asset Pricing Model approach.

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

The impairment test was conducted by the Company with the external support of a leading consulting firm.

For the results and effects of the impairment test, reference should be made to Note 3.5 of the Consolidated Financial Statements of the Avio Group."

3.5. INVESTMENTS

The table below presents the parent company Avio S.p.A.'s equity investments at December 31, 2022 (in Euro thousands) and the comparison with the share of equity for the investments in subsidiaries, associates and joint ventures:

Name	Registered Office	% held	Book value	Shareholders' Equity	Equity share	Difference Holding / Equity share
Investments in subsidiaries						
Spacelab S.p.A.	Rome	70%	2,650	4,610	3,227	(577)
Regulus S.A.	Kourou (French Guiana)	60%	9,590	20,540	12,324	(2,733)
Avio Guyane S.A.S.	Kourou (French Guiana)	100%	50	607	607	(557)
Avio France S.A.S.	Paris/Kourou (French Guyana)	100%	50	193	193	(143)
Temis S.r.l.	Corbetta (Milan)	100%	3,355	237	237	3,117
Avio USA Inc.	Wilmington (USA)	100%	972	(131)	(131)	1,103
ASPropulsion International B.V.	Amsterdam (Netherlands)	100%	58,640	57,725	57,725	915
Avio India Aviation Aerospace Private Limited (**)	New Delhi (India)	100%	114	100	100	14
Sub-total			75,421	83,881	74,282	1,139
Associates and jointly-controlled companies						
Europropulsion S.A. (*)	Suresnes (France)	50%	3,698	16,040	8,020	(4,322)
Termica Colleferro S.p.A. (**)	Bologna	40%	7,674	(3,526)	(1,410)	9,084
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			11,416	12,619	6,646	4,770
Total Equity holdings in subsidiaries, associates and jointly-controlled companies			86,837	96,500	80,928	5,909
Investments in other companies			2,244			
Total			89,081			

(*) Companies under joint control

(**) financial statements data at December 31, 2021;

(***) financial statements data at December 31, 2019.

With regard to investments in subsidiaries, a positive differential between the value of the investment and the share of equity is achieved for the following main subsidiaries:

- Temis S.r.l., for Euro 3,117 thousand;
- Avio USA Inc. in the amount of Euro 1,103 thousand;
- ASPropulsion International B.V., in the amount of Euro 915 thousand.

The investments in the first two companies, as also reported in the Directors' Report under "Significant Events in 2022" were made during the year, and the future net cash flows from the respective business prospects reasonably indicate the full recovery of the gain. With regard however to the subsidiary ASPropulsion International B.V., the positive difference between the value of the investment and the share of equity is considered recoverable due to the gains deriving from the subsidiary Se.co.sv.im. S.r.l., wholly owned by ASPropulsion International B.V..

With reference to investments in associates and jointly-controlled companies, the positive difference between the value of the investment and the equity attributable to the associate Termica Colleferro S.p.A., amounting to Euro 9,084 thousand, is expected to be recovered based on future net cash flows from the associate's new industrial project, concerning the construction of a new cogeneration plant in order to ensure the supply of constant, non-interruptible heat and power to Avio S.p.A.

The overseas subsidiary Avio India Aviation Aerospace at December 31, 2022 was in liquidation.

The investments in other companies amount to Euro 2,244 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., Distretto Aerospaziale Sardegna S.c.a.r.l. and ART S.p.A. (5% of the latter was acquired in 2022).

The equity investment in ART, amounting to Euro 1,720 thousand, is greater than the share of equity by Euro 1,041 thousand (as, as per the last available financial statements at December 31, 2021, the company's equity was Euro 13,579 thousand. The share is therefore Euro 679 thousand). It is considered that the valuations conducted for the purposes of the recent acquisition are valid to date and, therefore, will allow for the recovery of this capital gain.

The following are specific statements of changes in the year 2022 in equity investments (amounts in Euro thousands):

	31/12/2021	Increases	Decreases	Other changes	31/12/2022
Investments in subsidiaries					
Spacelab S.p.A.	2,650	-	-	-	2,650
Regulus S.A.	9,590	-	-	-	9,590
Avio Guyane S.A.S.	50	-	-	-	50
Avio France S.A.S.	50	-	-	-	50
Temis S.r.l.	-	3,355	-	-	3,355
Avio USA Inc.	-	972	-	-	972
ASPropulsion International B.V.	58,640	-	-	-	58,640
Avio India Aviation Aerospace Private Limited	114	-	-	-	114
	71,095	4,327	-	-	75,421

	31/12/2021	Increases	Decreases	Other changes	31/12/2022
Associates and jointly-controlled companies					
Europropulsion S.A.	3,698	-	-	-	3,698
Termica Colleferro S.p.A.	3,636	5,667	-	(1,628)	7,674
Servizi Colleferro - Consortium Limited Liability Company	38	-	-	-	38
Sitab Consortium in liquidation	5	-	-	-	5
Potable Water Services Consortium	-	-	-	-	-
	7,377	5,667	-	(1,628)	11,416

	31/12/2021	Increases	Decreases	Other changes	31/12/2022
Investments in other companies					
Other companies	524	1,720	-	-	2,244
	524	1,720	-	-	2,244

Information on the main movements is shown below:

a) incorporation of Avio USA Inc.:

On April 25, 2022, the company Avio USA Inc., with registered office in the US state of Delaware (wholly-owned by Avio S.p.A.), was incorporated to explore business opportunities on the US market. The total number of shares that can be issued by Avio USA Inc. is 1,000, with a par value per share of USD 0.01, for a maximum total value of USD 10.00.

The company's total equity amounts to USD 1,000,001, of which:

- USD 2 as share capital for the 200 shares subscribed to date;
- USD 999,999 as share premium reserve.

b) acquisition of Temis S.r.l. and of 5% of ART S.p.A.:

With acts dated June 20 and September 8, 2022, having in the intervening period received the go-ahead from the Prime Minister's Office pursuant to the golden power decree, the parent company Avio S.p.A. acquired 100% of Temis S.r.l. ART S.p.A. and 5% of the latter company.

Temis, which was and continues to be a supplier to the Avio Group, operates in a strategic sector of particular importance to the Group, that of avionics engineering. ART is a leading Italian company in the field of infotainment systems for performance and luxury cars and an industrial partner of Temis.

The transaction involved a total investment of Euro 5,075 thousand, comprising:

- Euro 3,355 thousand for Temis, of which:
 - Euro 3,000 thousand as acquisition price (Euro 1,750 thousand paid in cash and Euro 1,250 thousand in Avio S.p.A. treasury shares, corresponding to 119,732 shares);
 - Euro 355 thousand in agreed bonuses for a number of strategic employees;
- Euro 1,720 thousand for 5% of ART, paid entirely in cash.

As part of the acquisition of the stake in ART, an agreement was signed between Avio and GEF S.r.l., owner of the remaining 85% of the company, whereby Avio granted the other shareholder an pre-emption right to purchase the 5% stake in ART; the purchase option may be exercised as of the earlier of the following dates: (i) the conclusion of the fifth year from the date of completion of Avio's purchase of the investment; and (ii) in the case of a proposed change of control of the company, 60 days prior to the change of control. The option price is calculated by applying a multiplier to the aforementioned 5% acquisition price of the company, determined on the basis of the year following the date of completion of the transaction, starting from the fifth year.

c) recapitalization of Termica Colleferro S.p.A.:

In view of the associate's new project to install a new thermal and electric power plant to ensure the supply of constant, uninterrupted heat and power to Avio S.p.A., partially replacing the components of the company's current cogeneration plant, the company has written down a substantial portion of its assets in the 2021 financial statements. This write-down resulted in negative shareholders' equity of Euro 3,526 thousand to the financial statements.

The company's two shareholders, Cogenio S.r.l. (60%) and Avio S.p.A. (40%), carried out the following transactions with reference to the company to December 2022:

- recapitalisation of the company by waiving a portion of the existing shareholder loans, totalling Euro 14,167 thousand, including Euro 8,500 thousand from Cogenio and Euro 5,667 thousand from Avio;

- new pro-rata funding, through non-interest-bearing shareholder loans (subordinate to the full repayment of Termica Colleferro's lending banks, whose maturity date is February 24, 2027), to support the capex for the new business plan. Cogenio and Avio have, therefore, made a total payment of Euro 3,252 thousand, including Euro 3,015 thousand from the former and Euro 237 thousand from the latter.

The investment in Termica Colleferro, therefore, reflected an increase due to the partial waiver of the shareholder loan for Euro 5,667 thousand and a decrease of Euro 1,628 thousand due to the write-down of previously capitalised financial charges on the investment.

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

3.6. NON-CURRENT FINANCIAL ASSETS

The table below illustrates the non-current financial assets of the Avio Group at December 31, 2022 and at December 31, 2021 (in Euro thousands).

	31/12/2022	31/12/2021	Change
Shareholder loan to Termica Colleferro S.p.A.	2,010	6,415	(4,405)
	2,010	6,415	(4,405)

The changes in 2022 were as follows:

	31/12/2021	Increase	Decrease	Other changes	31/12/2022
Shareholder loan to Termica Colleferro S.p.A.	6,415	237	(5,667)	1,025	2,010
	6,415	237	(5,667)	1,025	2,010

In this regard, please refer to paragraph "3.5. Equity investments" specifically with regard to the recapitalisation of Termica Colleferro and the allocation to the company of new funding, through the shareholder loan, in order to pursue the objectives of the new business plan. The remaining shareholder loan, amounting to Euro 2,010 thousand, is interest-free and is subordinated to the full repayment by Termica Colleferro of the loan previously granted by the lending banks, which matures on February 24, 2027.

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 77,320 thousand (Euro 75,400 thousand at December 31, 2021).

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):

	31/12/2022
Gross deferred tax assets on temporary differences	
<i>Temporary differences deriving from previous corporate operations</i>	
Fiscal amortisation on previous goodwill whose tax benefits remain in the Company.	2,729
Financial charges exceeding 30% of EBITDA	33,643
<i>Temporary differences deriving from current corporate operations</i>	
Provision for staff charges	2,188
Other deductible temporary differences	12,864
Total gross deferred tax assets	51,424
Deferred tax liability on temporary differences	
<i>Temporary differences deriving from previous corporate operations</i>	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(7,989)
Tax effect R&D expenses First-Time Adoption	(378)
<i>Temporary differences deriving from current corporate operations</i>	
Other temporary assessable differences	(502)
Total gross deferred tax liabilities	(8,869)
Net deferred tax assets/(liabilities)	42,555
Deferred tax assets on tax losses	63,250
Total deferred tax assets	105,805
Deferred tax assets not recorded	(28,485)
Net deferred tax assets (liabilities) recorded	77,320

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 "P120C" 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, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Other non-current assets	62,377	63,807	(1,429)
	62,377	63,807	(1,429)

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

	31/12/2022	31/12/2021	Change
Receivables from the General Electric Group	58,220	58,220	-
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	3,191	4,888	(1,696)
Deposits and other non-current assets	966	699	267
Total	62,377	63,807	(1,429)

"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 corporate transactions that led to the transfer of the AeroEngine business by the Avio Group to the General Electric Group in 2013. This receivable is recognised against an amount payable to the Treasury of like amount among non-current liabilities.

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

We note that the aforementioned 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. At the date of this report, the Court of Cassation 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 “3.22. Other non-current liabilities” and to the section “Legal and tax disputes and potential liabilities” in the Explanatory Notes.

“Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion”, amounting to Euro 3,191 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, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Inventories	198,431	150,791	47,639
	198,431	150,791	47,639

The breakdown of the account at December 31, 2022 and relative movements follow (in Euro thousands):

	31/12/2021	Change	31/12/2022
Raw materials, ancillaries and consumables	49,249	(18,854)	68,103
Raw material, ancillary and consumables obsolescence provision	(1,864)	2,512	(4,376)
Raw material, ancillary and consumables - net value	47,385	(16,343)	63,728
Products in work-in-progress	5,643	(859)	6,502
Provision for the write-down of work in progress	-	-	-
Products in work-in-progress - net value	5,643	(859)	6,502
Finished products and other inventories	7	-	7
Finished products and other inventories obsolescence provision	-	-	-
Finished products and other inventories - net value	7	-	7
Advances to suppliers	97,756	(30,438)	128,194
	150,791	(47,639)	198,431

The increase in inventories mainly relates to provisioning needed in order to support expected future production levels, net of an amount of Euro 2,278 thousand related to extraordinary provision for the future execution of program.

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):

	31/12/2022	31/12/2021	Change
Contract work-in-progress	425,531	453,157	(27,626)
Advances for contract work-in-progress	(667,349)	(609,541)	(57,808)
Net total	(241,818)	(156,383)	(85,434)

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):

	31/12/2022	31/12/2021	Change
Contract work-in-progress (gross)	944,275	1,150,937	(206,662)
Advances for contract work-in-progress (gross)	(518,744)	(697,780)	179,036
Contract work-in-progress (net)	425,531	453,157	(27,626)

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):

	31/12/2022	31/12/2021	Change
Contract work-in-progress (gross)	1,203,952	699,128	504,824
Advances for contract work-in-progress (gross)	(1,871,301)	(1,308,668)	(562,633)
Advances for contract work-in-progress (net)	(667,349)	(609,541)	(57,809)

The Parent Avio is entitled to the research and development tax credits provided for in Decree-Law No. 145 of December 23, 2013, converted, with modifications, by Law No. 9 of February 21, 2014, as amended by Law No. 232 of December 11, 2016 (the "2017 Finance Act") and by the 2019 Finance Act (Art. 1, paragraphs 70-72, of Law No. 145 of December 30, 2018), on the basis of research and development services commissioned by the European Space Agency. These benefits are recognised to the income statement based on the advancement of the research and development on long-term orders which are part of the contract work-in-progress. The multi-year projects mainly concern those relating to the Vega C and Vega E future generation launchers and the recognition of the economic benefits shall be made over the duration of the orders and from the effective advancement of the orders, calculated on the basis of the relative costs incurred.

3.11. TRADE RECEIVABLES

The table below illustrates trade receivables at December 31, 2022 and December 31, 2021 (in Euro thousands).

	31/12/2022	31/12/2021	Change
Trade receivables	4,857	3,800	1,057
	4,857	3,800	1,057

The breakdown of trade receivables is as follows:

	31/12/2022	31/12/2021	Change
Receivables from third parties	1,171	1,031	140
Subsidiaries	3,155	2,344	810
Receivables from associates, jointly controlled companies and non-consolidated subsidiaries	532	425	107
Total	4,857	3,800	1,057

The book value of the receivables approximates their fair value.

Receivables from third parties

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

	31/12/2022	31/12/2021	Change
Gross value	1,254	1,114	140
less: doubtful debt provision	(83)	(83)	-
Total	1,171	1,031	140

The receivables are all due within 12 months. They relate to a few large customers (ESA, Arianespace, MBDA mainly) with whom there are consolidated relations and, in addition, invoices are issued on a "work in progress" basis, therefore following prior approval by the customers.

Receivables from subsidiary companies

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

	31/12/2022	31/12/2021	Change
Spacelab S.p.A.	153	107	45
Regulus S.A.	665	343	322
Se.Co.Sv.Im. S.r.l.	684	544	140
Temis S.r.l.	3		3
Avio USA Inc.	724		724
Avio Guyane S.A.S.	71	564	(493)
Avio France S.A.S.	855	786	69
Total	3,155	2,344	810

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

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

	31/12/2022	31/12/2021	Change
Termica Colleferro S.p.A.	208	124	84
Europropulsion S.A.	323	268	55
Potable Water Services Consortium	-	33	(33)
Servizi Colleferro S.C.p.A.	1	-	1
Total	532	425	107

3.12. CASH AND CASH EQUIVALENTS

The table below illustrates cash and cash equivalents at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Cash and cash equivalents	125,521	100,069	25,452
Total	125,521	100,069	25,452

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 FINANCIAL ASSETS

The table below illustrates current financial assets at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Current financial assets	2,842	-	2,842
Total	2,842	-	2,842

This account concerns the balance of the current account with the subsidiary Avio Guyane S.A.S. in 2022 for the purpose of centralized Group treasury management. These transactions are regulated at market conditions.

3.14. CURRENT TAX RECEIVABLES

The table below presents tax assets at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Tax receivables	11,464	14,436	(2,972)
Total	11,464	14,436	(2,972)

The following table presents the net changes by type of tax credit and tax (in Euro thousands):

	31/12/2022	31/12/2021	Change
VAT receivables	4,428	8,425	(3,997)
Research and development tax credits	2,311	1,285	1,026
Tax credits for simple and 4.0 technological innovation	1,430	1,103	327
Tax credits for the purchase of simple new capital goods and 4.0	1,640	960	680
Receivables from tax authorities	951	2,426	(1,476)
Tax credit on energy	463	-	463
EU VAT receivables	241	237	5
Total	11,464	14,436	(2,972)

The reduction in the account on the previous year was Euro 2,972 thousand. This decrease is mainly due to the reduction in the VAT receivable by Euro 3,997 thousand following the collection of Euro 5,319 thousand, net of VAT receivables matured in the year for Euro 1,322 thousand.

VAT receivables

VAT receivables of Euro 4,428 thousand (Euro 8,425 thousand at December 31, 2021), include:

- Euro 1,145 thousand, relating to VAT reimbursement requests to the Tax Authorities (Euro 5,866 thousand at December 31, 2021);
- Euro 3,284 thousand, relating to VAT reimbursements to date not requested for repayment (Euro 2,559 thousand at December 31, 2021).

As indicated above, Euro 5,319 thousand was collected in the year, in addition to interest of Euro 40 thousand, concerning VAT receivables relating to FY 2018 and FY 2020.

In 2022, the parent company Avio S.p.A. accrued VAT receivables of Euro 1,322 thousand. The maturation of the VAT relates to the fact that the Company's main clients are non-resident, such as the European Space Agency (ESA) for the development of launchers and Ariane Group for their production/distribution, in addition to the jointly-controlled company Europropulsion for both of these phases. In particular, for the transactions

carried out with these parties, Avio S.p.A. acts as a habitual exporter for VAT purposes, as the VAT exempt system for exports and the exemption for transactions treated as exports and the intra-EU supplies of goods are applicable to these transactions. This circumstance entails the quasi-absence of VAT payables on the sales transactions undertaken by the Company. On the other hand, the Company however has Italian suppliers whose supplies - further to the amounts for which declarations of intent are issued due to the fact that Avio S.p.A. is a habitual exporter - result in the recognition of VAT receivables.

Research and development and technological innovation tax credit

These tax credits totalled Euro 5,381 thousand (Euro 3,348 thousand at December 31, 2021).

Regulatory framework

The 2020 Budget Law (see Law No. 160 of December 27, 2019), as amended by the 2021 Budget Law (see Law No. 178 of December 30, 2020) and the 2022 Budget Law (see Law No. 234 of December 30, 2021), establishes:

- d) a tax credit for fundamental research, industrial research and experimental development in scientific or technological fields, as defined in the "Frascati Manual". This tax credit is granted for 20% of the costs incurred in 2022, with a maximum of Euro 4 million;
- e) a tax credit for technological innovation activities, other than those set out in point a), for the development of new or substantially improved products or production processes. This tax credit is granted - separately from that set out in paragraph a), and thus cumulatively - for 10% of the costs incurred in 2022 for such activities, with a maximum of Euro 2 million. The relief is increased (15% of the costs incurred in 2022 for such activities, up to a maximum of Euro 2 million), where the technological innovation activity is intended to achieve an environmental transition or digital innovation 4.0 objective;
- f) a tax credit for the design and styling activities carried out by companies active in textiles, fashion, footwear, eyewear, jewellery, furniture and furnishings and ceramics to create and implement new products and samples.

In addition, a tax credit was arranged for the purchase of new capital goods and other property, plant, equipment and intangible assets, both generic and functional for the Industry 4.0 project, as confirmed by the 2021 Budget Law.

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

- 4. the system for calculating eligible costs is not incremental, but proportional, with various rates (20%, 10% or 15%) to the costs incurred in the maturation year of the credit;
- 5. 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;
- 6. the rule in paragraph 1-bis of Decree-Law No. 145/2013, which allowed resident companies to benefit from an R&D tax credit for activities carried out on behalf of non-resident principals, was not renewed.

Recognition in the Financial Statements

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

The 2022 income statement includes amounts of Euro 2,363 thousand relating to the effects on the income statement of the tax credits accrued in 2017, 2018 and 2019 according to the provisions of Article 3 of Decree-Law 145/2013, in effect until December 31, 2019.

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

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

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

R&D tax credits accrued in 2020, 2021 and 2022 pursuant to the 2020 Budget Law

The effect of the tax credit accrued in 2022 pursuant to the 2022 Budget Law, amounting to Euro 2,033 thousand, was also recognised in the 2021 income statement. The receivables under review refer mainly to internal research and development projects and to some technological innovation projects, both simple and 4.0 projects. As these subsidies are intended to cover operating costs and are not dependent on the creation of a specific fixed asset, and as they accrue in the financial year in which the eligible costs are incurred, regardless of the way in which these costs are accounted for, the subsidies in question have been treated as operating grants and, for this reason, the related economic benefit has been recorded in full in the same financial year in which the eligible costs from which the subsidies in question accrue were accounted for.

Tax receivables

Tax receivables of Euro 951 thousand (Euro 2,426 thousand at December 31, 2021), principally concerned:

- receivables relating to the VAT settlement of the subsidiary Se.Co.Sv.Im. S.r.l. for Euro 415 thousand, for which the subsidiary was challenged for the failure to apply VAT on the restoration costs recharged to Avio S.p.A. in 2010, 2011 and 2012.
In 2019, Se.Co.Sv.Im. complied with the expedited settlement of this tax dispute, according to Article 6 of Legislative Decree No. 119 of October 23, 2018, converted, with amendments, by Law No. 136 of December 17, 2018. This settlement entailed payment to the Tax Agency of only the tax to be settled, by Se.Co.Sv.Im., in 20 quarterly instalments; the first was paid on May 31, 2019, while the last shall be settled by February 28, 2024.
On the basis of the applicable VAT rules, the VAT paid by Se.Co.Sv.Im. is recharged to Avio S.p.A. as the above-mentioned instalments are paid. Avio S.p.A. presents the entire expedited settlement amount as tax receivables, which shall gradually become deductible VAT, according to the payment of the instalments of the above-mentioned expedited settlement by Se.Co.Sv.Im.;
- other tax credits of Euro 536 thousand.

Tax credit on energy

The Group at December 31, 2022 has a tax credit for electricity expenses of Euro 463 thousand.

In order to offset the rising electricity and gas costs for businesses caused by the ongoing international crises in Ukraine, the Italian Government recognised in 2022 an extraordinary contribution, in the form of a tax credit, in favour of businesses to purchase electricity. Initially, the subsidy was granted only to "energy-intensive enterprises" according to the parameters established by Ministerial Decree of December 21, 2017. It was subsequently also granted, to a reduced degree, to enterprises ("non-energy-intensive enterprises") with electricity meters with an available power of 16.5 kW or more. In both cases, the relief is granted provided that the expenditure incurred in 2022 exceeded 30% of the corresponding average price for the same period in the year 2019. The measures adopted for 2022 were as follows.

BENEFICIARY RELIEF	2022					
	Q1	Q2		Q3	Q4	
	Decree Supports-ter	Decree Ukraine	Decree Supports	Decree Aid-bis	Decree Aid-ter	Decree Aid-quater
	DL 4/2022	DL 17/2022	DL 50/2022	DL 115/2022	DL 144/2022	DL 176/2022
Energy-intensive enterprises	20%	25%		25%	40%	
Non-energy intensive enterprises	-	15%		15%	30%	

As not being within the consumption parameters to be considered an “energy-intensive enterprise”, in 2022 Avio S.p.A. accrued a tax credit recognised to “non-energy-intensive enterprises” for a total amount of Euro 1,148 thousand, as detailed below.

ENERGY EXPENSE TAX CREDIT	Euro/000
Energy expenses Q2 2022	225
Energy expenses Q3 2022	461
Energy expenses October and November 2022	270
Energy expenses December 2022	193
Total	1,148

This credit was used:

- for Euro 686 thousand by December 31, 2022, and
- for the remaining Euro 463 thousand in February 2023.

Therefore, as of the date of these financial statements, this credit amounted to Euro 463 thousand.

EU VAT receivables

The EU VAT receivables relate to inter-EU transactions and amount to Euro 241 thousand (Euro 237 thousand at December 31, 2021).

3.15. OTHER CURRENT ASSETS

The table below illustrates other current assets at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Other current assets	10,286	17,536	(7,250)
Total	10,286	17,536	(7,250)

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

	31/12/2022	31/12/2021	Change
Subsidiaries	4,092	12,341	(8,249)
Grants/subsidies receivable	951	1,488	(536)
Prepayments and accrued income	1,097	1,254	(157)
Economic Development Ministry for disbursements pursuant to Law 808/85 – current portion	2,924	1,227	1,696
Employee receivables	1,130	951	179
Other debtors	74	258	(184)
Social security institutions	15	13	2
Receivables from associated company Consorzio Servizi Acqua Potabile	2	4	(2)
Total	10,286	17,536	(7,250)

Receivables from subsidiaries, of Euro 4,092 thousand (Euro 12,341 thousand at December 31, 2021) comprise:

- receivables from the subsidiary Spacelab S.p.A. for Euro 4,080 thousand (Euro 12,151 thousand at December 31, 2021) relating to the tax consolidation.
The decrease of Euro 7,996 thousand concerns:
 - for Euro 7,307 thousand to the collection of the second and last tranche of dividends related to the capital gain realized on the sale of the business unit of this subsidiary to Avio;
 - for Euro 689 thousand to the settlement of some items of the tax consolidation;
- receivables from the subsidiary Se.Co.Sv.Im. S.r.l. for Euro 12 thousand (Euro 190 thousand at December 31, 2021) also concerning the tax consolidation.

Receivables for grants and subsidies of Euro 951 thousand concerning various subsidised research projects. Reference should also be made to section "10. Disclosure on public grants as per article 1, paragraphs 125-129, of Law No. 124/2017.

Receivables from the "Economic Development Ministry for disbursements pursuant to Law 808/85 – current portion", amounting to Euro 2,924 thousand, refer to the discounted value of the sums to be disbursed by the Ministry for Economic Development according to the Law 808/85, 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 3.8).

Employee receivables of Euro 1,130 thousand (Euro 951 thousand at December 31, 2021) concern the Group cash advances for the coverage of mission and travel expenses.

EQUITY

3.16. SHARE CAPITAL

The share capital of the parent Avio S.p.A. amounts to Euro 90,964,212 at December 31, 2022; 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, 2022 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, 2022, the available value of the share premium reserve was Euro 130,687 thousand, with treasury shares recognised to the financial statements amounting to Euro 13,569 thousand.

3.18. OTHER RESERVES

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

	31/12/2022	31/12/2021	Change
Legal reserve	18,193	18,193	-
Treasury shares acquired	(13,569)	(9,080)	(4,489)
Unavailable treasury shares purchase reserve	13,569	9,080	4,489
Actuarial gains/(losses) reserve	(3,611)	(4,185)	574
Stock grant reserve	54	-	54
	14,636	14,008	628

Other reserves, in addition to the Legal reserve for Euro 18,193 thousand comprises:

- for Euro 3,611 thousand the actuarial losses deriving from the application of IAS 19 revised, with the relative tax effect where applicable;
- treasury shares purchased and the creation of a specific restricted reserve as, on December 31, 2022, following the purchases made, Avio S.p.A. holds 1,091,207 treasury shares, equal to 4.14% of the shares comprising the share capital. The value of the treasury shares acquired amounts to Euro 13,569 thousand;
- the stock grant reserve of Euro 54 thousand represents the cost for 2022 of the 2022-2024 plan to grant treasury shares to top management.

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
Group	90,964				
Capital reserves:					
- Share premium reserve	144,256	A, B, C	130,687	-	-
Profit reserves:					
- Legal reserve	18,193	B			
- <i>Stock grant reserve</i>	54	-			
- Actuarial gains and losses	(3,611)	-			
Retained earnings	46,649	A, B, C	43,038	(332)	
Total	296,505		173,724		
Non-distributable amount			80,786		
Residual distributable amount			92,939		

Key: A: for share capital increase, B: for coverage of losses and C: for distribution to shareholders.

NON-CURRENT LIABILITIES

3.19. NON-CURRENT FINANCIAL LIABILITIES

The movement in 2022 is presented in the following table (in Euro thousands):

	31/12/2022	31/12/2021	Change
Non-current financial liabilities	12,000	22,000	(10,000)
Total	12,000	22,000	(10,000)

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

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

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

The decrease of Euro 10,000 thousand relates to the short-term reclassification:

- of the two installments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2023 and October 31, 2023, respectively;
- of the two installments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2023 and October 31, 2023, respectively.

The short-term portion of the loan, totalling Euro 10 million (including Euro 33 thousand for interest), is therefore recognised under item "3.25. Current portion of non-current financial payables".

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

Hedging derivatives have not been agreed on these loans.

3.20. 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):

	31/12/2022	31/12/2021	Change
Non-current financial liabilities for leasing	18,988	26,591	(7,603)
Total	18,988	26,591	(7,603)

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

	31/12/2022	31/12/2021	Change
Non-current financial liabilities to the subsidiary Se.Co.Sv.Im. S.r.l. as per IFRS 16	15,369	22,165	(6,796)
Non-current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	837	974	(137)
Non-current financial liabilities to third parties as per IFRS 16	2,783	3,452	(669)
Total	18,988	26,591	(7,603)

Financial liabilities as per IFRS 16 concern:

- with regards to the liabilities to subsidiaries, the lease of the complex of land and industrial buildings for instrumental use, with networks and general plants, with the subsidiary Se.Co.Sv.Im. S.r.l.;
- with regards to the financial liabilities to associates, the lease of the electro-duct and relative electrical infrastructure at the combined cycle co-generation thermo-electrical station owned by the associate Termica Colleferro S.p.A.;
- with regards to the financial liabilities to third parties, these essentially concern:
 - the concession of a specific area within the Salto di Quirra Inter-force Experimental Facility, where there are plans for a Space Propulsion Test Facility project for the construction of a Liquid Rocket Engine test bench and the production of carbon-carbon components;
 - the leasing of office and industrial use land and buildings at Airola (Campania) and Villaputzu (Sardinia);
 - the lease of apartments for employees in Guyana;
 - the lease of company cars.

3.21. 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):

	31/12/2022	31/12/2021	Change
- Defined benefit plans:			
Post-employment benefits	3,132	3,450	(318)
Other defined benefit plans	2,365	2,917	(552)
	5,497	6,367	(870)
- Other long-term benefits	2,109	2,060	49
Total employee benefit provisions	7,606	8,427	(821)

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 31/12/2021	6,367	2,060	8,427
Financial charges/(income)	(25)	(8)	(33)
Actuarial (gains)/losses in comprehensive income statement	(733)	-	(733)
Pension cost current employees	69	121	190
Benefits paid	(181)	(64)	(245)
Values at 31/12/2022	5,497	2,109	7,606

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

	31/12/2022	31/12/2021
Discount rate	3.48%	0.15%
Expected salary increases	2.16%	2.15%
Inflation rate	European Zero-Coupon Inflation-Indexed Swap curve at 30.12.2022	European Zero-Coupon Inflation-Indexed Swap curve at 31.12.2021
Average employee turnover rate	4.64%	4.75%

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.

3.22. PROVISIONS FOR RISKS AND CHARGES

The table below illustrates provisions for risks and charges at December 31, 2022 and December 31, 2021 (in Euro thousands).

	31/12/2022	31/12/2021	Change
Provisions for risks and charges	35,497	9,726	25,771
Total	35,497	9,726	25,771

The breakdown of the provisions for risks and charges at December 31, 2022 is presented below (Euro thousands):

	31/12/2022		
	Current portion	Non-current portion	Total
Provision for variable remuneration	4,475	1,491	5,966
Provisions for risks and legal charges		105	105
Other provisions for risks and charges	12,555	16,872	29,427
Total	17,030	18,467	35,497

These provisions include:

- provisions for variable remuneration for Euro 5,966 thousand, mainly comprising employee remuneration on the achievement of individual and corporate objectives;
- provisions for legal risks and charges, against litigation and trade union disputes in course, amount to Euro 105 thousand;
- other provisions for risks and charges for Euro 29,427 thousand, mainly related to the extraordinary provisions for risks connected to the return to flight of Vega C launcher, net of compensation expected from the European Space Agency, and for the future execution of programs for an amount of Euro 25,361 thousand disclosed in the section "Group operating performance and financial and equity position" of the Directors' report; these provisions include, furthermore, charges for the recovery of concession areas and rights pursuant to the provisions of Law 808/85.

The movements in current and non-current provisions in 2022 are shown below (amounts in Euro thousands):

	31/12/2021	Provisions	Other changes	Utilisations	Releases	31/12/2022
Provision for variable remuneration	7,328	4,037	345	(4,100)	(1,643)	5,966
Provisions for risks and legal charges	105					105
Other provisions for risks and charges	2,293	27,806	1,270	(1,942)		29,427
Total	9,726	31,843	1,614	(6,042)	(1,643)	35,497

The main changes during the year were:

- the provisions for variable remuneration were utilised for Euro 4,100 thousand, in consideration of the bonuses paid to employees for the achievement of individual and company objectives. This account mainly concerned the payment of ordinary annual result bonuses. The provision of Euro 4,037 thousand mainly relates to variable remuneration which will be paid in the first half of 2023, on the basis of the achievement of individual and company objectives for the year 2022. Proceeds of Euro 1,643 thousand resulted from the cancellation of the 2020-22 and 2021-23 cycles of the existing 2020-24 Monetary Long-Term Incentive Plan, as set out in the Directors' Report.
- other provisions for risks and charges include an amount of Euro 25,361 thousand related to the extraordinary provisions for risks connected to the return to flight of Vega C launcher, net of compensation expected from the European Space Agency, and for the future execution of programs disclosed in the section "Group operating performance and financial and equity position" of the Directors' report.

3.23. OTHER NON-CURRENT LIABILITIES

The table below presents the account at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Non-current liabilities	76,314	119,229	(42,915)
Total	76,314	119,229	(42,915)

The breakdown of the account at December 31, 2022 is shown in the table below (Euro thousands):

	31/12/2022	31/12/2021	Change
<i>Tax liabilities</i>			
<i>Payables to the Tax Authorities for registration, mortgage and land tax relating to the corporate transaction 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.</i>	58,220	58,220	-
	58,220	58,220	-
<i>Liabilities relating to Law 808/85</i>			
Payables to the Economic Development Ministry (MiSE) for disbursements pursuant to Law 808/85 - portion beyond one year	-	42,051	(42,051)
Deferred income on disbursements pursuant to Law 808/85 - beyond one year	15,568	16,556	(988)
Payables to MiSE for disbursements pursuant to Law 808/85 (as per MiSE Decree 3/07/2015) - portion beyond one year	1,320	1,320	-
Deferred income on disbursements pursuant to Law 808/85 (as per MiSE Decree 3/07/2015) - portion beyond one year	483	483	-
	17,371	60,410	(43,039)
Payables due to MiSE for other subsidies	511	388	123
Other payables and deferred income	212	212	-
Total	76,314	119,229	(42,915)

Tax liabilities

Payables to the Tax Authorities for registration, mortgage and land tax relating to the corporate transaction 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.

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.

Liabilities relating to Law 808/85

Payables to the Economic Development Ministry for disbursements pursuant to Law 808/85 - portion beyond one year

With reference to this item and related 2022 variation, please see the section "Significant events in 2022" and "Group operating performance and financial and equity position" of the Directors' report.

Deferred income on disbursements pursuant to Law 808/85 - beyond one year

The account, amounting to Euro 13,240 thousand, represents the initial counter-entry of the receivable from the Ministry for Economic Development against the grants pursuant to Law 808/85, relating to the projects qualifying as functional to national security, 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 (as per MiSE Decree 3/07/2015) - portion beyond one year

Disclosure upon the payable to MiSE for disbursements as per Law 808/85 according to the ex MiSE Decree of 3/07/2015 of Euro 1,320 thousand is presented below.

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

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

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

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

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

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 (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 511 thousand, consists of payables due beyond one year to the Ministry for Economic Development relating mainly 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 projects concerning the projects:

- "Additive Manufacturing by Mixing Elemental Powders", and
- "Innovative composite materials for space, aeronautics and automotive I.S.A.C."

The payables are recorded at their discounted value.

CURRENT LIABILITIES

3.24. CURRENT FINANCIAL LIABILITIES

The table below presents current financial liabilities at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Current financial liabilities	66,260	56,645	9,615
Total	66,260	56,645	9,615

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

	31/12/2022	31/12/2021	Change
Financial payables subsidiary Se.Co.Sv.Im. S.r.l.	32,176	32,588	(412)
Financial payables subsidiary Spacelab S.p.A.	6,315	16,308	(9,993)
Financial payables Europropulsion S.A. joint control company	27,769	7,749	20,020
	66,260	56,645	9,615

Payables to subsidiaries comprise the current account balances within the Group centralised treasury management undertaken by the company. These transactions are undertaken at normal market conditions.

Payables to the jointly-controlled company Europropulsion relate to the mechanism of distributing to its shareholders the financial resources available to the joint venture, in accordance with a specific treasury management contract. This contract provides for application of the 3-month Euribor as the reference rate, with an additional lending rate of -0.05% and a borrowing rate of 0.20%.

3.25. 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):

	31/12/2022	31/12/2021	Change
Current financial liabilities for leasing	8,906	6,748	2,158
Total	8,906	6,748	2,158

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

	31/12/2022	31/12/2021	Change
Current financial liabilities to subsidiary Se.Co.Sv.Im. as per IFRS 16	7,503	4,866	2,637
Current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	152	146	6
Current financial liabilities to third parties as per IFRS 16	1,250	1,736	(486)
	8,906	6,748	2,158

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.

3.26. CURRENT PORTION OF NON-CURRENT FINANCIAL PAYABLES

The table below illustrates this account at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Current portion of non-current financial payables	10,033	10,048	(15)
Total	10,033	10,048	(15)

The account, which amounted to Euro 10,033 thousand, consists of:

- the two installments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2023 and October 31, 2023, respectively;
- the two installments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2023 and October 31, 2023, respectively;
- interest expense on the above financial liabilities accrued at December 31, 2022 for Euro 33 thousand.

3.27. TRADE PAYABLES

The table below illustrates trade payables at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Trade payables	115,396	97,295	18,101
Total	115,396	97,295	18,101

Details of payables to subsidiaries are shown below (in Euro thousands):

	31/12/2022	31/12/2021	Change
Regulus S.A.	26,036	16,168	9,868
Spacelab S.p.A.	2,097	1,586	511
Se.Co.Sv.Im. S.r.l.	878	1,252	(374)
Temis S.r.l.	371	-	371
Avio Guyane S.A.S.	2,847	1,864	983
Avio France S.A.S.	418	578	(160)
Total	32,647	21,448	11,199

Trade payables to the associated companies Termica Colleferro S.p.A. and Consorzio Servizi Acqua Potabile, the jointly controlled company Europropulsion S.A. and the non-consolidated subsidiary Servizi Colleferro S.C.p.A. are shown in the following table (Euro thousands):

	31/12/2022	31/12/2021	Change
Termica Colleferro S.p.A.	2,967	6,588	(3,621)
Europropulsion S.A.	10,361	1,670	8,691
Potable Water Services Consortium	(24)	(227)	202
Servizi Colleferro S.C.p.A.	158	173	(15)
Total	13,461	8,204	5,257

3.28. CURRENT TAX PAYABLES

The table below presents current tax liabilities at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Current income tax payables	1,888	6,205	(4,317)
Total	1,888	6,205	(4,317)

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

	31/12/2022	31/12/2021	Change
IRES payables	454	705	(251)
Payables for withholding taxes	1,420	1,140	280
Other tax payables	13	4,359	(4,346)
Total	1,888	6,205	(4,317)

IRES payables from tax consolidation amount to Euro 454 thousand. The tax consolidation agreement relates to the years 2021-2022-2023. The companies participating in the tax consolidation are the Parent Avio S.p.A. and the Italian subsidiaries Spacelab S.p.A. and Se.Co.Sv.lm. S.r.l..

Payables for withholding taxes, amounting to Euro 1,420 thousand, refer to employee and consultant withholding taxes. The liability is in line with the previous year.

Other tax payables, amounting to Euro 13 thousand, decreased compared to last year due to the final installments paid in 2022 on the repayment of part of the 2017 research and development tax credit.

3.29. OTHER CURRENT LIABILITIES

The table below presents other current liabilities at December 31, 2022 and December 31, 2021 (Euro thousands).

	31/12/2022	31/12/2021	Change
Other current liabilities	16,345	12,957	3,387
Total	16,345	12,957	3,387

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

	31/12/2022	31/12/2021	Change
Employee payables	6,357	5,642	715
Payables due to social security institutions	2,973	3,120	(146)
Deferred income on disbursements pursuant to Law 808/85 - current portion	1,320	2,147	(827)
Other accrued liabilities and deferred income	4,294	1,073	3,221
Other payables to third parties	687	841	(154)
Payables to subsidiaries	714	135	579
Total	16,345	12,957	3,387

Employee payables

Employee payables amount to Euro 6,357 thousand and include remuneration to be settled, in addition to vacations and other rights matured and not utilised. The increase of Euro 715 thousand is mainly related to the rise in employee numbers.

Amounts due to social security institutions

The account concerns amounts to be paid, amounting to Euro 2,973 thousand, relating to company and employee contributions, in accordance with regulations in force.

Deferred income on disbursements pursuant to Law 808/85 - current portion

The account, amounting to Euro 1,320 thousand (Euro 2,147 thousand at December 31, 2021), 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 4,294 thousand (Euro 1,209 thousand at December 31, 2021), mainly refers to the deferment of commercial costs and grants to the following year. The increase of Euro 3,221 thousand relates to some advances on grants.

Payables to subsidiaries

This account, amounting to Euro 714 thousand (Euro 1,073 thousand at December 31, 2021), relates to payables to the subsidiaries Se.Co.Sv.Im. S.r.l., Spacelab S.p.A. and Temis S.r. mainly for tax consolidation.

INCOME STATEMENT

3.30. REVENUES

Total revenues, comprising the change in contract work-in-progress and revenues from product sales and the provision of services, amounted to Euro 367,179 thousand for the current year. They amounted to Euro 313,091 thousand in 2021.

	FY 2022	FY 2021	Change
Revenues from sales	68,173	733,267	(665,094)
Revenues from services	846	712	134
	69,019	733,979	(664,960)
Changes in contract work in progress	298,159	(420,888)	719,047
Total	367,179	313,091	54,088

For information on revenues as compared to the previous year, reference should be made to the "Group operating performance and financial and equity position" paragraph of the Directors' Report relating to the Company.

In terms of the recognition of revenues, in order to present a breakdown and comparison of revenues in the clearest manner possible, it should be noted that contracts totalling Euro 733,052 thousand were completed during the comparative year, the effects of which are shown under "Revenues from sales" for the proceeds from the related advances received and under "Changes in contract work in progress" for the closure of the contracts from work in progress.

The revenues from advancement include the effect from the recognition of research and development credits for the years 2017, 2018 and 2019 under Article 3 of Legislative Decree No. 145/2013 and subsequent amendments in force until December 2019. This income amounted to Euro 2,363 thousand in 2022, while in 2021 totalled Euro 2,248 thousand. These credits, recognised to the extent they are considered recoverable and usable, are initially recorded in the account "Current tax receivables", with counter-entry to the income statement under "Service costs", and rediscounted to reflect their recognition to the Income Statement in each period on an accruals basis, according to the differing types of costs supported, in relation to the percentage of completion of the contract work-in-progress giving rise to the costs against which the credit was calculated. The accrual has been recognised on the balance sheet under "Contract work in progress" and its release has been recognised on the income statement as "Changes in contract work in progress".

As reported in the "Significant events in 2022" section of the Directors' Report, on July 13, 2022 the maiden flight of the new Vega C launcher was fully successful, while on December 21, 2022 its first commercial flight failed. This launcher was the first to be equipped with the new P120C motor, which shall be used also for the new Ariane 6 launcher. Two new launchers VEGA C and Ariane 6 to are therefore currently being brought to

market, while the Ariane 5 launcher is being phased out. This transition phase includes the contractual provision of ramp-down/ramp-up ESA contributions for industrial fixed cost absorption effects. As regards the ESA, contributions for the effects of COVID-19 are also planned. In 2022, the Group recognised variable payments in these cases to the extent that they are likely to be recognised by customers and in accordance with IFRS 15. The portion of these fees currently accounts for approx. 4.1% of revenues.

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

3.31. OTHER OPERATING REVENUES

The account in 2022 amounted to Euro 37,105 thousand, as follows:

	FY 2022	FY 2021	Change
Other income	33,742	1,914	31,828
Income from the release of provisions	1,643	324	1,319
Income for the portion recognised to the income statement of the disbursements as per Law 808/85	1,294	2,157	(863)
Other income and operating grants	334	1,874	(1,540)
Over-accruals and similar in prior periods	93	611	(518)
Total	37,105	6,880	30,225

"Other income", amounting to Euro 33,742 thousand, includes Euro 30,842 thousand from the application of the new legislation introduced in 2022 regarding the Law 808/85 and consequent definition of royalties related to the P80 Research and Development Project of National Security Interest, which is disclosed in "Significant events in 2022" and "Group operating performance and financial and equity position" sections of the Directors' report.

The account "income from the release of provisions" amounting to Euro 1,643 thousand, concerns the cancellation of the 2020-22 and 2021-23 cycles of the 2020-24 Monetary Long Term Incentive Plan.

3.32. CONSUMPTION OF RAW MATERIALS

The account, amounting to Euro 115,230 thousand, relates to costs for raw material purchases and changes in inventories, as shown below.

	FY 2022	FY 2021	Change
Purchase of raw materials	133,849	87,193	46,657
Change in inventories of raw materials	(18,620)	(5,071)	(13,549)
Total	115,230	82,122	33,108

The item "Consumption of raw materials" includes extraordinary provisions for risks connected to the future execution of programs disclosed in the section "Group operating performance and financial and equity position" of the Directors' report.

3.33. SERVICE COSTS

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

	FY 2022	FY 2021	Change
Service costs	206,786	164,126	42,660
Rent, lease and similar costs	1,378	1,078	300
Total	208,164	165,204	42,960

Service costs, amounting to Euro 211,075 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 and, furthermore, extraordinary provisions for risks connected to the return to flight of Vega C launcher, net of compensation expected from the European Space Agency disclosed in the section "Group operating performance and financial and equity position" of the Directors' report. This account includes the emoluments due to the corporate boards of the Company, concerning:

- directors' fees of Euro 486 thousand and specific committee fees of Euro 170 thousand;
- supervisory body fees of Euro 127 thousand;
- Board of Statutory Auditors' fees of Euro 122 thousand.

Service costs are shown net of the recognition of accrued tax receivables on certain types of costs amounting to Euro 2,033 thousand (Euro 1,785 thousand at December 31, 2021), as described in paragraph "3.14. Current tax receivables".

3.34. PERSONNEL EXPENSES

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

	FY 2022	FY 2021	Change
Wages and salaries	45,466	40,318	5,148
Social security contributions	14,451	13,439	1,012
Provision for variable remuneration	4,041	3,821	220
Other long-term benefits - current employees	69	119	(50)
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	-	(158)	158
Provision for "Other defined benefit plans"	3,270	3,043	227
Total	67,297	60,582	6,715

3.35. AMORTISATION & DEPRECIATION

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

	FY 2022	FY 2021	Change
Property, plant and equipment	5,106	5,322	(215)
Right-of-use	6,343	6,309	34
Intangible assets with definite life	9,934	11,453	(1,519)
Total	21,384	23,083	(1,700)

Amortization of Intangible assets with a definite life primarily includes:

- amortisation of capitalised development costs of Euro 4,421 thousand (Euro 6,785 thousand in 2021);
- Euro 2,986 thousand for the amortisation of development costs capitalised and for the amortisation of intangible assets regarding the Ariane and Vega programmes, identified following the purchase price allocation process regarding the Group by Space2 in 2017 (same amount in 2021).

3.36. OTHER OPERATING COSTS

This account amounts to Euro 5,552 thousand (Euro 2,475 thousand in 2021) and mainly comprises the following items:

- indirect taxes of Euro 405 thousand (Euro 546 thousand in 2021);
- prior year charges of Euro 102 thousand (Euro 477 thousand in 2021);
- other extraordinary charges of Euro 3,247 thousand.

3.37. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to costs capitalised for internally constructed assets, amounting to Euro 7,402 thousand (Euro 14,203 thousand in 2021), 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 6,801 thousand (Euro 10,013 thousand in 2021);
- costs for the internal production of tangible fixed assets for Euro 601 thousand (Euro 4,190 thousand in 2021).

3.38. FINANCIAL INCOME

The breakdown of financial income of Euro 776 thousand (Euro 499 thousand in 2021) is presented below:

	FY 2022	FY 2021	Change
Bank interest income	5	10	(6)
Interest income on VAT refunds	40	100	(60)
Financial income from amortised cost	13	224	(211)
Interest from subsidiaries	30	-	30
	87	334	(248)
Realised exchange gains	630	214	416
Unrealised exchange gains	59	(50)	108
	689	164	525
Total	776	499	277

Financial income mainly consists of interest income on VAT receivables collected amounting to Euro 40 thousand, interest income from discounting receivables amounting to Euro 13 thousand, and interest income on centralized treasury accounts with subsidiary companies amounting to Euro 30 thousand.

Realised exchange gains concern the collection of receivables and the settlement of payables in foreign currencies, while unrealised exchange gains concern the adjustment to the period-end exchange rate of receivables and payables in foreign currencies.

3.39. FINANCIAL CHARGES

The breakdown of financial charges of Euro 1,775 thousand (Euro 1,057 thousand at December 31, 2021) is presented below:

	31/12/2022	31/12/2021	Change
Interest on EIB loans	251	341	(90)
Interest expense to subsidiaries non-leasing	41	40	2
Interest expenses on other liabilities	606	4	602
Discounting on employee benefits	(33)	(37)	3
Financial charges from amortised cost to subsidiaries	278	318	(39)
Financial charges from amortised cost to associates	33	15	18
Financial charges from amortised cost to third parties	-	19	(19)
	1,175	698	477
Realised exchange losses	569	364	205
Unrealised exchange losses	31	(5)	37
	600	358	241
Total	1,775	1,057	718

The increase in financial charges of Euro 718 thousand is mainly due to the recognition of financial charges, amounting to Euro 603 thousand, following the review of the amortised cost criterion applied to shareholder loan receivables from the associate Termica Colleferro S.p.A. in view of their partial waiver, amounting to Euro 5,667 thousand. This waiver was made as part of the recapitalisation of the company for the purpose of pursuing a new industrial project. Please refer in particular to the "Initiation of the cogeneration power plant project under the partnership with Cogenio/Enel X" paragraph of the "Significant events in 2022" section of the Directors' Report.

Financial charges from amortized cost relates to liabilities from subsidiaries, associates and third parties for leases accounted for as liabilities at present value in accordance with IFRS 16.

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.

3.40. INVESTMENT INCOME/(CHARGES)

This item concerns income of Euro 2,400 thousand related to dividends received from the jointly-controlled company Europropulsion S.A.. In the year 2021, income of Euro 2,667 thousand was however recognised consisting of dividends and income from the transaction regarding the sale of the business unit by the subsidiary Spacelab S.p.A. to the parent company Avio S.p.A.

3.41. INCOME TAXES

“Income taxes” was net tax income of Euro 1,786 thousand (income of Euro 703 thousand in 2021), as follows:

- current IRES consolidated income taxes of Euro 292 thousand (Euro 549 thousand in 2021);
- income on the recognition of deferred tax assets of Euro 2,078 thousand (Euro 1,252 thousand in 2021).

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

		FY 2022	FY 2021
Pre-tax result		(3,681)	4,134
Ordinary rate applied		24.00%	24.00%
Theoretical tax charge	24%	(883)	992
Effect of increases (decreases) to the ordinary rate:			
Permanent increases	(33.9%)	5,205	5,465
Permanent decreases	52.6%	(8,070)	(3,681)
Temporary difference increases	(281.5%)	43,169	16,638
Temporary difference decreases	136.6%	(20,947)	(15,386)
Total changes		19,358	3,037
Utilisation of fiscal losses	81.8%	(12,541)	(4,372)
(Tax loss)/Assessable income	(20.44%)	3,135	2,799
Theoretical IRES taxation	(20.44%)	752	672
Net deferred tax (income)/charge		(2,097)	(1,252)
Taxes from previous years and consolidation		(441)	549
		(1,786)	(703)

In addition to the current tax charge of Euro 292 thousand, concerning current taxes, prior year taxes and income from the tax consolidation, deferred tax assets of Euro 2,097 thousand were recorded, resulting in a net positive effect of Euro 1,703 thousand in total taxation.

3.42. EARNINGS/(LOSS) PER SHARE

An explanatory statement is reported below (in Euro):

	FY 2022	FY 2021
Net profit for the year (in Euro thousands)	(1,894,795)	4,836,213
Number of shares in circulation	26,359,346	26,359,346
Treasury shares	(1,091,207)	(671,233)
Number of shares entitled to profits	25,268,139	25,688,113
Basic earnings per share – in Euro	(0.07)	0.19
Diluted earnings per Share – in Euro	(0.07) ⁽¹⁾	0,18 ⁽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):

	31/12/2022	31/12/2021
Guarantees given:		
Unsecured guarantees:		
Sureties issued to third parties on behalf of Avio	61,416	59,131
Other guarantees	3,402	3,402
Total guarantees given	64,818	62,533
Sureties and guarantees received	1,206	1,206
	1,206	1,206

Guarantees granted

Secured guarantees include sureties issued by third parties on behalf of the Company 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.

The increase in guarantees granted compared to December 31, 2021, is mainly due to a surety granted to the Italian Tax Agency for reimbursement of the VAT receivable of Avio S.p.A. related to fiscal year 2020.

Sureties and guarantees received

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

Other commitments

The associated company Termica Colleferro S.p.A. ("Termica Colleferro") is currently 40% owned by Avio and 60% owned by the controlling shareholder Cogenio S.r.l. ("Cogenio"), which took over SECI S.p.A. ("SECI") on December 22, 2021.

Termica Colleferro manages a thermoelectric power plant that produces energy and steam essential for the functioning of the Avio production site in Colleferro.

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

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

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

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

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

In December 2016, Termica Colleferro restructured its remaining bank debt of approx. Euro 22 million, mainly by extending the duration of the repayment plan from 2022 to 2027, reducing the interest rate spread and raising the covenant thresholds.

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

On May 31, 2019, some Seci Group companies, including the holding company Seci S.p.A. and companies operating in the energy sector, in the agro-industrial sector, in the building/real estate sector and the last in the factoring sector, presented a voluntary arrangement with creditors application to the Bologna Court, agreed following the Order issued by the delegated Judge. The Court originally granted a deadline for the preparation and presentation of a business plan for the maintenance of the Group as a "going concern". Therefore, the majority stake in Termica Colleferro held by SECI S.p.A. has become an asset within the related procedure. Termica Colleferro was not included in the companies presenting an administration procedure.

As the presentation by the parent company SECI S.p.A. of the application for an arrangement with creditors is, under the terms of the Termica Colleferro bank loan agreement, an acceleration clause for repayment of the loan, in order to define its position vis-à-vis the lending banks in April 2020, Termica Colleferro requested from them a waiver of the acceleration clause in the loan agreement.

In August 2020, the banks indicated that they are not in a position to carry out an assessment of the creditworthiness of the requests made by Termica Colleferro, while they shall not activate the acceleration clause.

After taking steps with SECI S.p.A. such that SECI S.p.A. could respond to requests for information from the banks, Termica Colleferro continued to pay the instalments of the loan.

In the first half of 2021, in pursuit of the objective to sell the stake in Termica Colleferro, SECI S.p.A. mandated an energy sector consulting firm to contact the leading industry players and issued a process letter to them calling for a formal, binding expression of interest in acquiring the 60% holding in Termica Colleferro.

This action led a number of parties potentially interested in acquiring stakes in Termica Colleferro to contact Avio in order to ask about potential future collaborations should they be awarded the equity interest.

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

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

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

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

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

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

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

On December 12, 2022, data on financial requirements as per Annex 8.5 - Section A to the Loan Agreement (as amended) as of December 31, 2021 were communicated. The data show that the covenants stipulated in the above-mentioned loan agreement have been met. Subsequently, on December 12, 2022, the business plan showing the divestment of the existing cogeneration plant and the new investment was submitted to the lead bank. Based on the plan, the lenders, on December 22, 2022, issued the waiver whereby they waived the right to exercise the clause in Article 12.5 (*Effects of Forfeiture, Termination and Resolution*) of the loan agreement.

In view of the associate's new project to install a new thermal and electric power plant to ensure the supply of constant, uninterruptible heat and power to the Avio Group, partially replacing the components of the company's current cogeneration plant, the associate has written down a substantial portion of its assets in the 2021 financial statements. This write-down resulted in negative shareholders' equity of Euro 3,526 thousand to the financial statements.

The company's two shareholders, Cogenio S.r.l. (60%) and Avio S.p.A. (40%), carried out the following transactions with reference to the company to December 2022:

- recapitalisation of the company by waiving a portion of the existing shareholder loans, totalling Euro 14,167 thousand, including Euro 8,500 thousand from Cogenio and Euro 5,667 thousand from Avio;
- new pro-rata funding, through non-interest-bearing shareholder loans (subordinate to the full repayment of Termica Colleferro's lending banks, whose maturity date is February 24, 2027), to support the capex for the new business plan. Cogenio and Avio have, therefore, made a total payment of Euro 3,252 thousand, including Euro 3,015 thousand from the former and Euro 237 thousand from the latter.

The residual receivable after the above transactions, for Avio S.p.A.'s shareholder loan to Termica Colleferro, amounted to Euro 2,010 thousand at December 31, 2022.

The shareholder loan commitment undertaken by Avio S.p.A. has a maximum limit equal to 40% of the outstanding bank debt of Termica Colleferro. At December 31, 2022, Termica Colleferro's outstanding bank debt amounts to Euro 6,922 thousand. The maximum limit of the commitment undertaken by Avio S.p.A. at December 31, 2022 therefore amounted to Euro 2,769 thousand.

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

There are however no risks of interruptions to the supply of electricity and heat by Termica Colleferro as, following the partnership with Cogenio-Enel launched in December 2021 for the operation of a thermoelectric power plant aimed at ensuring the security of energy and steam supply at the best economic conditions, the

industrial project began, as outlined above, for the reconversion of the cogeneration plant in the Colleferro industrial district, which is headed by Termica Colleferro S.p.A. (40% owned by Avio and 60% controlled by Cogenio) with financial support from the two partners, has begun.

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

Secosvim/Caffaro

The Colleferro industrial district includes an industrial area known as "Benzoin and derivatives" owned by Secosvim, until December 31, 2007 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 proposed before the Lazio Regional Administrative Court (over the period between 2008 and 2012) seven separate appeals, challenging 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), by which the Commissioner's Office stated that, in the event of non-compliance with the orders issued, claims would be made against Caffaro. These motions were notified also to Secosvim as owner of the Benzoin area, 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 the pending rulings by the Lazio Regional Administrative Court, the State Prosecutor requested the 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. The hearing to discuss these appeals has been postponed multiple times as we await completion of the criminal proceedings. The last hearing was held on June 9, 2021.

With ruling No. 12946/2021 issued on December 15, 2021, the Lazio Regional Administrative Court, following a meeting of the court, rejected the seven separate appeals filed by Caffaro against deeds issued by the Commissioner's Office for the emergency in the area around the Sacco river in the provinces of Rome and Frosinone within the scope of managing the emergency.

This decision was appealed by Caffaro on March 15, 2022; therefore, the ruling is pending as we await a decision by the Council of State, Section IV, RG No. 2645/2022.

Secosvim duly entered an appearance, and the hearing was held on December 16, 2022. Publication of the ruling is pending.

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 the parent company Avio S.p.A., with details on the specific disputes and the relative amounts.

Settlement notice served on July 28, 2016 for indirect taxes on the transfer of the Aeroengine business unit from Avio S.p.A. to GE Avio S.r.l.

On July 28, 2016, the Tax Agency notified Avio S.p.A. of a settlement notice for registration, mortgage and cadastral taxes totalling Euro 58,220 thousand, re-categorising the conferment of the Aeroengine business unit from Avio S.p.A. to GE Avio S.r.l., and the subsequent sale of the shares of this latter company, during 2013, as a direct transfer of the business unit and, consequently, raised the alleged non-payment of the indirect taxes applicable to the above declared transfer of the business unit.

Convinced that there were extremely valid arguments for considering the charges brought by the revenue authorities to be baseless, Avio S.p.A. - in coordination with the General Electric Group, jointly appearing with Avio S.p.A. - appealed the aforementioned settlement notice. The Piedmont Regional Tax Commission decided in the company's favour in judgment 1740/18 filed on November 7, 2018, in which it granted the Company's appeal in full.

In 2020 the Italian Tax Office appealed the above judgment before the Court of Cassation. The Company appeared promptly in the proceedings with its own counter-appeal and simultaneous cross-appeal, reaffirming the soundness of its arguments.

With regards to this dispute, on the basis of specific contractual provisions, the General Electric Group is required to indemnify Avio S.p.A. for any liabilities which may arise with regards to the indirect taxes relating to the disposal of the company GE Avio S.r.l. (containing the AeroEngine segment operations of the Avio Group), in addition to the provision to Avio S.p.A. of any amounts requested by the Tax Agency by the established payment deadlines. In this regard, on August 12, 2016, following the notification from the Tax Agency to Avio S.p.A. of the settlement notice for a total of Euro 58,220 thousand, GE Italia Holding S.p.A. confirmed to Avio S.p.A. its punctual fulfilment of the above contractual stipulations. In view of that above, and particularly the notification of the above-stated settlement notice which quantifies the alleged indirect taxes as Euro 58,220 thousand, in addition to the above payments of the contractually established indemnities and confirmed subsequently to the settlement notice at issue, a tax payable was recognised to the financial statements in relation to the liabilities which may arise from the dispute regarding the settlement notice and a corresponding receivable from the General Electric Group recorded for the same amount of Euro 58,220 thousand.

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

At the reporting date, the Court of Cassation has yet to schedule a hearing.

Questionnaire of the Piedmont DRE of June 4, 2019 concerning transfer prices between Avio S.p.A. and Regulus S.A. - 2014 Tax period

In November 2019, the Piedmont Tax Agency served two separate assessment notices on the Company, respectively for IRES and IRAP, in relation to the 2014 tax year, concerning the application of "transfer pricing" tax regulations to transactions between Avio S.p.A. and its subsidiary Regulus S.A., on the assumption that the latter is a tax resident in French Guyana.

With regard to the IRES assessment notice, it should be noted that, pending the settlement procedure, the Company has asked the Office to be able to offset the greater taxable profit assessed against unused prior tax losses. Granting the Company's request, in July 2020 the Office recalculated the greater IRES assessed for 2014 (and related interest), reducing it to zero and levying a single administrative fine of Euro 1,250.00.

With regard to the IRAP assessment notice, since the value of production adjusted by the Office is still negative, no tax was recovered and a fixed penalty of Euro 250.00 was levied. Therefore, the liability associated with this dispute amounts to a total of Euro 1,500.

In June 2020, the Company filed timely appeals of two notices of assessment of IRES and IRAP taxes, being confident of the correctness of its actions and considering that it has acted in full compliance with the law.

In a ruling filed on June 24, 2022, the Turin Provincial Tax Commission upheld both of the Company's appeals concerning IRES and IRAP, citing the calculation of comparables performed by the Turin regional office and noted that the determination of the range of transfer prices was manipulated by that office without cause and in a debatable manner, whereas the documentation provided by the Company met the criteria set by OECD guidelines for determination of "normal value" as specified under Article 9(3) of the Consolidated Income Tax Law.

In January 2013, the Piedmont Regional Directorate of the Tax Agency appealed the ruling of the Turin Provincial Tax Commission. The Company promptly took action, with the support of its consultants, to counter the Agency's appeal and request confirmation of the first instance ruling.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Categories and fair value of financial assets and liabilities

The following table presents a detailed analysis of financial assets and liabilities at December 31, 2022, as per IFRS 7, according to the categories established by IFRS 9.

In thousands of Euro	Total accounts	IFRS 9 Category	
		<i>Assets at amortised cost</i>	<i>Assets at fair value through profit or loss</i> / <i>Liabilities at amortised cost</i>
FINANCIAL ASSETS			
- Investments in other companies	2,244		2,244
- Non-current financial assets	2,010	2,010	
- Other non-current assets	62,377	62,377	
- Trade receivables	4,857	4,857	
- Other current assets	10,286	10,286	
- Cash and cash equivalents	125,521	125,521	
- Current financial assets	2,842	2,842	
	207,296	205,052	2,244
FINANCIAL LIABILITIES			
- Non-Current financial liabilities	12,000		12,000
- Non-current financial payables for leasing	18,988		18,988
- Current financial liabilities	66,260		66,260
- Current lease liabilities	8,906		8,906
- Current portion of non-current financial payables	10,033		10,033
- Other non-current liabilities	76,314		76,314
- Other current liabilities	16,345		16,345
- Trade payables	115,396		115,396
	324,242		- 324,242

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, 2022.

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 2022.

In Euro thousands	Financial income/(charges) recognised through profit or loss		Actuarial gains/(losses) recognised to comprehensive income statement
	From interest	From fair value changes	From fair value changes
Assets at amortised cost		-	-
Assets at fair value			
Through profit or loss			
Statement			
Liabilities at amortised cost	561	-	-
Derivative financial instruments	-	-	-
Total categories	561	-	-

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

Types of financial risks and related hedging

The Company through its operating activities is exposed to financial risks, in particular:

- credit risks, related to commercial transactions with clients and funding operations;
- liquidity risk, related to the availability of financial resources and access to the credit market;
- market risks;
- interest rate risk

These financial risks are continually monitored, undertaking initiatives to offset and contain potential impacts through appropriate policies and, where in general considered necessary, also through specific hedging instruments (currently not necessary as the loan interest rate with the EIB is fixed and competitive compared to the market).

This section provides qualitative and quantitative disclosure upon the impact of these risks on the Company and on the Group.

The following quantitative data cannot be used for forecasting purposes or completely reflect the complexity and the related market reactions which can derive from any change in assumptions.

Credit Risk

Company credit risk represents the exposure to potential losses deriving from the non-compliance with obligations by 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, 2022 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 4,857 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, 2022 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's liquidity risk concerns any difficulties in obtaining at appropriate conditions the funding necessary to support operations. The principal factors which influence liquidity are, on the one hand, the resources generated and absorbed by the operating and investment activities and on the other the conditions concerning the maturity of the payable or the liquidity of the financial commitments.

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

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

Liquidity analysis

As the Company is part of a group whose activities are closely integrated, please refer to same paragraph of the consolidated financial statements.

Market risk

With regards to the current financial structure of the Company and the fact that the operating currency is almost exclusively the Euro, it is deemed that significant market risks from fluctuations in exchange rates or interest rates on financial receivables and payables do not exist.

The company, considering that stated with regards to the insignificant market risk related to exchange rate and interest rate movements, at December 31, 2022 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 22 million, at a competitive interest rate compared to the market.

Therefore, this risk is not considered applicable to the company and, therefore, to the Company.

6. RELATED PARTY TRANSACTIONS

Avio regularly undertakes commercial and financial transactions with its subsidiaries and jointly-controlled companies, consisting of transactions relating to ordinary operations and undertaken at normal market conditions. In particular, these concern the supply and purchase of goods and services, including of an administrative-accounting, tax, IT, personnel management and assistance and consultancy nature, and the relative receivables and payables at period-end and funding and centralised treasury management transactions and the relative charges and income. These transactions are eliminated in the consolidation and consequently are not outlined in this section.

The related parties of the company Avio S.p.A. are identified on the basis of IAS 24 - *Related Party Disclosures*, applicable from January 1, 2011, and are the parent companies, companies with a connection with the Avio Group and its subsidiaries as defined by the applicable rules, companies controlled but not consolidated within the Avio Group, associates and jointly-controlled companies of the Avio Group and other investee companies.

Until the effective acquisition date by Space2, Leonardo and In Orbit, Leonardo - on the basis of rights arising under the Cinven shareholder agreement - had a connection with the Avio Group, although formally holding an investment in the Incorporated company under the threshold established by the IAS and Article 2359 of the Civil Code, final paragraph. Following the listing, although the shareholder agreement with Cinven had lapsed, Leonardo S.p.A. maintained this connection with the Avio Group on the basis of the increase of its investment in the Incorporated company over the threshold established by the above-stated rules.

The following tables report the related party transactions of Avio S.p.A., with balance sheet effects (in thousands of Euro):

At December 31, 2022											
Counterparty	Right-of-use assets	Other non-current assets	Inventories and advances to suppliers	Trade receivables	Other current assets	Contract work-in-progress	Non-current financial assets	Trade payables	Other current liabilities	Advances for contract work in progress	Financial liabilities
Leonardo S.p.A.			1,140					2,988	318		
MBDA Italia S.p.A.				0		3,161				3,161	
MBDA France S.A.				839		8,558				48,746	
Thales Alenia Space Italia S.p.A.						0		350		0	
Vitrociset S.p.A.						0		196		0	
Companies with a connecting relationship and relative investee companies	-	-	1,140	839	-	11,719	-	3,534	318	51,908	-
Spacelab S.p.A.			106	153	4,080			2,097	20		13,869
Regulus S.A.			0	665				26,036		560	
SE.CO.SV.IM. S.r.l.	21,144	150		684	12			878	415		55,048
Temis S.r.l.				3				371	280		
Avio USA Inc.				724							
Avio Guyane S.A.S.				71			2,842	2,847			
Avio France S.A.S.				855				418			
Subsidiaries	21,144	150	106	3,155	4,092	-	2,842	32,647	714	560	68,917
Termica Colleferro S.p.A.	976		1,000	208			2,010	2,967			989
Europropulsion S.A.			47,688	323		87,467		10,361		94,312	27,769
Potable Water Services Consortium				0	2			(24)			
Servizi Colleferro - Consortium Limited Liability Company				1				158			
Associates and jointly controlled companies	976	0	48,688	532	2	87,467	2,010	13,461	0	94,312	28,758
Total related parties	22,120	150	49,934	4,526	4,094	99,185	4,853	49,642	1,032	146,779	97,675
Total book value	27,888	62,377	198,431	4,857	10,286	425,531	4,853	115,396	16,345	667,349	116,187
% on total account items	79.32%	0.24%	25.16%	93.17%	39.80%	23.31%	100.00%	43.02%	6.32%	21.99%	84.07%

In 2022, the main income statement transactions by the Company with related parties were as follows (in Euro thousands):

At December 31, 2022						
Counterparty	Operating Revenue and changes in contract work-in-progress ⁽¹⁾	Other operating revenues	Operating Costs ⁽¹⁾	Financial Income	Other investment income/(charges)	Financial Expenses
Leonardo S.p.A.			3,475			
MBDA Italia S.p.A.	1,181					
MBDA France S.A.	18,866					
Thales Alenia Space Italia S.p.A.	(22)		1,350			
Vitrociset S.p.A.	0		196			
Companies with a connecting relationship and relative investee companies	20,025	0	5,020	0	0	0
Spacelab S.p.A.		68	2,376	13		3
Regulus S.A.	249	15	24,694			
SE.CO.SV.IM. S.r.l.	114	322	18			255
Temis S.r.l.	3		712			
Avio USA Inc.			-189			
Avio Guyane S.A.S.		70	5,313	30		
Avio France S.A.S.		70	818			
Subsidiaries	367	544	33,742	42	0	257
Termica Colleferro S.p.A.		69	19,470	0		616
Europropulsion S.A.	59,712	491	33,713		2,400	20
Potable Water Services Consortium	0	27	296			
Servizi Colleferro - Consortium Limited Liability Company	0	27	676			-
Associates and jointly controlled companies	59,712	614	54,156	0	2,400	635
Total related parties	80,104	1,158	92,918	42	2,400	893
Total book value	367,179	37,105	390,691	776	2,400	1,775
% on total account items	21.82%	3.12%	23.78%	5.44%	100.00%	50.29%

⁽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 customer MBDA Italia S.p.A., the guarantees issued by leading credit institutions cover prompt compliance with the contractual obligations undertaken by Avio for the Camm-er orders. Their release is based on completion of the relative contractual milestones.

Transactions with non-consolidated subsidiaries

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

Transactions with associates and jointly-controlled companies

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

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

- financial payables, relating to the short-term inter-company financial payables of Avio S.p.A. to Europropulsion S.A.;
- revenues, relating to the transactions described previously with regards to trade receivables;
- operating costs, relating to the transactions described previously with regards to trade payables;
- financial income, related to interest on the financial receivables previously stated.

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

Transactions with subsidiaries

These transactions regarded centralised services provided by the Parent Avio, real estate leases by the subsidiary Secosvim, and services provided by the subsidiary Spacelab for Avio. During 2021, a price adjustment was defined for the acquisition of the Spacelab launcher business unit by Avio.

Transactions with other related parties

Group transactions with other related parties concern the following operations:

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

7. REGIONAL DISCLOSURE

As indicated previously, with reference to the assets and liabilities by regional location (based on the location of the counterparty), we report that all the receivables and payables at the reporting date are with counterparties located in Italy and Europe.

8. DISCLOSURE PURSUANT TO ARTICLE 149 DUODECIES OF THE CONSOB ISSUER'S REGULATION

In accordance with Article 149 *duodecies* of the Consob Issuer's Regulation, we report below the information concerning fees paid in 2022 for audit and other services by the audit firm Deloitte & Touche S.p.A. and its network (in Euro thousands):

Type of service	Company	Service provider	2022 Fees
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	227 ⁽¹⁾
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	51 ⁽²⁾
Total	Total		278

(1) The amount includes Euro 58 thousand regarding activities for 2022 related to the European Single Electronic Format (ESEF) of financial statement communication;

(2) The amount refers to the limited review of the Avio Group's Non-Financial Statement for Euro 34 thousand, ISA 805 audit activities performed in 2022 related to the statement of research and development costs incurred in 2020 for Euro 12 thousand and ISRS 4400 activities related to the audit of R&D costs on the Horizon 2020 program for Euro 5 thousand.

10. SUBSEQUENT EVENTS

Business

Conclusions of the Independent Commission of Inquiry (IEC) on the causes of the failure of the Vega C mission (VV02) and recommendation for return to flight

As reported in the press release on March 3, 2023⁵³, the Independent Commission of Inquiry (IEC) composed of ESA and Arianespace completed its work concluding that the cause of the failure of the VV22 flight was a gradual deterioration of the Zefiro 40 engine nozzle. It also provided a set of recommendations to ensure the safe return to flight in a timely manner and the long-term reliability of the Vega C launcher with a portfolio of 14 flights (12 Vega C and 2 Vega). Arianespace has updated the launch schedule to assign a flight to one of the two remaining Vega launchers with an expected launch date by late summer 2023, anticipating the next flight of Vega C by the end of 2023. In the above mentioned press release an apposite reference is made to the press release issued by the Independent Commission of Inquiry⁵⁴.

In the press release related to the 2022 results on March 3, 2023 is reported that the Independent Commission of Inquiry provided several recommendations in order to allow a rapid and secure return to flight, assuring the reliability of the launcher in the long period and that, for this purpose, the European Space Agency announced a dedicated support program amounting to Euro 30 million (already available as subscribed in the 2022 ESA Ministerial Conference) in order to cover the charges necessary to the return to flight.

Based on the recommendations provided by the Independent Commission of Inquiry to ensure the safe return to flight in the short term and the reliability of the Vega C launcher in the long term, the Company has proceeded to estimate the costs required for their implementation, both direct (e.g., ground testing of engines and strengthening of quality control procedures, among others) and indirect (e.g., among others, the increased costs resulting from a reduction in the production rate due to the implementation of these recommendations). The ESA support provided to Avio was then estimated on the basis of specific contractual provisions, a principle confirmed by ESA during the March 3, 2023 press conference, and consequently provisions for residual risks on the estimated costs borne by Avio were recorded in FY2022 under non-recurring costs, also based on detailed analysis undertaken by legal consultants concerning possible contractual and non-contractual liability exposure of Avio.

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

In inviting you to approve the 2022 Annual Accounts of Avio S.p.A., drawn up as per IFRS and reporting a net loss of Euro 1,895 thousand, we propose the allocation of this result to retained earnings/(accumulated losses).

* * *

March 13, 2023

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

⁵³ Avio's website, in the "Investors" section: <https://investors.avio.com/Investors/Financial-Announcements/>.

⁵⁴ Please, see https://www.esa.int/Newsroom/Press_Releases/Loss_of_flight_VV22_Independent_Enquiry_Commission_announces_conclusions.

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, 2022.

2. The following significant aspects arose.

- an assessment was undertaken of the internal control system;
- this assessment utilised the criteria established in the “Internal Controls - Integrated Framework” model issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”);
- no significant issues were identified in the assessment of the internal control system.

3. We also declare that:

3.1 the individual and consolidated financial statements:

is drawn up in compliance with the applicable international accounting standards recognised by the European Union, in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and the Council of July 19, 2002;

b) correspond to the underlying accounting documents and records;

c) provide a true and fair view of the financial position, financial performance and cash flow of the Issuer and of the other companies in the consolidation scope.

3.2 The Directors’ Report includes a reliable analysis on the performance and operating result as well as the situation of the issuer and of the companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Date: March 13, 2023

Giulio Ranzo

Alessandro Agosti

(Chief Executive Officer)

(Executive Officer for Financial Reporting)

Independent Auditors' Report on the Consolidated Financial Statements

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

**To shareholders of
Avio S.p.A.**

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Avio Group (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

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

Evaluation of contract work in progress**Description of the key audit matter**

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

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

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

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

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

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

Audit procedures performed

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

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

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

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

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

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

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

Audit procedures performed

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

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

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

Recoverability of goodwill

Description of the key aspect of the review

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

This goodwill is allocated to the Group's only CGU corresponding to the space sector ("CGU Space").

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

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

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

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

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

Audit procedures performed

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Directors of Avio S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Avio Group as at December 31, 2022, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of the Group as at December 31, 2022 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Avio Group as at December 31, 2022 and are prepared in accordance with the law.

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

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

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

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

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

DELOITTE & TOUCHE S.p.A.

Signed by
Francesco Legrottaglie
Partner

Rome, 31 marzo 2023

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

Independent Auditors' Report on the Separate Financial Statements

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

To the shareholders of
Avio S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We audited the financial statements of Avio S.p.A. (the "Company"), which comprise the statement of financial position as at December 31, 2022, 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 statement, including a summary of significant account policies.

In our opinion, the accompanying financial statements give a true and fair view of financial position of the Company as at December 31, 2022, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards adopted by the European Union and with the measures adopted pursuant to Art. 9 of Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the section "*Auditor's Responsibilities for the Audit of the Financial statements*" included in this 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 significant in our audit of the financial statements for the current period. These matter were addressed in the context of our audit of the financial statement as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Evaluation of contract work in progress

Description of the key audit matter	<p>The financial statements for the year ended December 31, 2022 include assets related to the execution of contract work in progress of € 425,5 million (€ 453,8 million at December 31, 2021), liabilities for the related advances of € 667,3 million (€ 609,6 at December 31, 2021), and other provisions for risks and charges amounting to € 25,4 million at December 31, 2022.</p> <p>These contract work in progress are attributable to development and production activities in the space sector, the revenues and related margins of which are recognized in the income statement according to the progress of the contracts using the percentage-of-completion method determined on the basis of the ratio of costs incurred to total estimated costs for the entire work.</p> <p>The Company has also estimated among the other provisions for risks and charges both the effects resulting from the future execution of programs, and those and the effects resulting from the failure of the Vega-C mission (VV22) which occurred at the end of the 2022 financial year, net of the compensation expected from the European Space Agency, , taking into account for this purpose the findings of the Independent Commission of Inquiry (IEC) on the related causes and recommendations for the return to flight.</p> <p>The evaluation method of those contract work in progress and the revenue recognition are based on complex assumptions which by their nature involve the use of management judgment, in particular with reference to the forecast of costs to complete the work, including the estimate of contractual risks.</p> <p>In view of the significance of contract work in progress with respect to the Company's overall business profile and the complexity of the assumptions used for forecasting the costs to complete the related contracts , influenced both by the engineering complexity of the contracts and by the particular conditions of the macroeconomic context, we consider that this topic represents a key audit matter of the Financial Statements as of December 31, 2022.</p> <p>The information on the financial statements relating to this matter is provided in the explanatory notes to the consolidated financial statements and in particular in note 2.4 "Accounting policies", note 2.6 "Use of estimates", note 3.10 "Contract work-in-progress ", and the note 3.22 "Provision for risk and charges"</p>
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Audit procedures performed

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

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

Non-recurring income related to the reduction of liabilities related to financing under Law 808/1985

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

Following the results of an in depth analysis carried out by the management, with the support of an independent expert, the revenue recognition is connected to the amount of royalties due after a settlement with the Economic Development Ministry (hereinafter "MISE", now "MIMIT") after the adoption of Decree-Law 1 March 2022, n. 17 (hereafter "DL 22/2017") in terms of funding under Law 808/198.

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

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

Audit procedures performed

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

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

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

Recoverability of goodwill

Description of the key aspect of the review

The financial statements for the year ended 31 December 2022 record a goodwill accounted following the allocation of the 2017 purchase price allocation of Space2 S.p.A., amounting to Euro 61 million. This goodwill is allocated to the only CGU of the Company corresponding to the Space sector ("CGU Space").

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

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

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

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

The explanatory notes to the financial statements describe the management evaluation process. In particular, significant assumptions and information on the impairment tests are reported in the notes "2.6 Use of estimates" and "3.4 Goodwill".

Audit procedures performed

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

- understanding of the process adopted by the Company in carrying out the impairment test and identifying of the main controls carried out on the impairment test;
- verification of the consistency of the methodological approach adopted by the Company with IAS 36 Impairment of Assets, with particular reference to the identification of the CGU and the determination of its recoverable amount;

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

Responsibility of the Directors and the Board of Statutory Auditors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion on the compliance with the provisions of the Delegated Regulation (EU) 2019/815

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

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

In our opinion, the financial statements have been prepared in XHTML format in accordance with the provisions of the Delegated Regulation.

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

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

The Directors of Avio S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Avio S.p.A. as at December 31, 2022, 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, 2022 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and 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, 2022 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the 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 in accordance with Legislative Decree no. 30 December 2016, n. 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, March 31, 2023

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

Independent Auditors' Report on the Consolidated Non-Financial Statement

**INDEPENDENT AUDITOR'S REPORT
ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3,
PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016 AND
ART. 5 OF CONSOB REGULATION N. 20267/2018**

**To the Board of Directors of
AVIO S.p.A.**

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter "Decree") and to article 5 of the CONSOB Regulation n. 20267/2018, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of AVIO S.p.A. and its subsidiaries (hereinafter "AVIO Group" or "Group") as of December 31, 2022 prepared on the basis of art. 4 of the Decree, presented in the specific section of the report on operations, and approved by the Board of Directors on 13 March, 2023 (hereinafter "NFS").

Our limited assurance engagement does not extend to the information required by art. 8 of the European Regulation 2020/852 included in the paragraph "Disclosure on the EU Taxonomy for sustainable activities".

Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" established by GRI – Global Reporting Initiative ("GRI Standards"), which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the Group.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

Auditor's Independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the *International Ethics Standards Board for Accountants*, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our auditing firm applies *International Standard on Quality Control 1 (ISQC Italia 1)* and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards. We conducted our work in accordance with the criteria established in the "*International Standard on Assurance Engagements ISAE 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (hereinafter "*ISAE 3000 Revised*"), issued by the *International Auditing and Assurance Standards Board (IAASB)* for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of art.3 of the Decree and taking into account the adopted reporting standard;
2. analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree;
3. comparison between the financial data and information included in the NFS with those included in the consolidated financial statements of the AVIO Group;
4. understanding of the following matters:
 - business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;
 - policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
 - main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point [5], letter a) of this report;

5. understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

In particular, we carried out interviews and discussions with the management of AVIO S.p.A. SE.CO.SV.IM. S.r.l., Avio Guyane S.a.S., Temis S.r.l. and with the employees of Regulus S.A. and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

In addition, for material information, taking into consideration the Group's activities and characteristics:

- at the group level:
 - a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
 - b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.
- for the following subsidiaries, divisions and sites, AVIO S.p.A. and SE.CO.SV.IM. S.r.l., which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out site visits, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the AVIO Group as of December 31, 2022 is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and *GRI Standards*.

Our conclusion on the NFS does not extend to the information required by art. 8 of the European Regulation 2020/852 included in the paragraph *Disclosure on the EU Taxonomy for sustainable activities*".

DELOITTE & TOUCHE S.p.A.

Signed by
Francesco Legrottaglie
Partner

Rome, March 31, 2023

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

Board of Statutory Auditors' Report on the Separate Financial Statements

BOARD OF STATUTORY AUDITORS' REPORT

in accordance with Article 153 of Legislative Decree No. 58/1998 and of Article 2429 of the civil code

Dear Shareholders,

with this report, drawn up as per Article 153 of Legislative Decree No. 58 of February 24, 1998 ("CFA") and Article 2429 of the civil code, the Board of Statutory Auditors of Avio S.p.A. ("Avio" or also the "Company") reports on the activities carried out in the year ending December 31, 2022, in compliance with the applicable regulation, taking account also of the conduct rules for the Board of Statutory Auditors of listed companies, recommended, on April 26, 2018, by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), of Consob's provisions concerning corporate controls and the standards and recommendations of the Corporate Governance Code.

In addition, as Avio has adopted a traditional governance model, the Board of Statutory Auditors acts as the "Internal Control and Audit Committee" and, therefore, in this report, account shall also be taken of the specific financial disclosure and audit control and monitoring functions, as per Article 19 of Legislative Decree No. 39 of January 27, 2019, 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 2022, the Board of Statutory Auditors undertook the activities within its scope, holding eighteen meetings. In the same year, the Board of Statutory Auditors, in addition, participated at ten meetings of the Board of Directors, seven meetings of the Control and Risks Committee, seven meetings of the Appointments and Remuneration Committee, in addition to three meetings of the Sustainability Committee.

During the year, the Board of Statutory Auditors also met the Supervisory Board as per Legislative Decree No. 231 of 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 of 1998 and by Legislative Decree No. 39 of 2010. The Board of Statutory Auditors took into account the amendments made to Legislative Decree No. 39 of 2010, implementing Directive 2014/56/EU, by Legislative Decree No. 135 of 2016 and the regulations contained in European Regulation 537/2014.

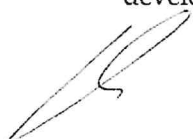
On the activities undertaken during the year, as per Consob's indications of Communication DEM/1025564 of April 6, 2001, as amended and supplemented by Communication DEM/3021582 of April 4, 2003, and subsequently by Communication DEM/6031329 of April 7, 2006, the Board undertook the duties outlined below.

The Board of Statutory Auditors periodically received from the Directors, also through attending the meetings of the Board of Directors and of the internal board committees, information on the activities carried out and on the main economic, financial and equity transactions approved and executed in the year, in addition to, in accordance with Article 150 of the CFA, paragraph 1, those undertaken by the subsidiaries. Based on the information available, the Board can reasonably state that these transactions were in compliance with law and the corporate objectives and were not imprudent, reckless, contrary to resolutions of the Shareholders' Meetings or such as to compromise the integrity of the company's assets.

In addition, the transactions potentially presenting a conflict of interests were approved in compliance with law, the regulatory provisions and the By-Laws.

The main events in the year, which the Board of Statutory Auditors highlight in view of their significance, were as follows:

- on December 20, 2022, about two minutes after the Vega C launcher lift-off, an anomaly occurred shortly after the second stage (Zefiro 40) was ignited, leading to the premature termination of the mission;
- an Independent Commission of Inquiry ("IEC") chaired by ESA and Arianespace was immediately formed to investigate the causes of the mission's premature termination and to define the consequent requirements to be implemented for a prompt return to flight;
- the issue of legislation affecting the framework embodied in Law No. 808 of December 24, 1985, constituting the main industrial policy tool for supporting aerospace research and development;



- the recognition to the financial statements, in accordance with the aforementioned legislation, of the liability, related to the P80 Research and Development Project of National Security Interest;
- in fact, in the preparation of the financial statements at December 31, 2022, the Company, also supported by a legal opinion, deemed it necessary to carry out an appropriate assessment of the accounting situation so as to record only the liability definitively ascertained, together with the Ministry for Economic Development, regarding the P80 Research and Development Project of National Security Interest. Due to the fact that the final liability was quantified at Euro 1.9 million, the related liability previously recorded was therefore adjusted downward, as there was no longer - according to the applicable standards - any obligation of the Company that could justify the accounting presentation of a higher amount, with a balancing entry for the reversal of the net carrying amount of some development costs, in relation to the P80 Research and Development Project of National Security Interest, and an extraordinary positive effect in the income statement, amounting to Euro 30,842 thousand, included in other operating income and non-recurring income in the Directors' Report and other operating income in the income statement;
- Avio Usa Inc. was incorporated, wholly-owned and with the purpose of exploring business development opportunities on the U.S. market;
- Temis S.r.l. was fully acquired, an existing Avio Group supplier operating in a strategic sector of particular importance to the Group, that of avionics engineering;
- the industrial project for the reconversion of the cogeneration plant at the Colleferro site, which is owned by Termica Colleferro, a company in which Avio has a 40% shareholding, was launched.

With reference to the COVID-19 pandemic, the Company maintained the measures to combat the spread of the virus, through the adoption of internal procedures and the implementation of the safeguards required by the applicable rules.

With reference to the calls for attention published by Consob on March 18, 2022 and May 19, 2022, addressed to listed issuers and concerning the impact of the war in Ukraine on inside information and financial reporting, the Board of Statutory Auditors highlights the following:

- on February 25, 2022, the Company issued an initial press release regarding the events taking place in Ukraine, reporting that there are no impacts on the continuity of Vega's operations and that the situation is continuously monitored;



- on March 25, 2022, the Company issued another press release confirming that there are no expected impacts on the continuity of Vega and Vega C's operations in the medium term and that new possible elements of risk for the long term, if emerging, would be promptly disclosed;
- on July 17, 2022, the Company issued a further press release, whose content substantially confirmed those preceding;
- in the Annual Financial Report, which was approved by the Board of Directors on March 13, 2023, in the note "Main risks and uncertainties to which the Group is exposed - Risks relating to the war in Ukraine" the Company, among other matters, points out that:
 - the situation of ongoing conflict in Ukraine is among the main risks and uncertainties to which the Group is exposed, as the Group's strategic suppliers, by virtue of the skills and know-how developed, as well as the qualification processes that have certified their compliance with the specific requirements, still include three Ukrainian suppliers;
 - a Ukrainian supplier (ESA approved) was thereafter identified for the production of the carbon-carbon inserts used to make the nozzles for the Z40 and Z9 motors of the Vega-C carrier;
 - from March 2022, a contract to supply such inserts was finalised with ArianeGroup, a previously used supplier;
 - from 2019, investments are being made to strengthen know-how for the production of such inserts;
 - there is no direct procurement from Russian suppliers;
 - on the basis of the investigations carried out, the state of supplies allows the continuation of industrial activities without interruption with regard to the VEGA and VEGA C programs;
 - it cannot be excluded that a worsening of the Ukrainian crisis, or the continuation of the current situation, could have possible future impacts on the Group's production activities with reference to the VEGA and VEGA C programmes;
 - the risks of effects arising from dependence on such Ukrainian strategic suppliers are qualified as "possible", and the analyses for the identification of possible alternative suppliers are underway, with the support of the European Space Agency, also analysing the process and the necessary modalities for the certification of such solutions in the qualification dossier of the Vega and Vega C launchers;
 - ArianeGroup-manufactured carbon-carbon inserts will be used whose supply timelines ensure the continuity of Vega-C production.



In the Annual Financial Report, among the Subsequent events, the company points out that:

- on March 3, 2023, the Independent Commission of Inquiry (IEC) composed of ESA and Arianespace completed its work concluding that the cause of the failure of the VV22 flight was a gradual deterioration of the Zefiro 40 engine nozzle;
- it provided a set of recommendations to ensure the safe return to flight in a timely manner and the long-term reliability of the Vega C launcher with a portfolio of 14 flights (12 Vega C and 2 Vega);
- Arianespace has updated the launch schedule to assign a flight to one of the two remaining Vega launchers with an expected launch date by late summer 2023, anticipating however the next flight of Vega C by the end of 2023;
- based on the recommendations provided by the IEC to ensure the safe return to flight in the short term and the reliability of the Vega C launcher in the long term, the Company has proceeded to estimate the costs required for their implementation, both direct, i.e. ground testing of engines and strengthening of quality control procedures, and indirect, i.e. the increased costs resulting from a reduction in the production rate due to the implementation of these recommendations;
- the ESA support due to Avio was then estimated on the basis of specific contractual provisions, a principle confirmed by the ESA during the March 3, 2023 press conference, and consequently provisions for residual risks borne by Avio were recorded in FY2022 under the provisions for risks and charges, also based on detailed analysis undertaken by legal consultants concerning possible contractual and non-contractual liability exposure of Avio.

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 and/or the Board of Directors of the Italian subsidiaries, from the persons responsible for the various departments and meetings with the auditing firm for the reciprocal exchange of data and relevant information.

During the year, the company introduced various provisions to implement measures introduced by Regulations, the Oversight Authorities, in addition to the Corporate Governance Code.



The information flows received from the Boards of Statutory Auditors and/or the boards of directors of the subsidiaries did not reveal any criticalities.

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 and/or the Board of Directors 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.

Finally, the Board of Statutory Auditors verified, also through participation at the meetings of the Appointments and Remuneration Committee, 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 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 substantially covered the planned scope of activities. These activities did not indicate significant criticalities, although highlighting areas for improvement, carefully monitored, to be implemented however in the current year.

The Board of Statutory Auditors monitored the adequacy of the internal control and risk management systems through:

- regular participation at the Control and Risks Committee, the Appointments and Remuneration Committee and the Sustainability Committee of the company, covering jointly the issues of the former Committee when deemed appropriate;
- the periodic meetings, also attending the meetings of the Control and Risks Committee and of the Sustainability Committee, with 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 periodic meetings, attending the meetings of the Control and Risks Committee, 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;
- the review, also in coordination with the Control and Risks Committee, of the reports of the Internal Audit function, requested, in one case, by the Board of Statutory Auditors itself;
- the meeting with the Supervisory Board as per Legislative Decree No. 231 of 2001 of the Company;
- the acquisition as per paragraphs 1 and 2 of Article 151 of the CFA of information from the boards of the Italian registered subsidiaries on events considered significant involving the Group companies and on the internal control system;
- the review of the Annual Report of the Internal Audit Manager;
- the review of the Reports of the Supervisory Board as per Legislative Decree No. 231 of 2001;
- the review of the Annual Report of the Control and Risks Committee and the activities carried out and on the adequacy of the internal control and risk management system;
- 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.

In undertaking its control activities, the Board of Statutory Auditors began the analysis on the operating, accounting, economic and financial effects from the above premature conclusion of the Vega VV22 launch mission and the management by the company and the consequent economic-financial, reputational and operative impacts.

In general, although particularly for these analyses, the Board of Statutory Auditors coordinates its activities through ongoing liaising with the Control and Risks Committee, the Internal Audit and Risk Management functions, and the top operations sector managers.

On the basis of the activities carried out, the information acquired and the content of the Internal Audit function's report, the Board of Statutory Auditors considers that no criticalities exist 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 Directors on February 21, 2023 approved the impairment test procedure drawn up according to IAS 36, governing the methods to verify the recoverability of Avio Group's assets and on March 13, 2023 approved the results of applying the same procedure, also with the support of an independent advisor, to the relative items of the 2022 financial statements.

The Board supervised (i) on the adoption by the Board of Directors of the procedure and, subsequently (ii) the outcome of the checks made by management, with the support of an independent advisor, which confirms the recoverability of the assets subject to the impairment test.

The Board of Statutory Auditors also reviewed the declaration of the Chief Executive Officer and the Executive Officer for Financial Reporting, prepared on March 13, 2023, in accordance with the provisions contained in Paragraph 5 and Paragraph 5-*bis* of Article 154-*bis* of the CFA, in accordance with the model set forth in Article 81-*ter* of Consob Regulation No. 11971 of May 14, 1999, as subsequently amended and supplemented.

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

Intercompany or related party transactions are disclosed in the notes to the consolidated financial statements, § 7 Related Party Transactions, as well as in the notes to the financial statements, § 6 Related Party Transactions.

The related parties of the Companies are identified on the basis of IAS 24 - *Related Party Disclosures*, applicable from January 1, 2011, and are generally the parent companies, companies with a connection with the Avio Group and its subsidiaries as defined by the applicable rules, companies controlled but not consolidated within the Avio Group, associates and jointly-controlled companies of the Avio Group and other investee companies.



The Board of Statutory Auditors supervised the compliance of the Related Party Transactions Policy (“RPT Policy”) with the applicable regulation and its adjustment to the relative rules.

2. INTERNAL CONTROL AND AUDIT COMMITTEE

In accordance with Article 19 of Legislative Decree No. 39 of 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.

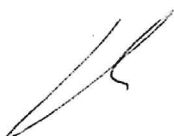
For its supervision of the financial statements, the Board of Statutory Auditors periodically met with the independent audit firm to review the results from the auditing of the proper maintenance of accounting records, to review Avio and Group 2022 Audit Plan and for the state of advancement of the Audit Plan.

The Board of Statutory Auditors and the independent audit firm also maintained continuous information exchanges. In particular, the Board of Statutory Auditors:

- i. noted an appropriate level of professional scepticism;
- ii. promoted effective and timely communication with the Auditors;
- iii. oversaw, without noting any criticalities, the impacts related to the also “remote” working methods undertaken by the Auditor, with the support of the corporate structures.

The Board of Statutory Auditors has (i) analysed the work carried out by the Independent Auditors, and in particular, the methodological framework, the audit approach used for the various significant areas of the financial statements and the planning of the audit work and (ii) shared with the Independent Auditors the issues related to corporate risks, thus being able to appreciate the adequacy of the response planned by the auditor with the structural and risk profiles of the Company and the Group; (iii) carried out adequate in-depth analysis of the Audit Quality Indicators.

The draft financial statements at December 31, 2022, accompanied by the Directors’ Report prepared by the Directors, in addition to the indicated statement of the Chief Executive Officer and of the Executive Officer, were approved by the Board of Directors at the meeting of March 13, 2023 and



simultaneously made available to the Board of Statutory Auditors in view of the Shareholders' Meeting called for April 28, 2023.

On the same date of March 13, 2023, Avio's Board of Directors also took note of the consolidated financial statements, as prepared, pursuant to Article 154-bis of the CFA, by the same Executive, which were also the subject of the same statement, and similarly made them available to the Board of Statutory Auditors.

Avio's financial statements report a net loss of Euro 1,894,796.

As highlighted in the Directors' Report, the following non-recurring events occurred during the year:

- the failure of VV22 mission of Vega C and the risk of future program execution, which resulted in extraordinary provisions mainly included in costs for goods and services, non-recurring charges and provisions for risks and charges (and recognised to Service costs and raw material consumption in the income statement and other provisions for risks and charges in the balance sheet, respectively);
- the settlement with the Ministry for Economic Development of a number of payables for loans under Law 808/85 as a result of the new legislation introduced in 2022, which resulted in an extraordinary positive effect on the income statement included in other operating income and nonrecurring income (and recognised in other operating income in the income statement).

This Report, through the reconciliation of EBIT, Adjusted EBIT and Adjusted EBITDA, shows that the EBITDA performance was affected by total nonrecurring costs of Euro 6.4 million, which consist, in particular, of extra costs related to the activities of the maiden launch campaign in 2022 of the new Vega C launcher and which benefit, however, from a positive one-time contribution of Euro 3.2 million Euro resulting from the offsetting of:

- positive effect of Euro 30,842 thousand from the new legislation introduced in 2022 regarding the funding of Law 808/85, with consequent definition of some payables with the Ministry for Economic Development and royalties related to the P80 Research and Development Project of National Security Interest;
- extraordinary provisions of Euro 27,639 thousand for risks associated with Vega C's return to flight, net of compensation expected from the European Space Agency, and for the future execution of programs.



On March 31, 2023, the independent auditors issued, pursuant to Article 14 of Legislative Decree No. 39 of 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, 2022, prepared in accordance with International Financial Reporting Standards - IFRS adopted by the European Union, in addition to the implementing provision of Article 9 of Legs. Decree No. 38 of 2005.

The independent audit firm highlighted the following key aspects of the audit:

- Valuation of contract work-in-progress;
- Assessment of liabilities related to Law No. 808 of 1985;
- Recoverability of goodwill.

and also highlighted the relevant audit procedures carried out.

Regarding opinions and certifications, the independent audit firm in its audit reports on the annual financial statements and consolidated financial statements has:

- 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, 2022, 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 No. 38 of 2005;
- issued an opinion on the consistency of the Directors' Report with the separate financial statements and consolidated financial statements at December 31, 2022 and the specific information in the Corporate Governance and Ownership Structure Report indicated in Article 123-*bis*, paragraph 4 of the CFA, whose responsibility lies with the Directors of Avio, and are consistent with the documentation of the financial statements and are legally compliant;
- issued an opinion on the compliance of the preparation of the separate financial statements in XHTML format with the provisions of Delegated Regulation (EU) 2019/815;
- issued an opinion on the compliance of the consolidated financial statements in XHTML format and its markings, in all significant aspects, with the provisions of Delegated Regulation (EU) 2019/815;



- 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, 2023, 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 Internal Control and Audit Committee. The Board of Statutory Auditors will inform the Board of Directors on the results of the audit, transmitting for this purpose the additional report pursuant to Article 11 of the European Regulation 537/2014, accompanied by any observations, pursuant to Article 19 of Legislative Decree 39 of 2010.

The Independent Audit Firm presented to the Board of Statutory Auditors the statement regarding its independence, as required by Article 6 of Regulation (EC) 537/2014, indicating no situations which may compromise such.

During 2022, the independent audit firm performed the tasks described in § 9 of the notes to the consolidated financial statements and § 8 of the notes to the annual financial statements, as 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 Corporate Governance Code prepared by the Corporate Governance Committee and in accordance with Article 123-bis of the CFA the "Corporate Governance and Ownership Structure Report", in which information is provided upon:

- i. the effectively applied corporate governance practices;
- ii. the main features of Internal Control and Risk Management 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 13, 2023.

The Board of Statutory Auditors proceeded to verify the correct application of the assessment criteria and procedures adopted by the Board of Directors to assess the independence of its members, based also on the qualitative and quantitative criteria previously defined by the Board of Directors pursuant to Recommendation 7, first paragraph, letters c) and d), contained in Article 2 of the Corporate Governance Code.

The Board of Directors conducted, with the support of an external consulting firm, an evaluation of its operation, the results of which were discussed at the September 9, 2022 meeting and are described in the above Report.

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 2022, the Board of Statutory Auditors did not receive any notices as per Article 2408 of the civil code, nor received petitions from third parties.

The Board of Statutory Auditors also issued the opinions required by current legislation.

In the course of the activities carried out and based on the information obtained, no significant omissions, matters, irregularities or circumstances that would require reporting to the Supervisory Authority or mention in the present report were noted.

3.4 Non-financial information report

The Board of Statutory Auditors, in undertaking its duties, oversaw compliance with the provisions of Legislative Decree No. 254 of December 30, 2016 and of the Consob Regulation implementing the Decree adopted with motion No. 20267 of January 18, 2018, with particular regard to the preparation processing content of the Non-Financial Report (“NFR”) prepared by Avio.



The NFD, approved at the March 13, 2023 Board of Directors meeting, is integrated into the Annual Financial Report for the first year as a separate section of the Directors' Report at December 31, 2022.

The Independent Audit Firm appointed to carry out a review of the NFR in accordance with Article 3, paragraph 10 of Legislative Decree No. 254 of 2016, in its report issued on March 31, 2023 did not indicate any matters suggesting that the NFR of the Avio Group for the year ended December 31, 2022 had not been prepared, with regards to all significant aspects, in compliance with Articles 3 and 4 of Legislative Decree 254 of 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

Pursuant to Rule Q.1.1 of the Rules of Conduct for the Board of Statutory Auditors of Listed Companies, the Board of Statutory Auditors was evaluated by an external consulting firm, the results of which were presented to the Board of Directors at its meeting on November 7, 2022, and reported within the "Corporate Governance and Ownership Structure Report."

3.6 Board of Statutory Auditors guidelines on the composition and remuneration of the Board of Statutory Auditors

The Board of Statutory Auditors decided to prepare, consistent with the aforementioned Rules of Conduct for the Board of Statutory Auditors of Listed Companies recommended by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), its own guidelines on the composition and remuneration of the new Board of Statutory Auditors.

The document was made available to the public on March 9, 2023, on the Investor Relations section of the company's website.

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, 2022 and on the proposal to carry forward the loss for the year of Euro 1,894,796.

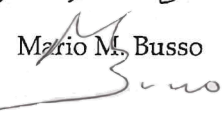


Finally, we would like to remind you that, with the approval of the financial statements for the year 2022, the term of office of this Board of Statutory Auditors ends and that the Shareholders' Meeting, called for such approval, is also called to appoint the Board of Statutory Auditors for the next three fiscal years and to determine its remuneration.

Rome, March 31, 2023

The Board of Statutory Auditors


Vito Di Battista (Chairperson)


Mario M. Busso (Statutory Auditor)


Michela Zeme (Statutory Auditor)

