



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

2023 ANNUAL REPORT

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HIGHLIGHTS

Net revenues⁽¹⁾

Euro 338.7 million (-5.2% on 2022)

EBITDA

Reported: Euro 20.5 million (-4.3% on 2022)

Adjusted ⁽²⁾: Euro 28.0 million (+0.9% on 2022)

EBIT

Reported: Euro 5.2 million (+133.1% on 2022)

Adjusted⁽²⁾: Euro 12.7 million (+48.2% on 2022)

Profit before taxes

Euro 6.6 million (Euro 1.4 million in 2022)

Net Profit

Euro 6.6 million (Euro 1.3 million in 2022)

Net Financial Position

cash position of Euro +76.1 million (+Euro +1.7 million on December 31, 2022)

Investments

Euro 36.3 million (Euro 32.5 million in 2022)

Backlog⁽¹⁾

Euro 1.359 million (+34% on December 31, 2022)

Research and development

costs of Euro 121.7 million, net of pass-through costs incurred in 2023, equal to 35.9% of revenues net of pass-through revenues for 2023 (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)

Employees

1,256 at December 31, 2023 (1,147 at December 31, 2022)

¹ Net of "pass-through" revenues.

² Net of non-recurring costs.

LETTER TO THE SHAREHOLDERS

Dear Shareholders

We are delighted to present the Avio Group 2023 Annual Financial Report, integrated, for the second consecutive year, with the Consolidated Non-Financial Statement (NFS), now in its seventh edition.

In particular, for the second time, Avio has chosen to publish its NFS within the Annual Financial Report as a separate chapter of the Directors' Report, anticipating the terms established by the new Corporate Sustainability Reporting Directive (CSRD).

The chapter regarding the NFS details the Group's performance for the financial year ended December 31, 2023, as required by current legislation, and constitutes a specific report with the objective of transparently communicating the sustainability strategies of Avio Group regarding performance in the Environmental, Social and Governance (ESG) area.

It presents information relating to the material topics considered material, to the extent necessary to ensure understanding of the Group's activities, performance, results and the impact produced. The document therefore has the objective of communicating not only the financial performance but also the sustainability strategies of the Group.

Avio aims to excel in the field of sustainable governance not only in terms of organisation and compliance processes, but also and above all in terms of achieving significant targets. Evidence of this, among other initiatives, is Avio's sustainable governance system, which has led to the establishment of ad hoc bodies for guaranteeing integrated and transparent processes, such as the Sustainability Committee and internal Sustainability Steering Committee.

This is also evident from the latest Consob report, published last October under the auspices of the National Commission for Companies and the Stock Exchange, on the "Non-financial reporting of Italian listed companies 2022", in which Avio Group was recognised among the 15 companies with ordinary shares listed on the Euronext Milan that draw up a Non-Financial Statement integrated with financial statements (10% of the total).

In 2023, the Company continued to focus on preparatory activities for the safe return to flight of Vega C, following the unexpected anomaly during the test of the Zefiro 40 engine in June 2023. In December 2023, the efforts made led to the successful completion of the Critical Design Review for the new Zefiro design, and a green light from the European Space Agency (ESA) to manufacture the engine's nozzles, which will be bench-tested in two further Zefiro 40 static ignition tests currently scheduled for the second and third quarters of 2024, before the return to flight of the Vega C currently expected in the fourth quarter of 2024.

On October 9, 2023, Vega successfully completed its 23rd mission (VV23), launching into sun-synchronous orbit two primary payloads, THEOS-2 (Thailand Earth Observation System 2), an optical satellite for very high resolution earth observation (down to half a metre on the ground), and the experimental satellite FORMOSAT-7R/TRITON, designed and built by the Taiwanese Space Agency (TASA) to calculate wind speeds from signals reflected from ocean surfaces. Auxiliary loads were also deployed thanks to the innovative Small Spacecraft Mission Service ("SSMS") dispenser capable of accommodating multiple microsattellites for launch sharing services, first used during the Vega VV16 flight in September 2020.

A further Vega flight, the last of its version, is scheduled for the second quarter of 2024.

Furthermore, 2023 was the year in which the Ariane 5 launcher successfully completed its last mission, after 27 years of excellence, recording a success rate of 96%, out of a total of 117 missions. The successful last mission, on July 6, 2023, launched into orbit two Heinrich-Hertz-Satellite payloads for the German government and a SYRACUSE 4B for the French General Directorate of Armament (DGA). The programme will now continue with Ariane 6, with its maiden flight expected between June and July 2024. Avio has already signed specific orders for the manufacture, as part of the Ariane 6 transition phase, of P120C engines and Oxygen Turbopumps (TPOs) for the Vulcain 2 and Vinci cryogenic engines, in the wider context of the framework agreements for supplies related to the first 14 Ariane 6 launchers.

Major developments came in 2023 at the European Space Agency Council meeting in Seville, on November 6, attended by ministers representing the various Member States, and regarding Vega C, Vega E and Ariane 6. Among the main decisions taken was the assignment to Avio of Vega C Launch Operator (LO) and Launch Service Provider (LSP) responsibilities, therefore covering Vega C flight operations and marketing rights, previously assigned to Arianespace.

Furthermore, to boost the annual launch frequency, Vega C was assigned a pre-existing infrastructure at the Kourou space centre, the so-called Launcher Integration Building (BIL), for pre-integration of the launcher, while Vega E was assigned the ELA3 launch platform, previously used for Ariane 5.

Finally, financial support was approved to cover the extra production costs for Ariane 6 and Vega C due to the inflationary pressures. The Council decisions bring greater visibility over the future of the Vega C, Vega E and Ariane 6 programmes, and strengthen the Company's growth prospects.

Regarding the Vega E programme, the second test campaign of the M10 (DM2) methane engine, designed to equip the third stage of the VEGA E launcher, was successfully completed in the second half of 2023. The tests beginning in August were completed in October, with a 420-second continuous ignition test on the innovative cryogenic test bench in Sardinia.

In 2023, important initiatives for the space industry were launched under NextGenerationEU package, as part of the Italian Government's National Recovery and Resilience Plan (PNRR), with the aim of strengthening the technological capabilities of the Italian space access industry. These projects will lead to a new generation of space transportation systems, subsequent to Vega E and based on "green" and potentially reusable liquid propulsion.

Furthermore, 2023 marked a year of significant expansion in propulsion development for the defence sector. Finally, production orders worth approximately Euro 90 million for the Aster-30 defence system boosters were signed with MBDA France, in addition to the initial contracts for the production of CAMM-ER boosters, with deliveries scheduled from 2025 and for about 4 years. Larger orders are expected in 2024, following MBDA's recent signing of the Narew project with Poland, for which Avio will supply CAMM-ER engines.

At the end of the year, the qualification phase of the new Aster 30 Booster Mid-Life Update (MLU) was also successfully concluded. The achievement of this milestone allows us to move from the development to the production phase of the booster MLU, to replace the current configuration. The existing production contracts guarantee the long-term production continuity of approximately 1,300 engines between 2024 and 2028, without counting the signing of further contracts or further potential upsides, and therefore confirm business prospects that will more than double volumes and production rates compared to original estimates.

In the context of the forecast growth in propulsion development for the defence sector, in order to explore new expansion opportunities and fill the significant gap in production capacity with respect to the substantial acceleration in demand coming from the US market, Avio has established a 100% controlled company in the USA, giving it with a team with sector skills and relevant experience to map the market, identify relevant opportunities and engage potential customers. Avio will continue with this commitment through 2024.

In terms of business and financial results, 2023 closed with a new backlog record, well beyond the expectations of the Guidance, of approximately Euro 1.36 billion, up 34% from 2022, thanks to the acquisition of new orders for approximately Euro 0.7 billion, mainly relating to technological development projects and propulsion for the defence sector.

All the remaining business and financial indicators were in line with the 2023 Guidance.

Net Revenues amounted to Euro 339 million, marking a slight decrease of 5% compared to the figure for 2022, due to the effects of the slowdown in production of the P120 and Vega C engines, related to the postponement of the maiden flight of Ariane 6 (now expected in June/July 2024) and to the return to flight of the Vega C



(currently expected for the fourth quarter of 2024), but partially compensated by the acquisition of technological development projects and propulsion orders for the defence sector.

Adjusted EBITDA, equal to Euro 28 million, was in line with 2022, due to the combined effects of lower energy costs and a lower degree of use of the production capacity, as part of the slowdown in production activities. Non-recurring costs for the year mainly include the Vega C return to flight and the development of new business activities.

EBIT amounted to Euro 5.2 million, marking an improvement compared to the Euro 2.2 million in 2022, mainly due to the update of the useful life of certain assets, deriving from the simultaneous Ariane 5 phase-out, Ariane 6 phase-in, Vega phase-out, and Vega C phase-in.

Net Profit, amounting to Euro 6.6 million, rose markedly with respect to the 2022 figure (Euro 1.3 million), partly due to the contribution of financial income accrued on cash holdings during the year. Given these positive results, the Board of Directors proposed to the Shareholders' Meeting a return to issuing dividends, with the distribution of an ordinary dividend of Euro 3.75 million and an extraordinary dividend of Euro 2.25 million, from available reserves. In total, the proposed distribution amounts to Euro 6 million, with an overall dividend per share of Euro 0.24. Furthermore, the Board of Directors proposed to the Shareholders' Meeting to complete the planned purchase of treasury shares for approximately Euro 5 million.

The year saw a significant increase in the number of employees as Avio 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 continued on its path of continuous improvement related to the areas of Sustainability, already having a Sustainability Policy, as well as a Business Plan integrated with its Sustainability Plan, which allowed it to start a path of integration between the industrial part and the sustainability part.

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 constantly monitored Sustainability Plan is broken down into objectives, actions, timeframes, 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 also 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 various factors, it is worth underlining how courage, determination and a collective spirit constantly animate the best of production activities in the local area.

Again in 2023, Avio confirmed its 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).

Furthermore, Avio joined the Anti-Corruption Committee of Business of the Organisation for Economic Co-operation and Development's Business and Industry Advisory Committee (BIAC), a recognised institutional representative for over 300 multinational companies and business associations worldwide. This appointment



demonstrates Avio's commitment to promoting ethical business practices that combat corruption and strengthen the achievement of the ESG governance objectives.

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.

From a business and financial perspective, the results achieved in 2023 once again demonstrate the undisputed resilience and ability of the Company to pursue and achieve its growth objectives, by leveraging the extraordinary wealth of skills and professionalism of all of its personnel.

After recent years affected by production slowdowns, due to the Ariane 5 phase-out and the delay in the Ariane 6 phase-in, the slowdown in Vega activities, and surges in energy costs, an industrial production recovery is expected in the short term, in connection with the ramp-up of Ariane 6 activities, with the maiden flight expected in June/July 2024, and Vega C's return to flight, expected in the fourth quarter of 2024, in addition to defence sector propulsion orders already acquired and potential growth opportunities at the international level.

Thank you dear shareholders for all the trust you continue to place in us every day.

Roberto Italia
Chairperson of the Board of Directors
Manager
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 Guiana).

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 tonne satellites to GEO orbits, and 20 tonne 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 programme for the European 2,000kg payload satellite launcher, which successfully completed its first test launch 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 programmes. 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 programme 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 programme 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 programme 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 engines, 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 programmes:

- CAMM-ER - development of the booster and single stage sustainer engine, 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 2023 of Euro 338.7 million and Reported EBITDA of Euro 20.5 million, the Group currently occupies a leading position in the Italian and European space industry, substantially supported by its high degree of competitiveness - drawing over 98% of its revenues from overseas.

The highly technological content of Avio's operations required a research and development spend - for the portion mainly commissioned by ESA, ASI and Member State ministries - accounting for approx. 35.9% of net revenues in 2023. 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 April 28, 2023, the Shareholder's Meeting appointed the new Board of Directors of the parent company Avio S.p.A., which in turn, on April 28, 2023, decided upon the internal appointments and the granting of the powers required to complete company operations. On the same date, the role of Vice-Chairperson was established for the first time.

The Shareholders' Meeting confirmed the number of members at 11 and the term of office of the Board of Directors at three years, concluding with approval of the 2025 Annual Accounts.

Roberto Italia	Chairperson (c)
Giovanni Gorno Tempini	Independent Director, Vice-Chairperson
Giulio Ranzo	Chief Executive Officer
Letizia Colucci	Director (b)
Luigi Pasquali	Director
Elena Pisonero	Independent Director (c)
Donatella Sciuto	Independent Director (b)
Giovanni Soccodato	Director (a)
Raffaele Cappiello	Independent Director (b) (a)
Donatella Isaia	Independent Director (a)
Marcella Logli	Independent Director (c)

- Member of the Appointments and Remuneration Committee
- Member of the Control and Risks Committee
- Member of the Sustainability Committee

Board of Statutory Auditors

On April 28, 2023, 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 2025 Annual Accounts.

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

Supervisory Board

On May 9, 2023, the Board of Directors of the parent company Avio S.p.A. appointed its new Supervisory Board, confirming its composition and term of office, which is three years, concluding with the approval of the 2025 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 programme 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 recognised thanks to its participation in the development programme for Vega-C and Ariane 6's shared rocket stage, the P120C, and its lead systems engineering role in the VECEP programme 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 Guiana. 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

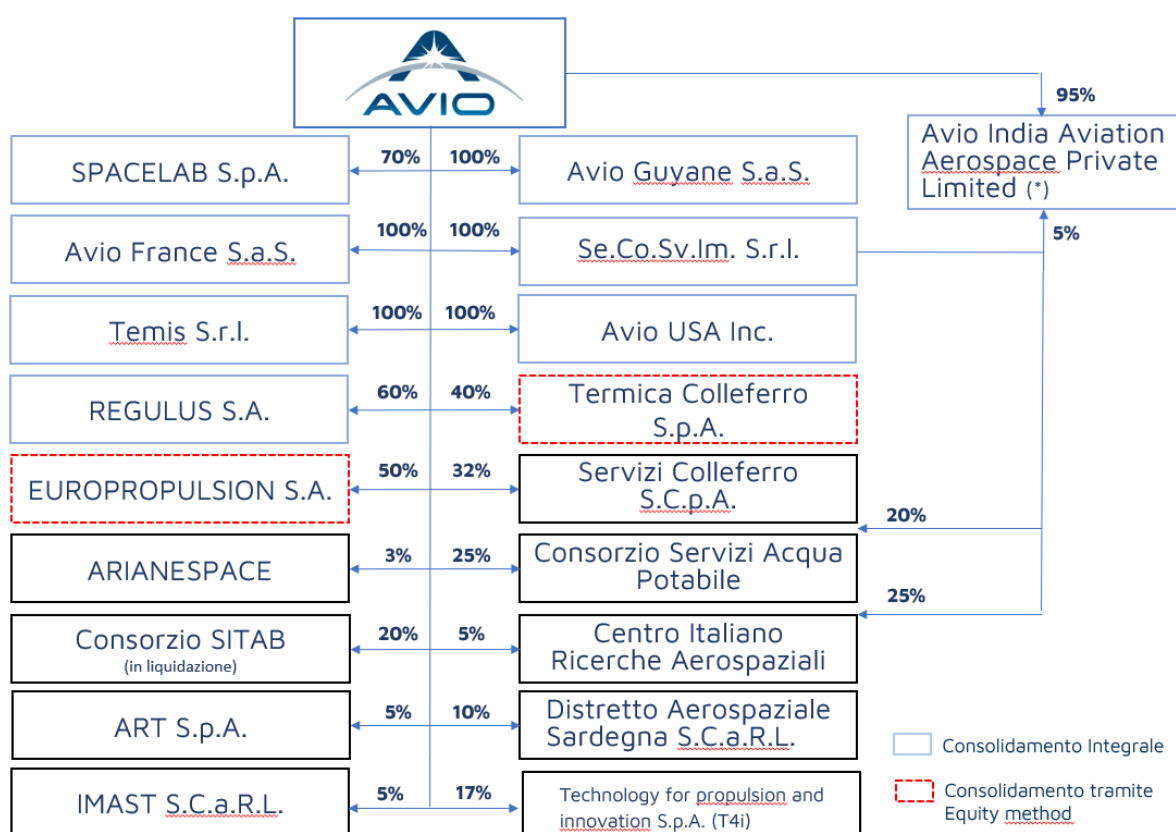
Core operations: design, development and production of solid and liquid propellant propulsion systems for space launchers; design, development and production of solid propellant propulsion systems for tactical missiles; development, integration and supply of complete light space launchers (VEGA); research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

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

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

GROUP STRUCTURE AND INTERNATIONAL PRESENCE

The Avio Group's ownership structure is reported below:



* indicates that the company is in voluntary liquidation. No financial significant commitments are expected for the Avio Group related to the liquidation.

The Group has production facilities in Italy, primarily in Colleferro (Rome) and Villaputzo (Cagliari), and in France, where the joint venture Europropulsion S.A. is based. There is also a research lab in Airola (Benevento), Italy. In Kourou, French Guyana, there is the European spaceport where loading and integration of the Ariane 5 and Ariane 6 solid-propellant booster segments, as well as integration of the VEGA/VEGA-C 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 engines.

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

Regarding the agreements at European level, major developments emerged following the European Space Agency (ESA) Council meeting held on November 6, 2023 in the presence of ministers representing the various member states³. In fact, among the major decisions taken by the Council, a number concerned key junctures of programmes of interest to Avio and, in particular, Ariane 6, Vega C and Vega E.

The main outcomes include:

- the coverage, through additional funding, of a portion of the additional production costs resulting largely from the significant rise in inflation that has emerged over the past 2 years in the eurozone, particularly for Ariane 6 up to Euro 340 million per year and for Vega C up to Euro 21 million per year;
- the expectation of a minimum number of European institutional launches, both for Ariane 6 (4 flights/year) and Vega C (3 flights/year), increased from that expected in previous years, due in part to the growth in size of the various European satellite programmes;
- the opening of a competition in the European launcher sector through a special competitive process (European Launcher Challenge) by the ESA to develop and demonstrate the launch capability of new systems (up to Euro 150 million);
- Avio's gradual assumption by mid-2024 of Vega C's Launch Service Operator (LSO) and Launch Service Provider (LSP) functions, i.e., responsibilities for Vega C's flight operations and commercialisation rights, with the expectation of an agreement to be reached between Arianespace and Avio to manage the contracts already acquired by Arianespace to put into orbit about 25 satellites over the next few years, from 2024 to 2027;
- the allocation to Vega C and Vega E, at the Kourou space centre, of an existing facility that will be dedicated to launcher pre-integration so as to increase the annual launch frequency and the related allocation to Vega E of the launch pad previously used by Ariane 5.

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 6/24). 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;

³ See press release of November 7, 2023 at the link: https://www.avio.com/sites/avio.com/files/attachments/CS_ESA%20Siviglia_ITA_1.pdf

- 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 engine, 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 engine 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 incorporating the aforementioned technologies that are considered precursors to future versions of Vega (post Vega E).
- 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 engine 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).

In terms of production activities, Avio:

- once the problems preventing the Company from flying Vega C are resolved, intends to stabilise 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 defence field, there is a growing demand for defence-related activities internationally.



SHAREHOLDERS

At December 31, 2023, 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, 2023, no exercise requests were received from holders.

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

Shareholder	% share capital
Leonardo S.p.A.	29.63%
Cobas AM	9.82%
Cgn Futuro S.r.l.	7.38%
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	37.10%
Total	100.00%



FY 2023

SIGNIFICANT EVENTS IN 2023

Business

Return-to-flight activities of VEGA C⁴

The Independent Commission of Inquiry set up by the ESA to examine the anomaly that occurred during Vega-C's Zefiro 40 motor test in June completed its work in early October 2023. It concluded that, in the current nozzle design, the combination of the geometry of the throat insert and the different thermomechanical properties of the new Carbon-Carbon material used for this test caused progressive damage to other parts adjacent to the nozzle and progressive degradation leading to the nozzle failure. This phenomenon is not related to those observed on the VV22 mission with the previous Carbon-Carbon material.

A task force led by the ESA and AVIO has begun the required activities to implement the Commission's proposed recommendations including modifying the nozzle design to make it more robust and particularly suitable to accommodate the French-sourced throat material.

This effort led to the successful completion in December 2023 of the Critical Design Review of the new design, giving the green light, perfectly in accordance with the planned schedule, to the fabrication of the nozzles that will be bench tested during 2024.

The return to flight is now expected in Q4 2024.

Success of VEGA flight VV23

On October 9, 2023⁵, the Vega launcher resumed flights by taking off from the French Guyana Space Center at 22:36 local time (03:36 CEST) and successfully completed the VV23 mission, placing two satellites plus ten auxiliary payloads into sun-synchronous orbit.

The THEOS-2 (Thailand Earth Observation System 2) satellite is an ultra-high resolution optical earth observation satellite to support the Kingdom of Thailand's main development priorities, with a ground resolution of 0.5-metre imagery.

The FORMOSAT-7R/TRITON satellite is an experimental satellite designed and built by the Taiwan Space Agency (TASA) equipped with a Global Navigation Satellite Reflectometry (GNSS-R) system that collects signals reflected from the surface of the oceans, enabling the calculation of wind speed.

In addition, ten auxiliary payloads were properly deployed thanks to the innovative Small Spacecraft Mission Service ("SSMS") dispenser capable of accommodating multiple microsattellites for rideshare services, first used during the Vega VV16 flight in September 2020.

Success of the DM2 fire test of the M10 motor⁶

During the summer, the second test campaign of the M10 methane motor (DM2) designed to equip the third stage of the VEGA E launcher was successfully completed. The tests that began in August were completed on October 27 with a 420-second continuous ignition test in Avio's innovative cryogenic test stand in Sardinia, Italy. The new motor during the test changed thrust and LOX-CH₄ mixture ratio several times and performed as expected.

End of qualification of the Aster Booster MLU version⁷

On November 8, the qualification phase of the new ASTER 30 Booster MLU was successfully completed.

⁴ See also the press release dated October 2, 2023 at the link: https://www.avio.com/sites/avio.com/files/attachments/CS_AVIO_IJB-VEGA_1.pdf.

⁵ See also the press release dated October 9, 2023 at the link: <https://www.avio.com/sites/avio.com/files/attachments/CS%20VV23.pdf>.

⁶ See also the March 13, 2024 press release at the link: https://www.avio.com/sites/avio.com/files/attachments/CS_AVIO_RISULTATI2023.pdf.

⁷ See also the March 13, 2024 press release at the link: https://www.avio.com/sites/avio.com/files/attachments/CS_AVIO_RISULTATI2023.pdf.

Achieving the milestone allows the MLU booster to move from the development phase to the production phase, replacing the current configuration (Phase 3). Existing production contracts provide for continued production until 2032 with more than 1,200 motors to be produced.

Tactical propulsion and Avio USA Inc.⁸

Tactical propulsion is experiencing accelerated growth globally.

From 2023 Avio has experienced an increase in orders from current customers on existing products and growing requests for the development of new European programs.

Over the same period the US market has started showing a significant production capacity gap relative to the substantial acceleration in demand requirements.

Such observations over the last months led Avio to start exploring the US market for medium term expansion opportunities and the following key steps were taken to date:

- 100% Avio-owned Avio USA was incorporated in Delaware and established in Virginia
- A US team with sector competencies and relevant experience has been hired
- Such team has begun mapping the market for relevant opportunities with a view also to engaging in early discussions with prospective customers
- Capital of 3M\$ has been provided in aggregate to fund Avio USA's establishment and operations

Avio plans to continue on this effort in 2024 and to report any relevant progress.

Main agreements and contractual events of 2023

As regards Ariane 6⁹ production activities, specific orders were signed for the manufacture, as part of the Ariane 6 transition phase, of P120C engines and Oxygen Turbopumps (TPOs) for the Vulcain 2 and Vinci cryogenic engines; these orders are integrated into framework agreements for supplies related to the first 14 Ariane 6 launchers, for the "transition phase" planned until stable production rates are achieved.

Specific compensation orders were simultaneously issued by the ESA relating to the extra costs associated with the limited production frequency in this initial phase, which was a consequence of the delay in the qualification of the Ariane 6 Launch System.

Regarding Vega production, contracts were signed to cover MQO (Maintenance of Qualified and Operational Conditions) costs and fixed costs in French Guiana for the initial phase of Vega C production; supplemental orders also were received for specific activities and production of specific structures dedicated to launches within the scope of batch 3.

The activities carried out in 2023 for the application of modifications to the Z40 engine design and the actions resulting from the Inquiry Commission into the accident that occurred during the first Vega C commercial flight were covered by a specific order issued by the ESA, consistent with the commitment expressed by the ESA Director General to support the Return to Flight of Vega C, considered a strategic priority to ensure Europe's independent access to space.¹⁰

With regard to Vega development activities, significant contract variants were acquired to support the initial activities, currently underway, for the development of the new Vega E launcher. The contract for the development of the P160C, a lengthened version of the P120C for increased performance, was acquired to cover the activity until the completion of ground testing and, at the same time, initial studies were contracted for its future use on Vega C; coverage to complete the activities necessary to test the version of Vega C equipped with this new thruster will be released after this initial study phase, presumably in late 2024 or early 2025.

Also as part of the Space Rider development programme, a significant contract variant has been agreed upon to support ongoing activities that will lead to delivery of the model for its planned test flight in 2027.

⁸ See also the March 13, 2024 press release at the link:

https://www.avio.com/sites/avio.com/files/attachments/CS_AVIO_RISULTATI2023.pdf.

⁹ See also the March 13, 2024 press release at the link:

https://www.avio.com/sites/avio.com/files/attachments/CS_AVIO_RISULTATI2023.pdf.

¹⁰ See also the press release dated October 2, 2023 at the link: https://www.avio.com/sites/avio.com/files/attachments/CS_AVIO_IJB-VEGA_1.pdf.



On March 13, 2023¹¹, two contracts were signed - for a total value of over Euro 285 million - as part of space-industry initiatives for implementation of the "NextGenerationEU". and the use of resources invested through the Italian government's National Recovery and Resilience Plan (NRRP). These sought to enhance the technological capabilities of Italian industry to access space.

In execution of these contracts, the Italian government delegated the role of Technical Assistance to the European Space Agency (ESA), which will act as the Contracting Authority. The objective is to leverage the expertise developed in Italy since the early 2000s through the Vega, Vega C and Vega E programmes to develop next-generation propulsion technologies and launch system architectures.

Specifically, the first programme - called STS and funded for Euro 181.6 million until completion - will be dedicated to developing, by 2026, an in-flight demonstrator of new technologies and specific designs for a two-stage liquid propellant-propelled light-load launcher using liquid-oxygen and methane engines with lower environmental impacts. Development is expected to focus mainly on the creation of composite cryogenic tanks, non-pyrotechnic separation systems, and integrated avionics systems based on hardware and software of aeronautical origin.

The second programme - called HTE and funded for Euro 103.7 million upon completion - will be dedicated to developing a new high-performance, low environmental impact liquid-oxygen and methane engine and high thrust technology. Detailed design and construction of demonstrators of increasing complexity up to ground qualification testing is scheduled by 2026.

Also in area of the National Recovery and Resilience Plan area, two additional contracts were signed by Avio with the Italian Space Agency (ASI). The first of these covers the design and development of the Multi-Purpose Green Engine, a "green" liquid propellant engine for future In-Orbit Servicing, Space Logistics and a potential alternative to the engine currently used in the propulsion system of the fourth stage of the Vega and Vega C launchers. The second relates to the design, development and qualification of a vehicle for the dedicated In-Orbit Servicing (IOS) demonstration mission in which Avio is involved, with responsibility for the Propulsion and Orbital Support Module, as part of a Temporary Grouping of Companies (RTI) with the companies Thales Alenia Space, Leonardo, Telespazio and D-ORBIT.

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

Finally, production orders worth approximately Euro 90 million for the Aster-30 defence system boosters were signed with MBDA France during the year, in addition to the initial contracts for the production of CMM-ER boosters, with deliveries scheduled from 2025 and for about 4 years. These contracts adds weight to Avio's already solid backlog in the Defence area, confirming the strength of the sector, as business prospects more than doubled compared to original estimates in terms of volume and production rates.

Other significant events

Appointment of the Board of Directors and Board of Statutory Auditors for 2023-2025.

On April 28, 2023, the Shareholders' Meeting of Avio S.p.A. resolved, among other matters, to appoint the Board of Directors for the three-year period 2023-2025 based on the slate presented by the outgoing Board of Directors, which obtained more than 86% of the votes of the share capital attending the meeting.

The same Shareholders' Meeting appointed the Board of Statutory Auditors for the 2023-2025 three-year period.

Approval of the 2023-2025 Performance Share Plan

On April 28, 2023, the Shareholders' Meeting approved, pursuant to and in accordance with Article 114-bis of the CFA, the adoption of a company share-based remuneration plan called the "2023-2025 Performance Share Plan" for the Chief Executive Officer, the Senior Executives and a number of other executives, in accordance with the explanatory report and related Prospectus. The "performance shares" plan was approved with the favourable vote of more than 99% of the share capital attending the Shareholders' Meeting. The allocation of these rights was made by notice to the beneficiaries on May 13, 2023.

¹¹ See also the March 13, 2023 press release at the link:
https://www.avio.com/sites/avio.com/files/attachments/20230313_CS%20PNRR%20ESA_ITA.pdf

Approval of the 2023-2025 Restricted Share Plan

The Shareholders' Meeting of April 28 approved, pursuant to and in accordance with Article 114-*bis* of the CFA, the adoption of a company share-based remuneration plan called the "2023-2025 Restricted Share Plan" for professional company employees not covered by the "2023-2025 Performance Share Plan", in accordance with the explanatory report and related Prospectus. The "restricted shares" plan was approved with the favourable vote of more than 99% of the share capital attending the Shareholders' Meeting.

The allocation of these rights took place with notice to the beneficiaries during the final quarter of 2023.

Investment in Technology for propulsion and innovation S.p.A. (T4i S.p.A.)

On September 4, 2023¹² a capital increase of Euro 2,500 thousand was completed in T4i S.p.A., a spin-off company of the University of Padua based in Monselice (PD), specialising in innovative propulsion systems for aerospace applications.

T4i was founded in 2014 by a team led by Professor Daniele Pavarin and over the years has demonstrated expertise and excellence in the development of propulsion technologies, growing fast and working on ambitious programmes in partnership with the ESA, ASI and CNR, in addition to several Italian and overseas companies, including Avio.

The capital increase resulted in the attainment of an approx. 17% stake in T4i.

The investment was undertaken to boost the Avio Group's expertise in green "storable" chemical propulsion systems, electric propulsion systems, and attitude control thrusters. The commercial agreements with this company will help to improve efficacy and time-to-market when introducing new propulsion systems as part of the strategic plan, thanks to T4i's agility and expertise and synergies with Avio's infrastructure and system vision.

¹² See also the September 4, 2023 press release at the link: https://www.avio.com/sites/avio.com/files/attachments/CS_AVIO_T4i_ITA.pdf

MARKET PERFORMANCE AND OPERATIONS

General overview: historic and future outlook

There were 223 orbital launches in 2023 (compared to 186 in 2022), 11 of which recorded a failure (compared to 7 total in all of 2022). Globally, these 223 launches put into orbit 2,952 satellites (2,499 in the same period of 2022), for a total transported mass of 1,334 tonnes (987 tonnes in the same period of 2022). 2023 saw the continuation of the trend that began in 2022 thanks to the deployment of (i) SpaceX's Starlink (1,990 satellites in 2023, with a mass of 934 tonnes, over 63 dedicated launches of Falcon 9), and (ii) OneWeb (132 satellites in 2023, with a mass of 19 tonnes), both for satellite internet access. Even excluding these constellations, the market expanded, with 823 satellites orbited in 2022, totalling 680 tonnes of mass, compared with 668 satellites orbited in 2022, totalling 472 tonnes of mass.

The numbers for 2023, therefore, confirm the trend of expansion in the launch sector (and space in general), due largely, as evident from 2019 onwards, to the deployment of Mega-Constellations, i.e. low orbit satellite large constellations, (as noted above, SpaceX's Starlink in particular, but also OneWeb, GuoWang, Kuiper, O3B, and other minor constellations).

From the perspective of orbits, low Earth orbit (LEO) missions (Vega's target segment) continue to consistently increased, alongside a parallel decline in geostationary transfer orbit (GTO) and geostationary orbit (GEO) missions (Ariane's target segment). In 2023 globally, there were 170 LEO launches (with a transported mass of 1066 tonnes, excluding launches to the ISS and the CSS), against 24 GTO/GEO launches (with a transported mass of 96 tonnes). 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 2,952 satellites put into orbit in 2023, 1,881 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 SpaceX, without the possibility of open competition), and launches of unknown origin, missions continued to be mainly institutional (53 civil government launches, 40 military launches, 36 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 for 2023 of the leading countries in the sector reports 115 launches for the USA (1,131 tonnes), 68 for China (only 96 tonnes, indicating a very low load factor of the launchers due to the fact that the launches are exclusively governmental), 19 for Russia, and 3 for Europe. The latter figure reflects a difficult period for the European launcher sector, with Ariane 5 having ended its operational life, Soyuz no longer operated by Arianespace as a result of the Russia/Ukraine war, and Vega C "grounded" following the failure in December 2022.

Forecasts for this decade and the next (produced by sector consulting firms such as BCG) indicate a strong growth in transported mass, with a CAGR of 9% from 2030 to 2023, and 7% from 2030 to 2040. This growth is expected to occur above all in LEO orbits (deployment and replenishment of constellations, infrastructures and space logistics), but also in escape orbits (the Moon, Mars, exploration and colonization operations), not only at institutional but also at commercial level.

Globally, it is also estimated that revenues generated by the launch segment, equal to approximately USD 13 billion in 2023, will rise to USD 19 billion in 2030 (CAGR of 5%) and USD 27 billion in 2040 (CAGR of 4%), confirming - in the face of far greater growth in mass transported to orbit - the strong pricing pressure in the launch segment.

Launchers market

2023 confirmed the global trend of recent years in which few nations had a launch service offer capable of responding not only to the continually solid institutional market, but also to the growing commercial market. As mentioned in the previous paragraph, these countries were the USA and China (together covering 82% of launches, and approx. 95% of the mass launched), and, to a lesser extent, Russia, India, Europe, South Korea and Japan.

New launcher missions were undertaken in 2023, which in many cases resulted in a failure, confirming that almost every maiden flight of a spacecraft results in a failure:

- RS1, a US Mini Launcher by ABL Space (supported by LM) – Failure
- Qaem-100, an Iranian Micro Launcher of the Islamic Revolutionary Guard Corps (IRGC) – Failure
- H3, a Japanese Launcher from JAXA and MHI – Failure
- Terran-1, a US Mini Launcher from Relativity Space – Failure
- Tianlong-2, a Chinese Space Pioneer Launcher – Successful
- Starship, SpaceX's Very Large Class Launcher for cargo and crew missions – Failure
- Chollima-1, a Micro Launcher from North Korea – Failure
- GYUB, a Micro Launcher from South Korea – Successful

The most used “legacy” launchers remained the Falcon 9, with 90 launches, the CZ in its various versions, with 47 launches, and the Soyuz, with 17 launches.

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 programmes 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, 2023 was Euro 1.359 million, a net increase of Euro 345 million (+34%) compared to Euro 1,014 million at December 31, 2022.

The order intake in 2023 totalled Euro 684 million, mainly concerning orders for:

- development contracts as part of space industry initiatives to implement the “NextGenerationEU” project, with the aim of enhancing the technological capabilities of Italian industry for access to space for a total value of more than Euro 285 million;
- the development of the Multi-Purpose Green Engine for future In-Orbit Servicing and Space Logistics applications (approx. Euro 96 million);
- the development and production of Vega-C (approx. Euro 101 million);
- P120C production and development (approx. Euro 93 million);
- the tactical production of Aster (approx. Euro 89 million) and Camm-ER (approx. Euro 24 million).



With regards to the backlog at December 31, 2023, which coincides with the remaining outstanding obligations totalling Euro 1,359 million, it is reasonably estimated that it shall give rise to the recognition of revenues of approx. 30% of the amount in 2024, of approx. 30% in 2025, with the remainder in 2026 and 2027.

In the 2023 results press release dated March 13, 2024¹³ it was commented that Avio ended 2023 with a record order backlog of Euro 1,359 million, an increase of 34% compared on 2022, exceeding Guidance targets (Euro 1,150 to 1,250 million), thanks to the record level of orders reached during the year of Euro 684 million, mainly related to technology development projects and new orders in tactical propulsion. The presentation to analysts and investors on the 2023 results¹⁴ specifies how the order book in the period 2019 - 2023 grew at a compound average annual rate (CAGR) of 19%. At this presentation, investors were also informed of the new Guidance targets expected for 2024, predicting, among others, an order book of between Euro 1,500 and 1,600 million.

The indication on the Backlog in 2023 is also reported:

¹³ See also the March 13, 2024 press release at the link:

https://www.avio.com/sites/avio.com/files/attachments/CS_AVIO_RISULTATI2023.pdf.

¹⁴ See also the 2023 results presentation shared with analysts and investors and posted at the link: https://avio-data.teleborsa.it/2024%2f2024_03_13-Avio-FY-2023-results_vDef_20240313_051536.pdf.



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- in the institutional presentations for investors and analysts on the approval of the 2023 Half-Year Report and the Additional Quarterly Disclosures of 2023 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 2023 Half-Year Report and the Additional Quarterly Disclosures for 2022, available on the website of the Company in the “Investors” section.

Operating Results

The table below presents the Group operating performance for 2023 and 2022 (in Euro thousands):

	FY 2023	FY 2022	Change
Revenues	343,696	371,377	(27,681)
of which: Pass-through revenues	5,000	14,063	(9,063)
Revenues, net of pass-through revenues	338,696	357,314	(18,618)
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	21,700	40,699	(18,998)
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(339,357)	(374,835)	35,478
Effect valuation of investments under equity method - operating income/(charges)	(528)	(1,749)	1,221
EBITDA	20,511	21,429	(918)
Amortisation, depreciation and write-downs	(15,283)	(19,187)	3,903
EBIT	5,228	2,243	2,985
Interest and other financial income (charges)	1,413	(857)	2,270
Net financial income/(charges)	1,413	(857)	2,270
Investment income/(charges)	-	-	-
Profit before tax	6,641	1,386	5,255
Current and deferred taxes	(17)	(72)	55
Net profit for the year	6,624	1,314	5,310

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” thruster 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 338,696 thousand in 2023, down Euro 18,618 thousand (-5.2%) on 2022.



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These revenues are in line with Guidance for 2023 (Euro 330-350 million), as reported in the 2023 results press release of March 13, 2024¹⁵.

The net decrease is mainly attributable to reduced development and production activities for the P120 motor and VEGA-C development, partially offset by increased activities for NextGen EU development projects and those related to development and production within the Defence area; VEGA-E development activities remain in line with last year.

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

	FY 2023	FY 2022	Change
Vega	174,104	224,363	(50,259)
Ariane	67,711	91,656	(23,945)
Technology Development Projects	45,840	8,575	37,265
Defence	46,040	20,486	25,554
Satellite and other activities	5,001	12,236	(7,235)
Revenues, net of pass-through revenues	338,696	357,314	(18,618)

EBITDA in 2023 amounted to Euro 20,511 thousand, in line with Guidance for 2023 (Euro 19-25 million), as reported in the press release on the 2023 results of March 13, 2024¹⁶.

EBITDA compared to 2022 was mainly influenced on the one hand by the positive contribution of development projects under the National Recovery and Resilience Plan (PNRR), defence projects, and lower energy costs, and on the other hand offset by lower contributions from production for Ariane and Vega and higher overhead costs to strengthen the corporate organizational structure.

EBIT was Euro 5,228 thousand, increasing Euro 2,985 thousand on 2022. This increase is mainly attributable to the effect of lower depreciation and amortisation for the year compared with the previous year, due to the revised useful life of some production assets in correlation with the phase-out of the Ariane 5 launcher and the phase-in of the new Ariane 6 launcher, as well as the phase-out of the Vega launcher and the phase-in of the new Vega-C launcher.

The result for 2023 was also shaped by the research and development tax credit of Euro 2,729 thousand (Euro 4,396 thousand in 2022), 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.

¹⁵ Avio's website, in the "Investors" section: <https://investors.avio.com/Investors/Financial-Announcements/>;

¹⁶ Avio's website, in the "Investors" section: <https://investors.avio.com/Investors/Financial-Announcements/>.



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 2023 and 2022 are reported below:

	FY 2023	FY 2022	Change
Adjusted EBITDA	28,028	27,787	241
Adjusted EBITDA Margin (against revenues net of pass-through revs.)	8.3%	7.8%	
Adjusted EBIT	12,744	8,599	4,145
Adjusted EBIT Margin (against revenues net of pass-through revs.)	3.8%	2.4%	

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.

Adjusted EBITDA for 2023 was Euro 28,028 thousand Euro (8.3% of net revenues) is in line with the Guidance for 2023 (Euro 25-31 million) and with 2022 based on previous comments.

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.

2023 Adjusted EBIT was Euro 12,744 thousand (3.8% of net revenues), increasing Euro 4,145 thousand on Euro 8,599 thousand in 2022 (2.4% of net revenues). The increase in Adjusted EBIT reflects the same underlying rationales as the dynamics of Adjusted EBITDA, in addition to the effect of lower depreciation and amortisation for the year compared to the previous year due to the revised useful life of some production assets previously commented on.

The reconciliation between EBIT, Adjusted EBIT and Adjusted EBITDA for 2023 and 2022 is provided below (Euro thousands):

		FY 2023	FY 2022	Change
A	EBIT	5,228	2,243	2,985
	Non-recurring Charges/(Income) comprising:			
	- settlement agreements/incentives/other personnel costs	926	351	575
	- corporate, legal and financial consultancy	2,166	1,157	1,009
	- COVID-19 extraordinary charges	312	766	(453)
	- new legislation introduced in 2022 regarding funding of Law 808/85 and consequent definition with the Ministry for 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).	1,863	27,639	(25,776)
	- Other non-recurring charges/(income)	(87)	723	(810)
	- additional Vega C costs	297	5,355	(5,057)
	- exploratory activities of potential new business	1,887	1,073	815
	- supplemental disbursements and "expansion contracts"	-	-	-
	- investor fees	151	136	15
B	Total Non-recurring Charges/(Income)	7,516	6,357	1,159
C	Adjusted EBIT	12,744	8,599	4,145
D	Net amortisation & depreciation	15,283	19,187	(3,903)
And	Adjusted EBITDA	28,028	27,787	241

The item "extraordinary provisions for risks related to Vega C's return to flight, net of compensation expected from the European Space Agency, and for the future execution of programmes" mainly refers to risks related with for the implementation of the set of recommendations provided on March 3, 2023 by the Independent Enquiry Commission (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, for activities that can currently be reasonably estimated following the anomaly that emerged in the June 2023 static test of the Zefiro 40 engine, and for the execution risk of future programmes.

The item "corporate, legal and financial consultancy" refers to consulting costs of a non-recurring nature.

Financial results analysis

Net financial income in 2023 amounted to Euro 1,413 thousand, while the previous year saw net financial charges of Euro 857 thousand; the increased contribution of Euro 2,270 thousand is mainly attributable to interest income accrued on the quarterly restricted deposits made during the year.

Balance Sheet

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

	December 31, 2023	December 31, 2022	Change
Tangible assets and investment property	159,651	141,053	18,598
Right-of-use	8,513	8,535	(21)
Goodwill	62,829	64,149	(1,320)
Intangible assets with definite life	126,222	119,814	6,408
Investments	17,582	15,605	1,977
Total fixed assets	374,797	349,156	25,642
Net working capital	(163,571)	(131,920)	(31,651)
Other non-current assets	67,600	67,470	130
Other non-current liabilities	(75,062)	(76,471)	1,409
Net deferred tax assets	81,200	81,471	(271)
Provisions for risks and charges	(43,838)	(53,379)	9,542
Employee benefits	(8,916)	(9,524)	609
Net Capital Employed	232,210	226,801	5,409
Non-current financial assets	2,010	2,010	-
Net capital employed & Non-current financial assets	234,221	228,811	5,409
Net financial position	76,132	74,450	1,682
Equity	(310,353)	(303,261)	(7,091)
Source of funds	(234,221)	(228,811)	(5,409)

"Total fixed assets" amounted to Euro 374,797 thousand at December 31, 2023, a net increase of Euro 25,642 thousand on December 31, 2022 as a combined effect of the following main movements:

- a net increase of Euro 18,598 thousand in Property, plant and equipment and Investment property, primarily due to investments, totalling Euro 23,242 thousand and mainly related to the investments in plant and machinery and to extraordinary maintenance and the construction of the new headquarters located in Colleferro, net of depreciation for the period;
- a net decrease in Goodwill of Euro 1,320 thousand, due to the allocation of a part of the excess cost for Euro 3,145 thousand relating to the 2022 acquisition of the company Temis S.r.l. to two aerospace programmes in which this company operates, recorded under Intangible assets with definite life. The allocation of the excess cost was conducted by the Company with the external support of a leading consulting firm within a year of the acquisition. For further information, please refer to the Explanatory Notes at paragraph "3.5. Goodwill";
- a net increase in Intangible Assets with a definite life of Euro 6,408 thousand, due to:
 - investments for Euro 13.1 thousand, mainly relating to investments in design and testing and for the construction of the new engines and avionics elements, including investments in software licenses for Euro 4,793 thousand, mainly concerning design and production programmes;
 - allocation of the excess cost described in the previous point for Euro 1,831 thousand, which also considers the deferred tax effect;
 - decrease for amortisation for the year amounting to Euro 8,552 thousand.
- net increase in Equity Investments of Euro 1,977 thousand, due to the following effects:
 - increase of Euro 2,505 thousand related to the acquisition of approx. 17% of the company T4i S.p.A., for which reference should be made to the section "Significant events in 2023".



- decrease of Euro 768 thousand as a result of the measurement at equity of the investment in the jointly-controlled company Europropulsion S.A;
- increase of Euro 240 thousand as a result of the measurement at equity of the investment in the associate Termica Colleferro S.p.A..

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

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

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

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

“Net working capital” was negative deriving from an excess of liabilities over assets of Euro 163,571 thousand, with an improvement on the previous year of Euro 31,651 thousand. The main components are outlined in the following table (in Euro thousands):

	December 31, 2023	December 31, 2022	Change
Contract work-in-progress, net of advances	(329,357)	(241,261)	(88,096)
Inventories	123,122	74,222	48,900
Advances to suppliers	161,305	128,351	32,954
Trade payables	(113,159)	(89,826)	(23,334)
Trade receivables	2,944	3,725	(782)
Other current assets and liabilities	(8,425)	(7,132)	(1,293)
Net working capital	(163,571)	(131,920)	(31,651)

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 and strategic supply procurement dynamics.

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, 2023	December 31, 2022	Change
VAT receivables	5,383	5,481	(98)
Research and development tax credits, technological innovation and industry 4.0.	6,775	5,381	1,394
Current tax receivables	3,866	2,148	1,718
Other current assets	7,037	8,358	(1,321)
Current income tax liabilities	(2,513)	(4,228)	1,715
Other current liabilities	(28,973)	(24,271)	(4,702)
Other current assets and liabilities	(8,425)	(7,132)	(1,294)

With regards to the research and development, technological innovation and Industry 4.0 tax credits, the Avio Group recognised R&D tax credits of Euro 6,775 thousand for the year under review, attributable entirely to the parent company, Avio S.p.A., and accrued in 2020, 2021, 2022 and in H1 2023.

"Provisions for risks and charges" refers mainly to provisions for legal and environmental charges, as well as provisions for charges related to the return to flight of Vega C, net of the compensation expected from the European Space Agency and provisions for the future execution of programmes allocated in 2022. The net reduction in the year resulted mainly from utilisations for charges in the half-year, as well as releases due to the fact that the prerequisites for the provision for the future execution of programmes were no longer met, as explained in greater detail in the Explanatory Notes, to which reference should be made.

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, 2023	December 31, 2022	Change
A Cash and cash equivalents	(95,593)	(131,403)	35,810
B Other liquidity	-	-	-
C Other current financial assets	-	-	-
D Liquidity (A+B+C)	(95,593)	(131,403)	35,810
E Current financial debt (including debt instruments but excluding the current portion of non-current financial debt)	1,772	29,907	(28,134)
F Current portion of non-current bank payables	10,018	10,033	(15)
G Current financial debt (E+F)	11,790	39,940	(28,149)
H Net current financial debt (G-D)	(83,803)	(91,463)	7,660
I Non-current financial debt (excluding current portion and debt instruments)	7,671	17,013	(9,342)
J Debt instruments	-	-	-
K Trade payables and other non-current payables	-	-	-
L Non-current financial debt (I + J + K)	7,671	17,013	(9,342)
M Total financial debt (H + L)	(76,132)	(74,450)	(1,682)

At December 31, 2023, the Avio Group reports a net cash position of Euro 76,132 thousand, 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, grew from a positive balance of Euro 74,450 thousand at December 31, 2022 to a positive balance of Euro 76,132 thousand, increasing Euro 1,682 thousand, principally due to the cyclical nature of operating cash flows, with repayment of the cash pooling debt position to the jointly controlled company Europropulsion for Euro 27,769 thousand, in addition to capital expenditures.

The current financial debt, amounting to Euro 11,790 thousand (Euro 39,940 thousand at December 31, 2022), includes:

- the financial liability related to the current portions of two EIB loans, amounting to Euro 10,018 thousand (Euro 10,033 thousand at December 31, 2022), which includes:
 - two instalments of the total loan granted of Euro 10 million (of which Euro 5 million due on April 30, 2024 and Euro 5 million due on October 31, 2024);
 - the accrued interest amounting to Euro 18 thousand.
- current financial liabilities for leased assets of Euro 1,747 thousand (Euro 1,879 thousand at December 31, 2022);
- other current financial liabilities amounting to Euro 26 thousand (Euro 28,028 thousand at December 31, 2022, which included Euro 27,769 thousand of liabilities to the jointly-controlled company Europropulsion S.A. arising from the cash pooling agreement).

The non-current financial debt, amounting to Euro 7,671 thousand (Euro 17,013 thousand at December 31, 2022), includes:

- non-current financial liabilities to the EIB of Euro 2,000 thousand (Euro 12,000 thousand at December 31, 2022);
- non-current financial liabilities, mainly for leased assets of Euro 5,620 thousand (Euro 4,937 thousand at December 31, 2022);
- other financial liabilities for Euro 51 thousand (Euro 76 thousand at December 31, 2022).

Statement of changes in Equity

Consolidated equity at December 31, 2023 amounts to Euro 310,353 thousand, increasing Euro 7,091 thousand compared to December 31, 2022, as a result of the following main movements:

- recognition of the 2023 consolidated net profit of Euro 6,624 thousand;
- positive effect from the recognition of the stock grant reserve for Euro 568 thousand;
- negative effect of actuarial losses of Euro 97 thousand;
- negative translation effect of financial statements in foreign currencies of Euro 23 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 2023 amounted to Euro 126.7 million (Euro 164.7 million in 2022), equating to 36.9% of gross consolidated revenues in 2023 (44.4% in 2022).

Self-financed and executed activities amounted in 2023 to Euro 7.7 million (Euro 7.8 million in 2022). Self-financed activities in 2023 included Euro 5.2 million relating to development costs capitalised as Intangible assets with definite life (Euro 4.2 million in 2022) and Euro 2.5 million concerning research costs or development costs not capitalizable and directly recharged to the income statement (Euro 3.6 million in 2022).

The total amount of costs related to self-financed activities charged to the income statement in 2023 was Euro 5.8 million (Euro 8.0 million in 2022), comprising Euro 2.5 million of directly expensed non-capitalizable costs (Euro 3.6 million in 2022) and Euro 3.3 million for the amortisation of development costs capitalised (principally) in previous years (Euro 4.4 million in 2022).

In 2023, Avio continued its innovation upon the main product lines, harmonising basic research, applied research and pre-competitive development activities.

Solid Propulsion

In Avio's strategic vision, solid propulsion represents a mature and competitive technology that significantly reduces the cost of launch services and keeps the European space carrier market competitive on the global scene. Avio has confirmed that its vision includes the consolidation and further development of both VEGA and the forthcoming Ariane 6 launcher, set to replace Ariane 5.

Following Vega C's successful maiden flight in July 2022, and following the failure of the second flight in December 2022, in 2023 Avio continued work to improve the launcher's reliability in order to consolidate its market positioning.

In the area of solid fuel engines, Avio continued to carry out research on consolidating and optimising qualified product production technologies for the Ariane and VEGA launchers, in order to guarantee the performance required of the next generations of Ariane 6 and VEGA E European launch vehicles.



Specifically, research and development in materials continued to focus on the development of advanced, high performance and low environmental impact solid propellants with characteristics that allow them to be used in the Ariane and Vega programmes. Additionally, the possible expansion of the Avio composite materials production chain has been carefully researched and analysed, leading to the identification of various possible spin-offs in other sectors.

Liquid Propulsion

Avio considers cryogenic propulsion based on liquid oxygen and methane as the answer to future generations of late stages for launch vehicles, as well as for exploration spacecraft.

In 2023, 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 engine'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 (100KN 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 engine (for the upper stage of the Vega E), fully using ALM.

The first development model of the entire M10 engine, 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. The integration of the second M10 demonstrator, DM2, was finalised in 2023, successfully concluding the test campaign in August 2023. In parallel, the design was finalised and construction began on the third M10 engine demonstrator, the DM3, whose test campaign is scheduled to begin in 2024.

The Vega E launcher, whose first flight is scheduled for 2027, thanks to the introduction of the innovative, high-performance M10 engine, 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 Vega C. Furthermore, thanks to the manoeuvrability features of the M10 engine, 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 engine 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.

Within the scope of space activities funded under the National Recovery and Resilience Plan, the development continued during 2023:

- of a new generation of large composite LOx and LCH₄ cryotanks, which will be integrated into future versions of the Vega E's upper stage, to obtain a further increase in the maximum payload;
- of the MPGE "Multi-Purpose Green Engine", a "green" liquid-propellant engine that will be used in reusable systems such as Space Rider and as the orbital stage engine of Vega-class launchers;
- of the over 60-ton thrust HTE chamber of the future M60 (LOX/CH₄) thruster, which will be made of ALM with an innovative thermodynamic design to achieve high specific thrust.

Space Transport Systems

In response to increasing small satellite demand, in 2023 research into developing the new VEGA Light launcher continued, with optimisations designed to put up to 250kg of payload into a 500x500 km sun-synchronous orbit.

Development and implementation of the Space Raider propulsion system continued for Critical Design completion in H1 2023. Space Rider is an unmanned, reusable space transportation system, development of which was commissioned by ESA from Avio and co-prime Thales Alenia. The integration of Space Rider with the Vega C modules will create an integrated family of services under the title of Vega Space Systems (VSS).

Finally, the development of the HERA propulsion system and the DRB (Delivery Review Board) continued in 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.

Within the scope of space activities funded under the National Recovery and Resilience Plan, the development of systems continued during 2023: - IFD "In Flight Demonstrator" for the development and testing of a demonstrator with propulsion (LOX/CH4) for a small "single stage to orbit" and "two stage to orbit" launcher; - of the propulsion system of the IOS "In Orbit Service" module in collaboration with TASI, Leonardo, Telespazio, and D-Orbit.

Tactical Propulsion

During 2023, the testing activities of the CAMM ER engine were completed while the aging programme is being finalised. Industrialisation is underway and work has begun on the production contract for the Italian MoD. In addition, meetings continued with MBDA to acquire the NAREW contract and a concept phase for the CAMM MR programme was carried out.

For the Aster programme, the MLU Booster qualification phase has been successfully completed. Boosters from the QATAR and MoD It/FR/UK contract were delivered and production continued for the MoD It/FR/UK, Greece and SINGAPORE orders.

Finally, at MBDA's request and funding, activities have begun to enable an increased production rate for boosters.

Under the Teseo MK2/E programme, development activities continued on the axial booster that will be used on a long-range anti-ship and dual role missile. A number of inert enclosures were made and initial structural tests were carried out preparatory to the fabrication of prototype development and delivery motors.

The Mars MK2 programme has completed delivery of Sustainers for the Senegal and MoD-I Programmes, in addition to beginning the production of engines for the MLU programme, also for the MoD-I Customer.

The negotiation phase has concluded for participation in a consortium allowing Avio to collaborate on the design and production of an hyper-sonic missile which will expand its defence offerings.

In addition, Avio is discussing with MBDA participation in the development program of two more engines for medium and long-range anti-ship missiles and a short-range shoulder-mounted one.

Under the PNRM (National Military Research Plan), during the second half of 2023, Avio formalised a collaboration with the School of Aerospace Engineering and MBDA-I to develop a ramjet engine demonstrator.

COMMUNICATION AND SOCIAL RESPONSIBILITY

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

In addition, the Company develops its own network of scientific exchange and new product development through research collaborations with Italian and international universities and research institutes and through technical and operational collaborations with major European space agencies, in particular the Italian Space Agency (ASI), the French National Centre for Space Studies (CNES) and the European Space Agency (ESA).

Events and shows

The main events in the year include:

- January 31 - Avio wins first prize as part of the "ITS4US" Project, an initiative to bring young people closer to the world of work and professions.
- February 7 - Avio participates in the Smallsat Symposium 2023. CEO Giulio Ranzo talks about Vega C and the changes and prospects for the future with leading figures from the global aerospace industry.
- February 9 - A discussion on the "New Space Economy" at the Polytechnic University of Milan.
- February 10 - Avio and UNOOSA (United Nations Office of Space Affairs) select a consortium led by the University of Nairobi, in partnership with the University of Arizona and the non-profit organisation Space Trust, as the first winner of the "Accessing space with Vega C" programme. The selected team will launch a CubeSat at no cost on board the Vega C rocket.
- February 15 - Avio joins the ITS Mechatronics Foundation of Lazio.
- February 22 - Rai produces a documentary about the HERA project.
- March 13 - Two contracts worth over Euro 285 million are signed as part of space-industry initiatives for implementation of the "NextGenerationEU".
- March 24 - ASI awards Avio the design and development of the Multi-Purpose Green Engine, a "green" liquid propellant engine, for future In-Orbit Servicing and Space Logistics applications.
- March 28 - AVIO visits the Thales Alenia Space headquarters in L'Aquila, a centre of excellence in the production of electronic components.
- April 12 - Avio participates in presenting the Iride project, the Italian satellite constellation that will be built by 2026, with support from the ESA and ASI thanks to resources from the NRRP.
- April 14 - The first edition of the Lean Manufacturing master's programme begins, with the goal of acquiring Operational Excellence skills and knowledge for people working in business production processes.
- April 14 - The Ariane 5 rocket successfully launches the European Space Agency's (ESA) JUICE probe from the French Guiana Space Centre. The JUICE mission will study Jupiter and three of its largest moons with an array of scientific instruments.
- April 19 - First Tactical Programmes Suppliers Summit. The event sees presentations of products, facilities and production volume visibility beyond 2032.
- April 26 - Avio participates in the Ukraine reconstruction conference. CEO Giulio Ranzo expresses willingness to jointly explore further forms of industrial cooperation in the field of space propulsion systems.
- May 5 - The cardiovascular prevention campaign kicks off with the involvement of more than 200 employees over 50.

- May 5 - Avio participates in the second National Conference on Quality in Aerospace organised by the Aerospace Sector of the Italian Quality Culture Association.
- May 9 - Vega C is chosen to launch the ClearSpace-1 spacecraft for a mission to remove space debris. The launch is expected in the second half of 2026.
- May 17 - Avio participates in Space Meetings Veneto, the first international fair focused fully on the space economy.
- May 19 - Static bench testing of the qualification engines of the new Aster 30 MLU is completed successfully and on schedule.
- May 19 - Last meeting of the Educational Campaign planned by the HR Learning Team together with Adecco and ASI and sponsored by the Municipality of Colleferro, represented by Councillor Francesco Guadagno. More than 120 students from high schools in Lazio participated in the campaign.
- May 24 - The MP Walter Rizzetto visits the Colleferro Headquarters.
- May 28 - Eleventh edition of the Sapienza Rocketry Challenge. Students from the Space Propulsion Laboratory of the Department of Mechanical and Aerospace Engineering at Rome Sapienza University launched their mini rockets from the piana di Segni park.
- May 29 - Together with Leonardo, Avio becomes Corporate Partner of Takeoff Accelerator, the accelerator program for startups developing solutions and services in the aerospace and advanced hardware sectors.
- May 31 - Vega C is chosen to launch the Kompsat-6 (Korean Multi-Purpose Satellite) Earth observation satellite for the Korea Aerospace Research Institute (KARI).
- June 1 - Avio participates in "Parodi day", an event organised by the IPIA of Colleferro to promote the connection between school, local area and enterprise.
- June 6 - First Subco Vega-C Industrial Day, dedicated to meeting managers of companies involved in the development of the Vega C launcher.
- June 16 - Starting Finance, Italy's largest community of young people with a passion for economics and finance, discusses Avio in YouTube video.
- June 20 - the Colleferro Fire Department detachment, coordinated by maintenance/VVFA and HSE, conducted a territorial training inside the plant and test centre.
- July 6 - The Ariane 5 rocket left the launch pad at the Guyana Space Center for the last time, closing the production cycle for Avio's Vulcain turbopumps and P230 solid rocket engine.
- July 19 - 55 colleagues participated in some training sessions at CSG in French Guyana
- August 30 - The second edition of the *Master Lean Manufacturing* programme concluded, with 9 colleagues receiving certification as *Lean Practitioners*
- September 4 - The agreement with T4i to acquire a 17% stake was publicised in a widely circulated press release¹⁷ and on the company's social media channels, and repeatedly picked up by financial publications.
- September 5 - Avio is a sponsor of the "Sports without Barriers" project of Colleferro's Comprehensive Institute 1. The funding enabled major upgrades and the creation of a multipurpose sports facility at Leonardo Da Vinci Middle School.
- September 21 - Successful completion of the M10 DM2 methane-liquid oxygen engine long life test at the Perdasdefogu test bench in Sardinia. This news has been picked up by trade magazines and the ESA on several occasions.

¹⁷ See also the September 4, 2023 press release at the link: https://www.avio.com/sites/avio.com/files/attachments/CS_AVIO_T4i_ITA.pdf

- September 27 - Avio organised a blood donation day in collaboration with EMA-ROMA (Voluntary Blood Donor Association).
- September 29 - Avio attended the Science Museum in Milan in the person of Francesco De Lorenzo to talk about a sustainable future for the space sector.
- October 9 - The Vega launcher lifted off from the Guyanese Space Center at 10:36PM local time, successfully completing the VV23 mission¹⁸. The news went around the world and was picked up by newspapers such as: Sole24Ore, MF, La Stampa, Il messaggero and Spacenews.
- October 13 - Avio actively participates in the Startup Thinking Observatory together with the Polytechnic University of Milan
- October 19 - Telespazio renewed its contract with Avio to provide maintenance and operational support activities at the Vega / Vega C launch base in French Guyana
- October 20 - Avio wins the "Team Legal of the Year" award. This success was communicated on the corporate intranet.
- October 26 - For the first time in 15 years, the Avio volleyball team took part in the "ESA Space Volleyball Tournament" held in the Netherlands at ESTEC's headquarters in Noordwijk. An extraordinary success for Avio, which contributed financially to the athletic training and team uniforms.
- October 27 - All testing of the new M10 DM2 engine was successfully completed. The press release issued was cited on numerous occasions in the national and international newspapers.
- November 7 - At the European Space Agency (ESA) Council meeting in Seville, many of the decisions made involved major developments for the Vega C, Vega E and Ariane 6 programmes.
- November 9 - The company, as part of its periodic prevention campaigns, carried out breast screening on more than 50 female colleagues over 40 who joined the initiative.
- November 14 - CEO Giulio Ranzo took part in the "Quarta Repubblica" broadcast on Rete 4.
- November 22 - Annual "Seniority Awards" in the presence of CEO Giulio Ranzo and the mayor of Colleferro. Colleagues who have been with the company for more than 30 years were honoured at the event.
- December 4 - For the Santa Barbara celebrations, Avio organised an institutional visit to the former BPD explosives factory in Colleferro.
- December 19 - Naming of the Auditorium in Building 7008 after Mr. Francesco Depasquale who passed away prematurely after serving the company for more than 40 years.
- December 19 - For the second time in 2023, CEO Giulio Ranzo met with his front lines at the Avio Next 2.0 event.

¹⁸ See also the press release dated October 9, 2023 at the link: <https://www.avio.com/sites/avio.com/files/attachments/CS%20VV23.pdf>.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES

Risks relating to the war in Ukraine

As reported in the 2022 Annual Financial Report and in the Half Year Report at June 30, 2023, 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 fulfil its obligations to its clients also depends on the fulfilment of contractual obligations by its sub-contractors and suppliers.

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

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

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

Due to the skills and know-how developed as well as the qualification processes that have certified their compliance with the specific requirements, the Group's strategic suppliers which are difficult to replace or, in any case, whose replacement could require a lengthy period of time and significant costs, still include two Ukrainian suppliers who currently supply the main engine for the fourth stage of the Vega and Vega-C launchers (the "MEA engine").

Avio had also chosen a Ukrainian supplier (ESA approved) for the production of the carbon-carbon inserts used to make the nozzles for the Z40 and Z9 engines of the Vega-C carrier, and in 2019 began an investment activity to improve its expertise in the production of carbon-carbon inserts.

As of March 2022, following the outbreak of hostilities between Russia and Ukraine, Avio had already undertaken a supply contract from a previously used European supplier and, to date, also in view of the recommendations of the Commission of Inquiry following the VV22 flight anomaly, the procurement of carbon-carbon inserts from Ukrainian suppliers has been banned by the ESA.

Currently, there is no direct procurement from Russian suppliers.

The remaining Vega flight, however - which is planned in Q2 2024 - was not impacted as already equipped with the 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 programmes in the short and medium term.

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

The situation is being monitored in order to take proactive actions to protect business continuity over the long term. In this context, the 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.

Against this backdrop, and again with the goal of strengthening business continuity in the medium to long term, as outlined in the half-year financial report, at the end of 2023 a contract was finalised with two of the aforementioned Ukrainian suppliers of the fourth stage main engine for the Vega and Vega-C launchers. Delivery is expected in the medium term (2025-2027).

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 these assessments gradually matured, they were promptly reported in the press releases dated February 25, 2022¹⁹, March 25, 2022²⁰, July 17, 2022²¹, and September 9, 2022²² 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, 2023, Avio had outstanding advances to Ukrainian suppliers totalling Euro 7.0 million, of which:

- Euro 1.4 million related to the procurement of raw materials for the production of 6 MEA engines for Batch 4 of Vega C; this amount is expected to be recovered with the deliveries of the MEA engines by the first half of 2024;
- Euro 1.3 million related to previous Carbon-Carbon insert supply agreements; recovery of this amount can be made only after the end of the state of war in Ukraine;
- Euro 4.3 million paid in 2023 as advances for future production of 20 additional MEAs beyond Batch 4; these advances will be recovered with deliveries between 2025 and 2027.

In this general context, it should be noted that the Batch 3 and Batch 4 contracts 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.

The Group has already taken steps - with the support of the European Space Agency - to identify possible alternative suppliers for the above products, also analysing the process and methods required for the certification of these solutions in the qualification dossier of the Vega and Vega-C launchers. Currently, carbon-carbon inserts of ArianeGroup production will be used whose supply timelines ensure the continuity of Vega-C production. Regarding the replacement of the MEA, an alternative solution has been identified with the support of the Italian Space Agency which is currently being tested (contract signed with the ASI in April 2023).

Risk Assessment Update

The risk assessment activity carried out at December 31, 2023, in accordance with the company's Enterprise Risk Management (ERM) was updated, which also included material ESG risks as well as the risk on climate change, on the new Governance of the space sector, and on risks related to activities under development in the United States. The new Enterprise Risk Management (ERM) was approved by the Board of Directors on March 8, 2024.

¹⁹ See the press release at the link: <https://www.avio.com/it/comunicati-stampa/operativita-di-vega-non-impattata-dai-recenti-eventi-in-ucraina>.

²⁰ See the press release at the link: https://www.avio.com/sites/avio.com/files/attachments/20220323_CS%20Ukraine%20update_v_ITA_DEF.pdf.

²¹ See the press release at the link: <https://syndication.teleborsa.it/Avio/Financial-Announcements/attivita+-vega-non-impattate-dagli-aggiornamenti-del-conflitto-in-ucraina-nel-medio-termine/MXxib211bmjYXRpLjE3NzEwMDAwNDUyMDIyMXwxfDlwMjQwMzIx>.

²² See the press release at the link: <https://syndication.teleborsa.it/Avio/Financial-Announcements/risultati-avio-1h-2022/MXxib211bmjYXRpLjE3NzEwMDAwNDkyMDIyMXwxfDlwMjQwMzIx>.

General economic risks

General aspects

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 space agencies.

Should this situation of significant weakness and uncertainty continue for significantly longer or worsen, particularly in 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.

With regard to the Israel-Hamas conflict, as there is no business activity with these counterparties and in the geographical area concerned, based on currently available information, it is not believed that significant risks may exist.

Risks related to the ongoing 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.

Risks related to changes in energy costs.

In 2023, energy costs partially recovered from the high levels of 2022. In view of the volatility risk affecting energy prices, there remains in any case the risk of a potential increase in energy costs, which could have a negative impact on the Group's business, financial position, prospects and strategies.

Risks associated with COVID-19 pandemic

Following recent events and thanks to preventive and regulatory measures adopted at the international level, the macroeconomic situation currently appears less exposed to COVID-19-related risks than it was in the past; moreover, the sector in which the Company operates has always been less exposed than others to the related risks.

While the effects of the pandemic were felt intermittently in 2022 and indirectly affected Avio's internal activities, as well as at times slowing down the activities of suppliers and sub-contractors in Italy and the rest of Europe, in 2023 activities continued to normalise.

Should the effects of COVID-19 recur or 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 the Crisis Committee set up by the Company is constantly monitoring the situation.

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.

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 customers. Any interruptions, temporary suspensions, delays or cancellations to one or more major programmes constitutes a risk which may impact the Group's commercial and production operations and financial statements. In H1 2023, the backlog grew 35% compared to the end of 2022. 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 recurrence or prolongation of the COVID-19 pandemic, 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, 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.

With reference to Avio's gradual assumption of the functions of Launch Service Operator (LSO) and Launch Service Provider (LSP) of Vega C, i.e., the responsibilities of flight operations and commercialisation rights of Vega C, as well as the opening of a competition in the European launcher sector through a special competitive procedure (European Launcher Challenge) by ESA to develop and demonstrate the launch capability of new systems, the following is a commentary in the "Strategy" section of the Directors' Report on the broader decisions taken by the European Space Agency (ESA) Council held on November 6, 2023 in the presence of ministers representing the various member states²³.

Among the major decisions taken by the Council, a number concerned key junctures of programmes of interest to Avio and, in particular, Ariane 6, Vega C and Vega E.

The main outcomes include:

²³ See press release of November 7, 2023 at the link: https://www.avio.com/sites/avio.com/files/attachments/CS_ESA%20Siviglia_ITA_1.pdf

- the coverage, through additional funding, of a portion of the additional production costs resulting largely from the significant rise in inflation that has emerged over the past 2 years in the eurozone, particularly for Ariane 6 up to Euro 340 million per year and for Vega C up to Euro 21 million per year;
- the expectation of a minimum number of European institutional launches, both for Ariane 6 (4 flights/year) and Vega C (3 flights/year), increased from that expected in previous years, due in part to the growth in size of the various European satellite programmes;
- the opening of a competition in the European launcher sector through a special competitive process (European Launcher Challenge) by the ESA to develop and demonstrate the launch capability of new systems (up to Euro 150 million);
- Avio's gradual assumption by mid-2024 of Vega C's Launch Service Operator (LSO) and Launch Service Provider (LSP) functions, i.e., responsibilities for Vega C's flight operations and commercialisation rights, with the expectation of an agreement to be reached between Arianespace and Avio to manage the contracts already acquired by Arianespace to put into orbit about 25 satellites over the next few years, from 2024 to 2027;
- the allocation to Vega C and Vega E, at the Kourou space centre, of an existing facility that will be dedicated to launcher pre-integration so as to increase the annual launch frequency and the related allocation to Vega E of the launch pad previously used by Ariane 5.

Group customers 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 customers, 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

Return to flight of VEGA C

In early 2024, fabrication of components for the qualification of Vega-C's Z40 motor with the new nozzle design began in accordance with the recommendations of the Commission of Inquiry (IEB). Qualifying trials of the new Zefiro 40 will take place in the coming months.

In parallel, the finalisation of the production of components for the return to flight to date expected in Q4 2024 is underway²⁴.

Inaugural launch of Ariane 6

Components for the first launch of the Ariane 6 launcher have been shipped to French Guyana. The Maiden Flight is now scheduled for mid-2024²⁵.

²⁴ See also the 2023 results presentation shared with analysts and investors and posted at the link: https://avio-data.teleborsa.it/2024%2f2024_03_13-Avio-FY-2023-results_vDef_20240313_051536.pdf.

²⁵ Source ESA: https://www.esa.int/Enabling_Support/Space_Transportation/Ariane/Ariane_6_joint_update_report_22_February_2024.

OUTLOOK

In the context of the Directors' Report's "Strategy" section, including considerations of potential developments in European space governance, in the short term, Vega-C production activities will be affected by the implementation of recommendations provided by the Independent Enquiry Commission (IEC) to ensure the safe return to flight of Vega-C, currently scheduled for Q4 2024. At the same time, recommendations will be implemented to ensure the long-term reliability of the Vega-C launcher as well, together with the production of the components for the next flights.

Production activities of the P120C motor continue ahead of Ariane 6's maiden flight, currently scheduled for mid-2024.

On the other hand, in line with the intensive roadmap planned, we will continue to accelerate defence area tactical propulsion production and development activities, as will the numerous and important product development activities, thanks to which the Company secured major funding allocations last year under the National Recovery and Resilience Plan (NRRP) and the 2022 ESA Ministerial Conference.

As reported in the press release issued on the 2023 Results of March 13, 2024, and in the 2023 Results presentation of March 13, 2024²⁶, the forecasts are for a Backlog of between Euro 1,500 million and Euro 1,600 million, net revenue of between Euro 370 million and Euro 390 million, Reported EBITDA of between Euro 21 million and Euro 26 million (including non-recurring costs of approx. Euro 7 million), and net profit of between Euro 6 million and Euro 10 million.

In relation to the ongoing Russia-Ukraine conflict no specific medium-term impacts on Vega C operational continuity are currently expected. The procurement process for the fourth-stage Vega C engine produced in Ukraine, which has been underway for several years, has provided a "strategic" stock which guarantees Avio's deliveries for launches planned in the medium term. In the long term, 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.

These assessments were promptly reported in the press releases dated February 25, 2022, March 25, 2022, July 17, 2022 and September 9, 2022²⁷ and are still accurate.

²⁶ See also the 2023 results presentation shared with analysts and investors and posted at the link: https://avio-data.teleborsa.it/2024%2f2024_03_13-Avio-FY-2023-results_vDef_20240313_051536.pdf.

²⁷ See the press release at the link: <https://syndication.teleborsa.it/Avio/Financial-Announcements/risultati-avio-1h-2022/MXxjb211bmljYXRpLjE3NzEwMDAwNDkyMDIyMXwxfDIwMjQwMzIx>.

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

Earnings and financial results

Results

The following table compares the company performance in 2023 and 2022 (in Euro thousands):

	FY 2023	FY 2022	Change
Revenues	339,813	367,179	(27,366)
of which: Pass-through revenues	5,000	14,063	(9,063)
Revenues, net of pass-through revenues	334,813	353,116	(18,303)
Other operating revenues and changes in inventory of finished products, in progress and semi-finished	15,869	37,965	(22,096)
Costs for goods and services, personnel, other operating costs, net of capitalised costs & pass-through	(330,686)	(374,779)	44,093
EBITDA	19,996	16,302	3,694
Amortisation, depreciation and write-downs	(17,766)	(21,384)	3,618
EBIT	2,230	(5,082)	7,312
Interest and other financial income (charges)	(69)	(999)	930
Net financial income/(charges)	(69)	(999)	930
Investment income/(charges)	3,000	2,400	600
Profit before tax	5,161	(3,681)	8,842
Current and deferred taxes	548	1,786	(1,239)
Profit for the year	5,708	(1,895)	7,603

Revenues net of "pass-through" revenues were Euro 334,813 thousand in 2023, down Euro 18,303 thousand (-5.2%) on 2022. This net decrease is mainly attributable to reduced development and production activities for the P120 motor and VEGA-C development, partially offset by increased activities for NextGen EU development projects and those related to development and production within the Defence area; VEGA-E development activities remain in line with last year.

EBITDA in 2023 was Euro 19,996 thousand, increasing Euro 3,694 thousand on 2022; this increase was mainly influenced on the one hand by the positive contribution of development projects under the National Recovery and Resilience Plan (PNRR), defence projects, and lower energy costs, and on the other hand offset by lower contributions from production for Ariane and Vega and higher overhead costs to strengthen the corporate organizational structure.

EBIT was Euro 2,230 thousand, increasing Euro 7,312 thousand on 2022. This increase is mainly attributable to the effect of lower depreciation and amortisation for the year compared with the previous year, due to the revised useful life of some production assets in correlation with the phase-out of the Ariane 5 launcher and the phase-in of the new Ariane 6 launcher, as well as the phase-out of the Vega launcher and the phase-in of the new Vega-C launcher.

The result for 2023 was also shaped by the research and development tax credit of Euro 2,729 thousand (Euro 4,396 thousand in 2022), 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.

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 3,000 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, 2023	December 31, 2022	Change
Property, plant and equipment	115,413	99,728	15,685
Right-of-use	28,966	27,888	1,079
Goodwill	61,005	61,005	-
Intangible assets with definite life	124,133	119,282	4,851
Investments	93,464	89,081	4,383
Total fixed assets	422,982	396,984	25,998
Net working capital	(179,401)	(150,410)	(28,991)
Other non-current assets	63,751	62,377	1,373
Other non-current liabilities	(74,755)	(76,314)	1,559
Net deferred tax assets	77,336	77,320	16
Provisions for risks and charges	(26,666)	(35,497)	8,831
Employee benefits	(7,194)	(7,606)	412
Net Capital Employed	276,053	266,854	9,198
Non-current financial assets	2,010	2,010	-
Net capital employed & Non-current financial assets	278,063	268,865	9,198
Net financial position	9,153	12,176	(3,023)
Equity	(287,216)	(281,041)	(6,175)
Source of funds	(278,063)	(268,865)	(9,198)

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 28,966 thousand, exceeding the Euro 8,513 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.; the net increase on the previous year, of Euro 1,079 thousand, mainly concerns the recognition of the right-of-use regarding the lease of the new Group headquarters at Colleferro, also by the subsidiary Se.Co.Sv.Im.

Analysis of the financial position

At December 31, 2023, the parent company Avio reported a negative net financial debt (net cash) of Euro 9,153 thousand, with liquidity exceeding financial liabilities. The net financial debt in the comparative year 2022 was also negative at Euro 12,176 thousand, for the same reason.

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, 2023	December 31, 2022	Change
A Cash and cash equivalents	(87,872)	(125,521)	37,649
B Other liquidity	(1,977)	(2,842)	866
C Other current financial assets	-	-	-
D Liquidity (A+B+C)	(89,848)	(128,363)	38,515
E Current financial debt (including debt instruments but excluding the current portion of non-current financial debt)	48,943	75,165	(26,222)
F Current portion of non-current bank payables	10,018	10,033	(15)
G Current financial debt (E+F)	58,961	85,198	(26,237)
H Net current financial debt (G-D)	(30,887)	(43,165)	12,278
I Non-current financial debt (excluding current portion and debt instruments)	21,734	30,988	(9,255)
J Debt instruments	-	-	-
K Trade payables and other non-current payables	-	-	-
L Non-current financial debt (I + J + K)	21,734	30,988	(9,255)
M Total financial debt (H + L)	(9,153)	(12,176)	3,023

The net cash position increased from a positive balance of Euro 12,176 thousand at December 31, 2022 to a positive balance of Euro 9,153 thousand, increasing Euro 3,023 thousand, principally due to the cyclical nature of operating cash flows, with repayment of the cash pooling debt position to the jointly-controlled company Europropulsion for Euro 27,769 thousand, in addition to capital expenditures.

The current financial debt, amounting to Euro 58,961 thousand (Euro 85,198 thousand at December 31, 2022), includes:

- Current financial liabilities related to the centralised treasury with a number of subsidiaries for Euro 38,907 thousand (Euro 38,491 thousand at December 31, 2022);
- current financial liabilities for leased assets of Euro 10,036 thousand (Euro 8,906 thousand at December 31, 2022);
- the financial liability related to the current portions of two EIB loans, amounting to Euro 10,018 thousand (Euro 10,033 thousand at December 31, 2022), which includes:
 - two instalments of the total loan granted of Euro 10 million (of which Euro 5 million due on April 30, 2024 and Euro 5 million due on October 31, 2024);
 - the accrued interest amounting to Euro 18 thousand.

The non-current financial debt, amounting to Euro 21,734 thousand (Euro 30,988 thousand at December 31, 2022), includes:

- non-current financial liabilities to the EIB of Euro 2,000 thousand (Euro 12,000 thousand at December

31, 2022);

- non-current financial liabilities for leased assets of Euro 19,734 thousand (Euro 18,988 thousand at December 31, 2022).

Analysis of equity

Equity at December 31, 2023 amounts to Euro 287,216 thousand, increasing Euro 6,175 thousand on the equity at December 31, 2022 (Euro 281,041 thousand), as a result of the combined effect of the following:

- 2023 net profit of Euro 5,708 thousand;
- positive effect from the recognition of the stock grant reserve for Euro 568 thousand;
- negative effect of actuarial losses of Euro 95 thousand.

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

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

OTHER INFORMATION

As per Article 40 of Legislative Decree 127/1991, it is disclosed that, in consideration of the share buy-back programme, at December 31, 2023, the Parent Company held 1,091,207 shares, representing 4.14% of the share capital. See also in this regard the "Corporate Governance and Ownership Structure Report" published on the Group's website.

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

In inviting you to approve the 2023 Annual Accounts of Avio S.p.A., drawn up as per IFRS and reporting a net profit of Euro 5,708 thousand, we propose the allocation of this result to dividend for [Euro 3,750 thousand], in line with the Company's dividend policy, in addition to an extraordinary dividend of [Euro 2,250 thousand] from available equity reserves.

• • •

March 13, 2024

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

2023 CONSOLIDATED NON-FINANCIAL STATEMENT

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METHODOLOGICAL NOTE

Applied standards

This year, for the second time, the Avio Group's Annual Financial Report has been combined with the seventh 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, 2023, 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 143-150 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, an element identified by the benchmark regulation and central, among others, 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 in this document, were considered as material as reflecting the environmental, social and governance impacts of Group operations, or in terms of influencing stakeholders decisions. These topics were identified based on the impacts generated by society. In 2023, Avio aligned its materiality analysis with the requirements of the new GRI Universal Standards (2021), starting with an identification and prioritisation of the impacts, positive and negative, current and potential, related 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 2023 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 2021 and 2022. 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 2023 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 Avio India Aviation Aerospace



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Private Limited, as this remained in liquidation in 2023. Data on environmental impacts do not include Avio France S.a.S. and Avio USA Inc, as it is not currently an operator. Beginning with the 2022 reporting year, the Avio Group includes data from the subsidiary Temis S.r.l., acquired on September 8, 2022, and in the figure for energy consumption, also information on the SPTF (Space Propulsion Test Facility) site in Sardinia. Energy consumption and waste at the Airola site are also reported. Starting in 2023, data for Avio USA is included in the section on human resources²⁸.

In compliance with GRI's requirements, given the expansion of the Company's reporting scope, since 2023 quantitative data has been broken down by geographic regions uniformly in this Report. As such: the "EU" parameter includes the figures for Avio S.p.A., Spacelab S.p.A., Secosvim S.r.l., Avio France S.a.S. and Temis S.r.l., while the "Non-EU" parameter includes the figures for Avio Guyana S.a.S., Regulus S.A. and Avio USA Inc.

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 "2023 Financial Year" chapter for more information on significant events in 2023.

Reporting process

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

In 2023, the Procedure was updated in co-ordination with the Administration, Finance and Control Department in order to define a more structured process for preparing the Sustainability Report according to the new requirements for its integration with the Annual Report. The Procedure was also amended and adapted in view of the latest regulatory changes and best practices.

In this context, the non-financial reporting process takes place annually and the NFS is subject to review, analysis and approval by both the internal structures involved and the corporate bodies.

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, particularly the:

- definition of the work plan, ensuring that timelines for preparing the NFS align with the financial reporting process;
- preparation of materials useful for updating the materiality analysis; conduct of stakeholder engagement activities, and updating of 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 external 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. The independent audit firm's conclusions do not extend to the information contained in the paragraph "Disclosure of the EU Taxonomy for Sustainable Activities" required by Article 8 of European Regulation 2020/852.

²⁸ Headcount, contract type - full-time/part-time, fixed-term/permanent - employment category, gender and age, new hires and departures.



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It should be noted that the Avio Group will have to apply the new Corporate Sustainability Reporting Directive (CSRD) from fiscal year beginning January 1, 2024. In this regard, the Group will initiate in April a mapping of CSRD and European Sustainability Standards (ESRS) disclosure requirements in order to identify the information that the Group will need to integrate with reference to the 2024 fiscal year and define an action plan to ensure compliance with the new regulations.

AVIO'S MATERIALITY MATRIX

In 2023, the Avio Group updated the materiality analysis process to determine the priorities of its sustainability strategy 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 and prioritise 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. This process, which updated the materiality matrix, was coordinated by the Sustainability Office with the involvement of both Management and an external Stakeholder Group.

Starting from an internal analysis of company documentation (Code of Ethics, Annual Financial Report, Business Plan, Strategic Plan, Model pursuant to Legislative Decree No. 231/2001, etc.) with particular reference to documentation on the risk management system and Risk Assessment carried out by the Risk Management function, and from an evaluation of external documents on scenario changes and Sustainability Rating Company assessment questionnaires, the economic, social and environmental impacts of Avio's business related to material topics already identified in previous years were prioritized.

In the process of updating the materiality analysis, the Company has identified and involved all priority stakeholders for its business activities and relationships, making sure to also include any person or group with whom it does not have a direct relationship, but whose interests are or could be affected by the Company's activities.

In fact, Avio considers stakeholder engagement one of the founding pillars of the company: as a listed company, dialogue with external stakeholders - and particularly shareholders - has taken on a key role 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 external stakeholder categories and dialogue and engagement activities carried out in 2023, in addition to the stakeholder engagement activities specifically performed to update the materiality analysis, presented in the next section.

External stakeholder categories	Commitment and activities	Involvement and communication	Stakeholder expectations
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 production facilities 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 shareholder 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.	Conferences, dedicated meetings.	<ul style="list-style-type: none"> - compliance with applicable regulations; - combatting corruption;



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	established in accordance with current regulations, which seek to foster constructive collaboration that serves the common good.		<ul style="list-style-type: none"> - prevention of offences 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 in dealings with these 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.
Suppliers and sub-contractors	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	Company website, dedicated meetings	<ul style="list-style-type: none"> - compliance with contractual conditions; - continuity in supply demand; - fair and non-discriminatory treatment.
The media	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, industry news, and any actions taken in aid of the community and environment	Social networks, press releases, interviews, site visits to production plants	<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 trends in sustainability.
Academia	The Group fosters a shared dialogue with universities, training colleges, and national and international research centres. The objective is to share its	Partnerships, conferences, dedicated meetings.	<ul style="list-style-type: none"> - Promotion of youth and female employment

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	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.		<ul style="list-style-type: none"> of research and development; - Development of activities of interest with active involvement of students.
Trade associations	The Group maintains constructive relations with trade unions to promote an understanding of market needs and trends, facilitate discussions, and contribute to sustainable development.	Conferences, working tables, events, workshops, and dedicated meetings.	<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.
Local communities	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.	Organisation of events and partnerships.	<ul style="list-style-type: none"> - Implementation of business practices that protect the region and promote local development.

As already anticipated, starting from the material topics already identified in previous reports, available documentation, and discussions with its stakeholders, Avio has identified the positive and negative, current and potential short- or long-term impacts on the economy, on the environment and people, including human rights impacts, within the scope of its activities and business relationships.

The impacts thus identified were evaluated through a Stakeholder Engagement process - an opportunity for two-way dialogue, helping the Group assess satisfaction levels and develop useful ways to improve - in order to assess the significance of the positive and negative impacts for each material topic considered.

This process involved the involvement of a group of both internal and external Stakeholders identified by the Company on the basis of their relevance and the impact of their opinion in the Group, through the sending of a special online survey, in which they were asked to attribute a value between 1 and 5 (where 1 equals "negligible" and 5 equals "very relevant") to the identified impacts.

The survey was also sent for the first year to all members of the Board of Directors, the Board of Statutory Auditors and the Supervisory Board, in order to raise greater awareness of sustainability issues among the corporate boards and gather increasingly constructive and representative feedback, in light of the centrality of their role in corporate sustainability.

Specifically, the questionnaire involved more than 120 stakeholders with a response rate of 73%, up from the previous year (71% in 2022).

The responses were used to update the 2023 materiality matrix.

The topics that the Company has identified as material, along with their positive and negative, actual and potential impacts, are reported below.

(Actual and potential) impacts

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Remediation	Take the necessary measures to resolve past situations of pollution of the area, securing, removing and disposing of any pollutants. This is conducted in agreement with the Public Administration in order to remediate environmental conditions and achieve beneficial effects also for the productive, social and economic revitalisation of the territory.	Negative	Management of a site partially located in the SIN (Site of National Interest).
		Positive	Helping remedy previous polluting situations in the local area.
Energy consumption and emissions - climate change	Activities to improve energy efficiency and reduce direct and indirect emissions of CO ₂ and other substances in production processes, in the operation and maintenance of buildings, in logistical processes and in the development of new products, including by monitoring changes in the climate.	Negative	Contributing to the consumption of energy and generation of emissions during the conduct of business operations
		Positive	Taking actions to monitor and reduce consumption.
Waste management	Targeted activities to manage (in production processes) hazardous and non-hazardous waste and its recovery.	Negative	Contributing to the generation of industrial waste, which must be managed per the applicable regulations.
		Positive	Reducing waste generated along the entire value chain. Maximising the sorting and potential recovery of waste, or recycling it.
Management of water resources	Targeted activities to manage (in production processes) water efficiency, discharges and water availability.	Negative	Helping to reduce national water needs
		Positive	Maximising the reuse of water resources and minimising their consumption.
Dialogue with social partners	Activities promoting an ongoing relationship of information and sharing with labour organisations on issues of common interest with the goal of ensuring compliance with regulations and ensuring the well-being and protection of workers' rights.	Negative	Poor understanding of workers' needs and requirements.
		Positive	Guaranteeing workers' well-being and protecting their rights.
Training and skills development	Training and development activity for consolidation and transfer of an ever-growing range of skills, as part of a continual process of human capital enhancement and growth	Negative	Stagnation of employee skills and abilities, leading to gaps in the company's production system over the long term.

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		Positive	Providing employee training to consolidate and transfer increasingly broad skills, seeking to ensure the enhancement and growth of human capital.
Talent management and retention	Activities and initiatives designed to strengthen the company's capacity to introduce strategies and policies to attract talented employees and keep them in the Group for a long time, ensuring a workplace of competent, motivated and satisfied employees.	Negative	Risk of losing key personnel due to poor recruitment, training, development, retention, and employee well-being plans, leading to negative repercussions on productivity and business results.
		Positive	Professional growth, performance improvements, and employee satisfaction thanks to adequate training, development, and welfare plans that are consistently updated, fostering commitment, loyalty, and a work-life balance.
Equal opportunities	Adoption of programs and projects to ensure equal opportunity and promote diversity in the company.	Negative	Risk of disparities in the treatment of employees.
		Positive	Creating and promoting an inclusive culture in which stakeholders are satisfied and fulfilled, simultaneously reducing potential incidents of discrimination and treatment disparities in the workplace.
Staff remuneration	Adoption of a performance evaluation and remuneration system to enhance the contribution and commitment shown by employees.	Negative	Poor employee satisfaction.
		Positive	A merit-based remuneration policy that contributes to employee satisfaction, leading to more efficient performance and positively impacting the long-term functionality of the production system.
Employee health, safety and well-being and human rights	Managing health and safety initiatives and training and prevention programmes and monitoring injury rates, work-related ill health and accidents. Commitment to protecting human rights and working conditions of people variously involved in Group activities.	Negative	Failing to mitigate potential injuries, work-related ill health, or accidents. Failing to protect human rights. Failing to protect working conditions.
		Positive	Guaranteeing a culture based on safety and proper and ongoing employee training, contributing to the creation of a safer environment and fewer injuries.
Integrated Corporate Governance	Initiatives and activities to improve and manage governance best practices and compliance processes that help maintain a high standard of corporate governance system and active monitoring of the Internal Control and Risk Management System.	Negative	Unsuitable internal management system.
		Positive	Improved functioning of the company governance system, thereby improving the internal management and control system.

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Cyber security and data protection	Initiatives to guarantee the security of the IT infrastructure and the protection of personal data by combatting 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 compromise the competitiveness of the Company's intellectual property research and development activities by rendering the products and services offered prematurely obsolete and expose the Company to risks of sanctions.	Negative	Risk of unlawful physical or remote access to secret business information and/or unlawful breaches of the confidentiality, integrity or availability of personal data, which, should they occur, could both compromise the competitiveness of the Company's intellectual property research and development activities by rendering the products and services offered prematurely obsolete and exposing the Company to risks of sanctions.
		Positive	Contributing to fewer IT incidents and data breaches, maintaining an efficient supply chain and production system, and guaranteeing maximum company confidentiality.
Quality system management	To manage and maintain over time the highest quality, product performance, competitiveness and service levels in all company processes, in compliance with mandatory standards, and to foster the development of a quality culture based on the motivation and satisfaction of people and internal and external stakeholders.	Negative	Not guaranteeing the satisfaction of staff and internal and external stakeholders.
		Positive	To manage and maintain over time the highest quality, product performance, competitiveness and service levels in all company processes, in compliance with mandatory standards, and to foster the development of a quality culture based on the motivation and satisfaction of people and internal and external stakeholders.
Social and environmental initiatives	Involvement of communities and local authorities through targeted initiatives and corporate donations to support community development, social impacts and environmental protection	Negative	Unsatisfying relationships with the local region and people.
		Positive	Supporting local initiatives and working with local governments and organisations for the well-being and satisfaction of the local region and people.
Corruption prevention	In compliance with the corruption prevention and transparency plan, enhancement, development and adoption of an effective corruption risk management process; promotion of a risk assessment culture within the organisation, encouraging the use of training and awareness-raising paths for the entire staff, alongside the dissemination of an organisational culture based on integrity.	Negative	Failing to comply with transparency and anti-corruption regulations.
		Positive	Fewer breaches of laws, regulations, and unlawful corruption and collusion by employees.
Quality and safety of products and services	Maintenance of high standards of quality and product and service safety during use by the end user.	Negative	Failing to guarantee and ensure the efficiency of final products.
		Positive	Customer satisfaction

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Responsible supplier relationships	Transparent supply chain management, promoting constant dialogue with suppliers and conducting engagement initiatives.	Negative	Not guaranteeing an efficient and productive supply chain.
		Positive	Creating an efficient and productive supply chain.
R&D and innovation	Activities designed to maintain and develop the Group's ability to encourage a culture of innovation, research, and development of new products, technologies, plants and equipment, and services that increase the Group's competitiveness in the market.	Negative	Creating a non-competitive product.
		Positive	Creating a competitive product and Group.
Safety in industrial management	Maintenance of high standards and compliance with regulatory criteria in order to ensure careful management of hazardous substances, processes and production facilities and access to sites.	Negative	Potential workplace injuries and/or accidents (with impacts on reputation and/or business continuity).
		Positive	Contributing to a decrease in potential workplace injuries and/or accidents (with impacts on reputation and/or business continuity).

The 2023 materiality matrix defined on the basis of the Stakeholder Engagement process was then validated by the Sustainability Committee (which gave a favourable opinion on December 13, 2023), and presented to the Board of Directors on December 21, 2023 (which also gave its approval), and is schematised in the following graphic.



The Company has analysed and considered the importance and impact on its organisation of each material topic, confirming its commitment to managing and monitoring those material topics in the course of business activities.

Attention to (i) training and skill development, (ii) talent management and retention, (iii) equal opportunities, (iv) staff compensation, (v) employee health, safety and well-being, (vi) dialogue with social partners, and (vii) social and environmental initiatives has a positive impact both in developing a stimulating a competitive business climate (considering that the Company pays close attention to human capital and well-being), while also attracting talent, making these distinctive feature of the Group's activities and business.

The Company's unwavering focus on issues of (i) integrated corporate governance, (ii) corruption prevention, (iii) cyber security and data protection, (iv) industrial management security and (v) quality system management positively affects compliance with relevant regulations and stakeholder trust, 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 particularly to (i) remediation, (ii) energy consumption and emissions, (iii) waste management, and (iv) water resource management. This creates a positive impact both for the Group - in terms of efficiency of environmental resources - and in absolute terms for the community, also considering the significance of the issue in European law.

The Group pays special attention to R&D and Innovation in terms of positive impact, considering the innovative nature of the Group's business.

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

The 2023 update of the materiality matrix showed that the most relevant topics for the Group and its stakeholders are: Safety in Industrial Management; Health, Safety, Employee Welfare and Human Rights; Training and Development Skills.

Sustainable development goals and priorities for Avio

With the goal of creating a better and more sustainable future, Avio is committed to protecting the environment and ensuring its production processes are sustainable 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.

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.

Avio continues in its plan 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.

The Plan and the Sustainability Policy

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 Sustainability Plan is broken down into objectives, actions, time frames, responsibilities, and allocated resources, and is inspired by the SDG Goals. It is continuously monitored with the support of relevant corporate "owners" to ensure any progress made with regard to sustainable materials and the Company's established objectives is thoroughly and accurately analysed.

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 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.

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.

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.

Among the goals underpinning its Sustainability Policy, in line with the SDGs, Avio:



- aspires to become a leading international contributor to space junk removal missions to create a cleaner space. Space junk is created when spacecraft detach from launchers, or in the event of collisions or explosions. The presence of space debris poses a potential risk as it increases the probability of collisions with satellites currently in orbit or those planned for future launches. 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) [SDG 9 - target 5 "enhance scientific research"];
- is committed to improved observation of Earth for sustainable development [SDGs 13 and 15]. Satellite technology is crucial for Earth observation activities. The majority 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;

is committed to supporting life in Space [SDG 17]. Avio contributes to the ultimate objective of creating a multi-planetary civilisation that can live permanently outside Earth, in orbit, or on other planets, 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.

In addition, Avio pursues other objectives in line with the 2030 Agenda, including:

- striving for and consistently providing quality education [SDG 4];
- guaranteeing dignified employment for all its employees and the economic growth of the system and business in which it operates, committing to adopt increasingly cutting-edge technologies and contributing to the growth of the space sector [SDG 8];
- contributing to combat corruption through practices and policies that foster a culture of transparency and anti-corruption [SDG 16]. One of the indicators of good governance is the reporting of zero instances of corruption. In this regard, Avio complies with all regulations and best practices (Code of Ethics, 231 OMCM, Supplier Code of Conduct), guaranteeing maximum transparency in its business processes. The intention is to combat corruption and put the global economy back on the right track. The Group also imposes the principles of anti-corruption on its entire supply chain, promoting both a respect for the culture of anti-corruption among all suppliers interested in working with Avio, and creating a curated supply chain that ensures the company remains principled and compliant.

Avio also 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.

SUSTAINABLE DEVELOPMENT GOALS



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 (and is periodically updated). This is founded upon qualitative and quantitative ESG indicators to be developed over a five-year timeframe, subject to monitoring by the relevant corporate owners, who report at least semi-annually 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 2023, Avio ramped up skills development training activities and continued a series of training/informative actions that began in 2022. These efforts focused on providing a general overview of corporate sustainability, the principles contained in the NFS, and Avio's sustainability priorities.. 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.

Late 2023 saw the definition of the first course "*NFS- NON-FINANCIAL STATEMENT: How to understand and manage change in companies, measure ESG impacts, and transform business processes towards greater sustainability*", intended for all top managers and employees identified as playing a part in the data collection process for the preparation of the Non-Financial Statement.

The Group has already pledged to provide further sustainability training courses in 2024 by extending the opportunity to members of the Supervisory Board and Board of Directors.

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.

Sustainability communication

Sustainability is an increasingly important issue for Avio, as it seeks to demonstrate its commitment to the environment, society and the economy. In this context, communication plays a key role, informing stakeholders on sustainability activities and achievements.

The adoption of a sustainability communication strategy is essential to increase transparency and trust among stakeholders.

In 2023, with the goal of adding value to its 2022 Non-Financial Statement and highlighting the topics, activities, and sustainability policies crucial to the Group's mission, Avio's Sustainability Office defined a communication strategy in collaboration with the Communication and External Relations Department.

Avio is committed to highlighting the importance of the company's sustainability initiatives and placing greater emphasis on sustainability topics both externally and internally through impactful communication channels, such as its website, social media, and corporate intranet.

Accordingly, the first step was to summarise the main elements of the Non-Financial Statement 2022 within a publicly available document - the "abstract". This must be easy to read for all stakeholders and must highlight Avio's commitment to sustainability issues both in terms of regulatory compliance and best practices.

The abstract was published on the company website in English and Italian.

Towards a Sustainable Supply Chain

Avio is striving to build a solid and reliable supply chain, in an innovative and integrated ecosystem capable of supporting the social and economic development of the territories in which it is present. It therefore considers it beneficial to integrate ESG principles throughout the supply chain.

In order to ensure supplier compliance with sustainability items, it has defined concrete standards on green supply chain objectives that will be introduced and adhered to by all in order to create a truly sustainable supply chain.

Moreover, in accordance with the Sustainability Objectives and Plan, in terms of the development of its supply chain, Avio has begun to involve suppliers on ESG issues, with a view to creating a collaborative sustainable ecosystem, in order to generate significant industrial and employment impacts along the entire supply chain.

For this purpose, a "Supplier Code of Conduct" has been created. This sets out the guidelines and ESG principles to be observed throughout the supply chain.

To guarantee that these principles are commonly shared, Avio is committed to ensuring that compliance with this Code is included as a clause in the General Conditions of each supply contract.

Consob Report on Non-Financial Disclosure²⁹

Avio is at the forefront of ESG factor integration and regulatory compliance, making itself compliant with EU statutes at all times.

Consob's report on the 2022 non-financial disclosure of Italian listed companies recognises Avio among the best in sustainable governance.

This approach complies with the company's sustainability strategy and stakeholder guidance and creates a strongly positive impact on investors.

The aforementioned Report examined changes in how Italian companies have enacted the regulations on non-financial disclosure, introduced by the Non-Financial Reporting Directive (NFRD) 2014/95/EU and transposed in Italy by Legislative Decree No. 254/2016.

The analyses carried out refer to companies with ordinary shares listed on the main Italian regulated market (Euronext Milan) - 213 - and are related to the Non-Financial Statements for the year 2022.

According to this Report, Avio is among the 148 companies that published a NFS in 2022 (representing 69% of the list), among the 103 of those 148 that have an internal sustainability committee (representing 69% of the total), and among the 15 (10% of the total) issuers that have integrated financial information with non-financial information (the "Integrated Report").

Avio is also among the 20% of companies that published a NFS within their Directors' Report (30 companies).

Avio is also part of the 50% of entities that involved their Board of Directors in the materiality analysis (74 companies). According to the data published in the Consob report, Avio is also among those cases in which the Board intervened directly, through the approval, validation or sharing of the materiality matrix - respectively, in 23% (34 companies), 2.7% (four companies) and 7.4% (11 companies) of the cases. It was also among those cases in which the materiality analysis was approved by an internal board committee (mainly the Control and Risks Committee, also combined with the sustainability committee) or by the CEO. There were just 8 of these cases (representing about 5.4% of companies, compared with just under 6% in the previous year).

Building a responsible space community

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 2 bench fire tests.

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.

On November 21, 2022, Avio therefore co-signed the Statement for the "Responsible Space Sector" along with other industrialists and representatives of the European Space Community. It did so to strengthen, together with the other signatories, its commitment to promoting sustainable development in the space sector on Earth and increase the contribution of space activities for the benefit of society.

²⁹ <https://www.consob.it/documents/11973/2358180/rnf2022.pdf/d5a19e2b-1508-dc96-d818-cbbf9a7a8928?t=1696863994874>

The activity began in 2022 and concluded in June 2023. It saw the HSE Directorate and the Sustainability Office take part in several working groups initiated by the European Space Agency (ESA) on the sustainability CHARTER, with the goal of developing shared and strategic sustainability goals for the space sector: "*Decarbonisation Greenhouse gas (GHG) reduction targets at sectorial level*" and "*Responsible Procurement (Socially and environmentally responsible supply chain management and procurement)*" are ongoing.

On November 24, 2023, Avio participated in the "*Statement for a Responsible Space Sector*" event, a meeting organised by the European Space Agency to open a discussion among the signatories of the Statement and with the goal of energising the statement by organising workshops and working sessions among the participants.

Sustainability in space

In order to spread the vision of the Italian space propulsion of the future and to set a sustainability narrative, as part of its collaboration with the Armed Forces Communications & Electronics Association (AFCEA) Avio participated in the conference "*Sustainability in Space, a New Frontier*" at the University of Tor Vergata in Rome.

The Women-themed event was created with the idea of tackling a topic of interest in the aerospace field and having it addressed by active and established women in aerospace.

The meeting was also attended by other leading companies in the aerospace business such as GM Spazio, Thales Alenia Space, Telespazio, Elettronica, D-Orbit, OHB Italia S.p.A., Leonardo, Planetek, Deimos, Serco, Argotec, Sitael, and Tyvak.

Avio presented a talk titled "*Space propulsion as a pillar of the Space Economy: developments and sustainability*".

This speech discussed the important topic of the New Space Economy. This was possible because Avio was among the early promoters of the transformation of space activities from government-run exploration and research applications to the exploitation of commercial services such as satellites, which now play a key role in global sustainability.

Whatever the ultimate purpose of the space mission, it will always need a launch system and, more generally, a propulsion system. Therefore, the space launchers, launch services and space propulsion industry will always constitute a pillar of the space economy. As long as this new and broader economic, commercial and scientific horizon of space use is sustainable, the transport systems segment must be first. Avio has taken up this technological challenge by pursuing sustainability goals for its thrusters, contributing to the current and future European space fleet as prime contractor of the Vega-class light launchers (Vega, Vega C and Vega E) and partner of the Ariane-class heavy launchers.

With a view to promoting gender equality and an inclusive culture, Avio participated in the *Women Economic Forum Empowering Change: Advancing Gender Equality, Prosperity and Sustainable Impact Rome*, with a discussion of the following topic, "*space propulsion: a pillar of the sustainability of the space economy*".

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 "Investors - Shareholders' Meeting" 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

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non-audit services. As the highest governing body, Avio's current Board of Directors (elected at the Shareholders' Meeting on April 28, 2023) consists of eleven members³⁰, six 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 Officer for Financial Reporting 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.

³⁰ As of December 31, 2023, two members of the Board of Directors are under 50 years of age, while the remaining nine are over 50. The Board comprises six men and five women.

On April 28, 2023, the Shareholders' Meeting approved the Remuneration Policy and Report pursuant to Articles 123-ter CFA and 84-quater Consob Issuers' Regulation. The 2023-2025 Performance Share Plan was approved on the same date. This is intended to replace the previous plan approved in 2022 in which the award related to the last cycle of the Long Term Monetary Incentive Plan was made. The three-year performance targets to which the Plan is linked build upon the approach of the previous plan, and include economic/financial targets measured over the three-year period and ESG targets. The beneficiaries of the plan are the Chief Executive Officer/General Manager, the Senior Executives and other Managers with strategic roles for the Company. The Plan is a valuable tool for incentivising and retaining Beneficiaries, as parties playing a key role in achieving Avio's objectives, and aligning their interests with those of the shareholders. The incentivisation and retention of Beneficiaries through the allocation of instruments representing the value of the Company on the basis of the achievement of certain Performance Targets is, in fact, an indispensable tool for the Company to pursue its path in line with the objectives it has set itself.

The key changes introduced in the 2023 Policies include:

- Introduction of a new long-term incentive plan, the Performance Share Plan, which provides for the grant of rights to receive shares, based on the extent to which targets measured over the three-year vesting period are achieved; grants will be made annually.
- Review of the CEO/GM compensation package, in line with the benchmarking analysis conducted with the support of an independent advisor.
- Introduction of a Restricted Share Plan, an important retention, loyalty and engagement tool, for managers who play a key role in the achievement of Avio's strategic targets, providing for the grant of rights to receive free shares at the end of a 36-month period.
- The Company may define in advance the compensation due in the event termination of employment of Senior Executives.

Specifically, by adopting the Plan the Company intends to:

- align the interests of the Beneficiaries with those of the shareholders and Avio's strategic plan;
- link the remuneration of the Beneficiaries, as subjects who play a key role in the achievement of Avio's objectives, to the achievement of specific pre-set long-term objectives in line 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 over a long-term horizon while directing Beneficiaries towards decisions that pursue the creation of value for the Company in the medium to long term;
- support the attraction, retention and engagement of key staff in line with the corporate culture, while pursuing an efficient choice in terms of the costs generated by the Plan;

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

In accordance with the Corporate Governance Code, the Board of Directors has established³¹:

- 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;

³¹ For further details on the composition of the Committees, please refer to the Corporate Governance and Ownership Structure Report.

- 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:

- a) examine and evaluate (a) policies based on the principles of sustainable business, which take into account the evolution of reference scenarios and identify opportunities and create value over time in the medium to long term for stakeholders, such as (i) ethics; (ii) environmental protection, with particular reference to the issue of climate change; (iii) socio-economic progress and the enhancement of the territories where the Company operates; (iv) the creation of economic development based on innovation and responsible industrialization (v) and the health, safety and well-being of people; (vi) the protection of human rights and the enhancement of differences and equality in the treatment of people;
- b) examine the general outline of the Consolidated Non-Financial Statement (hereafter also "NFS") and the articulation of its contents, as well as the completeness and transparency of the information provided through the NFS, providing observations to the Board of Directors called upon to approve this document; examines and monitors the implementation of a Group sustainability plan, which sets out the strategic priorities, commitments, objectives, also of a quantitative nature, for the development of the economic, environmental and social responsibility of the Company, in line with the UN SDGs and the objectives of the business plan and the financial reporting;
- c) support the Board of Directors in defining a sustainability policy with the objective of strengthening and implementing the values of ethics, integrity and responsibility in respect of people, the environment and society as a whole, in order to integrate sustainability into the strategy and management of its business, defining with the different company departments the objectives to be enhanced in a sustainability plan aligned to a Group business plan.
- d) examine the implementation of the sustainability policy in the business initiatives, to be also included in the Remuneration Policy and Report, based on the indications of the Board of Directors;
- e) monitor sustainability initiatives and the Company's participation in them, with a view to consolidating the Company's reputation on the international front, also with reference to the development of relations with institutions, organisations and research centres with recognised expertise in sustainability matters;
- f) strengthen the dissemination of the culture of sustainability among employees, shareholders, business partners, customers and, more generally, stakeholders through the examination and monitoring of a stakeholder engagement plan in line with the defined objectives and targets;
- g) monitor the Company's positioning with respect to the financial markets on sustainability issues, with particular reference to the relationship with ESG rating agencies and participation and inclusion in ethical sustainability indices;
- h) at the Board's request, expressing an opinion on other sustainability issues.

Avio S.p.A. is increasingly determined to integrate sustainability into its industrial and business activities. To achieve this goal, the company is pursuing various initiatives, one of the most significant being the establishment of an increasingly robust and comprehensive sustainability governance. The company's sustainability framework, housed within its Legal Compliance & Corporate Affairs Department, encompasses:

- a Corporate Sustainability Director, who coordinates and oversees the entire corporate sustainability initiative, ensuring compliance and supervising the overall process of publishing the Consolidated Non-Financial Statement;
- a Sustainability Steering Committee, comprising key corporate figures with specific responsibilities for defining appropriate policies and objectives, conducting specific projects, and reporting on the relevant results;
- a Sustainability Office: a working group comprising employees with specific ESG skills. The team takes the operational actions defined in the Sustainability Plan and reports on the results, including in relation to the NFS, thereby contributing to the promotion of a "culture of sustainability".

Avio S.p.A. demonstrates a principled approach to sustainable governance. The Company's sustainability framework is increasingly sophisticated and integrated into its corporate divisions and business activities, demonstrating that it is possible to combine economic performance with sustainability to create value for all stakeholders.

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 properly adopts the necessary processes for all corporate bodies to prevent potential conflicts of interest. In this regard, in addition to compliance with specific regulatory provisions on independence, the Company has adopted a Policy on qualitative and quantitative criteria for assessing the significance of independence requirements for 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. The Company has also adopted a specific Related Party Transactions Policy.

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 Étique* of the French subsidiary Regulus, and the Diversity Policies of the administration and control bodies (in place since 2021). The Group further strengthens its commitment to this cause by condemning all types of discrimination in every aspect of the employment 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 January 26, 2024;
- of the Inside Information Processing Policy, last approved by the Board of Directors on September 9, 2022;
- an Organisation, Management and Control Model, as per Legislative Decree No. 231/2001, as amended, and updated on December 21, 2023, by the Company's Board of Directors to account for all legislative changes introduced by Legislative Decree No. 231/2001;
- a Whistleblowing Procedure in compliance with the Whistleblowing Decree (Legislative Decree No. 24/2023). This allows reports to be sent electronically and guarantees - including through encryption tools - the confidentiality of the identity of the whistleblower, the person involved and the person mentioned in the report, in addition to the content of the report and the related documentation.
- an Avio Group Code of Ethics, last approved on June 20, 2023 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 20, 2023 by the Board of Directors of the Company;
- a Diversity policy, approved by the Board of Directors of the Company on March 19, 2021 - and in a second version approved on March 14, 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 Engagement 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 Ethics, 231 Model, Whistleblowing Procedure) 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. Specifically, the companies Temis S.r.l., 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, the organism charged with overseeing implementation of and strict adherence to the Model. Foreign firms have implemented the 231 guidelines issued by the Company. In 2023, 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 Group companies also updated their Organisational Models.

In addition, Avio participates in the OECD's Business and Industry Advisory Committee (BIAC) through its General Counsel. The BIAC is the officially recognised institutional representative for businesses, voicing the opinions of over 300 multinational companies and business associations worldwide. This appointment demonstrates Avio's commitment to promoting ethical business practices that combat corruption and strengthen the achievement of its ESG governance objectives.

Regulatory developments always have a substantial impact on the Corporate Procedures of 231 significance, which were developed and updated in 2023 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 widespread distribution to its suppliers of a Declaration of Intent, designed to make 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 approximately Euro 0.6 million in 2023.

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. and the jointly controlled company Europropulsion S.A. are 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. The Company therefore adopts a regime of documentary charges on transfer pricing in transactions with associated

enterprises. This enables it to access the bonus regime provided under Article 1, paragraph 2-ter of Legislative Decree No. 471 of 1997. A master file and a national document describing the main intra-Group transactions between entities established in different countries and their fairness criteria are drawn up with the assistance of external consultants.

On the basis of information from the Group's Annual Financial Report for 2023, 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 reporting	Italy	France	French Guiana	USA	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	1,149	5	98	4	1,256
Revenue from sales to third parties	341,864,510	0	1,831,778	0	343,696,288
Revenue from inter-company transactions with other tax jurisdictions		1,023,415	25,662,793		26,686,208
Pre-tax profit/loss	8,670,430	66,043	-208,125	-1,887,299	6,641,048
Corporate income tax accrued on profit/loss	-24,716	20,335	-12,639		-17,020

DISCLOSURE ON THE EU TAXONOMY FOR SUSTAINABLE ACTIVITIES

In December 2019, the European Commission launched the European Green Deal, comprising a set of political initiatives with the overarching goal of achieving climate neutrality in Europe by 2050. To reach this goal, the European Union encourages investments in environmentally sustainable initiatives.

With this in mind, Regulation (EU) 2020/852 (Taxonomy Regulation) introduced a classification system or "taxonomy" for sustainable activities based on the use of statistical classification codes for economic activities within the European Community (NACE codes).

The Taxonomy comprises a classification of economic activities considered environmentally sustainable. It is designed as a tool to guide investment and business choices, fostering the transition to economic growth without negative impacts on the environment, particularly with regard to the climate.

Regulation (EU) 2020/852 establishes criteria to determine if an economic activity can be considered "environmentally sustainable" based on its substantial contribution to six objectives:

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy (including reference to the reduction and recycling of waste)
- Pollution prevention and control
- Protection of biodiversity and the health of ecosystems

In 2021, additional Delegated Regulations were incorporated into the regulatory framework, including (1) Delegated Regulation (EU) 2021/2139 (Climate Delegate Act) and (2) Delegated Regulation (EU) 2021/2178, which establishes a compulsory disclosure system for companies subject to non-financial reporting obligations.

Regulation (EU) 2021/2139 focuses on activities that contribute to the two objectives defined in the Taxonomy Regulation, (1) climate change mitigation and (2) climate change adaptation.

As stipulated by the regulatory framework, companies must disclose both the eligibility value of their economic activities and their alignment value with the taxonomy. This refers to activities that are eligible and also:

- substantially contribute to at least one of the environmental objectives;
- do not cause significant harm (DNSH) to any of the other objectives;
- respect the minimum social and governance safeguards and technical screening criteria.

In addition, based on Regulation (EU) 2021/2178 (Disclosure Regulation), companies must provide the following qualitative and quantitative information in reference to each eligible activity:

- KPIs related to turnover, capital expenditure (CapEx), and operating expenditure (OpEx) (par. 1.1)
- Information on how KPIs are determined, financial references, any variations, and other relevant information (details on the disclosure accompanying the KPIs) (par. 1.2)
- Description of the nature of aligned activities and illustration of how compliance was assessed, along with details on calculations, indicating the adopted methodology (par. 2)

In 2023, the regulatory framework was subject to further additions with Delegated Regulation (EU) 2486/2023, which introduced technical screening criteria for four "new" objectives:

- (3) sustainable use and protection of water and marine resources,
- (4) transition to a circular economy,
- (5) pollution prevention and control,
- (6) protection and restoration of biodiversity and ecosystems.

In addition, Regulation (EU) 2486/2023 amended some provisions of Regulation 2178/2021, providing that the regulatory provisions related to the 4 new objectives apply from 2024, non-financial companies must disclose their share of eligible and ineligible economic activities (in relation to the 4 new objectives) and from the following year the information already required for environmental mitigation or adaptation objectives must also be provided for each of the objectives mentioned above.

AVIO'S REPORTING

Pursuant to Article 8 of Regulation (EU) 2020/852, the Group must provide within its DNF disclosure on Taxonomy for fiscal year 2023. This disclosure relates to three Group indicators: turnover, investment, and operating costs pertaining to (i) the economic activities eligible and aligned to the Taxonomy with reference to climate change mitigation and adaptation objectives, (ii) the economic activities eligible to the Taxonomy with reference to the environmental objectives in Delegated Regulation (EU) 2023/2486, as well as (iii) the new economic activities identified as eligible for climate-related objectives identified in Delegated Regulation (EU) 2023/2485. Please refer to Delegated Regulation (EU) 2021/2178 for the definition of these indicators. It should also be noted that the disclosure required by Article 8, paragraphs 6 and 7 of Delegated Regulation (EU) 2021/2178 is not applicable, as the Group does not operate in nuclear energy/fossil gas-related business sectors and therefore has not identified eligible/aligned activities in these areas.

To define the denominators of the aforementioned KPIs, the provisions in Annex I of Regulation 2021/2178 (Disclosure Regulation) were taken into account, namely paragraphs 1.1.1., 1.1.2.1. and 1.1.3.1.

To define the numerators, the provisions of the same Regulation were taken into account, namely paragraphs 1.1.1, 1.1.2.2. 1.1.3.2.

The assessments of eligibility were conducted while taking into account the descriptions of economic activities included in Annex I (climate change mitigation) and Annex II (climate change adaptation) of Delegated Regulation (EU) 2021/2139.

We note that Avio's primary activity is "Aerospace", which is comparable to NACE code C30.3 "Manufacture of air and spacecraft and related machinery". This activity is not included among the economic activities specified in Delegated Regulation (EU) 2021/2139 and, therefore, significantly influences reporting on the Taxonomy.

Nonetheless, we also note that Delegated Regulation (EU) 2020/852 was incorporated into Regulation 2023/2486, along with the technical screening criteria for the following objectives: (3) sustainable use and protection of water and marine resources, (4) transition to a circular economy, (5) pollution prevention and control, and (6) protection and restoration of biodiversity in ecosystems. This Regulation also introduced the "Aerospace" sector, which is Avio's primary area of activity.

Specifically, under objective (4) "transition to a circular economy", the NACE Code was introduced: C30.3 "Manufacture of aircraft, spacecraft, and related equipment" associated with economic activity 5.3 "Preparation for reuse of end-of-life products and components of products", which refers to products and their components manufactured by economic activities associated with the aforementioned NACE code C30.3. For this economic activity from 2024, and thus from the current report, the "eligible" share and the related environmental target should be reported, while from next year the "aligned" or "non-aligned" share should also be reported.

It should be noted that, considering the regulatory developments just mentioned, the percentages of eligible and/or aligned activities may change significantly in the 2024 reporting.

The following pages present tables regarding the quantitative KPIs for turnover, CapEx, and OpEx. The qualitative information related to each eligible activity is reported below, specifically:

Information on how KPIs are determined, financial references, any variations, and other relevant information (Regulation 2021/2178, paragraph 1.2)

Description of the nature of the aligned activities and an illustration of how compliance was assessed, along with details on calculations (Regulation 2021/2178, paragraph 1.3), indicating the methodology adopted (Regulation 2021/2178, paragraph 2)

The EU Taxonomy requires the Company's activities to be represented through three key performance indicators ("KPIs") structured according to the specifications outlined in Article 8 of the Delegated Regulation: Turnover (Revenues), CapEx and OpEx.

Turnover

The share of turnover aligned with Taxonomy results from the ratio of net revenues from aligned activities (numerator) to total net revenues (denominator).

The overall denominator of KPI turnover refers to the item "revenue" in the Consolidated Statement of Comprehensive Income to 2023, consolidated in accordance with IAS 1.82(a). In particular, the value can be reconciled with Avio Group's annual financial report.

The numerator of KPI Turnover is net revenues associated with eligible and/or aligned activities.

The Regulator has provided that Avio's main activity, concerning the manufacture of spacecraft and related devices, is subject to reporting under Objective (4) Circular Economy in relation, for the year under review, to eligibility only (or not).

The value listed as "eligible" thus corresponds to Avio's production activity related precisely to spacecraft and related devices.

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. Therefore, as part of the reporting for 2024, the values for comparison with the current year may change.

CapEx

The Taxonomy defines capital expenditures (CapEx) as increases in tangible and intangible assets recognized during the year, before depreciation and amortization, write-downs and revaluations. It is specified that increases attributable to business combinations are not included, nor any expenses incurred attributable to CapEx plans referred to in Section 1.1.2 of Annex I of Delegated Regulation (EU) 2021/2178.

The numerator of the KPI corresponds to the increases in activities specifically identified as eligible, for the values and activities shown in the table. Some values refer to economic activities referable to EU Regulations 2485/2023 and 2486/2023 and their "eligibility" is indicated for them.

The denominator corresponds to the total increases in assets which, are allocated, by difference with the value of the numerator, to item B.

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. Therefore, in the context of reporting for 2024, the values for comparison with the current year may change.

OpEx

The Taxonomy defines operating expenses as the direct non-capitalized costs associated with research and development, maintenance and repair of buildings, plant and equipment, necessary to ensure the continuous and effective operation of these assets and not undertaken to increase the related asset values. In order to identify its share of Opex, Avio evaluated the costs incurred against the criteria in the Delegated Regulations, and this analysis did not reveal eligible or aligned expenses.

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. Therefore, as part of the reporting for 2024, the values for comparison with the current year may change.

ECONOMIC ACTIVITIES (KPI = Turnover)	NACE code(s)	Total Turnover	Revenue Share (%)	Substantial contribution criteria						DNSH criteria (Does Not Significantly Harm)						Minimum safeguards	Proportion of Turnover aligned with 2023 taxonomy (N)	Proportion of Turnover aligned with 2022 taxonomy (N-1)	Activity Category A-Enabling or T-Transition
				Climate change mitigation (1)	Climate change adaptation (2)	Water and marine resources (3)	Circular Economy (4)	Pollution (5)	Biodiversity and ecosystems (6)	Climate change mitigation (1)	Climate change adaptation (2)	Water and marine resources (3)	Circular Economy (4)	Pollution (5)	Biodiversity and ecosystems (6)				
A. ECONOMIC ACTIVITIES "ELIGIBLE" FOR THE TAXONOMY																			
A.1 ECONOMIC ACTIVITIES "ALIGNED" TO THE TAXONOMY																			
Total aligned environmentally sustainable activities (A.1)		-	0%																
A.2 ECONOMIC ACTIVITIES "NOT ALIGNED" TO THE TAXONOMY																			
5.3 Preparation for reuse of products and components to end (spacecraft production and related devices) (*) (**)	C30.3	143,810	42%				Eligible			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A		
Total non-aligned environmentally sustainable activities (A.2)		143,810	42%																
TOTAL A.1 + A.2		143,810	42%																
B. ECONOMIC ACTIVITIES "NOT ELIGIBLE" FOR THE TAXONOMY																			
<i>Total activities not eligible for the taxonomy (B)</i>		199,886	58%																
TOTAL TURNOVER (A1+A2+B)		343,696	100%																

(*) The requirement is stipulated in Regulation 2023/2386, effective January 1, 2024. At that time, any alignment with the taxonomy is subject to verification for the current year.

(**) This activity refers only to spacecraft production included in the Circular Economy objective and not subject to alignment verification for the current year.

2023 Consolidated Non-Financial Statement

ECONOMIC ACTIVITIES (KPI = CapEx)	CodeNACE (2)	Total CapEx	CapEx share (%)	Substantial contribution criteria						DNSH criteria (Does Not Significantly Harm)						Minimum safeguards	CapEx quota aligned with 2023 taxonomy (N)	CapEx quota aligned with 2022 taxonomy (N-1)	Activity Category A-Enabling or T-Transition
				Climate change mitigation (1)	Climate change adaptation (2)	Water and marine	Circular Economy (4)	Pollution (5)	Biodiversity and	Climate change mitigation (1)	Climate change adaptation (2)	Water and marine resources (3)	Circular Economy (4)	Pollution (5)	Biodiversity and ecosystems (6)				
A. ECONOMIC ACTIVITIES "ELIGIBLE" FOR THE TAXONOMY																			
A.1 ECONOMIC ACTIVITIES "ALIGNED" TO THE TAXONOMY																			
5.5. Collection and transport of non-hazardous waste in source segregated fractions	E38.11	72	0.19%	100%	0%					Contr.s ost.	Y	Y	Y	Y	Y	72	Y/N	A	
7.2. Renovation of existing buildings	F41, F43	83	0.21%	0%	100%					Y	Contr.s ost.	Y	Y	Y	Y	83	Y/N	A	
7.3. Installation, maintenance and repair of energy efficiency equipment	C.16, C.25, C.27, F.43	134	0.35%	0%	100%					Y	Contr.s ost.	Y	Y	Y	Y	134	Y/N	A	
7.4. Installation, maintenance and repair of charging stations for electric vehicles in buildings	F43	20	0.05%	100%	0%					Contr.s ost.	Y	Y	Y	Y	Y	20	Y/N	A	
Total aligned environmentally sustainable activities (A.1)		309	0.80%																
A.2 ECONOMIC ACTIVITIES "NOT ALIGNED" TO THE TAXONOMY																			
7.2. Renovation of existing buildings (*)	F41, F43	640	1.65%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
3.2. Renovation of existing buildings (**)	F41, F43	866	2.24%				Eligible			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Total non-aligned environmentally sustainable activities (A.2)		1,506	3.89%																
TOTAL A.1 + A.2		1,814	4.69%																
B. ECONOMIC ACTIVITIES "NOT ELIGIBLE" FOR THE TAXONOMY																			
<i>Total activities not eligible for the taxonomy (B)</i>		36,911	95.31%																
TOTAL CAPEX (A1+A2+B)		38,725	100.00%																

(*) This activity relates to anti-seismic measures that are not included in mitigation or adaptation activities.

(**) This activity refers to the Circular Economy objective and is not subject to alignment verification for the current year.

(***) Many of the investments are in support of the spacecraft and related device manufacturing activities, activities not included in the mitigation or adaptation targets, in place for 2023.

2023 Consolidated Non-Financial Statement

ECONOMIC ACTIVITIES (KPI = OpEx)	Code NACE (2)	Total OpEx	OpEx share (%)	Substantial contribution criteria						DNSH criteria (Does Not Significantly Harm)						Minimum safeguards	OpEx share aligned with 2023 taxonomy (N)	OpEx share aligned with 2022 taxonomy (N-1)	Activity Category A-Enabling or T-Transition
				Climate change mitigation (1)	Climate change adaptation (2)	Water and marine resources (3)	Circular Economy (4)	Pollution (5)	Biodiversity and ecosystems (6)	Climate change mitigation (1)	Climate change adaptation (2)	Water and marine resources (3)	Circular Economy (4)	Pollution (5)	Biodiversity and ecosystems (6)				
A. ECONOMIC ACTIVITIES "ELIGIBLE" FOR THE TAXONOMY																			
A.1 ECONOMIC ACTIVITIES "ALIGNED" TO THE TAXONOMY																			
Total aligned environmentally sustainable activities (A.1)		-	0.00 %																
A.2 ECONOMIC ACTIVITIES "NOT ALIGNED" TO THE TAXONOMY																			
Total non-aligned environmentally sustainable activities (A.2)		-	0.00 %																
TOTAL A.1 + A.2		-	0.00 %																
B. ECONOMIC ACTIVITIES "NOT ELIGIBLE" FOR THE TAXONOMY																			
<i>Total activities not eligible for the taxonomy (B)</i>		-	0.00 %																
TOTAL OPEX (A1+A2+B)		-	0.00 %																

Notes to KPI Tables*Turnover

"Total Turnover" (A1+A2+B) must equal total Sales and Service Revenues as per the financial statements.

If 100% of Avio's Revenues in 2023 related exclusively to "Manufacture of air and spacecraft" (Activity Code C30.3), 100% of those revenues and the related economic value should be reported under item B

**CapEx

"Total CapEx" (A1+A2+B) must be reconciled (including outside the accounting system) with the increase in total activities for the items considered under "total capital expenditures" in the CapEx KPI

***OpEx

"Total OpEx" (A1+A2+B) must be reconciled (including outside the accounting system) with the total charges as per the financial statements corresponding to the "total current operating expenses" of the OpEx KPI.

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 2023 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 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) and has defined a set of protocols outlining duties and responsibilities regarding security matters.
Social Supply chain	Lack of transparency in the supplier selection processes.	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.

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		<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 manage their 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 and, most recently, by Temis S.r.l. In addition, the Anti-Corruption Code was introduced for both Avio and Regulus in 2019, 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.	<p>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).</p>

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	Compliance with Legislative Decree No. 81/08.	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>The internal control system has been formalised and structured in accordance with Legislative Decree No. 81/08 (occupational health and safety).</p>
Personnel	Loss of strategic and technical know-how.	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.
	Mismanagement of relations with trade unions.	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.
	Inadequate recruitment procedure for attracting and integrating talent.	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.

	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.).	The Group has implemented structured procedures that outline roles and obligations pertaining to the safety of Avio staff overseas or on assignment.
	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.
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 weather conditions.

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.

Climate change

Avio S.p.A. places constant environmental protection at the basis of its management and development strategies and maintains a specific commitment to protect the environment, including the prevention of pollution and the search for continuous improvement in its environmental performance.

Climate change is an urgent and imminent threat to the planet and future generations. The company, aware of the seriousness of the situation, is committed to playing an active role in the campaign against this phenomenon, taking responsibility for actively contributing to the achievement of global goals.

With a view to mitigating the negative impacts of climate change, Avio has set specific goals.

In this regard, in alignment with the Paris Agreement, Avio is committed to developing a medium-to-long-term decarbonisation plan that involves the progressive reduction of CO₂ and other greenhouse gas emissions generated by its business activities. Avio recognises the significance of adopting a strategic and systematic approach to the management of risks and opportunities linked to climate change. In addition to its commitment to mitigate the negative impacts of its own business, Avio has taken it upon itself to identify and adopt the best strategies to reduce the risks and seize new opportunities that will arise in this transitional environment.

Its greenhouse gas emissions reduction strategy will be based on the mapping of CO₂ and other greenhouse gas emissions along the entire value chain, from distribution to the consumption of company products, in line with European regulations on reporting. On the basis of this mapping, Avio will initiate a process to define concrete and specific objectives for reducing emissions, identifying the most effective technologies and solutions to achieve them.

In this regard, the Company will invest in innovative technologies and sustainable solutions to optimise energy consumption and improve the performance of production processes. The Company will also work on plants with atmospheric emissions to increase their efficiency, and new ones will be installed based on the most modern criteria. Decarbonisation will be the subject of a multi-year plan designed both to improve energy supply sources and reduce CO₂ emissions through the construction, in partnership with Cogenio/EnelX, of a new cogeneration plant smaller than the existing one, and to pursue the offsetting approach, with CO₂ capture from the natural areas that cover large areas of the land owned by the Group, which will be the subject of specific action.

Responsible natural resource management will also be promoted through reduced water use, improved waste management, and limited use of environmentally harmful substances and preparations. This commitment is not only limited to the company. Avio believes collaboration at every level is essential in tackling the global challenge of climate change. As such, it is committed to involving employees and raising their awareness of sustainability issues, promoting a corporate culture founded on responsibility and a commitment to environmental protection, and collaborating with institutions, associations and other companies to find common solutions and develop best practices.

By pursuing these goals, the Company seeks to help create a safer and more sustainable future for people and for the planet. Against a backdrop of uncertainty and global challenges, the Company takes on the responsibility of being a proactive player in change, demonstrating that sustainability is not only an essential value, but also an opportunity to grow and prosper as part of a more resilient and sustainable future, considering the entire product life cycle.

By mapping risks related to climate change in the Company's ERM (Enterprise Risk Management), and through a structured process of discussion with the relevant internal management, Avio has identified the risks related to the potential impacts of climate change.

Specifically, the following were identified:

- an event related to "*Physical risks associated with the rise in economic costs and financial losses due to the increased frequency of extreme weather events related to climate change*": since certain processing facilities require significant thermal stability to perform delicate processes, changes in external climate conditions could affect energy consumption and have a significant economic impact, given the rise in energy prices. To mitigate this risk, the Company uses 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.

- an event related to "*Physical risks associated with extreme weather events*" connected to the potential for plant shutdowns and the loss of products due to extreme weather events. Among these, the following risks have been mapped: seismic events, flooding, tornadoes, and fires. A risk assessment of these events was conducted. The ways in which active products are handled and stored, in addition to the management of top event areas, indicate a very low probability of a significant event and/or operational shutdown. This finding is also consistent with the provisions of the Management System's internal Emergency Plan. Considering the historical data, geographical location, and existing risk management tools, the likelihood of these events causing plant shutdowns or a loss of products is deemed to be remote.

In addition, an infrastructure works plan is currently underway to improve building resistance, where necessary. With regard to fires, the local area is patrolled 24 hours a day by security guards and monitored by the Company's fire prevention service. Therefore, the probability of an event causing damage to plants and/or products is deemed remote, given that prompt intervention would prevent a fire from spreading to buildings. In relation to the potential occurrence of tornadoes and/or floods, we believe that current safety measures guarantee a sufficient level of security.

For further discussion, please refer to the section "*accounting estimates and significant judgments made to account for the impacts of climate risks*" included in the "*accounting policies and methods applied*" section of the 2023 Consolidated Financial Statements.

In addition, please refer to the section "*EU Taxonomy Disclosure*" for specific further discussion in the area of *climate change*.

In line with the well-established ISO 14001:2018 certification (since 2010 adopted as a voluntary best practice), Avio has issued a specific Environmental Policy. This is reviewed annually by senior management and has to date never been disobeyed. The Policy sets out the organisation's targets, objectives and actions to ensure continuous improvement in environmental performance.

Among the general goals defined by the organisation and constantly monitored through the management system for continuous improvement, five are identified as attempting to limit the environmental impacts of climate change. For more information, refer to the chapter titled "*The environmental impact of the Avio Group*".

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 2023, 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 2023 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 Airolo 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. In line with the relevant ISO standard, this policy was updated in 2018, also integrating *Qualité de Vie et des Condition de Travail* and *Prevention des Accidents Majeurs*.

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.

Following further regulatory changes, most recently on December 21, 2023, Avio's Model was updated with reference to the General and Special Sections. The Group Companies adopt corporate organisation, management and control models based on a system of principles (Vision, Mission, Values, Policies, Code of Ethics, 231 Model, Whistleblowing Procedure) 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. Specifically, the companies Temis S.r.l., Se.Co.Sv.Im S.r.l., Spacelab S.p.A. and Servizi Colferro S.C.p.A. have adopted their own Management, Organisation and Control Models in accordance with Legislative Decree No. 231/2001 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. In 2023, 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 Group companies also updated their Organisational Models.

Regulatory developments always have a substantial impact on the Corporate Procedures with 231 relevance which were implemented and modified in 2023 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. Following the entry into force and in accordance with the indications of the Whistleblowing Decree (Legislative Decree No. 24/2023), Avio has substantially rewritten its Whistleblowing Procedure, adapting it to the new legislation and extending its scope of application. The Whistleblowing Procedure allows reports to be sent electronically and guarantees - including through encryption tools - the confidentiality of the identity of the whistleblower, the person involved and the person mentioned in the report, in addition to the content of the report and the related documentation.

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 the 231 Model and their periodic updates 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, since 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 2023, 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.



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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 2023, Avio also participated with BIF members and other invited companies in a variety of scheduled online meetings, at which the activities planned for 2023 were presented and various themes discussed.

In 2023 Avio participated in the various events organised by Transparency Italia. Specifically, it contributed to the event that was rescheduled for January 2024 on Corruption, which saw the CPI 2022 Corruption Perception Index presented at the headquarters of the Representation in Italy of the European Commission and the European Parliament.

The Company also assiduously cooperates with the Italian Transparency and Anti-Corruption Association (AITRA), a nonprofit organisation which since 2015 has brought together public employees, professionals, and business men and women with firsthand experience of the responsibilities and experiences involved in the role of Corruption Prevention Officer, Transparency Officer, Anti-Money Laundering Officer, Personal Data Protection Officer, and Compliance Officer under the current anti-corruption regulations (Law 190/2012, as amended).

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.

In this regard, AITRA organised several webinars in 2023 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:

- Gender equality certification on sustainability and compliance - March 20, 2023 - CNEL
- NRRP and Anti-corruption: Risk prevention and resource management efficiency - May 29, 2023 - EY
- New procurement code: on legality, transparency and good practices - June 12, 2023 - CNEL
- Corporate awareness and cyber risk management - July 4, 2023 - Grimaldi Alliance
- Corporate control law - October 30, 2023 - Einaudi Foundation
- Transparency, Digitalisation and Privacy in Public Procurement: New features in Legislative Decree No. 36/2023 - Dec. 6, 2023 - Ministry of Business and Made in Italy

AITRA is very active in a number of aspects of corporate compliance, creating for its members an overview and opportunity for all-around discussion and training in every aspect of integrated corporate compliance. As such, it deals with key issues such as sustainability and the gender gap, both from a regulatory compliance and best-practice perspective. In this regard, it has scheduled a conference entitled "*Target Corporate Gender Equality. Between EU, National and 2030 Agenda Equality Strategy*" for 2024. The event is organised in collaboration with the European Parliament and Women7 Italian Presidency and with the media partnership of 4cLegal and will be held in Rome at the Europa Experience David Sassoli Conference Room.

In 2023, AITRA also took part in the "*360 integrity&transparency*" initiative developed by [compliancedesign.co.uk](https://www.compliancedesign.co.uk) to promote and highlight the projects which pay closest attention to the values of anti-corruption, transparency, ethics and integrity. The 2023 Awards to be given in 2024 are divided into five categories: Top Level Commitment, Risk Assessment & Planning, Know Your Partner, Whistleblowing Systems, and Compliance Design.

With regards to the Group overseas companies, Avio has drawn up specific "231 Guidelines"³², 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).

³² 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 corruption³³

Operations assessed for risks related to corruption	unit	2021	2022	2023
Processes assessed for corruption risks	No.	20	21	28
Total operations		33	37	51
Processes assessed for corruption risks	%	60	57	55

Avio's commitment to integrity, corruption prevention and regulatory compliance was repaid by the absence of competition and antitrust lawsuits in 2023, and by the lack of monetary and non-monetary sanctions received for breach of economic and social laws and violation of regulations.

In 2023, 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 encouraging conscious and responsible behaviours.

In the framework outlined, as of December 31, 2023, the total number of Group employees³⁴ was 1,256, an increase of 109. The total also includes the 32 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 1,117 staff, an increase on the 1015 individuals employed by the company at December 31, 2022.

In order to promote stable employment and long-term relations, a high number of Group employees (96.6%) have permanent employment contracts.

With regard to Avio, at December 31, 2023, there were 31 workers on temporary and fixed-term contracts, of whom 1 at Spacelab, and 42 consultants. In 2023, 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 (68%) are aged between 30 and 50 years. The average age of employees is 42 for the Group's Italian Companies, 34 for Avio France, 46 for Regulus, 46 for Avio Guyane, and 39 for Temis. With regard to corporate seniority, there is a greater concentration in the "0-5 years" and "11-20 years" brackets (about 46% and 22% of the population, respectively), a figure that confirms the Group's growth and strong sense of belonging in 2023.

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.

³³ The statistic represents the total number of Avio, Sescovim and SpaceLab operations that underwent corruption risk assessment in 2023. 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.

³⁴ 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.).



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Employee category	2021			2022			2023		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Executives	28	1	29	30	1	31	37	4	41
Under 30	0	0	0	0	0	0	0	0	0
Between 30 and 50	9	0	9	8	0	8	7	1	8
Over 50	19	1	20	22	1	23	30	3	33
Managers	208	45	253	234	57	291	257	62	319
Under 30	3	1	4	4	0	4	0	0	0
Between 30 and 50	137	36	173	157	44	201	168	48	216
Over 50	68	8	76	73	13	86	89	14	103
White-collar	273	73	346	361	88	449	425	98	523
Under 30	48	8	56	81	23	104	100	31	131
Between 30 and 50	183	57	240	240	59	299	276	59	335
Over 50	42	8	50	40	6	46	49	8	57
Blue-collar	341	22	363	351	25	376	348	25	373
Under 30	16	0	16	13	1	14	11	1	12
Between 30 and 50	262	19	281	274	21	295	270	21	291
Over 50	63	3	66	64	3	67	67	3	70
Total	850	141	991	976	171	1,147	1,067	189	1,256

*The figure also includes, from 2023, Avio USA.

Percentage figure for each professional category

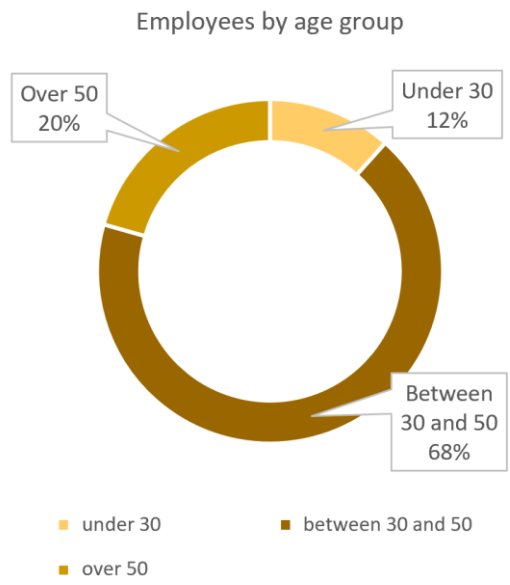
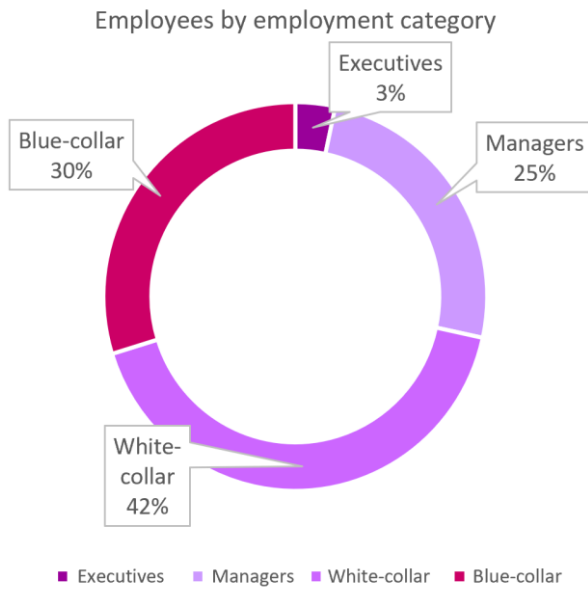
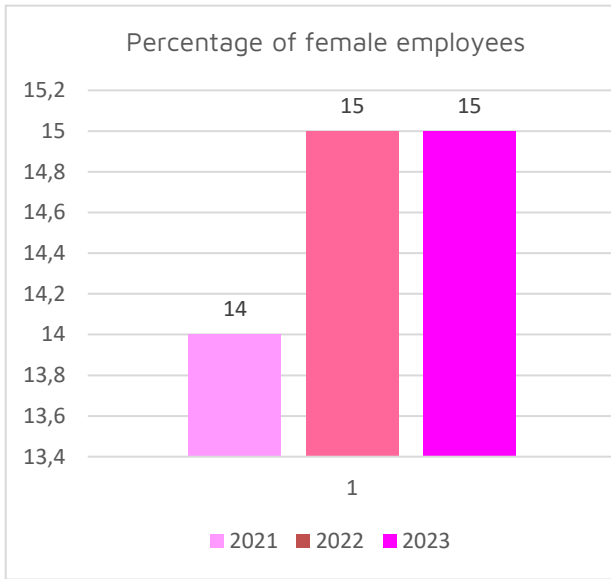
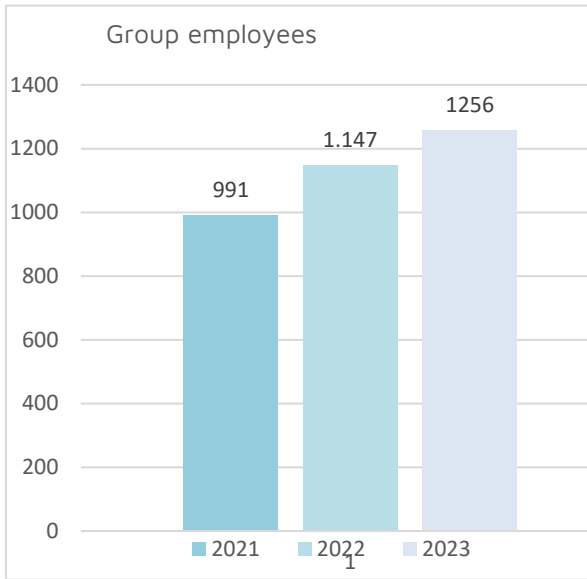
% Employee category	2021			2022			2023		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Executives	3%	1%	3%	3%	1%	3%	3%	2%	3%
Under 30	0%	0%	0%	0%	0%	0%	0%	0%	0%
Between 30 and 50	32%	0%	31%	27%	0	26%	19%	25%	20%
Over 50	68%	100%	69%	73%	100%	74%	81%	75%	80%
Managers	25%	32%	25%	24%	33%	25%	24%	33%	25%
Under 30	1%	2%	2%	2%	0%	1%	0%	0%	0%
Between 30 and 50	66%	80%	68%	24%	77%	69%	65%	77%	68%
Over 50	33%	18%	30%	32%	23%	30%	35%	23%	32%
White-collar	32%	52%	35%	37%	51%	39%	40%	52%	42%
Under 30	17%	11%	16%	22%	26%	23%	23%	32%	25%
Between 30 and 50	67%	78%	69%	67%	67%	67%	65%	60%	64%
Over 50	15%	11%	14%	11%	7%	10%	12%	8%	11%
Blue-collar	40%	15%	37%	36%	15%	33%	33%	13%	30%
Under 30	5%	0%	4%	4%	4%	4%	3%	4%	3%
Between 30 and 50	77%	86%	78%	78%	84%	78%	77%	84%	78%
Over 50	18%	14%	18%	18%	12%	18%	20%	12%	19%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

*The figure also includes, from 2023, Avio USA

[GRI 2 - 8] Workers who are not employees.³⁵

Workers who are not employees	unit	2022			2023		
		Male	Female	Total	Male	Female	Total
Temporary employees	No.	39	4	43	31	0	31
External consultants		50	9	59	37	5	42
Total		89	13	102	68	5	73

³⁵ The scope of the figure includes only the Avio companies(Avio S.p.A., SpaceLab S.p.A., Se.Co.Sv.Im. S.r.l.).



The following data pertains to the Group's contract type and employment by gender and geographical area³⁶:

[GRI 2-7] Number of employees by type of contract (fixed-term and permanent), by geographic area and gender³⁷

Type of contract	2021		2022		2023	
	Italy*	French Guiana	Italy*	French Guiana	EU	NON-EU
Fixed-term	25	6	24	4	38	4
Permanent	867	93	1,020	99	1,116	98
Total employees	892	99	1,044	103	1,154	102

*The EU figure also includes employees of Avio France (5), Temis (32), and the Non-EU figure also includes Avio USA (4).

Type of contract	2021			2022			2023		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Fixed-term	23	8	31	21	7	28	29	13	42
Permanent	827	133	960	955	164	1,119	1,038	176	1,214
Total employees	850	141	991	976	171	1,147	1,067	189	1,256

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

Type of contract	2021			2022			2023		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Full-time contract	849	140	989	974	171	1,145	1,065	188	1,253
Part-time contract	1	1	2	2	0	2	2	1	3
Total employees	850	141	991	976	171	1,147	1,067	189	1,256

³⁶ 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).

³⁷ As of 2019, data for Italy include Avio France, as of 2022 Temis S.r.l. and as of 2023 also Avio USA.



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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, 2023, number 28 in Italy (23 men divided as follows: 1 under the age of 30, 15 between the ages of 30 and 50, and 7 men over the age of 50; 5 women divided as follows: 1 under the age of 30, 2 between the ages of 30 and 50, and 1 over the age of 50) and 1 (woman over the age of 50) 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.

With regard to the second point, Avio's growth in recent years, the increasing complexity of its target business and market – which is increasingly global and populated by competitive new players – requires the Group to develop its processes. Talent Acquisition differs from mere recruitment as it involves a long-term strategy and the search for highly specialised individuals. Finding, attracting, and developing talent with appropriate career plans is one of the most significant objectives for a company aspiring to achieve sustained growth.

From this perspective, in 2023, we introduced a new Talent Acquisition process based on the "candidate experience", i.e. candidates' perception of the company through the people they meet. The first new feature involves creating an Avio database to manage the overall Search and Recruitment process. The IN RECRUITING database will be used by the HR Talent team, candidates, and individuals looking to make hires. What are the advantages of using a database?

- one platform to handle all applications;
- correct application filing and collection methods pursuant to Article 13 of Regulation (EU) No. 2016/679 (GDPR);
- new Avio Employer Branding system;

- improved candidate experience;
- candidate retention from a future perspective.

Candidates respond to job postings or submit spontaneous applications, feeding a single database that can be consulted, evaluated, and used to conduct searches.

Therefore, to comply with Article 13 of the GDPR, the email address "ufficio.selezione@avio.com" is no longer used for submitting applications and is replaced by the following link: <https://www.avio.com/careers>. This link can be shared externally to generate interest in new job openings.

In line with the central role played by Avio's employees, and with the ongoing improvements made to its "candidate experience" – from onboarding through to long-term employment – Avio is working to redefine its induction process and invest in new training and development pathways. Our objective is to enhance talent and diversity while upholding the strong sense of inclusion and belonging that defines our Group.

In relation to the EU area, to shed light on the recruitment actions taken and their outcomes throughout the year, 207 people were hired in 2023.

Of these, **195 in the Avio scope** (Avio S.p.A., Se.Co.Sv.Im. and Spacelab S.p.A.). Specifically:

- **166** managers, senior managers and white-collar workers in Italy entered, broken down as follows:
 - 2.4% Executives;
 - 16.9% senior managers;
 - 23.5% professional;
 - 57.2% white-collar

Of these 166, more than 50% have more than five years' experience and 19% (of the 166) have more than 15 years' experience. This reflects the Company's desire to grow its technical and managerial abilities.

Of the 166 hires, 31 are established consultants and 136 are external hires (various recruitment channels). In addition, to meet annual needs, 16 internal transfers were organised through internal job postings, covering over 80% of requirements for 2023 compared to the defined budget.

Of the 166 new hires: 47% were hired in Engineering, 26.1% in Industrial Operations, 14.9% in Business, Purchases, CTO, and Quality, 9.6% as general staff, and 2.4% in the Secosvim and Spacelab divisions.

4 resources returned - including managers, senior managers and white-collar workers - from French Guyana.

- Blue-collar workers increased by **25** units:
 - 20 hires, including the conversion of 12 temporary staffing contracts into full-time contracts;
 - 5 employees returned from overseas secondments.

In relation to the company Temis during 2023 a total of **12** people (out of a total workforce of 32 as of December 31, 2023 bringing an increase of 33% of staff). Of which:

- 34% have experience greater than 5 years;
- 22 has experience greater than 15 years;
- 10 are blue-collar, 1 professional and 1 senior manager (no executives or blue-collar were hired).
- 12 were recruited from external sources.

During the year, outgoing turnover was 8.4% in Italy and 18.6% in Non EU countries; a total of 97 people at Avio Italia left the Group due to retirement, resignations and lay-offs. In support of the purposes of the corporate organisation and consistent with the allocation of assignments/responsibilities with respect to various corporate programmes, with a view to improving its retention plan, the Parent Company has also established a substantial "Merit and Development Plan" for 2023.

As for the participation bonus, this was paid to staff in line with the parameters defined by union agreements. Having met the legislative requirements for tax relief (the 5% 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.

The following is a breakdown of new hires and employees who have left the Group³⁸:

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

Employee category	2021			2022			2023		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
EU									
Under 30	34	8	42	52	19	71	57	14	71
Between 30 and 50	63	14	77	109	16	125	101	25	126
Over 50	3	2	5	7	2	9	9	1	10
Total EU (No.)	100	24	124	168	37	205	167	40	207
Total EU (%)	13.1	18.9	13.9	18.9	23.8	19.6	17	23	17.93
NON-EU									
Under 30	1	0	1	1	0	1	1	1	2
Between 30 and 50	7	2	9	11	6	17	5	5	10
Over 50	1	0	1	3	0	3	2	0	2
Total Non-EU (No.)	9	2	11	15	6	21	8	6	14
Total NON-EU (%)	10.6	14.3	11.1	17.2	37.5	20.4	9.3	37.5	13.72

*The EU figure also includes employees of Avio France (5), Temis (32), and the Non-EU figure includes Avio USA (4).

³⁸ 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	2021			2022			2023		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
EU									
Under 30	4	1	5	12	3	15	13	3	16
Between 30 and 50	30	12	42	42	11	53	52	16	68
Over 50	24	4	28	9	0	9	11	2	13
Total Italy (no.)	58	17	75	63	14	77	76	21	97
Total Italy (%)	7.6	13.4	8.4	7.1	9	7.4	7.7	12	8.4
NON-EU									
Under 30	0	1	1	0	0	0	2	0	2
Between 30 and 50	10	2	12	7	3	10	8	6	14
Over 50	6	0	6	6	1	7	2	1	3
Total NON-EU (No.)	16	3	19	13	4	17	12	7	19
Total NON-EU (%)	18.8	21.4	19.2	14.9	25	16.5	14	43	18.62

*The EU figure also includes employees of Avio France (5), Temis (32) and the Non-EU figure includes Avio USA (4).

Training and skills development

Avio considers training, education and on-the-job learning to be essential and strategic 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



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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.

With regard to upskilling and reskilling for Avio Group personnel, in 2023, 41,005 hours of training were provided in the Avio facility³⁹, with 12,489 participations (from personnel, contractors and staff leasing) in refresher courses, professional development courses, certifications, individual courses and soft skills and technical skills deployment training. These were carried out in the classroom and both synchronously and asynchronously.

Combining these various delivery methods, including through blended methodologies, 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, English and Italian, and strengthening soft skills and organisational competences.

Training activities in 2023 focused on the following main areas:

- training and updates on mandatory technical competences regarding safety issues;
- training on special and critical processes in manufacturing;
- soft skills training: development of managerial skills (participation at conventions and seminars, experiences and asynchronous distance learning);
- individual development plans;
- Get On Board Day: on-boarding for new hires;
- support for internationalisation with a focus on individual and group language training (French, English and Italian language courses);
- Quality Management System training; refreshers on Legislative Decree No. 231/01;
- Lean Six Sigma Certifications: Yellow Belt and Green Belt, Lean office and 8D, Lean Practitioner
- Project and risk management workshop for Avio PMs
- Corporate, environmental and energy sustainability training
- Training on Flight Mechanics and CNG tools, introduction to liquid propulsion systems.

A range of issues were of particular relevance in 2023. In particular, training focused on internal processes and manufacturing processes concerning Vega and Vega-C products and on operations at the Guiana Space Centre (CSG).

A training plan focused on enhancing technical skills for Industrial Operations/Technologies and Laboratories, in addition to Engineering Management, was designed, organised, and executed. This led to a substantial increase in training hours compared to the previous year. The Ambra Plan, financed through the Fondimpresa system, was delivered. The plan focuses on the topics of business, environmental, and energy sustainability, involving several departments: legal/risk management, communications, HR, and industrial operations.

As for specialist training, close attention was paid to the Engineering Department, with training courses on specific software, machine learning, and the updating of technical expertise. A specialised internal course concerning Flight Mechanics and GNC tools was devised. Additionally, several editions of an introductory programme on liquid propellant propulsion systems were developed for all engineering employees, and participation in conferences was encouraged.

In support of professional development, key areas of expertise where training had a significant impact include Leadership, Team Communication, and People Management Skills. The Company maintained a training programme related to the corporate training catalogue, and more specifically: The New Professional training; training to support the new appointment of A3-level managers; individual coaching; and "Building the Future" management training. With regard to management training, the company focused team building on practical training by implementing a tutorial aimed at helping children from a group home to move into STEM programmes. 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, feedback and leadership styles suitable for different types of groups. It involved white- and blue-collar workers in the production, integration and quality sector.

Transverse individual courses were also organised to respond to needs expressed in terms of: Training Instructors, Employer Branding, Negotiation Techniques, Lego® Serious Play®.

³⁹ Avio S.p.A., SpaceLab S.p.A., Se.Co.Sv.Im. S.r.l.



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New in-house expertise enabled classroom training to be designed on aspects of recruiting, feedback management, and project management.

Of particular note was the training on Awareness Of Consequences Of Human Errors. 110 participants from the quality, engineering and industrial operations departments were involved through nine classroom sessions.

Corporate Management has focused on delivering methodological courses such as Project Management, Lean Six Sigma: Yellow Belt and Green Belt (for the latter, participants must take an exam to obtain certification), Lean office and 8D, and has begun two Lean Practitioner masters degrees with related certifications.

Distance learning training, both synchronous and asynchronous, had a positive impact on the total number of hours and participations, involving the entire company population. Using certified in-house trainers, safety and management training and information was provided.

The launch of the eLearning Academy on the e-learning platform involved the provision of 60 multilingual courses on soft, managerial, and methodology-based topics. In addition, courses were provided to help the Quality Division deliver content on the internal Quality Management System.

The Digital Library is still live and used to share course documents. The e-learning platform was a key tool also to provide training on safety issues and Seveso quarterly reports; in the regulatory area, to provide training on Legislative Decree No. 231; waste-management training; training on the administrative protection of state secrets and other confidential information; and multimedia training for the on-boarding of new hires. Regarding training methods, the culture of agile learning continued, by which the organisation learns through the active involvement of managers in the design of training activities for both direct groups and cross-departmental groups, therefore supporting increased integration among the company population.

In 2023, Avio's Get on Board Day initiative was made more interactive and engaging, in line with the expectations of new hires. 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.

In 2023, Avio's 2022 Educational Campaign, sponsored by the Municipality of Colleferro, concluded. Through the AEROSPACE JOB TALK initiative, in collaboration with ASI and Adecco, three sessions were arranged – one in e-learning format and two in plenary format – to introduce young people to STEM. The project involved five local high schools, with students actively participating in sessions.

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, leadership and feedback styles suitable for different types of groups.

A training initiative for Avio's Management team was developed using a sports and cinematographic 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. The sessions involved the MGS engineering team, the tactical division, the P120 team, and planners. In addition, team-building sessions were organised for the HR department and executive assistants.

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,



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knowing how to manage relationships effectively; time management: strategies for achieving a healthy work-life balance.

As mentioned above, Avio renewed its membership 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.

Training sessions were organised to support the Mentorship programme. 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 management pathway was then organised for the first time for managers at Avio Guyane. Known as L'ATELIER DU MANAGEMENT, this seeks to foster integration between Italian, French and Guianese staff and create a common language in people management.

2023 was a year of organisational change for Avio Guyane. In response, and to supplement the mandatory safety and update training mandated by the spaceport, the Company initiated training activities on soft skills and onboarding, introducing its first Get on Board Day. 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.

The Italian Republic Day celebration organised by Avio Guyane and Regulus and the vice-consul was also significant, allowing colleagues to present Avio to Italians present in French Guiana.

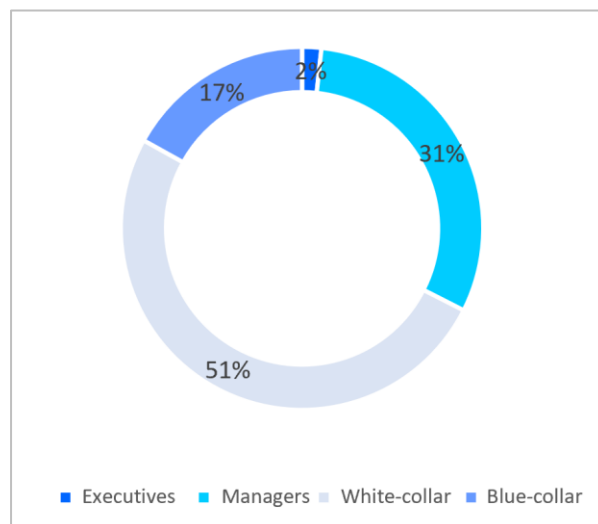
The Group offers various types of training courses to its employees, depending on their professional roles and responsibilities. These training courses are structured and categorised into different types, such as general training on quality management concepts, targeted training on specific specialised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

41,005 hours of training were provided to Group employees in 2023, distributed as follows: 2% Executives; 31% managers; 50% white-collar workers; 17% blue-collar workers.⁴⁰

Training hours by employee category and gender.

Employee category	Unit	2021			2022			2023		
		Male	Female	Total	Male	Female	Total	Male	Female	Total
Executives	No.	317	52	369	876	10	886	554.05	152	706
Managers		4,775	1,390	6,165	11,415	2,874	14,289	9,403	3,253	12,656
White-collar		9,177	3,775	12,952	14,574	2,921	17,495	15,701	4,963	20,664
Blue-collar		5,608	337	5,945	8,295	583	8,878	6,334	645	6,979
Total	No.	19,877	5,554	25,431	35,160	6,388	41,548	31,992	9,013	41,005

Percentage of training hours by professional category - 2023



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

Employee category	Unit	2021			2022			2023		
		Male	Female	Total	Male	Female	Total	Male	Female	Total
Executives	No.	11	52	13	29	10	29	16	76	19
Managers		23	31	24	49	50	49	37	52	40
White-collar		34	32	37	41	35	40	37	51	40
Blue-collar		16	15	16	23	23	23	18	26	19
Total (average hours)	No.	23	39	26	36	37	36	30	48	33

*The EU figure also includes employees of Avio France (5), Temis (32) and the Non-EU figure does not include Avio USA (4).

Of particular note are the Group's partnerships with technical schools and 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 includes an annual assessment of the performance of a subsection of the corporate population (white-collar and blue-collar employees without performance-based pay [VRL]). Appraisals focus on two goals: one organisational-behavioural objective, and a second role-based objective;

- the VRL/MBO system, concerning individual and company-wide 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.

No changes were made to the Performance Appraisal System in 2023, but a new role mapping process was initiated, with the adoption of corporate job descriptions.

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 2023, 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.

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 2023, 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).



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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 region⁴¹.

Employee category	2021		2022		2023	
	Italy*	French Guiana	Italy*	French Guiana	EU*	NON-EU
	Ratio male/female					
Executives	95%	-	101%	-	70%	-
Managers	105%	72%	97%	85%	97%	81%
White-collar	96%	98%	94%	103%	93%	82%
Blue-collar	95%	-	90%	-	96%	-

*The figure for EU also includes employees of Avio France (5) and Temis (32) The Non-EU figure does not include Avio USA.

[GRI 405-2] Ratio of the salary and remuneration of women to men for each employee category and region.⁴²

Employee category	2021		2022		2023	
	Italy*	French Guiana	Italy*	French Guiana	EU*	NON-EU
	Ratio male/female					
Executives	101%	-	99%	-	66%	-
Managers	103%	52%	96%	71%	95%	77%
White-collar	93%	89%	91%	66%	90%	100%
Blue-collar	88%	-	82%	-	89%	-

*The figure for EU also includes employees of Avio France (5) and Temis (32) The Non-EU figure does not include Avio USA.

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.

GRI 2.21, "Annual total compensation ratio", mandates the disclosure of the relationship between the total annual compensation received by the organisation's highest-paid individual and the average total annual compensation of all employees. In addition, it requires reporting on the percentage increase in the annual total compensation of the highest-paid individual compared to the annual total compensation of all employees (excluding the highest-paid individual).

In relation to the Group, excluding AVIO USA, the disclosure is quantified as 22.13:1⁴³. For the 2024 NFS, the Group is committed to expanding the data scope to include 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.

⁴¹ In 2023, the EU figure includes the Avio facility, Temis, and Avio France; the Non-EU figure includes Avio Guyane and Regulus.

⁴² In 2023, the EU figure includes the Avio facility, Temis, and Avio France; the Non-EU figure includes Avio Guyane and Regulus.

⁴³ The disclosure, required by GRI 2-21 (a), refers to the Group, excluding AVIO USA. Disclosure 2-21 b), mandated by the GRI Standards, does not apply to the Avio Group as there was no recorded increase in the compensation of the highest-paid individual.

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 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 2023, 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 2022.

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. The number of employees covered by a health and safety management system is 1,238 corresponding to 98.56 percent of the total staff of the consolidated scope. As reported within the Non-Financial Statement, the figure includes the companies: Avio S.p.A., Se.Co.Sv.Im. S.r.l., Temis S.r.l., Avio Guyana S.a.S. and Regulus S.A. In relation to Avio Guyana, it applies a series of policies that are adequate for the purpose de quo, although it lacks a management system.

In 2023, at the Avio Colleferro facility, there were two work-related injuries, of which one that occurred on the home-work commute⁴⁴ and may therefore be categorised as off-site injuries, and one injury 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 employees⁴⁵.

In addition, standard prevention initiatives continued in 2023, 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.

⁴⁴ On 21/03/2023, INAIL recognised a previously derecognised commuting injury in 2022, bringing the number of commuting injuries to 1.

⁴⁵ The hours worked by the Group's workers in Italy were 1,921,774 in 2023, and so therefore the injury rate is 1.04. Hours worked for Group employees in French Guiana were estimated at 133,957.4 and, as a result, the injury rate is 7.46.

[403-9 403-10] Work-related injuries ⁴⁶

Employees	2021	2022	2023
	EU		
Total recordable injuries	0	1	2
Total fatalities as a result of work-related injuries	-	-	-

⁴⁶ It is reported that during 2023 there were two accidents in the EU and one in non-EU countries. Hours worked by non-employees are not available.



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Total work-related injuries with serious consequences (excluding deaths)	-	1	-
Cases of work-related ill health	-	-	-
of which "fatalities"	-	-	-
Total number of hours worked	1,517,488	1,688,467	1,921,774
Total recordable injury rate[2]	0	0.6	1.04
Rate of death due to work-related injury[3]	-	-	-
Rate of injuries with serious consequences[4]	-	-	-
	NON-EU		
Total recordable injuries	0	2	1
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	135,630	140,287	133,957.4
Total recordable injury rate	0	14.2	7.46
Rate of death due to work-related injury	-	-	-
Rate of injuries with serious consequences	-	-	-

*The EU figure also includes employees of Avio France (5), Temis (32) and the Non-EU figure does not include Avio USA (4).

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 2023, regular meetings were held with the General Workers' Representative Body (RSU) to involve and inform union representatives on Company developments, temporary employment contract renewals, and new initiatives, such as the distribution of a Euro 100 voucher to all employees in December as part of the Company's welfare programme. The supplementary company contract for the years 2024-2026 is currently under negotiation. Minutes were drawn up for a meeting on the reporting of 2022 results, relating to the participation bonus paid in 2023.

With the new RSU, trade union agreements were signed on:

- management of the 2024 and 2023 ROL calendar, which provides for the introduction of an attendance bonus for seconded workers, as in 2022;
- summer closure;
- several training plans for Fondimpresa;
- participation bonus renewal for reporting year 2023 (payment 2024);
- agreement for access to welfare by converting the participation bonus;
- extension of Smart Working;
- local video surveillance agreement for areas 2127-4031-90;

In 2023, the annual meeting with Territorial Representatives was held to explain the company's progress, hiring and merit-reward plan, focusing particularly on operators.

2023 also saw meetings held with the employee health and safety representative, the HSE manager, and the cafeteria committee.

In 2023, the overseas company Regulus also signed five agreements with union representatives: two amendments to the APLD (*Amenagement Partiel de Longue Durée*), one on the "Travel" agreement (*Accord Voyages*), one on the NAO (*Négotiation Annuelle Obligatoire*), and one on CSE (*Comité Social d'Entreprise*) appointment methods. In 2023, the RPS (*Risques Physico Sociaux*) Committee continued its work with a dedicated teamwork meeting to improve working conditions. In addition, the ("working conditions and quality of life") QVCT evaluation continued with dedicated surveys.

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.

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 2023 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, thereby reducing raw material consumption and improving component quality;
- researching new ceramic matrix composites and polymer matrix thermal protection;
- extension to the cryogenic sphere of the "High Performance Composite Materials" production chain to create a new generation of large LOx and LCH4 cryotanks, which will be integrated into future versions of the Vega E's upper stage, to obtain a further increase in the maximum payload;
- 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 fact, orbital propulsion creates opportunities for developing innovative in-orbit services, such as: the repair or refuelling of satellites to extend their lifespan, capturing and removing space debris, and the possibility of conducting activities in microgravity or vacuum environments for specific studies, given that all activities in Space require an adequate and sustainable propulsion system. In this context, work began in 2022 and continued in 2023 on 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, sustainable engine for orbital applications. In addition, research continued on new generations of green engine molecules for applications in solid propulsion;
- Following the opening of the Space Propulsion Test Facility in October 2021, the integration of the second M10 demonstrator was finalised at the facility in 2023, with a successful test campaign in August. Simultaneously, the planning stage for a third M10 engine demonstrator concluded and the development stage began. The scheduled test campaign for this demonstrator is scheduled for 2024. In addition, at the same facility, progress continued on the development of new test benches for assessing entire cryogenic propulsion systems (LPM "Liquid propulsion Motor"- IFD "In Flight Demonstrator") and engines with a superior thrust class (M60).
- LPM cryogenic propulsion system test and design activities continued, with the goal of managing the necessary propellant required to power the M10 engine. Once the development and qualification phases are completed, the M10 engine will possess the necessary performance to provide propulsion during the third stage of the future VEGA E mission. At the same time, studies on the architecture and feasibility of a LOx-LNG engine in the 60-tonne thrust class (M60) continued, with a focus on developing the HTE chamber. The chamber will be made of ALM with an innovative thermodynamic design to achieve high specific thrust;
- 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 (see point 3 above), 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;

In 2023, Avio consolidated the electronics\avionics research path which began in the previous year. The collaboration with the department of electronics at Tor Vergata University focused 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.

Partnerships with prestigious European research institutes and other industrial entities under the Horizon Europe programmes were also strengthened: the DISCO2030, SALTO and ENLIGHTEN projects, of which Avio is a partner, continued in line with the agreed schedule.

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.

The objectives remain those 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 2023 there are 17 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.

The use and mastery of 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.

The Group therefore places the utmost emphasis on the issue of product and process quality and safety, both in Avio S.p.A.'s corporate Quality Policy and in Regulus' Quality, Occupational Health and Safety and Environmental Policy. In these documents it expresses its commitment to achieving and maintain over time the highest levels of excellence in quality, product performance, competitiveness and service level, always in compliance with mandatory regulations.

Avio S.p.A.'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.

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 S.p.A. (ISO 9001:2015 for Regulus).

The three-year ISO 9001:2015 and EN 9100:2018 certifications were renewed for Avio S.p.A. in March 2023 following a certification renewal audit by the certification body Rina.

The new three-year certificates (to March 2026) were therefore issued.

The Quality Management System is documented and maintained active to ensure that the products and services provided meet customer expectations and applicable mandatory requirements, while also enabling continuous performance improvement to maintain and improve competitive market positioning. It constitutes a



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fundamental tool in defining the rules and limits to be applied to quality control at all levels. The main processes are therefore governed by appropriate procedures that incorporate contractual standards and rules to maximise the quality levels of each product and process.

As part of its quality management system, the Parent Company is also equipped with a product safety policy outlining key principles: compliance with regulations from Supervisory Authorities, company procedures, and customer requirements. In addition, the policy emphasises the provision of continuous training and information for personnel in the field, along with analysis and evaluation of the impact of the human factor.

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.

In 2023, the functioning of the company's organisational structure, defined in 2022, was consolidated, with a focus on the role of Chief Technical Officer (CTO). This individual is responsible for conducting an additional independent review of the qualification status and suitability for use of the Company's products and services. In addition, organisational changes were made, with the intention of strengthening the oversight of production and development activities.

The acquisition of the company TEMIS S.r.l. also allowed the Group to bring several activities related to the design, development, and manufacturing of avionic systems in-house.

The organisational structure was updated to respond to the need to continuously improve product safety within space transportation systems.

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 57 audits were therefore conducted in 2023, of which seven were product audits, 13 process audits, 19 supplier audits, and 18 subcontractor audits.



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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 33 final products in portfolio, 31 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.

In terms of environmental impacts, one of the highest-value objectives in the medium to long term is directing production development towards "green" propulsion technologies, which will be pursued through new development programmes, including:

- the development of the VEGA-E Launcher, which involves using a Methane/Oxygen liquid propellant engine during the upper stage, replacing the engines in the final two stages of the current VEGA configuration with solid and storable liquid propellants;
- launch of the new MPGE (multi-purpose green engine) development programme.

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 engine were also pursued during the year, both domestically and in Europe.

A number of particularly significant events occurred during 2023. Some of these were positive, while others revealed room for improvement:

- January - Opening of the ESA enquiry commission following the failed VEGA C VCO2 launch in December 2022. The commission was concluded in March 2023.
- June - Failed Z40 engine bench test at the SPTF; subsequent opening of an enquiry commission, which concluded in September 2023.
- June - First Subco Vega-C Industrial Day, which allowed procurement, programme management, and quality teams to interact with managers from companies involved in manufacturing the VEGA C launcher.
- October - VEGA launcher return flight after successful completion of the VV23 mission to place the THEOS-2 and FORMOSAT-7R/TRITON satellites in sun-synchronous orbit, in addition to ten other auxiliary payloads. The successful deployment was facilitated by the innovative Small Spacecraft Mission Service ("SSMS") dispenser.
- October - Conclusion of a successful test campaign for the M10 DM2 Liquid Oxygen - Methane engine at the SPTF.
- November - Successful conclusion of the PG3 qualification stage for the new ASTER 30 Booster MLU, allowing the MLU Booster production stage to be authorised. The Booster will replace the previous configuration (Stage 3).
- November - ESA Ministerial Council, which made key decisions concerning the Ariane 6, VEGA C, and VEGA E programmes.
- December - Final key design point developed for the Space Rider.
- Additive Smart Factory installed and launched. The ten-month project commenced in February 2023 and relates to the HTE NRRP for the production capabilities of M60 engines. This project revolves around additive printing and an ICT architecture that allows smart technologies to be utilised while also laying the groundwork for artificial intelligence. The three printing machines and related auxiliary machines were accepted and are ready to enter the special process qualification stages.

In terms of product development with a view to greater environmental sustainability, the goal continues to be that of finalising the developments of LOX/LNG cryogenic liquid propellant engines, which are due to reach maturity for in-flight use in the Flight Demonstrator programme and for the VEGA-E in 2026.

Simultaneously, development of a new generation of green storable single-propellant thrusters for attitude control must also be concluded. 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.



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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 physical 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 terms of security-related activities, we highlight the relationship of active cooperation with the relevant national authorities established by the function which is designed to maximise the benefits of the national system.

In 2023, the function appointed a team member responsible for the physical safety of the Colleferro site. As a result, a Control Room is now staffed by a 24/7 private security guard, ensuring continuous and precise monitoring of all installed cameras. In addition, a gate restricting access to unauthorised vehicles from the municipal provincial road was put into operation.



One of the function's objectives for 2024 is to install licence plate recognition cameras, including at secondary access points, to make it easier to monitor vehicles entering and moving around the facility. In addition, a second batch of security cameras will be installed, and two more staff will be hired to control third-party access and manage the fleet.

A proposal is being assessed to adapt the process of 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).

In 2023, Avio continued to invest in cyber security by introducing innovative monitoring security measures, achieving compliance with the latest regulations governing the National Cyber Security Perimeter.

In 2023, there were no complaints about breaches of customer privacy or incidents of leakage, theft, or loss of customer data.

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).

The survey was forwarded to all suppliers added to the registry in 2023 (100%)⁴⁷. 95% (116 of 122) of suppliers responded to the survey, reflecting constant 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 2023, Avio updated its Code of Ethics, replacing the previous version; distribution of the Code to all registered supplies is currently underway to ensure their acceptance of its guidelines. To date, 35% of the active supplier population from the past three years is covered. The data provided below are based on the previous version of the Code of Ethics and acceptance of the new version currently in distribution:

In 2023:

- A total of 519 suppliers were used in 2023 (a number up from 488 in 2022);

⁴⁷ Last year the figure was calculated for all suppliers in the registry, while in 2023 it was calculated only for suppliers joining in the reporting year. As such, while the output appears to be decreasing, it is not comparable to the 2022 figure.

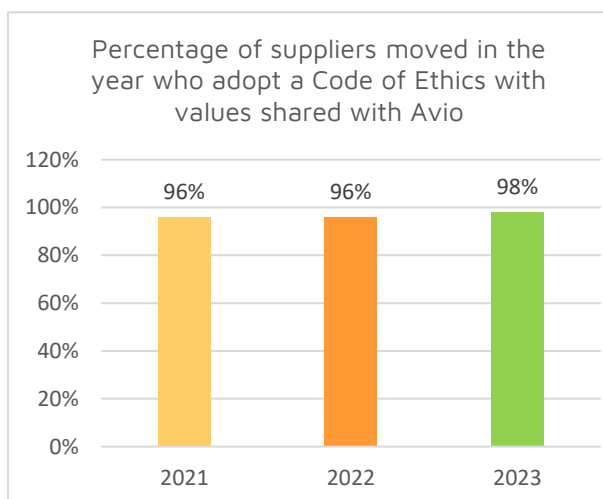


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- Among these 519 suppliers, 431- or 83% - have signed the company's Code of Ethics (in 2022, the Code of Ethics was signed by 384 suppliers, out of a total of 488);
- This 83% accounted for 72% of total orders in 2023;
- The 17% of non-signatory suppliers accounted for 28% of total orders in 2023;
- The 17% of the suppliers who did not sign the Code of Ethics asserted their company as a significant entity.

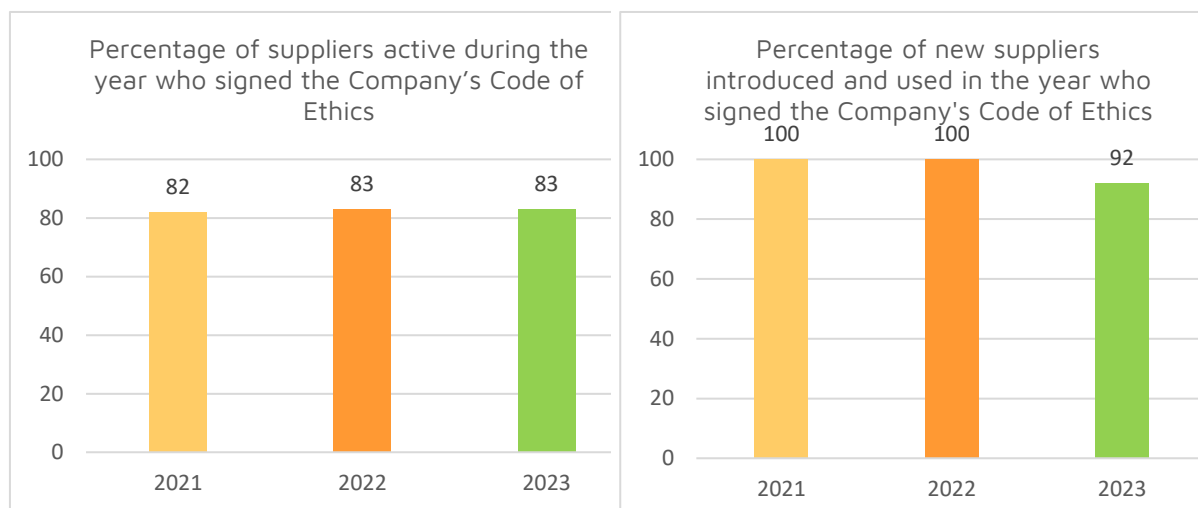
- 98% (96% in 2022) of the suppliers used⁴⁸ adopt a Code of Ethics with values shared with Avio:
 - 83% of the suppliers handled have signed Avio's Code of Ethics;
 - 15% have their own Code of Ethics that shares Avio's values⁴⁹;

- 96% of new suppliers introduced and used in 2023 adopt a Code of Ethics with values shared with Avio:



⁴⁸ The figure refers to suppliers who invoiced Avio in 2023.

⁴⁹ The figure refers to large suppliers, for whom Avio, by sharing Codes of Conduct, in any case verifies the adoption of the same principles.



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 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.

In 2023, Avio adopted a Supplier Code of Conduct to ensure compliance with its ESG KPIs along the entire supply chain. All incoming suppliers will be expected to comply with the Code.

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.



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With a view to promoting innovation within the Company, Avio successfully awarded the supplier portal contract and commenced its implementation. The Go-Live is scheduled for September 2024. The project will enable more transparent, well-referenced, and effective communication between the Group's companies (Avio, Se.Co.Sv.Im., Spacelab) and their suppliers. The portal will eventually guarantee greater transparency and improved monitoring of supplier KPIs, including those related to ESG, allowing the Group to adequately screen its supply chain.

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. In 2023, the participation rate of invited suppliers increased to 31%, with 57% being certified and 31% in the process of becoming certified.

THE AVIO GROUP'S ENVIRONMENTAL IMPACT

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.

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



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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;
- improved effectiveness of the Environmental Management System.

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 2023.

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.

Starting from 2022, Italy's energy consumption now also includes the Perdasdefogu facility in Sardinia, and as of 2023, the Turin office.

Energy for French Guiana considers only electricity and diesel energy used for company vehicle fleets and a group generator.

[GRI 302-1] Energy consumption⁵⁰

Type of consumption (in GJ/year)	2021			2022			2023		
	Italy	French Guiana	Total	Italy	French Guiana	Total	EU	NON-EU	Total
Electricity	89,684.73	61,194.04	150,878.77	88,248.49	58,088.46	146,336.95	101,233.42	43,421.52	144,654.94
from non-renewable sources	89,684.73	61,194.04	150,878.77	88,248.49	58,088.46	146,336.95	101,233.42	43,421.52	144,654.94
from renewable sources	-	-	-	-	-	-	-	-	-
Thermal energy	226,913.80	-	226,913.80	197,387.17	-	197,387.17	230,516.46	0.00	230,516.46
from non-renewable sources	226,913.80	-	226,913.80	197,387.17	-	197,387.17	230,516.46	-	230,516.46
from renewable sources	-	-	-	-	-	-	-	-	-
Petrol	-	-	-	-	-	-	1359.63	-	1359.63
Diesel for vehicles	-	-	-	-	-	-	820.11	1823.24	2643.35

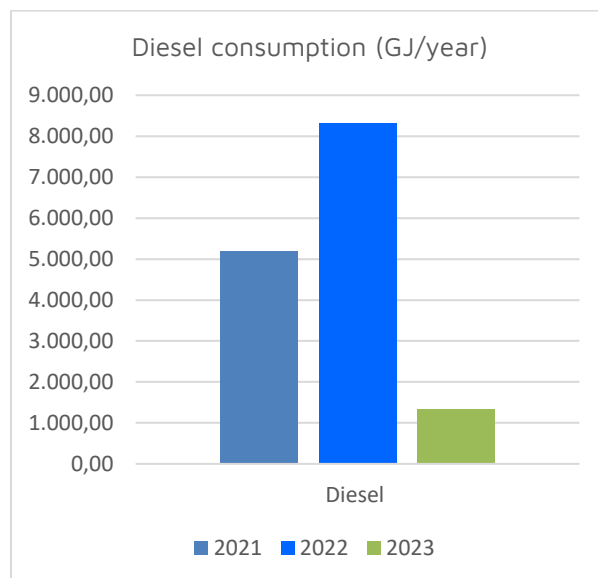
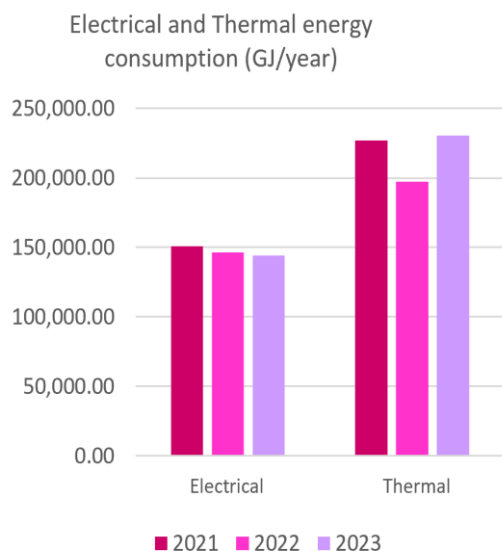
⁵⁰ For electricity and thermal energy, the translation coefficient utilised is equivalent to 0.0036 GJ/kWh (Source: GRI Sustainability Reporting Guidelines, Version 3.1). For automotive diesel, the conversion coefficient has been updated: in 2023: 1 L = 0.0378 GJ (Source: DEFRA 2023 (Diesel Average Biofuel Blend)), 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). For gasoline, the conversion coefficient 2023 1 L = 0.0341 GJ was used (Source: DEFRA 2023 (Petrol Average Biofuel Blend)). For diesel fuel, the conversion coefficient 2023 1 L = 0.0382 GJ was used (Source: DEFRA 2023 (Gas Oil)).



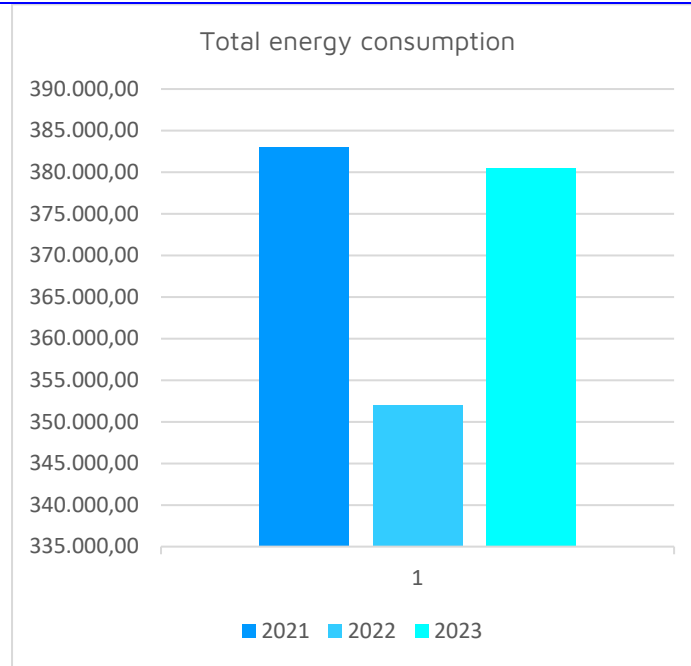
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Diesel	2,365.94	2,824.13	5,190.07	3,627.95	4,678.25	8,306.20		1,323.48	1,323.48
Total	318,964.47	64,018.17	382,982.63	289,344.19	62,768.65	352,030.32	333,929.62	46,568.25	380,497.86

*The Italy figure includes from 2023 data for the SPTF site in Sardinia and the offices in Turin. It should be noted that a portion of Non-EU diesel consumption is subject to estimation.

**[GRI 302-3] Energy intensity.**

Energy intensity	2021			2022			2023		
	Italy	French Guiana	Total	Italy	French Guiana	Total	Italy	French Guiana	Total
Total energy consumption (GJ)/number of employees	359.6	646.65	388.42	278.41	609.39	308.26	290.63	475.19	305.13



In 2023, energy consumption increased compared to previous years, mainly due to worse weather during the spring, and the need to conduct functional tests on new buildings and production machinery. Additional offices were also set up to accommodate new company personnel (approximately 200 workstations). 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.

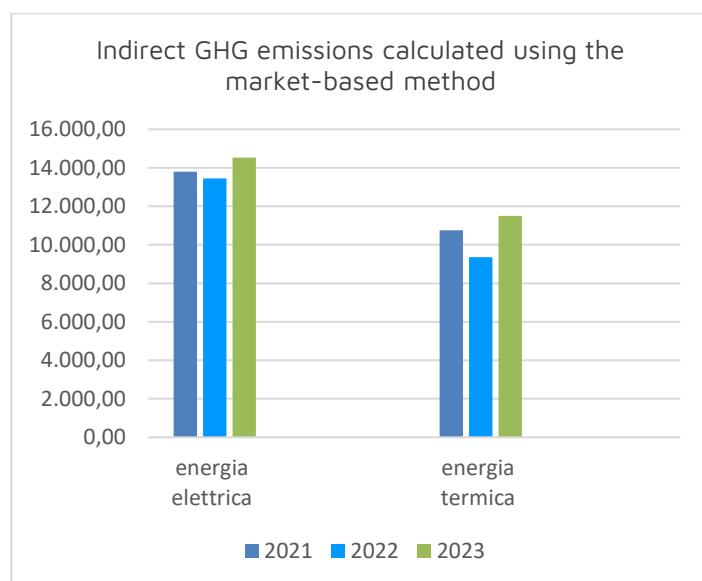
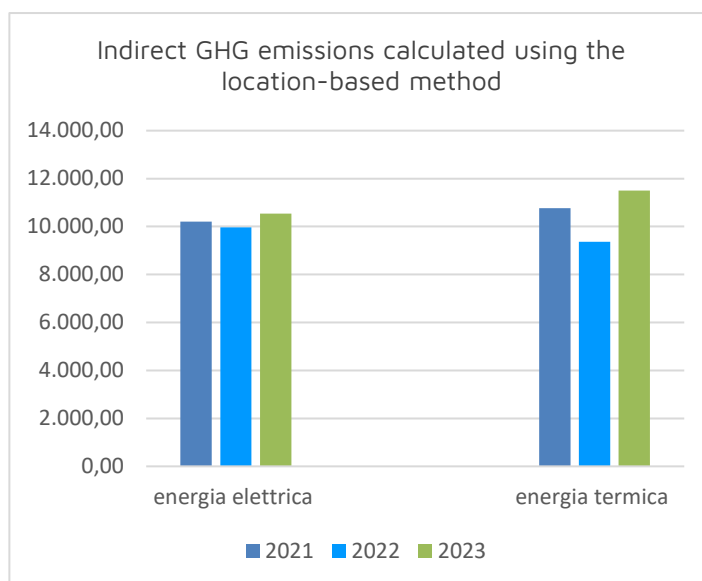
The drop in consumption in French Guiana is consistent with the production schedule.

[GRI 305-2] Indirect GHG emissions by type of energy consumption (Scope 2).⁵¹

Indirect GHG emissions* by type of energy consumption (In tonnes CO ₂ eq/year)	2021			2022			2023		
	Italy	French Guiana	Total	Italy	French Guiana	Total	Italy	French Guiana	Total
Location-based									
Electricity	7,847.41	2,362.77	10,210.18	7,721.74	2,242.86	9,964.60	8,857.92	1,676.55	10,534.48
Thermal energy	10,761.39		10,761.39	9,361.09		9,361.09	11,503.41		11,503.41
Total	18,608.80	2,362.77	20,971.57	17,082.83	2,242.86	19,325.69	20,361.34	1,676.55	22,037.89
Market-based									
Electricity	11,434.80	2,362.77	13,797.57	11,202.66	2,242.86	13,445.52	12,851.02	1,676.55	14,527.57
Thermal energy	10,761.39		10,761.39	9,361.09		9,361.09	11,503.41		11,503.41
Total	22,196.19	2,362.77	24,558.96	20,563.74	2,242.86	22,806.61	24,354.43	1,676.55	26,030.98

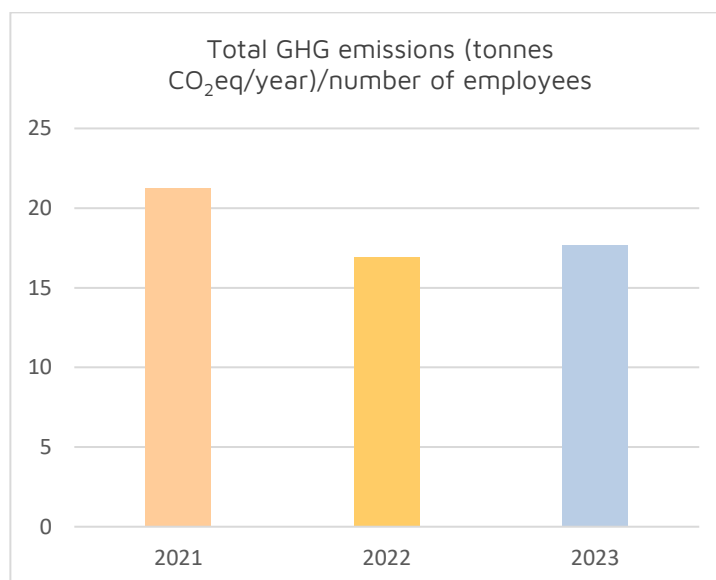
⁵¹ The reporting standard used (GRI sustainability reporting standards 2016) establishes two different calculation methods for Scope 2 emissions, "Location-based" and "Market-based." The "location-based" method requires the use of average national emission factors related to the specific energy mix used to produce electricity. As in 2022 and 2021, the emission factor for electricity was used in 2023 [for Italy: 315 gCO₂/kWh. Source: Terna 2019 "International comparisons"; Brazil's coefficient was also used for French Guiana, in line with previous years 2022 and 2021: 139 gCO₂/kWh. Source: Terna 2019 "International Comparisons"]; For Italian thermal energy, the emission coefficient was updated in 2023 [179.65 gCO₂eq/kWh. Source: DEFRA 2023]; in 2022 and 2021 the emission coefficient was used [170.73 gCO₂eq/kWh. Source: DEFRA 2022]. 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" was used [for Italy in 2023: 457 gCO₂eq/kWh, Source: European Residual Mixes 2022 (source: AIB 2023). For 2023, as in 2022 and in line with previous years, the Brazil coefficient provided by Terna must be used for French Guiana: 139 gCO₂/kWh (Source: Terna 2019 "International Comparisons"); [for Italy in 2021: 459 gCO₂eq/kWh, Source: European Residual Mixes 2020 (source: AIB 2021)].

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 intensity⁵²**

Emissions intensity	2021			2022			2023		
	Italy	French Guiana	Total	Italy	French Guiana	Total	Italy	French Guiana	Total
Total GHG emissions (tonnes CO₂/year)/number of employees	20.9	23.87	21.27	16.64	21.7	16.92	17.72	17.11	17.67

⁵² Emissions intensity is calculated using Scope 2 location-based emissions. Employee data for the EU does not include Avio France. Employee data for Non-EU does not include Avio USA.



The Group also estimated the environmental impact of employee travel for professional reasons. CO₂ emissions associated with employee travel by company vehicle amount to 138.29 tCO₂eq/l in 2023 for the Avio facility and 121.07 for 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 emissions⁵³.

Relevant pollutants (average concentration in mg/Nm ₃)	2021	2022	2023
	EU		
Volatile organic compounds (VOCs)	1.62	0.53	0.51
Total particulate matter	0.74	0.42	0.33
Total	2.36	0.95	0.84

⁵³ The indicator simply reports the average of sampling values of Volatile Organic Compounds produced by chimneys at the Avio site. The company is committed to reporting the figure in a more timely manner for the next reporting year.

[GRI 305-7] Polluting air emissions⁵⁴.

Relevant pollutants (in kg/year)	2021	2022	2023
	Non-EU		
Volatile organic compounds (VOCs)	608	852	719
Total	608	852	719

Atmospheric emissions resulting from facility activities are managed by air extraction and pollutant abatement systems, as mandated in the 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 decreased on previous years.

Meanwhile, the quantity of polluting emissions generated by Regulus decreased compared to the previous year.

As for Avio Guyane, no atmospheric emissions were produced in 2023.

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 at the Colleferro facility 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. Industrial water is not required for the Airola and Turin sites, or the registered office in Rome. It is sourced from the public network for the Perdasdefogu site;
- fire water: supplied by the Consortium Company (*Società Consortile*) (CC) for the Colleferro site. It is categorised as industrial water but is stored in reservoirs in case of emergency; Fire water is not required for the Turin site or the registered office in Rome. It is sourced from the public network for the Perdasdefogu site and from the TTA industrial district network for the Airola site;
- drinking water: supplied at Colleferro 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. It is sourced from the public network for the remaining sites.

At the overseas company Regulus, all water resource management activities are regularly inspected by the *Direction Général des Territoires et de la Mer* (formerly DEAL) to obtain and/or maintain the authorisations required to operate.

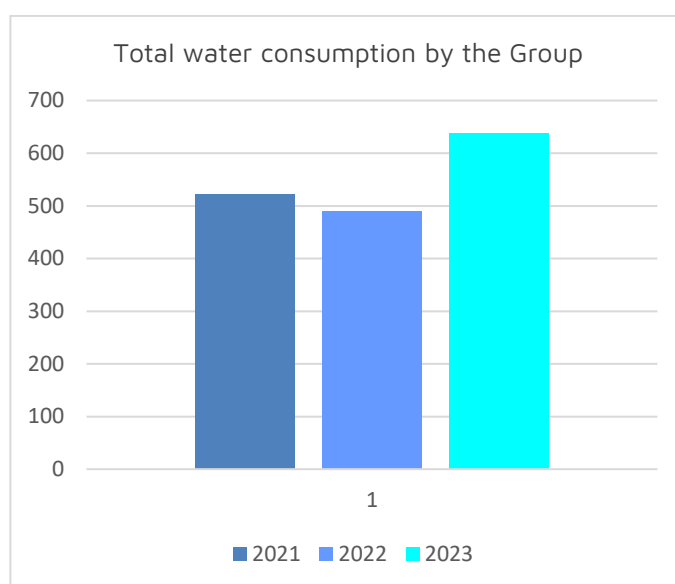
In 2023, 553,165 megalitres of water were consumed in Italy and 8,506 megalitres were consumed in French Guiana, amounting to a total of 638.225 megalitres. The adoption of water system improvement initiatives in Italy starting from 2019 has resulted in a significant reduction in consumption. These results are expected to continue in the coming years. We will continue to monitor water consumption to identify potential future areas for improvement.

⁵⁴ The indicator simply reports the average of sampling values of Volatile Organic Compounds produced from chimneys at the Regulus site. The company is committed to reporting the figure in a more timely manner for the next reporting year.

[GRI 303-3] Volumes of water⁵⁵ supplied by source⁵⁶.

Water withdrawal by source (megalitres)	2021			2022			2023		
	Italy	French Guiana	Total	Italy	French Guiana	Total	Italy	French Guiana	Total
Surface water (industrial water)	392.56	0.426	392.995	369.03		369.03	445.252		445.252
Groundwater (drinking water)	120.34	-	120.347	108.095	-	108.095	107.913		107.913
Seawater	-	-	-	-	-	-			0
Produced water		6.621	6.621	-	11.702	11.702		78.54	78.54
Third-party water resources	-	0.978	0.978	-	0.69	0.69		652	652
Total	512.91	8.025	520.941	477.125	12.392	488.517	553.165	8506	638.225

*The Italy figure includes only the Colleferro Site and part of the Non EU consumption related to Regulus is estimated.



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 since 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

⁵⁵ Freshwater

⁵⁶ 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. In this context, the continuous review of waste mapping activities, initiated in 2021, evolved into a consistent process, adapting to the dynamic and ever-changing national landscape. The review process seeks to reduce volumes of hazardous waste and provide detailed insights into different types of waste, allowing for a continuous assessment of their final disposal. The activity therefore includes an annual verification of analytical and ADR classifications.

In line with previous years, measures continued in 2023 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.

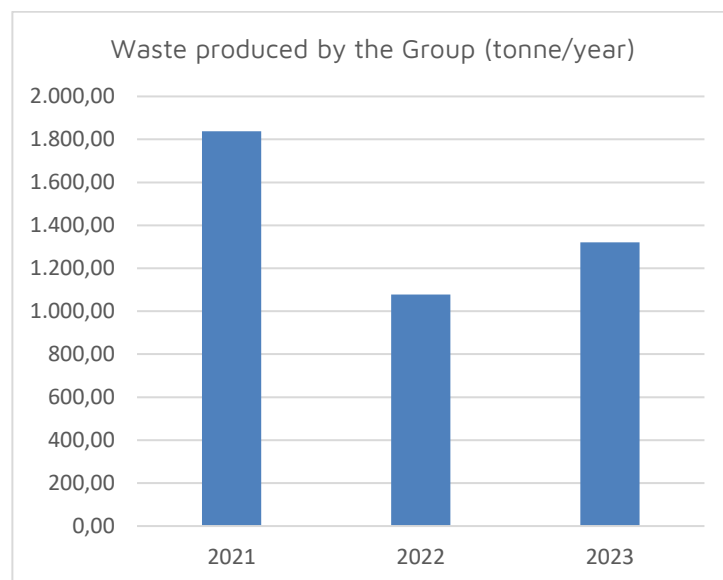
Avio generated more waste in 2023 than in 2022. This increase is owed to activities not strictly linked to production but rather due to the commencement of new industrial development projects, the conversion of departments for new production activities, and the disposal of materials at the end of their useful life. Despite the increase in total waste quantities, the consistent attention paid by the Avio Group to environmental topics resulted in an increase in the waste sent for recovery, equating to 72% of all waste generated.

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.

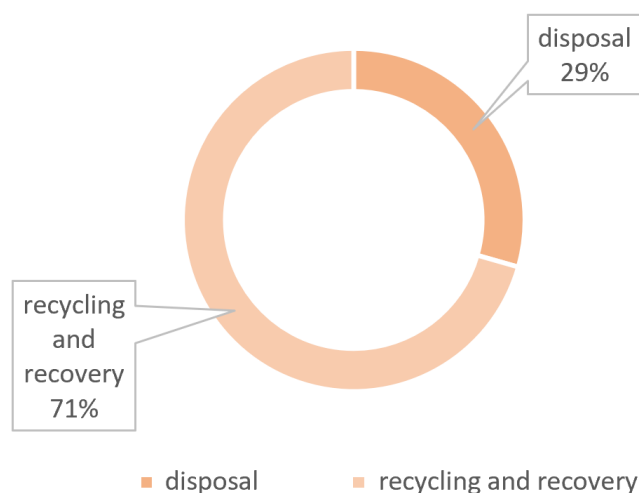
[GRI 306-3] Quantities of hazardous and non-hazardous waste generated by type of disposal⁵⁷.

Total weight of waste (tonne/year)	2021			2022			2023		
	Italy	French Guiana	Total	Italy	French Guiana	Total	Italy	French Guiana	Total
	Hazardous waste								
Recycling and recovery	3.79	16.64	20.43	1.2	2.5	3.7	33.93	94.45	128.38
Disposal	146.68	286.03	432.71	169.68	345.35	515.03	157.61	12.12	169.73
Total hazardous waste	150.47	302.68	453.14	170.88	347.85	518.73	191.54	106.57	298.11
	Non-hazardous waste								
Recycling and recovery	244.79	109.42	354.21	258.3	133.77	392.07	791.59	28.55	820.13
Disposal	949.16	80.72	1,029.88	132.22	34.44	166.66	158.98	43.80	202.78
Total non-hazardous waste	1,193.94	190.14	1,384.08	390.52	168.21	558.73	950.57	72.35	1022.91
Total waste	1,344.41	492.82	1,837.22	561.4	516.06	1,077.46	1142.11	178.92	1321.02



⁵⁷ Waste data has included the Aiolà facility since 2019. The reporting scope currently includes Avio, Regulus and Avio Guyane. The Italy figure does not include Temis, SPTF and the Turin office.

Breakdown of waste produced by destination -
2023



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, where a bicycle path has been built. Additional measures to promote urban development are in the pipeline, and during 2024, joint efforts with Avio will be undertaken to prepare the necessary infrastructure for the sites (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. In December 2023, the public area was extended to the premises in front of the old pagodas.



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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 Environment and Energy Security 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 2023 no monetary or non-monetary penalties were received for non-compliance with environmental laws and regulations. In 2023, the Company kept its integrated environment and safety management system up to date.

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. It resumed operations in January 2024 following approval of the executive project, overseen by the Lazio Region as the implementing body.

Secosvim 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, the two operational remediation projects were approved in October 2022 relating to the "Goods Entry and Heating Plant Area" and "OCR Area". In reference to the operational remediation projects concerning the PZAA87 and PEAA20 areas, which are still pending approval, the supplementary survey campaign was completed. This will allow the documentation due to be submitted to MASE to be updated, so that the review and subsequent approval process can continue.

SOCIAL AND ENVIRONMENTAL 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.



On January 15, 2023, 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 2023, Avio embraced gender inclusion by also renewing its membership to 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.

On January 31, 2024, Avio won first prize as part of the "ITS4US" Project, an initiative to bring young people closer to the world of work and professions.

Avio's commitment to social causes is also evident, especially through its participation in the conference on rebuilding Ukraine. During the event, the CEO expressed a willingness to explore additional forms of industrial cooperation within the field of space propulsion systems.

In the legal field, Avio took home the "Legal Team of the Year" award at the eighth edition of the Inhousecommunity Awards, which seek to celebrate excellence in law, HR, and the legal and financial worlds. The Legal Team's trajectory is clear, and the outstanding result obtained stems from its high level of professionalism and exceptional teamwork.

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.

In 2023, Avio sponsored Istituto Comprensivo 1's "*Sport senza barriere*" (Sport without borders) initiative in Colleferro. The funding enabled major upgrades and the creation of a multipurpose sports facility at Leonardo Da Vinci Middle School.

The "*Nuotando con Amore*" (Swimming with Love) initiative was also launched, comprising an endurance swimming event in teams to raise funds for AISM Roma - the Italian Multiple Sclerosis Association.

In 2023, the LUISS SSD Avio Rugby Team jersey made history, joining the collection at the renowned Fango and Sudore Rugby Museum in Artena. The museum was established by a former rugby player, who wanted to share his passion and private sports memorabilia collection with others.

For the first time, the Avio volleyball team participated in the ESA Space Volleyball Tournament, which has involved leading companies in the European space sector for 15 years now. The occasion represented the perfect opportunity for AVIO to bring its enthusiasm to ESTEC in Noordwijk (the Netherlands), achieving fifth place out of 12 participating teams.

Avio is also sponsoring the "*12h Nuotando con Amore*" event, which will see 40 company employees swim in a non-stop relay for 12 hours at the Olympic pool in the Municipality of Colleferro. Participants were asked to make a small contribution to the AIMSM in Rome, which will be used to fund activities in support of people with multiple sclerosis.

The Company took care of its employees in 2023 by prioritising their well-being and health. In this area, on May 5 the cardiovascular prevention campaign kicked off with the involvement of more than 200 employees over 50. On September 27, Avio also organised a blood drive in collaboration with EMA-ROMA (Blood Donors Association). Meanwhile, on November 9, it organised breast screenings for more than 50 employees over the age of 40 who expressed an interest as part of its periodic prevention campaign schedule.

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.

The company Regulus also strengthened its links with the local region in 2023 by supporting a company that promotes STEM fields among women and their employment in industrial sectors.



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 participated in the eleventh edition of the Sapienza Rocketry Challenge. Students from the Space Propulsion Laboratory of the Department of Mechanical and Aerospace Engineering at Rome Sapienza University launched their mini rockets from the piana di Segni park.

Avio's research and development activities have close ties to the university world, allowing Avio to consolidate its partnership with LUISS and Sapienza, among others. Avio and UNOOSA (United Nations Office of Space Affairs) also select a consortium led by the University of Nairobi, in partnership with the University of Arizona and the non-profit organisation Space Trust, as the first winner of the "Accessing space with Vega C" programme. The selected team will launch a CubeSat at no cost on board the Vega C rocket.

The first edition of Avio's master's programme in Lean Manufacturing commenced in April. The educational initiative is promoted by the Continuous Improvement Department in collaboration with HR & Training. Its goal is to equip individuals actively working on the Company's production processes with skills and knowledge in Operational Excellence. The master's programme will allow participants to achieve Lean Practitioner certification, rendering them ambassadors for change and the adoption of Lean Manufacturing with the company. Two editions of the master's programme were organised in 2023, comprising 40 hours + 16 hours of project work. 24 employees from the Quality, Industrial Operations, and Continuous Improvement departments participated in the programme.

On June 1, Avio participates in "Parodi day", an event organised by the IPIA of Colleferro to promote the connection between school, local area and enterprise.

Once again in 2023, Avio participated in the following educational campaign in collaboration with the Municipality of Colleferro: Avio Meets School, which seeks to introduce young people to STEM, organised by the HR Learning Team alongside Adecco and ASI. More than 120 students from high schools in Lazio participated in the campaign.

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.

Avio also stands for business growth: on May 24, 2023, ASI awards Avio the design and development of the Multi-Purpose Green Engine, a "green" liquid propellant engine, for future In-Orbit Servicing and Space Logistics applications. Together with Leonardo, Avio becomes Corporate Partner of Takeoff Accelerator, the accelerator program for startups developing solutions and services in the aerospace and advanced hardware sectors.

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



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to the association for the benefit of sports programmes open to Avio Group employees, their families, and the wider community.

In 2023, agreements were signed to transfer areas of land near Via Ariana to the Municipality of Colleferro, where a cycle path will be constructed. The first tranche opened on August 31, 2023.

Agreements and works are still ongoing concerning the transfer of 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.

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 a facility 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	GRI disclosure 2-21 (a) refers to the Group's Italian companies, 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	-	



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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

Location of disclosure can be found using the page number in this document and reference to other sections of the Directors' Report or other external documents (page numbers refer to the NFS section containing the disclosure)

Declaration of use	Avio S.p.A. has prepared this report in accordance with the GRI Standards for the period from January 1, 2023 to December 31, 2023.			
GRI 1 used	GRI 1 - Foundation - 2021			
Relevant GRI industry standards	N/A			
Standard Disclosure	Description of the indicator	Page number	Omissions	GRI standard sector ref. no.
GRI 1: FOUNDATION				
GRI 2: GENERAL DISCLOSURES				
ORGANISATIONAL PROFILE				
2-1	Organizational details	Avio S.p.A. p. 16 ss.		
2-2	Entities included in the organization's sustainability reporting	p. 56		
2-3	Reporting period, frequency and contact point	p. 56		comunicazione@avio.com investor.relations@avio.com
2-4	Restatements of information	p. 55-57		
2-5	External assurance	The Independent Auditors' Report is included at the end of the document.		
ACTIVITIES AND WORKERS				
2-6	Activities, value chain and other business relationships	pp. 16 ss. p. 68 pp. 122 ss.		
2-7	Employees	pp. 95 ss.		
2-8	Workers who are not employees	p. 97		
GOVERNANCE				
2-9	Governance structure and composition	p. 19, pp. 70 ss		
2-10	Nomination and selection of the highest governance body	pp. 70 ss.		

2-11	Chair of the highest governance body	pp. 70 ss.		
2-12	Role of the highest governance body in overseeing the management of impacts	pp. 70 ss.		
2-13	Delegation of responsibility for managing impacts	pp. 70 ss.		
2-14	Role of the highest governance body in sustainability reporting	pp. 70 ss.		
2-15	Conflicts of interests	pp. 74.		
2-16	Communication of critical concerns	pp. 73 ss.		
2-17	Collective knowledge of the highest governance body	pp. 70 ss.		
2-18	Evaluation of the performance of the highest governance body	pp. 70 ss.		
2-19	Remuneration policies	p. 74, p. 108		
2-20	Process to determine remuneration	p. 73, p. 108		
2-21	Annual total compensation ratio	p. 109		
STRATEGY, POLICIES AND PRACTICES				
2-22	Statement on sustainable development strategy	pp. 64 ss.		
2-23	Policy commitments	pp. 64 ss.		
2-24	Embedding policy commitments	pp. 64 ss.		
2-25	Processes to remediate negative impacts	pp. 57 ss., 74 ss.		
2-26	Mechanisms for seeking advice and raising concerns	p. 68, p. 74		
2-27	Compliance with laws and regulations	p. 95	No monetary fines and/or non-monetary sanctions were received for non-compliance with environmental laws and regulations in 2023, demonstrating that the Group complies with all applicable laws and regulations.	
2-28	Membership associations	pp. 67, 75, 116, 138-139		
STAKEHOLDER ENGAGEMENT				

2-29	Approach to stakeholder engagement	pp. 57 ss.		
2-30	Collective bargaining agreements	pp. 114		
GRI 3: MATERIAL TOPICS				
GUIDANCE TO DETERMINE MATERIAL TOPICS				
3-1	Process to determine material topics	pp. 57 ss.		
3-2	List of material topics	pp. 60 ss.		
3-3	Management of material topics	pp. 57 ss.		
TOPIC-SPECIFIC DISCLOSURES				
QUALITY AND SAFETY OF PRODUCTS AND SERVICES				
3-3	Description of the Group's product quality and safety and the policies adopted and formalised in this regard	pp. 117 ss.		
EMPLOYEE HEALTH, SAFETY AND WELL-BEING AND HUMAN RIGHTS				
3-3	Policies and initiatives on occupational health and safety protection	pp. 110 ss.		
403 - 1	Occupational health and safety management system	pp. 110 ss.		
403 - 2	Hazard identification, risk assessment, and incident investigation	pp. 89 ss, 110 ss.		
403 - 3	Occupational health services	pp. 110 ss.		
403 - 4	Worker participation, consultation, and communication on occupational health and safety	pp. 110 ss.		
403 - 5	Worker training on occupational health and safety	pp. 103 ss.		
403 - 6	Promotion of worker health	pp. 110 ss.		
403 - 7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	pp. 110 ss.		
403 - 8	Workers covered by an occupational health and safety management system	pp. 110 ss.		

403 - 9	Work-related injuries	p. 112		
403 - 10	Work-related ill health	p. 112		
QUALITY SYSTEM MANAGEMENT				
3-3	Policies and initiatives on quality system management	pp. 117 ss.		
TRAINING AND SKILLS DEVELOPMENT				
3-3	Policies and initiatives on the management of internal staff training	pp. 103 ss.		
205 - 2	Communication and training about anti-corruption policies and procedures	pp. 103 ss.	As far as Regulus is concerned, ISO certifications and Social and Tax Regularity certificates currently complement the supplier selection process. The acknowledgement and adoption of the principles contained in the <i>Charte Etique</i> will be added in the next two years.	
404 - 1	Average hours of training per year per employee	pp. 107		
CYBER SECURITY AND DATA PROTECTION				
3-3	Policies and initiatives regarding cybersecurity and data protection	pp. 121 ss.		
418 - 1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	pp. 121-122		
R&D AND INNOVATION				
3-3	Policies and initiatives on R&D management and innovation.	pp. 115 ss.		
416 - 1	Assessment of the health and safety impacts of product and service categories	pp. 118 ss.		
SAFETY IN INDUSTRIAL MANAGEMENT				

3-3	Plant safety policies and initiatives	pp. 120 ss.		
TALENT MANAGEMENT AND RETENTION				
3-3	Policies and initiatives on staff recruitment	pp. 99 ss.		
401 - 1	New employee hires and employee turnover	pp. 102-103		
RESPONSIBLE SUPPLIER RELATIONSHIPS				
3-3	Policies on supplier management	pp. 122 ss.		
308 - 1	New suppliers that were screened using environmental criteria.	pp. 122-125	As far as Regulus is concerned, ISO certifications and Social and Tax Regularity certificates currently complement the supplier selection process. The acknowledgement and adoption of the principles contained in the Charte Etique will be added in the next two years.	
414 - 1	New suppliers that were screened using social criteria.	pp. 122-125		
INTEGRATED CORPORATE GOVERNANCE				
3-3	Policies on Integrated Corporate Governance	pp. 70 ss.		
207 - 1	Approach to tax	pp. 75 ss.		
207 - 2	Tax governance, control, and risk management	pp. 70 ss.		
207 - 3	Stakeholder engagement and management of concerns related to tax	pp. 75 ss.		
207 - 4	Country-by-country reporting	p. 77		
CORRUPTION PREVENTION				
3-3	Policies and initiatives to manage corruption risk	pp. 93 ss.		

205 -1	Operations assessed for risks related to corruption	p. 95		
205 - 3	Confirmed incidents of corruption and actions taken	p. 95		
206 - 1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	p. 95		
STAFF REMUNERATION				
3-3	Policies on staff remuneration	pp. 108 ss.		
405 - 2	Ratio of basic salary and remuneration of women to men	pp. 108-109		
ENERGY CONSUMPTION AND EMISSIONS				
3-3	Policies on energy consumption and emissions	pp. 127 ss.		
302 - 1	Energy consumption within the organization	p. 128		
302 - 3	Energy intensity	p. 129		
302 - 4	Reduction of energy consumption	pp. 127 ss.		
305 - 2	Energy indirect (Scope 2) GHG emissions	pp. 130 ss.		
305 - 4	GHG emissions intensity	pp. 131		
EQUAL OPPORTUNITIES				
3-3	Policies and initiatives on equal opportunities	pp. 95 ss., p. 105		
405 - 1	Diversity of governance bodies and employees	pp. 95 - 97		
406 - 1	Incidents of discrimination and corrective actions taken	No episodes of discrimination were recorded in 2023,		

		demonstrating that the Group complies with all applicable laws and regulations.		
WASTE MANAGEMENT				
3-3	Policies and initiatives on waste management	pp. 135 ss.		
306 - 1	Waste generation and significant waste-related impacts	pp. 135 ss.		
306 - 2	Management of significant waste-related impacts	pp. 135 ss.		
306 - 3	Waste generated	pp. 135 ss.		
DIALOGUE WITH SOCIAL PARTNERS				
3-3	Policies and initiatives regarding dialogue with social partners	p. 114		
402 - 1	Minimum notice periods regarding operational changes	p. 114		
REMEDIATION				
3-3	Policies and initiatives on the protection of the natural environment and areas subject to potential critical environmental concerns	pp. 137 ss.		
ENVIRONMENTAL AND SOCIAL INITIATIVES				
3-3	Policies and initiatives on the protection of the natural environment. Specifically, in terms of energy consumption and atmospheric emissions, waste management, and water resource use.	pp. 138 ss.		
413 - 1	Operations with local community engagement, impact assessments, and development programs.	pp. 138 ss		
MANAGEMENT OF WATER RESOURCES				

3-3	Policies and initiatives on water resource management	pp. 133 ss.		
303 - 1	Interactions with water as a shared resource	pp. 133 ss.		
303 - 2	Management of water discharge-related impacts	pp. 133 ss.		
303 - 3	Water withdrawal	pp. 133 ss.		

METHODS OF PRESENTATION OF FINANCIAL STATEMENTS, METHODOLOGIES AND ACCOUNTING STANDARDS APPLIED



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, 2023, Avio S.p.A. held, directly or indirectly, investments in seven subsidiary companies (Space S.p.A., Regulus S.A., Se.Co.Sv.Im. S.r.l., Avio Guyana S.A.S., Avio France S.A.S., Avio USA Inc. 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").

A reverse merger was carried out of AS Propulsion International B.V. into Se.Co.Sv.Im. S.r.l.; the former constituted a direct wholly-owned subsidiary of the parent company Avio S.p.A. and held 100% of the shares of the latter. This transaction, being intra-group, did not change the scope of consolidation.

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, 2023 were prepared in accordance with International Accounting Standards (hereafter also "IFRS") issued by the International Accounting Standards Board ("IASB") and approved by the European Union. IFRS refers to the International Financial Reporting Standards, the revised international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") - previously known as the Standing Interpretations Committee ("SIC").

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

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

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

2.2. Consolidated financial statements

The consolidated financial statements at December 31, 2023 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 2023 consolidated financial statements present the comparative 2022 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, 2023 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, 2023 was as follows:

Companies included in the consolidation scope at December 31, 2023			Holdin g
Parent			
Company Name	Registered office	Share capital	% Held
Avio S.p.A.	via Leonida Bissolati, 76 - Rome	Euro 90,964,212.90	N/A
Companies consolidated by the line-by-line method			
Company Name	Registered office	Share capital	% Held
Spacelab S.p.A.	via Leonida Bissolati, 76 - Rome	Euro 3,000,000.00	70%
Regulus S.A.	Centre Spatial Guyanais - BP 0073 97372 Kourou (French Guiana - France)	Euro 640,000.00	60%
SE.CO.SV.IM. S.r.l.	Via degli Esplosivi, 1 - Colleferro (RM)	Euro 53,929,691.00	100% (*)
Avio Guyane S.A.S.	Centre Spatial Guyanais - BP 506 97388 Kourou (French Guiana - France)	Euro 50,000.00	100%
Avio France S.A.S.	3 Rue du Colonel Moll - 75017 Paris (France)	Euro 50,000.00	100%
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)	4.00 (USD)	100%
Avio India Aviation Aerospace Private Limited (*)	Pitampura Delhi North West (India)	INR 16,060,000	100%)
Jointly controlled companies, measured at equity			



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Europropulsion S.A.	11, rue Salomon de Rothschild 92150 Suresnes 388 250 797 RCS Nanterre	Euro 1,200,000.0 0	50%
Associates, measured at equity			
Termica Colleferro S.p.A.	Via degli Agresti, 4 and 6 Bologna	Euro 6,100,000.0 0	40%

(*) The company is in liquidation. No financial commitments are expected for the Group related to the liquidation.

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. Basis of preparation and accounting standards

Accounting estimates and significant judgments made to account for the impacts of climate risks

The effects of initiatives to limit climate change and the potential impact of the energy transition influence the accounting estimates and significant judgments made by management in preparing the consolidated financial statements and separate financial statements as of December 31, 2023.

In particular, the management and development strategies of constant environmental protection and the specific commitment aimed at protecting the environment, including the prevention of pollution and the pursuit of continuous improvement of its environmental performance, may lead to an increase in operating costs for the Avio Group in the medium to long term.

In this regard, in alignment with the Paris Agreement, Avio is committed to developing a medium-to-long-term decarbonisation plan that involves the progressive reduction of CO₂ and other greenhouse gas emissions generated by its business activities. Avio recognises the significance of adopting a strategic and systematic approach to the management of risks and opportunities linked to climate change. In addition to its commitment to mitigate the negative impacts of its own business, Avio has taken it upon itself to identify and adopt the best strategies to reduce the risks and seize new opportunities that will arise in this transitional environment.

As part of this, the Group has identified and mapped the following risks related to climate change, which are reported in the company's ERM - Enterprise Risk Management:

- an event related to "*Physical risks associated with the rise in economic costs and financial losses due to the increased frequency of extreme weather events related to climate change*": since certain processing facilities require significant thermal stability to perform delicate processes, changes in external climate conditions could affect energy consumption and have a significant economic impact, given the rise in energy prices. To mitigate this risk, the Group uses 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.
- an event related to "*Physical risks associated with extreme weather events*" connected to the potential for plant shutdowns and the loss of products due to extreme weather events. Among these, the following risks have been mapped: seismic events, flooding, tornadoes, and fires. A risk assessment of these events was conducted. The ways in which active products are handled and stored, in addition to the management of top event areas, indicate a very low probability of a significant event and/or operational shutdown. This finding is also consistent with the provisions of the Management System's internal Emergency Plan. Considering the historical data, geographical location, and existing risk management tools, the likelihood of these events causing plant shutdowns or a loss of products is deemed to be remote.

The mapping of the above risks is the basis for significant estimates and judgments related to:

- (i) the assessment of the Group's intention to continue its activities in space and defence;
- (ii) the definition of the useful lives and residual values of fixed assets;
- (iii) the impact on provisions for risks and charges (e.g., advance in the expected timing of incurring decommissioning and site restoration costs).

Please refer to the Directors' Report - Non-Financial Statement regarding the considerations and analysis on climate change.

Tangible fixed assets

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	2%; 10%
Plant & machinery	2%; 5%; 7%
Industrial & commercial equipment	10%; 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.

The phase-out of the Ariane 5 launcher and the phase-in of the new Ariane 6 launcher, as well as the phase-out of the Vega launcher and the phase-in of the new Vega-C launcher, resulted in the revision of the useful life of some buildings, plant and equipment during the year. As a result, the depreciation rates for buildings changed from 3% and 10% in 2022 to 2% and 10% in 2023, while those for plant and machinery changed from 7% and 30% in 2022 to 2%, 5% and 7% in 2023. This review was carried out with the support of an independent expert.

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.

Rights-of-use

The Group assesses whether a contract is or contains a lease at the time of its initial recognition; over the life of the contract, the initial assessment is revised only in response to changes in the terms of the contract (specifically, contract term or lease payments due).

A right to use the leased asset, equal to the initial value of the corresponding lease liability, plus payments due before or concurrently with the contractual effective date (e.g., agency fees) is recorded at the contract start date. Thereafter, this right of use is valued net of accumulated depreciation and impairment losses. Depreciation begins on the effective date of the lease and extends over the shorter of the contractual term and the useful life of the underlying asset. If events or changes in circumstances indicate that the carrying amount of the right-of-use cannot be recovered, that asset is tested for impairment in accordance with the provisions of the relevant accounting standard IAS 36 - Impairment of Assets.

The lease liability is initially recorded at the present value of unpaid lease payments as of the contractual effective date, discounted using the marginal borrowing rate, defined by loan term and for each Group company. Next, the lease liability is reduced to reflect lease payments paid and increased to reflect interest on the value that remains.

The lease liability is restated (resulting in a right-of-use adjustment) if there is a change:

- of the lease term (e.g., in case of early termination of the contract, or extension of the expiration date);
- of the valuation of an option to purchase the underlying asset; in such cases the lease payments due will be revised based on the revised term of the lease and to account for the change in the amounts payable under the purchase option;
- of future lease payments due, resulting from a change in the index or rate used to determine payments (e.g., ISTAT) or as a result of recontracting economic terms.

In the event of a significant change in the lease term or future lease payments due, the residual value of the lease liability is restated by reference to the marginal borrowing rate in effect at the date of the change.

The Group makes use of the option granted by the standard to apply a simplified accounting regime to short-term contracts for certain specific classes of assets (with a duration of no more than 12 months), to contracts where the individual underlying asset is of low value (up to Euro 5,000) and to contracts where the individual underlying asset is an intangible asset; for these contracts, lease payments are recognized in the Income Statement as an offset to short-term trade payables.

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	14%; 20%

In view of the development of research and development and production programs during the year, the useful life of some software licenses was reviewed. As a result, the range of amortization rates for software licenses changed from 20-33% in 2022 to 14-20% in 2023.

Investments

For the consolidated financial statements, please refer to the "Consolidation Principles" section.

For the separate financial statements, the following is reported.

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

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

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

Financial assets

The Group classifies financial assets in the following categories:

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

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

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

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

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

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

Financial assets measured at amortised cost

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

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

This category includes financial assets not classified as measured at amortised cost or fair value through other comprehensive income. This category includes 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.

Given the engineering complexity and multi-year duration of contract work in progress, the related fees, in addition to the fee established in the original contract, may include subsequent additional fees. Such additional fees may be of a varying nature, such as, by way of example, additional fees required for increased activities incurred and/or to be incurred due to variations in work or events not foreseeable at the date of signing of the original contract requested by the client, or for increased charges incurred and/or to be incurred not foreseeable by the parties at the date of signing of the original contract. The determination of additional fees is, by its very nature, subject in part to a degree of uncertainty both in terms of the amounts that will be recognized by the client and on the timing of contract formalisation.

These additional fees are traced back to the case of contractual changes approved by both contracting parties in writing or through business practices.

A contract amendment can exist even though there are still ongoing definitions about the subject matter and/or price of the contract as long as there is the enforceable right. Having identified the chargeable right, for the purpose of recording such additional consideration, for the purpose of adjusting the transaction price the circumstance that the associated revenue will not be reversed in the future is considered highly probable.

The project costs are recorded as expenses in the year in which they are incurred.

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

The Group grants additional benefits to employees on the basis of special free share award plans. The related cost, determined in accordance with IFRS 2 - Share-based Payments, is recognized in the income statement on a straight-line basis over the vesting period with a direct offset in equity. Subsequent changes in the fair value to the assignment date do not have an effect on the initial value.

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, 2023, 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. Please also refer to what is stated in the section "Contract work in progress" in section "2.7. Accounting standards and basis of preparation".

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;
- Risk associated with the recognition of contract fees.

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, 2023

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from January 1, 2023:

- On May 18, 2017, the IASB published **IFRS 17 - Insurance Contracts** which replaces **IFRS 4 - Insurance Contracts**. This standard is effective as of January 1, 2023. The new standard ensures that an entity provides pertinent information which accurately presents the rights and obligations under insurance contracts.

The adoption of this principle and the related amendment did not have any effects 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 at the date of initial recognition, such as leases and decommissioning obligations. The amendments were applied from January 1, 2023.

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

- 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 amendments regarding IAS 1 require an entity to disclose relevant information on the accounting standards applied by the Group. The changes are intended to improve disclosure on the accounting policies applied by the Group 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 were applied from January 1, 2023. The adoptions of these amendments do not have any effects on the Group consolidated financial statements.

- On May 23, 2023, the IASB published an amendment called "**Amendments to IAS 12 Income Taxes: International Tax Reform - Pillar Two Model Rules**". This introduces a temporary exception to the recognition and disclosure requirements for deferred tax assets and liabilities related to the Pillar Two Model Rules (effective in Italy from December 31, 2023, but applicable as of January 1, 2024) and sets out specific disclosure requirements for entities affected by the related International Tax Reform.

It provides for the immediate application of the temporary exception, while the disclosure requirements apply only to financial statements for years beginning on or after January 1, 2023, but not to interim financial statements with a closing date before December 31, 2023.

IFRS accounting standards, amendments and interpretations endorsed by the EU at December 31, 2023, not yet mandatory and not adopted in advance by the Group at December 31, 2023

The following IFRS accounting standards, amendments and interpretations were approved by the EU, but are not yet mandatory and have not been not adopted in advance by the Group at December 31, 2023:

- 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 amendments is to clarify how to classify payables and other short or long-term liabilities. In addition, the amendments also improve the information that an entity must provide when its right to defer settlement of a liability for at least 12 months is subject to meeting certain parameters (i.e. covenants). 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.



IFRS standards, amendments and interpretations not yet endorsed by the European Union at December 31, 2023

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

- On May 25, 2023, the IASB published an amendment entitled "**Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements**". This requires an entity to provide additional information on reverse factoring arrangements to enable users of financial statement to assess how financial arrangements with suppliers may affect the entity's liabilities and cash flows and to understand the effect of such arrangements on the entity's exposure to liquidity risk. 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 August 15, 2023, the IASB published an amendment entitled "**Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability**." The document requires an entity to apply a consistent methodology in order to ascertain whether one currency can be converted into another and, when this is not possible, how to determine the exchange rate to be used and the disclosure to be made in the notes to the financial statements. The amendment will be applicable from January 1, 2025, 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 Company/Group is a first-time adopter, this standard is not applicable.

CONSOLIDATED FINANCIAL STATEMENTS



CONSOLIDATED BALANCE SHEET	<i>Note</i>	December 31, 2023	December 31, 2022
<i>(in Euro)</i>			
ASSETS			
Non-current assets			
Property, plant and equipment	<i>3.1</i>	155,866,000	137,573,354
Right-of-use		8,513,118	8,534,535
- of which related parties	<i>3.2</i>	838,655	975,889
Investment property	<i>3.3</i>	3,784,642	3,479,277
Intangible assets with definite life	<i>3.4</i>	126,222,348	119,813,995
Goodwill	<i>3.5</i>	62,829,038	64,149,492
Investments	<i>3.6</i>	17,582,073	15,604,979
Non-current financial assets		2,010,172	2,010,172
- of which related parties	<i>3.7</i>	2,010,172	2,010,172
Deferred tax assets	<i>3.8</i>	81,200,112	81,471,150
Other non-current assets	<i>3.9</i>	67,599,761	67,469,542
Total non-current assets		525,607,264	500,106,496
Current assets			
Inventories and Advances to suppliers		284,427,153	202,573,023
- of which related parties	<i>3.10</i>	66,495,501	49,828,384
Contract work-in-progress		123,472,715	426,181,595
- of which related parties	<i>3.11</i>	16,561,817	99,185,251
Trade receivables		2,943,798	3,725,455
- of which related parties	<i>3.12</i>	1,287,722	2,119,624
Cash and cash equivalents	<i>3.13</i>	95,593,462	131,403,014
Tax receivables	<i>3.14</i>	16,023,877	13,009,300
Other current assets		7,036,837	8,357,546
- of which related parties	<i>3.15</i>	31,088	2,208
Total current assets		529,497,842	785,249,933
TOTAL ASSETS		1,055,105,106	1,285,356,429

CONSOLIDATED BALANCE SHEET	<i>Note</i>	December 31, 2023	December 31, 2022
<i>(in Euro)</i>			
EQUITY			
Share capital	<i>3.16</i>	90,964,212	90,964,212
Share premium reserve	<i>3.17</i>	130,920,685	130,686,924
Other reserves	<i>3.18</i>	14,643,773	14,196,872
Retained earnings		57,600,667	58,249,080
Group net profit		6,487,372	(434,767)
Total Group Equity		300,616,709	293,662,323
Equity attributable to non-controlling interests	<i>3.20</i>	9,736,010	9,598,904
TOTAL NET EQUITY		310,352,719	303,261,227
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	<i>3.21</i>	2,051,250	12,076,229
Non-current financial liabilities for leasing - of which related parties	<i>3.22</i>	5,619,845 <i>697,780</i>	4,937,099 <i>836,508</i>
Employee Benefit Provisions	<i>3.23</i>	8,915,891	9,524,486
Provisions for risks and charges	<i>3.24</i>	25,435,752	29,921,216
Other non-current liabilities	<i>3.25</i>	75,062,281	76,471,119
Total non-current liabilities		117,085,019	132,930,149
Current liabilities			
Current financial liabilities - of which related parties	<i>3.26</i>	25,509 <i>0</i>	28,028,069 <i>27,768,866</i>
Current financial liabilities for leasing - of which related parties	<i>3.27</i>	1,746,805 <i>134,937</i>	1,878,679 <i>152,433</i>
Current portion of non-current financial payables	<i>3.28</i>	10,018,000	10,033,000
Provisions for risks and charges	<i>3.24</i>	18,401,797	23,458,025
Trade payables - of which related parties	<i>3.29</i>	113,159,259 <i>5,291,293</i>	89,825,718 <i>17,586,964</i>
Advances from clients for contract work-in-progress - of which related parties	<i>3.11</i>	452,830,019 <i>79,136,521</i>	667,442,685 <i>146,219,587</i>
Current income tax payables	<i>3.30</i>	2,512,648	4,227,922
Other current liabilities - of which related parties	<i>3.31</i>	28,973,331 <i>124,617</i>	24,270,954 <i>318,264</i>
Total current liabilities		627,667,368	849,165,053
TOTAL LIABILITIES		744,752,387	982,095,202
TOTAL LIABILITIES AND EQUITY		1,055,105,106	1,285,356,429

CONSOLIDATED INCOME STATEMENT	Note	FY 2023	FY 2022
<i>(in Euro)</i>			
Revenues	3.32	343,696,288	371,377,130
- of which related parties		106,331,409	80,023,198
Change in inventory of finished products, in progress and semi-finished		13,010,962	1,322,572
Other operating income	3.33	8,689,402	39,376,006
- of which related parties		429,056	629,140
Consumption of raw materials	3.34	(113,434,271)	(117,208,246)
Service costs	3.35	(141,335,412)	(190,531,122)
- of which related parties		(37,400,575)	(60,335,609)
Personnel expenses	3.36	(93,967,863)	(80,340,198)
Amortisation & depreciation	3.37	(15,283,386)	(19,186,631)
Other operating costs	3.38	(4,724,851)	(8,261,569)
Effect valuation of investments under equity method - operating income/(charges)	3.39	(527,987)	(1,748,588)
Costs capitalised for internal works	3.40	9,105,108	7,443,279
EBIT		5,227,990	2,242,634
Financial income	3.41	2,930,433	860,004
- of which related parties		-	-
Financial charges	3.42	(1,517,375)	(1,716,536)
- of which related parties		(308,738)	(635,354)
NET FINANCIAL INCOME/(CHARGES)		1,413,058	(856,532)
Other investment income/(charges)		-	-
INVESTMENT INCOME/(CHARGES)		-	-
PROFIT BEFORE TAXES		6,641,048	1,386,101
Income taxes	3.43	(17,020)	(72,425)
NET PROFIT		6,624,028	1,313,676
-- of which: Owners of the parent		6,487,372	(434,767)
Minority interests		136,656	1,748,443
Basic earnings/(losses) per share	3.44	0.26	(0.02)
Diluted earnings/(losses) per share	3.44	0.25	(0.02)

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT	FY 2023	FY 2022
<i>(in Euro)</i>		
NET PROFIT FOR THE YEAR (A)	6,624,028	1,313,676
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	(113,348)	730,033
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)	16,632	(158,569)
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	(96,716)	571,464
COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR (A+B)	6,527,312	1,885,140
-- of which: Owners of the parent	6,390,206	133,494
Minority interests	137,105	1,751,646

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 31/12/2021	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)	-			-
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
Treasury share purchases		(5,739)	(5,739)	5,739						(5,739)			(5,739)
Other movements						(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											-		-
- Actuarial gains/(losses), net of tax effect						571					571		571
Comprehensive income for the year	-	-	-	-	-	571	-	-	-	(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
Allocation of prior year result									(435)	435	-		-
Other movements		234	234	(234)			568	(23)	(214)		564		564
Comprehensive income for the year													
- Net profit for the year										6,487	6,487	137	6,624
- Other changes											-		-
- Actuarial gains/(losses), net of tax effect						(97)					(97)		(97)
Comprehensive income for the year	-	-	-	-	-	(97)	-	-	-	6,487	6,390	137	6,527
Equity at 31/12/2023	90,964	130,921	(13,335)	13,335	18,193	(4,125)	622	(45)	57,601	6,487	300,616	9,736	310,352

CONSOLIDATED CASH FLOW STATEMENT*(Euro thousands)*

	2023	2022
OPERATING ACTIVITIES		
Net profit for the year	6,624	1,314
Adjustments for:		
- Income taxes	17	72
- (Income)/charges from measurement at equity of investment in Europropulsion S.A.	528	1,749
- Financial (Income)/Charges		
- Amortisation & Depreciation	15,283	19,187
Net change provisions for risks and charges	(9,542)	25,150
Net change employee provisions	(705)	(248)
Changes in:		
- Inventories and Advances to suppliers	(81,854)	(47,841)
- <i>of which related parties</i>	(16,667)	(20,952)
- Contract work-in-progress & advances from clients	88,096	85,435
- <i>of which related parties</i>	15,540	45,642
- Trade receivables	782	(29)
- <i>of which related parties</i>	832	(842)
- Trade payables	23,334	12,899
- <i>of which related parties</i>	(12,296)	6,578
- Other current & non-current assets	(2,064)	5,087
- <i>of which related parties</i>	(29)	2
- Other current & non-current liabilities	2,177	(35,323)
- <i>of which related parties</i>	(194)	35
Income taxes paid	(51)	(1,495)
Interest paid	(143)	(218)
Net liquidity generated/(employed) in operating activities	(A) 42,482	65,739
INVESTING ACTIVITIES		
Investments in:		
- Tangible assets and investment property	(23,242)	(21,545)
- Intangible assets with definite life	(13,103)	(10,970)
- Equity Investments	(2,505)	(1,720)
Disposal price of tangible, intangible & financial assets	-	-
Liquidity generated (employed) in investing activities	(B) (38,850)	(34,235)
FINANCING ACTIVITIES		
EIB loan	(10,000)	(10,000)
Centralised treasury effect with Europropulsion S.A. joint control company	(27,769)	20,020
- <i>of which related parties</i>	(27,769)	20,020
Dividends paid by the parent Avio S.p.A.		(4,500)
Dividends attributable to minorities of subsidiaries	-	(3,132)
Acquisition of treasury shares	-	(5,739)
Other changes to financial assets and liabilities	(1,672)	(1,363)
- <i>of which related parties</i>	(19)	4,411
Liquidity generated (employed) in financing activities	(C) (39,441)	(4,714)
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C) (35,809)	26,788
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	131,403	104,615
NET CASH AND CASH EQUIVALENTS AT END OF YEAR	95,593	131,403

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, 2023 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2023			31/12/2022		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	14,651	-	14,651	14,651	-	14,651
Buildings	83,593	(24,752)	58,840	64,786	(23,194)	41,592
Plant & machinery	93,237	(68,408)	24,829	84,685	(67,012)	17,673
Industrial & commercial equipment	19,570	(18,119)	1,451	18,989	(17,835)	1,154
Other assets	16,608	(11,401)	5,206	13,837	(10,166)	3,671
Assets in progress and advances	50,889	-	50,889	58,832	-	58,832
Total	278,547	(122,681)	155,866	255,780	(118,207)	137,573

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

Gross values	31/12/2022	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2023
Land	14,651	-	-	-	14,651
Buildings	64,786	4,043	-	14,764	83,593
Plant & machinery	84,685	7,129	-	1,423	93,237
Industrial & commercial equipment	18,989	483	(28)	125	19,570
Other assets	13,837	2,655	(35)	151	16,608
Assets in progress and advances	58,832	8,547	-	(16,489)	50,889
Total	255,780	22,857	(64)	(26)	278,547

The increases in the year of Euro 22,857 thousand mainly concerns:

- assets in progress and advances for Euro 8,547 thousand.
These investments particularly included:
 - works on buildings for the production of the P120C motor amounting to Euro 1,712 thousand;
 - the construction of the static ignition test facility (OPTF) for the development and qualification of liquid rocket engines with HTP ζ 95% and RP-1 propellants for Euro 1,396 thousand;
 - the construction of infrastructure for the purposes of National Recovery and Resilience Plan orders for Euro 1,134 thousand;
 - purchase of equipment for Euro 4,305 thousand;
- plant and machinery for Euro 7,129 thousand;
- buildings for Euro 4,043 thousand, mainly related to the construction of the Group's new headquarters located in Colleferro and extraordinary maintenance and construction of sites for equipment and product storage;
- Other assets amounting to Euro 2,655 thousand, mainly relating to IT equipment and furnishings related to the Group's new administrative site;

- equipment amounting to Euro 483 thousand, mainly relating to production control instruments;

During the year, the building for the Group's new headquarters and building 4026 built for the cadence increase of VEGA entered depreciation, moving from Assets in progress to Buildings.

The following movements in accumulated depreciation are reported in 2023 (in Euro thousands):

Gross values	31/12/2022	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2023
Buildings	(23,194)	(1,571)	12	-	(24,752)
Plant & machinery	(67,012)	(1,396)	-	-	(68,408)
Industrial & commercial equipment	(17,835)	(304)	20	-	(18,119)
Other assets	(10,166)	(1,268)	33	-	(11,401)
Total	(118,207)	(4,539)	65	-	(122,681)

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

The phase-out of the Ariane 5 launcher and the phase-in of the new Ariane 6 launcher, as well as the phase-out of the Vega launcher and the phase-in of the new Vega-C launcher, resulted in the revision of the useful life of some buildings, plant and equipment during the year. See also in this regard what is stated in section "2.7. Accounting standards and basis of preparation".

3.2. RIGHT-OF-USE

The values of Right-of-use assets at December 31, 2023 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2023			31/12/2022		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land right-of-use	2,570	(571)	1,999	2,570	(428)	2,142
Buildings right-of-use	7,109	(3,188)	3,921	6,207	(2,321)	3,886
Plant and machinery right-of-use	1,690	(793)	897	1,632	(620)	1,012
Other assets right-of-use	3,996	(2,300)	1,696	3,379	(1,884)	1,495
Total	15,365	(6,852)	8,513	13,788	(5,253)	8,535

The gross values of these rights at December 31, 2023 (in Euro thousands) are reported below:

Gross values	31/12/2022	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2023
Land right-of-use	2,570	-	-	-	2,570
Buildings right-of-use	6,207	1,136	(233)	-	7,109
Plant and machinery right-of-use	1,632	58	-	-	1,690
Other assets right-of-use	3,379	1,185	(568)	-	3,996
Total	13,788	2,379	(801)	-	15,365

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 Guiana; hiring of company cars.

The increases in the year of Euro 2.379 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, amounting to Euro 801 thousand, related to the termination of lease contracts for vehicles and apartments for employees.

The accumulated depreciation of these rights in 2023 is reported below (in Euro thousands):

Gross values	31/12/2022	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2023
Land right-of-use	(428)	(143)	-	-	(571)
Buildings right-of-use	(2,321)	(877)	10	-	(3,188)
Plant and machinery right-of-use	(620)	(173)	-	-	(793)
Other assets right-of-use	(1,884)	(921)	505	-	(2,300)
Total	(5,253)	(2,114)	515	-	(6,852)

3.3. INVESTMENT PROPERTY

The values of Investment property at December 31, 2023 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2023			31/12/2022		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	1,834	-	1,834	1,834	-	1,834
Buildings & facilities	3,258	(1,307)	1,951	2,872	(1,226)	1,645
Total	5,092	(1,307)	3,785	4,706	(1,226)	3,480

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 2023 in the gross values of investment property of the Avio Group are illustrated in the table below (Euro thousands):

Gross values	31/12/2022	Increases	Decreases	Reclassifications and other changes	31/12/2023
Land	1,834	-	-	-	1,834
Buildings & facilities	2,872	386	-	-	3,258
Total	4,706	386	-	-	5,092

The following movements in accumulated depreciation are reported in 2023 (in Euro thousands):

Accumulated depreciation	31/12/2022	Depreciation	Utilisations	Reclassifications and other changes	31/12/2023
Buildings & facilities	(1,226)	(78)	-	(3)	(1,307)
Total	(1,226)	(78)	-	(3)	(1,307)

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).

	31/12/2023			31/12/2022		
	Gross values	Accumulated amortisation	Net book value	Gross values	Accumulated amortisation	Net book value
Development costs - amortisable	71,685	(15,949)	55,736	68,229	(12,557)	55,672
Development costs - in progress	27,148	-	27,148	25,396	-	25,396
Total development costs	98,833	(15,949)	82,884	93,624	(12,557)	81,068
Assets from PPA	46,616	(20,275)	26,341	44,785	(17,168)	27,617
Concessions, licenses, trademarks and similar rights	20,433	(12,507)	7,926	15,599	(11,307)	4,292
Other	13,524	(4,743)	8,780	8,768	(3,897)	4,872
Assets in progress and advances	291	-	291	1,966	-	1,966
Total	179,697	(53,475)	126,222	164,742	(44,928)	119,814

The development costs being amortised primarily refer to design and testing costs relating to the Z40 and P120C engines. Most development costs under completion refer to projects relating to the new liquid oxygen and methane engines.

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

With reference to development costs in course of completion, which are not subject to amortisation as referring to programmes which have not yet commenced commercial production, recognition under intangible assets with definite useful lives (with prior verification of the absence of impairment) is supported by the profitability forecasts of the programmes.

Following the purchase price allocation process of the Avio Group by Space2 in March 2017, two intangible assets were identified relating to the Ariane and Vega aerospace programmes for a total of Euro 44,785 thousand.

The assets deriving from this allocation were measured at fair value based on the present value of the expected future benefits of the above aerospace programmes and amortised over a period of 15 years on the basis of the average useful life of the programmes.

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

The changes in the gross values of Intangible assets with definite life of the Avio Group are illustrated in the table below (Euro thousands):

Gross values	31/12/2022	Increases	Decreases	Reclassifications and other changes	31/12/2023
Development costs - amortisable	68,229	-	-	3,456	71,685
Development costs - in progress	25,396	5,209	-	(3,456)	27,148
Total development costs	93,624	5,209	-	-	98,833
Assets from PPA	44,785	-	-	1,831	46,616
Concessions, licenses, trademarks and similar rights	15,599	4,796	-	38	20,433
Other	8,768	2,807	-	1,949	13,524
Assets in progress and advances	1,966	291	-	(1,966)	291
Total	164,742	13,103	-	1,853	179,697

The increases in 2023 of Intangible Assets with definite life amounted to Euro 13,103 thousand, of which principally:

- Euro 5,209 thousand, mainly for design and testing costs for the construction of the new engines and avionics elements;
- Euro 4,796 thousand concerning software licenses and introduction projects;
- Euro 2,807 thousand essentially related to the review of procedures for production efficiency, as well as the drawing up of business plans.

"Reclassifications and other changes" includes the amount resulting from the allocation of the difference, for Euro 1,831 thousand, between the purchase price of 100% of Temis S.r.l. and the shareholders' equity acquired. This difference, as per IFRS 3 "Business combinations", was allocated within one year of the acquisition date, which was September 8, 2022. The valuation of the assets and liabilities of the acquired company to which the premium was to be allocated was carried out with the support of a special independent expert and resulted in the identification of two significant aerospace programmes in which Temis operates, whose current value was estimated at Euro 1,831 thousand. Goodwill was recognised for the remaining premium. For further clarity, the results of the allocation are reported below:

Temis Purchase Price Allocation	
Equity investment purchase price	3,355
% acquired	100%
Pro-quota Shareholders' Equity	210
Excess Cost	3,144
<i>Aerospace programs</i>	
Avionica 3.0	1,721
Space Rider	110
	1,831
Deferred tax liabilities	(511)
Goodwill	1,824

The changes in 2023 to accumulated amortisation were as follows (in Euro thousands):

Accumulated amortisation	31/12/2022	Increases	Decreases	Reclassifications and other changes	31/12/2023
Development costs - amortisable	(12,557)	(3,393)	-	-	(15,949)
Development costs - in progress	-	-	-	-	-
Total development costs	(12,557)	(3,393)	-	-	(15,949)
Assets from PPA	(17,168)	(3,108)	-	-	(20,275)
Concessions, licenses, trademarks and similar rights	(11,307)	(1,197)	-	(3)	(12,507)
Other	(3,897)	(854)	-	8	(4,743)
Total	(44,928)	(8,552)	-	5	(53,475)

3.5. GOODWILL

Goodwill was recognised at December 31, 2023 of Euro 62,829 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 1,824 thousand Euro relating to the 2022 acquisition of Temis S.r.l. As reported in the paragraph "3.4. Intangible assets with definite life" above, this amount constitutes the residual amount recognised to Goodwill following the conclusion of the process to allocate the difference between the purchase price of 100% of this company and the acquired equity. This goodwill is also allocated to the Group's only Space sector CGU.

As indicated in Note "2.7. Accounting standards and basis of preparation", 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, 2023.

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, 2023, cash flows for the Space CGU were estimated based on projections from the 2024-2028 Business Plan, approved by the Board of Directors on March 13, 2024.

The assumptions underlying the projections of future cash flows of the Space CGU of the 2024-2028 long-range plan approved by Avio's Board of Directors on March 13, 2024 considered, 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", in the press release covering the 2023 results of March 13, 2024⁵⁸ and in the presentation of the 2023 results of March 13, 2024, as of December 31, 2023 the order backlog had reached a historic record of Euro 1,358.9 million, a net increase of Euro 345 million (+34%) compared to Euro 1,013.7 million as of December 31, 2022, thanks to new orders acquired in 2023 amounting to Euro 684 million, 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, 2023 will result in the recognition of revenue of approximately 30% of such amount in 2024, approximately 30% in 2025 and the remainder primarily in 2025 and 2026.

⁵⁸ Avio's website, in the "Investors" section: <https://investors.avio.com/Investors/Financial-Announcements/>.

In addition to what has been stated above with reference to the order backlog, the cash flow projections of the 2024-2028 multi-year plan are based on the following additional main assumptions, where reasonably estimated, corroborated by separate external sources by type of revenue, mainly concerning launcher production activities and defence research and development activities:

- globally we are seeing, according to a report by Euroconsult⁵⁹, a growth in the value of the satellite industry (with reference to both business manufacturing and launches) from the current USD 300 billion in the period 2013 - 2022 to about USD 600 billion in the period 2023-2032 (growth rate 2x). It is expected that the space launch business segment, again according to the same Euroconsult report, will grow from the current USD 78 billion in the 2013-2022 period to about USD 150 billion in the 2023-2032 period;
- the growth forecast for total mass demand to be launched into space, based on the study by the company Euroconsult⁶⁰, for the period 2023-2032 is 15,199 tonnes compared to 3,465 tonnes actually launched in the period 2013-2022, with a growth rate of 4x;
- according to a recent report by Euroconsult⁶¹ a comparison of the two decades 2013-22 (past) and 2023-32 (future) shows how the number of orbited Satellites increases (on average) from about 800/year to 2,900/year (growth rate: 4x), the corresponding mass increases on average from about 300 tonnes/year to 1,500 tonnes/year;
- market demand extrapolated from Euroconsult forecasts can therefore be reasonably estimated at between 6% and 7% CAGR on a 10-year basis;
- these expectations are also reflected in the financial flows being invested in the sector by private players such as Venture Capital Funds, Private Equity Funds, business angels and corporate venture capital. According to Space Capital reports, these figures have increased from USD 18.1 billion annually in 2015 to USD 45.3 billion in 2021, with a CAGR of approx. 16%⁶²;
- there has also been a significant increase in overall resources allocated to space programmes at the government level: according to a recent Euroconsult report⁶³, government funding for space economy activities totalled more than \$92 billion in 2021, up 8% from 2020. Also according to the same source, these budgets are forecast to grow to USD 115 billion in 2030, with a CAGR of 2.5% over 9 years;
- as regards the above, with respect to the 2024-2028 plan's R&D revenue projections, the demand for publicly funded new product and technology development activities is based primarily on (i) 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 approx. 6% annually between 2015 and 2023, as can be deduced from the data published by the agencies themselves⁶⁴ and (ii) on the funds made available by the Italian state under the National Recovery and Resilience Plan - hereafter also NRRP - following the COVID-19 pandemic.
- in particular, again with regard to projections of revenues from R&D, the ESA defined - for the space launcher segment - a product roadmap up to 2025 including, among other things, future evolutions of the current Vega launcher, of which Avio is prime contractor, consisting of Vega C and Vega E, the new Ariane 6 launcher, of which Avio will produce the P120 first-stage engines, and the reusable Space Rider spacecraft, of which Avio is co-prime. Against this development roadmap, Italy signed up for ESA public funding of over Euro 700 million at the 2022 Ministerial Conference. These subscriptions, by virtue of the geographic return principle applied by the ESA to such, are transforming into new contracts for Avio (the only operator in the sector in Italy and recognised as prime contractor for launcher activities in ESA), which are regularly announced to the market⁶⁵;

⁵⁹ "Satellites to be built & launched," 2024 26th edition, Euroconsult Report, published in January 2024;

⁶⁰ "Satellites to be built & launched," 2024 26th edition, Euroconsult Report, published in January 2024;

⁶¹ "Satellites to be built & launched," 2024 26th edition, Euroconsult Report, published in January 2024;

and

⁶² Space Capital investment dashboard <https://www.spacecapital.com/quarterly>;

⁶³ "Government Space Programs, 21st edition" report, Euroconsult, cited in <https://www.satellitetoday.com/government-military/2022/01/07/euroconsult-reports-record-government-space-investment-in-2021/>;

⁶⁴ ESA 2015 budget of Euro 4.4 billion available at: https://www.esa.int/Newsroom/Highlights/ESA_budget_2015; ESA 2021 budget of Euro 6.5 billion available at: https://www.esa.int/Newsroom/ESA_budget_2021;

⁶⁵ Examples of ESA contracts or budget allocations that were announced by Avio to the market

- https://avio-data.teleborsa.it/2022%2f20221125-Avio-Market-Update-2022_vDEF_20221202_103612.pdf

- the ESA Council of November 6, 2023⁶⁶, held in Seville, made significant decisions about the Ariane 6, Vega-C and Vega-E programmes, including:
 - the coverage, through additional funding, of a portion of the additional production costs resulting largely from the significant rise in inflation that has emerged over the past 2 years in the eurozone, particularly for Ariane 6 up to Euro 340 million per year and for Vega-C up to Euro 21 million per year;
 - the expectation of a minimum number of European institutional launches, both for Ariane 6 (4 flights/year) and Vega C (3 flights/year), increased from that expected in previous years, due in part to the growth in size of the various European satellite programmes;
 - the opening of a competition in the European launcher sector through a special competitive process (European Launcher Challenge) by the ESA to develop and demonstrate the launch capability of new systems (up to Euro 150 million);
 - Avio's gradual assumption by mid-2024 of Vega-C's Launch Service Operator (LSO) and Launch Service Provider (LSP) functions, i.e., responsibilities for Vega-C's flight operations and commercialisation rights, with the expectation of an agreement to be reached between Arianespace and Avio to manage the 17 flights contracts already;
 - the allocation to Vega-C and Vega-E, at the Kourou space centre, of an existing facility that will be dedicated to launcher pre-integration so as to increase the annual launch frequency and the related allocation to Vega-E of the launch pad previously used by Ariane 5;
- National Recovery and Resilience Plan (NRRP) - The Italian government has launched a number of projects for the NRRP, some of which specifically address the evolution of space propulsion technologies and products related to launchers. The execution of these projects has been entrusted to ESA and concerns in particular the realization of a high-thrust methane engine and an in-flight demonstrator of a small liquid propulsion launcher. These projects represent an opportunity for the Company to extend its product portfolio and technological expertise, capitalising on its ongoing experience with Vega E and the M10 liquid oxygen-methane engine. In parallel, the NRRP has initiated the creation of an Italian satellite constellation for Earth observation, with execution also entrusted to ESA, whose missions will be carried out with Vega launchers.

As reported in the presentations to the market⁶⁷, the NRRP and the complementary funds for 2022-2026 amount to a total of Euro 2.3 billion, of which an amount exceeding Euro 1.0 billion earmarked for the development and launch with Vega of an Earth Observation Satellite Constellation, and approx. Euro 300 million for the development of new technologies in the areas of liquid propulsion (construction and testing of a high-thrust methane engine, a technology already being developed by the Company), structures, avionics and pyrotechnics, as well as two in-flight demonstrators of a small liquid propulsion launcher. Finally, Avio is part of a consortium of Italian companies that won the tender (and related funding of approx. Euro 300 million) for the development of an In Orbit Servicing (IOS) technology demonstrator.

On June 29, 2022, Avio announced⁶⁸ that it had been awarded the first two contracts under the space industry initiatives to implement the "Next Gen EU" programme, through a significant investment by the Italian government. This 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.

On March 13, 2023, Avio announced⁶⁹ that it had signed the above contracts at the headquarters of the Ministry of Enterprise and Made in Italy, with the Minister Adolfo Urso and the ESA's Director of Space Transportation in attendance. The first contract - called STS and funded for Euro 181.6 million until completion - will be dedicated to developing, by 2026, an in-flight demonstrator of new technologies and specific designs for a two-stage liquid propellant-propelled light-load launcher using

⁶⁶ See press release of November 7, 2023 at the link: https://www.avio.com/sites/avio.com/files/attachments/CS_ESA%20Siviglia_ITA_1.pdf

⁶⁷ See the following "Investors" section of Avio's website: http://avio-data.teleborsa.it/2022%2f20220215-Avio-FY-2021-results_vDEF_1_20220315_100105.pdf;

⁶⁸ 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/MXxjb211bmljYXRpLjE3NzEwMDAwMDMyMDIyMXwxfDlwMjIwODAx>

⁶⁹ See the press release of March 13, 2023 at: <https://syndication.teleborsa.it/Avio/Financial-Announcements/firma-dei-contratti-di-sviluppo-per-il-pnrr/MXxjb211bmljYXRpLjE3NzEwMDAwMDkyMDIzMXwxfDlwMjIwODE2>

liquid-oxygen and methane engines with lower environmental impacts. The second - called HTE and funded for Euro 103.7 million upon completion - will be dedicated to developing a new high-performance, low environmental impact liquid-oxygen and methane engine and high thrust technology. Detailed design and construction of demonstrators of increasing complexity up to ground qualification testing is scheduled by 2026.

- the acceleration of the growth of defence production volumes, in addition to the development of new evolutions was estimated based on new production and development contracts signed during 2022, as well as expected.

The estimates and the plan data used in the application of the above indicated parameters are calculated by directors based on past experience and forecasts concerning Group markets. It is therefore highlighted that the current international economic environment and the possible economic-financial repercussions, also on spending levels by national governments and supranational institutions on space access policies, as well as potential future developments in European launcher governance referred to in the ESA Council decisions of November 6, 2023⁷⁰, may create uncertainties around the achievement of objectives and the level of activities considered in the plan. 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 (same as the previous year) for forecast cash flows (in line with forecast Italian medium/long-term inflation⁷¹).

For the purposes of preparing the impairment test, cash flows were discounted at a weighted average cost of capital ("WACC") of 9.8% (0.7% higher than the 9.1% used 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 44 million higher than the carrying amount of the net capital employed at December 31, 2023 (increasing on Euro 39 million at December 31, 2022).

In view of the above, a sensitivity analysis was conducted on the discount rate for cash flows. This assumed an increase of 50 basis points and resulted in a change in recoverable amount, which is nonetheless in excess of the carrying amount of net invested capital by Euro 30 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 33 million.

In order to further support the analysis carried out, in view of the persistence of the uncertainty of the geopolitical 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 11.5%.

The impairment test was conducted by the Company with the external support of a leading consulting firm.

⁷⁰ See press release of November 7, 2023 at the link: https://www.avio.com/sites/avio.com/files/attachments/CS_ESA%20Siviglia_ITA_1.pdf.

⁷¹ Source: Economist Intelligence Unit database

3.6. EQUITY INVESTMENTS

The table below illustrates the equity investments of the Avio Group at December 31, 2023 and at December 31, 2022 (in Euro thousands).

	31/12/2023		31/12/2022		Change
	Group share	Total	Group share	Total	
<i>Subsidiaries</i>					
- Servizi Colleferro – Consortium	52.00%	63	52.00%	63	0
Total non-consolidated subsidiaries		63		63	0
<i>Companies under joint control</i>					
- Europropulsion S.A.	50.00%	7,253	50.00%	8,021	(768)
Total companies under joint control		7,253		8,021	(768)
<i>Associates</i>					
- Termica Colleferro S.p.A.	40.00%	5,511	40.00%	5,271	240
- Other consortiums		5		5	0
Total associates		5,516		5,276	240
<i>Other companies</i>					
- Other companies		4,750		2,245	2,505
Total other companies		4,750		2,245	2,505
Total		17,582		15,605	1,977

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 2023 in the investments are shown below (Euro thousands):

	31/12/2022	Valuation at equity	Increases	Decreases	Other movements	31/12/2023
Non-consolidated subsidiaries	63	-	-	-	-	63
Companies under joint control	8,021	(768)	-	-	-	7,253
Associates	5,276	240	-	-	-	5,516
Other companies	2,245	-	2,505	-	-	4,750
Total	15,605	(528)	2,505	-	-	17,582

"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 decrease of Euro 768 thousand (due to the increase for the 50% share of the profit for 2023, amounting to Euro 2,232 thousand, net of the decrease of Euro 3,000 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 5,511 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; 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" includes the minor interests; a list of these holdings and their carrying amounts (Euro thousands) follows:

	31/12/2022	Increases	Decreases	Other movements	31/12/2023
Arianespace Participation S.A.	433	-	-	-	433
Arianespace S.A.	-	-	-	-	-
C.I.R.A. (Centro Italiano Ricerche Aerospaziali) S.c.p.A.	60	-	-	-	60
Imast S.c.a.r.l.	22	-	-	-	22
Distretto Aerospaziale Sardegna S.c.a.r.l.	9	-	-	-	9
ART S.p.A.	1,720	-	-	-	1,720
Fondazione E. Amaldi	1	-	-	-	1
T4i S.p.A.	-	2,500	-	-	2,500
Fondazione ITS Meccatronico del Lazio	-	5	-	-	5
	2,245	2,505	-	-	4,750

The following investments were made during the year:

- capital increase of Euro 2,500 thousand in T4i S.p.A., a spin-off company of the University of Padua based in Monselice (PD), specialising in innovative propulsion systems for aerospace applications. T4i was founded in 2014 by a team led by Professor Daniele Pavarin and over the years has demonstrated expertise and excellence in the development of propulsion technologies, growing fast and working on ambitious programmes in partnership with the ESA, ASI and CNR, in addition to several Italian and overseas companies, including Avio. The capital increase resulted in the attainment of an approx. 17% stake in T4i. For further information, please refer to the relative paragraph of the "Significant Events in 2023" section of the Directors' Report;
- subscription of a contribution to Lazio's "Fondazione ITS Meccatronico", in support of achieving the set objectives of the Foundation.

With reference to the investment in ART S.p.A., equal to 5% of its shares, acquired in 2022 for a value of Euro 1,720 thousand, it is reported in particular that it is a leading Italian infotainment systems company for performance and luxury cars and an industrial partner, as well as the former parent company 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, 2023 and at December 31, 2022 (in Euro thousands).

	31/12/2023	31/12/2022	Change
Shareholder loan to Termica Colleferro S.p.A.	2,010	2,010	-
	2,010	2,010	-

This shareholder loan with the associated Termica Colleferro as beneficiary is interest-free.

3.8. DEFERRED TAX ASSETS

The Avio Group's recognised deferred tax assets amount to Euro 81,200 thousand (Euro 81,471 thousand at December 31, 2022).

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):

	31/12/2023
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.	256
Financial charges exceeding 30% of EBITDA	27,278
<i>Temporary differences deriving from current corporate operations</i>	
Provision for staff charges	3,507
Other deductible temporary differences	8,189
Provisions for risks and legal charges	4,216
Doubtful debt provision - trade and other receivables	96
Total gross deferred tax assets	43,303
Deferred tax liability on temporary differences	
<i>Temporary differences deriving from previous corporate operations</i>	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(7,128)
Tax effect R&D expenses First-Time Adoption	(211)
<i>Temporary differences deriving from current corporate operations</i>	
Other temporary assessable differences	(1,190)
Total gross deferred tax liabilities	(8,528)
Net deferred tax assets/(liabilities)	34,774
Deferred tax assets on tax losses	68,175
Total deferred tax assets	102,979
Deferred tax assets not recorded	(23,779)
Net deferred tax assets (liabilities) recorded	81,200

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" thruster, 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 engine 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, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Other non-current assets	67,599	67,470	130
	67,599	67,470	130

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

	31/12/2023	31/12/2022	Change
Receivables from the General Electric Group	58,220	58,220	-
Receivables from FCA Partecipazioni	5,299	5,083	216
Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion	2,960	3,191	(231)
Security deposits	717	586	131
Other non-current receivables	404	390	14
Total	67,599	67,470	130

"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. Specifically:

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

- the 2019 Budget Law (see Article 1, paragraph 1084, of Law 145 of December 30, 2018) attributed retroactive effect to the provision introduced by the 2018 Budget Law, which therefore should apply to payment notices – including that served on the Company – served in years prior to 2017;
- on July 21, 2020 Italy's Constitutional Court (see judgment no. 158) ruled that there was no basis for the challenges of the constitutionality of Article 20 of the Consolidated Registration Tax Act, holding that the statute is intended to reaffirm the "transaction tax" nature of registration tax, and clarifying the object of taxation in accordance with the structure of a levy on the legal effects of the legal transaction presented for registration, without the revenue authorities being able to attach relevance to extratextual elements and linked legal transactions devoid of any textual connection with the transaction in question;
- on September 17, 2020 the Central Directorate of the Tax Agency published official clarification (see reply no. 371) in which, acknowledging the above ruling by the Constitutional Court, it clarified that "*the sale of company quotas preceded by the contribution of a business line cannot be taxed on a par with the sale of a company as a whole on the basis of the provisions of Article 20 of the Consolidated Income Tax Act.*"

For further information, reference should be made to Note "3.25. Other non-current liabilities" and to the section "Legal and tax disputes and 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.

"Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - non-current portion", amounting to Euro 2,960 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).

Regarding the item "Guarantee deposits," the increase of Euro 131 thousand mainly relates to the signing of a security deposit following new agreements for energy supply by the associate Termica Colleferro.

CURRENT ASSETS**3.10. INVENTORIES AND ADVANCES TO SUPPLIERS**

The table below illustrates inventories at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Inventories and Advances to suppliers	284,427	202,573	81,854
	284,427	202,573	81,854

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

	31/12/2022	Change	31/12/2023
Raw materials, ancillaries and consumables	71,672	33,586	105,257
Raw material, ancillary and consumables obsolescence provision	(5,214)	3,087	(2,127)
Raw material, ancillary and consumables - net value	66,458	36,672	103,130
Products in work-in-progress	6,644	4,136	10,780
Provision for the write-down of work in progress	-	-	-
Products in work-in-progress - net value	6,644	4,136	10,780
Finished products and other inventories	3,104	8,064	11,168
Finished products and other inventories obsolescence provision	(1,985)	27	(1,957)
Finished products and other inventories - net value	1,119	8,092	9,211
Inventories and advances to suppliers	128,351	32,954	161,305
	202,573	81,854	284,427

The increase in inventories relates to provisioning needed in order to support expected future production levels.

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

3.11. CONTRACT WORK-IN-PROGRESS

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

"Advances 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):

	31/12/2023	31/12/2022	Change
Contract work-in-progress	123,473	426,181	(302,708)
Advances for contract work-in-progress	(452,830)	(667,442)	214,612
Net total	(329,357)	(241,261)	(88,096)

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):

	31/12/2023	31/12/2022	Change
Contract work-in-progress (gross)	1,154,872	782,947	371,925
Advances for contract work-in-progress (gross)	(1,031,400)	(356,766)	(674,634)
Contract work-in-progress (net)	123,473	426,181	(302,708)

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):

	31/12/2023	31/12/2022	Change
Contract work-in-progress (gross)	1,140,336	1,204,584	(64,248)
Advances for contract work-in-progress (gross)	(1,593,166)	(1,872,026)	278,860
Advances for contract work-in-progress (net)	(452,830)	(667,442)	214,612

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 (Article 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, 2023 and December 31, 2022 (in Euro thousands).

	31/12/2023	31/12/2022	Change
Trade receivables	2,944	3,725	(781)
	2,944	3,725	(781)

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

	31/12/2023	31/12/2022	Change
Receivables from third parties	1,791	2,445	(654)
Receivables from associates and jointly controlled companies	653	752	(99)
	2,445	3,197	(752)
Receivables from associates and jointly controlled companies beyond one year	499	528	(29)
	499	528	(29)
Total	2,944	3,725	(781)

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):

	31/12/2023	31/12/2022	Change
Gross value	2,274	2,928	(654)
less: doubtful debt provision	(483)	(483)	0
Total	1,791	2,445	(654)

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):

	31/12/2023	31/12/2022	Change
Europropulsion S.A.	89	323	(234)
Servizi Colleferro S.C.p.A.	48	1	47
Potable Water Services Consortium	204	124	80
Termica Colleferro S.p.A. due within one year	313	304	9
	653	752	(99)
Termica Colleferro S.p.A. due beyond one year	499	528	(29)
	499	528	(29)
Total	1,152	1,280	(128)

3.13. CASH AND CASH EQUIVALENTS

The table below illustrates cash and cash equivalents at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Cash and cash equivalents	95,593	131,403	(35,810)
Total	95,593	131,403	(35,810)

Cash and cash equivalents mainly concerning balances on bank current accounts.
For an analysis of the changes during the year, reference should be made to the cash flow statement.

3.14. CURRENT TAX RECEIVABLES

The table below illustrates tax receivables at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Tax receivables	16,024	13,010	3,014
Total	16,024	13,010	3,014

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

	31/12/2023	31/12/2022	Change
VAT	5,383	5,481	(98)
Research and development tax credits	2,763	2,311	452
Tax credits for simple and 4.0 technological innovation	1,960	1,430	530
Tax credits for the purchase of simple new capital goods and 4.0	2,052	1,640	412
Receivables from tax authorities	3,619	1,444	2,175
Tax credit on energy	-	463	(463)
EU VAT receivables	247	241	6
Total	16,024	13,010	3,014

VAT receivables

VAT receivables of Euro 5,383 thousand (Euro 5,481 thousand at December 31, 2022), include:

- Euro 1,983 thousand, relating to VAT reimbursement requests to the Tax Authorities (Euro 1,238 thousand at December 31, 2022);
- Euro 3,400 thousand, relating to VAT reimbursements to date not requested for repayment (Euro 4,243 thousand at December 31, 2022).

VAT receivables in the year reported a net decrease of Euro 98 thousand - the net effect of:

- decreases for receipts of Euro 598 thousand concerning the 2021 annual VAT of Avio S.p.A.;
- decreases for offsets of Euro 2,906 thousand;
- increases for new VAT receivables of Euro 3,406 thousand;

The increases for new VAT receivables relate 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 parent company Avio. On the other hand, this latter however has Italian suppliers whose supplies - further to the amounts for which declarations of intent are issued due to the fact that it is a habitual exporter - result in the recognition of VAT receivables.

Research and development and technological innovation tax credit

These tax credits totalled Euro 6,775 thousand (Euro 5,381 thousand at December 31, 2022).

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, 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 2023 income statement includes amounts of Euro 1,335 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.

The amount recorded in the comparative Income Statement for 2022 was Euro 2,363 thousand.

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, 2022 and 2023 pursuant to the 2020 Budget Law as amended

The Avio Group recognised R&D tax credits of Euro 6,775 thousand to these financial statements, attributable entirely to the parent company, Avio S.p.A., and accrued in 2020, 2021 and 2022 (for Euro 5,381 thousand) and in 2023 (for Euro 1,394 thousand).

The receivables under review refer mainly to internal research and development projects and to some technological innovation projects, both simple and 4.0 projects. As these subsidies are intended to cover operating costs and are not dependent on the creation of a specific fixed asset, and as they accrue in the financial year in which the eligible costs are incurred, regardless of the way in which these costs are accounted for, the subsidies in question have been treated as operating grants and, for this reason, the related economic benefit has been recorded in full in the same financial year in which the eligible costs from which the subsidies in question accrue were accounted for.

Tax receivables

Tax receivables of Euro 3,619 thousand (Euro 1,444 thousand at December 31, 2022), 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 3,200 thousand, including in particular receivables for withholdings on interest and the tax credits of the Guyana subsidiary Regulus S.A..

Tax credit on energy

The parent company Avio in 2023 fully utilised the tax credit for electricity-related expenses recognised in the previous year, amounting to Euro 463 thousand.

EU VAT receivables

The EU VAT receivables relate to inter-EU transactions and amount to Euro 247 thousand (Euro 241 thousand at December 31, 2022).

3.15. OTHER CURRENT ASSETS

The table below illustrates other current assets at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Other current assets	7,037	8,358	(1,321)
Total	7,037	8,358	(1,321)

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

	31/12/2023	31/12/2022	Change
Economic Development Ministry for disbursements pursuant to Law 808/85 - current portion	3,155	2,924	231
Employee receivables	1,093	1,248	(155)
Prepayments and accrued income	1,051	689	362
Grants/subsidies receivable	960	951	9
Receivables from FCA Partecipazioni	285	2,168	(1,883)
Other debtors	442	357	84
Social security institutions	21	18	3
Receivables from associated company Consorzio Servizi Acqua Potabile	31	2	29
Total	7,037	8,358	(1,321)

"Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - current portion", amounting to Euro 3,155 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, whose collection is expected within 12 months.

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

Employee receivables of Euro 1,093 thousand concern the Group cash advances for the coverage of mission and travel expenses.

Receivables for grants and subsidies of Euro 960 thousand concerning various projects supported by subsidised financing. Reference should also be made to section "10. Disclosure on public grants as per article 1, paragraphs 125-129, of Law No. 124/2017.

Regarding the "Receivables from FCA Shares" amounting to Euro 285 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 2023, the instalment of Euro 2,168 thousand recognised at December 31, 2022 was received; the amount recognised at December 31, 2023 is the new instalment due within 12 months.

EQUITY

3.16. SHARE CAPITAL

The share capital of the parent Avio S.p.A. amounts to Euro 90,964,212 at December 31, 2023; 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, 2023 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, 2023, the available value of the share premium reserve was Euro 130,921 thousand, with treasury shares recognised to the financial statements amounting to Euro 13,335 thousand.

3.18. OTHER RESERVES

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

	31/12/2023	31/12/2022	Change
Legal reserve	18,193	18,193	-
Treasury shares acquired	(13,335)	(13,569)	234
Unavailable treasury shares purchase reserve	13,335	13,569	(234)
Actuarial gains/(losses) reserve	(4,126)	(4,029)	(97)
Stock grant reserve	622	54	568
Translation reserve	(45)	(21)	(24)
Total	14,644	14,197	447

With regard to treasury shares, at December 31, 2023, Avio S.p.A. held 1,091,207 treasury shares, equal to 4.14% of the share capital. The value of the treasury shares purchased is Euro 13,335 thousand; no transaction on treasury shares took place during the year, while the value was decreased by Euro 234 thousand in order to re-establish the original average unit value following their use in the previous year, 2022, in which a portion of the payment of the price for the acquisition of Temis S.r.l. was made through treasury shares assigned to the selling party.

The actuarial gains/losses reserve, amounting to a negative of Euro 4,126 thousand, concern the actuarial losses deriving from the application of IAS 19 revised, with the relative tax effect where applicable.

The stock grant reserve, amounting to Euro 622 thousand Euro, represents the accumulated cost as of December 31, 2023, related to three share-based employee compensation plans involving the allocation of treasury shares.

A summary of the necessary information in this regard is presented below (amounts in thousands of Euro):

	Beneficiaries	Target number of shares granted	Vesting period	Stock grant reserve
Restricted Share Plan 2023-2025	professional figures employed by Avio	261,206	2023-2025	89
Performance Share Plan 2023-2025	Senior management	87,080	2023-2025	174
Performance Share Plan 2022-2024	Senior management	70,307	2022-2024	359
		418,593		622

The Restricted Share Plan 2023-2025 and the Performance Share Plan 2023-2025 were approved by the Shareholders' Meeting on April 28, 2023 in order to increase its employees' sense of belonging to Avio:

- the "Performance Shares 2023-2025" plan is for the Chief Executive Officer, Senior Executives and certain other Executives;
- the "Restricted Shares 2023-2025" plan is for employees who play a key role in achieving Avio's strategic goals. The beneficiaries of the plan do not include the Chief Executive Officer/General Manager or the Senior Executives of the Company.

The amount recorded in the stock grant reserve was subject to assessment by a leading independent expert.

The translation reserve, negative for Euro 45 thousand, relates to the effects of the full consolidation of the financial statements in USD of the subsidiary Avio USA Inc.

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, 2023 and the 2023 parent result and the corresponding consolidated financial statement amounts is outlined as follows (in Euro thousands):

	Equity at 31/12/2023	Net result 2023
Financial Statements of Avio S.p.A.	287,216	5,708
Elimination of investments recognised to the statutory financial statements	(77,299)	-
Accounting for equity and the Group's share of the profits or losses of consolidated companies	83,452	1,065
Other consolidation adjustments	7,249	(286)
Consolidated financial statements (attributable to the Group)	300,617	6,487

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 the jointly-controlled company Europropulsion S.A. as a cumulative effect as referring also to the previous years, in addition to 2023, for a final positive effect of Euro 3,544 thousand;
- the valuation at equity of the associate Termica Colleferro S.p.A. as a cumulative effect as referring

- also to the previous years, in addition to 2023, for a final negative effect of Euro 2,161 thousand;
- to other effects, positive in the amount of Euro 2,712 thousand, mainly related to the elimination of lease contracts, in particular with Se.Co.Sv.Im.

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 286 thousand, concern:

- the valuation of the joint venture Europropulsion S.A. at equity, which led to the recognition of charges of Euro 768 thousand to the consolidated financial statements;
- the valuation at equity of the associate Termica Colleferro S.p.A., involving the recognition of income to the consolidated financial statements of Euro 240 thousand;
- the elimination of lease contracts with Group companies, in particular Se.Co.Sv.Im. S.r.l., and other minor effects, resulting in the total recognition of income to the consolidated financial statements of Euro 330 thousand;
- the net amortisation of capital gains from the allocation of the Temis acquisition price, amounting to Euro 88 thousand.

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):

	31/12/2023			
Consolidated companies	% Non-controlling interests	Capital and Reserves	Profit/(loss)	Equity non-controlling Interests
Spacelab S.p.A.	30.00%	1,383	301	1,684
Regulus S.A.	40.00%	8,216	(164)	8,052
		9,599	137	9,736

NON-CURRENT LIABILITIES

3.21. NON-CURRENT FINANCIAL LIABILITIES

The movement in 2023 is presented in the following table (in Euro thousands):

	31/12/2023	31/12/2022	Change
Non-current financial liabilities to EIB	2,000	12,000	(10,000)
Other non-current financial liabilities	51	76	(25)
Total	2,051	12,076	(10,025)

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 programmes 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 10,025 thousand relates essentially to the short-term reclassification:

- of the two instalments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2024 and October 31, 2024, respectively;
- of the two instalments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, falling due also on April 30, 2024 and October 31, 2024, respectively;

The short-term portion of the loan, totalling Euro 10 million (including Euro 18 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):

	31/12/2023	31/12/2022	Change
Non-current financial liabilities for leasing	5,620	4,937	683
Total	5,620	4,937	683

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

	31/12/2023	31/12/2022	Change
Non-current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	698	974	(276)
Non-current financial liabilities to third parties as per IFRS 16	4,922	3,777	1,145
Total	5,620	4,751	869

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 Guiana;
- 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):

	31/12/2023	31/12/2022	Change
- Defined benefit plans:			
Post-employment benefits	3,440	3,578	(138)
Other defined benefit plans	2,400	2,418	(17)
	5,840	5,996	(156)
- Other long-term benefits	3,075	3,529	(453)
Total employee benefit provisions	8,915	9,524	(609)
<i>of which:</i>			
- Italy	7,762	8,132	(370)
- Other Countries	1,153	1,393	(240)
	8,915	9,524	(609)

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 31/12/2022	5,996	3,529	9,524
Financial charges/(income)	159	52	211
Extraordinary charges/(income) from actuarial adjustment	-	-	-
Actuarial (gains)/losses in income statement	-	(312)	(312)
Actuarial (gains)/losses in comprehensive income statement	114	-	114
Pension cost current employees	133	136	269
Other movements	-	(229)	(229)
Benefits paid	(561)	(100)	(662)
At 31/12/2023	5,840	3,075	8,915

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

	31/12/2023	31/12/2022
Discount rate	3.16%	3.48%
Expected salary increases	2.15%	2.16%
Inflation rate	European Zero-Coupon Inflation-Indexed Swap curve at 29.12.2023	European Zero-Coupon Inflation-Indexed Swap curve at 30.12.2022
Average employee turnover rate	4.90%	4.64%

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, 2023 and December 31, 2022 (in Euro thousands).

	31/12/2023	31/12/2022	Change
Provisions for risks and charges	43,838	53,379	(9,542)
Total	43,838	53,379	(9,542)

The breakdown of the provisions for risks and charges at December 31, 2023 is presented below (Euro thousands):

	31/12/2023		
	Current portion	Non-current portion	Total
Provision for variable remuneration	6,252	2,027	8,279
Provision for legal and environmental risks and charges	5,357	11,286	16,643
Other provisions for risks and charges	6,793	12,122	18,915
Total	18,402	25,436	43,838

These provisions include:

- provisions for variable remuneration for Euro 8,279 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 16,643 thousand;
- other provisions for risks and charges of Euro 18,915 thousand, mainly referring to extraordinary provisions, for risks related to the return-to-flight activities of Vega C, net of compensation expected from the European Space Agency, and for future programme execution amounting to Euro 15,830 thousand; these provisions include, among others, charges for the restoration of leased areas and royalties provided for by Law 808/85.

The movements in current and non-current provisions in 2023 are shown below (amounts in Euro thousands):

	31/12/2022	Provisions	Other changes	Utilisations	Releases	31/12/2023
Provision for variable remuneration	6,305	5,972	-	(3,998)	-	8,279
Provision for legal and environmental risks and charges	17,514	397	-	(1,267)	-	16,643
Other provisions for risks and charges	29,561	11,479	-	(10,658)	(11,467)	18,915
Total	53,379	17,848	-	(15,923)	(11,467)	43,838

The main changes during the year were:

- the provisions for variable remuneration were utilised for Euro 3,998 thousand, in consideration of the bonuses paid to employees in April 2023 for the achievement of individual and company objectives relating to 2022.
The provision of Euro 5,972 thousand mainly relates to variable remuneration which will be paid in the first half of 2024, on the basis of the achievement of individual and company objectives for the year 2023.
- the risks and legal and environmental charge provisions were utilised for Euro 1,267 thousand, concerning environmental charges;
- other provisions for risks and charges of Euro 18,915 thousand (Euro 29,561 thousand at December 31, 2022), include extraordinary charges for risks related to the return-to-flight activities of Vega C, net

of compensation expected from the European Space Agency, and for future programme execution amounting to Euro 15,830 thousand (Euro 24,555 thousand at December 31, 2022). The utilizations refer to charges allocated in 2022 and used in the year against the related costs. Provisions and releases, with offsetting effect, reflect updates of estimates made in the previous year of the above extraordinary charges in relation to changes in the underlying rationales during the year. In this regard, see also the comments in the "Group operating performance and financial and equity position" section of the Directors' Report.

3.25. OTHER NON-CURRENT LIABILITIES

The table below presents the account at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Non-current liabilities	75,062	76,471	(1,409)
Total	75,062	76,471	(1,409)

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

	31/12/2023	31/12/2022	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	-
	58,220	58,220	-
Liabilities relating to Law 808/85			
Deferred income on disbursements pursuant to Law 808/85 - beyond one year	14,248	15,568	(1,320)
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	-
Payables to the Economic Development Ministry (MiSE) for disbursements pursuant to Law 808/85 - portion beyond one year	234	-	234
	16,285	17,371	(1,086)
Other liabilities			
Payables due to MiSE for other subsidies	392	511	(119)
Accrued expenses	165	369	(203)
	557	880	(323)
Total	75,062	76,471	(1,409)

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.

Liabilities relating to Law 808/85

Deferred income on disbursements pursuant to Law 808/85 - beyond one year

The account, amounting to Euro 14,248 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 regarding the contribution received by Avio S.p.A. for 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 shall be 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 the LOX/LCH technology demonstrator development project for the third stage of the VEGA E launcher; this disbursement falls under the regulations of the July 3, 2015 decree.

The final disbursement under the plan reported in the Decree of February 19, 2018 is in 2029, with repayment therefore from the subsequent year (2030).

Both the grants receivable from the Ministry for Economic Development and the subsequent reimbursements payable to the Ministry have been accounted for at amortised cost. The difference between the nominal and present values of the amount receivable and payable is recognised 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 to the Economic Development Ministry (MISE) for disbursements pursuant to Law 808/85 - portion beyond one year

This payable to the Economic Development Ministry (MiSE), amounting to Euro 234 thousand, refers to the subsidiary Temis S.r.l., which was the recipient of a Settlement Decree issued by the Ministry on July 4, 2023, which concerned the disbursement of grants regarding the study of an innovative electro-actuator for aerospace propulsion systems.

Payables due to MiSE for other subsidies

This item, amounting to Euro 392 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, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Current financial liabilities to Europropulsion	-	27,769	(27,769)
Other current financial liabilities	26	259	(234)
Total	26	28,028	(28,003)

The remaining item relates to financial liabilities of the subsidiary Temis S.r.l.

Payables to the jointly-controlled company Europropulsion S.A. 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%. At December 31, 2023, these financial liabilities had been settled in full.

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):

	31/12/2023	31/12/2022	Change
Current financial liabilities for leasing	1,747	1,879	(132)
Total	1,747	1,879	(132)

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

	31/12/2023	31/12/2022	Change
Current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	135	152	(17)
Current financial liabilities to third parties as per IFRS 16	1,612	1,726	(114)
Total	1,747	1,879	(132)

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 Guiana;
- the lease of company cars.

3.28. CURRENT PORTION OF NON-CURRENT FINANCIAL PAYABLES

The table below illustrates this account at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Current portion of non-current financial payables	10,018	10,033	(15)
Total	10,018	10,033	(15)

The account, which amounted to Euro 10,018 thousand, consists of:

- the two instalments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2024 and October 31, 2024, respectively;
- the two instalments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2024 and October 31, 2024, respectively;
- interest expense on the above financial liabilities accrued at December 31, 2023 for Euro 18 thousand.

3.29. TRADE PAYABLES

The table below illustrates trade payables at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Trade payables	113,159	89,826	23,333
Total	113,159	89,826	23,333

Trade payables of the Avio Group at December 31, 2023 amount to Euro 112,925 thousand; this amount includes, for Euro 2,678 thousand, trade payables to associated companies, jointly controlled companies and non-consolidated subsidiaries as follows (Euro thousands):

	31/12/2023	31/12/2022	Change
Europropulsion S.A.	558	10,361	(9,803)
Termica Colleferro S.p.A.	1,639	3,517	(1,878)
Potable Water Services Consortium	(36)	(24)	(12)
Servizi Colleferro S.C.p.A.	516	200	316
Total	2,678	14,054	(11,376)

3.30. CURRENT TAX PAYABLES

The table below presents current tax liabilities at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Current income tax payables	2,513	4,228	(1,715)
Total	2,513	4,228	(1,715)

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

	31/12/2023	31/12/2022	Change
IRES payables	256	454	(198)
IRAP payables	138	54	84
Payables for withholding taxes	1,664	1,605	59
Other tax payables	401	606	(205)
Foreign income taxes	53	1,509	(1,456)
Total	2,513	4,228	(1,715)

IRES payables from tax consolidation amount to Euro 256 thousand, while IRAP payables total Euro 138 thousand.

Payables for withholding taxes, amounting to Euro 1,664 thousand, refer to employee and consultant withholding taxes.

Other tax payables, amounting to Euro 401 thousand, mainly relate to the short-term portion of the Tax payable of the subsidiary Se.Co.Sv.Im. S.r.l. concerning the expedited settlement, following the application presented by May 31, 2019, regarding the tax dispute relating to the alleged failure to apply the tax on the reclamation costs subject to recharge to the consolidating company Avio S.p.A. for the years 2010, 2011 and 2012. This settlement stipulates the payment in 20 quarterly instalments of the taxes only, without penalties and interest;

Payables for foreign taxes totalling Euro 53 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 Guiana, a French overseas region and department in South America.

3.31. OTHER CURRENT LIABILITIES

The table below presents other current liabilities at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Other current liabilities	28,973	24,271	4,702
Total	28,973	24,271	4,702

This account is broken down below (in Euro thousands):

	31/12/2023	31/12/2022	Change
Other accrued liabilities and deferred income	12,007	7,758	4,249
Employee payables	9,806	8,827	979
Other payables to third parties	1,379	2,009	(630)
Payables due to social security institutions	4,461	4,358	103
Deferred income on disbursements pursuant to Law 808/85 - current portion	1,320	1,319	1
Total	28,973	24,271	4,702

Accrued expenses and deferred income

This account, amounting to Euro 12,007 thousand (Euro 7,758 thousand at December 31, 2022), mainly refers to the deferment of commercial costs and grants to the following year.

Employee payables

Employee payables amount to Euro 9,806 thousand (Euro 8,827 thousand at December 31, 2022) and include remuneration to be settled, in addition to vacations and other rights matured and not utilised. The increase of Euro 979 thousand on the previous year is due to the increased headcount.

Other payables to third parties

This account totals Euro 1,379 thousand and relates to liabilities for urban development charges due to the municipalities in which the Group operates for Euro 465 thousand and other liabilities to third-parties for Euro 914 thousand.

Amounts due to social security institutions

The account concerns amounts to be paid, amounting to Euro 4,461 thousand (Euro 4,358 thousand at December 31, 2022), 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 1,319 thousand at December 31, 2022), concerns the deferral 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 343,696 thousand. They amounted to Euro 371,377 thousand in 2022.

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

	FY 2023	FY 2022	Change
Net sales	31,392	68,262	(36,870)
Revenues from services	4,372	4,956	(584)
	35,764	73,218	(37,454)
Changes in contract work in progress	307,932	298,159	9,773
Total	343,696	371,377	(27,681)

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 in 2023 contracts totalling Euro 30,333 thousand were completed, 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 1,335 thousand in 2023, while in 2022 totalled Euro 2,363 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 "2023 Significant Events" section of the Directors' Report, FY 2023 was impacted by the return-to-flight activities of Vega C with the implementation of the recommendations of the Independent Commission of Inquiry ("IEC") established by ESA following the anomaly during the VV22 flight in December 2022 that led to the premature termination of the mission and the subsequent anomaly during the Zefiro 40 engine test of Vega-C in June 2023.

As reported in the October 2, 2023 press release⁷², ESA has stated that it considers the return-to-flight of Vega C a strategic priority to ensure Europe's independent access to space and will support the necessary efforts by drawing on resources already available; this support is through offsets against costs incurred.

The return-to-flight of the Vega C launcher, the first in the Vega family to be equipped with the new P120C engine, is now scheduled for Q4 2024. The maiden flight of Ariane 6, also equipped with the P120C engine, after several postponements is also scheduled as of today between June and July 2024. Thus, the market introduction of the two new launchers VEGA C and Ariane 6, which replace the Vega and Ariane 5 launchers,

⁷² See also the press release dated October 2, 2023 at the link: https://www.avio.com/sites/avio.com/files/attachments/CS_AVIO_IEB-VEGA_1.pdf.

respectively, has been protracted and is still ongoing. This transition phase includes the contractual provision of ramp-down/ramp-up ESA contributions for industrial fixed cost absorption effects.

In addition, again as reported in the "2023 Significant Events" section of the Directors' Report, contract variants were acquired in FY 2023 to supplement previously agreed activities for the development of the new Vega E launcher and the Space Rider.

In 2023, the Group recognised variable payments in these cases to the extent that they are highly likely to be recognised by customers and in accordance with IFRS 15.

The portion of these fees currently accounts for approx. 16% of revenues.

3.33. OTHER OPERATING REVENUES

The account in 2023 amounted to Euro 8,689 thousand, as follows:

	FY 2023	FY 2022	Change
Dividends from the jointly-controlled company Europropulsion S.A.	3,000	2,400	600
Other income	2,327	33,300	(30,973)
Operating grants	1,529	334	1,196
Income for the portion recognised to the income statement of the disbursements as per Law 808/85	1,511	1,294	218
Income from the release of provisions	244	1,950	(1,706)
Other prior year income	77	99	(22)
Total	8,689	39,376	(30,687)

This item consists of:

- dividends collected from the jointly-controlled company Europropulsion for Euro 3,000 thousand (Euro 2,400 in the comparative year);
- other income of Euro 2,327 thousand, including an insurance reimbursement of Euro 525 thousand, recharges to companies in the Colleferro industrial district of Euro 1,347 thousand and other items of Euro 455 thousand.

In the comparative year, the item amounted to Euro 33,300 thousand and referred, for Euro 30,842 thousand, to the effect of the new regulations introduced in 2022 with respect to the funding of Law 808/85 and the consequent definition of royalties related to the P80 National Security Interest Research and Development Project.

- Operating grants amounted to Euro 1,529 thousand (Euro 334 thousand in the comparative year) and referred to projects such as "Development of Sustainable Italian Carbon-phenolics for Aerospace Engine Nozzles - CARISMA", "POR FESR 2014/2020 Tender IR² - Industrialisation of Research Results", "ENLIGHTEN - European iNitiative for Low cost, Innovative & Green High Thrust Engine", "SALTO" and "DISCO."
- income for the portion credited to the Income Statement of disbursements pursuant to Law 808/85 amounting to Euro 1,511 thousand (Euro 1,294 thousand in the comparative year) and concerning both the parent company Avio S.p.A. and the subsidiary Temis S.r.l.;
- income from the release of provisions of Euro 244 thousand (Euro 1,950 thousand in 2022). The decrease is due to an extraordinary profit of Euro 1,643 thousand recognised in 2022 following the cancellation of the 2020-22 and 2021-23 cycles of the 2020-24 Monetary Long Term Incentive Plan.

3.34. CONSUMPTION OF RAW MATERIALS

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

	FY 2023	FY 2022	Change
Purchase of raw materials	150,115	135,517	14,598
Change in inventories of raw materials	(36,680)	(18,308)	(18,372)
Total	113,434	117,209	(3,775)

3.35. SERVICE COSTS

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

	FY 2023	FY 2022	Change
Service costs	138,494	189,400	(50,906)
Use of third party assets	2,842	1,131	1,711
Total	141,335	190,531	(49,196)

Service costs, amounting to Euro 138,494 thousand, include, in particular, costs for activities carried out by co-producers, for consulting and technical and professional services, for external works, for maintenance, for fixed-term work (temporary staff), as well as extraordinary provisions for risks related to Vega C return-to-flight activities, net of the compensation expected from the European Space Agency and for the future execution of programmes commented on in the "Group operating performance and financial and equity position" section of the Directors' Report.

The account includes, finally, the amount of the emoluments due to the Avio Group's corporate boards, relating to:

- directors remuneration of Euro 879 thousand (Euro 763 thousand in 2022) and to the board committees for Euro 178 thousand (Euro 170 thousand in 2022);
- Supervisory Body fees of Euro 161 thousand (Euro 166 thousand in 2022);
- Board of Statutory Auditors fees of Euro 168 thousand (Euro 171 thousand in 2022);

Service costs are shown net of the recognition of accrued tax receivables on certain types of costs amounting to Euro 1,394 thousand (Euro 2,033 thousand at December 31, 2022), 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 2023	FY 2022	Change
Wages and salaries	62,461	54,538	7,923
Social security charges	20,364	18,188	2,176
Provision for variable remuneration	7,466	4,131	3,335
Other long-term benefits - current employees	59	70	(11)
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	(312)	-	(312)
Provision for "Other defined benefit plans"	3,930	3,413	517
Total	93,968	80,340	13,628

The average number of employees is presented below:

	FY 2023	FY 2022	Change
Blue-collar	372	367	5
White-collar	762	657	105
Executives	31	28	3
Total	1165	1052	113

3.37. AMORTISATION & DEPRECIATION

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

	FY 2023	FY 2022	Change
Intangible assets with definite life	8,552	10,099	(1,547)
Property, plant and equipment	4,539	6,662	(2,123)
Right-of-use	2,114	2,348	(234)
Investment property	78	78	0
Total	15,283	19,187	(3,904)

With regard to amortisation of intangible assets with definite life, a comparison with the previous year follows (Euro thousands):

	FY 2023	FY 2022	Change
Development costs	3,393	4,445	(1,052)
Assets from purchase price allocation	3,108	2,986	122
Concessions, licenses, trademarks and similar rights	1,197	2,215	(1,018)
Other intangible assets	855	454	401
Total	8,552	10,099	(1,547)

The decrease in the amortisation of the development costs, of Euro 1,052 thousand, substantially derives from the fact that all development costs for the P80 motor were fully amortised in 2022.

With the increase of the amortisation of the purchase price allocation assets amounting to Euro 122 thousand, this relates to the beginning of amortisation on the gain from the acquisition of the subsidiary Temis; the amortisation of the purchase price allocation assets concerns, in addition, for Euro 2,986 thousand, the intangibles relating to the Ariane and Vega programmes identified following the process to allocate the acquisition price of the Group by Space2 in 2017.

The reduction in amortization of the item "Concessions, licenses, trademarks and similar rights" reflects the review of the useful life of some software licenses in view of the development of research and development and production programs.

A comparative statement of the depreciation of property, plant and equipment is presented below (in Euro thousands):

	FY 2023	FY 2022	Change
Buildings	1,571	1,330	242
Plant & machinery	1,396	3,280	(1,884)
Industrial & commercial equipment	304	358	(55)
Other assets	1,268	1,693	(426)
	4,539	6,662	(2,123)

The phase-out of the Ariane 5 launcher and the phase-in of the new Ariane 6 launcher, as well as the phase-out of the Vega launcher and the phase-in of the new Vega-C launcher, resulted in the revision of the useful life of some buildings, plant and equipment with consequent reduction in the depreciation of the account "Plant and equipment". See also in this regard what is stated in section "2.7. Accounting standards and basis of preparation". With regard to buildings, the reduction is part of the net increase effect from the previous year, mainly due to the start of depreciation of the Group's new administrative headquarters in Colleferro.

In addition, the statement comparing the depreciation of the right-of-use compared to the previous year is presented below (in Euro thousands):

	FY 2023	FY 2022	Change
Land right-of-use	143	143	-
Buildings right-of-use	877	1,094	(217)
Right-of-use rights related to plant and machinery	173	173	-
Other assets right-of-use	921	938	(17)
	2,114	2,348	(234)

The reduction in the depreciation of this account, amounting to Euro 234 thousand is mainly due to the conclusion of the lease of a number of employee-use apartments.

3.38. OTHER OPERATING COSTS

This account amounts to Euro 4,725 thousand (Euro 8,262 thousand in 2022) and mainly comprises the following items:

- indirect taxes of Euro 2,087 thousand (Euro 2,009 thousand in 2022);
- prior year charges of Euro 110 thousand (Euro 331 thousand in 2022);
- other operating charges of Euro 1,482 thousand (Euro 1,846 thousand in 2022);
- net extraordinary charges of Euro 1,046 thousand (Euro 4,076 thousand in 2022).

3.39. EFFECT VALUATION OF INVESTMENTS UNDER EQUITY METHOD - OPERATING INCOME/(CHARGES)

The account, resulting in a net charge of Euro 528 thousand (Euro 1,749 thousand in 2022), includes the effects from the application of the equity method to measure the following investments:

- in the jointly-controlled company Europropulsion S.A.; in this regard, a charge of Euro 768 thousand was recognised, corresponding to Avio's share of the change in the company's equity in 2023;
- in the associate Termica Colleferro S.p.A., amounting to income of Euro 240 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 9,105 thousand (Euro 7,443 thousand in 2022), mainly includes:

- development costs for Euro 5,209 thousand (Euro 4,207 thousand in 2022);
- costs for the construction of internal tangible and intangible assets for Euro 3,896 thousand (Euro 3,236 thousand in 2022);

3.41. FINANCIAL INCOME

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

	FY 2023	FY 2022	Change
Bank interest income	1,822	5	1,817
Interest income on VAT refunds	18	53	(35)
Financial income from amortised cost	488	143	345
	2,328	201	2,127
Realised exchange gains	549	630	(81)
Unrealised exchange gains	54	29	25
	603	659	(57)
Total	2,930	860	2,070

Financial income, amounting to Euro 2,930 thousand (Euro 860 thousand in the comparative year), mainly comprised:

- interest income on bank deposits, including short-term time deposits to benefit fully from the increase in rates, amounting to Euro 1,822 thousand;
- interest income from the discounting of receivables for Euro 488 thousand (Euro 143 thousand in the comparative year);
- exchange differences of Euro 603 thousand (Euro 659 thousand in the comparative year).

Realised exchange gains arise on the collection of receivables and settlement of payables in foreign currencies. Unrealised exchange gains relate to the year-end translation of receivables and payables in foreign currencies.

3.42. FINANCIAL CHARGES

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

	FY 2023	FY 2022	Change
Interest on EIB loans	161	251	(90)
Interest on other payables	320	629	(309)
Discounting on employee benefits	212	(34)	246
Financial charges from amortised cost	441	214	227
	1,133	1,059	74
Realised exchange losses	322	578	(256)
Unrealised exchange losses	62	80	(18)
	384	658	(274)
Total	1,517	1,717	(199)

Financial charges of Euro 1,517 thousand (Euro 1,717 thousand in the previous year) mainly comprise:

- interest expenses on the two EIB loans of Euro 161 thousand;
- interest charges on other liabilities for Euro 320 thousand, which includes the interest on the treasury account with the jointly-controlled company Europropulsion for Euro 297 thousand.

In the previous year, the account was higher as including financial charges of 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 2022 Directors' Report.

- discounting for employee benefit updates for Euro 212 thousand;
- financial charges from amortised cost applied to liabilities for Euro 441 thousand;
- exchange losses for Euro 384 thousand.

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 year-end exchange rate of receivables and payables in foreign currencies.

3.43. INCOME TAXES

"Income taxes" report a charge of Euro 17 thousand (the comparative year reporting income of Euro 72 thousand).

The charge of Euro 17 thousand comprises:

- current IRES income taxes of Euro 137 thousand (Euro 447 thousand in 2022);
- current IRAP regional taxes of Euro 94 thousand (Euro 149 thousand in 2022);
- income from foreign companies of Euro 8 thousand (charge of Euro 1,573 thousand in 2022);
- income on the recognition of deferred tax assets of Euro 206 thousand (Euro 2,097 thousand in 2022).

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

	FY 2023	FY 2022
Profit before taxes	6,641	(1,994)
Ordinary rate applied	24%	24.00%
Theoretical tax charge	1,594	(479)
<i>Effect of increases (decreases) to the ordinary rate:</i>		
Permanent increases	7,709	5,337
Permanent decreases	(7,114)	(8,091)
Temporary difference increases	18,563	43,796
Temporary difference decreases	(40,285)	(22,310)
Total changes	(18,988)	18,732
Utilisation of fiscal losses		(13,390)
IRES taxable income of the Group	(12,347)	3,348
Effective IRES taxation	-	(803)
Prior year taxes		501
Net deferred tax (income)/charge	206	2,097
Current taxes Italian companies	(230)	(149)
Current taxes overseas companies	8	(1,573)
	(17)	72

3.44. EARNINGS/(LOSS) PER SHARE

An explanatory statement is reported below (in Euro):

	FY 2023	FY 2022
Group Consolidated Result	6,487,372	(434,767)
Number of shares in circulation	26,359,346	26,359,346
Treasury shares	(1,091,207)	(1,091,207)
Number of shares entitled to profits	25,268,139	25,268,139
Basic earnings per share – in Euro	0.26	(0.02)
Diluted earnings per Share (in Euro) ⁽¹⁾	0.25	(0.02)

⁽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 2023, 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 1,253 employees at December 31, 2023 (1,147 at December 31, 2022).

Disclosure by regional segment

The regional breakdown of Group revenues (defined based on customer country location), in 2023 (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):

	31/12/2023	31/12/2022
Guarantees given:		
Unsecured guarantees:		
Sureties issued to third parties on behalf of Group	44,455	64,426
Other guarantees	3,402	3,402
Total guarantees given	47,857	67,828
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.

Sureties and guarantees received

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

Legal and tax cases and contingent liabilities

At the reporting date, a number of Group companies were either plaintiffs or defendants to legal, civil, administrative and tax cases related to normal business operations, as outlined below.

Avio S.p.A. and the subsidiaries have established in their financial statements and, therefore, in the consolidated financial statements, appropriate provisions for risks and charges to cover foreseeable liabilities relating to disputes of differing natures with suppliers and third parties, both within the courts and extra-judicially, the relative legal expenses, in addition to administrative sanctions, penalties and client indemnities. In establishing provisions, account was taken of: (i) the risks related to each dispute; and (ii) the applicable accounting standards, which require the provisioning of liabilities for probable and quantifiable risks.

Avio Group management consider the risks and charges provision estimates as appropriate with regards to the Group's overall amount of contingent liabilities.

In addition, with regards to disputes with a possible or remote risk of loss, or of an incalculable amount (of a limited number), in accordance with the accounting standards no risks provision has been established.

The Group in addition bases its risk of potential loss estimates on assessments/expectations with regards to the expected final judgment on the dispute, which remains however linked to the intrinsic uncertainty of each judgment, for which differing outcomes (whether favourable or unfavourable) for the Group against the *ex-ante* estimates may not be excluded.

A summary of current proceedings considered by the Group as significant on the basis of the amount or matters considered is provided below.

Legal disputes

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's 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.

Secosvim duly entered an appearance, and the hearing was held on December 16, 2022.

The case pending before the Council of State, Sec. IV, under RG. No. 2645/2022 concluded with the judgment published on 14/2/2023, by which the Council of State in judicial proceedings (Section IV), definitively ruling on the appeal, after exonerating INAIL, dismissed it, with Caffaro S.r.l. being ordered to reimburse the costs of the proceedings also in favour of Se.Co.Sv.Im. S.r.l..

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. Specifically:

- the 2018 Budget Law (see Article 1, paragraph 87, letter a), of Law 205 of December 27, 2017) amended, with effect from January 1, 2018, Article 20 of the Consolidated Registration Tax Act, limiting the ability of the revenue authorities to reclassify acts subject to registration;
- the 2019 Budget Law (see Article 1, paragraph 1084, of Law 145 of December 30, 2018) attributed retroactive effect to the provision introduced by the 2018 Budget Law, which therefore should apply to payment notices - including that served on the Company - served in years prior to 2017;
- on July 21, 2020 Italy's Constitutional Court (see judgment no. 158) ruled that there was no basis for the challenges of the constitutionality of Article 20 of the Consolidated Registration Tax Act, holding that the statute is intended to reaffirm the "transaction tax" nature of registration tax, and clarifying the object of taxation in accordance with the structure of a levy on the legal effects of the legal transaction presented for registration, without the revenue authorities being able to attach relevance to extratextual elements and linked legal transactions devoid of any textual connection with the transaction in question;
- on September 17, 2020 the Central Directorate of the Tax Agency published official clarification (see reply no. 371) in which, acknowledging the above ruling by the Constitutional Court, it clarified that "*the sale of company quotas preceded by the contribution of a business line cannot be taxed on a par with the sale of a company as a whole on the basis of the provisions of Article 20 of the Consolidated Income Tax Act.*"

At the reporting date, the Court of Cassation has yet to schedule a hearing.

A.2) Questionnaire of the Piedmont DRE of June 4, 2019 concerning transfer prices between Avio S.p.A. and Regulus S.A. - 2014 Tax period

In November 2019, the Piedmont Tax Agency served two separate assessment notices on the Company, respectively for IRES and IRAP, in relation to the 2014 tax year, concerning the application of "transfer pricing" tax regulations to transactions between Avio S.p.A. and its subsidiary Regulus S.A., on the assumption that the latter is a tax resident in French Guiana.

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 2023, 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 decided not to appeal to the Court of Cassation.

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) *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) 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, 2023, 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, 2023, as per IFRS 7, according to the categories established by IFRS 9.

In thousands of Euro	Total accounts	IFRS 9 Category		
		Assets at amortised cost	Assets at fair value through profit or loss	Liabilities at amortised cost
FINANCIAL ASSETS				
- Investments in other companies	4,750		4,750	
- Non-current financial assets	2,010	2,010		
- Other non-current assets	67,600	67,600		
- Current financial assets	-	-		
- Trade receivables	2,944	2,944		
- Other current assets	7,037	7,037		
- Cash and cash equivalents	95,593	95,593		
	179,934	175,184	4,750	-
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	2,051			2,051
- Non-current financial payables for leasing	5,620			5,620
- Current financial liabilities	26			26
- Current lease liabilities	1,747			1,747
- Current portion of non-current financial payables	10,018			10,018
- Other non-current liabilities	75,062			75,062
- Other current liabilities	28,973			28,973
- Trade payables	113,159			113,159
	236,656	-	-	236,656

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, 2023.

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 2023.

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	602	-	-
Derivative financial instruments	-	-	-
Total categories	602	-	-

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 customers 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, 2023 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 2,944 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, 2023 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	-	-	-	-	-	-	-	-	-
- Current lease liabilities	1,747	-	1,747	-	-	-	-	-	1,747
- Financial payables <i>EIB Loan</i>	10,018	-	10,018	-	-	-	-	-	10,018
	11,765	-	11,765	-	-	-	-	-	11,765
Trade payables (including companies under joint control)	113	-	113	-	-	-	-	-	113
	113	-	113	-	-	-	-	-	113
Other non-current liabilities:									
- Financial payables <i>EIB Loan</i> Euro 40 mln	-	-	-	-	-	-	-	-	-
- Financial payables <i>EIB Loan</i> Euro 10 mln	2,000	-	-	2,000	-	-	-	-	2,000
- Non-current financial payables for leasing	5,620	-	-	1,124	1,124	1,124	1,124	1,124	5,620
	7,620	-	-	3,124	1,124	1,124	1,124	1,124	7,620
Other current liabilities:									
- Social security institutions	4,461	-	4,461	-	-	-	-	-	4,461
- Employee payables	9,806	-	9,806	-	-	-	-	-	9,806
- Other payables to third parties	1,379	-	1,379	-	-	-	-	-	1,379
	15,647	-	15,647	-	-	-	-	-	15,647
Total cash flows	35,145	-	27,525	3,124	1,124	1,124	1,124	1,124	35,145

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, 2023 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 12 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, 2023 and on the Group Income Statement for 2023 (in Euro thousands):

At December 31, 2023											
Counterparty	Right-of-use assets	Other non-current assets	Inventories and Advances to suppliers	Trade receivables	Other current assets	Work in progress to order	Non-current financial assets	Trade payables	Other current liabilities	Advances from clients for contract work-in-progress	Financial liabilities
Leonardo S.p.A.			900					2,263	125		
MBDA Italia S.p.A.				0		4,549				8,560	
MBDA France S.A.				135		11,159				47,521	
Thales Alenia Space Italia S.p.A.								350		120	
Vitrociset S.p.A.											
Companies with a connecting relationship and relative investee companies	0	0	900	135	0	15,708	0	2,613	125	56,202	0
Termica Colleferro S.p.A.	839		1,900	812			2,010	1,639			833
Europropulsion S.A. Potable Water Services Consortium			63,696	89		854		558		22,935	
Servizi Colleferro - Consortium Limited Liability Company				204	31			(36)			
				48				516			
Associates and jointly controlled companies	839	0	65,596	1,152	31	854	2,010	2,678	0	22,935	833
Total related parties	839	0	66,496	1,288	31	16,562	2,010	5,291	125	79,137	833
Total book value	8,513	67,600	284,427	2,944	7,037	123,473	2,010	113,159	28,973	452,830	19,461
% on total account items	9.85%	0.00%	23.38%	43.74%	0.44%	13.41%	100.00%	4.68%	0.43%	17.48%	4.28%

In 2023, the main income statement transactions by the Group with related parties were as follows (in Euro thousands):

At December 31, 2023					
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.			2,388		
MBDA Italia S.p.A.	4,845				
MBDA France S.A.	40,412				
Thales Alenia Space Italia S.p.A.	42		350		
Vitrociset S.p.A.	0				
Companies with a connecting relationship and relative investee companies	45,299	0	2,738	0	0
Termica Colleferro S.p.A.	5	61	10,810		11
Europropulsion S.A.	60,740	299	21,974		297
Potable Water Services Consortium	53	27	366		
Servizi Colleferro - Consortium Limited Liability Company	235	42	1,513		
Associates and jointly controlled companies	61,032	429	34,663	0	309
Total related parties	106,331	429	37,401	0	309
Total book value	343,696	8,689	348,738	2,930	1,517
% on total account items	30.94%	4.94%	10.72%	0.00%	20.35%

⁽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 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, 2023

The following table presents the key details of Avio Group investees at December 31, 2023:

Companies included in the consolidation scope at December 31, 2023			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 - Colleferro (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)	4.00 (USD)	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 1,200,000.0 0	50%
Associates, measured at equity			

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Termica Colleferro S.p.A.	Via degli Agresti, 4 and 6 Bologna	Euro 6,100,000.0 0	40%
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(*) The company is in liquidation. No financial commitments are expected for the Group related to the liquidation.

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 2023 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	Payment
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	280
	Subsidiaries	Deloitte & Touche S.p.A. ⁽¹⁾	47
	Subsidiaries	Parent audit firm network ⁽²⁾	12
Other services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A. ⁽³⁾	34
Total	Total		373

(1) The amount concerns the audit of the subsidiaries Spacelab S.p.A., Se.Co.Sv.Im. S.r.l. and Temis S.r.l.;

(2) The amount refers to the audit of the statutory financial statements of Avio Guyana S.a.S.;

(3) The amount refers to the limited audit of the Avio Group's 2021 Annual Non-Financial Statement for Euro 34 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 2023:

Avio S.p.A.

The parent company Avio S.p.A. benefited from the following grants during the year:

Lender	Project	Revenue 2023 (€/million)	Collection date
European Commission	Disco (HEurope)	0.427	23/03/2023
European Commission	Space Carbon (H2020)	0.177	18/04/2023
Finpiemonte	IR2 Industrialisation of research results	0.130 0.447	19/09/2023 29/12/2023
ASI	Carisma	0.302	13/12/2023
European Commission	Nemos (DGDIS)	0.104	09/06/2023

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

Return to flight of VEGA C

In early 2024, fabrication of components for the qualification of Vega-C's Z40 motor with the new nozzle design began in accordance with the recommendations of the Commission of Inquiry (IEB). Qualifying trials of the new Zefiro 40 will take place in the coming months.

In parallel, the finalisation of the production of components for the return to flight to date expected in Q4 2024 is underway⁷³.

Inaugural launch of Ariane 6

Components for the first launch of the Ariane 6 launcher have been shipped to French Guyana. The Maiden Flight is now scheduled for mid-2024⁷⁴.

March 13, 2024

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

⁷³ See also the 2023 results presentation shared with analysts and investors and posted at the link: https://avio-data.teleborsa.it/2024%2f2024_03_13-Avio-FY-2023-results_vDef_20240313_051536.pdf.

⁷⁴ Source ESA: https://www.esa.int/Enabling_Support/Space_Transportation/Ariane/Ariane_6_joint_update_report_22_February_2024.

SEPARATE FINANCIAL STATEMENTS

BALANCE SHEET	<i>Note</i>	December 31, 2023	December 31, 2022
<i>(in Euro)</i>			
ASSETS			
Non-current assets			
Property, plant and equipment	3.1	115,413,243	99,728,410
Right-of-use	3.2	28,966,156	27,887,548
- of which related parties		23,054,864	22,119,998
Intangible assets with definite life	3.3	124,133,047	119,282,335
Goodwill	3.4	61,005,397	61,005,397
Investments	3.5	93,464,194	89,080,792
Non-current financial assets	3.6	2,010,172	2,010,172
- of which related parties		2,010,172	2,010,172
Deferred tax assets	3.7	77,335,570	77,319,785
Other non-current assets	3.8	63,750,863	62,377,475
- of which related parties		150,000	150,000
Total non-current assets		566,078,643	538,691,914
Current assets			
Inventories and Advances to suppliers	3.9	279,423,028	198,430,510
- of which related parties		66,632,001	49,934,499
Contract work-in-progress	3.10	122,821,757	425,530,637
- of which related parties		16,561,817	99,185,251
Trade receivables	3.11	3,545,658	4,857,424
- of which related parties		2,657,713	4,525,773
Cash and cash equivalents	3.12	87,871,534	125,520,693
Current financial assets	3.13	1,976,904	2,842,463
- of which related parties		1,976,904	2,842,463
Tax receivables	3.14	12,655,226	11,463,779
Other current assets	3.15	8,067,785	10,285,939
- of which related parties		1,998,447	4,093,851
Total current assets		516,361,890	778,931,445
TOTAL ASSETS		1,082,440,533	1,317,623,359

BALANCE SHEET	<i>Note</i>	December 31, 2023	December 31, 2022
<i>(in Euro)</i>			
EQUITY			
Share capital	3.16	90,964,212	90,964,212
Share premium reserve	3.17	130,920,685	130,686,924
Other reserves	3.18	15,107,762	14,635,692
Retained earnings		44,515,557	46,648,903
Net profit for the year		5,708,107	(1,894,795)
TOTAL NET EQUITY		287,216,324	281,040,936
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	3.19	2,000,000	12,000,000
Non-current financial liabilities for leasing		19,733,904	18,988,469
- of which related parties	3.20	16,243,965	16,205,185
Employee provisions	3.21	7,194,084	7,606,211
Provisions for risks and charges	3.22	14,926,337	18,467,293
Other non-current liabilities	3.23	74,754,549	76,313,983
Total non-current liabilities		118,608,874	133,375,956
Current liabilities			
Current financial liabilities		38,906,791	66,259,555
- of which related parties	3.24	38,906,767	66,259,555
Current financial liabilities for leasing		10,036,476	8,905,816
- of which related parties	3.25	8,797,292	7,655,851
Current portion of non-current financial payables	3.26	10,018,000	10,033,000
Provisions for risks and charges	3.22	11,739,411	17,029,943
Trade payables		132,204,411	115,396,402
- of which related parties	3.27	30,912,632	49,641,979
Advances from clients for contract work-in-progress		452,830,019	667,349,122
- of which related parties	3.10	79,697,600	146,779,478
Current income tax payables	3.28	1,865,575	1,887,780
Other current liabilities		19,014,652	16,344,848
- of which related parties	3.29	467,593	1,032,321
Total current liabilities		676,615,335	903,206,466
TOTAL LIABILITIES		795,224,209	1,036,582,422
TOTAL LIABILITIES AND EQUITY		1,082,440,533	1,317,623,359

INCOME STATEMENT	Note	FY 2023	FY 2022
<i>(in Euro)</i>			
Revenues		339,812,787	367,178,604
- of which related parties	3.30	106,075,114	80,103,641
Change in inventory of finished products, in progress and semi-finished		10,563,827	859,142
Other operating revenues		5,304,785	37,105,413
- of which related parties	3.31	1,004,587	1,158,209
Consumption of raw materials	3.32	(110,443,005)	(115,229,672)
Service costs		(151,778,055)	(208,164,324)
- of which related parties	3.33	(63,138,776)	(92,918,185)
Personnel expenses	3.34	(78,082,599)	(67,297,435)
Amortisation & depreciation	3.35	(17,766,007)	(21,383,564)
Other operating costs	3.36	(3,513,857)	(5,552,130)
Costs capitalised for internal works	3.37	8,131,674	7,401,982
EBIT		2,229,551	(5,081,983)
Financial income		2,511,786	775,967
- of which related parties	3.38	109,529	42,183
Financial charges		(2,580,788)	(1,774,997)
- of which related parties	3.39	(1,811,479)	(892,670)
NET FINANCIAL INCOME/(CHARGES)		(69,002)	(999,031)
Other investment income/(charges)		3,000,000	2,399,977
- of which related parties	3.40	3,000,000	2,399,977
INVESTMENT INCOME/(CHARGES)		3,000,000	2,399,977
PROFIT/(LOSS) BEFORE TAXES		5,160,549	(3,681,037)
Income taxes	3.41	547,559	1,786,241
NET PROFIT/(LOSS)		5,708,107	(1,894,795)
Basic earnings/(losses) per share	3.42	0.23	(0.07)
Diluted earnings/(losses) per share	3.42	0.22	(0.07)



COMPREHENSIVE INCOME STATEMENT	FY 2023	FY 2022
<i>(in Euro)</i>		
NET PROFIT/(LOSS) FOR THE YEAR (A)	5,708,107	(1,894,795)
Other comprehensive income items:		
- Actuarial gains/(losses) - Actuarial gains/losses reserve	(111,248)	732,547
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)	15,785	(158,751)
TOTAL OTHER COMPREHENSIVE INCOME ITEMS, NET OF TAX EFFECT (B)	(95,463)	573,796
COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR (A+B)	5,612,645	(1,321,000)

STATEMENT OF CHANGES IN EQUITY

(Euro thousands)

	Share capital	Share premium reserve	Treasury shares	Other reserves			Retained earnings	Profit for the year	Total Equity	
				Unavailable reserve for treasury shares in portfolio	Legal reserve	Actuarial gains/(losses) reserve				Stock grant reserve
Equity at 31/12/2021	90,964	135,175	(9,080)	9,080	18,193	(4,185)	0	46,308	4,836	291,292
Allocation of prior year result							4,836	(4,836)		-
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	4		59
Comprehensive income for the year										
- Net profit/(loss) for the year								(1,895)		(1,895)
- Other changes										-
- Change in fair value of hedges										-
- Actuarial gains/(losses), net of tax effect						574				574
Comprehensive income for the year		-	-	-	-	574	-	-	(1,895)	(1,321)
Equity at 31/12/2022	90,964	130,687	(13,569)	13,569	18,193	(3,612)	54	46,649	(1,895)	281,041
Allocation of prior year result							(1,895)	1,895		0
Other changes		234	234	(234)			568	(239)		563
Comprehensive income for the year										
- Net profit/(loss) for the year								5,708		5,708
- Other changes										-
- Actuarial gains/(losses), net of tax effect						(95)				(95)
Comprehensive income for the year		-	-	-	-	(95)	-	-	5,708	5,613
Equity at 31/12/2023	90,964	130,921	(13,335)	13,335	18,193	(3,707)	622	44,516	5,708	287,216

CASH FLOW STATEMENT

(Euro thousands)

	2023	2022
OPERATING ACTIVITIES		
Net profit/(loss) for the year	5,708	(1,895)
Adjustments for:		
- Income taxes	(548)	(1,786)
- Financial (Income)/Charges	69	999
- Amortisation & Depreciation	17,766	21,384
- Write-down equity investments		
Net change provisions for risks and charges	(8,831)	25,771
Net change employee provisions	(508)	(247)
Changes in:		
- Inventories and advances to suppliers	(80,993)	(47,639)
- <i>of which related parties</i>	(16,698)	(20,248)
- Contract work-in-progress & advances from clients	88,190	85,435
- <i>of which related parties</i>	15,542	45,642
- Trade receivables	1,312	(1,057)
- <i>of which related parties</i>	1,868	(1,604)
- Trade payables	16,808	18,101
- <i>of which related parties</i>	(18,729)	17,437
- Other current & non-current assets	185	11,518
- <i>of which related parties</i>	2,095	8,135
- Other current & non-current liabilities	1,651	(31,996)
- <i>of which related parties</i>	(565)	730
Income taxes paid		
Interest paid	(143)	(218)
Net liquidity generated/(employed) in operating activities	(A) 40,667	78,371
INVESTING ACTIVITIES		
Investments in:		
- Property, plant & equipment	(18,755)	(16,056)
- Intangible assets with definite life	(13,069)	(10,958)
- Equity Investments	(4,383)	(6,047)
Disposal price of tangible, intangible & financial assets		
Liquidity generated (employed) in investing activities	(B) (36,208)	(33,060)
FINANCING ACTIVITIES		
EIB loan	(10,000)	(10,000)
Centralised treasury effect with subsidiary and jointly controlled company	(27,769)	20,020
- <i>of which related parties</i>	(27,769)	20,020
Dividends paid by the parent Avio S.p.A.	-	(4,500)
Acquisition of treasury shares	-	(5,739)
Other changes to financial assets and liabilities	(4,339)	(19,639)
- <i>of which related parties</i>	1,111	1,929
Liquidity generated (employed) in financing activities	(C) (42,108)	(19,858)
INCREASE/(DECREASE) IN NET CASH AND CASH EQUIVALENTS	(A)+(B)+(C) (37,649)	25,452
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	125,520	100,069
NET CASH AND CASH EQUIVALENTS AT END OF YEAR	87,872	125,520

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, 2023 and December 31, 2022 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2023			31/12/2022		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	-	-	-	-	-	-
Buildings	46,624	(11,067)	35,556	41,825	(10,215)	31,610
Plant & machinery	82,465	(58,083)	24,381	73,968	(56,969)	17,000
Industrial & commercial equipment	12,643	(12,204)	440	12,367	(12,052)	315
Other assets	12,604	(8,268)	4,335	10,273	(7,316)	2,957
Assets in progress and advances	50,701	-	50,701	47,846	-	47,846
Total	205,036	(89,622)	115,413	186,281	(86,552)	99,729

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

Gross values	31/12/2022	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2023
Land	-	-	-	-	-
Buildings	41,825	761	-	4,038	46,624
Plant & machinery	73,968	7,073	-	1,423	82,465
Industrial & commercial equipment	12,367	276	-	-	12,643
Other assets	10,273	2,330	-	-	12,604
Assets in progress and advances	47,846	8,315	-	(5,461)	50,701
Total	186,281	18,755	-	-	205,036

The increases in the year of Euro 18,755 thousand mainly concern:

- assets in progress and advances for Euro 8,315 thousand.
These investments particularly included:
 - works on buildings for the production of the P120C motor amounting to Euro 1,712 thousand;
 - the construction of the static ignition test facility (OPTF) for the development and qualification of liquid rocket engines with HTP ζ 95% and RP-1 propellants for Euro 1,396 thousand;
 - the construction of infrastructure for the purposes of National Recovery and Resilience Plan orders for Euro 1,134 thousand;
 - purchase of equipment for Euro 4,073 thousand;
- plant and machinery for Euro 7,073 thousand;
- Other assets amounting to Euro 2,330 thousand, mainly relating to IT equipment and furnishings related to the Group's new administrative site;
- equipment amounting to Euro 276 thousand, mainly relating to production control instruments;
- buildings amounting to Euro 761 thousand, mainly related to extraordinary maintenance and construction of sites for equipment and product storage.



Specifically, during the year, building 4026 built for VEGA's cadence increase entered depreciation, moving from Assets in progress to Buildings.

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

Gross values	31/12/2022	Increases	Decreases for disposals	Reclassifications and other changes	31/12/2023
Buildings	(10,215)	(853)	-	-	(11,067)
Plant & machinery	(56,969)	(1,115)	-	-	(58,083)
Industrial & commercial equipment	(12,052)	(151)	-	-	(12,204)
Other assets	(7,316)	(952)	-	-	(8,268)
Total	(86,552)	(3,070)	-	-	(89,622)

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

The phase-out of the Ariane 5 launcher and the phase-in of the new Ariane 6 launcher, as well as the phase-out of the Vega launcher and the phase-in of the new Vega-C launcher, resulted in the revision of the useful life of some buildings, plant and equipment during the year. See also in this regard what is stated in section "2.7. Accounting standards and basis of preparation".

3.2. RIGHT-OF-USE

The values of Right-of-use assets at December 31, 2023 are shown net of the accumulated depreciation provisions, as illustrated in the table below (Euro thousands).

	31/12/2023			31/12/2022		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land right-of-use	2,570	(571)	1,999	2,570	(428)	2,142
Buildings right-of-use	49,020	(24,646)	24,374	42,806	(19,568)	23,238
Plant and machinery right-of-use	1,690	(793)	896	1,632	(620)	1,012
Other assets right-of-use	3,996	(2,300)	1,696	3,380	(1,884)	1,495
Total	57,276	(28,310)	28,966	50,387	(22,501)	27,887

The gross values of these rights at December 31, 2023 (in Euro thousands) are reported below:

Gross values	31/12/2022	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2023
Land right-of-use	2,570	-	-	-	2,570
Buildings right-of-use	42,806	6,388	(174)	-	49,020
Plant and machinery right-of-use	1,632	58	-	-	1,690
Other assets right-of-use	3,380	1,185	(568)	-	3,996
Total	50,387	7,631	(742)	-	57,276

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

- leasing of areas and buildings in the Colleferro industrial district by the subsidiary company Se.Co.Sv.Im. S.r.l., including the group's new headquarters;
- 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 Guiana; hiring of company cars.

The increases in the year of Euro 7,631 thousand mainly concern the lease of the new building completed in 2023 for the new Group headquarters, 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, amounting to Euro 742 thousand, related to the termination of lease contracts for vehicles and apartments for employees.

The accumulated depreciation of these rights in 2023 is reported below (in Euro thousands):

Gross values	31/12/2022	Increases	Decreases for contract conclusion	Reclassifications and other changes	31/12/2023
Land right-of-use	(428)	(143)	-	-	(571)
Buildings right-of-use	(19,568)	(5,240)	162	-	(24,646)
Plant and machinery right-of-use	(620)	(173)	-	-	(793)
Other assets right-of-use	(1,884)	(921)	505	-	(2,300)
Total	(22,501)	(6,477)	668	-	(28,310)

3.3. INTANGIBLE ASSETS WITH DEFINITE LIFE

The values of Intangible assets with definite life at December 31, 2023 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, 2023 with December 31, 2022.

	31/12/2023			31/12/2022		
	Gross values	Accumulated amortisation	Net book value	Gross values	Accumulated amortisation	Net book value
Development costs - amortisable	71,685	(14,553)	57,132	68,229	(11,230)	56,998
Development costs - in progress	25,540	-	25,540	23,788	-	23,788
Total development costs	97,225	(14,553)	82,672	92,016	(11,230)	80,786
Assets from PPA 2017 - Programmes	44,785	(20,153)	24,632	44,785	(17,168)	27,617
Concessions, licenses, trademarks and similar rights	20,024	(12,160)	7,864	15,231	(11,036)	4,195
Other	12,592	(3,918)	8,674	9,816	(3,131)	6,685
Assets in progress and advances	291	-	291	-	-	-
Total	174,917	(50,784)	124,133	161,848	(42,566)	119,283

The development costs being amortised primarily refer to design and testing costs relating to the Z40 and P120C engines. Most development costs under completion refer to projects relating to the new liquid oxygen and methane engines.

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

With reference to development costs in course of completion, which are not subject to amortisation as referring to programmes which have not yet commenced commercial production, recognition under intangible assets with definite useful lives (with prior verification of the absence of impairment) is supported by the profitability forecasts of the programmes.

Following the purchase price allocation process of the Avio Group by Space2 in March 2017, two intangible assets were identified relating to the Ariane and Vega aerospace programmes for a total of Euro 44,785 thousand.

The assets deriving from this allocation were measured at fair value based on the present value of the expected future benefits of the above aerospace programmes and amortised over a period of 15 years on the basis of the average useful life of the programmes.

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

The changes 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	31/12/2022	Increases	Decreases	Reclassifications and other changes	31/12/2023
Development costs - amortisable	68,229	-	-	3,456	71,685
Development costs - in progress	23,788	5,209	-	(3,456)	25,540
Total development costs	92,016	5,209	-	-	97,225
Assets from PPA 2017 - Programmes	44,785	-	-	-	44,785
Concessions, licenses, trademarks and similar rights	15,231	4,793	-	-	20,024
Other	9,816	2,776	-	-	12,592
Assets in progress and advances	-	291	-	-	291
Total	161,848	13,069	-	-	174,917

The increases in 2023 of Intangible Assets with definite life amounted to Euro 13,069 thousand, of which principally:

- Euro 5,209 thousand, mainly for design and testing costs for the construction of the new engines and avionics elements;
- Euro 4,793 thousand concerning software licenses and introduction projects;
- Euro 2,776 thousand essentially related to the review of procedures for production efficiency, as well as the drawing up of business plans.

The changes in 2023 to accumulated amortisation were as follows (in Euro thousands):

Accumulated amortisation	31/12/2022	Increases	Decreases	Reclassifications and other changes	31/12/2023
Development costs - amortisable	(11,230)	(3,323)	-	-	(14,553)
Development costs - in progress	-	-	-	-	-
Total development costs	(11,230)	(3,323)	-	-	(14,553)
Assets from PPA 2017 - Programmes	(17,168)	(2,986)	-	-	(20,153)
Concessions, licenses, trademarks and similar rights	(11,036)	(1,123)	-	-	(12,160)
Other	(3,131)	(787)	-	-	(3,918)
Total	(42,566)	(8,218)	-	-	(50,784)

3.4. GOODWILL

The goodwill, recognised to the financial statements at December 31, 2023 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 standards and basis of preparation", 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, 2023.

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, 2023, cash flows for the Space CGU were estimated based on projections from the 2024-2028 Business Plan, approved by the Board of Directors on March 13, 2024. 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 (same as the previous year) for forecast cash flows (in line with forecast Italian medium/long-term inflation⁷⁵).

For the purposes of preparing the impairment test, cash flows were discounted at a weighted average cost of capital ("WACC") of 9.8% (0.7% higher than the 9.1% used in the previous year), estimated in accordance with the Capital Asset Pricing Model approach.

⁷⁵ Source: Economist Intelligence Unit database

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, where estimates can be reasonably made. 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, as well as potential future developments in European launcher governance referred to in the ESA Council decisions of November 6, 2023⁷⁶, may create uncertainties around the achievement of objectives and the level of activities considered in the plan. 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.”

⁷⁶ See press release of November 7, 2023 at the link: https://www.avio.com/sites/avio.com/files/attachments/CS_ESA%20Siviglia_ITA_1.pdf.

3.5. INVESTMENTS

The table below presents the parent company Avio S.p.A.'s equity investments at December 31, 2023 (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	Equity	Equity share	Difference Holding / Equity share
Investments in subsidiaries						
Spacelab S.p.A.	Rome	70%	2,650	5,681	3,976	(1,327)
Se.Co.Sv.Im. S.r.l.	Colleferro (RM)	100%	58,640	66,060	66,060	(7,420)
Regulus S.A.	Kourou (French Guyana)	60%	9,590	20,129	12,077	(2,487)
Avio Guyane S.A.S.	Kourou (French Guyana)	100%	50	798	798	(748)
Avio France S.A.S.	Paris/Kourou (French Guyana)	100%	50	306	306	(256)
Temis S.r.l.	Corbetta (Milan)	100%	3,355	343	343	3,012
Avio USA Inc.	Wilmington (USA)	100%	2,850	(162)	(162)	3,013
Avio India Aviation Aerospace Private Limited (**)	New Delhi (India)	100%	114	100	100	14
Sub-total			77,299	93,254	83,498	(6,199)
Associates and jointly-controlled companies						
Europropulsion S.A. (*)	Suresnes (France)	50%	3,698	14,504	7,252	(3,554)
Termica Colleferro S.p.A. (**)	Bologna	40%	7,674	14,665	5,866	1,808
Servizi Colleferro - Consortium Limited Liability Company	Colleferro (Rm)	32%	38	125	40	(2)
Sitab Consortium in liquidation (**)	Rome	20%	5	(36)	(7)	12
Potable Water Services Consortium	Colleferro (Rm)	25%	-	-	-	-
Sub-total			11,416	29,258	13,151	(1,735)
Total Equity holdings in subsidiaries, associates and jointly-controlled companies			88,715	122,511	96,649	(7,933)
Investments in other companies			4,749			
Total			93,464			

(*) Companies under joint control

(**) financial statements data at December 31, 2022.

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 3,012 thousand;
- Avio USA Inc. in the amount of Euro 3,013 thousand;

The future net cash flows from the business prospects of these two companies reasonably allow full recovery of the capital gain.

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 1,808 thousand, is expected to be recovered based on future net cash flows from the associate's 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, 2023 was in liquidation.

The following table presents the changes in the year 2023 in investments in subsidiaries (in thousands of Euro):

	31/12/2022	Increases	Decreases	Other changes	31/12/2023
Spacelab S.p.A.	2,650	-	-	-	2,650
ASPropulsion International B.V.	58,640	-	-	(58,640)	-
Se.Co.Sv.Im. S.r.l.	-	-	-	58,640	58,640
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	1,878	-	-	2,850
Avio India Aviation Aerospace Private Limited	114	-	-	-	114
	75,421	1,878	-	-	77,299

The following transactions took place in 2023:

- AS Propulsion International B.V., a wholly-owned subsidiary of Avio S.p.A., was the subject of a reverse merger into its wholly-owned subsidiary Se.Co.Sv.Im. S.r.l., which therefore became a direct subsidiary of Avio;
- two capital increases were made in the subsidiary Avio USA Inc. totaling Euro 1,878 thousand.

The following tables presents the changes in the year 2023 in investments in associates and jointly-controlled companies (in thousands of Euro):

	31/12/2022	Increases	Decreases	Other changes	31/12/2023
Europropulsion S.A.	3,698	-	-	-	3,698
Termica Colleferro S.p.A.	7,674	-	-	-	7,674
Servizi Colleferro - Consortium Limited Liability Company	38	-	-	-	38
Sitab Consortium in liquidation	5	-	-	-	5
Potable Water Services Consortium	-	-	-	-	-
	11,416	-	-	-	11,416

The statement of changes in the year 2023 in investments in other companies follows (amounts in Euro thousands):

	31/12/2022	Increases	Decreases	Other changes	31/12/2023
Arianespace Participation S.A.	433	-	-	-	433
Arianespace S.A.	-	-	-	-	-
C.I.R.A. (Centro Italiano Ricerche Aerospaziali) S.c.p.A.	60	-	-	-	60
Imast S.c.a.r.l.	22	-	-	-	22
Distretto Aerospaziale Sardegna S.c.a.r.l.	9	-	-	-	9
ART S.p.A.	1,720	-	-	-	1,720
T4i S.p.A.	-	2,500	-	-	2,500
Fondazione ITS Meccatronico del Lazio	-	5	-	-	5
	2,244	2,505	-	-	4,749

The following investments were made during the year:

- capital increase of Euro 2,500 thousand in T4i S.p.A., a spin-off company of the University of Padua based in Monselice (PD), specialising in innovative propulsion systems for aerospace applications. T4i was founded in 2014 by a team led by Professor Daniele Pavarin and over the years has demonstrated expertise and excellence in the development of propulsion technologies, growing fast and working on ambitious programmes in partnership with the ESA, ASI and CNR, in addition to several Italian and overseas companies, including Avio. The capital increase resulted in the attainment of an approx. 17% stake in T4i. For further information, please refer to the relative paragraph of the "Significant Events in 2023" section of the Directors' Report;
- subscription of a contribution to Lazio's "Fondazione ITS Meccatronico", in support of achieving the set objectives of the Foundation.

With reference to the investment in ART S.p.A., equal to 5% of its shares, acquired in 2022 for a value of Euro 1,720 thousand, it is reported in particular that it is a leading Italian infotainment systems company for performance and luxury cars and an industrial partner, as well as the former parent company of Temis S.p.A., of which Avio also acquired control in 2022.

The equity investment in ART is greater than the share of equity by Euro 823 thousand (as, as per the last available financial statements at December 31, 2022, the company's equity was Euro 17,943 thousand. The share is therefore Euro 897 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.

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.

3.6. NON-CURRENT FINANCIAL ASSETS

The table below illustrates the non-current financial assets of the Avio Group at December 31, 2023 and at December 31, 2022 (in Euro thousands).

	31/12/2023	31/12/2022	Change
Shareholder loan to Termica Colleferro S.p.A.	2,010	2,010	-
	2,010	2,010	-

This shareholder loan with the associated Termica Colleferro as beneficiary is interest-free.

3.7. DEFERRED TAX ASSETS

Avio's recognised deferred tax assets amount to Euro 77,336 thousand (Euro 77,320 thousand at December 31, 2022).

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):

	31/12/2023
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.	17
Financial charges exceeding 30% of EBITDA	27,278
<i>Temporary differences deriving from current corporate operations</i>	
Provision for staff charges	3,488
Other deductible temporary differences	7,799
Total gross deferred tax assets	38,582
Deferred tax liability on temporary differences	
<i>Temporary differences deriving from previous corporate operations</i>	
Amortisation intangible assets from PPA 2017 - Customer accreditation	(7,128)
Tax effect R&D expenses First-Time Adoption	(211)
<i>Temporary differences deriving from current corporate operations</i>	
Other temporary assessable differences	(777)
Total gross deferred tax liabilities	(8,116)
Net deferred tax assets/(liabilities)	30,466
Deferred tax assets on tax losses	68,175
Total deferred tax assets	98,640
Deferred tax assets not recorded	(21,304)
Net deferred tax assets (liabilities) recorded	77,336

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" thruster, 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 engine 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, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Other non-current assets	63,751	62,377	1,373
	63,751	62,377	1,373

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

	31/12/2023	31/12/2022	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	2,960	3,191	(231)
Deposits and other non-current assets	1,135	966	169
Prepayments related to land rights	1,436	-	1,436
Total	63,751	62,377	1,373

"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. Specifically:

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

- the 2019 Budget Law (see Article 1, paragraph 1084, of Law 145 of December 30, 2018) attributed retroactive effect to the provision introduced by the 2018 Budget Law, which therefore should apply to payment notices – including that served on the Company – served in years prior to 2017;
- on July 21, 2020 Italy's Constitutional Court (see judgment no. 158) ruled that there was no basis for the challenges of the constitutionality of Article 20 of the Consolidated Registration Tax Act, holding that the statute is intended to reaffirm the "transaction tax" nature of registration tax, and clarifying the object of taxation in accordance with the structure of a levy on the legal effects of the legal transaction presented for registration, without the revenue authorities being able to attach relevance to extratextual elements and linked legal transactions devoid of any textual connection with the transaction in question;
- on September 17, 2020 the Central Directorate of the Tax Agency published official clarification (see reply no. 371) in which, acknowledging the above ruling by the Constitutional Court, it clarified that *"the sale of company quotas preceded by the contribution of a business line cannot be taxed on a par with the sale of a company as a whole on the basis of the provisions of Article 20 of the Consolidated Income Tax Act."*

For further information, reference should be made to Note "3.23. 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 2,960 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).

Regarding the item "Guarantee deposits and other non-current assets" the increase of Euro 169 thousand mainly relates to the signing of a security deposit following new agreements for energy supply by the associate Termica Colleferro.

The item "Prepayments related to land rights", amounting to Euro 1,436 thousand, related to the portion of the price of land rights accruing beyond the next financial year; in this respect, it is reported that Avio S.p.A. signed with the subsidiary Se.Co.Sv.Im. on December 15, 2023, a deed of land right with a duration of 30 years, relating to areas, included in the Colleferro industrial district, to be allocated to the project *"Realization of a test center called Orbital Propulsion Test Facility (OPTF) for the development and qualification of motors for space applications, using as propellants 95% oxygen peroxide (HTP) and rocket kerosene (RP.1)"*. This project is included in the National Recovery and Resilience Plan (PNRR) for the development and qualification of the Multi Purpose Green Engine (MPGE) space engine.

CURRENT ASSETS

3.9. INVENTORIES AND ADVANCES TO SUPPLIERS

The table below illustrates inventories at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Inventories and Advances to suppliers	279,423	198,430	80,993
	279,423	198,430	80,993

The breakdown of the account at December 31, 2023 and relative movements follow (in Euro thousands):

	31/12/2022	Change	31/12/2023
Raw materials, ancillaries and consumables	68,103	33,967	102,070
Raw material, ancillary and consumables obsolescence provision	(4,376)	3,020	(1,356)
Raw material, ancillary and consumables - net value	63,727	36,988	100,715
Products in work-in-progress	6,502	2,507	9,009
Provision for the write-down of work in progress	-	-	-
Products in work-in-progress - net value	6,502	2,507	9,009
Finished products and other inventories	7	8,056	8,063
Finished products and other inventories obsolescence provision	-	-	-
Finished products and other inventories - net value	7	8,056	8,063
Advances to suppliers	128,194	33,441	161,635
	198,430	80,993	279,423

The increase in inventories relates to provisioning needed in order to support expected future production levels.

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

3.10. CONTRACT WORK-IN-PROGRESS

Production and research and development on orders are presented in the financial statements in two separate accounts: "Contract work-in-progress" and "Advances 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):

	31/12/2023	31/12/2022	Change
Contract work-in-progress	122,822	425,531	(302,709)
Advances for contract work-in-progress	(452,830)	(667,350)	214,520
Net total	(330,008)	(241,818)	(88,189)

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):

	31/12/2023	31/12/2022	Change
Contract work-in-progress (gross)	1,276,604	944,275	332,329
Advances for contract work-in-progress (gross)	(1,153,782)	(518,744)	(635,038)
Contract work-in-progress (net)	122,822	425,531	(302,709)

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):

	31/12/2023	31/12/2022	Change
Contract work-in-progress (gross)	1,179,932	1,203,952	(24,020)
Advances for contract work-in-progress (gross)	(1,632,762)	(1,871,301)	238,539
Advances for contract work-in-progress (net)	(452,830)	(667,350)	214,519

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, 2023 and December 31, 2022 (in Euro thousands).

	31/12/2023	31/12/2022	Change
Trade receivables	3,546	4,857	(1,311)
	3,546	4,857	(1,311)

The breakdown of trade receivables is as follows:

	31/12/2023	31/12/2022	Change
Receivables from third parties	1,023	1,170	(147)
Subsidiaries	2,063	3,155	(1,092)
Receivables from associates, jointly controlled companies and non-consolidated subsidiaries	459	532	(73)
Total	3,546	4,857	(1,311)

The book value of the receivables approximates their fair value.

Receivables from third parties

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

	31/12/2023	31/12/2022	Change
Gross value	1,106	1,253	(147)
less: doubtful debt provision	(83)	(83)	-
Total	1,023	1,170	(147)

The receivables are all due within 12 months. They relate to a few large customers (ESA, Arianespace, MBDA mainly) with whom there are consolidated relations and, in addition, invoices are issued on a "work in progress" basis, therefore following prior approval by the customers.

Subsidiaries

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

	31/12/2023	31/12/2022	Change
Spacelab S.p.A.	115	153	(38)
Regulus S.A.	453	665	(212)
Se.Co.Sv.Im. S.r.l.	177	684	(507)
Temis S.r.l.	-	3	(3)
Avio USA Inc.	1,167	724	443
Avio Guyane S.A.S.	150	71	79
Avio France S.A.S.	-	855	(855)
Total	2,063	3,155	(1,092)

Receivables from associates, jointly controlled companies and non-consolidated subsidiaries

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

	31/12/2023	31/12/2022	Change
Termica Colleferro S.p.A.	283	208	75
Europropulsion S.A.	89	323	(234)
Potable Water Services Consortium	40	-	40
Servizi Colleferro S.C.p.A.	48	1	47
Total	459	532	(73)

3.12. CASH AND CASH EQUIVALENTS

The table below illustrates cash and cash equivalents at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Cash and cash equivalents	87,872	125,521	(37,649)
Total	87,872	125,521	(37,649)

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, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Cash and cash equivalents	1,977	2,842	(865)
Total	1,977	2,842	(865)

This account concerns the balance of the current account with the subsidiary Avio Guyane S.A.S. for the purpose of centralized Group treasury management.

The transaction is governed by the following market conditions:

- lending rate: Euribor 1 M 365 (determined, month by month, with reference to the last working day of the previous month) + 25 bps (should the ECB reference rates for deposits become negative during the reporting year, then the rate applied will be 0.000%);
- rate payable: Euribor 1 M 365 (determined, month by month, with reference to the last working day of the previous month) + 210 bps. If the Euribor rate is negative, it will be considered zero for the present purposes.

3.14. CURRENT TAX RECEIVABLES

The table below presents tax assets at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Tax receivables	12,655	11,464	1,191
Total	12,655	11,464	1,191

The following table presents the net changes by type of tax credit and tax (in Euro thousands):

	31/12/2023	31/12/2022	Change
VAT	3,822	4,428	(606)
Research and development tax credits	2,763	2,311	452
Tax credits for simple and 4.0 technological innovation	1,960	1,430	530
Tax credits for the purchase of simple new capital goods and 4.0	2,052	1,640	412
Receivables from tax authorities	1,811	951	860
Tax credit on energy	-	463	(463)
EU VAT receivables	247	241	6
Total	12,655	11,464	1,191

This item is substantially in line with the balance at December 31, 2022. There are deviations in the specific categories of tax and tax credits, however, as described below.

VAT receivables

VAT receivables of Euro 3,822 thousand (Euro 4,428 thousand at December 31, 2022), include:

- Euro 1,890 thousand, relating to VAT reimbursement requests to the Tax Authorities (Euro 1,145 thousand at December 31, 2022);
- Euro 1,932 thousand, relating to VAT reimbursements to date not requested for repayment (Euro 3,288 thousand at December 31, 2022).

VAT receivables in the year reported a net decrease of Euro 606 thousand - the net effect of:

- decreases for receipts of Euro 598 thousand concerning the 2021 annual VAT of Avio S.p.A.;
- decreases for offsets of Euro 2,000 thousand;
- increases for new VAT receivables of Euro 1,991 thousand;

The increases for new VAT receivables relate 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 parent company Avio. On the other hand, this latter however has Italian suppliers whose supplies - further to the amounts for which declarations of intent are issued due to the fact that it is a habitual exporter - result in the recognition of VAT receivables.

Research and development and technological innovation tax credit

These tax credits totalled Euro 6,775 thousand (Euro 5,381 thousand at December 31, 2022).

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 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;
- 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, 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 2023 income statement includes amounts of Euro 1,335 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.

The amount recorded in the comparative Income Statement for 2022 was Euro 2,363 thousand.

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, 2022 and 2023 pursuant to the 2020 Budget Law as amended

Avio S.p.A. recognised R&D tax credits of Euro 6,775 thousand to these financial statements and accrued in 2020, 2021 and 2022 (for Euro 5,381 thousand) and in 2023 (for Euro 1,394 thousand).

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 1,811 thousand (Euro 951 thousand at December 31, 2022), 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.;
- receivables for withholding taxes on interest income for Euro 469 thousand.

Tax credit on energy

The parent company Avio in 2023 fully utilised the tax credit for electricity-related expenses recognised in the previous year, amounting to Euro 463 thousand.

EU VAT receivables

The EU VAT receivables relate to inter-EU transactions and amount to Euro 247 thousand (Euro 241 thousand at December 31, 2022).

3.15. OTHER CURRENT ASSETS

The table below illustrates other current assets at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Other current assets	8,068	10,286	(2,219)
Total	8,068	10,286	(2,219)

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

	31/12/2023	31/12/2022	Change
Economic Development Ministry for disbursements pursuant to Law 808/85 - current portion	3,155	2,924	231
Subsidiaries	1,967	4,092	(2,125)
Employee receivables	1,019	1,130	(111)
Grants/subsidies receivable	960	951	9
Prepayments and accrued income	751	1,097	(346)
Other debtors	168	74	94
Receivables from associated company Consorzio Servizi Acqua Potabile	31	2	29
Social security institutions	16	15	1
Total	8,068	10,286	(2,219)

"Receivables from the Economic Development Ministry for disbursements pursuant to Law 808/85 - current portion", amounting to Euro 3,155 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, whose collection is expected within 12 months.

The portion which will be received beyond 12 months is classified in the account "Other non-current assets" (Note 3.8).

Receivables from subsidiaries, of Euro 1,967 thousand (Euro 4,092 thousand at December 31, 2022) comprise:

- receivables from the subsidiary Spacelab S.p.A. for Euro 1,599 thousand (Euro 4,080 thousand at December 31, 2022) relating to the tax consolidation.
- receivables from the subsidiary Se.Co.Sv.Im. S.r.l. for Euro 368 thousand (Euro 12 thousand at December 31, 2022) also concerning the tax consolidation.

Employee receivables of Euro 1,019 thousand (Euro 1,130 thousand at December 31, 2022) concern the Group cash advances for the coverage of mission and travel expenses.

Receivables for grants and subsidies of Euro 960 thousand concerning various projects supported by subsidised financing. Reference should also be made to section "10. Disclosure on public grants as per article 1, paragraphs 125-129, of Law No. 124/2017.

EQUITY

3.16. SHARE CAPITAL

The share capital of the parent Avio S.p.A. amounts to Euro 90,964,212 at December 31, 2023; 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, 2023 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, 2023, the available value of the share premium reserve was Euro 130,921 thousand, with treasury shares recognised to the financial statements amounting to Euro 13,335 thousand.

3.18. OTHER RESERVES

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

	31/12/2023	31/12/2022	Change
Legal reserve	18,193	18,193	-
Treasury shares acquired	(13,335)	(13,569)	234
Unavailable treasury shares purchase reserve	13,335	13,569	(234)
Actuarial gains/(losses) reserve	(3,707)	(3,611)	(95)
Stock grant reserve	622	54.24	568
	15,108	14,636	472

With regard to treasury shares, at December 31, 2023, Avio S.p.A. held 1,091,207 treasury shares, equal to 4.14% of the share capital. The value of the treasury shares purchased is Euro 13,335 thousand; no transaction on treasury shares took place during the year, while the value was decreased by Euro 234 thousand in order to re-establish the original average unit value following their use in the previous year, 2022, in which a portion of the payment of the price for the acquisition of Temis S.r.l. was made through treasury shares assigned to the selling party.

The actuarial gains/losses reserve, amounting to a negative of Euro 3,707 thousand, concern the actuarial losses deriving from the application of IAS 19 revised, with the relative tax effect where applicable.

The stock grant reserve, amounting to Euro 622 thousand Euro, represents the accumulated cost as of December 31, 2023, related to three share-based employee compensation plans involving the allocation of treasury shares.

A summary of the necessary information in this regard is presented below (amounts in thousands of Euro):

	Beneficiaries	Target number of shares granted	Vesting period	Stock grant reserve
Restricted Share Plan 2023-2025	professional figures employed by Avio	261,206	2023-2025	89
Performance Share Plan 2023-2025	Senior management	87,080	2023-2025	174
Performance Share Plan 2022-2024	Senior management	70,307	2022-2024	359
		418,593		622

The Restricted Share Plan 2023-2025 and the Performance Share Plan 2023-2025 were approved by the Shareholders' Meeting on April 28, 2023 in order to increase its employees' sense of belonging to Avio:

- the "Performance Shares 2023-2025" plan is for the Chief Executive Officer, Senior Executives and certain other Executives;
- the "Restricted Shares 2023-2025" plan is for employees who play a key role in achieving Avio's strategic goals. The beneficiaries of the plan do not include the Chief Executive Officer/General Manager or the Senior Executives of the Company.

The amount recorded in the stock grant reserve was subject to assessment by a leading independent expert.

The breakdown of the equity accounts according to their origin, utilisation and distribution, as well as utilisation in previous years, is shown in the table below (Euro thousands):

Nature/Description	Amount	Poss. of utilisation	Quota available	Summary of utilisations in previous years	
				To cover losses	Other reasons
Share capital	90,964				
Capital reserves:					
- Share premium reserve	144,256	A, B, C	130,921	-	-
Profit reserves:					
- Legal reserve	18,193	B			
- Stock grant reserve	622	-			
- Actuarial gains and losses	(3,707)	-			
Retained earnings	44,516	A, B, C	40,809	(2,227)	
Total	294,843		171,729		
Non-distributable amount			82,672		
Residual amount distributable			89,057		

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 2023 is presented in the following table (in Euro thousands):

	31/12/2023	31/12/2022	Change
Non-current financial liabilities	2,000	12,000	(10,000)
Total	2,000	12,000	(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 programmes and the expansion of industrial capacity at the Colleferro facility required to meet the Company's production volume targets for the coming years.

The decrease of Euro 10,000 thousand relates to the short-term reclassification:

- of the two instalments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2024 and October 31, 2024, respectively;
- of the two instalments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2024 and October 31, 2024, respectively.

The short-term portion of the loan, totalling Euro 10 million (including Euro 18 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):

	31/12/2023	31/12/2022	Change
Non-current financial liabilities for leasing	19,734	18,988	745
Total	19,734	18,988	745

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

	31/12/2023	31/12/2022	Change
Non-current financial liabilities to the subsidiary Se.Co.Sv.Im. S.r.l. as per IFRS 16	15,546	15,369	178
Non-current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	698	837	(139)
Non-current financial liabilities to third parties as per IFRS 16	3,490	2,783	707
Total	19,734	18,988	745

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 Guiana;
 - 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):

	31/12/2023	31/12/2022	Change
- Defined benefit plans:			
Post-employment benefits	2,946	3,132	(185)
Other defined benefit plans	2,342	2,365	(23)
	5,289	5,497	(208)
- Other long-term benefits	1,905	2,109	(204)
Total employee benefit provisions	7,194	7,606	(412)

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 31/12/2022	5,497	2,109	7,606
Financial charges/(income)	154	52	206
Actuarial (gains)/losses in income statement	-	(307)	(307)
Actuarial (gains)/losses in comprehensive income statement	111	-	111
Pension cost current employees	87	125	212
Benefits paid	(561)	(74)	(635)
At 31/12/2023	5,289	1,905	7,194

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

	31/12/2022	31/12/2021
Discount rate	3.16%	3.48%
Expected salary increases	2.15%	2.16%
Inflation rate	European Zero-Coupon Inflation-Indexed Swap curve at 29.12.2023	European Zero-Coupon Inflation-Indexed Swap curve at 30.12.2022
Average employee turnover rate	4.90%	4.64%

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, 2023 and December 31, 2022 (in Euro thousands).

	31/12/2023	31/12/2022	Change
Provisions for risks and charges	26,666	35,497	(8,831)
Total	26,666	35,497	(8,831)

The breakdown of the provisions for risks and charges at December 31, 2022 is presented below (Euro thousands):

	31/12/2023		
	Current portion	Non-current portion	Total
Provision for variable remuneration	6,161	1,767	7,929
Provisions for risks and legal charges	-	105	105
Other provisions for risks and charges	5,578	13,054	18,632
Total	11,739	14,926	26,666

These provisions include:

- provisions for variable remuneration for Euro 7,929 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 of Euro 18,632 thousand, mainly referring to extraordinary provisions, for risks related to the return-to-flight activities of Vega C, net of compensation expected from the European Space Agency, and for future programme execution amounting to Euro 15,830 thousand; these provisions include, among others, charges for the restoration of leased areas and royalties provided for by Law 808/85.

The movements in current and non-current provisions in 2023 are shown below (amounts in Euro thousands):

	31/12/2022	Provisions	Other changes	Utilisations	Releases	31/12/2023
Provision for variable remuneration	5,966	5,875	-	(3,912)	-	7,929
Provisions for risks and legal charges	105	-	-	-	-	105
Other provisions for risks and charges	29,427	11,330	-	(10,658)	(11,467)	18,632
Total	35,497	17,206	-	(14,570)	(11,467)	26,666

The main changes during the year were:

- the provisions for variable remuneration were utilised for Euro 3,912 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 5,875 thousand mainly relates to variable remuneration which will be paid in the first half of 2024, on the basis of the achievement of individual and company objectives for the year 2023.
- other provisions for risks and charges of Euro 18,632 thousand (Euro 29,427 thousand at December 31, 2022), include extraordinary charges for risks related to the return-to-flight activities of Vega C, net of compensation expected from the European Space Agency, and for future programme execution amounting to Euro 15,830 thousand (Euro 24,555 thousand at December 31, 2022). The utilizations refer to charges allocated in 2022 and used in the year against the related costs. Provisions and releases, with offsetting effect, reflect updates of estimates made in the previous year of the above extraordinary charges in relation to changes in the underlying rationales during the year. In this regard, see also the comments in the "Group operating performance and financial and equity position" section of the Directors' Report.

3.23. OTHER NON-CURRENT LIABILITIES

The table below presents the account at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Non-current liabilities	74,755	76,314	(1,560)
Total	74,755	76,314	(1,560)

The breakdown of the account at December 31, 2023 is shown in the table below (Euro thousands):

	31/12/2023	31/12/2022	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>			
Deferred income on disbursements pursuant to Law 808/85 - beyond one year	14,248	15,568	(1,320)
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	-
	16,051	17,371	(1,320)
Payables due to MiSE for other subsidies	392	511	(119)
Other payables and deferred income	92	212	(120)
Total	74,755	76,314	(1,560)

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.

Liabilities relating to Law 808/85

Deferred income on disbursements pursuant to Law 808/85 - beyond one year

The account, amounting to Euro 14,248 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 regarding the contribution received by Avio S.p.A. for 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 shall be 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 the LOX/LCH technology demonstrator development project for the third stage of the VEGA E launcher; this disbursement falls under the regulations of the July 3, 2015 decree.

The final disbursement under the plan reported in the Decree of February 19, 2018 is in 2029, with repayment therefore from the subsequent year (2030).

Both the grants receivable from the Ministry for Economic Development and the subsequent reimbursements payable to the Ministry have been accounted for at amortised cost.

The difference between the nominal and present values of the amount receivable and payable is recognised 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 392 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, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Current financial liabilities	38,907	66,260	(27,353)
Total	38,907	66,260	(27,353)

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

	31/12/2023	31/12/2022	Change
Financial payables subsidiary Se.Co.Sv.Im. S.r.l.	32,477	32,176	302
Financial payables subsidiary Spacelab S.p.A.	6,429	6,315	114
Financial payables Europropulsion S.A. joint control company	-	27,769	(27,769)
Total	38,907	66,260	(27,353)

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. These transactions are undertaken at the following market conditions:

- lending rate: Euribor 1 M 365 (determined, month by month, with reference to the last working day of the previous month) + 25 bps (should the ECB reference rates for deposits become negative during the reporting year, then the rate applied will be 0.000%);
- rate payable: Euribor 1 M 365 (determined, month by month, with reference to the last working day of the previous month) + 210 bps. If the Euribor rate is negative, it will be considered zero for the present purposes.

Payables to the jointly-controlled company Europropulsion S.A. 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%. At December 31, 2023, these financial liabilities had been settled in full.

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):

	31/12/2023	31/12/2022	Change
Current financial liabilities for leasing	10,036	8,906	1,131
Total	10,036	8,906	1,131

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

	31/12/2023	31/12/2022	Change
Current financial liabilities to subsidiary Se.Co.Sv.Im. as per IFRS 16	8,662	7,503	1,159
Current financial liabilities to the associate Termica Colleferro S.p.A. as per IFRS 16	135	152	(17)
Current financial liabilities to third parties as per IFRS 16	1,239	1,250	(11)
	10,036	8,906	1,131

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 Guiana;
- the lease of company cars.

3.26. CURRENT PORTION OF NON-CURRENT FINANCIAL PAYABLES

The table below illustrates this account at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Current portion of non-current financial payables	10,018	10,033	(15)
Total	10,018	10,033	(15)

The account, which amounted to Euro 10,018 thousand, consists of:

- the two instalments, each of Euro 4,000 thousand, relating to the loan of Euro 40,000 thousand, falling due on April 30, 2024 and October 31, 2024, respectively;
- the two instalments, each of Euro 1,000 thousand, relating to the loan of Euro 10,000 thousand, also falling due on April 30, 2024 and October 31, 2024, respectively;
- interest expense on the above financial liabilities accrued at December 31, 2023 for Euro 18 thousand.

3.27. TRADE PAYABLES

The table below illustrates trade payables at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Trade payables	132,204	115,396	16,808
Total	132,204	115,396	16,808

Details of payables to subsidiaries are shown below (in Euro thousands):

	31/12/2023	31/12/2022	Change
Regulus S.A.	21,557	26,036	(4,479)
Spacelab S.p.A.	530	2,097	(1,567)
Se.Co.Sv.Im. S.r.l.	1,500	878	622
Temis S.r.l.	203	371	(169)
Avio Guyane S.A.S.	2,163	2,847	(684)
Avio France S.A.S.	105	418	(313)
Total	26,058	32,647	(6,589)

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):

	31/12/2023	31/12/2022	Change
Termica Colleferro S.p.A.	1,547	2,967	(1,420)
Europropulsion S.A.	558	10,361	(9,803)
Potable Water Services Consortium	(29)	(24)	(5)
Servizi Colleferro S.C.p.A.	165	158	7
Total	2,241	13,462	(11,221)

3.28. CURRENT TAX PAYABLES

The table below presents current tax liabilities at December 31, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Current income tax payables	1,866	1,888	(22)
Total	1,866	1,888	(22)

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

	31/12/2023	31/12/2022	Change
IRES payables	256	454	(198)
Payables for withholding taxes	1,609	1,420	189
Other tax payables	-	14	(14)
Total	1,866	1,888	(22)

IRES payables from tax consolidation amount to Euro 256 thousand. The tax consolidation agreement relates to the years 2021-2022-2023. The companies participating in the tax consolidation are the Parent Avio S.p.A. and the Italian subsidiaries Spacelab S.p.A. and Se.Co.Sv.Im. S.r.l..

Payables for withholding taxes, amounting to Euro 1609 thousand, refer to employee and consultant withholding taxes. The liability is substantially in line with the previous year.

Other tax payables decreased to zero compared to the previous year due to the final instalments 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, 2023 and December 31, 2022 (Euro thousands).

	31/12/2023	31/12/2022	Change
Other current liabilities	19,015	16,345	2,670
Total	19,015	16,345	2,670

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

	31/12/2023	31/12/2022	Change
Employee payables	7,986	6,357	1,629
Payables due to social security institutions	3,073	2,973	100
Deferred income on disbursements pursuant to Law 808/85 - current portion	1,320	1,320	-
Other accrued liabilities and deferred income	4,466	4,294	172
Other payables to third parties	328	687	(359)
Payables to subsidiaries	1,843	714	1,129
Total	19,015	16,345	2,670

Employee payables

Employee payables amount to Euro 7,986 thousand and include remuneration to be settled, in addition to vacations and other rights matured and not utilised. The increase of Euro 1.629 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 3,073 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 1,320 thousand at December 31, 2022), concerns the deferral of the contribution, with regards to the portion expected to be accrued as income to the income statement within the next 12 months.

Accrued expenses and deferred income

This account, amounting to Euro 4,466 thousand (Euro 4,294 thousand at December 31, 2022), mainly refers to the deferment of commercial costs and grants to the following year.

Payables to subsidiaries

This account, amounting to Euro 1,843 thousand (Euro 714 thousand at December 31, 2022), relates to payables to Se.Co.Sv.Im. S.r.l. and to Temis S.r.l., mainly for the 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 339,813 thousand for the current year. They amounted to Euro 367,179 thousand in 2022.

	FY 2023	FY 2022	Change
Net sales	30,482	68,173	(37,691)
Revenues from services	1,021	846	175
	31,503	69,019	(37,516)
Changes in contract work in progress	308,310	298,159	10,151
Total	339,813	367,179	(27,365)

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 in 2023 contracts totalling Euro 30,333 thousand were completed, 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 1,335 thousand in 2023, while in 2022 totalled Euro 2,363 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 "2023 Significant Events" section of the Directors' Report, FY 2023 was impacted by the return-to-flight activities of Vega C with the implementation of the recommendations of the Independent Commission of Inquiry ("IEC") established by ESA following the anomaly during the VV22 flight in December 2022 that led to the premature termination of the mission and the subsequent anomaly during the Zefiro 40 engine test of Vega-C in June 2023.

As reported in the October 2, 2023 press release⁷⁷, ESA has stated that it considers the return-to-flight of Vega C a strategic priority to ensure Europe's independent access to space and will support the necessary efforts by drawing on resources already available; this support is through offsets against costs incurred.

The return-to-flight of the Vega C launcher, the first in the Vega family to be equipped with the new P120C engine, is now scheduled for Q4 2024. The maiden flight of Ariane 6, also equipped with the P120C engine, after several postponements is also scheduled as of today between June and July 2024. Thus, the market introduction of the two new launchers VEGA C and Ariane 6, which replace the Vega and Ariane 5 launchers, respectively, has been protracted and is still ongoing. This transition phase includes the contractual provision of ramp-down/ramp-up ESA contributions for industrial fixed cost absorption effects.

In addition, again as reported in the "2023 Significant Events" section of the Directors' Report, contract variants were acquired in FY 2023 to supplement previously agreed activities for the development of the new Vega E launcher and the Space Rider.

⁷⁷ See also the press release dated October 2, 2023 at the link: https://www.avio.com/sites/avio.com/files/attachments/CS_AVIO_IEB-VEGA_1.pdf.

In 2023, the Group recognised variable payments in these cases to the extent that they are highly likely to be recognised by customers and in accordance with IFRS 15.

The portion of these fees currently accounts for approx. 17% of revenues.

3.31. OTHER OPERATING REVENUES

The account in 2023 amounted to Euro 5,305 thousand, as follows:

	FY 2023	FY 2022	Change
Other income	2,434	33,742	(31,308)
Income from the release of provisions	5	1,643	(1,639)
Income for the portion recognised to the income statement of the disbursements as per Law 808/85	1,320	1,294	26
Other income and operating grants	1,529	334	1,195
Other prior year income	17	93	(76)
Total	5,305	37,105	(31,801)

This item consists of:

- other income of Euro 2,434 thousand, including an insurance reimbursement of Euro 525 thousand, and recharges to companies in the Colleferro industrial district of Euro 1,908 thousand.

In the comparative year, the item amounted to Euro 33,742 thousand and referred, for Euro 30,842 thousand, to the effect of the new regulations introduced in 2022 with respect to the funding of Law 808/85 and the consequent definition of royalties related to the P80 National Security Interest Research and Development Project.

- in terms of the release of provisions, the decrease of Euro 1,639 thousand compared to 2022 is due to the extraordinary profit of Euro 1,643 thousand recognised in 2022, following the cancellation of the 2020-22 and 2021-23 cycles of the 2020-24 Monetary Long Term Incentive Plan.
- income for the portion recognised to the income statement of the disbursements as per Law 808/85 for Euro 1,320 thousand (Euro 1,294 thousand in the comparative year);
- Operating grants amounted to Euro 1,529 thousand (Euro 334 thousand in the comparative year) and referred to projects such as "Development of Sustainable Italian Carbon-phenolics for Aerospace Engine Nozzles - CARISMA", "POR FESR 2014/2020 Tender IR² - Industrialisation of Research Results", "ENLIGHTEN - European iNitiative for Low cost, Innovative & Green High Thrust Engine", "SALTO" and "DISCO".

3.3.2. CONSUMPTION OF RAW MATERIALS

The account, amounting to Euro 110,443 thousand, relates to costs for raw material purchases and changes in inventories, as shown below.

	FY 2023	FY 2022	Change
Purchase of raw materials	147,430	133,849	13,581
Change in inventories of raw materials	(36,987)	(18,620)	(18,367)
Total	110,443	115,230	(4,786)

3.3.3. SERVICE COSTS

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

	FY 2023	FY 2022	Change
Service costs	148,929	206,786	(57,857)
Use of third party assets	2,849	1,378	1,471
Total	151,778	208,164	(56,386)

Service costs, amounting to Euro 148,629 thousand, include, in particular, costs for activities carried out by co-producers, for consulting and technical and professional services, for external works, for maintenance, for fixed-term work (temporary staff), as well as extraordinary provisions for risks related to Vega C return-to-flight activities, net of the compensation expected from the European Space Agency and for the future execution of programmes commented on in the "Group operating performance and financial and equity position" section of the Directors' Report.

This account includes the emoluments due to the corporate boards of the Company, concerning:

- directors' fees of Euro 519 thousand and specific committee fees of Euro 178 thousand;
- supervisory body fees of Euro 125 thousand;
- Board of Statutory Auditors' fees of Euro 126 thousand.

Service costs are shown net of the recognition of accrued tax receivables on certain types of costs amounting to Euro 1,394 thousand (Euro 2,033 thousand at December 31, 2022), 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 2023	FY 2022	Change
Wages and salaries	51,234	45,466	5,768
Social security charges	15,985	14,451	1,534
Provision for variable remuneration	7,330	4,041	3,289
Other long-term benefits - current employees	58	69	(11)
Actuarial (gains)/losses recorded in P&L relating to other long-term benefits	(307)	-	(307)
Provision for "Other defined benefit plans"	3,783	3,270	513
Total	78,083	67,297	10,786

3.35. AMORTISATION & DEPRECIATION

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

	FY 2023	FY 2022	Change
Intangible assets with definite life	8,218	9,934	(1,716)
Right-of-use	6,477	6,343	134
Property, plant and equipment	3,070	5,106	(2,036)
Total	17,766	21,384	(3,618)

With regard to amortisation of intangible assets with definite life, a comparison with the previous year follows (Euro thousands):

	FY 2023	FY 2022	Change
Development costs	3,323	4,421	(1,099)
Assets from purchase price allocation	2,986	2,986	-
Concessions, licenses, trademarks and similar rights	1,123	2,164	(1,041)
Other intangible assets	787	363	424
Total	8,218	9,934	(1,716)

The decrease in the amortisation of the development costs, of Euro 1,099 thousand, substantially derives from the fact that all development costs for the P80 motor were fully amortised in 2022.

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 2022).

The reduction in amortization of the item "Concessions, licenses, trademarks and similar rights" reflects the review of the useful life of some software licenses in view of the development of research and development and production programs.

A comparative statement of the depreciation of property, plant and equipment is presented below (in Euro thousands):

	FY 2023	FY 2022	Change
Buildings	853	1,258	(405)
Plant & machinery	1,115	2,954	(1,839)
Industrial & commercial equipment	151	118	33
Other assets	952	776	175
	3,070	5,106	(2,036)

The phase-out of the Ariane 5 launcher and the phase-in of the new Ariane 6 launcher, as well as the phase-out of the Vega launcher and the phase-in of the new Vega-C launcher, resulted in the revision of the useful life of some buildings, plant and equipment with consequent reduction in the depreciation of the account "Buildings" and "Plant and equipment". See also in this regard what is stated in section "2.7. Accounting standards and basis of preparation".

In addition, the statement comparing the depreciation of the right-of-use compared to the previous year is presented below (in Euro thousands):

	FY 2023	FY 2022	Change
Land right-of-use	143	143	-
Buildings right-of-use	5,240	5,090	151
Right-of-use rights related to plant and machinery	173	173	-
Other assets right-of-use	921	938	(17)
	6,477	6,343	134

The net increase in this item of Euro 134 thousand is mainly related to the depreciation of the right-of-use related to the Group's new headquarters in Colleferro, which started on July 1, 2023.

3.36. OTHER OPERATING COSTS

This account amounts to Euro 3,514 thousand (Euro 5,552 thousand in 2022) and mainly comprises the following items:

- indirect taxes of Euro 668 thousand (Euro 405 thousand in 2022);
- prior year charges of Euro 68 thousand (Euro 102 thousand in 2022);
- other extraordinary charges of Euro 2,002 thousand (Euro 3,247 thousand in 2022).

3.37. COSTS CAPITALISED FOR INTERNAL WORKS

The account relating to costs capitalised for internally constructed assets, amounting to Euro 8,132 thousand (Euro 7,402 thousand in 2022), 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 7,705 thousand (Euro 6,801 thousand in 2022);
- costs for the internal production of tangible fixed assets for Euro 427 thousand (Euro 601 thousand in 2022).

3.38. FINANCIAL INCOME

The breakdown of financial income of Euro 2,512 thousand (Euro 776 thousand in 2022) is presented below:

	FY 2023	FY 2022	Change
Bank interest income	1,794	5	1,789
Interest income on VAT refunds	5	40	(35)
Financial income from amortised cost	-	13	(13)
Interest from subsidiaries	110	30	80
	1,909	88	1,821
Realised exchange gains	549	630	(81)
Unrealised exchange gains	54	59	(5)
	602	689	(87)
Total	2,512	776	1,735

Financial income consists mainly of interest income on current accounts, which were also subject restricted during the year to benefit from the higher rates recognised.

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 2,581 thousand (Euro 1,775 thousand in 2022) is presented below:

	31/12/2023	31/12/2022	Change
Interest on EIB loans	161	251	(91)
Interest expense to subsidiaries non-leasing	33	41	(8)
Interest on other payables	1	606	(605)
Interest expense on treasury accounts with subsidiaries	1,229	8	1,221
Discounting on employee benefits	206	(33)	239
Financial charges from amortised cost to subsidiaries	274	270	4
Financial charges from amortised cost to associates	309	33	276
Financial charges from amortised cost to third parties	-	-	-
	2,213	1,176	1,037
Realised exchange losses	307	569	(262)
Unrealised exchange losses	62	31	31
	368	600	(232)
Total	2,581	1,775	805

The increase in financial charges of Euro 805 thousand is mainly due to the recognition of higher interest on the centralised treasury accounts with the subsidiaries Se.Co.Sv.Im. and Spacelab as a result of the increase in market rates.

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 3,000 thousand related to dividends received from the jointly-controlled company Europropulsion S.A.. In the year 2022, income of Euro 2,400 thousand was however received, also relating to this company.

3.41. INCOME TAXES

"Income taxes" was net tax income of Euro 548 thousand (income of Euro 1,786 thousand in 2022), entirely concerning the IRES tax consolidation.

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

	FY 2023	FY 2022
Profit before taxes	5,161	(3,681)
Ordinary rate applied	24.00%	24.00%
Theoretical tax charge	1,239	(883)
Effect of increases (decreases) to the ordinary rate:		
Permanent increases	6,969	5,205
Permanent decreases	(6,303)	(8,070)
Temporary difference increases	21,394	43,169
Temporary difference decreases	(42,514)	(20,947)
Total changes	(20,454)	19,358
Utilisation prior year tax losses		-12,541
(Tax loss)/Assessable income	(15,294)	3,135
Theoretical IRES taxation		752
Net deferred tax (income)/charge		(2,097)
Taxes from previous years and consolidation	(548)	(441)
	(548)	(1,786)

3.42. EARNINGS/(LOSS) PER SHARE

An explanatory statement is reported below (in Euro):

	FY 2023	FY 2022
Net Profit	5,708,107	(1,894,795)
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	0.23	(0.07)
Diluted earnings per Share (in Euro) ⁽¹⁾	0.22	(0.07)

⁽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):

	31/12/2023	31/12/2022
Guarantees given:		
Unsecured guarantees:		
Sureties issued to third parties on behalf of Avio	41,571	61,416
Other guarantees	3,402	3,402
Total guarantees given	44,973	64,818
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.

Sureties and guarantees received

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

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, 2023, 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	4,749		4,749	
- Non-current financial assets	2,010	2,010		
- Other non-current assets	63,751	63,751		
- Trade receivables	3,546	3,546		
- Other current assets	8,068	8,068		
- Cash and cash equivalents	87,872	87,872		
- Current financial assets	1,977	1,977		
	169,995	165,246	4,749	0
FINANCIAL LIABILITIES				
- Non-Current financial liabilities	2,000			2,000
- Non-current financial payables for leasing	19,734			19,734
- Current financial liabilities	38,907			38,907
- Current lease liabilities	10,036			10,036
- Current portion of non-current financial payables	10,018			10,018
- Other non-current liabilities	74,755			74,755
- Other current liabilities	19,015			19,015
- Trade payables	132,204			132,204
	306,669	0	0	306,669

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, 2023.

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 2023.

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	1,972	-	-
Derivative financial instruments	-	-	-
Total categories	1972	-	-

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 customers 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, 2023 essentially concerned the overall carrying amount of trade receivables, whose value at this date amounted to Euro 3,546 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, 2023 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, 2023 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 12 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, 2023												
Counterparty	Right-of-use assets	Other non-current assets	Inventories and advances to suppliers	Trade receivables	Other current assets	Work in progress to order	Non-current financial assets	Trade payables	Other current liabilities	Advances for contract work in progress	Financial liabilities	
Leonardo S.p.A.			900					2,263	125			
MBDA Italia S.p.A.						4,549				8,560		
MBDA France S.A.				135		11,159				47,521		
Thales Alenia Space Italia S.p.A.						0		350		120		
Vitrociset S.p.A.						0				0		
Companies with a connecting relationship and relative investee companies	0	0	900	135	0	15,708	0	2,613	125	56,202	0	
Spacelab S.p.A.				115	1,599			530			6,429	
Regulus S.A.				453				21,557		561		
SE.CO.SV.IM. S.r.l.	22,216	150		177	368			1,500	83		56,686	
Temis S.r.l.			137					203	260			
Avio USA Inc.				1,167								
Avio Guyane S.A.S.				150			1,977	2,163				
Avio France S.A.S.								105				
Subsidiaries	22,216	150	137	2,063	1,967	0	1,977	26,058	343	561	63,115	
Termica Colleferro S.p.A.	839		1,900	283			2,010	1,547			833	
Europropulsion S.A.			63,696	89		854		558		22,935		
Potable Water Services Consortium				40	31			(29)				
Servizi Colleferro - Consortium Limited Liability Company				48				165				
Associates and jointly controlled companies	839	0	65,596	459	31	854	2,010	2,241	0	22,935	833	
Total related parties	23,055	150	66,632	2,658	1,998	16,562	3,987	30,913	468	79,698	63,948	
Total book value	28,966	63,751	279,423	3,546	8,068	122,822	3,987	132,204	19,015	452,830	80,695	
% on total account items	79.59%	0.24%	23.85%	74.96%	24.77%	13.48%	100.00%	23.38%	2.46%	17.60%	79.25%	

In 2023, the main income statement transactions by the Company with related parties were as follows (in Euro thousands):

Counterparty	At December 31, 2023					
	Operating Revenues and changes in contract work-in-progress ⁽¹⁾	Other operating income	Other Costs ⁽²⁾	Financial Income	Other investment income/(charges)	Financial Charges
Leonardo S.p.A.			2,388			
MBDA Italia S.p.A.	4,845					
MBDA France S.A.	40,412					
Thales Alenia Space Italia S.p.A.	42		350			
Vitrociset S.p.A.	0					
Companies with a connecting relationship and relative investee companies	45,299	0	2,738	0	0	0
Spacelab S.p.A.		68	1,808			153
Regulus S.A.	36	38	15,755			
SE.CO.SV.IM. S.r.l.		345	267			1,350
Temis S.r.l.			2,506			
Avio USA Inc.			(79)			
Avio Guyane S.A.S.		70	5,241	110		
Avio France S.A.S.		70	980			
Subsidiaries	36	591	26,477	110	0	1,503
Termica Colleferro S.p.A.		61	10,810			11
Europropulsion S.A.	60,740	299	21,974		3,000	297
Potable Water Services Consortium		27	299			
Servizi Colleferro - Consortium Limited Liability Company		27	840			
Associates and jointly controlled companies	60,740	414	33,924	0	3,000	309
Total related parties	106,075	1,005	63,139	110	3,000	1,811
Total book value	339,813	5,305	340,304	2,512	3,000	2,581
% on total account items	31.22%	18.94%	18.55%	4.36%	100.00%	70.19%

⁽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 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 2023 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	Payment
Audit Services	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	280
Other services ⁽¹⁾	Parent Company - Avio S.p.A.	Deloitte & Touche S.p.A.	34
Total	Total		314

(1) The amount refers to the limited audit of the Avio Group's 2021 Annual Non-Financial Statement for Euro 34 thousand.

10. SUBSEQUENT EVENTS

Business

Return to flight of VEGA C

In early 2024, fabrication of components for the qualification of Vega-C's Z40 motor with the new nozzle design began in accordance with the recommendations of the Commission of Inquiry (IEB). Qualifying trials of the new Zefiro 40 will take place in the coming months.

In parallel, the finalisation of the production of components for the return to flight to date expected in Q4 2024 is underway⁷⁸.

Inaugural launch of Ariane 6

Components for the first launch of the Ariane 6 launcher have been shipped to French Guyana. The Maiden Flight is now scheduled for mid-2024⁷⁹.

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

In inviting you to approve the 2023 Annual Accounts of Avio S.p.A., drawn up as per IFRS and reporting a net profit of Euro 5,708 thousand, we propose the allocation of this result to dividend for [Euro 3,750 thousand], in line with the Company's dividend policy, in addition to an extraordinary dividend of [Euro 2,250 thousand] from available equity reserves.

• • •

March 13, 2024

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

⁷⁸ See also the 2023 results presentation shared with analysts and investors and posted at the link: https://avio-data.teleborsa.it/2024%2f2024_03_13-Avio-FY-2023-results_vDef_20240313_051536.pdf.

⁷⁹ Source ESA: https://www.esa.int/Enabling_Support/Space_Transportation/Ariane/Ariane_6_joint_update_report_22_February_2024.

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, 2024

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 the Shareholders of
Avio S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Avio S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at December 31, 2023, 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 explanatory notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2023, 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 group (the "Group") 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.

Measurement of contract work in progress

Description of the key audit matter The consolidated financial statements for the year ended December 31, 2023 include assets related to the execution of contract work in progress of € 123,5 million (€ 426,2 million at December 31, 2022), liabilities for the related advances of € 452,8 million (€ 667,4 million at December 31, 2022), other provisions for risks and charges of € 15,8 million at December 31, 2023 (€ 24,6 million at December 31, 2022) and revenues of € 343,7 million at December 2023 (€ 371,4 million at December 31, 2022).

Contracts work in progress are attributable to development and production activities in the space sector, whose revenues and related margins are recognized in the comprehensive income statement according to the progress of the contracts using the percentage-of-completion method determined on the basis of costs incurred over total estimated costs for the entire work. Revenues, in addition to the consideration set forth in the contract, may also include additional payments such as, but not limited to, additional payments for additional activities incurred and/or to be incurred for change to works or events not foreseeable at the date of signature of the original contract, or for additional costs incurred and/or to be incurred that are not foreseeable by the parties at the date of signature of the original contract.

The Group in the caption other provisions for risk and charges has also estimated the contracts expected losses. These include, in particular, the project related to the failure of the Vega-C mission (VV22) occurred by 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 Commissions of Inquiry (IEC and IEB) on the related causes and recommendations for the return to flight.

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

In view of the significance of contract work in progress with respect to the Group overall business profile and the complexity of the assumptions used for forecasting the costs to complete the related contracts, we consider that this topic represents a key audit matter of the Financial Statements as of December 31, 2023.

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 "Basis of preparation and accounting standards", note 2.9 "Use of estimates", note 3.11 "Contract work-in-progress", note 3.24 "Provision for risk and charges" and note 3.32 "Revenues".

Audit procedures performed

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

- understanding of the accounting approach adopted by the Group for the valuation of the contract work in progress and the revenue recognition criteria (both related to the contractual payments and additional payments) and related margins;
- understanding of the implementation of the relevant controls put in place by the management on the process of evaluation of the contracts work in progress;
- analysis, on a sample basis, of the new contracts signed, clauses of contractual amendment and evidence related to variable considerations, if any;
- reconciliation of costs resulting from the management accounts to the general ledger and sample basis analysis thereon as of December 31, 2023;
- analysis of the significant assumptions related to the estimate of costs of completion, including foreseeable contractual risks, as well as subsequent events beyond the end of the financial year;
- analysis of contract reports and interviews with project managers with particular reference to a sample of contractual variations incurred during the period and impact on costs of completion, including any foreseeable losses;
- examination of the accuracy of the calculation of the percentage of completion and of the revenue recognition;
- comparative analysis of the main changes in contracts net results with respect to the previous year;
- examination of projects with negative margin as of 31 December 2023 and understanding of the accounting approach adopted by the Group regarding the accruals in the caption other provisions for risks and charges;
- acquisition and examination of the analyses carried out by the Group on the impacts arising from the project related to the *failure* of the VV22 mission and of the relevant documentation for the estimation of the provision for risks and charges thereon;
- review of the disclosure provided by the Group and its compliance with the relevant accounting principles.

Recoverability of goodwill

Description of the key audit matter The consolidated financial statements for the year ended 31 December 2023 record a goodwill accounted for the allocation of the 2017 purchase price allocation of Space2 S.p.A., amounting to Euro 61 million and the goodwill accounted following the allocation of the 2022 purchase of Temis S.r.l., amounting to Euro1,8 million. This goodwill is allocated to the only CGU of the Group corresponding to the Space sector ("CGU Space").

The recoverability of goodwill is tested at least once a year, even in the absence of impairment indicators based on IAS 36 "Impairment of assets". The recoverability of the values is measured by comparing the Space 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 2024-2028 plan, approved by the Board of Directors on March 13, 2024, 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:

- i) the current international macroeconomic environment;
- ii) the possible economic and financial effects on the levels of expenditure allocated by national governments and international institutions to the access to the space;
- iii) the potential future developments of the European governance of launchers referred to in the determinations of the ESA Council of 6 November 2023.

Taking into account the subjectivity of the estimates relating to the cash flows considered and the key assumptions of the impairment test model, we considered goodwill recoverability to be a key aspect of financial statements audit as of December 31, 2023.

The explanatory notes to the financial statements describe the management evaluation process, in particular in the notes 2.9 "Use of estimates" and 3.5 "Goodwill" where the significant assumptions and information related to the impairment test are reported.

Audit procedures performed

As part of our audit, we have, among others, 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 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 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, by obtaining information from the management and analysing the relevant sources;
- analysis of the report prepared by the independent expert appointed by the management, also with the support of our experts of the Network also evaluating their skills, capacity and objectivity;
- 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, actions taken to eliminate threats or safeguards applied.

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

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

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

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit. We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion on the compliance with the provisions of the Delegated Regulation (EU) 2019/815

The Directors of Avio S.p.A. are responsible for the application of the provisions of the European Commission Delegated Regulation (EU) 2019/815 with regard to the regulatory technical standards on the specification of the single electronic reporting format (ESEF – European Single Electronic Format) (hereinafter referred to as the “Delegated Regulation”) to the consolidated financial statements as at December 31, 2023, 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 as at December 31, 2023 have been prepared in XHTML format and have been marked up, in all material respects, in accordance with the provisions of the Delegated Regulation.

Due to certain technical limitations, some information contained in the explanatory-notes to the consolidated financial statements, when extracted from XHTML format in an XBRL instance, 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, 2023, 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 Avio Group as at December 31, 2023 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, 2023 and are prepared in accordance with the law.

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

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

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

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

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

DELOITTE & TOUCHE S.p.A.

Signed by
Francesco Legrottaglie
Partner

Rome, March 29, 2024

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 have audited the financial statements of Avio S.p.A. (the "Company"), which comprise the balance sheet as at December 31, 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and explanatory notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

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

Measurement of contract work in progress

Description of the key audit matter

The financial statements for the year ended December 31, 2023 include assets related to the execution of contract work in progress of € 122,8 million (€ 425,5 million at December 31, 2022), liabilities for the related advances of € 452,8 million (€ 667,4 million at December 31, 2022), other provisions for risks and charges of € 15,8 million at December 31, 2023 (€ 24,6 million at December 31, 2022) and revenues of € 339,8 million at December 31, 2023 (€ 367,2 million at December 31, 2022).

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

Revenues, in addition to the consideration set forth in the contract, may also include additional payments such as, but not limited to, additional payments for additional activities incurred and/or to be incurred for change to works or events not foreseeable at the date of signature of the original contract, or for additional costs incurred and/or to be incurred that are not foreseeable by the parties at the date of signature of the original contract.

The Company in the caption other provisions for risks and charges has also estimated the contracts expected losses. These include, in particular, the project related to the failure of the Vega-C mission (VV22) occurred by 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 Commissions of Inquiry (IEC and IEB) on the related causes and recommendations for the return to flight.

The evaluation method of those contracts work in progress and the revenue recognition are based on complex assumptions which by nature involve the use of management judgment, in particular with reference to the forecast of costs of completion, 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, we consider that this topic represents a key audit matter of the Financial Statements as of December 31, 2023.

The information on the financial statements relating to this matter is provided in the explanatory notes to the financial statements and in particular in note 2.7 "Basis of preparation and accounting standards", note 2.9 "Use of estimates", note 3.10 "Contract work-in-progress", note 3.22 "Provision for risk and charges" and note 3.30 "Revenues".

Audit procedures performed

As part of our audit, we have, among others, 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 (both related to the contractual payments and additional payments) and related margins;
- understanding of the implementation of the relevant controls put in place by the management on the process of evaluation of the contracts work in progress;
- analysis, on a sample basis, of the new contracts signed, clauses of contractual amendment and evidence related to variable considerations, if any;
- reconciliation of costs resulting from the management accounts to the general ledger and sample basis analysis thereon as of December 31, 2023;
- analysis of the significant assumptions related to the estimate of costs of completion, including foreseeable contractual risks, as well as subsequent events beyond the end of the financial year;
- analysis of contract reports and interviews with project managers with particular reference to a sample of contractual variations incurred during the period and impact on costs of completion, including any foreseeable losses;
- examination of the accuracy of the calculation of the percentage of completion and of the revenue recognition;
- comparative analysis of the main changes in contracts net results with respect to the previous year;
- examination of projects with negative margin as of 31 December 2023 and understanding of the accounting approach adopted by Avio S.p.A. regarding the accruals in the caption other provisions for risks and charges;
- acquisition and examination of the analyzes carried out by the Company on the impacts arising from the project related to the *failure* of the VV22 mission and of the relevant documentation for the estimation of the provision for risks and charges thereon;
- review of the disclosure provided by the Company and its compliance with the relevant accounting principles.

Recoverability of goodwill

Description of the key audit matter

The financial statements for the year ended 31 December 2023, record a goodwill accounted for 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").

The recoverability of goodwill is tested at least once a year, even in the absence of impairment indicators based on IAS 36 "Impairment of assets". The recoverability of the values is measured by comparing the Space 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 2024-2028 plan, approved by the Board of Directors on March 13, 2024, 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:

- i) the current international macroeconomic environment;
- ii) the possible economic and financial effects on the levels of expenditure allocated by national governments and international institutions to the access to the space;
- iii) the potential future developments of the European governance of launchers referred to in the determinations of the ESA Council of 6 November 2023.

Taking into account the subjectivity of the estimates relating to the cash flows considered and the key assumptions of the impairment test model, we considered goodwill recoverability to be a key aspect of financial statements audit as of December 31, 2023.

The explanatory notes to the financial statements describe the management evaluation process, in particular in the notes 2.9 "Use of estimates" and "3.4 Goodwill" where the significant assumptions and information related to the impairment test are reported.

Audit procedures performed

As part of our audit, we have, among others, 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 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, by obtaining information from the management and analyzing the relevant sources;
- analysis of the report prepared by the independent expert appointed by the management, also with the support of our experts of the Network also evaluating the skills, capacity and objectivity;
- 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 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, actions taken to eliminate threats or safeguards applied.

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion on the compliance with the provisions of the Delegated Regulation (EU) 2019/815

The Directors of Avio S.p.A. are responsible for the application of the provisions of the European Commission Delegated Regulation (EU) 2019/815 with regard to the regulatory technical standards on the specification of the single electronic reporting format (ESEF – European Single Electronic Format) (hereinafter referred to as the “Delegated Regulation”) to the financial statements as at December 31, 2023 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 as at December 31, 2023 have been prepared in XHTML format in accordance with the provisions of the Delegated Regulation.

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

The Directors of Avio S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Avio S.p.A. as at December 31, 2023, including their consistency with the related financial statements and 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, 2023 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 of December 31, 2023 and are prepared in accordance with the law.

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

DELOITTE & TOUCHE S.p.A.

Signed by
Francesco Legrottaglie
Partner

Rome, March 29, 2024

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 OF JANUARY 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, paragraph 1, letter g) 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, 2023 prepared on the basis of art. 4 of the Decree, and approved by the Board of Directors on March 13, 2024 (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* (hereinafter "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 *International 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. During the year covered by this assurance engagement, our auditing firm applied *International Standard on Quality Control 1 (ISQC Italia 1)* and, accordingly, maintained 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);

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 parent company's and subsidiaries' 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 companies and sites, Colleferro site for Avio S.p.A., complex and site for SE.CO.SV.IM. S.r.l., Temis S.r.l. site, 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, 2023 is not prepared, in all material respects, in accordance with articles 3 and 4 of the Decree and the GRI Standards.

Deloitte.

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Our conclusion on the NFS of the Avio Group 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, Italy
March 29, 2024

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

REPORT OF THE BOARD OF STATUTORY AUDITORS
TO THE SHAREHOLDERS' MEETING OF AVIO S.p.A.

in accordance with Article 153 of Legs. 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, 2023, in compliance with the applicable regulation, taking account also of the conduct rules for the Board of Statutory Auditors of listed companies recommended 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, 2010, as amended by Legislative Decree No. 135 of July 17, 2016.

The current Board of Statutory Auditors was appointed on May 6, 2020 and reconfirmed, in its same composition, on April 28, 2023 by the Shareholders' Meeting of Avio. Its term of office concludes with the approval of the financial statements at December 31, 2025.

The audit of the financial statements as per the above-stated Legislative Decree No. 39 of January 27, 2010, as amended by Legislative Decree No. 135 of July 17, 2016, is undertaken by the independent audit firm Deloitte & Touche S.p.A. (hereinafter also "the Auditor"), appointed by the Shareholders' Meeting of June 15, 2017 for nine financial years (2017-2025).

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.

During FY 2023, the Board of Statutory Auditors performed its duties by holding nineteen meetings, attended fourteen meetings of the Board of Directors, twelve meetings of the Control and Risks Committee, eight meetings of the Appointments and Remuneration Committee, and five meetings of the Sustainability Committee.

During the year, the Board of Statutory Auditors also met the Supervisory Board as per Legs. Decree No. 231 of 2001 to reciprocally exchange information.

As part of its participation in the meetings of corporate boards, and in general as part of its activities, the Board of Statutory Auditors monitored compliance with the law and By-Laws.

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.

From the information received from the Boards of Statutory Auditors of the main subsidiaries, including through the acquisition of special questionnaires filled out and signed by the control bodies, no critical profiles emerged.

In addition, the transactions potentially presenting a conflict of interests were approved in compliance with law, the regulatory provisions and the By-Laws.

The Board of Statutory Auditors during the year supervised on the manner in which the corporate governance rules set out by the Corporate Governance Code were effectively applied. Among others, it verified the progressive implementation of the recommendations of the Corporate Governance Committee of January 25, 2023.

The main events in the year, which the Board of Statutory Auditors highlight in view of their significance, were as follows:

- the Independent Commission of Inquiry set up by the ESA to examine the anomaly that occurred during Vega-C's Zefiro 40 motor test in June 2023 completed its work in early October 2023;
- the Commission concluded that, in the current nozzle design, the combination of the geometry of the throat insert and the different thermomechanical properties of the new Carbon-Carbon material used for this test caused progressive damage to other parts adjacent to the nozzle and progressive degradation leading to the nozzle failure;
- this phenomenon is not related to those observed on the VV22 mission with the other Carbon-Carbon material, previously utilised;
- a task force led by the ESA and AVIO has begun the required activities to implement the Commission's proposed recommendations including modifying the nozzle design to make it more robust and particularly suitable to accommodate the French-sourced throat material;
- this effort led to the successful completion in December 2023 of the Critical Design Review of the new project and to the fabrication of the nozzles that will be bench tested during 2024;
- return to flight is expected in the fourth quarter of 2024;
- on October 9, 2023, the Vega launcher resumed flights by taking off from the French Guyana Space Center and successfully completed the V23 mission, placing two satellites plus ten auxiliary payloads into sun-synchronous orbit;

- during the summer, the second test campaign of the M10 methane motor (DM2) designed to equip the third stage of the Vega E launcher was successfully completed;
- in November 2023, the qualification phase of the new ASTER 30 Booster MLU was successfully completed;
- achieving the milestone allows the MLU Booster to move from the development phase to the production phase, replacing the current configuration;
- existing production contracts provide for continued production until 2032 with more than 1,200 motors to be produced;
- Avio has begun exploring the U.S. market for medium-term expansion opportunities, which, so far, has resulted in:
 - the establishment of Avio USA, a wholly-owned subsidiary of Avio;
 - the selection of a U.S. team with relevant industry expertise and experience;
 - the launch by Avio USA's team of the mapping of the market;
 - the allocation to Avio USA of USD 3 million in start-up capital;
 - on September 4, 2023 a capital increase of Euro 2,5 million was completed in T4i S.p.A., a spin-off company of the University of Padua based in Monselice (PD), specialising in innovative propulsion systems for aerospace applications; the capital increase resulted in the attainment of an approx. 17% stake in T4i by Avio.

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 financial disclosure, the Board of Statutory Auditors highlights that, in the Annual Financial Report, approved by the Board of Directors on March 13, 2024, "Main risks and uncertainties to which the Group is exposed - Risks relating to the war in Ukraine", Avio, among other matters, highlights that:

- due to the skills and know-how developed as well as the qualification processes that have certified their compliance with the specific requirements, the Group's strategic suppliers which are difficult to replace or, in any case, whose replacement could require a lengthy period of time and significant costs, still include two Ukrainian suppliers who currently supply the main engine for the fourth stage of the Vega and Vega-C launchers (the "MEA engine");
- currently, also in view of the recommendations of the commission of inquiry following the VV22 flight anomaly, procurement of carbon-carbon inserts from Ukrainian suppliers has been ruled out by ESA;

- against this backdrop, and again with the goal of strengthening business continuity in the medium to long term, as outlined in the half-year financial report, at the end of 2023 the contract was finalised with the two aforementioned Ukrainian suppliers of the fourth stage main engine for the Vega and Vega-C launchers. Delivery is expected in the medium term (2025-2027);
- 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;
- based on the above, the risks from impacts from dependence on such Ukrainian strategic suppliers are qualified as possible;
- 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, an alternate solution has been identified that is currently being tested (contract signed with the ASI in April 2023);
- currently, there is no direct procurement from Russian suppliers.

In the Annual Financial Report, among the Subsequent events, the company points out that:

- in early 2024, fabrication of Vega-C's Z40 motor with the new nozzle design began in accordance with the recommendations of the Commission of Inquiry (IEB);
- qualifying trials of the new Zefiro 40 will take place in the coming months;
- in parallel, the finalisation of the production of components for the return to flight to date expected in Q4 2024 is underway;
- components for the first launch of the Ariane 6 launcher have been shipped to French Guyana;
- the Maiden Flight of the Ariane 6 launcher is now scheduled for mid-2024.

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.

During the year, the company introduced various provisions to implement measures introduced by Regulations, the Oversight Authorities, in addition to the Corporate Governance Code.

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.

The Board of Statutory Auditors acquired knowledge of and supervised, to the extent of its remit, the adequacy of the Company's organisational structure through information acquired from the Board of Directors, the Chief Executive Officer, and the heads of corporate functions, as well as in meetings with the Boards of Statutory Auditors of subsidiaries.

As part of its supervisory activities, the Board of Statutory Auditors then reviewed and obtained information on the organisational and procedural activities put in place pursuant to Legislative Decree No. 231/2001 for the prevention of the offenses set forth therein; these latter activities are illustrated in the Corporate Governance and Ownership Structure Report, to which reference should be made.

Based on this information, it is the opinion of the Board of Statutory Auditors that the organisational structure of the Company, the procedures put in place, in addition to the set of expertise and responsibilities, can be considered on the whole adequate in relation to the size of the company and the type of business conducted.

1.3 Oversight of the internal control and risk management system

The Board of Statutory Auditors monitored the adequacy of the internal control and risk management systems through:

- regular participation at the Control and Risks Committee, the Appointments and Remuneration Committee and the Sustainability Committee of the Company;
- the periodic meetings, also attending the meetings of the Control and Risks Committee and of the Sustainability Committee undertaking the Internal Audit function and the Legal and Compliance function to assess the work planning methods, based on the identification and assessment of the main process and organisational unit risks;
- the 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;
- the meetings with the Executive Responsible for Financial Reporting;
- the discussion of the work performed by the independent audit firm Deloitte & Touche S.p.A.;
- the meetings with the Supervisory Board 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;
- discussion with the Company's Chief Executive Officer on the adequacy of Avio's administrative and accounting structure, aimed at understanding the risks, including prospective risks, to be faced;
- the acknowledgement of the assessment, expressed by the Board of Statutory Auditors, of the adequacy of the organisational, administrative and accounting structure of Avio and of the strategically significant subsidiaries.

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.

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.

Finally, the Board of Statutory Auditors has acquired information upon the adequacy of the organisational, administrative and accounting structure of the Company and its subsidiaries - taking into account the characteristics and size of the company - including for the purposes of the provisions of the Crisis and Insolvency Code, with particular regard to the tools adopted for tracking and managing risks.

On the basis of the activities carried out, the information acquired and the Internal Audit function's report, as well as the positive assessments expressed by the Board of Directors, 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 supervised the administrative and accounting system's suitability and its appropriateness in correctly representing accounting data and activities performed under the coordination of the Executive Officer, for the purposes of the requirements referred to in Law 262/05 "Provisions for the protection of savings and the regulation of financial markets" and subsequent amendments and additions.

The Board of Statutory Auditors periodically met the Executive responsible for the preparation of the corporate accounting documents to exchange information on the administrative-accounting system, while also considering the reliability of this latter to correctly present operating events.

The Board of Statutory Auditors also reviewed the declaration of the Chief Executive Officer and the Executive Officer for Financial Reporting, prepared on March 13, 2024, 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 Directors on March 8, 2024 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, 2024 approved the results of applying the same procedure, also with the support of an independent advisor, to the relative items of the 2023 financial statements.

The Board supervised (i) on the adoption of the procedure and, subsequently (ii) on the outcome of the checks made by management, with the support of an independent advisor, which confirms the recoverability of the assets subject to the impairment test.

The Board of Statutory Auditors did not highlight any deficiencies which may affect the opinion of adequacy and effective application of the administrative-accounting procedures.

The Board of Statutory Auditors met periodically, for the legally required exchanges of information, with the heads of the independent audit firm Deloitte & Touche S.p.A., receiving updates on the audit activities and the results of the audits conducted. These meetings did not reveal any critical issues or anomalies regarding the correct maintenance of the company's accounts, as well as the correct recording of operating events in the accounting records.

The Board of Statutory Auditors monitored compliance with the procedural rules within the financial disclosure process related to the separate financial statements and the consolidated financial statements.

1.5 Oversight on related party transactions

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, contributing also to the adoption of amendments to the Policy, in support of aligning the latter with best practices.

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.

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 S.p.A., 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 activities, the Board of Statutory Auditors periodically met with the independent audit firm to review the results from the auditing of the proper maintenance of accounting records, to review the Avio and Group 2023 Audit Plan and for the state of advancement of the Audit Plan.

In particular, the Board of Statutory Auditors:

- i. noted an appropriate level of professional scepticism;
- ii. promoted effective and timely communication with the Auditors.

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, 2023, 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, 2024 and simultaneously made available to the Board of Statutory Auditors in view of the Shareholders' Meeting called for April 23, 2024.

On the same date of March 13, 2024, 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 profit of Euro 5,708 thousand.

The Directors' Report highlights that:

- EBIT was Euro 5,228 thousand, increasing Euro 2,985 thousand on 2022;
- this increase is also attributable to the lower depreciation and amortisation, of Euro 1,839 thousand, relating to Plant and machinery, compared with that of the previous year, due to the revised useful life of some production assets in correlation with the phase-out of the

Ariane 5 launcher and the phase-in of the new Ariane 6 launcher, as well as the phase-out of the Vega launcher and the phase-in of the new Vega-C launcher;

- revenues include, pursuant to IFRS 15, with an incidence of approximately 17%, variable fees to the extent in which it is probable that these can be recognized by the clients.

The Directors' Report, through the reconciliation of EBIT, Adjusted EBIT and Adjusted EBITDA, highlights that the Adjusted EBIT and Adjusted EBITDA included non-recurring costs of Euro 7.5 million, mainly comprising:

- settlement agreements/incentives/other personnel costs of Euro 926 thousand;
- corporate, legal and financial consultancy of Euro 2,166 thousand;
- extraordinary COVID-19 charges of Euro 312 thousand;
- 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) of Euro 1,863 thousand;
- additional Vega C costs of Euro 297 thousand;
- exploratory activities of potential new business of Euro 1,887 thousand.

On March 29, 2024, 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, 2023, 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;
- 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, 2023, 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, 2023 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 of conformity of the financial statements, prepared in XHTML format, with the provisions of Delegated Regulation (EU) 2019/815;
- issued an opinion of conformity of the consolidated financial statements, prepared in XHTML format, 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 29, 2024, 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 No. 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 2023, 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 of listed companies 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, 2024.

The Board of Statutory Auditors verified the correct application of the assessment criteria and procedures adopted by the Board of Directors to assess the independence of its members, 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 meeting of March 8, 2024 and are outlined in the “Corporate Governance and Ownership Structure Report”.

3.2 Supervisory Activities on 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.

The Board of Directors on March 22, 2024, on the proposal of the Appointments and Remuneration Committee, approved the “Remuneration policy and report” drawn up as per Article 123 *ter* of the CFA and Article 5 of the Corporate Governance Code.

3.3 Notices, claims, omissions or citable events, opinions provided and initiatives taken

In 2023, 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 is not aware of any other notices to be reported to the Shareholders' Meeting.

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.

The Board of Statutory Auditors also issued the opinions required by current legislation.

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 Board of Statutory Auditors has obtained periodic updates on the conduct of preparatory activities for the preparation of the NFS by attending meetings of the Sustainability Committee and meetings with the independent audit firm Deloitte & Touche S.p.A., which has dedicated a work team to the NFS composed of personnel specializing in ESG matters.

The Board of Statutory Auditors, within its activities, is not aware of any violations of the relative regulatory provisions.

The company has supplemented the "Procedure for the preparation of the Non-Financial Statement integrated into the Annual Financial Report".

This Policy includes a calendar of activities to be carried out for the correct integration of the NFD into the Annual Financial Report, which the Board of Statutory Auditors has utilised in order to verify the timely completion of the relative steps.

The NFD, approved at the March 13, 2024 Board of Directors meeting, is therefore integrated into the Annual Financial Report for the second year as a separate section of the Directors' Report at December 31, 2023.

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 29, 2024, did not indicate any matters suggesting that the NFR of the Avio Group for the year ended December 31, 2023 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.

3.5 Board of Statutory Auditors' Self-Assessment

The Board of Statutory Auditors monitored whether each of its members met and continued to meet the regulatory requirements of independence, standing, professionalism, and compliance with the limits on the accumulation of positions.

The statutory gender distribution criterion is applied with reference to the composition of the Board of Statutory Auditors currently in office.

Pursuant to Rule Q.1.7 of the Rules of Conduct for the Board of Statutory Auditors of Listed Companies, the Board of Statutory Auditors conducted its own self-assessment with the support of an external consulting firm, the results of which were discussed at its meetings and presented to the Board of Directors at its meeting on March 8, 2024, and are described in the "Corporate Governance and Ownership Structure Report".

4. CONCLUSIONS

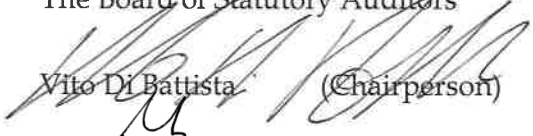
Taking account of that outlined above, the Board of Statutory Auditors, considering the content of the reports prepared by the independent audit firm, noting the statements issued jointly by the Chief Executive Officer and by the Executive Officer, expresses a favourable opinion on the approval of the statutory financial statements of Avio at December 31, 2023 and on the proposal to allocate the net profit for the year of Euro 5,708 thousand, drawn up by the Board of Directors, as follows:


- Euro 3,750 thousand as dividend;
- Euro 1,958 thousand to retained earnings.

Finally, the Board of Statutory Auditors expresses a favourable opinion on the Board of Directors' proposal to approve the distribution of an extraordinary dividend of Euro 2,250 thousand from available equity reserves.

Rome, March 29, 2024

The Board of Statutory Auditors


Vito Di Battista (Chairperson)


Mario M. Busso (Statutory Auditor)


Michela Zeme (Statutory Auditor)