Annual report 2020

cdp CDP Reti

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CORPORATE BODIES

BOARD OF DIRECTORS (*)

Giovanni Gorno Tempini	*Chairman*
Fabrizio Palermo	*Chief Executive Officer*
Sabrina Coletti	*Director*
Yanli Liu	Director
Yunpeng He	Director

BOARD OF STATUTORY AUDITORS (*)

Florinda Aliperta	*Chairman*
Paola Dinale	*Standing Auditor*
Paolo Sebastiani	*Standing Auditor*

Independent auditors (**) Deloitte & Touche S.p.A.

(*) Appointed by the Shareholders' Meeting of 20 January 2021 and in office up to the date of the Shareholders' Meeting called for the approval of the financial statements for the year ended 31 December 2023.
(**) Engagement granted by the Shareholders' Meeting of 10 May 2019 for the period 2020-2028. That Shareholders' Meeting also approved the mutually agreed termination of the auditing agreement between CDP RETI and PricewaterhouseCoopers S.p.A., in accordance with the agreement for the mutually agreed termination signed by the parties and with effect from the date of approving the financial statements at 31 December 2019.

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Report on operations of the Group

1. PRESENTATION OF THE GROUP

1.1 ROLE AND MISSION OF THE GROUP

PARENT COMPANY

CDP RETI S.p.A. is an investment vehicle established in October 2012 and converted from an Italian law limited liability company into an Italian law joint-stock company in May 2014, whose shareholders are Cassa Depositi e Prestiti S.p.A. - CDP - (59.1%), State Grid Europe Limited - SGEL - (35%), a company within the State Grid Corporation of China group, and certain Italian institutional investors (5.9%, attributable to Cassa Nazionale di Previdenza e Assistenza Forense and 33 Foundations of banking origin). The Company is subject to management and coordination by CDP.

The share capital is 161,514.00 euro fully paid up and represented by 161,514 special shares (CDP: 95,458 category A shares, SGEL: 56,530 category B shares, Others: 9,526 category C shares), without indication of nominal value.

The corporate purpose of CDP RETI is the holding and ordinary and extraordinary management, directly and/or indirectly, of equity investments in SNAM (31.35%), ITALGAS (26.04%) and TERNA (29.85%), with the Company acting as a long-term investor with the objective of supporting the development of transport, dispatching, regasification, storage and distribution infrastructures for natural gas, as well as electricity transmission.

More specifically, in 2012 the Company, as a result of the provisions contained in the Italian Prime Minister's Decree ("DPCM") of 25 May 2012 which defined the procedures and terms for the ownership unbundling[1] of SNAM S.p.A. from ENI S.p.A. (aimed at making the market more open and thus creating the conditions for greater competition), acquired an equity investment in SNAM from ENI, representing 30% of the voting capital less one share, for 3.47 euro per share (overall purchase value of approximately 3.5 billion euro). As a result of the sale, SNAM is no longer subject to the control, management and coordination by ENI and operates under the ownership unbundling regime in accordance with the Italian Prime Minister's Decree of 25 May 2012.

Subsequently, on 27 October 2014, with the objective of pooling, within the assets of one party, the equity investments in the companies that manage infrastructural networks of strategic national interest, and within the context of opening the share capital of CDP RETI to third-party investors (SGEL and Italian institutional investors), CDP RETI was assigned the entire equity investment held by CDP in TERNA, representing 29.851% of the share capital. The assignment of this equity investment, acquired from ENEL S.p.A. in 2005, was carried out in accordance with the pooling of interest method, at the same carrying value (around 1.3 billion euro) at which it was entered on the CDP financial statements at 31 December 2013, enabling CDP RETI to assume the role of sub-holding of reference for the CDP Group as regards the energy infrastructure sector.

On 7 November 2016, following the partial and proportional Spin-off of the equity investment held by SNAM in ITALGAS and the admission to trading on the MTA (Italian Equities Market) of the ITALGAS shares[2] (Beneficiary Company), CDP RETI was assigned 202,898,297 ITALGAS shares, in proportion to those already held in SNAM on the effective date of the Spin-off. The assignment was one ITALGAS share for every five SNAM shares owned.

Lastly, on 19 May 2017, the sale of the equity investments in Snam S.p.A. (1.12%) and Italgas S.p.A. (0.97%) from CDP to CDP RETI was finalised. The overall sale price agreed was 187.6 million euro, of which 155.9 million euro for the 1.12% equity investment in Snam and 31.7 million euro for the 0.97% equity investment in Italgas.

[1] Separation between the owner of the natural gas production and/or supply activities and the owner and/or operator of the natural gas transport activities.
[2] Company incorporated on 1 June 2016 specifically to implement the Spin-off, at first as ITG Holding S.p.A. and then as ITALGAS S.p.A. on submission of the application for admission to listing of ordinary shares on the MTA. On the same date, the operating company ITALGAS S.p.A. took the name of Italgas Reti S.p.A..

DIRECT SUBSIDIARIES AND RELATED AREA OF CONSOLIDATION

The SNAM Group ("SNAM", Società Nazionale Metanodotti) monitors the regulated activities of the gas sector in Italy, where it manages, based on the latest information available, a national gas transport network of approximately 32,600 km of gas pipelines running at high and medium pressure (increasing to over 41,000 km if international investee companies are included), 9 storage fields and 1 regasification terminal. The regulation includes tariff systems to cover the costs incurred by the operator and fair remuneration of the capital invested.

In Italy, Snam oversees the transportation, dispatching and storage of natural gas and the regasification of liquefied natural gas (LNG). In relation to these three core businesses, Snam holds the leadership, at European level, in terms of the extension of the transmission network (over 41,000 km, including international activities) and in terms of natural gas storage capacity (approximately 20 billion cubic meters, including international activities). With regards to the regasification business, Snam is among the leading continental operators through the Panigaglia terminal and the shares in the Livorno (OLT) and Rovigo (Adriatic LNG) plants for Italy and Revithoussa (DESFA) for Greece, for an overall pro-rata regasification capacity of approximately 8.5 billion cubic meters per year. In addition to these three businesses that have been the hallmark of Snam's operations since its inception, the Company has begun to invest numerous and ever-increasing resources in new businesses: biomethane, energy efficiency, sustainable mobility and hydrogen. Thanks to these new business sectors, Snam contributes to the decarbonisation of the Italian system, building compressed natural gas (CNG and bio-CNG) and liquefied (LNG, bio-LNG and Small-Scale LNG - SSLNG) distributors and infrastructures for biomethane from organic waste and agricultural and agro-industrial waste, providing energy efficiency services to multi-occupancy buildings, public administration and industry and laying the foundations for the infrastructure in support of hydrogen.

In the European context, Snam stands out in terms of its agreements with major players in the sector and direct equity investments in the share capital of various companies. Furthermore, the Group exports its know-how by providing engineering and technical-operational services for other gas operators both in domestic and international markets.

Through its international affiliates, it operates in Albania (AGSCo), Austria (TAG, GCA), China (Snam Gas & Energy Services Beijing), United Arab Emirates (Adnoc Gas Pipelines), France (Terēga), Greece (DESFA), and the United Kingdom (Interconnector UK). Snam is also one of the main shareholders of TAP (Trans Adriatic Pipeline), the final section of the Southern Energy Corridor.

Through its subsidiary Snam Gas & Energy Services, based in Beijing, Snam oversees the development of the gas market in China, on the strength of its distinctive expertise in the sector.

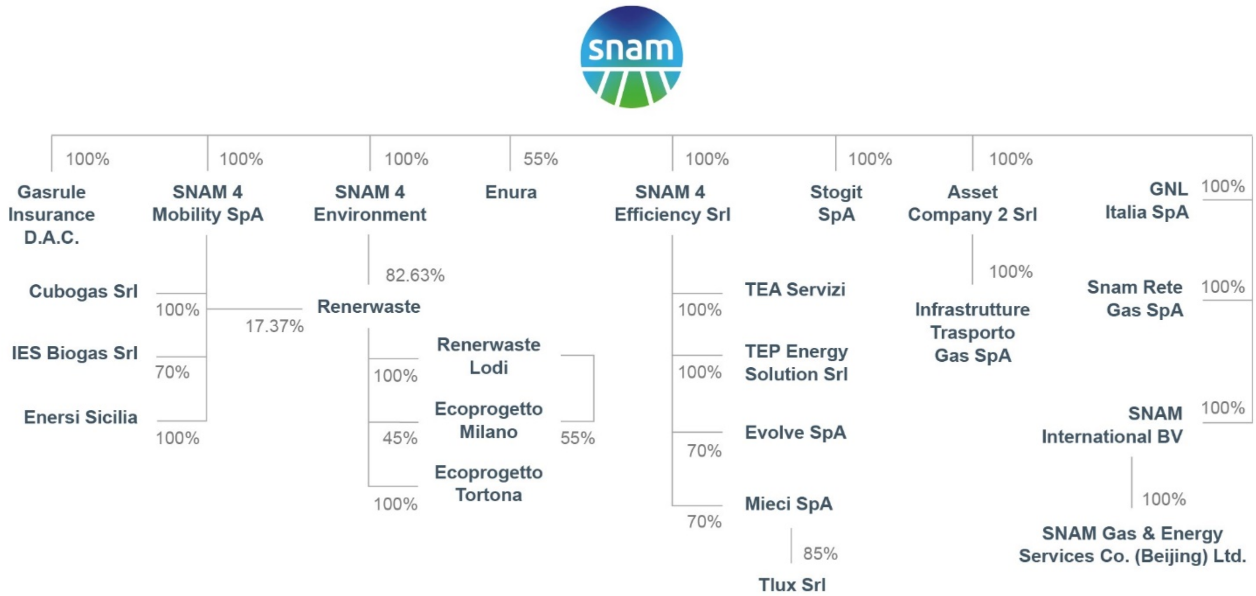
As evidenced by the amendments made to the Articles of Association in February 2021, Snam is committed to fostering the energy transition towards forms of use of energy resources and sources that are compatible with environmental protection and progressive decarbonisation and thus pursuing sustainable success.

SNAM has been listed on the Italian Stock Exchange since 2001.

Below is a description of the main operating companies:

- *SNAM RETE GAS* and *INFRASTUTTURE TRASPORTO GAS* are the main Italian natural gas transport and dispatching operators in the country, having almost the entire transport infrastructure in Italy. The gas coming from abroad is introduced into the national network via entry points, interconnections with other countries, or LNG regasification terminals. Once imported or re-gasified, the gas is moved up to the local distribution networks, the re-delivery points of the regional network, or to large end customers, such as thermoelectric power plants or industrial production plants.
- *GNL ITALIA* owns the Panigaglia terminal (La Spezia), the first regasification plant built in Italy. The extraction process of natural gas from fields, its liquefaction for transport via tankers and the subsequent regasification for use by users, make up the so-called LNG chain. The process starts in the exporting country, where the natural gas is made liquid and subsequently loaded onto methane tankers for transport via sea to the LNG regasification terminal. At the regasification terminal, the LNG is unloaded and subsequently heated, bringing it back to the gaseous state, and introduced into the natural gas transport network.
- *STOGIT* is the leading storage operator in Italy and is among the leaders in Europe. The storage of natural gas, carried out in Italy under concession arrangements, seeks to offset the differing needs between gas supply and consumption (supply is actually substantially constant throughout the year, while demand for gas is affected by the seasons) and ensure the availability of a quantity of strategic gas to compensate for any lack of or reduction in non-EU supply or a gas system crisis.

The area of consolidation of the SNAM group as at 31 December 2020 is as follows.



The changes in the area of consolidation of the Snam Group at 31 December 2020, compared to that at 31 December 2019, concerned the acquisition, on 5 October, through the subsidiary Snam4Efficiency, of 70% of two companies operating in the energy efficiency sector in Italy, namely Mieci S.p.A. and Evolve S.r.l.

The main equity transactions concluded in 2020, which did not have any impact on the Group's area of consolidation, mainly referred to:

- the sale, on 13 January 2020, of a 6% equity investment in the associate Senfluga, as a result of which SNAM's equity investment is now at 54%. The sale is the outcome of the agreements signed by Senfluga's shareholders to sell a 10% equity investment, proportionate to the shares held by each shareholder;
- completion, on 26 February 2020, of the acquisition of a 49.07% stake in OLT (Offshore LNG Toscana) against which Snam assumes control of the regasification terminal together with First State Investments International LTD;
- the change in the equity investment held in Tep Energy Solution S.r.l. (TEP), from 82% to 100% of the capital. The transaction was completed by exercising the call option on non-controlling interests (equivalent to 18%) on 6 March 2020;
- the acquisition, on 15 July, of 49% of ADNOC Gas Pipelines - a company that for 20 years holds the management rights to 38 gas pipelines in the United Arab Emirates - in consortium with five international funds;
- the acquisition, on 30 September 2020, through the subsidiary Snam4Environment, from Femogas S.p.A., of a 50% stake in the share capital with joint control rights of Iniziative Biometano S.p.A., a company operating in Italy in the management of biogas and biomethane plants powered by biomass of agricultural origin in Italy;
- the entry, in November 2020, into the share capital of ITM Power PLC, one of the largest global producers of electrolysers, with a stake of 2.318%.

Except for Enura, subject to consolidation within the "Transportation of natural gas" business sector, the remaining companies listed above were included within the "Corporate and other activities"3 sector, not separately disclosed pursuant to IFRS 8 "Operating segments".

The shareholder structure of SNAM S.p.A. as at 31 December 2020 is shown below (share capital consisting of 3,360,857,809 shares without nominal value):

CONSOLIDATING COMPANY	SHAREHOLDERS	%OWNERSHIP
SNAM S.p.A.	CDP Reti S.p.A.	31.35
	SNAM S.p.A. (treasury shares)	2.70
	Romano Minozzi	7,46
	BlackRock	5,16
	Lazard	5,04
	other shareholders	48.29

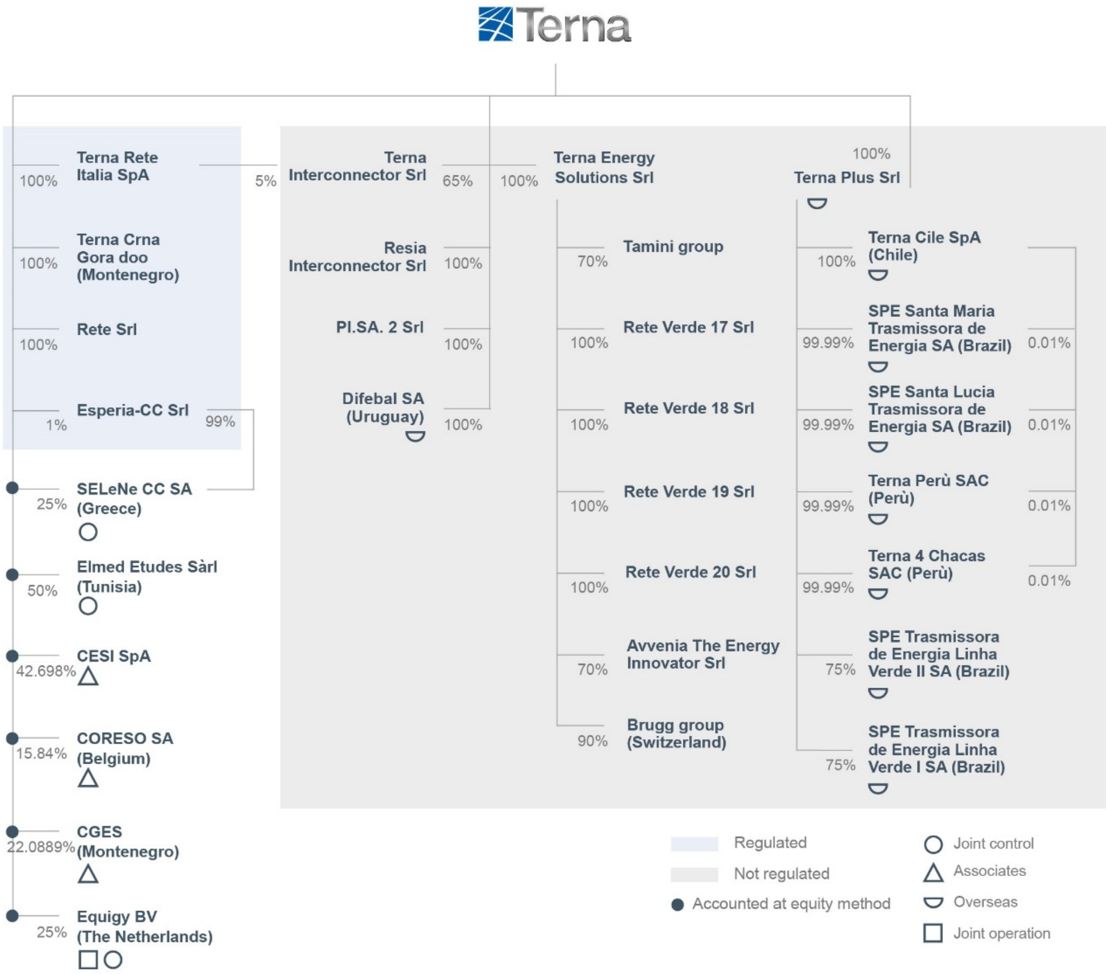
The TERNA group ("TERNA" – "Trasmissione Elettrica Rete Nazionale" [National Electricity Transmission Grid]) is the largest independent electricity transmission operator in Europe and one of the leading operators in the world by km of managed lines (more than 74,000 km). It is responsible for the transmission and management of electricity flows on the High and Very High Voltage grid throughout Italy, in order to maintain the balance between energy supply and demand (dispatching). It is also responsible for the planning, building and maintenance of the grid. It plays the role of Italian TSO (Transmission System Operator) with a government granted monopoly based on the rules and regulations defined by the Italian Energy, Networks and Environment Regulator (ARERA), and the guidelines issued by Ministry of Economic Development. It guarantees the safety, quality and cost-effectiveness of the National Electrical System over time and pursues the development of the grid and its integration with the European grid. It ensures conditions of equal access for all Grid users.

The electrical system is composed of:

- **Generation**: conversion of energy obtained from primary sources into electricity.
- **Transmission and Dispatching**: the transfer of electricity generated by power plants to the areas of consumption via high-voltage power lines, electric power and transformer stations, and storage systems that make up the transmission grid, guaranteeing a constant balance between electricity supply and demand; through lines interconnecting with foreign countries, the transmission system allows the exchange of electricity between Italy and other countries.
- **Distribution**: supply of medium and low-voltage electricity to end users.

TERNA has been listed on the Italian Stock Exchange since 2004.

The area of consolidation of the TERNA group as at 31 December 2020 is as follows.



The changes compared to 31 December 2019 are:

- On 29 February 2020, Terna - through the subsidiary Terna Energy Solutions S.r.l. - finalised the closing of the acquisition of 90% of Brugg Kabel AG (Brugg Group) as part of the strategy to develop the Terna group.
- The incorporation, on 22 May 2020, of SEleNe CC S.A. - a jointly controlled company owned by Terna (25%) and three other European TSOs. The company will act as the Regional Security Coordinator, pursuant to Regulation (EU) 2017/1485, for the participating TSOs.

- On 11 August 2020, through its subsidiary Terna Plus S.r.l., Terna closed the transaction with Construtora Quebec, which resulted in the acquisition of a 51% stake in the Brazilian joint-stock company SPE Transmissora de Energia Linha Verde I S.A. A further equity investment was acquired on 9 September 2020, thus reaching 75%.
- On 20 November 2020, Terna incorporated, together with the jointly controlled company SEleNe CC S.A., the company ESPERIA-CC S.r.l., wholly owned by virtue of the corporate governance structure, despite being 1% owned by Terna and 99% owned by SEleNe CC S.A. The company is tasked with providing services in support of dispatching activities (pursuant to European Regulations 2017/1485, 2015/1222 and 2019/943), but does not fall within the scope of the companies conducting regulated activities or subject to ARERA regulation.
- On 1 December 2020, Terna S.p.A. acquired 25% of Equigy B.V., a limited liability company under Dutch law, jointly controlled by Terna and the other participating TSOs. The equity investment represents a joint operation pursuant to IFRS 11 – Joint Arrangements.

The shareholder structure of TERNA S.p.A. as at 31 December 2020 is shown below (share capital consisting of 2,009,992,000 shares with a nominal value of 0.22 euro per share):

The purchase by TERNA S.p.A. of **1,525,900 treasury shares** (0.076% of share capital) for a total value of approximately 9.5 million euro, serving the 2020-2023 Performance Share Plan, was concluded in August.

CONSOLIDATING COMPANY	SHAREHOLDERS	%OWNERSHIP
TERNA S.p.A.	CDP Reti S.p.A.	29.85
	Lazard	5.12
	Norges Bank	1.64
	Inarcassa	1.11
	Banca d'Italia	1.02
	Other shareholders	61.26

The ITALGAS group (ITALGAS)is the leading gas distribution operator in Italy and the third in Europe: the Group and its investee companies[3], with 4,049 people employed in the various locations throughout Italy, manage a distribution network that extends for a total of 73,058 km, through which, over the course of the last year, 8,727 million cubic metres of gas were distributed to 7,749 thousand users. The Group and its investee companies own 1,887 concessions, with a historical presence in the country's major cities, including Turin, Venice, Florence, Rome and Naples, and a market share of 35%.

The distribution service, an activity carried out within the broader national system, involves transporting gas on behalf of the companies that are authorised to sell gas to end customers. In addition to the delivery service, carried out through the local gas transportation networks from the city-gates (pressure reduction and metering stations interconnected to the transportation networks), the company also performs metering activities that include the collection, processing, validation and disclosure of consumption data in order to regulate commercial transactions between operators and users.

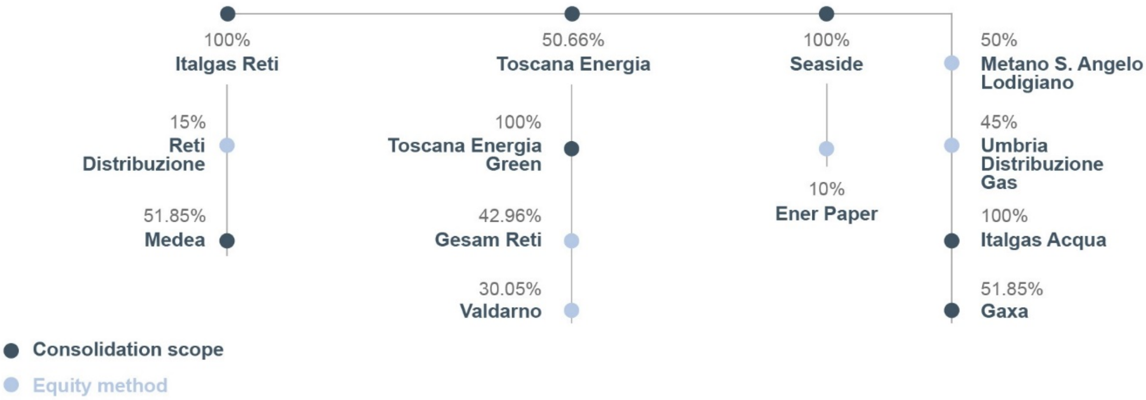
Italgas is subject to regulation by the Italian Energy Networks and Environment Regulator (ARERA), which defines how the service is supplied and the applicable distribution and metering rates. The gas distribution service is supplied under concession arrangements.

The rules for user access to the gas distribution service are established by the ARERA and are regulated in the Network Code. This Code sets out the rules, for each type of service, that govern the duties and responsibilities of the parties providing the services and the instruments for mitigating the risk of non-compliance by customers.

Italgas has been listed on the Italian Stock Exchange since November 2016[4].

Compared to 31 December 2019, the structure of the Italgas group at 31 December 2020 has changed as a result of the acquisition of 15% of Reti Distribuzione, as outlined below:

[3] The data referring solely to the Group, excluding the investee companies on which it does not exercise control, are: 3,985 employees, 71,185 kilometres of network, 8,477 million cubic metres of gas transported, 7.595 million users owning 1,826 concessions.
[4] The shares of Italgas Reti were listed on the MTA of the Italian Stock Exchange from 1900 to 2003.



The Company's share capital at 31 December 2020 consisted of 809,135,502 shares, without indication of nominal value, for a total share capital of 1,001,231,518.44 euro.

Based on the evidence in the shareholders' register, the information available and the communications received pursuant to art. 120 of the Consolidated Law on Finance, the holders of significant equity investments (more than 3%) as at 31 December 2020 are listed below.

CONSOLIDATING COMPANY	SHAREHOLDERS	%OWNERSHIP
ITALGAS S.p.A.	CDP Reti S.p.A. (*)(**)	26.04
	Snam S.p.A.	13.50
	Lazard Asset Management Llc	8.73
	Romano Minozzi	4.29
	Other shareholders	47.44

(*) On 1 August 2019, the Board of Directors of CDP S.p.A., including for the purposes of taking into account the guidance on control contained in Consob Communication no. 0106341 of 13 September 2017, reclassified its equity investment in Italgas as de facto control pursuant to article 2359, paragraph 1, no. 2) of the Italian Civil Code and article 93 of the Consolidated Law on Finance, with control exercised through CDP Reti, with an equity investment of 26.50%, and through Snam, with an equity investment of 13.05%. CDP does not exercise management and coordination activities with respect to Italgas, pursuant to articles 2497 et seq. of the Italian Civil Code.

(**) On 20 October 2016, a shareholders' agreement was signed between Snam, CDP Reti and CDP Gas, effective from the date of spin-off of Italgas S.p.A., which took place on 16 November 2016. With effect from 1 May 2017, CDP Gas was merged into CDP. Subsequently, on 19 May 2017, CDP completed the sale to CDP Reti, which included the equity investment held in Italgas S.p.A., representing 0.969% of Italgas S.p.A.'s share capital. CDP Reti is 59.1% owned by CDP, 35% by State Grid Europe Limited - SGEL, a company of the State Grid Corporation of China group, and 5.9% by a number of Italian institutional investors. On 1 August 2019, the shareholders' agreement was updated to take account of the aforementioned reclassification of the equity investment.

1.2 REFERENCE SCENARIO

With reference to **SNAM** and the key sectors in which it operates, the following should be noted:

- natural gas transport: The gas introduced into the network in 2020 totalled 69.97 billion cubic metres, down by 5.40 billion cubic metres compared to 2019 (-7.2%).Flows into the network from the national production fields or from their collection and treatment centres are equal to 3.86 billion cubic metres, down 0.65 billion cubic metres compared to 2019 (-14.4%).The volumes introduced via entry points interconnected with foreign countries and with LNG regasification terminals, totalling 66.11 billion cubic meters, recorded a reduction of 4.75 billion cubic metres (-6.7% compared to 2019), in line with the decline in natural gas demand and the greater withdrawals from storage. The fewer volumes introduced by the LNG regasification terminals (-1.36 billion cubic metres; -9.7%), as well as from the entry points of Passo Gries (-2.53 billion cubic metres; -22.7%), Tarvisio (-1.42 billion cubic metres; -4,8%) and Gela (-1.24 billion cubic metres; -21.8%), were partly offset by the greater volumes introduced by the Mazara del Vallo entry point (+1.81 billion cubic metres; -17.7%). In 2020 the **demand for gas in Italy** equalled 71.30 billion cubic metres, recording a significant fall compared to 2019 (of 3.18 billion cubic metres; -4.3%), due to a reduction in withdrawals in all consumption sectors. In detail, the fall in gas demand is due to: (i) lower consumption in the thermoelectric sector (-1.47 billion cubic metres; -5.5%), due to the decrease in electricity demand following the COVID-19 lockdown measures, relating in particular to March-June, and the increase in photovoltaic energy production, partly offset by a significant fall in electricity import flows and the reduction in hydroelectric and wind power production; (ii) lower consumption in the industrial sector (-0.91 billion cubic metres; -5.3%) which were impacted by a 12% decline in the industrial production index compared to 2019, intensified by the closure of various production activities following the lockdown (March-April) and then by the slow recovery of industrial production that has not yet returned to pre-COVID levels. The reduction in demand for gas was also affected by the lower consumption in the residential and service sector (-0.72 billion cubic metres, -2.6%) essentially due to the progressive increase in energy efficiency measures and the modernisation of heating systems with higher efficiency boilers, in respect of a similar climate trend between the two periods. In normalised terms based on temperature levels, the demand for gas, estimated at 71.60 billion cubic metres, recorded a fall by 3.26 billion cubic metres (-4.4%) compared with the corresponding value in 2019 (74.86 billion cubic metres).

- regasification of liquefied natural gas (LNG): During 2020, the LNG terminal in Panigaglia (SP) re-gasified 2.52 billion cubic metres of LNG (vs. 2.40 billion cubic metres in 2019; +5.0%) and 60 methane tankers were unloaded (+3 on 2019; +5,3%). With reference to the number of staff, there are 67 current employees, essentially in line with the previous financial year. As part of integrating Snam's Italian assets, the process of intensifying the organisational control dedicated to Operations continued in 2020, in order to strengthen the control over core regasification activities, compared to the Staff processes whose activities were centralised in Snam. On 26 February 2020, Snam acquired a 49.07% stake in the share capital of OLT (Offshore LNG Toscana), the company which has built and operates the offshore regasification terminal (FSRU – Floating Storage and Regassification Unit) located off the coast of Tuscany between Livorno and Pisa. With a maximum annual regasification capacity of 3.75 billion cubic metres, OLT is the second largest Italian liquefied natural gas (LNG) terminal.
- storage: the gas handled in the Storage system in 2020 amounted to 19.60 billion cubic metres, up by 0.27 billion cubic metres (1.40%) compared to 2019. The greater supplies to cope with the reduction in flows into the national grid were partly offset by the fewer storage injections.

Regarding **TERNA** and the demand for electricity in Italy, in 2020 such demand in Italy was equivalent to 302,751 GWh (provisional figures), down -5.3% from 2019, which had ended with a slight decline (-0.6%) compared to the previous year. The monthly electricity demand trend in Italy in 2020, compared to last year's figure, shows a sharp decline in demand, essentially due to the regulations issued to deal with the Covid-19 emergency. The decline can be seen in all months of the year, with the exception of February and December, which recorded a slight positive change, essentially attributable to the calendar effect (leap year in February and December with an extra working day).

With regard to electricity production by source, around 38% of total electricity demand was met by renewable sources in 2020 (provisional figures), up compared to the 2019 figure. This increase is due, in part, to the sharp decline in demand during the Covid-19 lockdown period.

The European Community Directives, which required Member States to achieve its 27% renewables target by 2020, have been widely complied with and maintained by Italy since 2012.

At 31 December 2020, **ITALGAS**, including the investee companies over which it does not exercise effective control, was the holder of gas distribution concessions in 1,887 Municipalities (1,830 at 31 December 2019), of which 1,804 in operation (1,744 at 31 December 2019). Excluding the aforesaid investee companies, the number of Municipalities with concessions in operation amounted to 1,743 (1,730 at 31 December 2019) of a total of 1,826 municipal concessions (1,816 at 31 December 2019).

- Gas distributed: at 31 December 2020, Italgas, including the investee companies over which it does not exercise effective control, had distributed 8,727 million cubic metres of gas (8,897 million cubic metres of gas at 31 December 2019). Excluding the aforesaid investee companies, the gas distributed in 2020 amounted to 8,477 million cubic metres (8,001 million cubic metres at 31 December 2019);
- Distribution network: the gas distribution network at 31 December 2020, including the investee companies over which it does not exercise effective control, extended for 73,058 kilometres (71,761 kilometres at 31 December 2019). Excluding the aforesaid investee companies, the distribution network extended for 71,185 kilometres (70,502 at 31 December 2019);
- Meters: at 31 December 2020, the meters in service at the re-delivery points, including the investee companies over which it does not exercise effective control, amounted to 7.749 million (7.694 million at 31 December 2019). Excluding the aforesaid investee companies, meters in service totalled 7.595 million (7.573 million at 31 December 2019).

2. SIGNIFICANT EVENTS TAKING PLACE IN THE YEAR BY SECTOR/COMPANY

CDP RETI

Refinancing of outstanding debt from loan agreements

Introduction

In May 2020 the refinancing of the outstanding debts of CDP RETI under existing loan agreements, approved by the Board of Directors on 1 April 2020, for a total amount of around 937.6 million euro (the "**Refinancing**") was finalised.

The main benefits of the Refinancing Operation for CDP RETI are as follows:

- lower interest expense, with annual savings of around 6.3 million euro;
- extension of the average duration of outstanding debt;
- improvement of certain contractual provisions, in particular in terms of new financial indebtedness permitted;
- simplification of the management of contracts.

However, since the refinancing of the 2023 Term Loan resulted in a substantial change in the terms and conditions and the lender counterparties, from an accounting standpoint, the operation was construed as an early repayment, and consequently the following negative effects were fully evident in the 2020 Income Statement:

- around 3.8 million euro resulting from the release to the Income Statement of the negative reserve recognised previously on the cash flow hedge through Interest Rate Swap. This cost will in any event be offset in future periods by the reduction in financial costs resulting from the new improved economic terms;
- around 0.6 million euro resulting from the transfer of the residual value of the fees paid initially to take out the loan and subsequently included in the amortised cost.

These costs, totalling around 4.4 million euro, would in any case have impacted the Income Statements of future periods.

Description

Prior to the Refinancing Operation, CDP RETI had two loan agreements in place, having the following characteristics:

- a loan agreement for a total outstanding amount of 750 million euro (the "**2020 Term Loan**"), with an original maturity of 5 years, interest charged at the 6-month Euribor rate + 100 bps[5], subsequently converted to a fixed interest rate of 1.375% by means of an Interest Rate Swap. This loan had been granted to CDP RETI through two loan agreements entered into on 29 September 2014 (as subsequently amended and supplemented), with:
    - CDP for an amount of 337.5 million euro;
    - a pool of bank lenders for an amount of 412.5 million euro;
- a loan agreement for a total outstanding amount of around 187.6 million euro (the "2023 Term Loan"), with an original maturity of 6 years, interest charged at the 6-month Euribor rate + 145 bps, subsequently converted to a fixed interest rate of 1.827% by means of an Interest Rate Swap. This loan had been granted to CDP Reti through two loan agreements entered into on 16 May 2017, with:
    - CDP for an amount of around 84.4 million euro;
    - a pool of bank lenders for an amount of around 103.2 million euro.

In view of the approaching maturity of the 2020 Term Loan, the structures of CDP Reti, in coordination with the relevant structures of CDP, have already taken steps to identify the best strategy for refinancing the company's outstanding debt, highlighting the need to consider a broader refinancing strategy, that would make it possible to set more advantageous economic conditions not only for the 2020 Term Loan but also for the 2023 Term Loan.

[5] 150 bps if the credit rating assigned to CDP Reti reaches BB+ (or equivalent) or lower for the rating agencies (Moody's, Fitch or S&P).

In order to enter into a New Term Loan, on 5 May 2020, CDP RETI signed, as the borrower, two loan agreements for a total amount of 937,634,700 euro respectively with:

(i) CDP for an amount of 222 million euro, equivalent to 24% of the New Term Loan;
(ii) a pool of bank lenders for an amount of around 715.6 million euro, equal to 76% of the New Term Loan.

The main features of the New Term Loan are as follows:
(i) Total amount: 937,634,700.00 euro;
(ii) Due date: 5 May 2025;
(iii) Spread with respect to the 6-month Euribor rate: 105 bps;
(iv) Application of a zero floor to the interest rate (Euribor + spread);
(v) Arrangement fee: 40 bps.

Therefore, on 19 May 2020, CDP RETI repaid, at the same time as using the New Term Loan, both the 2020 Term Loan and the 2023 Term Loan for a total amount of 937,634,699.63 euro. It also closed the existing Interest Rate Swaps in advance to cover the above-mentioned loans.

In order to ensure a greater stability and predictability in CDP RETI's Income Statement, in line with the approach taken for the 2020 Term Loan and the 2023 Term Loan, the interest rate of the New Term Loan, equal to the 6-month Euribor rate + 105 bps, was converted through an Interest Rate Swap transaction at the fixed rate of 0.796%. Since CDP RETI does not engage in derivative transactions on the market, this IRS was entered into with the parent CDP, which in turn entered into a back-to-back swap with counterparties with which it has derivative transactions in place.

Other significant events occurred in the period

Regarding the **dividends received** from subsidiaries, totalling **458 million (431 million in 2019)**, during the reporting period about 250 million were collected from SNAM (2019 interim dividend equal to 100 million[6] and 2019 final dividend equal to 150 million), about 154 million from TERNA (2019 final dividend equal to 99 million and 2020 interim dividend equal to 55 million[7]) and about 54 million from ITALGAS (2019 dividend).

The increase (+27 million) compared to 2019 is due to the higher collections deriving from the modified dividend policies (in terms of dividend per share) of SNAM (+11.9 million), TERNA (+10.5 million) and ITALGAS (+4.6 million).

Furthermore, on 5 November 2020 the Board of Directors of SNAM approved the distribution of interim dividend on the 2020 net income, of which 105 million was paid to CDP RETI (in January 2021).

For more details, please see the subsequent section "Income statement and balance sheet results of the Company".

With regard to **dividends paid** to shareholders, **amounting to 429 million euro (399 million euro in 2019)**, the following amounts were distributed during the year:

- the balance of the 2019 net income (i.e. 143 million euro[8]), of which about 85 million to CDP and 50 million to State Grid Europe Limited, was up compared to the final dividend distributed in the first half of 2019 (i.e. 132 million euro). Moreover, it bears recalling that a part (267 million) of the 2019 net income was distributed in December 2019 as interim dividend.[9]
- interim dividend on the 2020 net income[10] equal to 286 million, of which about 169 million to CDP and 100 million to State Grid Europe Limited.

The following should be noted with regard to relations with investees:

- on 23 April 2020 CDP RETI's ordinary Shareholders' Meeting, pursuant to the Articles of Association, authorised the resolutions taken on the same date by the Board of Directors regarding the designation of the lists of candidates for the office of director and statutory auditor of TERNA for the three-year period 2020-2022 in preparation for the Shareholders' Meeting scheduled for 18 May 2020;

[6] Interim dividend (equal to 0.095 euro per share, with payment starting from 22 January 2020, with coupon due on 20 January and record date 21 January) approved by the Board of Directors of Snam S.p.A. on 13/11/2019 and recognised in the financial statements of CDP RETI S.p.A. as at 31 December 2019.
[7] Interim dividend (equal to 0.0909 euro per share, with payment starting from 25 November 2020, with coupon due on 23 November and record date 24 November) approved by the Board of Directors of Terna S.p.A. on 11/11/2020.
[8] 885.54 euro distributed for each of the 161,514 shares.
[9] The interim dividend of 1,653.13 per each of the 161,514 shares was approved on the basis of the Company's accounting situation at 30 June 2019, prepared in accordance with IFRS. The Company ended the period with a net income of approximately 267 million and available reserves of approximately 3,369 million.
[10] The interim dividend of 1,768.86 per each of the 161,514 shares was approved by the Board of Directors on 11 December 2020 on the basis of the company's accounting situation at 30 June 2020, prepared in accordance with IFRS. The company ended the period with a net income of approximately 286 million and available reserves of approximately 3,369 million.

- on 30 April 2020 the Board of Directors approved the voting instructions to be given to members of the Consultation Committee[11] in accordance with the Articles of Association, as governed by the *ITALGAS Shareholders' Agreement*[12], in view of the ordinary Shareholders' Meeting of ITALGAS of 12 May 2020;
- on 30 April 2020, the Board of Directors approved the voting instructions for the TERNA Extraordinary Shareholders' Meeting convened for 18 May 2020 to resolve on the amendment to the Articles of Association regarding gender balance following the provisions introduced by the 2020 Budget Law;
- on 9 June 2020 the Board of Directors of CDP RETI assigned a mandate to the Chief Executive Officer, with power of sub-delegation, to cast the vote at the Extraordinary Shareholders' Meeting of SNAM on 18 June 2020 concerning the cancellation of treasury shares without reducing the share capital[13]. Due to this cancellation (which took place on 6 July 2020), CDP RETI's equity investment in SNAM's share capital increased from 31.04% to 31.35%.

SNAM (GAS TRANSPORT, REGASIFICATION AND STORAGE SECTOR)

Core business development

Snam and Iren: purchase of a stake in the OLT - Livorno regasification terminal

Snam's acquisition of a 49.07% stake in the share capital of OLT (Offshore LNG Toscana), the company which has built and operates the offshore regasification terminal (FSIRU – Floating Storage and Regassification Unit) located off the coast of Tuscany between Livorno and Pisa was completed on 26 February 2020.

The consideration paid by Snam to the Iren Group for the acquisition of the entire stake in OLT owned by Iren Mercato S.p.A., as well as the residual share of a shareholder loan from Iren S.p.A. in favour of OLT amounts to a total of approximately 332 million euro. The amount, paid by Snam with its own funds, may be subject to any contractual price adjustment mechanisms.

Following the transaction, Snam assumes control of the regasification terminal together with First State Investments International Ltd., which holds 48.24% through the subsidiary FS SP S.à r.l..

International business development

Snam - in a consortium with five international funds - signs an agreement with ADNOC to join the networks of the Arab Emirates

On 15 July 2020, the consortium made up of Snam and the investment funds Global Infrastructure Partners (GIP), Brookfield Asset Management, GIC (the sovereign fund of Singapore), Ontario Teachers' Pension Plan and NH Investment & Securities, following the occurrence of all of the set conditions precedent, completed the acquisition of 49% of ADNOC Gas Pipeline Assets LLC (ADNOC Gas Pipelines) from The Abu Dhabi National Oil Company (ADNOC), announced on 23 June.

The transaction is worth 49% of ADNOC Gas Pipelines, a company that for 20 years holds the management rights to 38 gas pipelines in the United Arab Emirates, for about 10.1 billion USD.

The consortium obtained a loan of about 8 billion USD from a pool of international banks. The equity contribution is divided proportionally among the consortium members, all of which hold equal shares with the exception of the leader GIP. For Snam, in particular, the disbursement from own funds was approximately 250 million USD.

For Snam, as the consortium's only industrial operator, the transaction represents an important opportunity to invest in strategic infrastructure, also as part of possible future cooperation in energy transition in the Gulf area.

Biomethane

Entry into the agricultural biomethane sector: agreement signed to acquire 50% of Iniziative Biometano

[11] This committee has five members, four of whom represent CDP RETI (three appointed by CDP and one by SGEL) and one SNAM. The committee is responsible for deciding how the parties to the Shareholders' Agreement are to exercise their voting rights in the ITALGAS Shareholders' Meeting.
[12] The parties to the Shareholders' Agreement, with regard to which reference should be made to the following section "*Report on Corporate Governance and Ownership Structure of CDP RETI*", cast the votes conferred by their shares in ITALGAS as decided by the Consultation Committee, without prejudice to SNAM's rights in respect of Reserved Matters.
[13] After the cancellation of the treasury shares, SNAM's share capital remained unchanged, given that SNAM's shares are without indication of nominal value. From an accounting perspective, the cancellation of treasury shares did not have an impact on earnings, nor did it result in changes in the overall value of equity (due to the elimination of the related *"Negative reserve for treasury shares held"* and the simultaneous reduction of the total reserves by a corresponding amount).

Snam, through the subsidiary Snam4Environment, completed on 30 September 2020 the acquisition by Femogas S.p.A. of a 50% stake in the share capital with joint control rights of Iniziative Biometano S.p.A., a company operating in Italy in the management of biogas and biomethane plants powered by biomass of agricultural origin in Italy.

The value of the transaction, announced on 7 May at the presentation of the results for the first quarter of 2020, following the signature of a binding letter of intent notified on 21 November 2019, amounts to approximately 10 million euro.

The acquisition allows Snam to enter the agricultural production biomethane sector, the development of which is expected to make the most significant contribution to the success of biomethane, a strategic source for the purposes of energy transition and the circular economy in Italy.

Iniziative Biometano, through its investee companies, currently owns six biogas plants already in operation, which are planned to be converted to biomethane thanks to IES Biogas (a subsidiary of Snam), with a total production potential of about 39 megawatts when fully operational. It is also one of the main shareholders of a further biomethane plant which came into operation in October.

Iniziative Biometano will be the platform with which Snam and Femogas will develop further projects on the national territory to give a decisive boost to the availability of biomethane in increasingly significant quantities in the national energy mix.

Energy efficiency

Crédit Agricole Italia and TEP Energy Solution for energy upgrading in Italy

In January 2020, Crédit Agricole Italia and TEP Energy Solution, a subsidiary of Snam, signed an agreement to promote energy upgrade work on buildings for residential and commercial use in Italy, with particular attention to multi-occupancy buildings, in order to make these solutions accessible to as many users as possible.

In the agreement, TEP will make available to customers the energy efficiency solutions included in the Casa Mia programme, while Crédit Agricole Italia will provide them with the "Flexcondominio" loan and other financial products and services to support TEP's technical offer.

The interventions envisaged in the Casa Mia programme, from the construction of thermal cladding for the insulation of buildings to the upgrade of boilers and structural consolidation, make it possible to reduce building energy costs by up to half, thereby also making concrete improvements to their habitability and increasing the market value up to 10-15%.

According to the proposed formula, the works will be financed through the savings achieved on consumption and those resulting from the sale of the tax credit linked to the Ecobonus and Sismabonus mechanisms.

Snam improves in energy efficiency: acquisition of 70% of Mieci and Evolve

On 5 October 2020, Snam, through its subsidiary Snam4Efficiency, acquired, in cash, 70% of two companies operating in the energy efficiency sector in Italy, Mieci S.p.A. and Evolve S.r.l., for a total value of approximately 50 million euro, following agreements signed on 10 June 2020.

The transaction allows Snam to structurally develop its portfolio of assets and, as a consequence, substantially improve its competitive position in this business by acquiring, through its partnership with Gemma and Fen Energia, two of the leading national operators in energy and technology services for public bodies and private customers, new expertise in energy efficiency in the public and residential sectors. In particular, in the residential sector, the synergies between Evolve and the ESCo (Energy Service Company) TEP Energy Solution, already a subsidiary, will enable Snam to increase its market position and play a leading role in spreading energy efficiency in Italian multi-occupancy buildings, also in the context of the new eco-bonus.

As part of the transaction, options are envisaged to allow Snam 4 Efficiency to acquire 100% of both companies within a certain period and, for the selling party, to invest in Snam 4 Efficiency.

Sustainable mobility

A third contract was awarded for public transport in Paris

Cubogas, controlled by Snam4Mobility and specialised in technological solutions for CNG (compressed natural gas) filling stations, was awarded the tender for the construction of a new natural gas distributor for buses launched by RATP, the Parisian public transport company operating across the entire Île-de-France region.

The contract, worth approximately 1.4 million euro, envisages the supply of three compressors, two additional storage units of 45 cylinders each and additional accessories for the new Nanterre filling station, which will then be able to power approximately 200 CNG buses running in the Paris metropolitan area. The Nanterre site, which is already designed to supply an increasing number of buses in the future, comes a few months after the contracts awarded by RATP to Cubogas for two other locations close to the French capital.

The transaction allows Snam to contribute to the decarbonisation of public transport in Paris through a more widespread use of natural gas to replace traditional fuels and confirms the international vocation of Cubogas business.

The Indian market and opportunities for sustainable mobility

In November 2020, Snam officially entered the Indian market with the stipulation of a series of cooperation agreements that also involve the sustainable mobility area.

The company involved is Adani Gas Limited (joint venture between Adani Group and Total SE), with which it will set up a joint venture aimed at promoting the development of the supply infrastructure to support sustainable mobility in India, promoting the use of natural gas. The goal will be to create a compressor factory with Cubogas technology, a Snam4Mobility company, for the supply of natural gas to vehicles, to be installed in existing filling stations and in those under development.

Hydrogen

Snam joins "The Hydrogen Council"

On 15 January 2020, Snam officially joined The Hydrogen Council, the global coalition of leading companies in the energy, industrial and transport sectors committed to promoting the use of hydrogen to support energy transition.

Snam and ITM Power, a partnership for green hydrogen

The agreement between Snam and ITM, signed on 22 October 2020, was finalised with a 33 million euro investment in ITM Power Plc. Following the subscription of the share capital increase, Snam holds a stake of 2.318%.

Snam will acquire technical skills for the development of green hydrogen, and at the same time, ITM Power will be able to take advantage of Snam's positioning in the value chain to develop its business and joint projects.

ITM Power Plc deals with the production of electrolysers, essential components to obtain hydrogen from renewable sources through water electrolysis. Snam will therefore involve ITM Power in the development of green hydrogen with "membrane" technology electrolysers (PEM - Proton Exchange Membrane) with up to 100 MW of power.

The partnership with De Nora

On 8 January 2021, following agreements signed in November 2020, Snam completed the acquisition of 33% of De Nora from Blackstone, based on an enterprise value of the entire capital of the company amounting to approximately 1.2 billion euro.

This partnership allows Snam to increase its exposure to the energy transition mega-trends, particularly for the production of green hydrogen and for water treatment, exploiting De Nora's leadership and technical skills in alkaline electrodes, key components for the production of alkaline electrolysers.

The Indian market for the hydrogen business

In November 2020, in addition to the agreement with Adani Gas Limited for sustainable mobility, Snam signed another agreement for the hydrogen business with Greenko. Snam will start a collaboration to support the development of the hydrogen supply chain in India, in particular by studying the hydrogen production methods from renewables, designing hydrogen-ready infrastructure and applying these solutions both in the industry and in the transport sector, including fuel cell mobility.

Alstom and Snam: agreement to develop hydrogen trains in Italy

Snam and Alstom, a global leader in integrated solutions for sustainable mobility, signed a five-year agreement to develop hydrogen trains in Italy.

The agreement aims to implement, as early as in 2021, rail mobility projects including both hydrogen-powered trains and the technological infrastructure needed for the supply, as well as vehicle management and maintenance services.

Under the agreement, Alstom will deal with supplying and maintaining hydrogen trains, whether newly built or converted, while Snam will work on developing the infrastructure for production, transport and refuelling.

The partnership stems from the joint commitment of the two companies on hydrogen: Alstom launched Coradia iLint in Germany, the first fuel cell train in the world, already in service for a year and a half on a regional route, while Snam was among the first companies in the world to experiment with the injection of 10% hydrogen into the natural gas transport network.

Snam for energy transition: agreements and collaborations

Snam and Politecnico di Milano for energy transition

In October 2020, Snam and Politecnico di Milano started a collaboration to develop joint research activities on the role of the gas system in the energy transition, focusing in particular on hydrogen and other green gases, as the main assets in the fight against climate change.

The agreement entails the analysis and re-engineering of production, storage and usage technologies, as well as in-depth analyses into the impact of hydrogen and natural gas mixtures on existing transport infrastructures.

Other joint studies are planned in the field of sustainable mobility, biomethane, liquefaction and SSLNG, as well as on projects for carbon dioxide capture, transport, storage and reuse.

In addition, research activities will be developed on digital transformation applied to the gas transport network, on sustainable finance, on staff training and on talent attraction.

Finally, in collaboration with the Snam Foundation, Snam will contribute to the Pari Opportunità Politecniche (POP) programme of the Politecnico di Milano with the "Girls@Polimi" initiative, which provides for the donation of three scholarships lasting three years to encourage girls to study STEM (science, technology, engineering and mathematics) disciplines.

Snam and Indian Oil, collaboration to implement the energy transition in India

In November 2020, Snam signed a Memorandum of Understanding with Indian Oil, a government-owned company and one of the country’s largest integrated energy operators, aimed at possible joint projects for the energy transition and the gas infrastructure supply chain, with a particular focus on initiatives in the natural gas storage and liquefication sectors.

CDP, Eni and Snam for the decarbonisation of the energy system

In December 2020, Cassa Depositi e Prestiti, Eni and Snam signed a letter of intent to launch a strategic collaboration in energy transition.

The collaboration will lead to the joint creation of integrated projects in key sectors for energy transition, such as the hydrogen supply chain, the circular economy and sustainable mobility.

Eni and Snam will make available their complementary technical and industrial skills, respectively in the upstream/downstream and midstream, while CDP will leverage its economic-financial and relationship management skills with the institutions involved in the initiatives.

In detail, the three companies will carry out joint initiatives aimed at developing the production, transport, use and marketing of green hydrogen, including in railway transport. With regard to the sustainable mobility business, the construction of multifunctional CNG, LNG and hydrogen filling stations is planned, along with the development of the necessary infrastructure to ensure the supply of LNG across the national territory for land and sea transport.

The letter of intent also includes collaborations in the decarbonisation of those industrial sectors where the reduction of CO2 emissions proves to be more difficult, both through the Carbon Capture & Storage (CCS) development to promote the production of blue hydrogen in the transition phase, and progressively through green hydrogen. In addition, the three companies plan to build infrastructure and conduct research and development activities for hydrogen or CO2 storage and transport.

Other

New share buyback and treasury share cancellation plan without reducing the share capital.

On 18 June 2020, having revoked the part of the resolution that was not carried out with regard to the authorisation to purchase treasury shares, as adopted by the Ordinary Shareholders’ Meeting on 2 April 2019, the Ordinary Shareholders’ Meeting of Snam authorised the purchase of treasury shares through one or more leading intermediaries appointed by the Company, for a maximum disbursement of 500 million euro and, in any case, up to a maximum limit of shares equal to 6.50% of the subscribed and paid-in capital (regarding treasury shares already held by the company), to be carried out within 18 months from the date of the resolution in one or more tranches.

The resolution of the Shareholders’ Meeting also establishes the terms and conditions for the price of the treasury shares to be purchased and envisages that the disposal will be carried out in one or more transactions, without time limit, and including prior to completion of the purchases, in relation to all or part of the company’s treasury shares acquired pursuant to the said resolution, as well as those already held. The same Shareholders’ Meeting, in its extraordinary session, also held on the same date, approved the cancellation of 33,983,107 treasury shares without nominal value, leaving the amount of the share capital unchanged, and the resulting amendment to article 5.1 of the Articles of Association. The shares were cancelled on 6 July 2020 subsequent to the filing of the amended Articles of Association with the Companies’ Register.

Following this transaction, the share capital consists of 3,360,857,809 shares, without nominal value, for a total value of 2,736 million euro (unchanged vs. 31 December 2019). At the date of this report, Snam holds 90,642,115 shares, equal to 2.70% of the share capital.

Renewal of the EMTN and ECP programmes

On 12 October 2020, Snam's Board of Directors resolved on the annual renewal of the EMTN (Euro Medium Term Note) programme launched in 2012, to be executed by 12 October 2021 for a maximum overall value of 11 billion euro. As part of the EMTN Programme, at the date of this document, bond loans were issued in the amount of approximately 7.8 billion euro, net of the 500 million euro bond repaid on 26 October.

The same Board also approved the renewal of the Euro Commercial Paper programme (ECP Programme), launched in 2018, and the issue of one or more Euro Commercial Papers within the term of 3 years from 12 October 2020, which may be associated with ESG indicators defined on the occasion of the November 2020 Strategic Plan. Furthermore, the Board approved the extension of the maximum amount of the ECP Programme from 2 billion euro up to a maximum value of 2.5 billion euro, to be placed with institutional investors under the terms and conditions of the ECP Programme. To date, under the ECP Programme, the amount of commercial papers issued is equal to 2 billion euro.

Bond buyback

On 7 December 2020, Snam was successful in repurchasing bonds on the market for an overall nominal value of 629 million euro. The effects of this transaction on the 2020 income statement (32 million euro, 24 million euro net of the related tax effect) essentially lie in the charges from the difference between the disbursement deriving from the bond buyback on the market and the assessment at the amortised cost of the same bonds.

Through this transaction, Snam intends to continue the process aimed at optimising the debt structure and continuously improving the cost of capital, in line with its objectives.

The one just concluded represents the last of six liability management uses which, from 2015 to date, contributed to reducing Snam’s cost of debt from 2.4% in 2016 to 0.9% in the first nine months of 2020.

TERNA (DISPATCH AND TRANSMISSION OF ELECTRICITY)

Management and development of the NTG:

Due to the restrictive measures related to the Covid-19 emergency, the main construction sites were suspended between 13 and 20 March. The resumption of operations then took place gradually starting from 20 April in full compliance with the new anti-contagion Protocols concluded in the meantime also in cooperation with the trade associations and contractors (e.g. Terna-ANIE Federazione Nazionale Imprese Elettrotecniche ed Elettroniche Protocol), which identify anti-contagion measures (e.g. new access procedures, temperature check, site preparations, social distancing) and new PPE.

With the gradual resumption of operations starting from the end of April 2020, the construction activities were gradually restarted, from the earliest date practicable, in compliance with the currently applicable regulations with the implementation of the new working methods and tools.

- Italy - France interconnection: cables laid along the entire route for a total of 95 km.
- Interconnection in the Sorrento Peninsula: upon completion of the activities, in December all the lines were powered and handed over for commissioning.
- Grid reinforcements in the Foggia - Benevento area;
- Garaguso station: new station completed, powered and handed over for commissioning in December.
- Development of metropolitan areas: major works on cable infrastructures in the Turin and Naples, Alto bellunese e Valle Sabbia areas;
- Synchronous condensers: the plan for the installation of 16 synchronous condensers in Sardinia and Central-Southern Italy is being implemented as part of the 21-25 Plan to support the regulation of voltage and short-circuit power in areas of the country characterised by high production from renewable sources and a significant reduction in traditional production. Selargius and Matera: plants completed, powered and handed over for commissioning in December. Garigliano and Foggia: civil works are at an advanced stage of completion and on-site transportation of machinery is in progress. Maida, Candia, Fano e Brindisi: construction sites have been opened and the civil works for the site have begun; production of supplies is under way.

Non-Regulated and International Activities:

- Open Fiber Project: the plan for the provision of long-distance fibre optic infrastructures (regional rings) was substantially completed in 2020.
- FWA TOWERS: During 2020, inspection, design and authorisation activities were launched in relation to agreements with Open Fiber and Eolo, partially rescheduled to 2021 due to the Covid-19 emergency:

- Initiatives under way in Uruguay: in 2020, work progressed in relation to the management of the operational transmission line.
- Initiatives under way in Brazil: in 2020, operation and maintenance activities continued on the Santa Maria Transmissora de Energia (SMTE) line, in the state of Rio Grande do Sul, and the Santa Lucia Transmissora de Energia (SLTE) line in the state of Mato Grosso. Furthermore, works were launched on site and the engineering activities and the acquisition of rights and easements required for the SPE Transmissora de Energia Linha Verde II S.A. project were continued. This is the first of the two concessions subject to the preliminary agreement with Construtora Quebec for the construction of a 500kV and 150 km long power infrastructure in Minas Gerais. In August, the second concession subject to the afore-mentioned agreement was also closed, namely SPE Transmissora de Energia Linha Verde I S.A., for the construction of a 500 kV "Governador Valadares-Mutum" power infrastructure, running across a length of approximately 150 km and located in the State of Minas Gerais, for which building licences and project engineering are in the process of being obtained.
- Initiatives under way in Peru: the activities started in 2017 to build 132 km of new 138 kV lines between Aguatìa and Pucallpa were continued. Construction activities, which were interrupted in March due to the lockdown imposed by the government authorities for the Covid-19 emergency, resumed in July 2020. In the meantime, the procurement of materials for the transmission line and the civil works was completed. The project is expected to be completed in the first half of 2021.

Finance:

- On 17 July 2020, Terna launched a green bond issue for institutional investors, for a nominal value of 500 million euro. The issue, which was very well received by the market with a demand of over 2 billion euro, equal to four times the offer, and which was characterised by a high quality and wide geographical diversification of the investors, was carried out as part of its Euro Medium Term Notes (EMTN) Programme and amounted to 8,000,000,000 euro. The green bond will have a duration of twelve years and will fall due on 24 July 2032, with a price of 99.623% and a spread of 90 basis points compared to the midswap. It will pay a coupon rate of 0.75%. The effective rate will be 0.78%.
- On 28 October, 6 and 3 August 2020, Terna also entered into three bilateral credit facilities linked to sustainable development goals (ESG-linked Term Loan), respectively for an amount of 200 million euro, 100 million euro and 200 million euro and with a duration of 2, 3 and 2 years, all with an interest rate linked to Terna's performance in relation to specific environmental, social and governance (“ESG”) indices.
- The ESG-linked treasury shares buy-back programme (to service the 2020-2023 Performance Share Plan) was completed on 10 August 2020. Terna purchase 1,525,900 treasury shares (0.076% of share capital) under the programme, for a total value of approximately 9.5 million euro. This Programme has a reward/penalty mechanism linked to the achievement of specific environmental, social and governance targets by the Company. This mechanism will allow the Company to contribute to projects of reforestation and creation of green spaces in Italy, further consolidating the central role of sustainability as a strategic driver for creating value for all stakeholders.
- On 18 September 2020, Terna S.p.A. successfully launched a bond issue for 500 million euro aimed at institutional investors. The issue, which was very well received by the market with a demand of over 3 times the offer, was carried out as part of its Euro Medium Term Notes (EMTN) Programme and amounted to 8,000,000,000 euro. The bond has a duration of 10 years, with maturity on 25 September 2030, and will pay a coupon of 0.375%, at inception the lowest ever for a bond of an Italian corporate with the same maturity. It was issued at a price of 99.502, with a spread of 65 basis points compared to the midswap and an indicative spread around 50 bps lower than the BTP of the same duration. The actual cost for Terna of the issue was 0.426%.
- On 9 June 2020, Terna renewed its “Euro Medium Term Note (EMTN) Programme” of 8,000,000,000 euro in bond issues. The programme was rated “BBB+/A-2” by S&P, “(P)Baa2 /(P)P-2” by Moody’s, “BBB+” by Fitch and “A-/S-1” by Scope.

ITALGAS (GAS DISTRIBUTION SECTOR)

Extraordinary and M&A transactions

The agreement for the **sale of certain non-core industrial activities between Italgas and A2A** signed on 7 October 2019 **was finalised** on 31 January 2020. In particular, Italgas Reti transferred to A2A Calore & Servizi (A2A Group) the set of district heating activities managed in the municipality of Cologno Monzese (Milan); at the same time, Unareti (A2A Group) transferred to Italgas Reti the natural gas distribution activities managed in seven Municipalities belonging to the Alessandria 4 ATEM.

On 20 February 2020, in compliance with the “Invitation to Submit Expression of Interest” published on 9 December 2019 as part of the privatisation process initiated by the Greek government, an **expression of interest** in the **purchase of 100%** of the capital of **DEPA Infrastructure was submitted**. The assets to be sold include over 460,000 re-delivery points in Greece and approximately 6,400 km of low pressure networks. On 3 June 2020, the inclusion of Italgas in the short list of the entities admitted to the next stage of the tender for the purchase was confirmed.

On 26 May 2020**,** the **acquisition** from AEG Soc. Coop. of 15% of the **company Reti Distribuzione S.r.l.**, which manages the natural gas distribution service in 49 municipalities located in the Canavese, Valle Orco and Soana areas and in the Municipality of Saluggia for a total of 32,000 re-delivery points, **was finalised** through the subsidiary Italgas Reti. The transaction's consideration amounted to 4.6 million euro.

Anti-corruption certification

For the third consecutive year, Italgas S.p.A. and Italgas Reti S.p.A. have been certified according to the **UNI ISO 37001:2016** standard "Management systems for preventing and combating corruption"; Italgas S.p.A. also obtained the extension of the certification to the "anti-corruption governance" of all Group companies. The management system for preventing and combating corruption, adopted on a voluntary basis, has been verified by the independent certification body DNV GL - Business Assurance.

Corporate Governance Code

On 18 December 2020, the Board of Directors of Italgas decided to adopt the **Corporate Governance Code**, approved in January 2020 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria, as of 1 January 2021. The Company has already amended a large part of its procedures to ensure alignment with the Recommendations of the new Corporate Governance Code.

Digital Transformation

The Italgas Group's drive for innovation and process digitisation continued relentlessly despite the protracted Covid-19 emergency and the huge additional effort required to ensure "*business continuity*".

In 2020, the new **IoT platform** was released for all the Group's distribution companies, thereby strengthening the company's ability to remotely manage not only all the new smart meters, but also the new "smart" components that Italgas is installing along its 71,185 km of network. All data collected from the "field" can now be analysed with Big Data and Analitycs tools that enable further automation and machine learning developments to ensure an increasingly high-quality, sustainable, efficient and safe service.

The digitisation of the networks involved the Withdrawal, Reduction and Measurement sites (IPRM) and Reduction Groups (pressure reducing stations, pressure reducing stations for industrial utilities) with the installation of new IoT devices based on the adoption of a new communication standard "Protocol IEC-104 Italgas Version": a strategic choice, that ensures uniform communication among the Remote Terminal Units of the selected suppliers, thus allowing for the replacement of equipment in seamless mode, regardless of brand/model, and savings in the integration on the IoT Platform.

The Italgas Digital Factory continued to develop new solutions to support the network digitisation and end-customer management. The main innovations in 2020 include: ***WorkonSite*** for the remote supervision of worksites, ***SmartTracker*** for optimised management of the new meters lifecycle, the new portal with new self-service features for customers (both B2B for sales companies and B2C for end customers) and ***ClicktoGas*** to digitise and speed up the quotation process for new connections or other customer requests.

As part of the digitalisation concerning people, in 2020 Italgas launched the **Mac@Italgas project**, thus becoming the first large company in Italy to adopt Apple technology on all the devices in use by all its employees (iPhone, iPad and portable Mac PC), thus creating a fully integrated ecosystem of personal tools that are easy to use and offer easy access to new digital solutions.

Rating and debt structure optimisation

On 24 June 2020, as part of its 2019-2020 EMTN Programme, Italgas successfully completed the launch of a new fixed-rate **bond issue** maturing in June 2025 for an amount of **500 million euro** with an annual coupon of 0.250%.

On 20 October 2020, the EMTN 2020 Programme launched in 2016, already renewed in 2017, 2018 and 2019, was again renewed, while concurrently increasing its cap from the previous nominal amount of 5 billion euro to a nominal amount of 6.5 billion euro.

On 3 December 2020, the rating agency Fitch **confirmed its rating** assigned to Italgas S.p.A. at **BBB+ with stable outlook**.

Awarding of tenders

On 2 January 2020, the **tender for the concession** of the natural gas distribution service in the "**Valle d'Aosta**" Territorial Area was **officially awarded** to Italgas Reti.

On 31 January 2020, the **handover report of the "Torino 2"** territorial area (ATEM) **plants** to Italgas Reti was **signed** with the Metropolitan City of Turin as contracting entity and with the outgoing operators, thus officially starting the first management of the gas distribution service by Territorial Areas in Italy.

Finally, on 3 June 2020, the **tender for the concession** of the natural gas distribution service in the "**Belluno**" Territorial Area was **officially awarded**. The area consists of 34 municipalities currently methane powered, served by about 990 km of networks, for a total of 47,000 end users.

Cooperative Compliance

On 29 December 2020, Italgas S.p.A. and Italgas Reti S.p.A. were authorised by the Italian Revenue Agency to participate in the **cooperative compliance regime**, established to promote mutual trust communication and cooperation **with the tax authorities**.

KEY CONSOLIDATED MANAGEMENT FIGURES

The accounting situation of the companies of the CDP RETI Group as at 31 December 2020 is presented below from a management accounting standpoint. For detailed information concerning balance sheet and income statement performance, refer to the financial statements of the Group's companies, which contain full accounting information and analyses of the companies' operating performances.

Key financial figures

Items		31/12/2020	31/12/2019
Total revenue	(million of euro)	6,724	6,157
EBITDA	(million of euro)	5,005	4,845
EBITDA margin	(%)	74%	79%
Operating profit (EBIT)	(million of euro)	2,893	2,844
EBIT margin	(%)	43%	46%
Net income	(million of euro)	1,974	1,912
Profit margin	(%)	29%	31%

Key balance sheet and cash flow figures

Items		31/12/2020	31/12/2019
Property, plant and equipment	(million of euro)	36,401	35,547
Intangible assets	(million of euro)	10,383	9,927
Long-term financial liabilities	(million of euro)	29,762	28,069
Equity	(million of euro)	15,760	15,412
- attributable to the parent company CDP RETI	(million of euro)	*4,391*	4,263
- attributable to minority interests	(million of euro)	*11,369*	11,149
Net financial debt	(million of euro)	(28,403)	(26,276)

Other key figures

Items		31/12/2020	31/12/2019
Technical investments	(million of euro)	3,318	2,967
Net cash flow for the period	(million of euro)	2,224	841
Average workforce	(numbers)	11,777	11,455
Dividends distributed to shareholders during the period			
- *from SNAM S.p.A.*	(million of euro)	*(792)*	*(761)*
- *from TERNA S.p.A.*	(million of euro)	*(515)*	*(480)*
- *from ITALGAS S.p.A.*	(million of euro)	*(207)*	*(189)*
- *from CDP RETI S.p.A.*	(million of euro)	*(429)*	*(399)*

Ratios

Items		31/12/2020	31/12/2019
ROE	(%)	13%	13%
Net financial debt/EBIT	(numbers)	9.8	9.2
Net financial debt/Equity	(numbers)	1.8	1.7

With regard to key management figures, 2020 results were as follows:

Total revenues amounted to 6,724 million euro (6,157 million euro in 2019), an increase of 9% on the previous period.

EBITDA amounted to 5,005 million euro (4,845 million euro in 2019), with an EBITDA margin of 74% (slightly down compared to 2019) and an increase of around 160 million euro (+3.3%) on 2019. The contribution to the EBITDA margin was 32% for SNAM, 27% for TERNA and 15% for ITALGAS.

EBIT, amounted to 2,893 million euro (2,844 million euro in 2019), with an EBIT margin of 43% (slightly down compared to 2019). These figures also reflect the amortisation/depreciation and impairment resulting from the purchase price allocation (PPA)[14] of the assets and liabilities of SNAM, TERNA and ITALGAS.

Net income amounted to 1,974 million euro (1,912 million euro in 2019), with a percentage impact on revenues of 29% (31% in 2019). The amount pertaining to the Parent Company was 584 million euro (568 million euro in 2019).

Net financial debt was equal to 28,403 million euro, increasing by 2,127 million (+8%) on 31 December 2019. The total amount of about 28 billion euro refers to SNAM (45%), TERNA (32%) and ITALGAS (17%), and the remaining portion (6%) to the Parent Company CDP RETI.

Technical investments amounted to 3,318 million euro at 31 December 2020 and referred to SNAM (36%), TERNA (41%) and ITALGAS (23%).

The net cash flow for the financial year was positive by around 2,224 million euro (with cash and cash equivalents increasing from 4,246 million euro to 6,470 million euro), largely attributable to TERNA (+1,632 million euro), ITALGAS (+401 million euro) and SNAM (+194 million euro). Operating activities and financing activities generated resources of 3,271 million euro and 2,753million euro, respectively, which were partly offset by the resources used by investing activities (net of disinvestments) of 3,800 million euro.

ALTERNATIVE PERFORMANCE MEASURES[15]

CDP RETI measures the performance of the Group and its business sectors also on the basis of a number of measures not provided for in the IFRS. Consequently, the criterion used to determine values may differ from and not be comparable with those used by other groups.

Non-GAAP[16] financial reporting must be considered as supplementary and does not replace the information drafted in accordance with IFRS. In fact, the APMs presented in this Annual Report are considered significant for assessing operating performance with reference to the results of the CDP RETI Group as a whole. Furthermore, it is believed that they ensure better comparability over time of the same results, even though they are not substitutes or alternatives to the results determined by applying IFRS.

Pursuant to Consob Communication No. 0092543 of 3 December 2015, which implements Guidelines ESMA/2015/1415 on alternative performance measures, the components of each of these measures are described below:

i) “EBITDA”: Net Income adjusted by the following items (included in the consolidated financial statements): (i) Net income on discontinued operations, (ii) Taxes for the period, (iii) Financial income/expenses, (iv) Amortisation, depreciation and impairment.
ii) “EBITDA margin”: the percentage impact of EBITDA on Revenues and income.
iii) “EBIT”: EBITDA less amortisation, depreciation and impairment.
iv) “EBIT margin”: the percentage impact of EBIT on Revenues and income.
v) “ROE” (Return on equity): the ratio of Net income/loss for the period (over 12 months, from 1 January to 31 December) to average Total Equity at the beginning and at the end of the reporting period.
vi) “Net Financial Debt”: current and non-current financial debt net of cash and cash equivalents and short-term financial receivables. See the specific section for further details.
vii) “Net Financial Debt/Equity” ratio: this measures the level of solidity and efficiency of the capital structure in terms of the relative impact of borrowing and equity sources of financing (level of dependence on outside sources of financing). It is calculated as the ratio of Net financial debt, as monitored by the group, to Equity.
viii) “Net financial debt/EBIT” ratio: this measure is calculated by the group as the ratio of Net financial debt, as monitored by the group, to EBIT.

The calculation of these measures, unchanged with respect to those used at 31 December 2019, is consistent with that recorded in the comparison period.

[14] This allocation, required by IFRS 3 (*International Financial Reporting Standard* 3 – Business Combinations), must be made by the buyer, in its consolidated financial statements, to justify the purchase cost incurred in the context of this acquisition.
[15] A financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. Alternative performance measures are usually derived from (or based on) the financial statements prepared in accordance with the applicable financial reporting framework, most of the time by adding or subtracting amounts from the figures presented in financial statements (Guidelines ESMA/2015/1415 – articles 17 and 18).
[16] Generally accepted accounting principles (GAAP) that the companies must follow in the preparation of their financial statements.

3. ORGANISATIONAL STRUCTURE

3.1 THE ORGANISATIONAL STRUCTURE

At 31 December 2020, CDP RETI had one employee (plus three under part-time secondment), all on permanent contracts. The differences compared to 31 December 2019 are:

- the resignation effective 31 March 2020 of the resource assigned to the "Finance, Planning and Control" Organisational Unit and the resolution adopted by the Board of Directors on 1 April 2020 regarding the hiring[17] of a new resource who will be assigned to that same Organisational Unit. In addition to the previous resource under part-time secondment, from 1 July 2020 an additional resource (from the Parent Company) was also seconded to that same Organisational Unit;
- the resignation effective 19 June 2020 of the Head of the "Operations" Organisational Unit and the assignment on the same date of a resource (under part-time secondment and again from the Parent Company) to the same unit. The Board meeting of 29 July 2020 then appointed this resource as the new Head of the Organisational Unit;
- the resignation effective 16 September 2020 of the resource assigned to the "Industry & Corporate Affairs" Organisational Unit and the resolution adopted by the Board of Directors on 28 September 2020 regarding the hiring[18] of a new resource who will be assigned to that same Organisational Unit.

More generally speaking, it should be noted how the Company uses the operating support of the Parent Company CDP based on service agreements that provide the Company with all the skills and services that are key for the correct performance of its business. In this context, in the second half of 2020, work began on updating the Organisation, Management and Control Model pursuant to Legislative Decree 231/01, which also involves revising and updating the current service agreements.

Lastly, please note that, following the issue, on 21 May 2015, of a bond listed on the Irish Stock Exchange, CDP RETI assumed the position of listed Issuer with Italy as the Member State of origin, and was therefore obliged, pursuant to art. 154 – bis of the Consolidated Law on Finance, to appoint a Financial Reporting Manager.

Reported below are the average figures of the three groups SNAM, TERNA and ITALGAS:

SNAM

(average numbers)

	31/12/2020	31/12/2019
Senior Managers	129	116
Middle Managers	525	494
Office staff	1,715	1,699
Manual workers	752	733
Total	**3,121**	**3,042**

TERNA

(average numbers)

	31/12/2020	31/12/2019
Senior Managers	83	77
Middle Managers	669	638
Office staff	2,516	2,373
Manual workers	1,356	1,256
Total	**4,624**	**4,344**

[17] As of 31 December 2020 the documents and formalities for the definitive establishment of the subordinate employment relationship with the resource already identified are in the process of being completed.
[18] As of 31 December 2020 the documents and formalities for the definitive establishment of the subordinate employment relationship with the resource already identified are in the process of being completed.

ITALGAS

(average numbers)

	31/12/2020	31/12/2019
Senior Managers	60	62
Middle Managers	302	296
Office staff	2.239	2.247
Manual workers	1.430	1.464
Total	**4.031**	**4.069**

3.2 RISK FACTORS

INTRODUCTION

In the normal course of its business activities, the CDP RETI group is exposed to various financial and non-financial risk factors that, were they to materialise, could have an impact on the group's financial position, results and cash flows.

This section illustrates the main risks to which the CDP RETI group is exposed in the ordinary management of its business activities, as measured and managed at the level of TERNA, SNAM and ITALGAS. For the description of the financial risks, reference is made to the specific "Financial risk management" section of the notes to the consolidated and separate financial statements.

The main risks identified are listed below.

SNAM GROUP

STRATEGIC RISKS

Regulatory and legislative risk

Snam's regulatory and legislative risk concerns the rules applicable to the gas industry. The resolutions of the Energy Networks and Environment Regulator (ARERA) and the National Regulatory Authorities of the countries where the foreign affiliates operate, the European and Italian legislation and, more generally, changes to the reference regulatory framework may have a significant impact on Company operations, earnings and financial stability. It is impossible to envisage the effect that future changes in legislative and tax policies might have on the business of Snam and on the industrial sector in which it operates.

Considering the specific nature of its business and the area in which Snam operates, developments in the regulatory context with regard to criteria for determining reference tariffs are particularly significant.

Macroeconomic and geopolitical risk

In view of the specific nature of its business sector, Snam is also exposed to risks linked to political, social and economic instability in natural gas supplying countries, mainly affecting the gas transport sector. Most of the natural gas transported on the Italian national transport network is imported from or transits through countries in the MENA area (Middle East and North Africa, in particular Algeria, Tunisia, Libya and, in light of TANAP-TAP, Turkey combined with the States which overlook the eastern Mediterranean) and in the former Soviet Bloc (Russian Federation, Ukraine, Azerbaijan and Georgia). Those regions are sensitive to political, social and economic instability, which could possibly develop into future crisis scenarios.

The import of natural gas from these countries, or its transit through them, is subject to a wide range of risks, including: terrorism and general crime; changing levels of political and institutional stability; armed conflict, social-economic and ethnic-sectarian tensions; social unrest and protests; inadequate legislation on insolvency and creditor protection; ceilings placed on investments and on the import and export of goods and services; introduction of and hikes in taxes and excise duties; forced contract renegotiation; nationalisation of assets; changes in commercial policies and monetary restrictions.

If a Shipper that operates the transport service through Snam's networks is unable to complete the supply or transport of natural gas from or through these countries due to the occurrence of the aforesaid adverse conditions, or is affected by said adverse conditions, to an extent that causes or worsens the inability to fulfil its contractual obligations towards Snam, this may produce adverse impacts on the business and on the performance and financial position of the Snam group.

In addition, Snam is exposed to macroeconomic risks arising from displacement or tension in financial markets or situations deriving from external events, which could affect liquidity and accessibility to financial markets.

Commodity risk connected with gas price changes

With resolution no. 114/2019/R/gas, as part of the process of review of the criteria for the determination of the recognised revenue of the natural gas transport and measurement service for the fifth regulatory period (2020-2023), the criteria to recognise the Unaccounted-For Gas (UFG) have also been defined. Based on these criteria, from the year 2020 onwards, the quantities of gas for self-consumption, network leaks and UFG will be paid by cash instead of the recognition in kind by Shippers. However, the change in the price of natural gas will not continue to be a significant risk factor for Snam, since a mechanism is in place to cover the risk associated with the differences between the price set for gas volumes for self-consumption, network leaks and UFG and the actual supply price. With regard to the quantities recognised, the above-mentioned decision confirmed the current criterion regarding gas for self-consumption and leaks, while for the UFG the admitted level will be updated annually and will be equal to the average of the quantities actually recorded in the last four years available.

In July 2020, with resolution 291/2020/R/gas, the Authority concluded its assessments and ascertained an additional volume of UFG for 2018-2019, equal to a total of 182 million cubic metres, for a total value of around 42 million euro, which will be paid by the CSEA, net of the advance already received for 2018. The Authority also launched a procedure, which was completed at the end of 2020 with the publication of resolution 569/2020/R/gas on 22 December 2020, to refine the criteria for recognising UFC for the fifth regulatory period (2020-2023), so as to improve operational consistency and the related stability, also providing that the motivational force of the system is in any case based on predetermined unit fees proportionate to the remuneration of the metering service instead of the price of gas. This amendment substantially reduces the risk with respect to the potential impacts of the original provision.

In particular, while maintaining the current criterion for the recognition of the quantities of UFC for the tariffs and the related valuation, as well as the use of the neutrality mechanism envisaged in the Combined Regulations on Balancing in terms of value recognised, the Authority has introduced an incentive mechanism relating to the difference between the UFC recognised and the actual UFC for the same year.

In general, the changes in the current regulatory framework on the recognition of quantities of natural gas covering self-consumption, network leaks and UFG might have an adverse impact on the Snam group’s business, financial position and results.

Market risk

Lastly, as to the risk linked to gas demand, under the current tariff system applied by the ARERA to natural gas transport, Snam’s revenues, through its directly controlled transport subsidiaries, are partly correlated to output volumes. However, with resolution 114/2019/R/gas, ARERA confirmed for the fifth regulatory period (2020-2023) the guarantee mechanism covering the share of revenues correlated with output volumes already introduced in the fourth regulatory period on volumes transported. This mechanism reconciles higher or lower revenues exceeding ± 4% of the reference revenue correlated with output volumes. This mechanism guarantees about 99.5% of the authorised overall revenues from transmission activities.

Under the current tariff system applied by ARERA to natural gas storage, Snam’s revenues, through Stogit, are correlated to the use of infrastructure. However, ARERA has introduced a guarantee mechanism covering these revenues, which allows companies to cover a main share of the authorised revenues. Until the fourth regulatory period (2015-2019), the minimum guaranteed level of recognised revenue was approximately 97%, while for the fifth regulatory period (2020-2025) Resolution 419/2019/R/gas extended the level of guarantee to all recognised revenue (100%). The same resolution also introduced an enhanced incentive mechanism (defined by subsequent resolution 232/2020/R/gas) with voluntary participation, which provides for an increase in the profit-sharing of revenues from short-term services from 50% to 75% against a reduction in the portion of recognised revenue subject to a hedging factor.

Finally, with reference to the tariff regulatory criteria for the LNG regasification service for the fifth regulatory period (2020-2023), resolution 474/2019/R/gas confirmed the mechanism to cover reference revenue at a guaranteed minimum level of 64%. In general, the changes in the current regulatory framework might have adverse impacts on the Snam group’s business, financial position and results.

Abroad, protection against market risk is offered by French (Teréga) and Greek (Desfa) regulations, long-term TAP agreements and Austria (different deadlines for TAG and Gas Connect starting from 2023) and for Adnoc Gas Pipeline (20 years tariff-based). In Austria and the United Kingdom (Interconnector UK) the regulations do not guarantee the hedging of the volume risk.

Climate change risk

Achieving global climate targets will require significant investment in the decarbonisation of the energy sector over the next 30 years. In recent years, Snam has repositioned itself to benefit from the new energy transition mega-trends, through its infrastructure, which will be crucial to achieving decarbonisation targets, its presence in the energy transition businesses, international expansion and a disciplined approach to investments. Snam has made a commitment to achieving carbon neutrality by 2040, with an intermediate target of a 50% reduction in Scope 1 and 2 emissions from the 2018 values by 2030, in line with the goal to limit global warming to 1.5° C set by the Paris Agreement adopted at the Climate Conference (COP 21).This objective is also consistent with the CO_2 emissions reduction targets set by the UNEP (UN Environment Programme), which Snam has signed a protocol with.

With regard to the risks associated with the emissions market, within the scope of the European Union directives on trading carbon dioxide emission permits and the rules for controlling emissions of certain atmospheric pollutants, the update of the sector regulations accompanying the start of the fourth regulatory period (2021-2030) of the European Emissions Trading System (EU - ETS), has confirmed a continuous reduction in the number of free emission allowances. The allowances are allocated to each plant with progressively decreasing, and no longer constant grants, and also depend on the actual operation of the plants. The allowances granted free of charge to the group's plants are no longer sufficient to comply with regulatory compliance obligations relating to ETS mechanisms and, as a result, Snam obtains the missing allowances from the market.

With resolution 114/209/R/gas of 28 March 2019, ARERA defined the regulatory criteria for the fifth regulatory period (2020-2023) of the natural gas transport and measurement service, including – among other things – the recognition of the costs relating to the Emission Trading System (ETS). With resolutions 419/2019/R/gas and 474/2019/R/gas, the recognition of the costs relating to the ETS mechanism was introduced also for the storage services (regulatory period 2020-2025) and for the regasification service (2020-2023).

Climate change scenarios could also lead to a change in the choice of the energy mixes of the various European countries and in consumer behaviour, with resulting impacts on the demand for natural gas (and on volumes transported), which, on one hand, may benefit from greater sustainability compared to other fossil fuels in the short- to medium-term and act as a bridge towards the full decarbonisation of some sectors, but, on the other hand, may be affected by policies and individual choices that could lead to a progressive decrease in consumption. In addition, the toughening of the decarbonisation targets could affect the development of alternative uses of gas, stimulating greater penetration of renewable, low-carbon gases (green hydrogen, blue hydrogen, biomethane, synthetic methane) and the promotion of new businesses. Climate change could also increase the severity of extreme weather conditions (flooding, drought, extreme temperature fluctuations), thus deteriorating the natural and hydro-geological conditions of the territory, with possible impacts on both the quality and continuity of the service supplied by Snam and on the demand for gas at national and European level. With reference to the effects of the change in gas demand on the financial position and results of the Snam group, see the "Market risk" paragraph below.

Lastly, Snam has signed up to the Methane Guiding Principles, which commit the company to further reducing methane emissions from its operations in natural gas infrastructure. In subscribing to these principles, Snam is also committed to encouraging other players in the entire gas supply chain – from producer to end consumer – to pursue the same objective.

LEGAL AND COMPLIANCE RISK

Legal and compliance risk concerns the failure to comply, in full or in part, with laws and regulations at European, national, regional and local level with which Snam must comply in relation to the activities it performs. The violation of such laws and regulations may result in criminal, civil, tax and/or administrative penalties, as well as damage to its financial position, results and/or reputation.

Specific cases, including infringements of workers' health and safety, environmental protection or anti-corruption rules may also entail substantial fines for the Company based on the administrative liability of entities (Legislative Decree no. 231 of 8 June 2001). Snam has therefore adopted and is committed to promoting and maintaining an effective internal control and risk management system aimed at enabling the identification, measurement, management and monitoring of the main risks relating to its operations. With regard to the Risk of Fraud and Corruption, it is a top priority for Snam to conduct its business fairly and transparently and to reject all forms of corruption as part of its commitment to the respect of ethical principles. Snam's management is fully engaged in implementing an anti-corruption policy: they strive to identify potential weaknesses and to eliminate them, strengthening their control and working constantly to raise all workers' awareness of how to identify and prevent corruption in all business contexts. Reputational Check, as well as acceptance and signing of the Ethical Integrity Agreement are the pillars of the set of controls designed to prevent the risks associated with illegal conduct and criminal infiltration of our suppliers and subcontractors, with the aim of ensuring transparent relationships and professional morality requirements in the entire chain of companies and for the duration of the relationship.

Snam is a member of the United Nations Global Compact and operates according to the principles laid down in that global initiative, which are an integral part of the company's strategies, policies and rules, including the tenth principle of zero tolerance towards all forms of corruption, which underpins a firmly established culture of integrity and business ethics.

Since 2014, Snam has collaborated with Transparency International Italia as a member of the Business Integrity Forum (BIF), and in 2018 Snam signed a Memorandum of Understanding with the Berlin Secretariat of Transparency International. In 2017, Snam started working with the OECD, joining the Business at the OECD Committee (BIAC), and in October 2019 – as the first Italian company – it joined the Leadership as Vice-Chair of the Anticorruption Committee. In September 2019, Snam was also involved in the Partnering Against Corruption (PACI) initiatives of the World Economic Forum. In addition, thanks to its commitment to business ethics and anti-corruption, Snam was cited in the document presented at the B20 Summit under the Japanese Presidency held in Tokyo (2019) as a “concrete example” of a company that, through its actual actions, has distinguished itself in the fight against corruption. In 2020, in addition to the role of Vice-Chair in the Anticorruption Committee mentioned above, and with a view to the progressive promotion of ESG issues also at a multilateral level, Snam was selected as a permanent member of the Corporate Governance Committee of the BIAC, and, to that end, the company increased its work in the working groups on ESG and Corporate Governance set up by the World Economic Forum.

Within the OECD, Snam took part in several events, including the “Safeguards for a resilient COVID-19 response and recovery”, the first event of the year organised by the Organisation since the start of the international health emergency and replacing the annual Global Integrity Forum.

Lastly, during the B20 Saudi Presidency (2020), Snam was also one of the very few Italian companies to actively participate in the work of the Integrity & Compliance Taskforce, whose results were included in the policy paper circulated to G20 members ahead of the handover to the Italian Presidency (2021).

OPERATIONAL RISKS

Ownership of gas storage concessions

For Snam, the risk connected **with keeping storage concessions** stems from the business operated by its subsidiary Stogit, on the basis of concessions awarded by the Ministry of Economic Development. Eight of the ten concessions (Alfonsine, Brugherio, Cortemaggiore, Minerbio, Ripalta, Sabbioncello, Sergnano and Settala) expired on 31 December 2016 and may be extended not more than twice for ten years each time. With regard to those concessions, Stogit submitted, within the legal time limits, application for their renewal to the Ministry of Economic Development. The extensions of the concessions in Brugherio, Ripalta, Sergnano, Settala and Sabbioncello were issued at the end of 2020. For Alfonsine, Cortemaggiore and Minerbio, the procedures are still pending at the Ministry. For the extensions still pending, the Company, as provided for by the reference standards, will continue to operate under the old concessions, whose expiry is automatically extended for the purpose until completion of the renewal process. A concession (Fiume Treste) will expire in June 2022, which was already subject to a ten-year extension in 2011, and for which a request for a second 10-year extension was submitted on 18 May 2020. Lastly, a concession (Bordolano) will expire in November 2031 and may be extended for another ten years. If Snam is unable to retain ownership of one or more of its concessions or if, at the time of renewal, concessions are awarded under terms less favourable than current ones, the Company may experience negative effects on its business, financial position and results.

Failures and unforeseen interruption of the service

The risk of **service malfunction and sudden outages** is due to unforeseeable events, such as breakdowns or malfunctioning of equipment or control systems, lower plant yield and extraordinary events such as explosions, fires, landslides or other similar events, interference from third parties and cases of corrosion that fall outside Snam’s control. Such events may cause a drop in revenues as well as result in significant damage to persons and property, with possible compensation obligations. Although Snam has taken out specific insurance policies to cover some of these risks, in accordance with the sector best practice, the related insurance cover could be insufficient to meet all the losses incurred, compensation obligations or cost increases.

Delays in infrastructure work progress

Moreover, Snam may incur **delays in infrastructure work progress** due to the many unknown factors linked to operational, financial, regulatory, authorisation and competition aspects over which it has no control. Snam is therefore unable to guarantee that planned works to expand and improve the network are effectively undertaken or, if undertaken, are effectively completed or able to achieve the benefits envisaged by the tariff system. Furthermore, development projects may involve higher levels of investment or longer timeframes than initially estimated, thus affecting Snam’s financial position and performance.

Investment projects could be stalled or delayed due to difficulties in obtaining environmental and/or administrative authorisations or due to objections raised by political forces or other organisations, or could be affected by changes in the price of equipment, material and labour, or by political and regulatory changes during construction, or by the inability to obtain financing at acceptable interest rates. Such delays might have adverse impacts on the Snam group’s business, financial position and results. In addition, changes in the price of commodities, equipment, material and labour could affect Snam's financial results.

Environmental risks

Snam and the sites where it operates are subject to laws and regulations covering pollution, environmental protection, and the use and disposal of hazardous substances and waste. These laws and regulations expose Snam to contingent costs and liability connected with operation and its assets. The costs linked to potential environmental remediation obligations are subject to uncertainty in terms of the extent of the contamination, the appropriate corrective actions and the share of responsibility. They are therefore difficult to estimate.

Snam cannot predict whether and how environmental regulations and laws may become more binding over time, nor can it provide assurance that future costs of ensuring compliance with environmental legislation will not increase or that these costs may be recoverable within the applicable tariff mechanisms or regulation. Substantial increases in costs related to environmental compliance and other associated aspects and the costs of possible sanctions could negatively impact the business, operating results and financial and reputational aspects.

Employees and personnel in key roles

Snam's ability to run its business efficiently is dependent on the skills and performance of its personnel. The loss of "key" personnel or the inability to attract, train and retain skilled personnel (especially in technical positions for which there may be limited availability of appropriately skilled personnel), or situations where the ability to implement a long-term business strategy is negatively affected by significant disputes with employees, could have an adverse impact on the business, the financial situation and the operating results.

Risks linked to foreign equity investments

Snam's foreign investee companies may be subject to regulatory/legislative risk, political, social and economic instability risk, market risk, cyber security risk, credit and financial risks and all other risks typically affecting Snam's business in the natural gas transport and storage sector. These risks could therefore have an adverse impact on their business, financial position and performance. This could have a negative impact on the investees' contribution to Snam's net income.

Risks linked to future acquisitions/equity investments

Investments made under joint-venture agreements and any future investments in Italian or foreign companies could increase the complexity of the Snam group's operations insofar as it cannot be guaranteed that these investments will generate the expected profitability as part of the acquisition or investment decision and will integrate effectively with the group's other operations in terms of consistency with quality standards, policies and procedures. The integration process may involve additional outflows and investments. Lack of integration of the investment could have negative impacts on business, operating results and financial performance.

Emerging risks

The Group's Enterprise Risk Management model pays particular attention to identifying changes in the operating environment in order to detect events or macro-trends originating from outside the organisation that could have a significant medium-to-long-term impact (3-5 years and more) on Snam's business or its industry sector.

These changes may give rise to new risks in the long term, but may also start to already have consequences for the company now, changing the nature and extent of the potential impacts and likelihood of occurrence of the risks already identified.

The purpose of the process of identifying emerging risks is to be able to assess their impacts in a timely manner and put in place the necessary strategies and related mitigation actions to prevent and control those risks. The emerging risks identified by Snam in this area include cyber security and energy transition–related risks.

Cyber security

Significance and potential impact on Snam

Snam adopts a complex technological structure to conduct its business, relying on an integrated model of processes and solutions able to ensure the efficient management of the gas system nationwide. However, the development of the business and the use of innovative solutions to improve it require constant attention and the ability to continuously adapt to the changing needs for its protection. The Group's new Business Plan envisages around 500 million euro in investments in digitisation – from the control of activities on a remote basis to the adoption of complex infrastructure enabling the Internet of Things – which will enable Snam to become the most technologically advanced gas transmission operator in the world, in addition to ensuring ever increasing levels of security and sustainability of its business processes.

The projections by global experts and the company's own view is that cyber security threats will evolve in the future in terms of both number and complexity. The digital channel is increasingly used illicitly by different types of actors with different aims and different methods: cyber criminals, cyber hacktivists, state-sponsored action groups. In addition, technological development has made increasingly sophisticated tools available to these groups, enabling them to increase the effectiveness of existing attack techniques and develop new ones. The increasing digitisation of the network with the use of new technologies (e.g. Internet of Things) also poses significant challenges to the Group, extending the potential attack surface exposed to internal and external threats.

Cyber security plays a very important role in this scenario, because it has the task of preventing or dealing with a wide variety of events, which can range from the compromising of individual workstations to the disruption of entire business processes relating to transport, storage and regasification, potentially affecting the ability to deliver the service.

A correct approach to cyber security management is also necessary to ensuring full compliance with the increasingly strict industry sector regulations, issued both at European and Italian level, aimed at improving the management and control of companies that provide essential services for Italy.

Mitigation actions

Snam has developed its own cyber security strategy based on a framework developed in accordance with the main applicable standards, and has a dedicated function, which has been in place for several years now, which is responsible for holistically guiding and implementing measures established at strategic level, ranging from governance to more strictly technological aspects.

This includes the alignment of the internal processes to the provisions of ISO/IEC 27001 (Information Security Management Systems) and ISO22301 (Business Continuity Management Systems) and the formal certification of compliance of part of those processes with the standards listed by a third-party body. In addition, through a variety of activities, including Risk Analysis and Technical Verification, Snam assesses the protection needs arising from technological developments, changes in business processes or the identification of previously unknown vulnerabilities, and implements solutions to replace or supplement the existing solutions where necessary. More specifically, to adequately combat the most modern cyber threats, Snam has defined a cyber security incident management model aimed at preventing, monitoring and, where necessary, directing timely remediation actions in response to events capable of damaging the confidentiality, integrity and availability of the information processed and the technologies used. This activity is the responsibility of a Security Incident Response Team that, by adopting solutions that collect and correlate all the security events recorded on the entire perimeter of the company's IT infrastructure, has the task of monitoring all anomalous situations from which negative impacts for the company may arise, and initiating, where necessary, the appropriate containment and remediation actions by engaging the various technical and business structures concerned. In 2020, the Security Incident Response Team was again able to operate without interruption, providing support 24 hours a day, seven days a week.

The change that has been necessary in the operational processes, and in particular the extensive use of remote working arrangements, has not affected the overall level of security up to now. This is mainly because the adoption of remote working as an alternative to in-person work in recent years had already prompted the company to conduct the necessary risk analysis and implement appropriate security solutions for protecting the company's interests, also in the presence of a larger potential attack surface than in the past. In addition, within the context of the cyber incident management activities (preventive and reactive) and in accordance with the formal agreements signed between the parties, info-sharing logic is used with national and European institutions and peers in order to improve the response times and capacity in respect of possible negative events that the company may be exposed to. This approach will become increasingly necessary in the future, also in view of the cyber threat notification requirements that are currently imposed and will be imposed by the national security regulations.

With regard to technological development, as mentioned above, Snam is currently implementing an ambitious digitisation programme that will radically change its business processes in the coming years and which will always include a strong focus on cyber security issues. In 2020, the foundations were laid for the secure development of all the emerging Internet of Things initiatives. Firstly, a Security by Design process was developed, which imposes compliance with specific requirements and checks for each application and infrastructure development. In addition, the most suitable security technologies were identified for the support of the new capabilities that Snam will acquire in the coming years. Lastly, the company identified the security processes to be developed to duly take account of the new security requirements arising from a business environment in which working methods, technologies adopted and the surface area exposed to digitisation will change significantly over just a few years.

Considerable attention is also paid to raising awareness and training specialist staff, to make it easier to identify weak signs and make everyone as aware as possible of the cyber risks that can occur during normal work activities. In this context, initiatives of various kinds are organised on a regular basis, using the most appropriate teaching methods: face-to-face training, multimedia, exercises and tests, newsletters, etc.

Finally, with reference to managing information supporting business processes, it should be noted that the company owns the asset used for data transmission to and from the territory (fibre); this results in greater intrinsic security thanks to its non-dependence on the service provided by third parties and the possibility of exclusively using the communication channel.

ENERGY TRANSITION AND DEVELOPMENT OF THE HYDROGEN MARKET AND TECHNOLOGIES

Significance and potential impact on Snam

As climate change shows the concrete effects of rising temperatures, the energy world is facing a period of radical transformation: while maintaining its commitment to the company's core business of regulated natural gas transportation, storage and regasification activities, Snam is creating a broad and diversified platform of activities related to energy transition (in particular, transportation and management of renewable energies, such as biomethane and hydrogen, and construction and management of plants for sustainable mobility and energy efficiency) to grasp the opportunity to become a system integrator, able to offer green solutions and contribute to the development of renewable gases.

The diversification of its business will strengthen Snam's position as an enabler of the energy transition towards forms of use of energy resources and sources that are compatible with environmental protection and progressive decarbonisation, with a long-term vision in line with its purpose and the European objectives.

In addition, Snam has been working to make its infrastructure suitable for transporting increasing amounts of renewable gas with a view to transporting fully decarbonised gas by 2050.

In this context, and with particular reference to the Group's strategy, the main risk factors include: the risks posed by technological innovation for the switching to the use of electric technologies, and/or delay in the development of new technologies for the production, transport and storage of green hydrogen at competitive costs; the delay or absence of investments (infrastructure, projects, new acquisitions) as a result of uncertainties relating to operational, financial, regulatory, authorisation, competitive and social factors; and the failure to develop the hydrogen market with respect to the value chain that should drive the infrastructure. Lastly, the possibility of changes in the regulatory framework in favour of intermittent energy sources, while also undermining the development of the renewable gas market, should also be considered.

These factors may affect the achievement of the development objectives of the above-mentioned activities and, more generally, the opportunity for Snam to benefit from the new energy transition mega-trends.

Mitigation actions

The development and introduction of new technologies to achieve the development objectives for the energy transition activities pose a number of challenges for the Group. In this context, specific initiatives have been identified and developed to respond to the urgency of tackling climate change. With regard to the hydrogen value chain in particular, the study of the necessary technological developments related to the chemical and physical processes for its production requires special skills and knowledge to support research and development at both individual company and country level. The processes commonly used for the commercial production of hydrogen are: reforming of hydrocarbons and biogas (95%), a thermochemical conversion process, which requires conversion temperatures between 150° and 500°C with production of CO_2 equivalent to the hydrocarbon used; and electrolysis of water (4-5%). In particular, the lack of expertise in alternative technologies to natural gas is a risk that can potentially be exacerbated by rapid changes in the external environment. To this end, the Group has long been committed to the development of internal know-how, the in-sourcing of expertise through acquisitions and involvement in and promotion of institutional and association working groups devoted to hydrogen at national and international level. At European level, it is also a member of Hydrogen Europe, and in Italy it is represented in the Italian Hydrogen and Fuel Cells Association – H2IT.

The Group's facilities and assets will also need to be ready to capture the opportunities arising from the development of alternative gases to natural gas. In April 2019, firstly in Europe, Snam experimented with feeding a mix of 5% hydrogen by volume and natural gas into its transmission network. This experiment was repeated in December 2019, doubling the percentage of hydrogen by volume to 10%. The company is now engaged in verifying the full compatibility of its infrastructure with increasing quantities of hydrogen blended with natural gas, in addition to supporting the development of Italy's gas supply chain to encourage the use of hydrogen in a variety of sectors, from industry to transport. Currently around 70% of Snam's pipelines are hydrogen-compatible and it has set standards for the purchase of only hydrogen-ready components for the network. The development of the Group's infrastructure is therefore aimed at making the use of programmable, low-impact fossil fuels more efficient, while also promoting the biomethane alternative and providing the necessary conditions to accommodate hydrogen.

Italy can use hydrogen to its advantage both to achieve decarbonisation targets and to create new forms of industrial competitiveness, leveraging its manufacturing potential and its expertise in the natural gas supply chain. This is why it is essential to build partnerships to promote the development of operators along the hydrogen value chain and to participate in working groups to enable Snam to take the lead in advocacy and awareness-raising in favour of the use of hydrogen as a key energy source for decarbonisation both in Italy and internationally.

To date, the Group has reached agreements with several companies to promote the growth of all phases of the hydrogen value chain, with a focus on pilot projects to increase the production and use of hydrogen, through strategic partnerships in hard-to-abate industries (e.g. steel mills, refineries, other energy-intensive industries, mobility...) and scouting for investment opportunities in innovative technologies (fuel cells, hydrogen production and storage).

TERNA GROUP

In light of the particular and specific nature of its core business, which is regulated by government concession and the provisions laid down by ARERA (the Italian Energy Networks and Environment Regulator), Terna is not exposed to common price and market risks, if not marginally and limited only to Non-Regulated Activities and International Activities, but it is exposed to regulatory and legislative risks and to traditional operational risks, made ever more stringent by the technical requirements ensuing from the current energy transition process.

The regulatory risk derives from the possible changes in the parameters used to determine regulated revenue, especially on the occasion of the multi-year review of the regulatory framework. The legislative risk is linked to possible changes in Italian and European rules governing environmental, energy, tax and social matters (especially concerning work and contracts).

The main risks subject to analysis and monitoring by the TERNA group are detailed below.

Risks related to Service Continuity and Quality

Increased severity of weather events: Risk related to the intensification of extreme weather events (tornadoes, heavy snowfall, ice, flooding) with consequent impacts on the continuity and quality of the service supplied by Terna and/or damage to equipment, machinery, infrastructure and the grid.

Management actions: New investments to enhance the resilience of the electricity grid and identification of mitigation actions.

Separation of the European transmission grid: Risk related to extreme weather events/incorrect grid design according to n-1 safety criteria of the European transmission grid with possible resulting cascading phenomena leading to overloads/line disconnections, critical events and major incidents on the interconnected European transmission grid with grid separation and widespread power cuts.

Management actions:

- Control processes and systems to protect the electrical system
- Involving round tables and programmes for analysing safety/protection scenarios at European level aiming to improve the safety and coordination of the interconnected grid.

Cyber Attacks: Risk related to cyber attacks, e.g. via ransomware, which could result in (i) loss of visibility of plants, (ii) temporary unavailability of systems, (iii) loss of data and/or extra recovery costs.

Management actions:

- Internet protection systems, perimeter protection and segregation of IT-OT networks
- Consolidated IT monitoring processes (CERT - Computer Emergency Response Team)
- Awareness campaigns

Human Resources

Enhancement and supervision of internal expertise: Enhancement and supervision of appropriate specialist skill sets to achieve the plan’s challenging objectives.

Management actions:

- Expanding the workforce
- Training and developing professionalism

Injuries/accidents in the workplace: Risk related to serious/fatal injuries and/or accidents that may have consequences for the health of employees and/or contractors and subcontractors, as well as hinder the attainment of the company objectives of safeguarding people’s health, while also having serious repercussions on the Group’s reputation and credibility.

Management actions: Strategic Steering Committee, aiming to continuously improve the company as a whole (procedures, technologies, working methods, etc.) with a specific focus on HSE topics.

Regulatory Authorities and other Institutional Stakeholders

Evolution of remuneration mechanisms: Risk related to defining new methods and updating parameters to calculate revenues from activities regulated under concession arrangements.

Management actions: Focus on output-based regulation linked to high utility interventions for the electrical system.

Evolution of the National Electricity Grid

Schedule to grant authorisations for works with an impact on the investment plan: Risk related to delays or postponements in obtaining the necessary authorisations to carry out the works, with consequent postponement of the entry into operation of infrastructure, and impacts on the investment plan.

Management actions: Identifying back-up works to be started in case of postponing certain projects.

Extended authorisation process due to opposition from local entities/environmental associations: Risk related to the possibility that opposition from local entities, environmental associations, citizens' committees and local administrations could lead to significant delays in reaching the agreements needed to implement the projects for the development and safety of the National Electricity Grid.

Management actions: Regarding impacts on the landscape, assessments on the possible intensification and promotion of using underground/marine cables to replace overhead lines, when compatible with the safety and operation of the national electrical system.

Delays in obtaining authorisations caused by the implementation of pre-authorisation requirements: Risk related to the presence, in the intermediate opinions and/or opinions related to the Environmental Impact Assessment (EIA) and/or Landscape Authorisations, of requirements that determine the need for "changes to the project being authorised" or variations to part of the project, thus leading to a longer authorisation process in light of the compliance activities.

Management actions: Planning back-up works to be started in case of postponing certain projects.

Time frame for compliance with and implementation of post-authorisation environmental requirements, expert advice and environmental checks on construction sites: Risk related to possible delays in the execution phase in order to comply with the post-authorisation requirements set out in the authorisation decree, as well as for compliance with and monitoring of all of the requests for environmental aspects (archaeology, bird life, geology, environmental engineering and green areas), for the need to interface with the supervisory bodies involved in the compliance with the authorisation requirements (e.g. sharing the Environmental Monitoring Plan with Bodies/Third Parties), for the technical and specialist environmental support to correctly implement the requirements given before and during the works and for the checks on the construction sites for compliance with the regulations.

Management actions: Developing coordinated activities aiming for consensus among the various stakeholders within a structured process for monitoring the issue with internal procedures and well-defined roles.

Customers, Suppliers and Business Partners

Saturation of suppliers' operating capacity with consequent delays in carrying out and maintaining the works: Risk related to the ability of suppliers to execute a challenging plan and/or the inability to adapt their offer to Terna's growing demand in a timely manner, resulting in delays in carrying out the works planned.

Management actions: Actions to expand the qualified sectors.

Changes in the strategy/priorities of large key suppliers and consequent delays/extra costs in carrying out the works: Risk related to changes in the strategy of key suppliers due to the increased appeal of other sectors (e.g. renewable energy, industrial automation), geographical markets (e.g. India) and/or change in priorities with consequent delays/extra costs in executing the Plan's works.

Management actions: Actions to engage the supplier in advance (inclusion of "notices to proceed"), within the limits of the provisions of the Procurement Code, so as to "seize" the production capacity of key suppliers in advance in accordance with the time frame to carry out the works.

ITALGAS GROUP

The main risks subject to analysis and monitoring by the Italgas group are detailed below.

OPERATIONAL, STRATEGIC AND BUSINESS RISKS

Italgas has adopted an Internal Control and Risk Management System integrated into its organisational, administrative and accounting structure and, more generally, into its corporate governance, which ensures compliance with laws and corporate procedures, the protection of corporate assets and which contributes to the management of activities by ensuring the soundness of the accounting and financial data processed.

The main risks mapped in the Enterprise Risk Management (ERM) process and monitored by the company and the mitigation actions taken are outlined below.

It should be noted that despite the mitigation actions introduced to monitor and prevent the occurrence of significant risks, the Company does not exclude that the occurrence of specific events may lead to the recognition of liabilities in the financial statements.

Risks related to service continuity: malfunctions, accidental or extraordinary events

Risks of malfunctioning and/or unforeseeable distribution service disruptions from accidental events, such as accidents, breakdowns or malfunctioning of equipment or control systems, the under-performance of plants and non-recurring events such as explosions, fires, earthquakes, landslides or other similar events beyond Italgas' control.

The main risk management methods are:

- Third Party Liability and Asset Protection insurance covers;
- Procedures and systems to manage emergencies, emergency plans with measures defined for securing plants and guaranteeing continuity of service;
- Health and Safety procedures, communication campaigns, training and awareness-raising meetings on accident prevention, initiatives that also involve suppliers/contractors;
- Integrated Supervision Centre active 24 hours a day to monitor the network status remotely through remote control of the installations, management of emergency requests, identification of places requiring intervention, monitoring of the progress in the implementation of safety measures;
- Safety systems for plants and assets and for monitoring the network;
- Gradual network digitisation to ensure the improvement of real-time monitoring systems and predictive maintenance;
- Scheduled searches for leaks using the most advanced systems and technologies (Picarro Surveyor) and covering a greater portion of the network than required by ARERA standards;
- Measures for the continuous modernisation of the network (investments in maintenance, replacement of cast-iron pipes with mechanical joints, plans for renovation of risers and shelves);
- Measures to prevent potential damage to pipes installed by third parties (e.g. other sub-services);
- Procedures for qualifying third-party construction, engineering and works management companies, supervision of contractors;
- Digital Factory for the development of innovative solutions for the digitisation of processes and to improve operating and network management activities and the quality of service.

Risks to the health and safety of people and to the environment

Risk of injury due to accidents and/or non-compliance with safety standards.

Risk that Italgas may incur costs or liabilities, also of a significant amount, as a result of environmental damage, also in view of changes in environmental protection regulations, the possibility of litigation and difficulties in determining its possible consequences, including with regard to the liability of other parties.

The main risk management methods are:

- Specific insurance policies in the "personal injury" class covering occupational and non-occupational accidents and death due to illness;
- HSEQ system in compliance with the reference standards, certified according to international standards in the areas of health quality, safety, environment and energy efficiency, with compliance audits carried out by a certification body;
- Research and technological innovation activities and processes and measures for energy efficiency, the improvement of safety conditions of plants as well as for the environmental remediation of old manufactured gas production sites;
- Monitoring of HSEQ regulations, establishment and dissemination of the relevant risk management measures;
- Training on HSEQ issues and electronic Learning Management System;
- Digital applications for reporting and recording near misses and for Italgas Reti waste management;
- Communication campaigns and awareness-raising meetings on safety and other HSEQ issues for all business units. Reward systems for "virtuous" operating units in terms of health and safety;
- Conventions with suppliers/contractors to raise awareness/alignment on HSEQ issues;
- Internal procedures providing for specific measures against suppliers/contractors in the event of non-compliance in the HSEQ area and a reward system for virtuous behaviours (Trofeo Sicurezza Appaltatori, Contractor Safety Trophy);

- Compliance audits on the integrated HSEQ and ISO 37001 system and technical audits of suppliers and contractors both during qualification and in the course of ordinary operations.
- With specific regard to remediation activities:
- A dedicated provision was set up to cover the estimated costs of compliance with current legislation;
- Contaminated Sites Remediation Process that defines the tasks, operating methods and guidelines with respect to waste removal operations, site analysis, implementation of safety measures and/or remediation of sites contaminated by previous activities;
- Unit dedicated to monitoring the design and implementation phases. Inspections of remediation sites carried out by in-house and external personnel, both during the work and for final testing.

Risk of smart meter malfunctions

Risk of increased levels of malfunctioning of remote meters with loss/missing consumption readings and/or need for replacement or reconditioning.

The main risk management methods are:

- Maintaining an adequate provision to cover the costs arising from malfunctions;
- Issuance of appropriate warranties by suppliers of materials;
- Digital Factory "SmartTracker" application for tracking and managing smart meters throughout their life cycle;
- Plan for the replacement and/or repair of malfunctioning meters;
- Audits of suppliers and testing of materials supplied;
- Updating of technical specifications, also in view of technological developments;
- Gradual adoption of Smart Meters equipped with NB-IoT communication technology.

Risks related to Energy Efficiency Certificates

Potential risk of economic loss due both to the possible negative difference between the average purchase value of the Energy Efficiency Certificates and the tariff contribution granted at the end of each year of the obligation and to the possible failure to achieve the targets set annually.

The main risk management methods are:

- A dedicated provision was set up to cover liabilities associated with Energy Efficiency Certificates;
- Process for the acquisition of Energy Efficiency Certificates and management of related obligations;
- Monitoring in the development of regulations;
- Active participation in round tables and development of sector position papers with proposed guidance for a revision of the rules applicable to Energy Efficiency Certificates;
- Optimised purchasing strategy through constant market access, assessment and development of potential relationships for bilateral agreements, periodic reporting to management;
- Involvement in energy efficiency sectors through the development of projects with partial reduction of the short position in energy efficiency certificates.

Risks related to the development and award of tenders for gas distribution services

Risk of not awarding concessions in the planned areas, or awarding concessions on less favourable terms than the current ones.

Risk of higher operating costs for the Group compared to its operating standards if Italgas is awarded concessions for districts (ATEM) previously managed entirely or partially by other operators.

Risk of judicial and/or arbitration disputes, with possible negative effects on business activities and on the balance sheet, income and cash flow situation of the Italgas Group, given the complexity of the regulations governing expiry of the concessions held by Italgas.

Risk that the reimbursement value of the concessions, which might be awarded to a third party following the concession tendering procedure, might be less than the value of the RAB, with potential adverse effects on the business and on the Italgas' financial position, results and cash flows.

The main risk management methods are:

- Mitigation, provided by the existing regulatory framework, which, in the event of failure to award previously managed concessions, provides that for owned networks, Italgas, as outgoing operator, is entitled to be paid the reimbursement value;
- Specific procedures governing pre-tender activities, including calculation of reimbursement value, and participation in tenders;

- Monitoring of regulatory developments (national, regional, local) and assessment of potential impact on the tendering process;
- Planning of tender calendar and bidding strategy integrated in the Group's Strategic Plan, which is updated annually based on the analysis of key success factors of each district (ATEM), including elements characterising the competitive environment;
- Critical analysis of the quality of the tender offer and implementation of improvement actions, also with the help of external experts, bodies and universities.

Risks related to climate change

Risk of increase in the frequency of extremely intense natural events in the places where Italgas operates (more or less prolonged unavailability of assets and infrastructure, increase in restoration and insurance costs, interruption of the service etc.)

EMERGING RISK:[19]: Risk of an increase in average temperatures in the areas where Italgas operates, with negative impact on distributed gas volumes and/or the number of active re-delivery points served

EMERGING RISK: Risk of changes in the Italian and EU legislative and regulatory framework on greenhouse gases intended to limit air emissions, for example by introducing measures for the compulsory purchase by natural gas distributors of certificates covering air emissions.

EMERGING RISK: Risk of technological developments that may have an adverse impact on residential demand for natural gas.

EMERGING RISK: Risk associated with uncertainty as to the role of natural gas in the future energy mix.

The main risk management methods are:

- Operational countermeasures as described in the risk “Service continuity: malfunctions, accidental or extraordinary events”;
- Target of at least 20% reduction in methane emissions by 2026;
- Use of Picarro Surveyor technology, currently the most advanced technology in the field of gas network monitoring activities, with significant advantages in terms of speed of execution, size of monitored areas and sensitivity in detecting gas in the air that is three times higher than in systems currently used by industry operators (parts per billion versus parts per million);
- Process for transforming more than 70,000 kilometres of network into digital infrastructure to enable the distribution of non-methane gases, such as hydrogen and biomethane;
- Development, implementation and deployment of digital applications for remote control of network and plant construction sites, development and maintenance;
- Conversion to natural gas of distribution networks powered by LPG, with consequent reduction in emissions compared to the current configuration;
- Measures for the continuous modernisation of the network (investments in maintenance, replacement of cast-iron pipes with mechanical joints, plans for renovation of risers and shelves);
- Promotion of responsible business practices, through endorsement of the UN Global Compact and UNEP OGMP 2.0;
- Orientation activities to define sector association positions in Italy and abroad;
- Active participation in consultations called by the Italian Government or European Community bodies on relevant issues;
- Active participation in the activities of European sector associations to monitor technological developments;
- Execution of energy efficiency projects through the subsidiaries Seaside and Toscana Energia Green;
- Investments designed to increase the Group's presence in the water and energy efficiency sectors;
- Promotion of sustainable mobility;
- Development of power-to-gas technology powered by renewable energy to produce gas that can be used in existing networks;
- Initiatives to analyse the network and plants to assess their adequacy and actions to enable the transport of gases other than natural gas, such as hydrogen and biomethane.

Risks of cyber attacks

Risks of cyber attacks in the IT (Information Technology), OT (Operational Technology) and IoT (Internet of Things) sectors

The main risk management methods are:

- Specific insurance coverage of *cybersecurity* risks;
- Cybersecurity organisational and operational model;

[19] Risk that involves medium-long term potential effects for the company and/or the sector.

- Business continuity, network and information security and emergency and crisis management model and procedures;
- Specific training for Group employees on cyber risks, common vulnerabilities, phishing and spam;
- Phishing simulations against Group employees to test and strengthen their ability to recognise malicious e-mails;
- Secure Product Development Lifecycle process that defines an operational and design approach in which considerations and measures to prevent and mitigate cybersecurity risks are integrated from the earliest stages of the hardware and software procurement and/or development process;
- Performance of IT and OT vulnerability assessments;
- Definition and regular updating of contractual technical specifications, including on cybersecurity;
- Leading suppliers in the industry that guarantee the highest levels of security and performance, whose service levels are contractually defined and monitored;
- "Cybersecurity Awareness for third parties" - which Italgas Group suppliers must formally undertake to comply with - which promotes the application of appropriate cybersecurity processes by third parties.

Risks related to Human Resources

Risks related to the development of human resources, including the risk of key staff leaving the company, the risk of a lack of technical and specialist know-how, the risk of an increase in the age of the company's workforce, a fall in the level of satisfaction and/or an increase in labour disputes.

The main risk management methods are:

- Knowledge transfer system developed in the Italgas digital factory, which provides for video recording of operational activities and instructions accessible in real time through wearable devices;
- Continuous refinement of training processes, with a multimedia platform for planning, managing and accessing the various managerial, technical, HSEQ and digital training activities;
- Initiatives to disseminate the digital culture and know-how (digital skills mapping, appointment of Digital Ambassadors and training on digital issues);
- Personnel search and selection process, performance management system and career development plans with personalised training programme;
- Succession plan for top management roles;
- Cooperation with Italian Universities and Polytechnics for early talent acquisition;
- Organisational units dedicated to diversity and inclusion and HR sustainability;
- Periodic corporate climate survey covering all Group employees;
- Services and welfare system constantly expanding to meet new needs and expectations;
- Italgas Human Rights Policy;
- Italgas policy for diversity and inclusion;
- Mac@Italgas project to provide all Italgas employees who already have an i-phone and i-pad, with a portable Mac to replace their Windows PCs, ensuring an ecosystem of personal tools that offer easy access to new digital solutions, encouraging sharing and collaboration and improving employee daily experience.

Risks related to quality and service level

Risk of non-compliance with commercial service levels for services to sales companies and/or risk of delayed or partial compliance with commitments, such as, for example, execution of the investment plan for concessions that impose obligations on the part of the concession-holder.

The main risk management methods are:

- Continuous monitoring of Key Performance Indicators on commercial processes, alerts and reporting to the Local Hubs for activation/acceleration of local interventions;
- Ad hoc analysis of all business processes and development of improvement measures;
- Procedures and operating instructions for the Commercial Management of the Service;
- Accelerated service level improvement driven by the digitisation of assets and processes;
- Survey to sales companies;
- New Italgas digital portal dedicated to Gas2be sales companies, developed to strengthen partnerships, facilitate the network accreditation process and give the sales companies direct and immediate access to information and news about Italgas, such as the latest promotions launched in the area, or upcoming webinars designed specifically to increase and improve the exchange of know-how between Italgas and the sales companies;
- Allocation of the responsibility for mapping outstanding concession commitments to a specific business unit, monitoring and activation of network technical units for timely intervention;
- Monitoring the progress of the work according to commitments;
- Ongoing dialogue with the granting bodies, also with a view to identify and meet any needs for updates;
- Introduction of SalesForce (CRM) to support the people working at the Italgas Contact Center in front-end activities (Customer Service).

Supply chain risks

Risks associated with the availability and cost of materials, services and supplies, with operational capacity and scalability, and with the reliability, from a reputational and compliance standpoint (including respect for human rights) of the Group's suppliers and contractors.

The main risk management methods are:

- Procurement planning, analysis and monitoring of function KPIs;
- Supplier qualification process with specific reputational and anti-mafia checks;
- Standardised processes and tender regulations;
- Evaluation of supplier performance, including sustainability, integrated in the vendor management form;
- On-site audits for the qualification of suppliers deemed Critical/Strategic;
- Continuous updating of technical specifications also in view of technological developments and contractual clauses governing cases of goods and services exposed to cyber risk;
- "Code of Ethics for Suppliers" that Italgas Group's suppliers must formally undertake to comply with, which are based, inter alia, on the UN Universal Declaration of Human Rights, the Declaration on Fundamental Principles and Rights at Work and the Conventions issued by the International Labour Organisation (ILO) and the Ten Principles of the Global Compact, as well as on the UN Guiding Principles for Businesses and the OECD Guidelines for Multinational Companies;
- "Cybersecurity Awareness for third parties" - which Italgas Group suppliers must formally undertake to comply with;
- Renewed logistics model with centralisation of the warehouse and management of draw points in the various areas (UTs) and consequent digitalisation of the monitoring of materials in inventory/transit.

Risks associated with COVID 19, pandemic events and new diseases

Risks associated with the health crisis resulting from COVID-19 and/or the spread of new pandemics or new diseases that could have repercussions on Italgas in terms of health and safety, operating environment and consequent economic and financial conditions.

The main risk management methods are:

- Establishment of a Crisis Committee for analysis and decision-making concerning the management of the pandemic;
- Constant monitoring of changes in reference regulations and scientific solutions for the management of the COVID-19 emergency both nationally and internationally, engaging with the authorities and with research bodies and hospitals on an ongoing basis;
- Adoption of the Corporate Protocol for the Italgas Group that governs measures to combat and contain the spread of the COVID19 virus in the workplace;
- Specific indemnity insurance policy for all employees who tested positive to COVID-19;
- Campaigns open to all employees for molecular test swabs, serological testing and flu vaccination;
- Specific operational measures to minimise contacts (remote working, review of operating methods, suspension of travel and visitor access), specific security measures such as specific routes, temperature scanners at the entrance, hand sanitising stations;
- Daily monitoring of positive cases and quarantined personnel and process for receiving and handling reports of COVID19 positive cases, including identification of personnel who came into contact and activation of quarantine in coordination with local health authorities and local doctors.

RISK ASSOCIATED WITH CHANGES IN REGULATION AND LEGISLATION

Risk of changes in the regulatory and institutional framework at European or national level affecting the natural gas sector.

Risk of unfavourable update of the rate of return on net invested capital recognised by ARERA from 1 January 2022 depending on the updating of the underlying macroeconomic variables.

The main risk management methods are:

- Structures dedicated to monitoring regulations, the legislation and their development plans envisaged also at European level;
- Active participation in consultations called by ARERA, sharing the company positions and/or proposals that support defining, updating and implementing clear and transparent regulation criteria;
- Active participation in consultations called by the Italian Government or European Community bodies on relevant issues;
- Orientation activities to define sector association positions in Italy and abroad;

RISK OF NON-COMPLIANCE AND REGULATORY DEVELOPMENTS

Risk of failure to comply, in full or in part, with rules and regulations at European, national, regional and local level with which Italgas must comply in relation to the activities it performs and/or risk of failure to detect and implement new rules that are applicable to the Company.

The main risk management methods are:

- Internal control and management system for risks and areas of responsibility defined in relation to compliance;
- Code of Ethics, Model 231, Policy for preventing and combating corruption, ISO 37001 anti-corruption certification for Italgas and all Group companies;
- Monitoring, analysis, dissemination and implementation of regulatory measures on issues of interest to the Italgas Group and verification of their correct implementation;
- Personnel training on compliance issues;
- Analysis and monitoring of reputational requirements of the Group's counterparties;
- "Code of Ethics for suppliers" - which Italgas Group suppliers must formally undertake to comply with.

4. BALANCE SHEET AND INCOME STATEMENT FIGURES

An analysis of the accounting situation as at 31 December 2020 is provided below, based on the statements reclassified according to operational criteria to provide a clearer understanding of the results.

For the purposes of preparing the reclassified financial statements for the year 2020, the international financial reporting standards (IFRS) endorsed by the European Commission and in force at 31 December 2020 were applied.

4.1 RECLASSIFIED CONSOLIDATED BALANCE SHEET

4.1.1 CONSOLIDATED BALANCE SHEET - ASSETS

As at 31 December 2020, the **assets section of the reclassified consolidated balance sheet** of the CDP RETI Group included the following aggregates:

(million of euro)

Items	31/12/2020	31/12/2019
Property, plants and equipment	36,401	35,547
Intangible assets	10,383	9,927
Trade receivables	3,408	3,071
Other assets (1)	5,687	4,710
Cash and cash equivalents	6,470	4,246
Total assets	**62,349**	**57,501**

(1) The figures of the consolidated financial statements that are not represented in the riclassified Assets are included in Other assets.

At 31 December 2020, the balance sheet assets of the CDP RETI Group amounted to 62,349 million euro, increasing by 8% on 31 December 2019, and consisted mainly of “property, plant and equipment” (around 58% of the assets), which mainly related to SNAM (16.8 billion euro) and TERNA (14.6 billion euro), as well as the impact on this item from the consolidation (around 5 billion euro)[20].

The increase in “property, plant and equipment” (+854 million euro; +2.4% vs. 31 December 2019) is due mainly to changes relating to TERNA (+696 million euro), SNAM (+376 million euro), only partly offset by the effects of the PPA.

In particular, the increase is mainly due to investments in:

- SNAM (1,024 million euro, mainly relating to the transport sector for 856 million euro);
- TERNA (1,250 million euro, of which 1,151 million euro relating to Regulated Activities);

net of related amortisation/depreciation and impairment for the period.

The item “intangible assets”, largely attributable to the ITALGAS service concession arrangements analysed in greater detail in the notes to the financial statements, increased by 450 million euro, mainly thanks to the contribution of ITALGAS.

This item also includes goodwill (889 million euro), representing (i) the amount (781 million euro) recognised as a result of the process of allocating the differences between the prices paid for the purchase of the equity investments and the related equity, and (ii) the amount attributable to the CDP RETI Group of the goodwill recognised in the consolidated financial statements of TERNA, SNAM and ITALGAS.

“Trade receivables”, up by around 337 million euro compared to the end of 2019, mainly relate to (i) SNAM (1,551 million euro, net of the bad debt provision of 102 million euro), mainly referring to the natural gas transport (1,150 million euro)

[20] Effects related to the Purchase Price Allocation (PPA) process of SNAM, TERNA and ITALGAS.

and storage sectors (176 million euro) and (ii) TERNA (1,245 million euro, of which 845 million euro relating to receivables for "pass-through items"[21] pertaining to the activities carried out by Terna S.p.A.).

"Other assets", up by +20.7% compared to 31 December 2019, mainly relate to (i) equity investments (1,797 million euro), accounted for using the equity method, mainly relating to SNAM's equity investments, (ii) deferred tax assets (927 million euro, of which 478 million euro attributable to SNAM, 269 million euro to ITALGAS, around 178 million euro to TERNA and 2 million euro to the Parent Company CDP RETI) recognised at 31 December 2019, (iii) non-current financial assets (936 million euro, mainly referring to TERNA and SNAM), (iv) inventories - compulsory stock[22] (363 million euro) of SNAM and (v) current financial assets (655 million euro), mainly referring to TERNA (634 million euro).

Lastly, "cash and cash equivalents" are up compared to 31 December 2019 (+52.38%) and refer to:

- SNAM for 3,044 million euro. More specifically, they refer to current accounts and promptly collectable bank deposits (2,991 million euro) and the cash equivalents at Gasrule Insurance DAC (23 million euro) and Snam International B.V. (22 million euro);
- TERNA for 2,689 million euro, of which 1,381 million euro invested in short-term, highly-liquid deposits and 1,308 million euro relating to bank current accounts and cash;
- ITALGAS for 664 million euro, relating to current account deposits held with banks;
- CDP RETI for 73 million euro.

For further details see the net financial debt sections contained in the paragraph "Sector performance".

4.1.2 CONSOLIDATED BALANCE SHEET - LIABILITIES

As at 31 December 2020, the **liabilities section of the reclassified consolidated balance sheet** of the CDP RETI Group included the following aggregates:

(million of euro)

tems	31/12/2020	31/12/2019
Long-term financial liabilities	29,762	28,069
- non-current (1)	*26,581*	*25,224*
- current (2)	*3,181*	*2,845*
Current financial liabilities	5,616	2,880
Trade payables	3,380	3,456
Other liabilities (3)	7,831	7,684
Equity	15,760	15,412
- attributable to the parent company CDP RETI	*4,391*	*4,263*
- attributable to minority interests	*11,369*	*11,149*
TOTAL LIABILITIES	**62,349**	**57,501**

(1) In consolidated financial statements: Loans
(2) In consolidated financial statements: Current portion of long-term loans
(3) The figures of the consolidated financial statements that are not represented in the riclassified Equity and Liabilities are included in Other liabilities

"Long-term loans" of the Group (29,762 million euro at 31 December 2020) increased by 1.7 billion on 31 December 2019 (+6%) and include around 11.9 billion euro for SNAM (approx. 40%), around 11.3 billion euro for TERNA (approx. 37%), around 4.8 billion euro for ITALGAS (approx. 16%) and around 1.7 billion euro for CDP RETI.

"Current financial liabilities" refer mainly to: (i) SNAM (4,008 million euro), mainly for drawdowns on floating-rate uncommitted bank credit facilities (1,5 billion euro) and Euro Commercial Paper (2,503 million euro); and (ii) ITALGAS (601 million euro) mainly for drawdowns on bank credit facilities. The increase of 2,736 million euro (+95%) compared to 31 December 2019 is attributable to: (i) SNAM (+1.5 billion euro), due to higher net drawdowns on uncommitted credit lines (approx. 1 billion euro) and the issue of new short-term "unsecured" notes (approx. 500 million euro, net of reimbursements) and (ii) TERNA (+1 billion euro) mainly due to new loans.

For more details on the net financial debt of the subsidiaries, see the specific section "Sector performance".

"Trade payables", down by 76 million euro (from 3,456 million euro at the end of 2019 to 3,380 million euro; -2%), mainly relate to TERNA (2,217 million euro vs. 2,514 million euro at the end of 2019), largely for energy-related payables (1,359 million euro, including payables for energy-related pass-through items; -158 million euro compared to the end of 2018) and non-energy-related payables (1,055 million euro; +76 million euro, mostly due to greater investments in the final period of the previous financial year).

[21] TERNA manages the cost and revenue items linked to the transactions, carried out with electricity market operators, for the purchase and sale of energy: these are so-called "pass-through" items that do not affect TERNA's earnings, because the revenues are equal to the costs. The settlement of these items is established by the ARERA resolutions.
[22] Minimum natural gas quantities that the storage companies are required to hold under Presidential Decree no. 22 of 31 January 2001.

"Other liabilities", up by 148 million euro (from 7,684 million euro at the end of 2019 to 7,831 million euro; +2%), mainly relate to: (i) deferred tax liabilities (2,606 million euro vs. 2,699 million euro at the end of 2019), recognised at 31 December 2020; (ii) other current liabilities (1,929 million euro vs. 1,845 million euro for 2019), mainly relating to SNAM (1,454 million euro); and (iii) provisions for risks and charges (1,172 million euro vs. 1,092 million euro for 2019), of which 710 million euro (647 million euro at the end of 2019) in provisions for the decommissioning and remediation of sites recognised by SNAM for charges that it is presumed will be incurred to remove the facilities and remediate the natural gas storage sites (551 million euro) and transport infrastructure[23] (154 million euro).

"Equity", up by approximately 348 million euro (+2%), benefited from the net income for the period of 1,974 million euro (of which 584 million euro pertaining to the parent company) and mainly takes into account (i) the amount of the 2020 final dividends paid during the period by SNAM, TERNA and ITALGAS to the minority shareholders (total of approximately 1,042 million euro) and by the parent company CDP RETI to its shareholders (approximately 429 million euro), (ii) the repurchase by SNAM of 23,723,772 shares in execution of the programme approved by the shareholders' meeting on 2 April 2019, subsequently extended by the shareholders' meeting resolution on 18 June 2020, following revocation of the resolution of 2 April 2019 for the unexecuted portion of the new buyback programme launched on 16 December 2019; the repurchase by TERNA of 1,525,900 shares in execution of the resolution approved by the shareholders' meeting on 18 May 2020 and by the Board of Directors on 17 June 2020; (iii) decrease of the valuation reserve (-8 million euro).

Of the total equity, 4.4 billion euro pertained to the Parent Company (substantially in line with 31 December 2019) and 11.4 billion euro to minority interests.

4.1.3 RECONCILIATION OF CONSOLIDATED EQUITY AND NET INCOME FOR THE PERIOD

The reconciliation of the parent company's equity and net income and the consolidated equity and net income is shown below:

(million of euro)	31/12/2020		
Items	**Net income**	**Capital and reserves**	**Total**
PARENT COMPANY FINANCIAL STATEMENTS	**436**	**3,079**	**3,515**
Balance from financial statements of fully consolidated companies	2,263	10,606	12,869
Consolidation adjustments:			
- *Carrying amount of fully consolidated equity investments*	-	(5,267)	(5,267)
- *Dividends from fully consolidated companies*	(463)	463	-
- *Purchase price allocation*	(208)	4,862	4,654
- *Other adjustments*	(54)	43	(11)
CONSOLIDATED FINANCIAL STATEMENTS	**1,974**	**13,786**	**15,760**
- *attributable to the parent company CDP RETI*	584	3,807	4,391
- *attributable to minority interests*	1,390	9,979	11,369

4.2 RECLASSIFIED CONSOLIDATED INCOME STATEMENT

The data below represents the CDP RETI group with specific evidence of the contributions - in terms of operating margins[24] - deriving from SNAM, TERNA and ITALGAS. Please note that the consolidation eliminations and adjustments were shown separately.

As at 31 December 2020, the CDP RETI Group's **reclassified consolidated income statement** was as follows:

[23] The costs refer to estimated charges to remove the structures connecting the LNG regasification terminal in Livorno to the OLT Offshore LNG in Tuscany.
[24] The parent company, CDP RETI, given its nature of holding company, has basically zero incidence on the operating margins of the group.

(million of euro) Items	31/12/2020	31/12/2019
Revenues from financial statement	7,471	6,901
- *Revenues recognised following application of "IFRIC 12 Service Concession Arrangements" (*)*	*(781)*	*(681)*
- *Other Reclassifications (**)*	*34*	*(62)*
Total revenues	**6,724**	**6,157**
Costs from financial statement (not included Depreciation and Amortization)	(2,447)	(2,038)
- *Costs recognised following application of "IFRIC 12 Service Concession Arrangements" (*)*	*697*	*659*
- *Other Reclassifications (**)*	*31*	*67*
Operating costs (not included Depreciation and Amortization)	**(1,719)**	**(1,312)**
EBITDA	**5,005**	**4,845**
EBITDA margin	74%	79%
- *of which SNAM*	*32%*	*36%*
- *of which TERNA*	*27%*	*28%*
- *of which ITALGAS*	*15%*	*15%*
Depreciation and Amortization	(2,131)	(2,018)
- *Other Reclassifications (***)*	19	17
Operating profit (EBIT)	**2,893**	**2,844**
EBIT margin	43%	46%
- *of which SNAM*	*21%*	*24%*
- *of which TERNA*	*18%*	*19%*
- *of which ITALGAS*	*9%*	*8%*
- *of which consolidation*	*-4%*	*-5%*
Financial income/expense (including effects by equity method)	(191)	(198)
- *Other Reclassifications*		*(4)*
Taxes	(728)	(732)
Profit from continuing operations	**1,974**	**1,912**
Net income from discontinued operation		(4)
- *Other Reclassifications*		*4*
NET INCOME	**1,974**	**1,912**
- *for parent company*	*584*	*568*
- *for minority interests*	*1,390*	*1,343*

(*) In Riclassified Income Statement, pursuant to IFRIC 12 "Service Concession Arrangements" are not included:
(i) revenues for the construction and upgrading of natural gas distribution infrastructures (669 million in 2020 and 621 million in 2019);
(ii) in relation to TERNA, revenues from construction of assets in concession activities (112 million in 2020 and 60 million in 2019);
these revenues are recognised in an amount equal to the costs incurred and are shown as direct reduction of the respective cost items
(**) Other management reclassifications mainly attributable to TERNA;
(***) Relating essentially to the issue of connection contributions for the financial year attributable to ITALGAS;

In 2020, in line with the previous year, the CDP RETI Group reported net income of 1,974 million euro (584 million euro pertaining to the parent company), marking an increase on 2019 (net income of 1,912 million euro). The increase (+62 million euro, of which 16 million euro pertaining to the parent company) is mainly the result of improved operating margins (EBITDA +160 million euro; EBIT +49 million euro) and, residually, of lower net financial charges (-7 million euro) and lower taxes in the period (-4 million euro).

In terms of sectors, growth in performance was recorded by SNAM (+10 million euro) and TERNA (+30 million euro, offset at consolidated level by the impact of derivatives considered as held for trading under the accounting standards applied by the CDP RETI Group), while ITALGAS recorded a slight decline (-20 million euro). The increase in net income compared to the previous year is due to the absence in 2020 of the consolidation effects related to the reversal of the gain[25] on equity investments recognised by ITALGAS in 2019.
A more detailed description of the changes that occurred at the level of individual sectors between the two financial years is provided in the section of this Report entitled “Sector Performance”.

“Revenues” for the period consist of 2.8 billion euro for SNAM, 2.5 billion euro for TERNA and 1.4 billion euro for ITALGAS. The increase of 567 million euro (+9%) compared to 2019, is mainly attributable to (i) TERNA, mainly for higher revenues from unregulated activities (+129 million euro) - in relation to the overall contribution from the integration of Brugg Cables[26] - and from regulated activities (+84 million euro), mainly attributable to the impact on the Transmission Fee of the RAB expansion and the relevant portion of the remuneration of digital station systems, (ii) ITALGAS for higher revenues (+108

[25] Arisen from the restatement of the value of the equity investment in Toscana Energia following the acquisition of control pursuant to IFRS 3 - “*Business Combinations*”.
[26] On 29 February 2020, Terna - through the subsidiary Terna Energy Solutions S.r.l. - finalised the closing of the acquisition of 90% of Brugg Kabel AG, one of Europe’s leading operators in the terrestrial cable sector.

million euro) as a result of the updated calculation of the meter contribution[27] and for higher transportation revenues (+75 million euro) (essentially due to the line-by-line consolidation of Toscana Energia) and (iii) SNAM, mainly for higher revenues (+107 million euro) from the new businesses (e.g. increase in orders for biogas and biomethane plants by the subsidiary IES Biogas) e higher revenues from the core business (+57 million euro) essentially due to the transport sector.

"Operating costs", largely attributable to TERNA (683 million euro), SNAM (617 million euro) and ITALGAS (414 million euro) and relating mainly to service costs and staff costs, increased compared to 2019, mostly with respect to (i) SNAM, in relation both to new business costs - for the growth in activities, and costs for the acquisition and integration of companies in the biomethane sector - and to costs incurred following the COVID-19 pandemic emergency (for an overall amount of 27 million euro), (ii) TERNA, mainly following the integration of Brugg Cables (+101 million euro) and, residually, for other operating costs (primarily for the adjustment of the provision for tax risks and accruals to staff incentives) and (iii) ITALGAS, essentially in relation to early retirement incentives (13 million euro) and to accruals for faulty meters (39 million euro).

"EBITDA", amounting to 5,005 million euro (4,845 million euro in 2019; +160 million euro), with an EBITDA margin of 74% (79% in 2019), benefited from the performance of both ITALGAS and TERNA, in part offset by the decline recorded by SNAM (which was primarily affected by the aforementioned costs relating to the pandemic and by the charges for VAT settlement for previous years). SNAM contributed 32%, TERNA 27% and ITALGAS the rest.

EBITDA, despite higher amortisation/depreciation and impairment (+111 million euro), referring to all subsidiaries and in particular to:

- TERNA (approx. 57 million euro) for the entry into operation of new plants (with particular reference to the Italy-Montenegro interconnection) and for higher impairment of assets recognised in the year;
- SNAM (approx. 21 million euro) for higher amortisation/depreciation (+40 million euro), mainly as a result of new infrastructure entering into operation and companies entering the scope of consolidation, partly offset by lower impairment (-19 million euro);
- ITALGAS (approx. 33 million euro) for higher amortisation/depreciation following the integration of Toscana Energia and higher investments made, only partly offset by lower depreciation on meters related to the replacement of traditional meters with smart meters;

resulted in an EBIT of 2,893 million euro, up by 49 million euro (+2%) compared to 2,844 million euro in 2019; the EBIT margin at 31 December 2020 was 43% (46% in 2019).

"Financial income (expense)"[28], negative for 191 million euro in line with 2019 (also negative for approx. 198 million euro), mainly reflect (i) the improvement in SNAM (+78 million euro), largely resulting from a decrease (-45 million euro) in financial expense rather than the increase (+33 million euro) in income from equity investments generated by the positive contribution of the investee TAP and of ADNOC Gas Pipelines, as well as the greater contribution from TAG; (ii) the decline in TERNA (-64 million euro) mainly attributable, on the one hand (approx. 16 million euro) to interest expense on foreign companies' debt and the decrease in the value of equity investments in associates, and on the other to the decrease (-48 million euro) in 2020 in the fair value of derivatives held by TERNA for cash flow hedging purposes and considered as derivatives held for trading under the accounting standards applied by the CDP RETI Group.

"Income taxes", which show an expense of 728 million euro in line with 2019 (732 million euro), mainly refer to the tax expense of SNAM, TERNA and ITALGAS, partially offset by the effects of deferred taxation connected with Purchase Price Allocation and with the recognition of deferred tax assets in relation to the negative fair value change of TERNA's derivatives classified as held for trading in the financial statements of the CDP RETI Group.

The above income items made it possible to close 2020 with a consolidated "net income" of approximately 1,974 million euro (of which 584 million euro pertaining to CDP RETI; 568 million euro in the comparison period), compared to a net income of 1,912 million euro in 2019.

The 2020 net income pertaining to CDP RETI shareholders (net income of 584 million euro) comes from the net income of the parent company CDP RETI S.p.A. (436 million euro) and from the share of the earnings of SNAM (net income of 355 million euro), TERNA (net income of 224 million euro) and ITALGAS (net income of 116 million euro), less dividends for the period (463 million euro) attributable to CDP RETI S.p.A. and net of other consolidation effects (including the Purchase Price Allocation).

[27] Revenues related to the contribution for the replacement of traditional meters with electronic meters (smart meters) as a result of the change in methodology on previous years and the recovery of non-applied amortisation (IRMA).
[28] Including the effects of equity investments accounted for using the equity method.

4.3 SECTOR PERFORMANCE

Income statement, balance sheet and statement of cash flows figures are provided below using the management schedules adopted by SNAM, TERNA and ITALGAS in their financial statements. Reference should be made to the documents of the aforesaid companies for a reconciliation between the reclassified statements used and the mandatory statements.

4.3.1 SNAM (GAS TRANSPORT, REGASIFICATION AND STORAGE SECTOR)

INTRODUCTION

In order to allow better assessment of the group's performance and greater data comparability, SNAM's management has devised alternative performance measures not required by IFRS (Non-GAAP measures), mainly comprising the results in the adjusted and pro-forma adjusted configuration.

(millions of euros) Item	31/12/2020 Reported	31/12/2020 Adjusted (*)	31/12/2019 Reported	31/12/2019 Adjusted (*)
Total Revenue (**)	2,770	2,770	2,606	2,606
Regulated Revenue	*2,548*	*2,548*	*2,491*	*2,491*
EBITDA	2,153	2,197	2,204	2,169
EBITDA margin	78%	79%	85%	83%
EBIT	1,380	1,424	1,452	1,417
EBIT margin	50%	51%	56%	54%
Net income	1,101	1,164	1,090	1,093
Net Income of the Group	1,101	1,164	1,090	1,093

(*) The values exclude special items
(**) As of January 1, 2020, the cost components that are matched by revenues (so-called pass-through items), essentially attributable to interconnection, are recognized as a direct reduction of the corresponding revenue (53 million euros for fiscal year 2020). Consistently, the related amounts for previous years (59 and 56 million euros in 2019 and 2018, respectively) have been restated

(million of euro)	31/12/2020	31/12/2019
Shareholders' Equity attributable to the parent company	6,469	6,255
Shareholders' equity including minority interests	6,472	6,258
Net financial debt	12,887	11,923
Net cash flow for the period	193	979
Technical investments	1,189	963

TOTAL REVENUES

Total revenues for 2020 amounted to 2,770 million euro, up by 164 million euro (6.3%) on 2019.

Revenues from the core business (2,578 million euro, net of consolidation eliminations) increased by 57 million euro, up 2.3% on 2019, essentially as a result of higher regulated revenue, thanks in particular to the contribution from the transport sector. Net of the effects of the sterilization of energy costs, regulated revenue amounted to 2,488 million euro, slightly down on 2019 (-3 million euro, or 0.1%). The higher revenues mainly attributable to the tariff update mechanisms, relating in particular to the increase in the RAB (+16 million euro), were offset by the reduction in volumes transported as a result of the health emergency generated by COVID-19 (-17 million euro). The change in regulated revenue also reflected the lower revenue from gas sales connected to the default service of the transport sector. With regard to the energy costs relating in particular to the costs for the purchase of fuel gas, which were previously contributed in kind by the shippers, and to the expenses for the purchase of CO2 emission rights, under the regulatory framework for the fifth regulatory period these costs have been covered from 1 January 2020 by the revenue through the variable fee charged to the users.

The non-regulated revenue (30 million euro), which was substantially in line with 2019, mainly related to income from rent and maintenance of optical fibre telecommunications cables (14 million euro) and infrastructure connection fees.

Revenues from new business (192 million euro, net of consolidation eliminations) increased by 107 million euro compared with 2019, thanks to the growth in orders for biogas and biomethane plants by the subsidiary IES Biogas, the launch of energy efficiency activities in the residential sector, and sales of compressors for sustainable mobility, in addition to the growth in the operations of Snam Global Solutions, mainly related to the EPMS contract with TAP. The increase in revenues from new business also reflected the revenues from companies that entered the scope of consolidation at the end of 2019 in the biomethane sector (Renerwaste group) and in 2020 in the energy efficiency sector (Mieci, Evolve).

ADJUSTED EBIT

The adjusted EBIT for 2020 amounted to 1,424 million euro, up 7 million euro (0.5%) compared to the adjusted EBIT in 2019. The increase in EBITDA was partly offset by the normal increase in amortisation/depreciation charges for the period (-40 million euro, or 5.5%), essentially due to the entry into service of new assets, partly offset by lower write-downs (+19 million euro, or 63.3%).

ADJUSTED NET INCOME

The adjusted net income for 2020 amounted to 1,164 million euro, up 71 million euro (6.5%) compared to the adjusted net income in 2019. In addition to the higher EBIT, the increase was due to: (i) the sharp reduction in net financial charges (+39 million euro, or 23.6%), mainly due to the measures for the optimisation of the financial structure and treasury management, with a gross cost of debt at 0.9%, despite the higher average debt for the period, influenced by the equity investments made, as well as the payment of dividends to shareholders and share buybacks; (ii) higher income from equity investments (+33 million euro, or 15.3%) due to the positive contribution, including some one-off effects, from the TAP subsidiaries (+22 million euro), following the entry into service of the methane pipeline from 15 November 2020 and non-recurring items that led to higher-than-expected earnings, and from the TAG subsidiaries (+10 million euro), as a result of tariff updating mechanisms linked to the change in the regulatory period, together with the profit of ADNOC Gas Pipelines (+20 million euro), an equity investment acquired in July 2020. These effects were partly offset by the lower contribution from Teréga (-9 million euro), which had benefited from non-recurring income in 2019, and Interconnector UK (-7 million euro), due to lower capacity commitments in 2020 compared to the previous year. Income taxes increased (8 million euro, or 2.1%) as a result of the higher pre-tax profit, partly offset by the effects of the reintroduction of the ACE benefit for 2020.

RECONCILIATION OF ADJUSTED NET INCOME WITH THE REPORTED NET INCOME

Adjusted EBITDA, EBIT and net income are obtained by excluding special items from the respective reported result measures (from the statutory income statement), gross and net of related taxes respectively.

The income components classified as special items in 2020 were:

- financial expenses arising from bonds repurchased under the liability management transaction implemented by Snam in December 2020 (32 million euro; 24 million euro net of the related tax effect; 38 million euro in 2019; 29 million euro net of the related tax effect). These expenses were essentially due to the difference between the disbursement deriving from the bond buyback on the market and the measurement at amortised cost of those bonds;
- the costs incurred following the state of emergency related to the COVID-19 pandemic totalling 27 million euro (22 million euro net of related tax), relating to (i) donations of healthcare materials (14 million euro) and cash (2 million euro) to the Italian healthcare system and the non-profit sector, also through the Snam Foundation; (b) purchases of personal protective equipment for internal use (6 million euro); and (c) costs for services (5 million euro), mainly related to the sanitisation of workplaces and security.
- the allocation to the provision for risks and charges (17 million euro) concerning the estimate of probable tax and financial expenses for circumstances and/or events already existing at 31 December 2020.

EQUITY

The increase in Equity pertaining to the Parent Company during the year (+214 million euro) was mainly due to the net income for the year of 1,101 million euro, partially offset by the payment of the final dividends on the 2019 net income (466 million euro) and 2020 the interim dividend approved by the Board of Directors on 4 November 2020 (326 million euro).

NET FINANCIAL DEBT

Net financial debt stood at 12,887 million euro at 31 December 2020 (11,923 million euro as at 31 December 2019), net of the equity cash flow essentially resulting from the payment of the 2019 dividend to the shareholders (779 million euro, of which 313 million euro as an interim dividend and 466 million euro as a final dividend) and the purchase of treasury shares (114 million euro), recorded an increase of 964 million euro compared to 31 December 2019, including the non-monetary items linked to financial debt (36 million euro), principally referring to the change in the scope of consolidation and in financial liabilities recognised in application of IFRS 16 “Leases”. In particular, the flow of net financial debt compared to 31 December 2019 relates to the following main items:

- bond issues (8,140 million euro) decreased by 908 million euro compared to 31 December 2019, mainly due to: (i) the repayment of a fixed-rate bond maturing on 29 January 2020, of a nominal amount equal to 350 million euro; (ii) the repayment of a fixed-rate bond maturing on 13 February 2020, of a nominal amount equal to 526 million euro; (iii) the redemption of a fixed-rate bond maturing on 25 October 2020, of a nominal amount equal to 500 million euro; and (iv) the repurchase of bonds on the market for a nominal value totalling 629 million euro with an average coupon rate of 0.62% and a residual maturity of around 2.8 years. The total disbursement arising from the repurchase of the securities

as part of the liability management transaction, concluded in December 2020, amounted to a total of 651 million euro, including the commissions paid to intermediaries and accrued interest. These changes were offset by the issuance: (i) of a Transition Bond, of a nominal amount of 500 million euro, at a fixed rate and maturing on 17 June 2030; and (ii) a Transition Bond, of a nominal amount of 600 million euro, at fixed rate and maturing on 7 December 2028;
- Loans from banks (5,273 million euro) recorded an increase of 1,569 million euro, mainly due to higher net drawdowns on uncommitted credit lines (1,047 million euro) and the signing of three Term Loans for a total nominal value of 590 million euro.
- The Euro Commercial Papers (2,503 million euro) concern unsecured short-term securities issued on the money market and placed with institutional investors.

The net cash flow from operating activities (1,597 million euro) partially covered net investment needs (1,632 million euro) and resulted in a negative free cash flow[29] of 35 million euro.

As at 31 December 2020, cash and cash equivalents totalling 3,044 million euro (2,851 million euro at 31 December 2019) mainly related to current accounts and promptly collectable bank deposits (2,991 million euro) and the cash equivalents held at Gasrule Insurance DAC (23 million euro) and Snam International BV (22 million euro).

As at 31 December 2020, Snam had unused long-term committed credit facilities totalling 3.2 billion euro.

TECHNICAL INVESTMENTS IN THE PERIOD

Technical investments amounted to 1,189 million euro in 2020 (963 million euro in 2019) and mainly refer to the natural gas transport and storage sectors (981 million euro and 134 million euro, respectively).

DIVIDEND PROPOSED

The net income of the parent company SNAM S.p.A. was 1,015 million euro, up 198 million euro compared to 2019. The Board of Directors will propose to the Shareholders' Meeting the distribution of a total 2020 dividend equal to 24.95 euro cents per share (23.76 euro cents in 2019; +5%), of which 9.98 euro cents per share already distributed as interim dividend in January 2021 and with the final dividend to be paid from 23 June 2021 with ex-dividend date of 21 June 2021 and record date of 22 June 2021.

4.3.2 TERNA (DISPATCH AND TRANSMISSION OF ELECTRICITY)

(millions of euro) Item	31/12/2020	31/12/2019
Total revenue	2,514	2,295
- of which regulated	*(2,149)*	*(2,055)*
EBITDA	1,830	1,741
EBITDA margin	73%	76%
Operating profit (EBIT)	1,187	1,155
EBIT margin	47%	50%
Net income	795	764
Net income- of the Group	786	757

(million of euro)	31/12/2020	31/12/2019
Shareholders' Equity attributable to the parent company	4,370	4,190
Shareholders' equity including minority interests	4,416	4,232
Net financial debt	9,173	8,259
Net cash flow for the period	1,632	(272)
Technical investments	1,351	1,264

TOTAL REVENUES

In 2020 TERNA's total revenues (2,514 million euros) increased by 218.4 million euro (+9.5%) compared to 2019. In detail, they increased by 93.9 million euro, mainly due to the tariff update resulting from the extension of the RAB, higher revenues from the service quality incentive mechanism - ENSR (essentially due to the pro-rata valuation of the 2020 performance

[29] The cash surplus or deficit left after the funding of investments.

and the definition of the 2019 performance) and the recognition of revenue for the higher value of the net assets of the company Brugg Cables compared to the consideration paid.

The increase in revenues from Non-Regulated Activities, of 129.3 million euro, mainly reflected the overall contribution resulting from the integration of Brugg Cables, partly offset by the contraction in Tamini's operations and services for third parties due to the Covid-19 health emergency, as well as lower revenues resulting from the difference in the performance of the private interconnector projects pursuant to Law 99/2009, compared to the previous year.

With regard to the business abroad, revenues decreased by 4.8 million euro, mainly due to the effect of lower penalties applied to suppliers during the year on the projects in Brazil and Uruguay.

EBIT

The higher revenues (+218.4 million euro on 2019, mainly due as noted above to the better performance of the Regulated Business in Italy), in part offset by the increase in operating costs (683.1 million euro, +129.2 million euro compared to 2019) and the higher levels of depreciation, amortisation and impairment (643.8 million euro, +57.7 million euro compared to 2019, mainly due to the entry into service of new plants), resulted in an EBIT of 1,186.6 million euro, +31.5 million euro in absolute terms compared to 2019 (1,155.1 million euro) and with an EBIT margin of 47% (compared to 50% for 2019).

NET INCOME

Net income amounted to 795.3 million euro (almost entirely pertaining to the parent company), an increase of 31.4 million euro (+4.1%) compared to the 763.9 million euro of 2019, reflecting the EBIT performance (+89.2 million euro) and higher net financial charges (15.8 million euro), only partially offset by the lower tax expense (-15.7 million euro).

EQUITY

The increase in Group Equity during the year (+179.5 million euro) was mainly due to the net income for the year of 785.5 million euro, only partially offset by the negative change in the cash flow hedge valuation reserve (-78.7 million euro[30]) and the payment of the final dividends on the 2019 net income (359 million euro) and the 2020 interim dividend approved by the Board of Directors on 11 November 2020 (187.2 million euro).

NET FINANCIAL DEBT

At 31 December 2020, the Group's net financial debt stood at 9,172.6 million euro, up by 914 million euro on 31 December 2019, with the following changes:

- an increase in bonds (+987.2 million euro) mainly as a result of the two bond issues, totalling 1,000 million euro, carried out by Terna S.p.A. in July and September 2020;
- an increase in loans (+653.8 million euro) mainly due to the draw-down of new bank loans, for a total of 747.0 million euro, net of the repayment of existing loans;
- an increase in short-term loans (+977.2 million euro), essentially due to the draw-down of the short-term credit lines by the Parent Company Terna S.p.A.;
- an increase in the fair value of the derivatives portfolio (+44.3 million euro), mainly due to the shift in the yield curve;
- an increase in financial assets (+115.5 million euro) as a result of the increase in the Italian government securities held and the recognition of the short-term component of the investments for the year in infrastructure under concession in Brazil, recognised in application of IFRIC 12;
- an increase in cash and cash equivalents (+1,631.6 million euro). Cash and cash equivalents at 31 December 2020 amounted to 2,689.0 million euro, of which 1,380.8 million euro invested in short-term, highly-liquid deposits and 1,308.2 million euro relating to bank current accounts and cash.

The average maturity of the debt, almost entirely at fixed rate, was around 5 years.

TECHNICAL INVESTMENTS IN THE PERIOD

Technical investments in the period amounted to 1,351.1 million euro, marking an increase of 6.9% compared to 1,264.1 million euro in 2019. The main projects in the period included: (i) the progress of the work sites for the Italy-France electricity interconnections; (ii) development of the optical fibre network with Open Fiber; and (iii) the synchronous condensers.

[30] Fair value adjustment of the hedging derivatives on the floating-rate loans of Terna S.p.A. and its subsidiary Difebal.

DIVIDEND PROPOSED

The Parent Company TERNA S.p.A. posted net income for the year of 687 million euro, down by around 27 million euro compared to 2019. The Board of Directors will propose the following to the Shareholders' Meeting: (i) approval of a total 2020 dividend equal to 26.95 euro cents per share (24.95 euro cents in 2019, +8%), (ii) distribution – net of the 2020 interim dividend, equivalent to 9.09 euro cents per share, with payment approved from 25 November 2020 – of the remaining 17.86 euro cents per share, before tax, to be paid from 23 June 2021.

4.3.3 ITALGAS (GAS DISTRIBUTION SECTOR)

(millions of euro) Item	31/12/2020	31/12/2019
Total revenue (*)	1,442	1,258
- of which regulated	*1,394*	*1,207*
EBITDA	1,028	908
EBITDA margin	71%	72%
Operating profit (EBIT)	603	516
EBIT margin	42%	41%
Net income	404	424
Net income- of the Group	383	417

(*) The reclassified income statement shows total revenues and operating costs net of the impact of IFRIC 12 "Service concession agreements" (euro 668.7 million and euro 621.1 million in 2020 and 2019 respectively), connection contributions (euro 19.5 million and euro 16.6 million in 2020 and 2019 respectively) and net margin relating to EECs.

(million of euro)	31/12/2020	31/12/2019
Shareholders' Equity attributable to the parent company	1,741	1,560
Shareholders' equity including minority interests	1,981	1,795
Net financial debt	4,737	4,485
Net cash flow for the period	402	124
Technical investments	778	740

TOTAL REVENUES

Total revenues amounted to 1,442.2 million euro in 2020, (including 153.6 million euro relating to Toscana Energia which was included in the scope of consolidation as of 1 October 2019) up 184.3 million euro on 2019 (+14.6%), and referred to regulated revenues from natural gas distribution (1,394.3 million euro) and miscellaneous revenues (47.9 million euro).

Gas distribution regulated revenues were up by 187.4 million euro on the same period of 2019 due to the higher revenues related to the contribution under Art. 57 for the replacement of traditional meters with electronic smart meters as a result of the change in methodology on previous years and the recovery of non-applied amortisation (IRMA) pursuant to DCO 545/2020/R/gas and Resolution 570/2019/R/gas for an amount of 108.4 million euro, the increase in transportation revenues (74.6 million euro) and the increase in other gas distribution regulated revenues (4.4 million euro).

The increase in **transportation revenues** (74.6 million euro) was mainly due to changes in tariff components (18.2 million euro), the change in the scope of consolidation deriving from the acquisitions from Conscoop in Sardinia and central-southern Italy (5.1 million euro) which took effect from 1 May 2019 and the above-mentioned line-by-line consolidation of Toscana Energia (98.9 million euro), such effects being offset by lower tariff adjustments on previous years (6.8 million euro), as well as lower revenues as a result of the changes introduced by Resolution 570/2019/R/gas (40.6 million euro).

It should be noted that Resolution no. 570/2019/R/gas also resulted in an overall reduction in transportation revenues for Toscana Energia of 5.0 million euro.

The increase in **other regulated revenues** (4.4 million euro) was mainly due to: (i) the higher contribution pursuant to Article 57 of ARERA Resolution No. 367/14, as amended (full recovery of non-applied amortisation), regarding the replacement of traditional meters with electronic smart meters, amounting to 30.2 million euro at 31 December 2020 (22.9 million euro in the same period of 2019; +7.3 million euro); (ii) greater incentives linked to plant safety (7.3 million euro). These effects were partly offset by lower revenues from services for network interventions (4.6 million euro) and lower refunds for arrears (5.9 million euro), mainly as a result of the COVID-19 emergency pursuant to Italian Prime Minister's Decree of 22 March 2020 as amended.

Miscellaneous revenues amounted to 47.9 million euro at 31 December 2020 (down by 3.1 million euro on the same period of 2019). The decrease was mainly due to lower capital gains (5.0 million euro) on the sale of assets at 31 December 2020 (-6.1 million euro on the same period of 2019), offset by higher sales of LPG and propane air to users operating in Sardinia (2.7 million euro).

EBIT

EBIT for the year 2020 amounted to 603.3 million euro (including 70.9 million euro as a result of the consolidation of Toscana Energia), up by 87.3 million euro on 31 December 2019 (+16.9%) due to higher revenues, (184.3 million euro, +14.7%), partly offset by higher operating costs (63.9 million euro, +18.2%) and higher depreciation and amortisation (33.1 million euro, +8.5%).

Operating costs as at 31 December 2020 amounted to 414.3 million euro (of which 42.1 million euro due to the line-by-line consolidation of Toscana Energia and the acquisitions from Conscoop in Sardinia and central-southern Italy). The increase in operating costs was mainly due to higher concession-related expenses of 5.2 million euro and higher provisions for early retirement incentives of 13.0 million euro and for the replacement of faulty meters of 38.5 million euro, determined on the basis of meter anomalies detected in the field at 31 December 2020, the estimated occurrence for the period 2021 - 2026 and agreements with suppliers.

Depreciation, amortisation and impairment (424.6 million euro) increased by 33.1 million euro (+8.5% compared to 31 December 2019). Given an increase of 60.0 million euro (of which 32.4 million euro due to the line-by-line consolidation of Toscana Energia and 3.6 million euro relating to higher investments pursuant to IFRS 16), there was a lower depreciation concerning the replacement of traditional meters with smart meters, amounting to 17.7 million euro at year-end (44.6 million euro in the same period of 2019).

NET INCOME

Net income for the year 2020 amounted to 403.6 million euro, down by 20.0 million euro on the same period of 2019 (-4.7%). The change was due to: (i) the afore-mentioned increase in operating profit (+87.3 million euro on 2019), (ii) lower net financial charges, down 20.1 million euro on the same period of 2019, mainly as a result of lower costs arising from the bond buyback completed on 11 December 2019 for an overall cost of 18.3 million euro, (iii) a decrease in net income from equity investments (99.3 million euro) arising mainly from the line-by-line consolidation of Toscana Energia as of October 2019 and the capital gain recorded as at 31 December 2019 (85.9 million euro) following the redetermination of the value of the equity investment in Toscana Energia following the acquisition of control under IFRS 3 – “Business Combinations”, (iv) higher income taxes (28.1 million euro) compared to the same period of 2019, essentially as a result of higher revenues from the recalculation of the meter contribution under art. 57.

EQUITY

Group equity at 31 December 2020 (1,740.9 million euro) mainly consisted of the share capital (1,001.2 million euro), legal reserve (200.2 million euro), share premium account (620.1 million euro), retained earnings (216.9 million euro), net income for the year (383 million euro), consolidation reserve (-323.9 million euro), the reserve for business combinations under common control (-349.8 million euro), and other reserves.

The change in Group equity over the period (+180.5 million euro) was mostly due to the net income for the period partly offset by the distribution of the 2019 ordinary dividend (207.1 million euro), as resolved by the ordinary Shareholders’ Meeting of ITALGAS S.p.A. on 12 May 2020.

NET FINANCIAL DEBT

At 31 December 2020, **net financial debt**, including the effects of IFRS 16 of 76.3 million euro, amounted to 4,736.5 million euro, up by 251.2 million euro (4,485.3 million euro at 31 December 2019). Excluding that effect, net financial debt stood at 4,660.2 million euro, (4,410.6 million euro at 31 December 2019, +249.6 million euro).

Gross financial and bond payables, amounting to 5,405.1 million euro at 31 December 2020 (4,746.2 million euro at 31 December 2019) referred to: (i) bonds (3,854.5 million euro), (ii) loan agreements drawn on European Investment Bank (EIB) funds (869.5 million euro), (iii) amounts due to banks (604.8 million euro) and financial payables pursuant to IFRS 16 (76.3 million euro).

Cash and cash equivalents, amounting to 663.5 million euro, are held in current accounts and highly-liquid time deposits with major banks.

Fixed-rate financial liabilities amounted to 4,676.3 million euro and consisted of bonds (3,854.5 million euro), three EIB loans (745.5 million euro) and financial payables pursuant to IFRS 16 (76.3 million euro).

Fixed-rate financial liabilities increased by 497.9 million euro on 31 December 2019, mainly due to the bond issue completed in June 2020 for a nominal value of 500 million.

Floating-rate liabilities amounted to 728.8 million euro, up by 161.0 million euro due to the greater use of bank credit lines.

Excluding the effects of IFRS 16 financial debts, 86.3% of gross financial debt was carried at fixed rate and 13.7% was carried at floating rate.

As at 31 December 2020, Italgas had unused committed credit facilities totalling 500 million euro, with maturity in October 2021.

At 31 December 2020, there were no loan agreements containing financial covenants and/or secured by collateral, except for the EIB loan for a nominal amount of 90 million euro taken out by Toscana Energia which requires compliance with particular financial covenants.

Some of these contracts provide, inter alia, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations on pledging as collateral or placing other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain non-recurring transactions that the company and its subsidiaries may carry out. At 31 December 2020, these commitments had been met.

TECHNICAL INVESTMENTS IN THE PERIOD

Technical investments amounted to 777.5 million euro in 2020 (740.0 million euro in 2019, +5.1%), of which 26.5 million euro relating to leases accounted for in accordance with IFRS 16.

Investments for distribution amounted to 569 million euro (463 million euro in 2019) and consisted of 455.8 million euro for development and maintenance of the network (of which 84.9 million euro for the digitisation of the network) and 113.1 million euro for new networks (102.4 million in 2019).

Metering investments (120.8 million euro, -32.7% compared to the same period of 2019) mainly related to the final phase of the replacement of traditional meters with “smart” meters, which is expected to be completed by the early months of 2021, ahead of the new regulatory provisions.

DIVIDEND PROPOSED

The Board of Directors will propose to the Shareholders’ Meeting the distribution of an ordinary 2020 dividend for of 0.277 euro cents per share (0.256 euro cents in 2019, +8.2%), to be paid from 26 May 2021.

4.4 CONSOLIDATED NET FINANCIAL DEBT

The **consolidated net financial position**, calculated in compliance with ESMA[31]/2015/1415, the guidelines on alternative performance measures that have been applicable since 3 July 2016, for comparison with the position at the end of 2019, was as follows:

(million of euro)

Items	31/12/2020	31/12/2019
A. Cash (1)	1	1
B. Cash equivalent (1)	6,468	4,245
C. Trading securities	1	
D. Liquidity (A)+(B)+(C)	**6,470**	**4,246**
E. Current Financial Receivable (2)	**654**	**527**
F. Current Bank debt (5)	3,107	768
G. Current portion of non current debt (3)	2,093	2,737
H. Other current financial debt (2) (5) (6)	3,587	2,115
I. Current Financial Debt (F)+(G)+(H)	**8,787**	**5,620**
J. Net Current Financial Indebtedness (I)-(E)-(D)	**1,662**	**847**
K. Non current Bank loans (4)	6,402	5,722
L. Bond Issued (4)	19,889	19,438
M. Other non current loans (4) (6) (7)	450	270
N. Non current Financial Indebtedness (K)+(L)+(M)	**26,741**	**25,429**
O. Net Financial Indebtedness (J)+(N)	**28,403**	**26,276**

In the consolidated balance sheet :
(1) Cash and cash equivalents
(2) Current financial assets
(3) Current portion of long-term loans
(4) Loans
(5) Current financial liabilities
(6) Non-current financial assets
(7) Other financial liabilities

The **Consolidated Net Financial Debt (NFD)**, inclusive of the effects of the application of IFRS16, amounted to 28,403 million euro (26,276 million euro at 31 December 2019), of which 12,887 million euro attributable to SNAM, 9,173 million euro to TERNA, 4,737 million euro to ITALGAS and 1,611 million euro to the parent company CDP RETI and for the residual amount to consolidation effects.

For a more detailed analysis of this item, see the paragraph “Sector Performance” (of the subsidiaries SNAM, TERNA and ITALGAS) and the Report on Operations of the Parent Company.

[31] European Securities and Markets Authority.

5. BUSINESS OUTLOOK

The constant monitoring of the more efficient financial structure of the Parent Company has been confirmed for 2021, with a view to optimising said structure in terms of duration and interest rate exposure.

At the same time, activities associated with the implementation of a new organisational structure and with the definitive streamlining of the new configuration will continue.

From an operational standpoint, in the first half of 2021 the subsidiaries are expected to distribute the balance of the 2020 profit[32], which will among other things offset the payment of the 2020 balance to the shareholders of CDP RETI, as well as the financial charges associated with the bond issue and existing loans.

Lastly, in more general terms, with regard to the assumptions underlying the future economic forecasts and expected impact on operations, the assumptions underlying the forecasts for the current year are detailed below:

- **Assets** estimated to remain constant, mainly comprising the equity investments in Snam (3.1 billion euro), Terna (1.3 billion euro) and Italgas (0.6 billion euro);
- **Liabilities** estimated to remain constant, mainly comprising financial liabilities (0.9 billion euro term loans and 0.8 billion euro bonds);
- **Equity** estimated to be substantially constant;
- **Income Statement**: trend in net profit mainly related to dividends expected from investee companies and interest expense.

Although the Company is not currently in a position to determine with absolute reliability the impacts of COVID-19 on the targets for 2021 and subsequent years, currently available information does not indicate any significant impact on the strategy and objectives of the Company, on its ability to distribute dividends to Shareholders, nor on the Net Financial Position or cash-flow, or more generally on liquidity risk. There are currently no situations of imbalance of debt in relation to equity (nor are they reasonably foreseeable) or a financial situation of the Company that would require support from the Shareholders. Notwithstanding the above, it is not possible to completely rule out that the possible continuation of the emergency could have adverse effects on CDP RETI, which at present cannot be estimated based on the information available. Any additional future impacts on the Group's economic/financial performance and financial position, as well as on the business development plans, will be assessed in light of the evolution and duration of the pandemic.

Please refer to section "I.1.5. Other issues" of the consolidated financial statements for a more detailed description of the COVID-19 Note.

In relation to **SNAM**, achieving global climate targets will require significant investment in the decarbonisation of the energy sector over the next 30 years. A number of countries, accounting for over 60% of global emissions, have already announced or are developing climate neutrality targets. Major development prospects will concern green gases, in particular hydrogen, which could potentially reach over 25% of the global energy mix by 2050. It is believed that green hydrogen, in particular, will become competitive in a few years' time in several sectors, starting with railway and heavy goods transport, thanks to the gradual and already evident reduction in the production cost of renewable energy, combined with the concurrent reduction in the cost of electrolysers. The most efficient way to transport green hydrogen is represented by the gas infrastructure.

Snam aims to achieve carbon neutrality by 2040, in line with the goal to limit global warming to 1.5° C set by the Paris Agreement. Snam infrastructure will enable the energy transition, being already 70% hydrogen ready, and will allow Snam to contribute to the general reduction in emissions for the system. The prospect, by 2050, is to transport fully decarbonised gas to make Italy a European hydrogen hub.

In addition, Snam is committed to building market positions along the value chain, in both hydrogen and biomethane. Energy efficiency is also an important lever to reduce consumption and environmental impact.

[32] Moreover, with regard to dividends received, on 20 January 2021 SNAM's 2020 interim dividend of about 105 million was collected.

Accordingly, the corporate purpose, i.e. “the company’s commitment to fostering the energy transition towards forms of use of energy resources and sources that are compatible with environmental protection and progressive decarbonisation” was included in the Articles of Association.

ESG (Environment, Social, Governance) factors will continue to be crucial in the definition of the strategies and the management of the company. In this regard, Snam has developed and published a “scorecard” on 13 areas with 22 material and quantitative objectives to provide stakeholders with a holistic view of the commitment and growing awareness in the ESG area, allowing them to monitor the results.

For the 2020-2024 period, Snam has planned 7.4 billion euro’s worth of investments, an increase of almost 1 billion euro compared to the 6.5 billion euro of the previous plan. The growth is attributable both to the core business of regulated infrastructure (6.7 billion euro investments) and to the new energy transition business (investments of over 0.7 billion euro, almost doubled compared to the previous plan). 50% of the planned investments is dedicated to the “hydrogen ready” infrastructure (replacement and development of assets with “hydrogen ready” standards). Most of the planned investments are aimed at decarbonisation to achieve the carbon neutrality goal by 2040 and seize the opportunities offered by the energy transition. The plan envisages around 500 million euro in investments in digitisation – from the control of activities on a remote basis to the adoption of IoT, cloud and edge computing – which will enable Snam to become the most technologically advanced gas transmission company in the world, in addition to ensuring increasing levels of safety and sustainability of operations.

Snam further strengthened its position as a leader in energy infrastructure at an international level during 2020, thanks to the acquisition of the equity investment in ADNOC Gas Pipelines, the consolidation of its presence in China and the entry into India and Israel.

Snam also plans to strengthen the efficiency plan launched in the second half of 2016, with over 70 million euro in savings expected in 2022.

The optimisation of the financial structure carried out in the last five years has led to a reduction in the average cost of gross debt from 2.4% in 2016 to an average value of 1.2% over the plan period (compared to 1.4% of the previous plan), thanks to the actions taken to crystallise as much as possible the current favourable market conditions and the improvement of the interest rate and credit spread scenario compared to the previous plan. Possible further savings could derive from treasury optimisation, as well as further source diversification and an increase in sustainable finance instruments.

In Italy, Decrees of the President of the Council of Ministers (DPCM) introduced restrictions aimed at the epidemiological containment of COVID-19 and identified measures geared to hinder the spread of infection, including through limitations to production activities, the mobility of persons and group socialising.

After a slowdown in the summer months, in the second half of 2020 the infection curve began to rise again in several countries, especially in Europe.

Expectations related to a gradual easing of the restrictive measures imposed by the pandemic, connected to the effective and speedy implementation of the vaccination campaign against COVID-19, clashed in the first weeks of 2021 with concerns arising from the growing spread of the new variants.

The consequent fears over the level of spread that the variants could reach and the uncertainties related to the expected timeline for the completion of the vaccination campaign in Italy and Europe, as well as in the rest of the main economies with which the company entertains relations, could lead to further slowdowns in the process of normalisation of the national and international economic scenario.

Although the company is not currently in a position to determine with reliability the impacts of COVID-19 on its targets for 2021 and subsequent years, currently available information indicates a limited impact on its targets for 2021. In this regard, Snam has revised upward the guidance on adjusted net income for 2021 to 1,170 million euro compared to the previous guidance of approximately 1,130 million euro communicated in November 2020. Any additional future impacts on the Group’s economic/financial performance and financial position, as well as on the business development plans, will be assessed in light of the evolution and duration of the pandemic.

This also applies to any repercussions on development initiatives and on suppliers or customers, as well as the Snam Group’s operations outside Italy, particularly in France, Austria, Greece, Albania and the United Kingdom.

In relation to **TERNA**, with the new Business Plan, the group aims to confirm and strengthen its role as director and enabler of the Italian energy system and of the energy transition, therefore, with reference to 2021, despite an ever evolving pandemic scenario, the Terna group will be committed to implementing the 2021-2025 Business plan. Having specific regard to the investments of 9.2 billion euro overall to be implemented over the next 5 years, the investments scheduled for 2021 amount to around 1.4 billion euro.

With regard to the Regulated Activities, the acceleration of investments will continue, as well as the strengthening of the core business, with the direct involvement of local areas through dialogue with all the main stakeholders, local communities, bodies and institutions.

The main electrical infrastructures currently under construction include the interconnection with France, expected to come into operation in 2021, and the commencement of works on the new SA.CO.I.3 project (strengthening of the connection between Sardinia, Corsica and the Italian peninsula). In addition, the main projects to increase the exchange capacity between the different areas of the Italian electricity market include the Colunga-Calenzano and Paternò-Pantano-Priolo power lines, while the rationalisation of the electricity grids in the metropolitan areas will mainly involve the renewal of the current infrastructure with new technologically more advanced connections in line with the best standards in terms of environmental sustainability (e.g. Naples, Milan, Rome).

In addition, during 2021, the usual discussions with ARERA will be held in order to establish methods and criteria for determining and updating the WACC recognised in the electricity and gas sectors as from the year 2022.

With reference to the Non-Regulated Activities, Terna will continue to consolidate its role both in the energy solutions area, by developing high-added-value services for enterprises, also in the area of energy efficiency, and taking advantage of market opportunities for traditional and renewable customers, and in the connectivity area, where opportunities will be pursued based on leveraging its fibre optics infrastructures. With regard to the industrial area, the consolidation of Tamini's results and the full integration of Brugg are expected in order to exploit the significant potential synergies with the unregulated business and enhance the distinctive expertise in the terrestrial cable sector.

International Activities will continue to be focused on the management and maintenance of the lines that entered into operation in Brazil and Uruguay as well as on the completion of ongoing projects in Peru and Brazil.

Scouting will also continue in order to identify further opportunities abroad that can be developed in partnership and that will be selected through assessment processes that guarantee a low risk profile and limited capital absorption.

In order to support the above, the contribution of investments in innovation and digital solutions will be crucial to continuing the transformation process that allows to manage the increase in system complexity. Attention will also be paid to the development and insourcing of strategic expertise, the strengthening of structures and ensuring optimal working conditions for company personnel through the launch of the New Ways of Working project.

The Plan, based on the principles of sustainability and compliance with ESG criteria, will ensure the minimisation of environmental impacts, the involvement of local stakeholders and compliance with the principles of integrity, responsibility and transparency on which Terna's business management has always been based.

The aforementioned objectives will be pursued while maintaining the commitment to maximising the necessary cash generation to ensure a healthy and balanced financial structure.

With regard to **ITALGAS**, following the spread of the “Coronavirus” or “Covid-19” pandemic, the Company set up a Crisis Committee in the hours immediately following discovery of the first cases. Based on the measures and instructions from the competent Authorities, this committee monitored and is continuing to monitor the evolution of the emergency and adopting the necessary measures, guaranteeing the continuity and efficiency of essential and necessary services, particularly with regard to emergency services.

In compliance with the urgent measures issued by the Authorities, only activities considered essential were guaranteed and all building site activities were suspended. The technical personnel assigned to carry out interventions outside the company premises, in accordance with the applicable regulations, have been provided with the necessary personal protection equipment to keep them safe. Operating activities, on site as well as end-user interventions and services, including the replacement of traditional meters with smart meters, progressively resumed from 4 May 2020, within the deadlines set and permitted by Prime Minister’s Decree of 26 April 2020, as amended.

Italgas has also ensured that its personnel, on a fully voluntary basis, receive free blood screening, as well as swabs, in accordance with the current regional legislation and under the supervision of the Designated Physician, in the event of a positive test result. The initiative, shared with the union representatives, has been progressively extended to all employees working in the other regions as well.

At present, the Company does not expect a significant negative impact on its development and investment initiatives as a result of the slowdown and suspension of activities and deterioration of the current macroeconomic situation due to the spread of the pandemic at global level. Starting from the relaunch of activities pursuant to the aforementioned Prime Minister’s Decree, as amended, and taking advantage of the digitalisation of processes, measures were put into place to offset part of the delays with respect to the original plans for execution of the works, following the suspension of site activities and intervention at user premises.

With regard to the pool of customers/sales companies and their solvency, the rules for user access to the gas distribution service are established by the ARERA and are regulated in the Network Code.

The Company has also launched initiatives to support the fight against the Coronavirus Emergency and, in particular, in addition to facilitating a voluntary collection of funds by its employees, it made donations to hospitals, healthcare facilities and the Civil Defence Department, also making its skills and knowledge available to the community.

With regard to the impact, including the potential impact, on revenue, costs, investments and expected cash flows resulting from the restrictions imposed by the Coronavirus emergency, to date, the company has not identified anything that would indicate a significant adverse impact on its 2021 performance.

However, the company is not currently able to estimate any material negative effects on its operating performance and financial position that may arise in subsequent years if there is a critical resurgence and significant protraction of the health emergency situation.

Therefore, in this scenario, Italgas will continue to pursue its strategic objectives, focusing on digital transformation with the goal of improving the quality of service, streamlining processes and operating costs and maintaining constant attention to development opportunities. With reference to investments, Italgas will continue to roll out its plan, aimed predominantly at the implementation of network digitisation projects, completion of installation of smart meters and creation of a natural gas infrastructure in the Sardinia region, while carrying out the usual activities to maintain and develop the networks operated.

6. SIGNIFICANT EVENTS AFTER 31 DECEMBER 2020

For an analysis of the macroeconomic framework and risks, see the paragraph “Events subsequent to the reporting date” in the notes to the consolidated financial statements.

Below are major other events regarding each company.

CDP RETI

With regard to the Parent Company, as mentioned earlier the main events that occurred after the end of the financial year included the collection on 20 January 2021 of SNAM's 2020 interim dividend of about 105 million.

More generally, on 11 January 2021, the Chairman of the Board of Directors convened the ordinary Shareholders’ Meeting of CDP RETI called upon to resolve on renewing the Board of Directors and the Board of Statutory Auditors (reaching maturity in May 2020 and whose term of office had been extended until 20 January 2021). It should be noted that since the Board of Directors had concluded the term of office, the Shareholders' Meeting held on 20 January 2021 appointed a new Board of Directors consisting of five directors who will remain in office for three financial years and end their term of office on the date of the Shareholders' Meeting that will be convened in 2024 to approve the financial statements for the year ending 31 December 2023. The directors, who can be re-elected, were appointed on the basis of two lists of candidates, one submitted by the shareholder CDP (which holds 59.1% of the Company's shares) and the other by State Grid Europe Limited ("SGEL", which holds 35.0% of the Company's shares). During that same session, the Board of Statutory Auditors was also re-elected according to the list-based voting system (with a term of office matching that of the Board of Directors).

SNAM

On 8 January 2021 was finalised the acquisition of a stake in IndustrieDe Nora. The company is a global innovator in sustainable energy and water treatment technology,and itholds a 34% stake in ThyssenKrupp Uhde Chlorine Engineers (TKUCE), a joint venture with ThyssenKrupp, a world leader inwater electrolysis, involved in a number of major products for green hydrogen production. Currently, Snam holds a 37% stake in De Nora.

On 29 January 2021, a transaction was finalised through which CDP Equity became a shareholder of Snam4Efficiency, which changed its name to Renovit. Snam holds a 70% stake and CDP Equity the remaining 30%. Renovit is intended to serve as a new Italian platform to promote energy efficiency in condominiums, companies and public administrations, supporting sustainable development and the country’s energy transition.

On 2 February 2021, the Shareholders’ Meeting resolved to approve an amendment to article 2 of the Bylaws, to introduce the company’s corporate purpose, “Energy to inspire the world”, aimed at reflecting Snam’s commitment to supporting the energy transition towards methods of using resources and energy sources compatible with the environmental protection and the progressive decarbonisation, as well as the principle of pursuing sustainable success as one of the purposes of the company’s business. Additionally, without prejudice to the company’s commitment to its core business of regulated activities involving the transport, storage and regasification of natural gas, the Shareholders’ Meeting approved the amendment to the corporate purpose, pursuant to article 2 of the Bylaws, intended to specifically include, alongside those activities, those linked to the energy transition, in particular, the transportation and management of renewable energies (such as biomethane and hydrogen), the creation and management of systems for sustainable mobility and energy efficiency (new paragraph 3, article 2), in line with the 2020-2024 Strategic Plan. The amendment to article 2 became fully effective after the conditions precedent to which it was subject were achieved, in particular, non-exercising of special powers by the Presidency of the Council of Ministers pursuant to the “golden power” regulation and, most recently, on the basis of the withdrawal declarations which were received by the deadline established for exercising the right, for 11,047,475 shares, representing 0.329% of share capital, for a total value of 49,304,880.93 euros, below the maximum limit approved for disbursements.

TERNA

Terna acquires the remaining 30% of the subsidiary Avvenia the Energy Innovator S.r.l.

On 26 January 2021, the acquisition of the remaining 30% of the company Avvenia the Energy Innovator S.r.l. was completed, exercising the Call Option for a total value of 3,600,000 euro. The Non-Controlling Interest will be deemed to be transferred with regular dividend rights and will include the full assignment of the right to the profits accrued for the years 2018 and 2019. Therefore, Avvenia will now be understood as a “sole quotaholder” company fully owned by the Terna Group through Terna Energy Solutions S.r.l.

Terna is the first Italian electric utility to join the Nasdaq Sustainable Bond Network

On 28 January 2021 Terna became the first Italian electric utility to join the Nasdaq Sustainable Bond Network, the platform managed by Nasdaq dedicated to sustainable finance, which brings together investors, issuers, investment banks and expert organisations. The “Terna Driving Energy” logo projected on the Nasdaq Tower in Times Square rewards Terna’s strong commitment as an enabler of the energy transition, for an increasingly reliable, efficient, technological and, above all, green grid. “Terna is the director of the Italian energy system: sustainability is naturally at the heart of our mission”, declared Stefano Antonio Donnarumma, Terna’s Chief Executive Officer. “We were pioneers in the green bond market and today we are happy to join the Nasdaq Network.”

Terna is the world’s first electric utility in the Dow Jones Sustainability Index

On 2 February 2021, Terna continued to rank first worldwide - for the third consecutive year - in the Electric Utilities sector of the Dow Jones Sustainability World Index in terms of sustainability performance. This is the result of the recent audit conducted by the SAM - S&P Global sustainability rating agency on which the updating of the Dow Jones Sustainability indices is based. More specifically, Terna achieved an overall score of 90/100, the highest in the electric utilities sector (sector average: 43/100). The leadership is borne out in 10 of the 23 evaluation criteria applicable to the company: Terna is first in the economic criteria Materiality, Policy influence, Innovation Management and Privacy Protection, in the environmental criteria Environmental reporting and Transmission and distribution, and in the social criteria Social reporting, Human capital development, Talent Attraction & Retention Corporate citizenship and philanthropy.

Equigy welcomes Austrian Power Grid as fifth shareholder

On 2 February 2021, APG became the fifth European transmission system operator to collaborate with Equigy, joining the founding TSOs TenneT GmbH (Germany), TenneT TSO BV (Netherlands), Swissgrid (Switzerland) and Terna (Italy) in the pioneering crowd balancing platform. Using the Equigy platform, the TSOs are working with OEM partners (such as electric vehicle manufacturers and solar panel manufacturers), energy companies and other aggregators on a number of new projects to accelerate the energy transition.

Terna launches public consultation on the Tyrrhenian Link

On 2, 3 and 4 February, Terna launched the public consultation on the Tyrrhenian Link, the submarine power line that will connect Campania to Sicily and Sicily to Sardinia, through the ‘Terna Incontra’ public meetings held in digital format dedicated to the citizens of Battipaglia, Eboli and Termini Imerese. In particular, the different locations of the power conversion station in the municipality of Eboli and of the conversion station were illustrated. The Tyrrhenian Link is a strategic project for the Italian electricity system for which Terna will invest approximately 3.7 billion euro over the next few years, involving 250 companies. Thus, by increasing the electricity exchange capacity between Sicily, Sardinia and Campania, the new infrastructure will aid the full integration between the different market areas with some major benefits in terms of efficiency. It will also allow the best use of energy flows from constantly growing renewable sources and will improve the reliability of the grid and of the entire system. The new interconnection is a cutting-edge project that involves the construction of two submarine power lines (one from Campania to Sicily and one from Sicily to Sardinia) for a total of 950 km of 1000 MW direct current connection.

60 million euro for the new “invisible” power line between Cortina and Auronzo

On 4 February 2021, Terna put into operation the new ‘invisible’ 24 km long power line that connects Cortina d’Ampezzo with Auronzo di Cadore, in Veneto. The highly technological and fully underground infrastructure is part of the larger project for the modernisation and reorganisation of the electricity grid in the Alto Bellunese area, for which Terna has invested 60 million euro. Built in record time, just 13 months, it services the national electrical system and has been designed to provide a safe venue to host the World Ski Championships, a global sporting event scheduled in Cortina d’Ampezzo from 7 to 21 February. The power line runs for 15 km in the Municipality of Cortina d’Ampezzo and 9 km in the Municipality of Auronzo di Cadore between the electrical substations of Zuel and Somprade, respectively, and is of strategic importance for a large area of the North-East: together with the new Auronzo di Cadore station (in Cima Gogna), currently under construction, and the reorganisation of the existing 132 kV and 220 kV grid, the new cable contributes to increasing meshing and improving the efficiency, reliability and resilience of the local electricity grid, exposed to power outages and heavily stressed by the extreme climatic conditions that have been observed in recent years.

Terna confirmed in the Gold Class of global sustainability for the seventh year

On 8 February 2021 Terna confirmed its position in the Gold Class of global sustainability. Terna was included in the Gold Class for the seventh time and, with an overall score of 90/100, lies at the top of the rankings among electric utilities (a sector that recorded an average score of 43/100) in the Sustainability Yearbook 2021: the reference publication edited by S&P Global, an international rating agency that assessed the sustainability performance of over 7,000 leading global companies for the Dow Jones Sustainability Index.

Terna launches the Adriatic Link: over 1 billion euro's worth of investments for the new submarine cable between Abruzzo and Marche.

On 17 February 2021, Terna launched the joint project for the Adriatic Link, the new submarine cable between Abruzzo and Marche, in which the national electricity grid operator will invest over 1 billion euro, involving around 120 direct companies and interconnected suppliers. The new interconnection, approximately 285 km long and completely 'invisible', will consist of a submarine cable, two underground terrestrial cables - hence without any impact on the environment - and two conversion stations located in the vicinity of the respective existing power stations of Cepagatti (Abruzzo) and Fano (Marche). A strategic project for the national electrical system, at the forefront of technology and environmental sustainability. The infrastructure will aid the development and integration of renewable sources by contributing to the decarbonisation of the Italian energy system, in line with the objectives outlined in the Integrated National Energy and Climate Plan. Furthermore, it will make it possible to improve the electricity exchange capacity between the different areas of the country, particularly between the Centre-South and the Centre-North thanks to an increase of approximately 1000 MW of power, thereby increasing the efficiency, reliability and resilience of the transmission grid.

Terna among the 50 most sustainable companies in the world

On 18 February 2021, Terna was recognised as one of the 50 most sustainable companies in the world at the 2020 Seal Business Sustainability Awards. In particular, the award recognises Terna's overall corporate sustainability performance with reference to leadership, transparency and sustainable business practices. Specifically, Terna was included in the 2020 Seal Organizational Impact Award category, which recognises the overall corporate sustainability performance and selects the top 50 companies globally. The winners were selected by combining two types of ESG (Environmental, Social and Governance) data: the Corporate Sustainability Assessment (CSA, now included in S&P Global ESG Scores) and the A-List of CDP (formerly Carbon Disclosure Project). The CSA recorded Terna's excellent performance in the Dow Jones Sustainability Index which, for the third consecutive year, ranks it in first place worldwide in the Electric Utilities sector of the Dow Jones Sustainability World Index, with a score of 90/1000, and the consequent award of the S&P Gold Class for the seventh consecutive year. On the other hand, the data relating to the A-List assessed the positive increase in the score awarded to Terna by CDP, which went up to A-/A in the last edition.

Terna was awarded a 300 million euro tender for the development and modernisation of the electricity grid

On 24 February 2021, Terna was awarded a 300 million euro tender for the development and modernisation of the electricity grid, relating to the laying of new high voltage underground cables. The 17 successful tenderers, as Temporary Groupings of Competing Firms, are all Italian and form part of Terna's qualification system, and are highly specialised given the complexity of the processes. The activities will include infrastructure for 150 kV cable power lines to be laid across the national territory over the next 3 years. The tender procedure was conducted in accordance with the current regulations on tenders for special sectors and assigned the 5 lots into which it was divided to the 17 successful tenderers (6 from the North, 7 from the Centre, 4 from the South): lots 1 and 3 in the Central South area for a value of 97.5 million euro and 52.5 million euro, respectively; lot 2 in the Central South and North West areas for a value of 67.5 million euro; lot 4 in the North East and North West areas for a value of 43.5 million euro; lot 5 in the North East area for a value of 39 million euro.

Terna recognised as a global leader in asset management

On 11 March 2021, it was announced that Terna had been recognised as a global leader in asset management. The biannual ITAMS (International Transmission Asset Management Study) for 2020, conducted by the consulting firm, UMS Group Europe, looked at a number of the world's foremost grid operators (in Europe, Asia and the Middle East), judging Terna to be an example of best practice and performance for the efficiency and effectiveness of its infrastructure planning and management process.

Reorganisation of the Brugg group

As part of the reorgnisation of the Brugg group, on 11 March 2021, the demerger of Brugg Kabel AG was completed with the establishment of Brugg Kabel Services AG and Brugg Kabel Manufacturing AG, both subsidiaries of Terna S.p.A. through its subsidiary, Terna Energy Solutions S.r.l..

ITALGAS

Corporate transactions and concessions

On 28 January 2021, following the framework agreement signed between Italgas and CONSCOOP on 28 December 2018, the **acquisition** of the **business unit of Mediterranea Energia related to the gas concession in the Municipality of Olevano sul Tusciano** was completed. The network extends for approximately 26 kilometres, covering a potential catchment area amounting to a total of 2,500 resident households.

Following this agreement, the parties agreed that, by 5 July 2021 and once certain conditions precedent have been met, Italgas will acquire the entire equity investment in Isgas 33, of which it currently holds a non-controlling interest of 10%.

On 29 January 2021, the public session on the “Open tender procedure for a concession to supply the natural gas distribution service in the ATEM of **Napoli 1 - City of Naples and coastal plant**” was held. The tender procedure commission declared that it would proceed with assessment of the adequacy of the bids received and suspended the relative procedures pending the results of said assessments.

On 4 March 2021, the **Municipality of Turin** contracting entity **officially awarded to Italgas Reti** the contract for the natural gas distribution service in the “Torino 1” territorial area, which includes Turin and the municipalities of Moncalieri, Grugliasco, Rivoli, Rivalta di Torino and Nichelino. The awarding of the ATEM, consisting of approximately 560 thousand users, will allow the Company to continue managing the service in a region in which it has operated since 1837 and for which an investment plan of approximately 330 million euro is envisaged.

Legal and regulatory framework

On 12 February 2021, the Company **challenged Resolution no. 550/2020/r/efr**, which determined the tariff contribution on Energy Efficiency Certificates for the year 2019. The relevant hearing has not yet been scheduled.

Furthermore, on 12 February 2021 and 18 February 2021, it **challenged**, with two separate appeals, **Resolution no. 567/2020/R/gas**, disputing its lawfulness in regard to the provisions on cancellation of the premiums due for safety gas recovery operations for 2017, and to the provisions on cancellation of the premiums for the emergency service for the year 2017. Scheduling of the hearing is pending.

On 18 February 2021, the Lombardy Regional Administrative Court issued a ruling that, without entering into the merits of the claim made by Italgas, solely established that **Resolution no. 270/2020/R/efr** did not violate prior ruling no. 2358/2019 by the Lombardy Regional Administrative Court on Energy Efficiency Certificates, which establishes that the Ministerial Decree of 10 May 2018, in the part which set at 250 euro/Energy Efficiency Certificate the cap on the tariff adjustment of costs incurred to purchase the certificates, unlawfully exceeded the tariff authority given to ARERA. A new hearing to decide on the merits will be scheduled.

With Resolution no. 74/2021/S/gas of 2 March 2021, ARERA imposed a fine of 500 thousand euro against Italgas Reti, alleging that the company violated the provisions of the Regulation of the Quality of Gas Distribution and Metering Services for the period 2014-2019, as well as the Guidelines by CIG (Comitato Italiano Gas) with regard to the emergency service. The Company is considering to challenge the Resolution.

On 3 March 2021, the AGCM (Italian Competition Authority), with reference to the investigation initiated against Italgas Reti for alleged abuse of dominant position in several municipalities of the Venezia 1 ATEM, accepted the Company’s commitments and closed the investigation without deeming any offence to have occurred.

With regard to the appeal before the Council of State filed by the Municipalities belonging to the Belluno ATEM against ruling no. 1208 of 7 December 2020, through which the Veneto Regional Administrative Court declared as inadmissible the appeal against the awarding of the contract to Italgas Reti, at the hearing of 4 March 2021, the Council of State acknowledged the waiver of the precautionary motion by the appellant Municipalities and set the relevant hearing for 7 October 2021.

Other events

On 5 February 2021, Italgas, in implementation of the EMTN Programme, successfully completed the launch of the fixed-rate **dual tranche** 7 and 12-year **bond issue**, with each tranche at fixed rate and for **500 million euro each**, with an annual coupon of 0% and 0.5% respectively.

On the same date, a **buyback transaction** was launched for two bond issues with a nominal value of 750 million euro maturing in January 2022 and 650 million euro maturing in March 2024. The buyback was completed on 15 February 2021, at a buyback percentage of over 58% in the first case and 20% in the second case, and a total nominal value of approximately 256.0 million euro.

On 10 March 2021, the Board of Directors resolved to propose the Annual General Meeting a free capital increase through the issuance of a maximum number of 4,500,000 ordinary shares of the Company for a total nominal value of 5,580,000 reserved to the beneficiaries of the Co-Investment Plan 2021-2023.

Furthermore, it was executed the first tranche of the free share capital increase resolved by the Annual General Meeting of the shareholders on 19 April 2018 and reserved to the beneficiaries of the Co-Investment Plan 2018-2020 resolved in the same Meeting, for a maximum of 4,960,000 euros through the issuance of a maximum number of 4,000,000 ordinary shares to be attributed, in accordance to art. 2349 of Italian Civil Code, and recognizing the equivalent amount from the reserves accounted as income carried forward. The first tranche of said share capital increase was executed on 10 March 2021, following a resolution of the Board of Directors, through the issuance of 632,852 ordinary shares of the Company for a nominal amount of 784,736,48 euros, attributed to the beneficiaries of the Co-Investment Plan 2018-2020.

7. OTHER INFORMATION

APPROVAL OF THE FINANCIAL STATEMENTS

As envisaged in art. 10.4 of CDP RETI S.p.A.'s Articles of Association, the Shareholders' Meeting called to approve the financial statements is convened within 180 days of the end of the financial year.

The use of this period of time compared to the ordinary 120 days from the end of the financial year, allowed by art. 2364, paragraph 2 of the Italian Civil Code, is justified by the fact that the Company is required to prepare consolidated financial statements[33].

TRANSACTIONS WITH RELATED PARTIES

With regard to transactions with subsidiaries, associates, parent companies and companies subject to the control of the latter, reference should be made to the notes to the consolidated financial statements, and specifically to the section "Transactions with related parties".

With regard to CDP RETI in particular, it is worth noting that the transactions carried out in 2020 – except for the parent company's participation in May 2020 (as lender) in the refinancing of financial debt and for which reference is made to the specific section discussing "significant events that occurred during the year" – cannot be classified either as atypical or as unusual,[34] as they are part of the normal business. These transactions are conducted at arm's length, taking into account the characteristics of the services provided.

During 2020, these transactions mainly concerned relationships with the parent company Cassa Depositi e Prestiti with reference to:

- an interest-bearing deposit account;
- an agreement for the custody and administration of securities;
- service agreements for support activities;
- derivatives;
- loans;
- receivables from fiscal consolidation.

In addition, dividends - related to the 2019 net income - were collected from SNAM, TERNA and ITALGAS and the receivable from SNAM for the 2019 interim dividend was collected, while (i) the receivable from SNAM for the 2020 interim dividend was recognised and (ii) CDP RETI's shareholders were paid both the 2019 final dividend and the 2020 interim dividend.

TREASURY SHARES

The **Parent Company** does not hold and has not purchased and/or sold, during 2020, shares or stakes of holding companies, either directly or via trust companies or intermediaries.

With regard to **SNAM**, at 31 December 2020 the number of treasury shares amounted to 90,642,115, equal to 2.70% of the share capital (102,412,920 shares as at 31 December 2019), for an amount equal to 361 million euro (388 million euro as at 31 December 2019). The reduction is mainly due to (i) the cancellation of 33,983,107 treasury shares held, resolved

[33] Since its debt securities are traded in a public market, CDP RETI S.p.A. does not meet the requirements provided for by IFRS 10 - *Consolidated Financial Statements* for exemption from preparing consolidated financial statements. Moreover, CDP RETI's Articles of Association call for the preparation and approval by the Board of Directors of consolidated financial statements (within 120 days after the reporting date) and of the half-yearly report (within 90 days after 30 June of each period).

[34] In accordance with Consob Communication DEM/6064293 of 28 July 2006, atypical and/or unusual transactions means "those transactions which, through their significance/importance, the nature of the counterparties, the purposes of the transaction, the procedures for determining the transfer price and the timing of the event (proximity to the closure of the financial year) may give rise to doubts concerning: the accuracy/completeness of the information in the financial statements, conflicts of interest, protecting the company assets, protecting minority shareholders".

by the Shareholders' Meeting of Snam of 18 June 2020 and (ii) the assignment of 1,511,470 shares to Snam's senior managers under the 2017 Performance share plan. These effects were partly offset by the purchase of 23,723,772 shares at an overall cost of approximately 114 million euro, carried out as part of the buyback programme resolved by the Shareholders' Meeting of 2 April 2019, subsequently extended with resolution by the Shareholders' Meeting of 18 June 2020, upon revocation of the resolution of 2 April 2019 for the portion not carried out.

With regard to **TERNA**, at 31 December 2020 the number of treasury shares amounted to 1,525,900, equal to 0.076% of the share capital, acquired during 2020 for 9.5 million euro. More specifically, during the first eight months of 2020, a treasury share buy-back programme was launched to back the 2020-2023 Performance Share Plan, implementing the resolutions of the Shareholders' Meeting of 18 May 2020 and the Board of Directors of 17 June 2020.

ITALGAS did not hold and did not purchase or sell, directly or indirectly, treasury shares of CDP RETI S.p.A. or Cassa Depositi e Prestiti S.p.A. in 2020.

PERFORMANCE OF SNAM, TERNA AND ITALGAS SHARES

Key share price data		**SNAM**		**TERNA**		**ITALGAS**	
Items		31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Number of outstanding shares at the end of the period	(million of euros)	3,270	3,295	2,010	2,010	809	809
Official period-end price	(euros)	4.62	4.68	6.26	5.97	5.19	5.47
Market capitalization (1)	(million of	15,101	15,432	12,583	11,993	4,201	4,429
CDP RETI Number of shares	**(million of euros)**	**1,054**	**1,054**	**600**	**600**	**211**	**211**
Book Value for CDP RETI	**(million of euros)**	**3,087**	**3,087**	**1,315**	**1,315**	**621**	**621**
Market capitalization for CDP RETI (2)	**(million of euros)**	**4,866**	**4,935**	**3,756**	**3,580**	**1,094**	**1,154**
Maximum official price per share	(euros)	5.08	4.82	6.75	6.01	6.26	6.23
Minimum official price per share	(euros)	3.47	3.89	4.77	5.03	4.25	5.01
Average official price per share	(euros)	4.42	4.47	6.05	5.61	5.27	5.64
Official price at period end (3)	(euros)	4.62	4.68	6.26	5.97	5.19	5.47
Closing price at period end (4)	(euros)	4.60	4.69	6.25	5.95	5.20	5.44

(1) Product of the number of outstanding shares (price number) for the official price per share at period end.
(2) Product of CDP RETI number of shares for the average official price per share.
(3) Average price, weighted for the relevant quantities, of all contracts concluded during the day.
(4) Price at which contracts are concluded at the closing auction.

SNAM shares closed at an official price of 4.62 euro at the end of 2020, down 1% on the previous year (4.68 euro) and hitting an all-time high of 5.08 euro on 19 February 2020 and a low of 3.47 euro on 16 March 2020. The closing price was 4.60 euro.

In 2020, a total of around 2.7 billion shares were traded on the equities market of Borsa Italiana, with a daily average of 10.4 million shares traded.

Market capitalisation stood at 15,097 million at 31 December 2020.

TERNA shares closed at an official price of 6.26 euro at the end of 2020, up 5% on the previous year (5.97 euro) and hitting an all-time high of 6.75 euro on 19 February 2020 and a low of 4.77 euro on 16 March 2020. The closing price was 6.25 euro.

In 2020, a total of around 1.5 billion shares were traded on the equities market of Borsa Italiana, with a daily average of 5.7 million shares traded.

Market capitalisation stood at 12,583 million at 31 December 2020.

ITALGAS shares closed at an official price of 5.19 euro at the end of 2020, down 5% on the previous year (5.47 euro) and hitting an all-time high of 6.26 euro on 19 February 2020 and a low of 4.25 euro on 16 March 2020. The closing price was 5.20 euro.

In 2020, a total of around 0.6 billion shares were traded on the equities market of Borsa Italiana, with a daily average of 2.5 million shares traded.

Market capitalisation stood at 4,201 million at 31 December 2020.

RESEARCH AND DEVELOPMENT ACTIVITIES

Given the nature of its business, the Parent Company does not perform research and development activities.

CONSOLIDATED NON-FINANCIAL STATEMENT FOR 2020

Italian Legislative Decree no. 254 of 30 December 2016, implementing Directive 2014/95/EU, introduced into Italian legislation the obligation for certain entities[35] to draw up a non-financial statement (NFS) each financial year. The NFS contains key data and information regarding the environment, social issues, staff, human rights and the fight against active and passive corruption.

In addition, please note that, pursuant to article 6, paragraph 2, of Italian Legislative Decree no. 254 of 30 December 2016, the Consolidated Non-Financial Statement has not been prepared, as it was prepared by the Parent Company CDP S.p.A. (parent company subject to the same obligations), with registered office in Via Goito 4 - 00185 Rome, and included in its Integrated Report.

SECONDARY OFFICES AND LOCAL UNITS

CDP RETI announced the closure of the Administrative Office of Rome, Via Versilia 2, with effect from 30 June 2020.

Note that, starting from 4 September 2020, the local office of the Parent Company CDP RETI is at Via Alessandria 220 (00198 Rome).

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

HUMAN RESOURCES

In 2020, the Company issued its corporate regulations and started the supplementation of the existing Service Agreements.

As far as health and safety are concerned, CDP Reti and the other CDP Group companies with staff located in Via Alessandria, adhered to the building Integrated Emergency and Evacuation Plan (a safety and workplace fire risk assessment plan).

No workplace accidents occurred in 2020.

With regard to headcount, CDP Reti had 1 male employee at 31 December 2020. The Company has adopted National Collective Bargaining Agreements applicable to credit, financial and operating companies both for middle managers and personnel in professional areas and for executives.

The average age of the personnel is 47 years.

[35] The entities subject to this obligation are the “public interest entities” (Italian issuers of securities traded on Italian or European regulated markets, banks, insurance and re-insurance companies), with more than 500 employees and 20 million euro total net asset value or 40 million euro total net revenues from sales of goods and services.

8. REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF CDP RETI PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 2, LETTER B) OF THE CONSOLIDATED LAW ON FINANCE

ORGANISATIONAL MODEL PURSUANT TO LEGISLATIVE DECREE NO. 231/01

CDP RETI has adopted an Organisation, Management and Control Model (hereinafter also "231 Model") pursuant to Legislative Decree no. 231/2001, which identifies the company areas and operations that are most exposed to the risk of criminal activity as defined in the legislative decree, along with the principles, rules and regulations for the control system introduced to supervise significant operating activities. This document is the result of the assessment of the corporate structure and operations of CDP RETI, with the primary purpose of providing the Company with a Model that constitutes a protection from administrative liability in case predicate offences are committed by senior managers, employees or individuals acting on behalf of CDP RETI and in its name.

CDP RETI's organisational model consists of a:

- General Section which, based on principles of the Decree, illustrates the essential components of the Model with particular reference to: i) Governance Model and Organisational Structure of CDP RETI; ii) Supervisory Body; iii) measures to be taken in case of non-compliance with the provisions of the Model (disciplinary system); iv) staff training and dissemination of the Model within and outside the Company. The General Section also consists of the Annex "List of the administrative crimes and offences envisaged by Legislative Decree no. 231/2001", which provides brief details of the administrative crimes and offences whose commission determines, on the basis of the conditions laid down by the Decree, the onset of the administrative liability of the Entity pursuant to and for the purposes of the aforementioned regulations.
- Special Section, which i) identifies the relevant activities, for the different types of crimes, in performing which there is a theoretical potential risk of the commission of crimes; ii) describes, merely for educational purposes and by way of example and not limited to the manner of commission of the offences; and iii) indicates the principles of the Internal Control System aimed at preventing the commission of offences.

The Board of Directors, in the meeting held on 6 March 2019, approved the new version of the General Section of the 231 Model and the annex to the General Section containing the "List of the administrative crimes and offences envisaged by Legislative Decree no. 231/01". These documents were revised in order to:

- implement the new whistleblowing regulations introduced by Law no. 179/2017, including the operation of the IT platform for the management of whistleblowing reports;
- incorporate the updated regulatory framework on the prevention of risk of crime of the collective entity.

The revision of the entire 231 Model, already planned for 2020, will be completed by 30 June 2021. This update is necessary to incorporate: (i) the controls identified in the company regulations (internal and Group level) and in the service agreements (which are also being updated to reflect the organisational changes that have taken place in the Parent Company, CDP, in its role as an outsourcer, and to include areas of operations not yet formally covered); (ii) the latest legislative changes concerning the administrative liability of entities; and (iii) the results of the follow-up to the action plan.

In compliance with the provisions of Article 6, paragraph 4-bis, the functions of the Supervisory Body (referred to also below in short as "SB") have been assigned to the Board of Statutory Auditors, a collegiate body composed of three standing members, and two alternates, appointed by the shareholders' meeting. The Chairman of the Board of Statutory Auditors acts as Chairman of the SB.

The causes of ineligibility and forfeiture envisaged for statutory auditors by the applicable regulations and Articles of Association apply to the members of the Supervisory Body.

The Supervisory Body is tasked with overseeing the functioning and observance of the Model and with updating its content and assisting the competent corporate bodies in correctly and effectively implementing the Model. The functioning of the SB is established in the specific adopted Regulation.

For its secretarial and operational activities, the SB relies on the Internal Auditing Function outsourced to the Parent Company based on a specific service agreement.

The "Organisation, Management and Control Model pursuant to Legislative Decree no. 231/2001" and the "Code of Ethics of Cassa depositi e prestiti S.p.A. and the companies subject to its management and coordination" are available in the "COMPANY NOTICE BOARD" folder.

KEY CHARACTERISTICS OF THE RISK AND INTERNAL CONTROL MANAGEMENT SYSTEMS WITH REGARD TO THE FINANCIAL REPORTING PROCESS

The CDP RETI Group is aware that financial reporting plays a central role in establishing and maintaining positive relationships between the Company and its stakeholders. The internal control system, which oversees the company's reporting processes, is set up in such a way as to ensure that reporting is reliable[36], accurate[37], dependable[38] and timely regarding Financial Reporting and the ability of relevant company processes on this point to produce this information in compliance with the applicable accounting standards.

The company's control system is structured to comply with the model adopted in the CoSO Report[39], an international reference model for the establishment, update, analysis and assessment of the internal control system. This model requires the achievement of the business objectives as a result of the integrated presence and correct operation of the following elements that, based on their characteristics, operate at organisational unit level and/or operating/administrative process level:

- a suitable control environment, meaning the set of standards of conduct, processes and structures underlying the execution of the organisation's internal control process;
- appropriate risk assessment, requiring that risks be suitably identified, documented and classified based on relevance;
- the planning and performance of suitable control activities, such as policies and procedures adopted to mitigate (i.e. reduce to an acceptable level) the identified risks which may compromise the achievement of the business objectives;
- the presence of a suitable information system and adequate communication flows that guarantee the exchange of relevant information between senior executives and the operational functions (and vice versa);
- the planning of suitable monitoring activities to verify the effectiveness and correct operation of the internal control system.

In line with the adopted model, the controls are monitored on a periodic basis in order to assess their operational effectiveness and efficiency over time.

The internal control system for financial reporting has been structured and applied according to a risk-based approach, in relation to the potential impacts on the financial reporting.

CDP Reti follows the Group Policy that defines the methodological framework and operational instruments that the Parent Company, CDP, and the CDP Group companies are required to comply with for the application of Law 262/05, for the purposes of both individual and consolidated company reporting. The control model is based on an initial company-wide analysis of the control system in order to verify that the environment is, generally speaking, organised to reduce the risk of error or improper conduct with regard to the disclosure of accounting and financial information.

This analysis is undertaken by verifying the presence of elements, ranging from adequate governance systems to ethical and integrity-based standards of conduct, effective organisational structures, clear assignment of powers and responsibilities, an appropriate risk management policy, disciplinary systems for personnel, and effective codes of conduct.

At the process level, the approach consists of an assessment phase to identify specific potential risks which, if the risk event were to occur, could prevent the rapid and accurate identification, measurement, processing and representation of corporate events in the accounts. This process involves the development of risk and control association matrices that are used to analyse processes on the basis of their risk profiles and the associated control activities.

The process level analysis is structured as follows:

- an initial phase for the identification of the potential risks and the definition of the control objectives in order to mitigate those risks;
- the second phase involving the identification and assessment of the controls designed to mitigate potential risks (Test of Design – ToD);

[36] Reliability (of reporting): correct reporting drafted in compliance with the generally accepted accounting standards, which meets the requirements of applicable laws and regulations.
[37] Accuracy (of reporting): reporting with no errors.
[38] Dependability (of reporting): correct and complete reporting based on which investors may make informed investment decisions.
[39] Committee of Sponsoring Organizations of the Treadway Commission.

- a third phase consisting of the identification of areas of improvement identified for the control.

Monitoring the effective operation of the control system is another key component of the CoSO Report framework. This activity is carried out on a regular basis, addressing the periods covered by the reporting.

The monitoring phase in CDP RETI is structured as follows:

- sampling of the items to be tested;
- test execution (Test of Effectiveness – ToE);
- weighting of any anomalies detected and related assessment.

Based on the potential risk identified and taking into account the results of the overall assessment of the control (ToD+ToE), the “residual risk” is obtained, which represents the qualitative measurement of the risk that the company is exposed to in relation to the actual implementation of the controls identified.

The residual risk is measured based on the following formula:

RI – OA = RR

where:	*RI* = index of potential risk obtained from the combination of weight and frequency of the risk; *OA* = overall assessment of the controls; *RR* = residual risk index.

The assessment of the controls reduces the value of the potential risk index, based on predefined percentages.

If anomalies are found in the ToDs and ToEs, a plan of corrective actions is produced and the anomalies are reported to the process owners, providing:

- a detailed description of the anomaly detected;
- the corrective action proposals identified, specifying: the deadline for implementation, the priority and the offices responsible.

After the phase of consultation and agreement with the controls and process owners, the actual implementation of the measures established to resolve the anomaly is monitored.

To enable the Financial Reporting Manager and the management bodies of the CDP RETI Group to issue the certification pursuant to Article 154-bis of the Consolidated Law on Finance, it was necessary to establish an intercompany “chain” certification system, regarding the data and information provided for the preparation of the consolidated financial statements of the CDP RETI Group.

INDEPENDENT AUDITORS

The financial statements of CDP RETI are audited by the Independent Auditors Deloitte & Touche S.p.A, which are responsible for verifying, during the year, that the company accounts have been properly kept and that the accounting events have been recorded correctly in the accounting entries, and ascertaining that the financial statements for the year and the consolidated financial statements match the accounting books and the verifications made, and that said documents comply with supervisory provisions.

The independent auditors issue an opinion on the Parent company and consolidated financial statements, and on the half-yearly financial report.

The independent auditors are appointed by the Shareholders’ Meeting in ordinary session, acting on a reasoned proposal put forward by the control body.

Pursuant to the resolution of the Shareholders’ Meeting dated 10 may 2019, the independent auditing firm Deloitte & Touche S.p.A. was entrusted the auditing mandate for the 2020-2028 period.

FINANCIAL REPORTING MANAGER

As already mentioned above, following the issue in May 2015 of a bond listed on the Irish Stock Exchange, CDP RETI was required, pursuant to Article 154-bis of the Consolidated Law on Finance, to appoint a Financial Reporting Manager.

With reference to the experience requirements and methods for appointing and substituting the Financial Reporting Manager, the provisions of Article 19.13 of CDP RETI Articles of Association are reported below.

Article 19.13 CDP RETI Articles of Association:

Subject to the prior opinion of the Board of Statutory Auditors, the Board of Directors appoints the Financial Reporting Manager for a period of time not shorter than the term of office of the Board and not longer than six financial years, to perform the duties assigned to such manager under Article 154-bis of Legislative Decree no. 58 of 24 February 1998. The Financial Reporting Manager must meet the integrity requirements established for the directors and cannot hold the offices indicated in Article 15.11 of the Articles of Association[40]. The Financial Reporting Manager shall be chosen in accordance with criteria of professional experience and competence from among the persons who have global experience of at least three years in the administrative area at consulting firms or companies or professional firms. The Financial Reporting Manager can be replaced by the Board of Directors only for due cause, having obtained the prior opinion of the Board of Statutory Auditors. The appointment of the Financial Reporting Manager shall lapse if such manager does not continue to meet the requirements for the office. The Board of Directors shall declare such lapse within thirty days from the date on which they become aware of the supervening failure to meet the requirements.

In order to ensure that the Financial Reporting Manager has resources and powers commensurate with the nature and complexity of the activities to be performed and with the size of the Company, and to ensure that such manager is able to perform the duties of the position, including in relations with other corporate bodies, in June 2017 the Board of Directors approved the “Internal Rules for the Function of the Financial Reporting Manager”.

Briefly, the Financial Reporting Manager is required to certify, jointly with the Chief Executive Officer and through a specific report attached to the financial statements for the year, the consolidated financial statements and the half-yearly report:

- the adequacy and the actual application of the administrative and accounting procedures for the preparation of the condensed half-yearly report, the Parent Company’s financial statements and the consolidated financial statements;
- the compliance of the documents with IFRS;
- the matching of the documents with the accounting books and records;
- that the documents are suitable to provide a true and fair view of the financial position, performance and cash flows of the issuer and the companies included in the scope of consolidation;
- the reliability of the content of the report on operations and the interim report on operations.

In order to guarantee an effective, systematic and prompt flow of information, the Financial Reporting Manager periodically reports to the Board of Directors with regard to any critical issues that have arisen in performing his/her tasks, any plans and actions established to overcome any issues found, and, in general, the suitability of the administration and accounting internal control system.

The Financial Reporting Manager informs without delay the Board of Statutory Auditors about possible anomalies, deficiencies and critical issues regarding the administrative/accounting system, when deemed to be particularly relevant. Moreover, upon request of the Board of Statutory Auditors, he/she provides information and assistance by taking part in the meeting of the Board when invited.

The Manager liaises with the Independent auditors in order to establish constant communication and exchange of information concerning the assessment and effectiveness of the controls on administrative and accounting processes.

[40] Not entitled to hold any office in the management or control bodies, or management positions in ENI S.p.A. and its subsidiaries, or to have any direct or indirect relationship of a professional or financial nature with those companies.

INSIDER REGISTER

CDP RETI has established the “Register of persons with access to CDP RETI inside information” (hereinafter the “Register”) in compliance with the requirements of European Regulation no. 596/2014 (and the related implementing regulations), which includes the reference regulatory framework concerning market abuse.

The Register - which has been established by CDP RETI as an issuer of debt securities traded on regulated markets - is divided into separate sections, one for each piece of inside information, and a new section is added to the Register each time a new piece of inside information is identified. Each section of the Register only reports the details of the people with access to the inside information contemplated in the section. There is also an additional section in the Register which contains the details of people who always have access to all inside information (“Permanent Access Holders”). The Register is computerised and password protected, and the notes pertaining to each section are in chronological order. Each note is tracked and cannot be changed.

The establishment and management of the Register are governed by internal CDP RETI rules also establishing the regulations and procedures for keeping and updating the Register.

CODE OF ETHICS

Also with regard to its vision of social and environmental responsibility, CDP RETI has adopted specific principles of conduct by implementing the "Code of Ethics of Cassa Depositi e Prestiti S.p.A. and of the Companies subject to management and coordination".

The purpose of the Code of Ethics is to declare and disseminate the values and rules of conduct the Company intends to refer to in the performance of its business activities. The Code governs all the rights, duties and responsibilities that the Company expressly assumes with respect to the stakeholders it interacts with in the course of its business.

The set of ethical principles and values expressed in the Code of Ethics must guide the activities of all those who operate in any way in the interest of the Company.

INTERNAL CONTROL SYSTEM

CDP RETI has developed an internal control system, structured according to three levels of control, consisting of a set of controls, rules, procedures, and organisational structures designed to identify, measure or assess, monitor, prevent or mitigate, and – where necessary – communicate to all appropriate levels, the risks taken or that may be taken in the various segments, as well as to ensure compliance with applicable regulations, in accordance with corporate strategies and the achievement of targets set by company management.

More specifically, third level controls are implemented by the Internal Auditing function. Internal Auditing is a permanent, independent and objective function that pursues the continuous improvement of the effectiveness and efficiency of CDP RETI’s governance, risk management and control processes, by means of professional and systematic supervision. The division of the internal control system into the three levels mentioned above is based on sector regulations and applicable best practices, including the recommendations of the main international organisation for the internal auditing profession (Institute of Internal Auditors). With regard to the latter, in July 2020 the Institute of Internal Auditors (IIA) published an update of the “The IIA’s Three Lines Model - An update of the Three Lines of Defense” aimed at strengthening the principles underlying the three lines of defence of the internal control system and the coordination and collaboration between the functions that oversee the three levels in order to ensure effective governance and risk management.

Internal Auditing and second-level control functions cooperate to share the different perspectives on risks and controls in order to provide the Corporate Bodies with a single representation of the overall level of risk, coordinate annual activity plans and exchange information on critical issues, inefficiencies, weaknesses or irregularities identified in their respective control activities. Cooperation between these functions is intended to develop synergies and avoid overlaps, while ensuring adequate coverage of control objectives.

The Internal Auditing function reports hierarchically to the Board of Directors through its Chairman and regularly informs the Governing Bodies and the Board of Statutory Auditors on the activities carried out and the results achieved. The Chief Audit Officer, in particular, is appointed by the Board of Directors, having consulted the Board of Statutory Auditors, on the proposal of the Chief Executive Officer, in agreement with the Chairman of the Board of Directors. The appointment of the Chief Audit Officer is permanent and is subject to revocation by the Board of Directors.

The Company’s Board of Directors, as part of the outsourcing to the Parent Company of some auxiliary services (service agreements), including Internal Auditing, starting from 20 March 2017 appointed a Chief Audit Officer of CDP RETI, a resource belonging to the Chief Audit Officer Department of the Parent Company CDP S.p.A. (“CDP”). The Chief Audit

Officer, who is part of the organisational structure of CDP RETI S.p.A. and is not responsible for any operational area, has direct access to all the company information, documents and systems required to perform the tasks, including those held by the outsourcer, and carries out the audit activities in complete independence according to the instructions of the Board of Directors.

The Internal Auditing function provides an independent and objective assessment of the completeness, adequacy, functionality and reliability of CDP RETI's organisational structure and overall internal control system, and assesses the proper functioning of the processes, the safeguard of assets, the reliability and integrity of the accounting and operational information, as well as compliance with internal and external regulations and management guidelines.

For the execution of its activities, each year the Internal Auditing function prepares an audit plan and submits it to the Board of Directors for approval. The audit plan is consistent with the applicable regulations, the risks associated with the activities carried out to achieve the company's objectives and incorporates the indications expressed by Top Management or Corporate Bodies. The plan specifies the activities to be carried out and the objectives to be pursued.

Issues identified during each audit are immediately reported to the relevant business units so they can implement corrective actions. The Internal Auditing function notifies Management, the Board of Statutory Auditors, the Supervisory Body, the Chairman and Chief Executive Officer of improvements that can be made to the risk management policies, the instruments used to measure risk, and the various company procedures.

The Internal Auditing function reports on a half-yearly basis to the Board of Directors and the Board of Statutory Auditors on the activity carried out, the main issues identified and the progress made on the corrective actions implemented by CDP RETI. On an annual basis, the Internal Auditing function also presents its assessment of the overall internal control system.

This function also supports the Supervisory Body in performing its functions of overseeing the operation of and compliance with the Model, updating the Model, and performing the controls requested by the Body, as well as the technical and administrative secretarial activities.

Lastly, the Internal Auditing function can provide advisory services to other corporate functions in order to create added value and improve the risk management and performance of the organisation, without taking any management responsibility so as to avoid any situation that could potentially influence its independence and objectivity.

SHAREHOLDERS' AGREEMENT IN RESPECT OF ITALGAS SHARES

On 20 October 2016, CDP Reti S.p.A. ("**CDP Reti**"), CDP Gas S.r.l. ("**CDP Gas**") and SNAM S.p.A. ("**Snam**") signed a shareholders' agreement ("**Italgas Shareholders' Agreement**") in respect of all the shares which each of them would hold in Italgas S.p.A. ("**Italgas**" or the "**Company**") subsequent to and starting from the effective date of the partial and proportional spin-off of Snam into Italgas and the concurrent listing of Italgas shares on the stock exchange, i.e. from 7 November 2016 ("**Effective Date of the Spin-off**").

The Italgas Shareholders' Agreement, which came into effect on the Effective Date of the Spin-off, governs, inter alia: the exercise of voting rights conferred by shares tied to the shareholders' agreement; (ii) the set-up of an advisory committee; (iii) the obligations and the methods of presentation of joint lists for the appointment of the Company's Board of Directors; and (iv) restrictions on the sale and purchase of Italgas shares.

The merger by incorporation of CDP GAS into CDP became effective on 1 May 2017. As of that date, CDP became the owner of the Italgas shares previously owned by CDP GAS and replaced CDP GAS in the Italgas Shareholders' Agreement for all intents and purposes.

On 19 May 2017, CDP transferred to CDP Reti, amongst others, the entire equity investment held by CDP in Italgas as a result of the aforesaid merger, equal to 7,840,127 ordinary shares, representing 0.969% of the Italgas share capital with voting rights. As a result of the foregoing transfer: (i) the total number of Italgas shares held by CDP Reti - and locked into the Italgas Shareholders' Agreement by CDP Reti - increased to 210,738,424 ordinary shares in Italgas, representing 26.045% of the share capital with voting rights, and (ii) CDP ceased to be a party to the Italgas Shareholders' Agreement, which continues in full force and effect only between CDP Reti and Snam.

On 1 August 2019, the Board of Directors of CDP reclassified its equity investment in Snam and Italgas as de facto control pursuant to Article 2359, paragraph 1, no. 2) of the Italian Civil Code and Article 93 of the Consolidated Law on Finance.

Even after having determined the de facto control pursuant to the Italian Civil Code and the Consolidated Law on Finance, CDP and CDP Reti will continue not to exercise management and coordination over Snam and Italgas, pursuant to Articles 2497 et seq. of the Italian Civil Code.

The total number of shares tied to the Italgas Shareholders' Agreement has not changed and remains equal to 319,971,717 ordinary shares, representing 39.545% of the Italgas share capital with voting rights.

No amendments have been made to the individual provisions of the Italgas Shareholders' Agreement.

The main provisions of the Italgas Shareholders' Agreement are detailed below:

- establishment of a consultation committee composed of five members (the "**Consultation Committee**"), four of whom represent CDP Reti (three appointed by CDP and one by State Grid Europe Ltd, in short "**SGEL**") and one representing Snam. The Consultation Committee decides by simple majority of its members in office on the exercise of voting rights relating to Italgas shares owned by the parties to the Italgas Shareholders' Agreement. The parties to the Italgas Shareholders' Agreement cast the votes conferred by their shares in Italgas as decided by the Consultation Committee, without prejudice to Snam's rights in respect of Reserved Matters (as defined below);
- in connection with certain extraordinary resolutions of Italgas (the "Reserved Matters")41, if the Consultation Committee passes resolutions that have been voted against by the representative designated by Snam and the shareholders' meeting of Italgas approves the related Reserved Matter, Snam will be able: (i) to sell its entire equity investment in Italgas (the "Snam Equity Investment") to potential third-party buyers (in this case, CDP Reti will have the right of first refusal on the purchase of the equity investment and the right of non-discretionary approval of the third-party buyer42, it being understood that the third-party buyer will be required to replace Snam in the Italgas Shareholders' Agreement) and (ii) if the equity investment is not sold within 12 months, to withdraw from the Italgas Shareholders' Agreement due to its dissolution;
- Snam shall not be able to increase or dispose of the Snam Equity Investment, except for the transfer, under certain conditions, of the entire equity investment to entities controlled by Snam. Snam may, at any time, sell its equity investment only in its entirety and in compliance with the following rules: (i) CDP Reti shall have the right of first refusal on the purchase of the equity investment and the right of non-discretionary approval on the third-party buyer43, and

[41] The Reserved Matters are the following matters subject to resolution by the extraordinary shareholders' meeting of Italgas: (i) capital increases with exclusion or limitation of the option right of shareholders for a total amount exceeding 20% of the shareholders' equity of Italgas; (ii) mergers or demergers for a total amount exceeding 20% of the shareholders' equity of Italgas; and (iii) winding-up or liquidation of Italgas.

[42] CDP Reti will be able to deny its approval solely for one of the following reasons:
a) the third-party buyer is a direct competitor of Italgas and/or Italgas Reti S.p.A. in Italy; and/or
b) the third-party buyer fails to provide adequate documentation and evidence of compliance with the unbundling laws in force from time to time; and/or
c) the third-party buyer comes from a country against which there are restrictions on free exchange adopted by the competent international organizations; and/or
d) the purchase of the Snam Equity Investment by the third-party buyer is in violation of the applicable laws; and/or
e) the third-party buyer does not meet certain size requirements; and/or
f) the conclusion of the potential transaction with the third-party buyer or the third-party buyer's joining of the Italgas Shareholders' Agreement generates an obligation for the third-party buyer, singly or jointly with CDP Reti, to make a mandatory initial public offering on the remaining Italgas shares.

[43] See previous note.

(ii) the third-party buyer must replace Snam in the Italgas Shareholders' Agreement on the same terms and conditions as Snam; and

- CDP Reti and other parties associated with it shall only be able to purchase additional shares or other financial instruments of Italgas if: (i) these shares are added to the Italgas Shareholders' Agreement, and (ii) these purchases do not result in the exceeding of the thresholds set by the rules on mandatory public tender offers. In addition, CDP RETI shall not be able to sell the Italgas shares that it holds, if the total equity investment attributable to the Italgas Shareholders' Agreement falls below 30%;
- the Italgas Shareholders' Agreement establishes that CDP Reti and Snam are required to submit a joint list of candidates for the appointment of Italgas' Board of Directors in order to ensure that Snam appoints one candidate and CDP Reti appoints the remaining candidates (one of whom will be appointed by SGEL), including the Chairman and the CEO, if that list comes first in terms of number of votes obtained in the Italgas Shareholders' Meeting.

The Italgas Shareholders' Agreement contains provisions that are relevant pursuant to Article 122, paragraphs 1 and 5 of the Consolidated Law on Finance and therefore qualifies as a voting and lock-up agreement. The Italgas Shareholders' Agreement will therefore be subject to the disclosure obligations set out in Article 122, paragraph 1 of the Consolidated Law on Finance and its implementing provisions.

The Italgas Shareholders' Agreement has a term of three years, with the possibility of automatic renewal for further periods of three years, subject to the right of each party to terminate the Italgas Shareholders' Agreement with 12 months' notice. If Snam provides notification of its intention not to renew, CDP Reti may exercise a purchase option on the Snam Equity Investment at fair market value within 9 (nine) months from notification of withdrawal from the Italgas Shareholders' Agreement.

For further details, see the key information published on the Italgas and Consob websites in relation to the Italgas Shareholders' Agreement.

SHAREHOLDERS' AGREEMENT IN RESPECT OF CDP RETI, SNAM, TERNA AND ITALGAS SHARES

CDP, SGEL and State Grid International Development Limited[44] (below, "**SGID**") are parties to a shareholders' agreement entered into when a stake of 35% in CDP Reti was transferred to SGEL on 27 November 2014 ("**SGEL Shareholders' Agreement**"). CDP and SGEL transferred their stakes in the share capital of CDP Reti to the SGEL Shareholders' Agreement, representing a total of 94.10% of the share capital.

The SGEL Shareholders' Agreement provides SGEL with governance rights in order to protect its investment in CDP Reti. In detail, it contains provisions on the exercise of voting rights and clauses restricting the transfer of shares pursuant to article 122, paragraph 1 and paragraph 5, letter b) of the Consolidated Law on Finance. The SGEL Shareholders' Agreement also contains provisions regarding the governance of CDP Reti, Snam, TERNA S.p.A. ("**Terna**") and Italgas.

A summary of the amendments made to the SGEL Shareholders' Agreement over time is provided below.

A. On 19 December 2014, CDP completed the transfer to Snam of the equity investment in TRANS AUSTRIA GASLEITUNG GmbH ("TAG"), which it held via CDP Gas. The transaction was linked to an increase in the share capital of Snam reserved to CDP Gas, which was paid for by means of the transfer of the aforementioned equity investment by CDP Gas (which consequently became the holder of 119,000,000.00 ordinary shares of Snam, equal to a stake of 3.4% in Snam's share capital). As a result, CDP Reti's equity investment in Snam, albeit consisting of 1,014,491,489 shares, was no longer equivalent to 30% of SNAM's share capital but represented around 28.98% as of 19 December 2014.

B. Subsequently, on 7 November 2016, (i) a spin-off was completed for the transfer of Snam's equity investment in Italgas Reti S.p.A. to Italgas and, at the same time, (ii) the Italgas shares were officially listed on the stock exchange. As a result of the foregoing transaction, CDP Reti became the holder of a 25.076% equity investment in the share capital of Italgas. Consequently, in order to: a) reflect the new corporate structure of the group headed by CDP Reti; b) extend the applicability of the provisions of the SGEL Shareholders' Agreement also to the new investee Italgas, and c) align the provisions of the SGEL Shareholders' Agreement with the provisions of the Italgas Shareholders' Agreement (with particular regard to the Consultation Committee), CDP, SGEL and SGID amended and supplemented the provisions of the SGEL Shareholders' Agreement with effect from 7 November 2016.

C. To conclude, the merger by incorporation of CDP GAS into CDP became effective on 1 May 2017 and, as of that date, CDP is the owner of the SNAM and ITALGAS shares previously owned by CDP GAS and replaced CDP GAS in the Italgas Shareholders' Agreement for all intents and purposes. On 19 May 2017, CDP therefore transferred to CDP Reti the entire equity investment in Italgas (0.969% of Italgas share capital) and the entire equity investment in Snam (1.120% of Snam share capital), which it held subsequent to and as an effect of the aforementioned merger by incorporation of CDP Gas (which was not tied to the SGEL Shareholders' Agreement).

[44] State Grid International Development Limited owns the entire capital of SGEL.

In light of all of the above, it should be noted that:

- pursuant to and with effect from the date of transfer to CDP Reti of CDP's equity investment in Italgas, equal to 7,840,127 ordinary shares (representing 0.969% of the Italgas share capital with voting rights), the total number of Italgas shares owned by CDP Reti and locked into the SGEL Shareholders' Agreement by it - and, hence, the total number of Italgas shares tied to the SGEL Shareholders' Agreement - has increased to a total of 210,738,424 ordinary shares of Italgas, representing 26.045% of the Italgas share capital with voting rights; and
- pursuant to and with effect from the date of transfer to CDP Reti of CDP's equity investment in Snam, equal to 39,200,638 ordinary shares (representing 1.120% of the Italgas share capital with voting rights), the total number of Snam shares owned by CDP Reti and locked into the SGEL Shareholders' Agreement by it - and, hence, the total number of Snam shares tied to the SGEL Shareholders' Agreement - has increased to a total of 1,053,692,127 ordinary shares of Snam, representing 30.37% of the Snam share capital with voting rights.
- the number of Terna shares tied to the SGEL Shareholders' Agreement has not changed and is equal to 599,999,999 ordinary shares, held by CDP Reti, representing 29.851% of the Terna share capital with voting rights.

The SGEL Shareholders' Agreement has a term of three years from the signing date and is automatically renewed for a further term of three years, unless terminated by one of the parties.

For further details, see the key information published in relation to the SGEL Shareholders' Agreement on the websites of the investee companies Snam, Terna and Italgas.

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2020 consolidated financial statements

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements at 31 December 2020 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and consist of:

- Consolidated Balance Sheet
- Consolidated Income Statement
- Consolidated Statement of Comprehensive Income
- Statement of Changes in Consolidated Equity
- Consolidated Statement of Cash Flows
- Notes to the consolidated financial statements

The Notes to the consolidated financial statements consist of:

- Introduction
- I - Basis of presentation and accounting policies
- II - Information on the Consolidated Balance Sheet
- III - Information on the Consolidated Income Statement
- IV - Business combinations
- V - Transactions with related parties
- VI - Financial risk management
- VII - Share-based payments
- VIII - Operating Segments
- IX - Guarantees and commitments
- X – Disclosure of Leases

The following are also included:

- Annexes
- Certification pursuant to article 154-bis of Legislative decree no. 58/98
- Independent Auditor’s Report

The “Annexes”, which are an integral part of the consolidated financial statements, include the consolidation scope and the information provided with reference to the obligations introduced concerning the transparency of public funds by Law no. 124 of 4 August 2017.

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2020

CONSOLIDATED BALANCE SHEET

ASSETS (thousands of euro) Assets items	Notes	31/12/2020	*of which from related parties*	31/12/2019	*of which from related parties*
NON-CURRENT ASSETS					
Property, plant and equipment	1	36,400,626		35,547,271	
Inventories - compulsory stock	2	362,713		362,713	
Intangible assets	3	10,383,263		9,927,040	
Equity investments	4	1,797,294		1,705,720	
Non-current financial assets	5	936,372	307,199	503,012	
Deferred tax assets	6	926,931		843,149	
Other non-current assets	7	237,137	334	171,265	
Total non-current assets		**51,044,336**	**307,533**	**49,060,170**	
Non-current assets held for sale	8	**1,400**		**12,007**	
CURRENT ASSETS					
Current financial assets	9	655,178	9,630	524,473	6,887
Income tax receivables	10	48,193		40,666	
Trade receivables	11	3,408,105	779,830	3,070,871	939,672
Inventories	12	266,057		214,809	
Other current assets	13	456,346	54,383	331,188	49,955
Cash and cash equivalents	14	6,469,798	6,001	4,246,420	10,114
Total current assets		**11,303,677**	**849,844**	**8,428,427**	**1,006,628**
TOTAL ASSETS		**62,349,413**	**1,157,377**	**57,500,604**	**1,006,628**

LIABILITIES AND EQUITY

(thousands of euro)

Liabilities and equity items	Notes	31/12/2020	*of which from related parties*	31/12/2019	*of which from related parties*
EQUITY	15				
Share capital		162		162	
Issue premium		1,315,158		1,315,158	
Retained earnings		843,228		703,315	
Other reserves		2,029,921		2,029,921	
Valuation reserves		(95,903)		(87,602)	
Interim dividend		(285,696)		(267,004)	
Net income for the year (+/-)		583,872		568,405	
Group equity	15 a	**4,390,742**		**4,262,355**	
Non-controlling interests	15 b	11,368,834		11,149,351	
Total Equity		**15,759,576**		**15,411,706**	
NON-CURRENT LIABILITIES					
Provisions for risks and charges	16	1,172,287		1,092,603	
Provisions for employee benefits	17	206,607		223,580	
Loans	18	26,581,363	558,754	25,228,253	421,271
Other non-current financial liabilities	19	316,193		231,936	2,651
Deferred tax liabilities	20	2,605,886		2,699,395	
Other non-current liabilities	21	1,563,482		1,550,926	
Total non-current liabilities		**32,445,818**	**558,754**	**31,026,693**	**423,922**
Liabilities directly associated with non-current assets held for sale	22				
CURRENT LIABILITIES					
Current portion of long-term loans	23	3,180,746		2,841,065	341,608
Trade payables	24	3,380,425	198,864	3,456,269	256,336
Income tax liabilities	25	37,923		39,710	
Current financial liabilities	26	5,615,694	3,875	2,880,190	3,787
Other current liabilities	27	1,929,231	20,412	1,844,971	21,420
Total current liabilities		**14,144,019**	**223,151**	**11,062,205**	**623,151**
TOTAL LIABILITIES AND EQUITY		**62,349,413**	**781,905**	**57,500,604**	**1,047,073**

CONSOLIDATED INCOME STATEMENT

(thousands of euro) Consolidated income statement items	Notes	31/12/2020	*of which from related parties*	31/12/2019	*of which from related parties*
Revenues					
Revenues from sales and services	28	7,254,766	3,799,173	6,743,389	4,015,457
Other revenues and income	29	216,665	9,991	157,137	16,547
Total revenues		**7,471,431**	**3,809,164**	**6,900,526**	**4,032,004**
Operating Costs					
Raw materials and consumables used	30	(518,531)	(7,710)	(347,953)	(39,452)
Services	31	(938,942)	(63,218)	(919,894)	(68,859)
Staff costs	32	(762,631)	(2,853)	(691,086)	(2,979)
Amortisation, depreciation and impairment of property, plant and equipment and intangible assets	33	(2,131,094)		(2,017,862)	
Net (write-downs)/write-backs of trade receivables and other receivables	33 a	(2,190)		35,645	
Other operating costs	34	(224,651)	(28,825)	(114,897)	(3,085)
Total costs		**(4,578,039)**	**(102,606)**	**(4,056,047)**	**(114,375)**
Operating profit		**2,893,392**	**3,706,558**	**2,844,479**	**3,917,629**
Financial income (expense)					
Financial income	35	52,768	12,596	31,410	
Borrowing expenses	36	(425,853)	(9,418)	(411,355)	(15,685)
Portion of income (expenses) from equity investments valued with the equity method	37	181,669		182,436	
Other income (expenses) from equity	37 a				
Total financial income (expense)		**(191,416)**	**3,178**	**(197,509)**	**(15,685)**
Income before taxes		**2,701,976**	**3,709,736**	**2,646,970**	**3,901,944**
Taxes for the year	38	(728,050)		(731,403)	
Net income (loss) from continuous operations		**1,973,926**	**3,709,736**	**1,915,567**	**3,901,944**
Net income (loss) from discontinued operations	39			(3,876)	
Net income (loss) for the year		**1,973,926**	**3,709,736**	**1,911,691**	**3,901,944**
- pertaining to Shareholders of the Parent Company		*583,872*		*568,405*	
- pertaining to non-controlling interests		*1,390,054*		*1,343,286*	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(thousands of euro)

Items/Figures	Notes	31/12/2020	31/12/2019
1 - Net income (loss) for the year		**1,973,926**	**1,911,691**
Other comprehensive income net of taxes not transferred to income statement			
2 - Financial assets (equity securities) measured at fair value through other comprehensive income		43,030	3,973
3 - Hedging of equity securities designated at fair value through other comprehensive income			
4 - Financial liabilities designated at fair value through profit or loss (change in the entity's own credit risk)			
5 - Property, plant and equipment			
6 - Intangible assets			
7 - Defined benefit plans		(1,178)	(4,845)
8 - Non-current assets held for sale			
9 - Share of valuation reserves of equity investments accounted for using equity method		3,204	(756)
10 - Revaluation Laws			
Other comprehensive income net of taxes transferred to income statement			
11 - Financial assets (other than equity securities) measured at fair value through other comprehensive income		2,445	624
12 - Hedging instruments (elemented not designated)			
13 - Hedging of foreign investments			
14 - Exchange rate differences		(43,823)	5,990
15 - Cash flow hedges		(41,870)	(140,371)
16 - Non-current assets held for sale			
17 - Share of valuation reserves of equity investments accounted for using equity method		(17,964)	(21,986)
18 - Revaluation Laws			
19 - Total other comprehensive income net of taxes		**(56,156)**	**(157,371)**
20 - Comprehensive income (item 1+19)		**1,917,770**	**1,754,320**
21 - Consolidated comprehensive income pertaining to non-controlling interests		1,351,578	1,232,740
22 - Consolidated comprehensive income pertaining to Shareholders of the Parent Company		**566,192**	**521,580**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AT 31 DECEMBER 2020

(thousands of euro)	Notes	Share capital	Legal reserve	Issue premium	Valuation reserves net of taxes
Total equity at 31 December 2019		**162**	**32**	**1,315,158**	**(87,602)**
Change in opening					
Total equity at 1 January 2020		**162**	**32**	**1,315,158**	**(87,602)**
Net income (loss) for the year					
Other comprehensive income:					
- cash flow hedges					(13,577)
- defined benefit plans					(351)
- exchange rate differences					(13,590)
- other					9,838
Total other comprehensive income					**(17,680)**
Comprehensive income					**(17,680)**
Transactions with Shareholders					
Allocation of previous year net income/(loss):					
- interim dividend 2019					
- dividends					
- retained earnings					
Interim dividend 2020					
Treasury stock transactions					
Total transactions with Shareholders					
Other changes					9,379
Total other changes					**9,379**
Total equity at 31 December 2020	**15**	**162**	**32**	**1,315,158**	**(95,903)**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AT 31 DECEMBER 2019

(thousands of euro)	Notes	Share capital	Legal reserve	Issue premium	Valuation reserves net of taxes
Total equity at 31 December 2018		**162**	**32**	**1,315,158**	**(40,590)**
Change in opening					
Total equity at 1 January 2019		**162**	**32**	**1,315,158**	**(40,590)**
Net income (loss) for the year					
Other comprehensive income:					
- cash flow hedges					(41,469)
- defined benefit plans					(1,466)
- exchange rate differences					1,930
- other					(5,820)
Total other comprehensive income					**(46,825)**
Comprehensive income					**(46,825)**
Transactions with Shareholders					
Allocation of previous year net income/(loss):					
- interim dividend 2018					
- dividends					
- retained earnings					
Interim dividend 2019					
Treasury stock transactions					
Total transactions with Shareholders					
Other changes					(187)
Total other changes					**(187)**
Total equity at 31 December 2019	**15**	**162**	**32**	**1,315,158**	**(87,602)**

Other reserves	Retained earnings	Net income (loss) for the year	Interim dividend	Group equity	Non-controlling interests	Total Equity
2,029,921	**703,283**	**568,405**	**(267,004)**	**4,262,355**	**11,149,351**	**15,411,706**
2,029,921	**703,283**	**568,405**	**(267,004)**	**4,262,355**	**11,149,351**	**15,411,706**
		583,872		583,872	1,390,054	1,973,926
				(13,577)	(28,293)	(41,870)
				(351)	(827)	(1,178)
				(13,590)	(30,233)	(43,823)
				9,838	20,877	30,715
				(17,680)	**(38,476)**	**(56,156)**
		583,872		**566,192**	**1,351,578**	**1,917,770**
		(267,004)	267,004			
		(143,027)		(143,027)	(706,797)	(849,824)
	158,374	(158,374)				
			(285,696)	(285,696)	(349,336)	(635,032)
					12,538	12,538
	158,374	**(568,405)**	**(18,692)**	**(428,723)**	**(1,043,595)**	**(1,472,318)**
	(18,461)			(9,082)	(88,500)	(97,582)
	(18,461)			**(9,082)**	**(88,500)**	**(97,582)**
2,029,921	**843,196**	**583,872**	**(285,696)**	**4,390,742**	**11,368,834**	**15,759,576**

Other reserves	Retained earnings	Net income (loss) for the year	Interim dividend	Group equity	Non-controlling interests	Total Equity
2,029,921	**568,216**	**516,741**	**(255,938)**	**4,133,702**	**10,691,730**	**14,825,432**
2,029,921	**568,216**	**516,741**	**(255,938)**	**4,133,702**	**10,691,730**	**14,825,432**
		568,405		568,405	1,343,286	1,911,691
				(41,469)	(98,902)	(140,371)
				(1,466)	(3,379)	(4,845)
				1,930	4,060	5,990
				(5,820)	(12,325)	(18,145)
				(46,825)	**(110,546)**	**(157,371)**
		568,405		**521,580**	**1,232,740**	**1,754,320**
		(255,938)	255,938			
		(131,622)		(131,622)	(654,486)	(786,108)
	129,179	(129,181)		(2)		(2)
			(267,004)	(267,004)	(331,400)	(598,404)
					161,700	161,700
	129,179	**(516,741)**	**(11,066)**	**(398,628)**	**(824,186)**	**(1,222,814)**
	5,888			5,701	49,067	54,768
	5,888			**5,701**	**49,067**	**54,768**
2,029,921	**703,283**	**568,405**	**(267,004)**	**4,262,355**	**11,149,351**	**15,411,706**

CONSOLIDATED STATEMENT OF CASH FLOWS

(thousands of euro)

Items/Figures	Notes	31/12/2020	31/12/2019 (*)
Net income for the year		**1,973,926**	**1,911,691**
Adjustments to net income to reflect cash flow from operating activities:			
Amortisation and depreciation	33	2,093,639	1,976,527
Net writedowns (revaluations) of property, plant and equipment and intangible assets		29,226	31,940
Effect of accounting using the equity method	37	(182,753)	(178,563)
Net losses (gains) on disposals, cancellations and eliminations of assets		7,654	(3,516)
Dividends		(1,910)	(2,310)
Interest income	35	(50,546)	(29,100)
Interest expense	36	402,090	411,355
Income taxes	38	729,666	729,809
Other adjustements		(71,209)	700
Changes in working capital:			
- Inventories		(66,407)	(51,419)
- Trade receivables		(192,849)	(93,995)
- Trade payables		(117,011)	4,795
- Provisions for risks and charges		(1,676)	4,131
- Other assets and liabilities		(206,686)	(95,306)
Cash flow from working capital		**(584,629)**	**(231,794)**
Change in provisions for employee benefits		(20,785)	(92,618)
Dividends received		220,397	122,828
Interest received		56,704	36,636
Interest paid		(429,809)	(508,927)
Income taxes paid net of tax credits reimbursed / income from participation in the tax consolidation mechanism		(901,098)	(853,426)
Cash flow from operating activities		**3,270,563**	**3,321,232**
- with related parties		*2,217,680*	*2,058,051*
Investing activities:			
- Property, plant and equipment		(2,217,147)	(2,009,006)
- Intangible assets		(976,456)	(847,329)
- Companies in the scope of consolidation and business units		(26,521)	(100,066)
- Equity investments		(323,270)	(64,613)
- Change in payables and receivables relative to investing activities		(370,120)	(36,164)
Cash flow from investing activities		**(3,913,514)**	**(3,057,178)**
Divestments:			
- Property, plant and equipment		15,064	37,701
- Intangible assets		15,157	344
- Equity investments		94,762	36,486
- Change in payables and receivables relative to divestments		(11,244)	80
Cash flow from divestments		**113,739**	**74,611**
Net cash flow from investing activities		**(3,799,775)**	**(2,982,567)**
- with related parties		*(342,314)*	*100,171*
Assumption of long-term financial debt	18	4,838,861	3,418,679
Repayments of long-term financial debt	18	(2,396,730)	(2,077,875)
Increase (decrease) in short-term financial debt	23-26	1,948,891	402,195
(Increase) decrease of financial receivables for not operating purposes		(4,727)	(4,597)
Repayment of financial debts for leased assets		(37,095)	
Net equity capital injections		(109,502)	968
Dividends distributed to shareholders	15	(1,487,108)	(1,236,616)
Net cash flow from financing activities		**2,752,590**	**502,754**
- with related parties		*(225,904)*	*(358,008)*
Net cash flow for the year		**2,223,378**	**841,419**
Cash and cash equivalents at start of the year	14	4,246,420	3,405,001
Cash and cash equivalents at end of the year	14	6,469,798	4,246,420

* The data referring to 31 December 2019 have been restated for the purpose of better comparative presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

Form and content of the consolidated financial statements

The consolidated financial statements of the CDP RETI Group (hereinafter also referred to as the "Group"), prepared pursuant to articles 2 and 3 of Legislative Decree 35/2005 and in accordance with International Financial Reporting Standards (IFRS), include the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated equity, the consolidated statement of cash flows and these notes to the consolidated financial statements, as well as the Board of Directors' report on operations at Group level (Report on Operations). Starting from the financial year 2020, the items which make up the statement of changes in equity were restated in order to provide a clearer reporting.

CDP RETI is required to draft its annual consolidated financial statements in compliance with international accounting standard IFRS 10. The conditions for exemption arising from being a sub-holding controlled by a holding company (Cassa Depositi e Prestiti S.p.A.) which drafts its own consolidated financial statements do not apply for entities which have issued listed securities on a regulated market.

The consolidated financial statements at 31 December 2020 clearly present, and give a true and fair view of, the Group's financial performance and results of operations for the period. The figures shown in these statements correspond with the company accounting records and fully reflect the transactions conducted during the year.

Basis of presentation

The consolidated financial statements are presented in euro. Unless otherwise specified, the consolidated financial statements and tables in the notes to the consolidated financial statements are expressed in thousands of euro, in consideration of their size.

In the income statement, revenues are indicated without a sign, while costs are shown in brackets.

The rounded amounts for the various items are the sum of the rounded balances of sub-items.

Comparison and disclosure

As detailed below, the notes to the financial statements provide all information required by law, as well as any supplemental information deemed necessary in order to give a true and fair view of the company's financial performance and standing.

As noted in paragraph "I.1.2 General preparation principles", the figures at 31 December 2019 have been restated due to some reclassifications made following the entry into force of the new international financial reporting standards. See the above-mentioned paragraph for a more detailed analysis.

Audit of the consolidated financial statements

The consolidated financial statements at 31 December 2020 of the CDP RETI Group have been audited by Deloitte & Touche S.p.A., as per the engagement assigned by the shareholders in their meeting of 10 May 2019 to carry out the audit for the period 2020-2028.

Annexes

The consolidated financial statements include Annex 1 “Scope of consolidation” and Annex 2 “Disclosure pursuant to Law 124 of 4 August 2017, Article 1 paragraphs 125-129”.

I - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

I.1. GENERAL INFORMATION

I.1.1. Declaration of compliance with the International Financial Reporting Standards

These consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretations, in force at 31 December 2020, endorsed by the European Commission, as provided by Regulation (EC) 1606 of 19 July 2002, published in the Official Journal L 243 on 11 September 2002.

In addition, the minimum reporting requirements established by the Italian Civil Code, where compatible with the accounting standards adopted, have been taken into account.

I.1.2. General preparation principles

The financial statement formats used to prepare the consolidated financial statements are consistent with the provisions of IAS 1 – Presentation of Financial Statements (hereinafter, IAS 1).

More specifically:

- the items on the consolidated balance sheet are classified by distinguishing assets and liabilities as “current / non-current”;
- the consolidated income statement has been prepared by classifying costs by their nature, insofar as this form of presentation is deemed the most appropriate for representing the actual situation of the Company, and is consistent with the established practice of firms operating on international markets;
- the consolidated statement of comprehensive income shows income inclusive of the revenues and costs that are recognised directly in equity pursuant to IFRS;
- the statement of changes in consolidated equity presents the total income (loss) for the year, transactions with shareholders and other changes in equity;
- the consolidated statement of cash flows is drafted by using the “indirect” method, adjusting net income for the effects of non-cash transactions.

It is believed that these statements present an adequate view of the Group’s financial position and performance of operations.

For the purposes of interpretation and to provide support in applying the financial reporting standards, the following documents have also been considered, although they have not been endorsed by the European Commission:

- Conceptual framework for financial reporting;
- Implementation Guidance and Basis for Conclusions;
- SIC/IFRIC interpretations;
- Interpretation documents concerning the application of the IFRS in Italy, prepared by the Organismo Italiano di Contabilità (Italian Accounting Board, OIC);
- Documents issued by Consob concerning the application of specific IFRS rules;
- Documents issued by ESMA, IOSCO and Consob with regard to assessments and disclosures required in respect of the impacts of the COVID-19 outbreak.

Where the information required by the IFRS is deemed to be inadequate in presenting the company’s financial standing in a true and fair manner, the explanatory notes also provide supplemental information for such purpose.

These consolidated financial statements have been prepared in accordance with the provisions of IAS 1:

- Going concern basis: the CDP RETI Group has conducted an assessment of its ability to continue to operate as a going concern, considering all available information over a medium-term time horizon. Based on an analysis of the information and the results achieved in previous years, CDP RETI Group deems appropriate to prepare its consolidated financial statements on a going concern basis. For more details see section “5. Business outlook for 2021” of the Group’s Report on Operations and section “I.1.5. Other issues” in the Notes to the consolidated financial statements regarding the impacts of COVID-19 and the uncertainties regarding the possible evolution of its effects on the CDP RETI Group;

- Accruals basis: operations are recognised in the accounting records and in the consolidated financial statements of the CDP RETI Group (except for the disclosure about cash flows) when they accrue, regardless of the payment or collection date. Costs and revenues are recognised in profit or loss in accordance with the matching principle;
- Materiality and aggregation: all items containing assets, liabilities, revenues and expenses of a similar nature and with similar characteristics are presented separately in the consolidated financial statements, unless they are immaterial;
- Offsetting: no assets have been offset with liabilities, nor income with expenses, unless expressly required by an accounting standard or a related interpretation;
- Frequency of reporting: the CDP RETI Group prepares the consolidated financial statements, and makes the related disclosures, on an annual basis. The Group also prepares an interim disclosure, the half-yearly condensed consolidated financial statements ending 30 June of each year, as mentioned above. No changes occurred with respect to the reporting date, which remains at 31 December of each year;
- Comparative information: comparative information is disclosed in respect of the previous financial period. This comparative information, which refers to the reporting date of the previous financial year, is provided for each document comprising the financial statements, including the notes thereto.

Use of estimates

The application of International Financial Reporting Standards in preparing the consolidated financial statements requires accounting estimates based on complex and/or subjective judgements, which are considered reasonable and realistic on the basis of past experience and the information available at the time the estimate is made. Such estimates impact the carrying value of the assets and liabilities and the disclosures on contingent assets and liabilities as of the reporting date, as well as the amounts of revenues and costs for the reference financial period. Actual results may differ from the estimates due to the uncertainty of the assumptions and conditions underlying the estimates. Changes in the conditions underlying the judgements, assumptions and estimates used could also have an impact on future earnings results.

Estimates and assumptions are subject to periodical review and the effects of changes are reflected in the income statement.

The estimates made in the consolidated financial statements of the CDP RETI Group are mainly attributable to the following:

- recoverable amount of property, plant and equipment, intangible assets and goodwill: the assets recognised are periodically assessed to identify impairment indicators. As a result of events or changes in circumstances, the value of the assets recognised in the financial statements may be considered no longer recoverable. The estimated recoverable amount of assets is the result of complex assessments based on elements which are often uncertain. Impairment is determined by comparing the carrying value with the recoverable amount, which is the greater of the fair value, less disposal costs, and the value in use determined by discounting expected future cash flows generated by the use of the asset. For assets that do not generate cash flows irrespective of the existence of other assets, the recoverable amount is determined by calculating the recoverable value of the cash generating unit to which the said asset belongs;
- recoverable amount of equity investments: objective evidence that the carrying value of the equity investments might not be fully recoverable is assessed at every annual or interim reporting date. An impairment test is performed when the aforementioned evidence exists, to estimate the recoverable amount of the equity investments and comparing it with their carrying value, to determine the recognition of any impairment losses;
- quantification of employee benefits: the actuarial valuations performed to determine the value of provisions for employee benefits are based on economic and demographic-type assumptions and on other assumptions considered to be reasonable at the date of evaluation but which may change over time. Changes in actuarial assumptions will result in changes in the value of net liabilities recognised through other comprehensive income or profit or loss;
- quantification of provisions for risks and charges: the estimate of provisions for risks and charges is the result of complex assessments and subjective judgements of the management. The assessments are based on different kinds of elements, including: the probability and expected timing of disbursements, the discount rates and the interpretation of standards, regulations and contractual clauses;
- quantification of the bad debt provision, based on the present value of expected future cash flows.

The following description of the accounting policies used for the valuation of the main consolidated financial statement items provides details on the assumptions and assessments used in preparing the consolidated financial statements.

IFRS endorsed at 31 December 2020 and in force since 2020

As required by IAS 8 - “Accounting policies, changes in accounting estimates and errors”, details of the new international financial reporting standards, or amendments to standards already in force, whose application became mandatory from 1 January 2020, are provided below.

- Commission Regulation (EU) 2019/2014 of 29 November 2019, published in Official Journal L 318 of 10 December 2019, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Accounting Standards (IAS) 1 and 8. Entities should apply such changes, at the latest, from the start of the first financial year that begins on or after 1 January 2020.
- Commission Regulation (EU) 2019/2075 of 29 November 2019, published in Official Journal L 316 of 6 December 2019, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Accounting Standards (IAS) 1, 8, 34, 37 and 38, International Financial Reporting Standards (IFRS) 2, 3, and 6, Interpretations 12, 19, 20 and 22 of the International Financial Reporting Interpretations Committee (IFRIC) and Interpretation 32 of the Standing Interpretations Committee (SIC). Entities should apply such changes, at the latest, from the start of the first financial year that begins on or after 1 January 2020.
- Commission Regulation (EU) 2020/34 of 15 January 2020, published in Official Journal L 12 of 16 January 2020, amending Regulation (EC) no. 1126/2008 of the Commission, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 39 and International Financial Reporting Standards (IFRS) 7 and 9. Companies should apply the changes set out in Article 1, at the latest, from the start of the first financial year that begins on or after 1 January 2020. The main amendments concern the reform of the indices of reference for determining interest rates.
- Commission Regulation (EU) 2020/551 of 21 April 2020, published in Official Journal L 127 of 22 April 2020, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council with regard to International Financial Reporting Standard 3 (*Business Combinations*). Companies should apply the changes set out in Article 1, at the latest, from the start of the first financial year that begins on or after 1 January 2020.
- Commission Regulation (EU) 2020/34 of 9 October 2020, published in Official Journal L 331 of 12 October 2020, amending Commission Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 16.

New accounting standards and interpretations issued and endorsed by the European Union, but not yet in force (date of entry into effect for financial years beginning from 1 January 2021)

Listed below are the new standards and interpretations already issued and endorsed, but not yet in force and therefore not applicable to the preparation of the financial statements at 31 December 2020:

- Commission Regulation (EU) 2020/2097 of 15 December 2020, published in Official Journal L 425 of 16 December 2020, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 4.

Accounting standards, amendments and interpretations not yet endorsed by the European Union at the reporting date of 31 December 2020

Certain accounting standards, interpretations and amendments had been issued by the IASB but not yet endorsed by the European Union at the approval date of these consolidated financial statements:

- IFRS 17 Insurance Contracts (issued on 18 May 2017) including Amendments to IFRS 17 (issued on 25 June 2020);
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (issued on 23 January 2020);
- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements (issued 14 May 2020);
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020).

OTHER INFORMATION

The Board of Directors meeting on 26 March 2021 approved the CDP RETI Group's consolidated financial statements as at 31 December 2020, authorising their publication and disclosure in line with the deadlines and methods envisaged by current regulations applicable to CDP Reti.

I.1.3. Scope and methods of consolidation

Subsidiaries are consolidated on a line-by-line basis, while companies subject to joint control or significant influence are accounted for using the equity method. An exception is made for a number of minor controlling equity investments or those in subsidiaries in the start-up phase without assets and liabilities, whose contribution to the consolidated financial statements is immaterial for the correct representation of the assets, economic and financial situation of the CDP RETI Group.

The figures of the subsidiaries used for line-by-line consolidation are those at 31 December 2020, as approved by competent corporate bodies of the consolidated companies, adjusted as necessary to harmonise them with Group accounting policies.

The following statement shows the companies consolidated on a line-by-line basis.

Equity investments in subsidiaries

			Type of relationship	Equity investment		% of votes
Name	Operating office	Registered office	(1)	Investor	% holding	(2)
1 ASSET COMPANY 2 S.r.L.	San Donato Milanese	San Donato Milanese	1	SNAM S.p.A.	100%	100%
2 AVVENIA THE ENERGYINNOVATOR S.R.L.	Rome	Rome	1	Terna Energy Solutions S.r.l.	70%	70%
3 Brugg Cables (India) Pvt., Ltd.	Haryana	Haryana	1	Brugg Kabel AG	100%	100%
				Brugg Kabel GmbH	0.26%	0.26%
4 Brugg Cables (Shanghai) Co., Ltd.	Shanghai	Shanghai	1	Brugg Kabel AG	100%	100%
5 Brugg Cables (Suzhou) Co., Ltd.	Suzhou	Suzhou	1	Brugg Cables (Shanghai) Co., Ltd.	100%	100%
				Brugg Kabel AG		
7 Brugg Cables Middle East DMCC	Dubai	Dubai	1	Brugg Kabel AG	100%	100%
8 Brugg Kabel AG	Brugg	Brugg	1	Terna Energy Solutions S.r.l.	90%	90%
9 Brugg Kabel GmbH	Schwieberdingen	Schwieberdingen	1	Brugg Kabel AG	100%	100%
10 Consorzio Tamini - CERB	Sofia	Sofia	1	Tamini Trasformatori S.r.l.	78%	78%
11 Cubogas s.r.l.	San Donato Milanese	San Donato Milanese	1	Snam 4 Mobility S.p.A.	100%	100%
12 Difebal S.A.	Montevideo	Montevideo	1	Terna SpA	100%	100%
13 Ecoprogetto Milano S.r.l.	Bolzano	Bolzano	1	Renerwaste S.r.l.	45%	45%
				Renerwaste Lodi S.r.l.	55%	55%
				Renerwaste S.r.l.		
15 Enersi Sicilia	San Donato Milanese	Caltanissetta	1	Snam 4 Mobility S.p.A.	100%	100%
16 Enura S.p.A. (gi`"(ASSET COMPANY 5 S.r.l.)	San Donato Milanese	San Donato Milanese	1	SNAM S.p.A.	55%	55%
17 Esperia S.r.l.	Rome	Rome	1	Terna S.p.A.		
				Snam4Efficiency S.r.l.		
19 Gasrule Insurance D.A.C.	Dublino	Dublino	1	SNAM S.p.A.	100%	100%
20 Gaxa S.p.A. (gi`"(Medea Newco S.r.l.)	Milan	Milan	1	Italgas S.p.A.	52%	52%
21 GNL Italia SpA	San Donato Milanese	San Donato Milanese	1	SNAM S.p.A.	100%	100%
22 IES Biogas S.r.l.	Pordenone	Pordenone	1	Snam 4 Mobility S.p.A.	100%	70%
23 Infrastrutture Trasporto Gas S.p.A.	San Donato Milanese	Milano	1	ASSET COMPANY 2 S.r.L.	100%	100%
24 Italgas Acqua S.p.A.	Milan	Caserta	1	Italgas S.p.A.	100%	100%
25 Italgas Newco S.r.l.	Milan	Milan	1	Italgas S.p.A.	100%	100%
26 Italgas Reti S.p.A.	Turin	Turin	1	Italgas S.p.A.	100%	100%
27 Italgas S.p.A.	Milan	Milan	4	CDP Reti S.p.A.	26%	26%
				SNAM S.p.A.	14%	14%
28 Medea S.p.A.	Sassari	Sassari	1	Italgas Reti S.p.A.	52%	52%
29 Mieci S:p.A:	Milan	Milan	1	Snam4Efficiency S.r.l.	100%	70%
30 PI.SA. 2 S.r.l.	Rome	Rome	1	Terna SpA	100%	100%
31 Renerwaste Lodi S.r.l.	Bolzano	Bolzano	1	Renerwaste S.r.l.	100%	100%
32 Renerwaste S.r.l.	Bolzano	Bolzano	1	Snam4Environment S.r.l.	100%	100%
33 Resia Interconnector S.r.l.	Rome	Rome	1	Terna SpA	100%	100%
34 Rete S.r.l.	Rome	Rome	1	Terna SpA	100%	100%
35 Rete Verde 17 S.r.l.	Rome	Rome	1	Terna Energy Solutions S.r.l.	100%	100%
36 Rete Verde 18 S.r.l.	Rome	Rome	1	Terna Energy Solutions S.r.l.	100%	100%
37 Rete Verde 19 S.r.l.	Rome	Rome	1	Terna Energy Solutions S.r.l.	100%	100%
38 Rete Verde 20 S.r.l.	Rome	Rome	1	Terna Energy Solutions S.r.l.	100%	100%
39 Seaside S.r.l.	Bologna	Bologna	1	Italgas S.p.A.	100%	100%
40 Snam 4 Mobility S.p.A.	San Donato Milanese	San Donato Milanese	1	SNAM S.p.A.	100%	100%
41 Snam Gas & Energy Services (Beijing) Co. Ltd.	Beijing	Beijing	1	Snam International B.V.	100%	100%
42 Snam International B.V.	Amsterdam	Amsterdam	1	SNAM S.p.A.	100%	100%
43 SNAM RETE GAS S.p.A.	San Donato Milanese	San Donato Milanese	1	SNAM S.p.A.	100%	100%
44 SNAM S.p.A.	San Donato Milanese (MI)	San Donato Milanese (MI)	4	CDP Reti S.p.A.	31%	31%
				SNAM S.p.A.	100%	100%
46 Snam4Environment S.r.l.	San Donato Milanese	San Donato Milanese	1	SNAM S.p.A.	100%	100%
47 SPE Santa Lucia Transmissora de Energia S.A.	Rio de Janeiro	Rio de Janeiro	1	Terna Chile S.p.A.		
				TERNA PLUS S.r.l.	100%	100%
48 SPE Santa Maria Transmissora de Energia S.A.	Rio de Janeiro	Rio de Janeiro	1	TERNA PLUS S.r.l.	100%	100%
				Terna Chile S.p.A.	0.01%	0.01%
49 SPE TRANSMISSORA DE ENERGIA LINHA VERDE I S.A.	Belo Horizonte	Belo Horizonte	1	TERNA PLUS S.r.l.	75%	75%
50 SPE TRANSMISSORA DE ENERGIA LINHA VERDE II S.A.	Belo Horizonte	Belo Horizonte	1	TERNA PLUS S.r.l.	75%	75%
51 Stogit S.p.A.	San Donato Milanese	San Donato Milanese	1	SNAM S.p.A.	100%	100%
52 Tamini Transformatori India Private Limited (Tes Transformer I	Magarpatta City, Hadapsar, Pune	Magarpatta City, Hadapsar, Pune	1	Tamini Trasformatori S.r.l.	100%	100%
53 Tamini Transformers USA L.L.C.	Sewickley	Sewickley	1	Tamini Trasformatori S.r.l.	100%	100%
54 Tamini Trasformatori S.r.l.	Legnano (MI)	Legnano (MI)	1	Terna Energy Solutions S.r.l.	70%	70%
55 Tep Energy Solution S.r.l.	Rome	Milano	1	Snam4Efficiency S.r.l.	100%	100%
56 Terna 4 Chacas S.A.C.	Lima	Lima	1	TERNA PLUS S.r.l.	100%	100%
				Terna Chile S.p.A.	0.01%	0.01%
57 Terna Chile S.p.A.	Santiago del Cile	Santiago del Cile	1	TERNA PLUS S.r.l.	100%	100%
58 TERNA Crna Gora d.o.o.	Podgorica	Podgorica	1	Terna SpA	100%	100%
59 Terna Energy Solutions S.r.l.	Rome	Rome	1	Terna SpA	100%	100%
60 Terna Interconnector S.r.l.	Rome	Rome	1	Terna SpA	65%	65%
				TERNA RETE ITALIA S.p.A.	5%	5%
61 Terna Peru S.A.C.	Lima	Lima	1	TERNA PLUS S.r.l.	100%	100%
				Terna Chile S.p.A.	0.01%	0.01%
62 TERNA PLUS S.r.l.	Rome	Rome	1	Terna SpA	100%	100%
63 TERNA RETE ITALIA S.p.A.	Rome	Rome	1	Terna SpA	100%	100%
64 Terna SpA	Rome	Rome	4	CDP Reti S.p.A.	30%	30%
65 Tlux S.r.l.	Piancogno (BS)	Piancogno (BS)	1	Mieci S.p.A.	100%	85%
66 Toscana Energia Green S.p.A.	Pistoia	Pistoia	1	Toscana Energia S.p.A.	100%	100%
67 Toscana Energia S.p.A.	Florence	Florence	1	Italgas S.p.A.	51%	51%

Key
(1) Type of relationship:
- 1 = Majority of voting rights in ordinary shareholders' meeting
- 2 = Dominant influence in ordinary shareholders' meeting
- 3 = Agreements with other shareholders
- 4 = Other form of control
- 5 = Unitary management pursuant to Article 26.1 of Legislative Decree 87/92
- 6 = Unitary management pursuant to Article 26.2 of Legislative Decree 87/92

(2) Actual percentage of votes in ordinary shareholders' meeting, distinguishing between effective and potential votes

The changes which occurred in the scope of consolidation compared with those in effect at 31 December 2019 are attributable to the following:

- with reference to the TERNA group:
  - on 29 February 2020, Terna - through the subsidiary Terna Energy Solutions S.r.l. - finalised the closing of the acquisition of 90% of Brugg Kabel AG (Brugg Group) as part of the strategy to develop Non-Regulated activities;

- o the incorporation, on 22 May 2020, of SEleNe CC S.A. - a jointly controlled company owned by Terna (25%) and three other European TSOs. The company will act as the Regional Security Coordinator, pursuant to Regulation (EU) 2017/1485, for the participating TSOs;
- o on 11 August 2020, through its subsidiary Terna Plus S.r.l., Terna closed the transaction with Construtora Quebec, which resulted in the acquisition of a 51% stake in the Brazilian joint-stock company SPE Transmissora de Energia Linha Verde I S.A.. A further equity investment was acquired on 9 September 2020, thus reaching 75%;
- o on 20 November 2020, Terna incorporated, together with the jointly controlled company SEleNe CC S.A., the company ESPERIA-CC S.r.l., wholly owned by virtue of the corporate governance structure, despite being 1% owned by Terna and 99% owned by SEleNe CC S.A.. The company is tasked with providing services in support of dispatching activities (pursuant to European Regulations 2017/1485, 2015/1222 and 2019/943), but does not fall within the scope of the companies conducting regulated activities or subject to ARERA regulation;
- o on 1 December 2020, Terna S.p.A. acquired 25% of Equigy B.V., a limited liability company under Dutch law, jointly controlled by Terna and the other participating TSOs. The equity investment represents a joint operation pursuant to IFRS 11 – Joint Arrangements.
- with reference to the SNAM group:
  - o on 5 October 2020, 70% of the companies Mieci S.p.A. and Evolve S.r.l. were acquired through the subsidiary Snam4Efficiency. The companies are active in the energy efficiency sector;
- with reference to the ITALGAS group:
  - o the inclusion of Italgas Newco S.r.l., 100% owned by Italgas S.p.A., within the scope of consolidation.

Significant assessments and assumptions to determine the scope of consolidation and whether there is control, joint control or significant influence

Line-by-line consolidation

Line-by-line consolidation involves the line-by-line use of the aggregate amounts on the balance sheets and income statements of the subsidiaries. After the allocation to non-controlling interests, reported as a separate item, of their share of equity and net income, the value of the equity investment is cancelled against the residual value of the equity of the subsidiary.

The carrying value of equity stakes in entities consolidated on a line-by-line basis held by the Parent Company or other Group companies is offset – against the assets and the liabilities of the investees – as a balancing entry of the relevant equity share pertaining to the Group.

Assets and liabilities, off-balance sheet transactions, income and expenses, as well profits and losses between entities included into the scope of consolidation are fully eliminated, in line with the consolidation method adopted.

A subsidiary's revenues and costs are consolidated starting from the date on which control is acquired. Revenues and costs of a divested subsidiary sold are included into the consolidated income statement up to the divestment date, i.e. until the Group no longer controls the investee. The difference between the disposal price for the subsidiary and the carrying value of its net assets at the same date is recorded in the income statement.

Non-controlling interests are presented in the balance sheet under the item "Non-controlling interests", separately from liabilities and equity pertaining to the Group. In the income statement, non-controlling interests are also presented separately under the item "Net Income (loss) pertaining to non-controlling interests".

Acquisitions of companies are accounted for using the "acquisition method" provided for under IFRS 3, as modified by Regulation 495/2009, under which the identifiable assets acquired and the identifiable liabilities assumed (including contingent liabilities) are recognised at their respective fair values at the acquisition date.

For newly acquired companies, the difference between the acquisition price and equity is provisionally recognised as goodwill, if positive, or under liabilities if negative, under "Other non-current liabilities", net of goodwill, if any, recognised in the financial statements of the acquirees. In accordance with IFRS3.45 et seq., the difference resulting from the transaction is allocated within twelve months of the acquisition date. If positive, the difference is recognised – after any allocation to the assets and liabilities of the subsidiary – as goodwill or other intangible assets under intangible assets. If negative, it is recognised through profit or loss.

The acquisition method is applied as from the moment in which control of the investee is effectively acquired.

Accounting for companies using the equity method

Associates and joint ventures are accounted for using the equity method.

The equity method involves initial recognition of the equity investment at cost, which is subsequently adjusted on the basis of the share held in the equity of the investee.

The difference between the value of the equity investment and the share held of the equity of the investee is included in the carrying amount of the investee.

The share of profit or loss of the investee is recognised in a specific item of the consolidated income statement.

If there is evidence of impairment, the recoverable amount of the equity investment is estimated, equal to the greater of the fair value and the value in use (present value of the future cash flows which may be generated by the investment, including the final disposal value). If the recoverable value is lower than the carrying amount resulting from the application of the equity method, the difference is recognised through profit or loss.

The consolidation of joint ventures and investments in associates was based on the most recent (annual or interim) approved figures of the companies.

Significant assessments and assumptions to determine whether there is control, joint control or significant influence

The consolidated financial statements of the CDP RETI Group include the balance sheet and income statement figures of the Parent Company CDP RETI and the companies controlled directly or indirectly by it. The scope of consolidation is defined with reference to the provisions laid down by IFRS 10, IFRS 11, IFRS 12 and IAS 28.

Subsidiaries

Subsidiaries are entities, including structured entities, which are directly or indirectly controlled by the Group. Control over an entity is shown by the Group’s capacity to exercise power in order to influence variable returns to which the Group is exposed as a result of its relationship with the aforementioned entity.

In order to verify the existence of control, the Group considers the following factors:

- the purpose and structure of the investee, in order to identify the entity’s objectives, the activities that generate its revenues and how such activities are governed;
- power, in order to understand whether the Group has contractual rights enabling it to govern relevant activities; to this end, only substantial rights that confer effective governance are considered;
- the exposure to the investee, in order to assess whether the Group has business relationships with the investee whose returns vary as a result of changes in the investee’s performance;
- the existence of potential principal-agent relationships.

Where significant activities are governed through voting rights, the following factors show evidence of control:

- direct or indirect ownership – through a subsidiary – of over fifty per cent of voting rights of an entity, unless it can be demonstrated – in exceptional cases – that such ownership does not constitute control;
- ownership of fifty per cent or less of the votes that can be exercised in the Shareholders’ Meeting and unilateral ability to govern the main activities through:
- control of over half of voting rights by virtue of an agreement with other investors;
- power to determine the financial and operational policies of the entity by virtue of a clause of the Articles of Association or an agreement;
- power to appoint or remove the majority of the members of the Board of Directors or the equivalent governing body, where management of the business falls under the remit of the aforementioned Board of Directors or body;
- power to exercise the majority of voting rights in the meetings of the Board of Directors or those of the equivalent governing body, where management of the business falls under the remit of the aforementioned Board of Directors or body.

The presence and the effect of potential voting rights, where substantial, are taken into account when assessing whether the power of governing another entity’s financial and operational policies exists.

Subsidiaries may include any “structured entities” in which voting rights are not significant with respect to control assessment, including special purpose entities and investment funds.

Structured entities are considered as subsidiaries where:

- the Group has power through contractual rights that enable governance of relevant activities;
- the Group is exposed to variable returns resulting from the aforementioned activities.

Joint arrangements

A joint arrangement is a contractual agreement in which two or more counterparties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

According to IFRS 11, joint arrangements must be classified as joint operation or joint venture depending on the Group's contractual rights and obligations.

A joint operation is a joint arrangement in which the parties have rights on the assets and obligations on the liabilities of the arrangement.

A joint venture is a joint arrangement in which the parties have rights on the net assets of the agreement.

Equity investments in jointly controlled companies are valued at equity.

Associate companies

An associate is a company over which the owner exercises a significant influence and which is neither a subsidiary nor a joint venture. Significant influence is presumed when the owner:

- owns, directly or indirectly, at least 20% of another company's share capital; or
- can, also through shareholders' agreements, exercise significant influence through:
  - representation in the company's management body;
  - participation in the policy-making process, including in decision-making on dividends or other allocations;
  - existence of significant transactions;
  - exchange of managerial personnel;
  - provision of key know-how.

Equity investments in associates are measured at equity.

Equity investments in subsidiaries with significant non-controlling interests

For the purposes of preparing the following tables, an interest was considered significant if:

- non-controlling interests are greater than 50% of the share capital of the investee;
- the investee's accounts are of material significance for the reader of this report.

Non-controlling interests, availability of non-controlling interest votes and dividends distributed to non-controlling interests

(thousands of euro) Company name	Registered office	% of non - controlling interests	Availability of votes of non - controlling votes (1)	Dividends paid to non-controlling interests (2)
1. Italgas S.p.A.	Milan	69.61%	69.61%	144,180
2. SNAM S.p.A.	San Donato Milanese (MI)	67.78%	67.78%	536,790
3. Terna S.p.A.	Rome	70.15%	70.15%	361,240

(1) Available voting rights at Ordinary Shareholders' Meeting.
(2) including interim dividend

Equity investments in subsidiaries with significant non-controlling interests: accounting data

(thousands of euro) Company name	Non-current assets	Non-current assets held for sale	Current assets	Non-current liabilities	Current liabilities	Equity	Revenues	Net income (loss)	Comprehensive income
1. Italgas S.p.A.	7,903,800	69	1,493,777	5,905,292	1,511,312	1,981,042	2,127,063	403,626	371,977
2. SNAM S.p.A.	21,172,748		4,957,010	11,952,528	7,705,012	6,472,218	2,770,296	1,101,052	1,086,947
3. Terna S.p.A.	15,922,489	1,331	4,772,669	11,249,988	5,030,737	4,415,764	2,575,828	758,433	703,217

I.1.4. Events subsequent to the reporting date

See the section "Significant Events After 31 December 2020" of the Report on Operations in the Consolidated Financial Statements.

I.1.5. Other issues

Intercompany transactions

In case of lack of specific indications provided by the IFRS and in accordance with IAS 8, which requires that, in the absence of a specific standard, the company must use its judgement in applying an accounting standard that provides relevant, reliable and prudent information that reflects the economic substance of a transaction, intercompany transactions are accounted for using predecessor basis as the same amounts of the purchased company are recognised in the financial statements of the acquiror.

As such, the contribution of the CDP controlling interest in TERNA has been recognised in the consolidated financial statements of CDP RETI since 2014, at the same amounts recognised in the consolidated financial statements of the transferor.

The spin-off of ITALGAS from SNAM in 2016 has also been accounted for in the same way, maintaining the same amounts when determining the carrying value of the ITALGAS equity investment in the financial statements of CDP RETI. The carrying value of the investment in SNAM before the spin-off has been allocated between the post-spin-off value of the investment in SNAM and the value of the investment in ITALGAS in accordance with the relative value approach, thus taking into account the weight that each CGU had at the acquisition date, based, in particular, on the data analysed at the time of the PPA.

COVID-19 note

It should be noted first that in the 2019 annual financial statements the health emergency caused by COVID-19 was qualified by the CDP RETI Group as a “non-adjusting event” according to IAS 10, as an event occurring after the end of the reporting period, which should be disclosed, without amount adjustments in the financial period.

As relates the financial statements for the year ended 31 December 2020, however, the pandemic has been classified as an adjusting event and, as a consequence, its impacts must be reflected in the financial statements.

In preparing the Annual Financial Report at 31 December 2020, the companies were required to consider the impacts of the current economic situation following the COVID-19 outbreak, as well as the related accounting implications with regard to the measurement of assets and liabilities, and the disclosure and assessment on the going concern basis, taking also into account the guidance published by the ESMA, the IOSCO and Consob, specifically:

- ESMA 32-63-951 statement dated 25 March 2020, ‘Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9’;
- ESMA 32-63-972 statement dated 20 May 2020 ‘Implications of the COVID-19 outbreak on the half-yearly financial reports’;
- IOSCO OR/02/2020 dated 29 May 2020 ‘Statement on Importance of Disclosure about COVID-19’;
- CONSOB warning notice no. 6/20 dated 9 April 2020, ‘COVID-19 - Drawing attention to financial reporting’;
- CONSOB warning notice no. 8/20 dated 16 July 2020, ‘COVID-19 - Drawing attention to financial reporting’;
- ESMA 32-63-1041 statement dated 28 October 2020 ‘European common enforcement priorities for 2020 annual financial reports’;
- Communication of the Bank of Italy dated 15 December 2020, ‘Supplements to the provisions in Circular no. 262 “Bank financial statements: presentation formats and rules”’;
- CONSOB warning notice no. 1/21 dated 16 February 2021, ‘COVID-19 – Measures on support for the economy – Drawing attention to reporting that needs to be provided’.

The aim of this paragraph is to introduce the main areas of focus analysed by the management in order to prepare the Annual Financial Report at 31 December 2020, in consideration of the current context characterised by the COVID-19 pandemic.

Disclosure of going concern, significant uncertainties and risks linked to COVID-19

Going concern

Considering all information available about capital structure, available liquidity and financial performance over the medium term, even in the context of the ongoing COVID-19 outbreak, there is no evidence of factors that might in any way affect the ability to continue as a going concern for the CDP RETI Group.

Significant uncertainties and risks linked to COVID-19

Based on the current equity investment portfolio, CDP RETI S.p.A. does not have concentrations of activities in sectors most affected by the epidemic (i.e. airlines, hospitality, tourism) and is less exposed to the risk of a significant impact in the short term. There is a reasonable expectation that there will be no increases in operating costs or higher borrowing costs, at least in the short term: (i) due to the positive conclusion – in May 2020 – of the debt refinancing operation and (ii) because the Company has entered into an interest rate swap with CDP on the two floating-rate loans. In addition, the Parent Company is not expected to request a postponement to the payment date of future interest expenses (i.e. May 2021) nor, at this point in time – based on the strategic plans of the subsidiaries – does it expect changes in the cash inflow from dividends from the 2020 income.

Notwithstanding the above, it is not possible to completely exclude that the duration of the emergency could have adverse effects on CDP RETI S.p.A., which cannot be estimated based on the information available at present.

With regard to the risks that the Parent Company is exposed to, the COVID-19 pandemic has not generated any additional risks or uncontrolled elements of risk. For further in-depth information, please refer to the clearly explained details in the COVID-19 Note contained in the "Other issues" section of the separate financial statements of CDP RETI S.p.A.

With regard to CDP RETI Group companies, the following is highlighted:

- TERNA: it is exposed to different kinds of financial risks: market risk (interest rate, exchange rate and inflation risk), liquidity risk and credit risk. As a part of its financial risk management policies approved by the Board of Directors, TERNA has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the specific operating limits to apply in managing them. The exposure of the TERNA Group to the aforementioned risks is largely represented by the exposure of the Parent Company Terna S.p.A. It should be noted that: i) the fair value measurement of financial assets and liabilities held by the Group has not incurred any changes in terms of an increase in the related risks; ii) the management of credit risk is also driven by the provisions of ARERA Resolution no. 111/06 which introduced some instruments for the limitation of the risks related to the insolvency of dispatching customers both on a preventive basis and in the event an actual insolvency; the assessment conducted by TERNA, has not provided evidence of the need to modify the model used, following an evaluation of the impacts of the pandemic; iii) in relation to the ability to obtain financing, TERNA did not identify any particular critical issues related to the pandemic, considering that the Group has sufficient liquidity to fulfil its obligations falling due coming the next 12 months and beyond;
- SNAM: Default on or delayed payment of fees could negatively impact SNAM's performance and financial balance. As regards the regulated activities, which, currently account for almost all its business, SNAM provides its business services to 220 gas sector operators. The top 10 operators represent approximately 68% of the whole market (Eni, Edison and Enel Global Trading hold the top three positions in the ranking). The maximum exposure to credit risk for SNAM at 31 December 2020 is equal to the carrying value of the financial assets recognised in the consolidated financial statements of the SNAM Group as at 31 December 2020. The ongoing spread of COVID-19 combined with the macroeconomic scenario could cause financial stress or a slowdown in operations for some customers and suppliers, which, in turn, could have repercussions on SNAM's assets and/or liabilities. Likewise, a slowdown in operations and a similar contextual risk is also possible for the development of the energy transition activity, with consequences on receipts and payments, although, at present, the value of these is extremely limited compared against the entire scope of the SNAM group;
- ITALGAS: in April 2020, the Company received a communication from some sales companies of making use of the faculties granted by Resolution no. 116/2020/R/com, as amended,, for payments falling due in April and, based on subsequent extensions, for payments due on or before 30 June 2020, if the conditions should be met. Considering the number of operators that have made recourse to the faculties granted by the aforementioned resolution, ITALGAS has not seen any significant adverse repercussions on receipts expected from gas sales companies on the financial balance of the Group as well as reliable and regular payments by counterparties. For invoices due in April, May and June 2020, the average collection rate was equal to around 90%. With Resolution no. 248/2020/R/com of 30 June 2020, the Authority required sales companies to pay the balance of the total amounts invoiced by the distributors and not paid during the derogation period, as a single payment in September or in three monthly instalments from September to November. As at 31 December 2020, the sales companies had complied with their obligations. With regard to access to credit, ITALGAS does not expect any significant negative impacts taking the following into account: (i) it has available cash with leading banks amounting to about 663.5 million euro as at 31 December 2020 and a

committed credit facility of 500 million euro, completely undrawn as at 31 December 2020 and maturing in October 2021; (ii) there are limited requirements to refinance debt (the first bond repayment is due in 2022); (iii) the bonds issued as at 30 June 2020, as part of the Euro Medium Term Notes programme, do not require compliance with covenants relating to financial statement figures; (iv) any downgrading of the rating of ITALGAS or of any guarantors in excess of pre-established thresholds could lead to the issuance of guarantees for certain lenders or an increase in the spreads applied. The successful (i) 500 million euro bond issue completed on 24 June 2020 to implement the EMTN Programme, (ii) "dual-tranche" bond issue maturing in February 2028 and February 2033, for a total of 500 million euro each and the concurrent Tender Offer launched by ITALGAS on its own bonds, (iii) as well as the confirmation on 3 December 2020 of the rating by Fitch of BBB+, stable outlook, confirm the Company's financial solidity.

Financial instruments and measurement of Expected Credit Losses

Financial assets representing debt instruments, not measured at fair value through profit or loss, are subject to recoverability tests based on the so-called "Expected credit loss model" (ECL). In this regard, to determine the probability of default of counterparties, internal ratings were adopted that are based on the historical trend of counterparties' payments and the update of the analyses related to the need to support the exposure with guarantees.

For the financial instruments in the ECL calculation, and therefore with particular reference to trade and other receivables, the impacts of COVID-19 did not result in changes in the assumptions of the ECL estimates, and there were no changes in the ECL resulting from the transfer of assets from stage 1 to stage 2. The impacts of COVID-19 did not lead to changes in classifying financial instruments and, in particular, the reference business model for such instruments has not changed.

In this regard, as part of the credit and liquidity risk management strategy, at the level of each subsidiary, the pandemic did not generate the sale of receivables, or other financial assets. There have been no changes in the frequency or amount of revenues that have led to amendments to the business model. The companies' revenues were not subject to decrease due to impairment or reduced market liquidity. There have been no changes in the terms and conditions of the loan agreements leading to renegotiating the contractual terms of the financial relationships for both financial assets and liabilities and therefore the need to determine, pursuant to IFRS 9, the effects arising from any derecognition or modification of the financial instruments.

Impairment test

Introduction

It should be noted that the CDP RETI Group's core business is represented by the activities conducted by the subsidiaries (SNAM, TERNA and ITALGAS) under a regulated regime. The limited exposure of these sectors to the effects of COVID-19 has allowed the CDP RETI Group to consider the related impacts, which are such not to suggest the presence of trigger events that require a specific impairment test to be performed exclusively as a result of the outbreak of the pandemic. In this regard, the CDP RETI Group is a significant player for capital invested for regulatory purposes (RAB) in the sectors in which its subsidiaries operate.

Considering that the RAB (Regulatory Asset Base) is calculated based on the rules defined by the Authority in order to determine the benchmark revenues for the regulated businesses, currently there are no effects that would suggest a reduction in the value of property, plant and equipment under concession[45] or intangible assets with finite or indefinite useful life (goodwill).

Impairment test on non-financial assets and equity investments

The corporate purpose of the Parent Company CDP RETI S.p.A. is the holding and ordinary and extraordinary management, directly and/or indirectly, of equity investments in TERNA, SNAM and ITALGAS, with the Company acting as a long-term investor with the objective of supporting the development of transport, dispatching, regasification, storage and distribution infrastructures for natural gas, as well as electricity transmission.

At every annual or interim reporting date, objective evidence that the carrying value of the equity investments might not be fully recoverable is assessed. An impairment test is performed when the aforementioned evidence exists, to estimate the recoverable amount of the equity investments and comparing it with their carrying value, to determine the recognition of

[45] The recoverable amount of property, plant and equipment is calculated considering: (i) the amount quantified by the Authority on the basis of the rules defining the tariffs to provide the services for which they are intended; (ii) the value that the Group expects to recover from the sale or at the end of the concession governing the provided service for which they are intended. Therefore, for each assessment of the regulated assets, reference should be made to the provisions of the applicable regulations.

any impairment losses. With regard to the equity investment portfolio, even though there is objective uncertainty around the extent and duration of the pandemic, there are currently no impairment losses, given that the listed prices for investee companies at 31 December 2020 are showing significant gains in relation to the amounts accounted for in the Company's financial statements.

As mentioned above, in relation to the recoverable amount of the assets belonging to the scope of the RAB (Regulated Asset Base), the assessments carried out showed that the possible slowdown of the operating activities and the macroeconomic effects that are consequent to the outbreak of the pandemic did not produce impacts that suggest the presence of trigger events that would require an impairment test to be performed.

Information relating to Group companies is provided below:

- TERNA: the assessment of the effects of the outbreak of the pandemic has not resulted in the need to write down the value of property, plant and equipment owned by the Group or of any intangible assets with finite useful life. The expected cash flows incurred a marginal impact due to the pandemic, when mainly considering the cash flows relating to concessions in Italy and abroad. In relation to the recoverable amount of property, plant and equipment and the intangible assets with finite useful life belonging to the scope of the RAB (Regulated Asset Base), the assessment of estimated future cash flows generated by these assets has shown that the slowdown in operating activities and the macroeconomic effects of the outbreak of the pandemic have not given rise to impacts constituting triggering events requiring the Group to test for impairment. The same conclusions also apply to the recoverable amount of investments accounted for using the equity method, referring to companies for which the impacts of the pandemic have been marginally contained. Following an assessment of share price performance which, conversely, registered a positive performance (+4.97%), and an assessment view of the highly regulated nature of the business, where cash inflows are only marginally linked to the quantity of energy transported, no evidence of impairment, requiring determination of the recoverable amount of Goodwill, was identified. The same conclusion also applies to the value of Goodwill allocated to the CGU related to the scope of Production and commercialisation of transformers, where cash flows have only marginally been affected by the negative effects of the pandemic;
- SNAM: its core business is represented by transport, storage and regasification of natural gas activities, carried out by the companies operating under a regulated regime. The assessment of the effects associated with the spread of the pandemic highlighted the limited exposure of these sectors to the impacts of COVID-19, which meant that SNAM did not detect any impairment indicators at 31 December 2020. Despite the absence of impairment indicators, the company tests its significant CGUs for impairment at least once a year; in particular, the test conducted with reference to the financial statements at 31 December 2020 did not find any impairment. With reference to investment activities, primarily to address the slowdown in activities due to the suspension of activities at construction sites (starting from mid-March 2020) and, subsequently, their gradual resumption (end of April 2020), SNAM implemented all the actions required to recover the delays and to complete the 2020 investment programme. The limited impacts of the COVID-19 pandemic on the Energy Transition businesses allow SNAM not to identify any impairment indicators at 31 December 2020. Nevertheless, the company tested its significant CGUs (and also the CGUs that were allocated goodwill and/or intangible assets not yet available for use and intangible assets with an indefinite useful life) for impairment. As regards the 2020 financial statements, no impairment was detected. The foreign and Italian investee companies of the SNAM Group mainly operate in the regulated sectors of natural gas transportation, storage, regasification (Teréga, Desfa, GCA, TAG, OLT and Italgas), which means they operate under long-term, ship or pay (TAP) contracts. With reference to Interconnector UK, the only investee company that does not operate under a regulated regime, the results for 2020 have shown an improvement over the forecasts made previously. None of the investee companies made any changes to their 2020 budgets. Finally, it should be noted that any additional containment measures, imposed over the coming months to address the rapid spread of COVID-19 variants, could lead to new interruptions of non-core production activities and the temporary closure of the shipyards. This could, to some extent, affect SNAM's ability to fully complete the 2021 investment programme for its core business. This could have impacts that cannot be precisely quantified at present, compared to the prospective assumptions made by SNAM;
- ITALGAS: there are no effects that could lead to a presumption of a reduction in the value of property, plant and equipment under concession or intangible assets with finite or indefinite useful life (goodwill). In particular, regarding the value of the non-financial fixed assets falling with the scope of in the regulated activities, the recoverable amount is calculated considering: (i) the amount quantified by the Authority based on the rules used to define the rate to provide the services for which they are intended; (ii) the value that the Group expects to recover from their sale or at the end of the concession governing the service for which they are intended. Therefore, for each assessment of the regulated assets, reference should be made to the provisions of the applicable regulations. At the end of 2019, ARERA issued Resolution No. 570/2019/R/gas, with which it approved the regulation of rates for gas distribution and metering services for the period 2020-2025. This resolution defined the method for calculating the RAB value (revalued historical cost and centralised assets) and the related WACC with related parameters (risk free rate, beta, inflation, gearing, cost of debt, tax rate) throughout the next five-year period. Considering the temporary interruption of some operating activities, mainly regarding worksites or user services, the stability of the regulatory framework meant the effects on the company's profitability and on the expected cash flows to be significantly limited. Consequently, as at 31 December 2020 there is no evidence of impairment indicators that require ITALGAS to perform the test on the recoverable amount

of the assets and goodwill. Similar conclusions apply to equity investments, both those in companies operating in regulated activities (whose recoverable amount is determined by taking into account the pro-quota RAB value net of the financial position and/or the reimbursement value valid for ATEM tenders) and those in companies whose activities are exclusively or partially unregulated (whose recoverable amount is calculated by considering the value determined on the basis of business evaluation methods - Discounted Cash Flows).

Other areas of focus

Revenues

The disclosure is provided with regard to the performance of revenues, solely with reference to the Group companies concerned:

- TERNA: The Group has assessed the existence of possible effects due to the COVID-19 pandemic that might lead to a change in the fees received for performing its activity. Considering that the most significant part of revenues are associated with the performance of regulated activities and, thus, taking account how such revenues are determined, there is no evidence that the revenues recorded by the Group should be modified.
- SNAM: In 2020 the demand for gas in Italy equalled 71.30 billion cubic metres, recording a significant fall compared to 2019 (of 3.18 billion cubic metres; -4.3%), due to a reduction in withdrawals in all consumption sectors.
- ITALGAS: the most significant part of revenues from ITALGAS' core business regards regulated activities, whose income is governed by the regulatory framework defined by ARERA. Therefore, the financial conditions of the services provided are defined through regulatory frameworks and not on a negotiating basis. With reference to the distribution of natural gas, the spread between revenues recognised by the regulator (so-called "Revenue Cap") and actual accrued revenues is recognised, if positive, in the statement of financial position item "Trade and other receivables" and in the item "Trade and other payables", if negative, as it will be subject to monetary settlement with Cassa per i Servizi Energetici e Ambientali (CSEA). Therefore, taking into account the methodology described above and the absence of significant insolvency situations with customers, as specified above, at present there are no effects for ITALGAS induced by the COVID-19 capable of causing a revenues reduction with an impact on accounting records and estimates.

Hedge Accounting

Existing hedging relationships have not changed in terms of compliance with hedge effectiveness requirements and, currently, no changes are envisaged on a prospective basis, connected to the situation generated by the COVID-19 pandemic.

Employee benefits and share-based payments

There are no legal obligations to employees linked to COVID-19 for which a liability should be recognised on the basis of IAS 19.

Fair value measurement

The measurement of the fair value of assets and liabilities of the companies did not change due to the effect of COVID-19 in terms of market price volatility, increased credit and counterparty risk, changes to interest rates, etc.

Taxes

There are no significant issues to be reported referring to deferred tax assets and liabilities.

As regards current taxes, as provided for in the Communication from the European Commission dated 19 March 2020 "Temporary Framework for state aid measures to support the economy in the current COVID-19 outbreak", in the first half of 2020, the subsidiary ITALGAS benefited from the exemption from payment of the first advance payment of the regional tax on productive activities (IRAP) relating to 2020. Pursuant to article 24 of Decree Law No. 34 of 19 May 2020, this payment is not due by companies whose revenues did not exceed 250 million euro in the 2019 tax period and is in any case excluded from the IRAP calculation to be paid as the balance for 2020. Considering the uncertainty about the interpretation and application of these provisions, the legislator subsequently postponed the deadline of the payments to 30 April 2021. Nevertheless, the payable relating to the tax in question was recognised in the financial statements at 31 December 2020.

Leases

No situations caused by the COVID-19 pandemic resulted in contractual amendments, deferred lease payments or the granting of discounts.

Contingent liabilities

As there are no current specific obligations in relation to COVID-19 forecasts that would likely require a future financial outlay, there has been no need to make provisions arising from the pandemic situation.

Donations

The Group companies launched various initiatives to support the fight against the Coronavirus Emergency by making donations to hospitals and healthcare facilities (enhancement of inpatient and intensive care wards and purchase of lung ventilators), and also to the Civil Defence Department, making their skills and knowledge available to the community.

The main ones are summarised below:

- SNAM: Donations of healthcare materials and money to the Italian healthcare system and the non-profit sector (16 million euro);
- TERNA: Donations to the Civil Defence Department and the hospital sector (420 thousand euro);
- ITALGAS: Donations to hospitals, healthcare facilities and the Civil Defence Department (1.7 million euro).

Suspension of dividend distribution

No suspensions of dividend distributions on the 2020 profit have been announced to date and, on the basis of the elements currently available and the last approved business plans, no significant impacts are expected on the respective strategies and objectives, as indicated in the respective plans, or on the ability to distribute dividends to Shareholders.

Non-GAAP financial reporting

With reference to the impact of COVID-19 on determining alternative performance measures, ESMA recommends caution when using separate items in the income statement in relation to the impacts of COVID-19 in order to ensure consistency in the determination of alternative performance measures, and not to affect the comprehensibility of a company's financial performance through the introduction of new measures which is not adequately justified.

In accordance with these recommendations and in view of the limited impact of COVID-19 on the results, the previously provided Non-GAAP financial reporting has not been changed.

I.2. MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The IFRS classification and measurement standards to be adopted in preparing the Reporting Package as at 31 December 2020, in preparation for drawing up the Annual Report of the CDP RETI Group, are shown below.

An asset or liability is classified as "current" when its trading, realisation or settlement are expected within twelve months from the reporting date or within the normal business cycle, if after twelve months; all other assets and liabilities are classified as "non-current".

Property, plant and equipment

Property, plant and equipment refers to non-current assets which are consistently used in the course of the Company's business.

Property, plant and equipment and other operating property, plant and equipment are governed by IAS 16. Investment property (land and buildings) is governed by IAS 40.

Property, plant and equipment includes: (i) with regard to the natural gas transport segment, the value referring to the quantity of natural gas fed into gas pipelines to make them operational and (ii) with regard to the natural gas storage segment, the portion of gas injected into the storage wells as cushion gas.

Also included are rights of use acquired under a lease and relating to the use of property, plant and equipment (for the lessees)[46]. Property, plant and equipment are initially recognised at purchase cost and stated at the purchase or transfer price or production cost, inclusive of any directly attributable costs incurred to make the asset ready for use. This cost is increased by the present value of costs likely to be incurred to dismantle and remove the asset, should legal or implicit obligations so require. The corresponding liability is recognised under provisions for risks and charges.

The purchase/transfer price or the production cost also includes financial expenses directly linked to the acquisition, construction or production of the asset.

[46] For the treatment relating to leased assets, reference should be made to the specific paragraph "Leases" in the "Other information" section.

Repair and maintenance costs incurred after the acquisition date are recognised as an increase in the carrying value of the item they refer to if it is probable that future economic benefits associated with that item will flow to the entity and the cost of the item can be reliably measured. All other costs are recognised through profit or loss when incurred.

Costs for improvements, modernisation and transformation that increase the value of property, plant and equipment are recognised in the asset side of the balance sheet when it is probable that they will increase the expected future economic benefits. Items purchased for security or environmental purposes that, while not directly increasing the future economic benefits expected from existing assets, are necessary to obtain benefits from other property, plant and equipment, are also recognised under balance sheet assets.

The subsequent measurement of property, plant and equipment is at cost, net of accumulated depreciation and impairment (the latter in accordance with IAS 36).

The assets are systematically depreciated on a straight-line basis over their useful lives, from the date they become available for use in the production process. The depreciation rates for each year charged to the income statement are therefore calculated by the CDP RETI Group on the basis of the rates shown below, which are deemed adequate to represent the residual useful life of each asset:

Items/Figures %	Min.	Max
Buildings	2.0%	3.0%
Movables	10.0%	10.0%
Electrical plant	10.0%	20.0%
Plant and machinery:	0.0%	0.0%
Power lines	0.0%	2.0%
Transformation stations	2.0%	7.0%
Gas pipelines	2.0%	2.0%
Power stations	5.0%	10.0%
Gas reduction and regulation	5.0%	5.0%
Pipelines	2.0%	2.0%
Processing stations	4.0%	20.0%
Compression stations	5.0%	5.0%
Storage wells	2.0%	20.0%
Regasification	4.0%	4.0%
Industrial and commercial equipment	10.0%	33.0%
Other assets	5.0%	25.0%
Other plant and equipment	2.0%	33.0%

At every annual or interim reporting date, the recognised carrying amount of the asset is tested for impairment. If impairment indicators are present, the carrying amount of the asset is compared with its recoverable amount, with the latter being the greater of fair value less the costs of disposal, and the associated value in use of the asset (that is the discounted value of the future cash flows originated by the asset). If the carrying amount is higher than the recoverable amount, the difference is recognised in the income statement. If the reasons for which impairment was recognised cease to exist, the impairment loss is reversed. The adjusted value may not exceed the value that the asset would have had, net of the depreciation calculated in the absence of previous impairment.

When an item of property, plant and equipment consists of one or more significant components that have different useful lives, each component is depreciated separately (component approach). The useful life of the assets is reviewed annually and if expectations differ from previous estimates, changes in the depreciation schedule are accounted for prospectively. Land and buildings are considered to be separable assets; therefore, they are treated as separate assets for accounting purposes, even if purchased together. Land is considered to have an indefinite life and, as such, is not depreciated.

Assets under construction and advances are composed of advances or expenses incurred in respect of items of property, plant and equipment that have not been completed or are undergoing testing before entering service. Since they have not yet entered the company's production cycle, depreciation is suspended.

Property, plant and equipment items are derecognised on disposal or when no future economic benefits are expected from their use or disposal; any gain (loss) on disposal is recognised through profit or loss.

Intangible assets

According to IAS 38, intangible assets are identifiable assets without physical substance that are controlled by an entity and whose cost can be measured reliably and from which future economic benefits are expected to flow to the entity. Intangible assets, as defined above, are held to be used for a multi-year period or an indefinite period.

Intangible assets are initially recognised at cost including incidental expenses and are amortised over their estimated useful life (period over which an asset is expected to be available for use by an entity), which, at the end of each financial year, is assessed to check the adequacy of the estimate. The amortised value is the carrying amount, minus the expected net realisable value at the end of its useful life, if significant and reasonably measurable. Borrowing costs directly attributable to the acquisition, construction or production of an intangible asset that qualifies for capitalisation pursuant to IAS 23 are capitalised on the asset as part of its cost.

Development costs are capitalised only if: (i) they can be reliably measured, (ii) there is the technical possibility and intention to complete the intangible asset so that it can be available for use, (iii) there is the capacity to use the intangible asset, (iv) it is possible to demonstrate that it will generate probable future economic benefits.

All other development costs and all the research expenditure are recognised through profit or loss when incurred.

Subsequent measurement of intangible assets is at cost, net of accumulated amortisation and any impairment (the latter in accordance with IAS 36).

Intangible assets are amortised over a period representing the residual useful life, considering the high level of obsolescence of these assets.

If there is objective evidence that the intangible asset is impaired, a test is performed to determine the adequacy of the carrying amount of the asset. Consequently, the carrying amount of the asset is compared with its recoverable amount, with the latter being the greater of fair value less the costs of disposal, and the associated value in use of the asset (construed as the discounted value of the future cash flows originated by the asset). If the carrying amount is higher than the recoverable amount, the difference is recognised in the income statement. If the reasons for which impairment was recognised cease to exist, the value of the asset is written back. The adjusted value may not exceed the value that the asset would have had, net of the amortisation calculated in the absence of previous impairment.

Intangible assets include assets associated with public-private service concession agreements relating to the development, financing, management and maintenance of infrastructure under concession arrangements, under which the granting entity:

- controls or regulates the services provided through the infrastructure by the operator, and the prices charged;
- controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the concession.

This category of assets includes agreements under which the Italgas group undertakes to supply the public service of natural gas distribution at the tariff set by the Italian Energy Networks and Environment Regulator (ARERA, formerly AEEGSI), being the holder of the right to use the infrastructure controlled by the granting entity to provide such public service. It also includes the property, plant and equipment and intangible assets used by the Terna Group to dispatch electricity under concession arrangements.

Intangible assets include goodwill, regulated by IFRS 3 and defined as the difference between the price paid for a transaction related to a business combination and the fair value of identifiable net assets acquired. If this difference is negative (badwill) or if the goodwill is not justified by the future earnings capacity of the investee, the difference is recognised in the income statement.

Goodwill generated from the acquisition of subsidiaries is allocated to each identified cash generating unit (CGU). Within the CDP RETI Group, CGUs correspond to the individual legal entities. Goodwill is tested for the adequacy of its carrying amount. An impairment test is performed annually on goodwill, or whenever there is evidence of impairment. This involves comparing the carrying amount of goodwill and the recoverable amount of the CGUs to which the goodwill is attributed. If the carrying amount of goodwill is higher than the recoverable amount of the CGU, the difference is recognised in the income statement. Any reversals of impairment of goodwill may not be recognised.

Goodwill related to investments in associated companies and joint ventures is included in the carrying amount of such companies. Negative goodwill is recognised in the income statement at the time of the acquisition.

Intangible assets also include industrial patent and intellectual property rights, concessions, licenses, trademarks and similar rights and development costs.

The value of storage concessions, consisting of natural gas reserves in the fields (“Cushion Gas”), is determined in accordance with the Decree of 3 November 2005 of the Ministry for Productive Activities and recognised under “Concessions, licenses, trademarks and similar rights”. This item is not amortised as the volume of gas is not modified by the storage activity and its economic value is not below the carrying amount.

Intangible assets are derecognised when future economic benefits are no longer expected from their use or when sold; any gain (loss) on disposal is recognised through profit or loss.

Equity investments

“Equity investments” includes investments in associates (according to IAS 28) and in joint arrangements (according to IFRS 11).

Equity investments are initially recognised at cost at the settlement date and subsequently measured using the equity method, where the original cost of the equity investment is adjusted (up or down) according to the change in the interest held by the investor in the equity of the investee.

The same provisions governing business combinations apply to acquisitions. Consequently, the difference between the acquisition price and the portion of acquired equity is allocated based on the fair value of the identifiable net assets of the associate. Any unallocated excess amount is considered as goodwill. The higher allocated price is not presented separately, but is included in the carrying value of the equity investment ("equity method"). Any positive difference between the value of the portion of equity of the investee and the cost of the equity investment (Badwill) is recognised as income. Application of the equity method also considers the treasury shares held by the investee.

The equity investments are tested for impairment at every annual or interim reporting date.

Evidence of impairment, based on the existence of qualitative and quantitative indicators, as illustrated hereunder, and in accordance with the internal policies, differs where these involve investments in companies whose shares are or are not listed on active markets.

An impairment test is performed when the aforementioned indicators exist, in accordance with the provisions of IAS 36. This test is aimed at estimating the recoverable amount of the equity investment and comparing it with its carrying value to determine the recognition of any impairment losses.

In particular, the impairment process for the consolidated financial statements is performed in line with what is done for the separate financial statements of the Group companies. With reference to listed equity investments, it should be noted that assessment of objective evidence of impairment for the purposes of the separate financial statements is supplemented by verifying the existence of a market price of at least 40% lower than the carrying amount of the investment in the consolidated financial statements.

In terms of separate financial statements, the presence of specific qualitative and quantitative indicators is assessed.

In this case, and in particular for CDP RETI, taking into account the characteristics of its investment portfolio, as well as its role of long-term investor, at least the following are considered indicators of impairment or objective evidence of impairment:

- the recognition of losses or significantly lower results than budgeted (or forecast in multi-year plans), if, after specific analyses, they are relevant due to their effects on the estimate of expected future cash flows in any impairment test preparation;
- significant financial difficulty of the investee;
- probability that the investee will declare bankruptcy or enter into other financial reorganisation procedures;
- a carrying value of the investment in the separate financial statements that exceeds the carrying value, in the consolidated financial statements, of the net assets of the investment (including any goodwill);
- the distribution of a higher dividend than the income for the period and the existing income reserves;
- the distribution of a higher dividend by the investee than the income in the comprehensive income (or statement of comprehensive income for financial companies)[47] in the year when it is declared.

With reference to listed equity investments, the following are also considered indicators of impairment:

- a reduction in the market price exceeding the carrying value by over 40% or for more than 24 months;
- a downgrade of the rating of at least four notches from the time when the investment was made, if assessed as relevant together with other available information.

If the recoverable amount is lower than the carrying amount, the difference is recognised in the income statement as an impairment loss. If the reasons causing the impairment cease to exist, the impairment losses are reversed. These reversals have to be recognised in the income statement up to the amount of the previous impairment. Consequently, the reduction in the previously recognised impairment loss upon write-back of the value of the equity investment may not exceed the carrying value that would have existed if no impairment had been previously recognised. Both the impairment and the reversals of impairment are recognised in the income statement.

The recoverable value determined when running the impairment tests in the separate financial statements for equity investments in subsidiaries is used to assess the existence of possible impairments of the net assets pertaining to the cash flow generating units (CGUs) corresponding to those equity investments. This assessment is carried out in compliance with the provisions of IAS 36.104 and 36.105.

[47] The indicator takes into consideration the distribution of a higher dividend than the income in the comprehensive income (or statement of comprehensive income for financial companies) for the year when the dividend is declared (i.e. dividends declared in 2017, representing the distribution of the net income for 2016, larger than the total comprehensive income for 2017). In order to conduct the impairment test for the reporting date of the half-yearly financial statements, in the absence of homogeneous comparison data, the indicator is verified by referring to the data relating to the previous year.

The investor's interest in any losses of the investee that exceed the carrying value of the equity investment is recognised in a specific provision, to the extent that the investor is committed to meeting the legal or constructive obligations of the investee, or otherwise cover its losses, in compliance with the provisions of IAS 28[48].

Equity investments are derecognised when the contractual rights to the cash flows deriving from ownership of the equity investments expire or when they are sold, substantially transferring all risks and rewards connected with them.

Financial assets

The following financial assets are recognised under current and non-current financial assets:

1. financial assets measured at fair value through profit or loss (FVTPL);
2. financial assets measured at fair value through other comprehensive income (FVTOCI);
3. financial assets measured at amortised cost;
4. hedging derivatives.

1. Financial assets measured at fair value through profit or loss (FVTPL)

This item includes the following financial assets measured at fair value through profit or loss:

- "Financial assets held for trading" including debt securities, equities, loans, units of UCIs included in an Other/Trading business model, and also derivatives not designated as hedging instruments;
- "Financial assets designated at fair value" including debt securities and loans, measured at profit and loss in accordance with IFRS 9 (i.e. the fair value option), which allows a financial asset to be irrevocably measured through profit or loss if, and only if, this will eliminate or significantly reduce an accounting mismatch;
- "Other financial assets mandatorily measured at fair value" including debt securities, equity securities, units of UCIs and loans, i.e. those assets other than those measured at fair value through profit or loss, which do not meet the requirements for classification at amortised cost, at fair value through other comprehensive income or which are not held for trading. They are substantially represented by those financial assets whose contractual terms provide for periodic flows that are not represented by solely payments of principal and interest (thus characterised by the failure to pass the SPPI test), or those assets that do not comply with the business model terms of the portfolio measured at amortised cost or at fair value through other comprehensive income.

Financial assets held for trading, as indicated, include financial derivatives not designated as hedging instruments, operational hedging derivatives, as well as embedded derivatives in complex financial contracts, the host contract of which is a financial liability, which were recognised separately because:

- the financial characteristics and risks are not strictly correlated to the characteristics of the underlying contract;
- the embedded instruments, even when separated, meet the definition of derivative;
- the hybrid instruments that they belong to are not measured at fair value through profit or loss.
- Operational hedging derivatives are those derivatives which are not part of effective hedge accounting but are held to meet operational hedging requirements where the company aims to align the measurement criterion with respect to the assets and/or liabilities associated with them.

As with all financial assets held for trading, the fair value of which can be both positive and negative, derivatives are classified among FVTPL financial assets if their fair value is positive and among FVTPL financial liabilities if their fair value is negative.

Financial assets measured at fair value through profit or loss are initially recognised on the trade date for derivative contracts, at the settlement date for debt securities, equities, and units of UCIs, and at the disbursement date for loans. An exception is represented by those securities whose delivery is not governed by conventions on the market concerned, for which initial recognition is at the subscription date.

Upon initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, which generally equals the transaction price, net of transaction costs or income that are immediately recognised through profit or loss.

Subsequent measurement is at fair value, with recognition of the measurement results in the item "Financial income (expense)" in the income statement. The fair value is determined based on the official prices as of the reporting date if the financial instruments are listed on active markets. For financial instruments, including equity securities, not listed on active markets, fair value is determined by using measurement techniques and information available on the market, such as the price of similar instruments on an active market, discounted cash flows, option pricing models and values registered in

[48] See Commission Regulation (EU) 2019/237 of 8 February 2019, published in Official Journal L 39 of 11 February 2019, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council with regard to the international accounting standard IAS 28.

recent similar transactions. For equity securities and related derivative instruments not listed in an active market, the cost method is used as an estimate of fair value only in a residual manner and limited to a few circumstances, i.e. in case of non-applicability of all the afore-mentioned measurement methods, or in the presence of a wide range of possible measurements of fair value, within which the cost is the most significant estimate.

Reclassifications to other categories of financial assets are not permitted, unless, as regards financial assets held for trading, the business model is changed. In this case, all affected financial assets will be reclassified, according to the rules provided for in IFRS 9.

Financial assets measured at fair value through profit or loss are derecognised when payment is received, when the contractual rights to the cash flows expire, or a sale transfers all the risks and rewards connected with ownership to a third party. Conversely, when a significant portion of the risks and rewards associated with the transferred financial assets is retained, the asset remains on the financial statements, even if legal title has been effectively transferred.

In cases where it is not possible to verify the substantial transfer of risks and rewards, financial assets are derecognised from the balance sheet if any kind of control over the assets has been maintained. Conversely, the preservation of such control, even if it is only partial, results in maintaining the assets on the balance sheet to an extent equal to the residual involvement.

Transferred financial assets are derecognised even if the contractual rights to receive the related cash flows are retained, in the presence of a simultaneous obligation to transfer such flows, and only those, without material delay to other third parties.

2. Financial assets measured at fair value through other comprehensive income (FVTOCI)

The item "Financial assets measured at fair value through other comprehensive income" includes financial assets represented by debt securities and loans that meet both of the following conditions:

- the financial asset is held within a Business Model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Under this item are also recognised equity instruments, considered as such in compliance with the provisions of IAS 32, which are not held for trading and for which the option, granted by the standard, of recognising the subsequent changes in the fair value of the instrument through other comprehensive income (FVTOCI option[49])has been irrevocably exercised.

Initial recognition of the item under examination occurs on the settlement date for debt securities and equities and on the disbursement date for loans.

Financial assets measured at fair value through other comprehensive income are initially recognised at fair value, which generally corresponds to the transaction price, including any expenses and income attributable to the transaction.

Subsequent to the initial recognition, financial instruments traded in active markets are measured at their fair value determined on the basis of official prices on the reporting date. For financial instruments, including equity securities, not listed on active markets, fair value is determined by using measurement techniques and information available on the market, such as the price of similar instruments on an active market, discounted cash flows, and values recorded in recent similar transactions. For equity securities not listed in an active market, the cost method is used as an estimate of fair value only in a residual manner and limited to a few circumstances, i.e. in case of non-applicability of all the afore-mentioned measurement methods, or in the presence of a wide range of possible measurements of fair value, within which the cost is the most significant estimate.

The profits and losses resulting from changes in fair value of debt instruments and loans are recognised in the statement of comprehensive income and recorded in the item Valuation reserves, in equity, until the financial asset is derecognised.

If these financial assets are derecognised, the cumulative gains or losses, previously recognised in the other comprehensive income, are transferred from equity to the income statement.

Interest on the debt instruments and on receivables is recognised in the income statement according to the amortised cost method, which is based on the effective interest rate, i.e. the rate that discounts the estimated future receipts (and any payments) during the expected life of the financial instrument at the gross carrying value of the financial asset.

These instruments are also subject to tests on the significant increase in credit risk (impairment) under IFRS 9, with consequent recognition in profit or loss of an impairment loss to cover the expected losses. In particular, an expected loss for the 12 months following the reporting date is recognised on initial recognition and at each subsequent reporting date, on instruments classified in stage 1 (i.e. on non credit-impaired financial assets at the time of their origination, and on

[49] Fair Value Through Other Comprehensive Income option.

instruments which do not show a significant increase in credit risk compared to initial recognition). Conversely, an expected loss measured throughout the residual maturity of the financial instrument is recorded on those instruments classified in stage 2 (performing financial assets for which there has been a significant increase in credit risk compared to initial recognition) and in stage 3 (impaired exposures).

For financial assets that are performing (stages 1 and 2) impairment is calculated based on the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD). If, in addition to a significant increase in the credit risk, there is also objective evidence of impairment (events that have a negative impact on estimated cash flows), the financial asset is impaired (stage 3) and the amount of the related impairment is measured as the difference between the gross carrying value of the asset and the current value of the expected cash flows, discounted at the original effective interest rate.

Losses and recoveries arising from the impairment process are included in the income statement.

No reclassifications to other categories of financial assets are allowed, unless the business model is changed. In this case, all affected financial assets will be reclassified, according to the rules provided for in IFRS 9.

With reference to equity instruments, their inclusion in the item Financial assets measured at fair value through other comprehensive income is linked to the irrevocable option adopted by the company holding the instrument.

The exercise of this option entails using different recognition rules from those described above for debt securities, because:

- the amounts recognised in the Valuation reserves are never reclassified through profit or loss, even when they are derecognised;
- all exchange rate differences are recognised in the equity reserve and are therefore charged to other comprehensive income;
- IFRS 9 does not envisage impairment rules for these equity instruments.

Only dividends from these equity instruments are recognised in the income statement.

Financial assets measured at fair value through other comprehensive income are derecognised when payment is received, when the contractual rights to the cash flows expire, or a sale transfers all the risks and rewards connected with ownership to a third party. Conversely, when a significant portion of the risks and rewards associated with the transferred financial assets is retained, the asset remains on the financial statements, even if legal title has been effectively transferred.

In cases where it is not possible to verify the substantial transfer of risks and rewards, financial assets are derecognised from the balance sheet if any kind of control over the assets has been maintained. Conversely, the preservation of such control, even if it is only partial, results in maintaining the assets on the balance sheet to an extent equal to the residual involvement.

Transferred financial assets are derecognised even if the contractual rights to receive the related cash flows are retained, in the presence of a simultaneous obligation to transfer such flows, and only those, without material delay to other third parties.

3. Financial assets measured at amortised cost

The item "Financial assets measured at amortised cost" includes debt securities and loans that meet both of the following conditions:

- the financial asset is held within a Business Model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Specifically, this item includes receivables from banks, or other parties, deriving from loans, leases[50], factoring transactions, debt securities, etc.

"Financial assets measured at amortised cost" are initially recognised on the settlement date as regards debt securities or on the disbursement date as regards loans.

Initial recognition is at fair value, which generally equals the transaction price, including any expenses and income attributable to the transaction.

After initial recognition, these assets are measured at amortised cost, equal to the value that the financial asset was measured at on initial recognition minus any principal repayments, plus or minus the accumulated amortisation, according to the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The effective interest rate is the rate that discounts the estimated future receipts (and any payments) for

[50] For the treatment relating to leases, reference should be made to the specific paragraph "Leases" in the "Other information" section.

the expected lifetime of the financial asset at its gross carrying value, which includes the directly attributable transaction costs and the fees paid or received by the contracting parties.

In some cases, the financial asset is considered impaired at initial recognition as the credit risk is very high and, if it is purchased, this may be done with significant discounts (assets known as POCI i.e. “Purchased or Originated Credit Impaired”). In that case, for purchased or originated financial assets that are credit-impaired at initial recognition, a credit-adjusted effective interest rate is calculated for the credit risk, including the expected losses on initial loans within the financial flow estimates.

The amortised cost method is not used for loans whose short-term duration means that discounting is considered to have a negligible effect. This measurement rule is also used for loans without a specific expiration date or demand loans.

Financial assets measured at amortised cost are subject to the calculation of an expected credit loss allowance under IFRS 9 rules and the amount of such losses is recognised through profit or loss. In particular, an expected loss at one year is recognised on initial recognition and at each subsequent reporting date, on instruments classified in stage 1 (i.e. on non credit-impaired financial assets at the time of their origination, and on instruments which do not show a significant increase in credit risk compared to initial recognition). Conversely, an expected loss measured throughout the residual maturity of the financial instrument is recorded on those instruments classified in stage 2 (performing financial assets for which there has been a significant increase in credit risk compared to initial recognition) and in stage 3 (impaired exposures).

For financial assets that are performing (stages 1 and 2) impairment is calculated based on the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD). If, in addition to a significant increase in the credit risk, there is also objective evidence of impairment (events that have a negative impact on estimated cash flows), the financial asset is impaired (stage 3) and the amount of the related impairment is measured as the difference between the gross carrying value of the asset and the current value of the expected cash flows, discounted at the original effective interest rate.

The expected cash flows take account of estimated recovery times and the expected realisable value of any guarantees.

The amount of the loss to be recognised through profit or loss is calculated based on an analytical assessment process or for categories of the same kind and thus attributed analytically to each position and takes account of forward-looking information and possible alternative recovery scenarios.

If the reasons for the impairment no longer apply following an event after initial recognition, then impairment reversals are charged through profit or loss.

Financial assets measured at amortised cost are derecognised when payment is received, when the contractual rights to the cash flows expire, or a sale transfers to a third party all the risks and rewards connected with ownership of the transferred asset. Conversely, when a significant portion of the risks and rewards associated with the transferred financial assets is retained, the asset remains on the financial statements, even if legal title has been effectively transferred.

In cases where it is not possible to verify the substantial transfer of risks and rewards, financial assets are derecognised from the balance sheet if any kind of control over the assets has been maintained. Conversely, the preservation of such control, even if it is only partial, results in maintaining the assets on the balance sheet to an extent equal to the residual involvement.

Transferred financial assets are derecognised even if the contractual rights to receive the related cash flows are retained, in the presence of a simultaneous obligation to transfer such flows, and only those, without material delay to other third parties.

It is also possible, over the maturity of financial assets, and specifically for financial assets measured at amortised cost, that they are subject to renegotiation of the contract terms. In that case, one needs to check whether or not the intervening contractual changes give rise to derecognition of the original instrument and the recognition of a new financial instrument.

The analysis required to assess which changes give rise to derecognition rather than modification may sometimes entail significant elements of valuation. In general, changes to a financial asset lead to its derecognition and the recognition of a new asset when they are of a substantial nature.

In the event of changes not deemed significant, the gross value is re-determined through the calculation of the current value of the cash flows resulting from the renegotiation, at the original exposure rate (modification).

The difference between the gross value of the financial instrument before and after the renegotiation of contract terms (modification), is recognised through profit or loss as a gain or loss from contractual changes without derecognition.

4. Hedging derivatives

Financial assets include derivatives which have a positive fair value at the reporting date. Derivatives with negative fair value are recognised in the balance sheet under other financial liabilities.

Hedging transactions

Hedging transactions are executed to hedge contingent losses that are attributable to a specific risk and which can be found in a specific element or group of elements, should that particular risk effectively materialise.

As permitted by paragraph 7.2.21 of IFRS 9, CDP RETI has decided to apply the provisions on hedging from IAS 39 rather than those from Chapter 6 of IFRS 9, to be used for its separate financial statements, the consolidated financial statements of the CDP RETI Group, as well as its own half-yearly financial statements.

In accordance with IAS 39, hedging instruments are derivatives or, limited to the hedging of foreign currency risk, non-derivative financial assets or liabilities whose fair value or cash flows are expected to offset the changes in fair value or cash flows of a designated hedged position [IAS 39, paragraphs 72-77 and Appendix A, paragraph AG94]. A hedged item is an asset, liability, firm commitment, a highly probable forecast transaction, or a net investment in a foreign operation that:

- exposes the company to the risk of a change in fair value or future cash flows;
- is designated as being hedged [IAS 39, paragraphs 78-84 and Appendix A, paragraphs AG98-AG101].

The effectiveness of the hedge is the extent to which the changes in fair value or cash flows of the hedged position that are attributable to a hedged risk are offset by the changes in fair value or cash flows of the hedging instrument [IAS 39, Appendix A, paragraphs AG105-AG113].

When a financial instrument is classified as a hedging instrument, the following are to be formally documented:

- the relationship between the hedging instrument and the hedged item, including the risk management objectives;
- the hedging strategy;
- the methods to be used in order to verify the hedge effectiveness.

Accordingly, both at the inception of the hedge and throughout its life, the change in the fair value of the derivative is analysed in order to determine whether it is highly effective in offsetting the changes in fair value of the hedged item.

A hedge is deemed to be highly effective if the changes in fair value of the hedged item or in the expected cash flows attributable to the risk being hedged are almost entirely offset by the changes in fair value of the hedging derivative.

At each annual or interim reporting date, the effectiveness is assessed through specific prospective and retrospective tests capable, respectively, of demonstrating the expected effectiveness and the level of effectiveness achieved.

If the hedge is not effective as described above, the hedging instrument is reclassified under financial instruments held for trading, while the hedged item continues to be measured in accordance with the criteria defined for its category. Hedge accounting also ceases when the hedging instrument expires, is sold or exercised or when the hedged item expires, is sold or is repaid.

Hedging derivatives are initially recognised at their fair value on the contract date. In particular:

- for fair value hedge, the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument. This offsetting is accounted for by recognising the changes in value through profit or loss, relating both to the hedged item (for the changes generated by the underlying risk factor) and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, consequently represents the net profit or loss effect. The recognition through profit or loss of the change in fair value of the hedged item, attributable to the risk hedged, is also applied if the hedged item is a financial asset measured at fair value through other comprehensive income; if there were no hedging, this change would be recognised in equity;
- for cash flow hedge, the changes in fair value of the derivative are recognised, net of the tax effect, in specific “Valuation reserves” of equity, for the effective portion of the hedge, and are only recognised through profit or loss when there is a change in the cash flows to be offset for the hedged item. The amount of the gain or loss of the hedging instrument considered ineffective is recognised through profit or loss. This amount is equal to any excess of the accumulated fair value of the hedging instrument with respect to the related fair value of the instrument hedged; in any event, the fluctuation of the hedged item and the related hedge must be kept within the range of 80%-125%;
- hedges of a net investment in a foreign operation are accounted for in the same way as cash flow hedges.

In the case of highly likely future transaction hedges, if, during the life of a derivative, the expected hedged cash flows are no longer considered as highly probable, the portion of that instrument recognised in the “Valuation reserves” of equity is immediately recycled through profit or loss. Conversely, if the hedging instrument is transferred or no longer qualifies as an effective hedge, the portion of the item “Valuation reserves” representing the changes in the fair value of the instrument recognised up to that point are retained in equity and reversed to profit or loss in accordance with the classification criterion described above, in conjunction with the recognition of the financial effects of the transaction originally hedged.

In the case of cash flow hedges, if the hedging relationship ends, for reasons other than the sale of the hedged items, the accumulated revaluation/write-down recognised in the consolidated balance sheet (under financial assets or liabilities) is recognised through profit or loss under interest income or expense, over the residual maturity of the hedged financial asset or liability.

If these assets and liabilities are sold or redeemed, the amount of fair value not amortised is recognised immediately in the income statement.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method, net of any impairment losses recognised in specific bad debt provisions.

Impairment losses are calculated by applying the simplified approach under IFRS 9, based on which trade receivables, separated into specific clusters according to the regulatory framework, are applied an impairment model based on expected losses for collective assessment. For trade receivables deemed individually significant and with reference to which accurate information is available on the considerable increase in the credit risk, in the context of the simplified model, an analytical approach was applied. Impairment losses related to the impairment of trade receivables (and the related recoveries) are recognised through profit or loss in the item “Net impairment (recoveries) of trade receivables and other receivables”.

Receivables due within normal commercial terms are not discounted.

Trade receivables are derecognised when the contractual rights to the associated cash flows have been realised, have expired or been sold.

Inventories

Inventories, including compulsory stock, are stated at the lower of their purchase or production cost and their net realisable value, represented by the amount that the business expects to obtain from their sale in the normal course of its activities.

Cost is measured as the weighted average cost.

The net realisable value is the selling price in the ordinary course of business less the estimated completion costs and those necessary to sell the good.

Work in progress and semi-finished goods are valued at production cost, excluding financial charges and overheads. Sales and purchases of strategic gas do not generate an actual transfer of the risks and rewards associated with ownership and, therefore, do not result in changes in inventory.

Cash and cash equivalents

Cash and cash equivalents are recognised at their nominal amount.

This item mainly includes cash in hand, cash at banks and other current financial assets due within three months from purchase, readily convertible into cash with no cashing expenses and subject to an insignificant risk of changes in value.

Cash and cash equivalents take account of the interest accrued on the amounts, albeit not yet paid.

Non-current assets held for sale

The balance sheet items “Non-current assets held for sale” and “Liabilities directly attributable to assets held for sale” include the assets or groups of assets/liabilities whose carrying value will be recovered mainly through sale rather than through their continuous use. Disposal processes have been initiated for these assets, whose sale is deemed highly likely.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is an investment exclusively acquired with a view to resale.

These non-current assets (or disposal groups) are presented separately from the balance sheet items “Other assets” and “Other liabilities”. Initial recognition is done in compliance with the specific IFRS as applicable to each associated asset and liability while, subsequently, they are recognised at the lower of their carrying value and fair value (the latter net of costs to sell), without any depreciation/amortisation being recognised. The corresponding balance sheet values for the previous financial year are not reclassified.

The individual assets of the companies classified as held for sale are not amortised, whereas financial expense and other expenses attributable to liabilities held for sale continue to be recognised.

Any subsequent impairment losses are recognised directly as an adjustment to the carrying amount of the non-current assets classified as held for sale through profit or loss.

The profits and losses net of tax that can be related to disposal groups of assets and liabilities are shown in the specific income statement item "Net income on discontinued operations".

Current and deferred taxes

Tax assets and liabilities are recognised in the balance sheet respectively under consolidated assets items "Deferred tax assets" and "Income tax receivables", and under consolidated liabilities items "Deferred tax liabilities" and "Income tax liabilities".

The accounting entries related to current and deferred taxes include: i) current tax assets, consisting of tax paid in advance and receivables for withholding taxes incurred; ii) current tax liabilities, consisting of tax payables to be settled according to applicable tax regulations; iii) deferred tax assets, consisting of the amounts of tax recoverable in future years in view of deductible temporary differences; and iv) deferred tax liabilities, consisting of payables for tax to be paid in future periods as a result of taxable temporary differences.

Current taxes, consisting of corporate income tax (IRES) and regional tax on business activities (IRAP), are recognised on an accruals basis using a realistic estimate of the negative and positive tax components for the year. They are calculated on the basis of applicable tax rates.

Deferred tax assets and liabilities are recognised according to the tax rate that, under the legislation in force at the reporting date, is expected to apply in the year when the asset is realised or the liability is settled, and are periodically reviewed to take account of any changes in legislation.

The term "deferred" tax refers, in particular, to the recognition, in terms of tax, of the temporary differences between the value assigned to an asset or liability for statutory accounting purposes and the corresponding value for tax purposes.

Deferred taxes are recognised:

- under the item "Deferred tax assets", if they relate to "deductible temporary differences", which means the differences between statutory and tax values that will give rise to deductible amounts in future periods, to the extent that they are likely to be recovered;
- under the item "Deferred tax liabilities", if they relate to "taxable temporary differences" representing liabilities because they are related to accounting entries that will become taxable in future tax periods.
- If the deferred tax items regard transactions that directly affected equity, they are recognised in equity.

Provisions for risks and charges

This item consists of the provision set aside to cover specific types of liabilities whose existence is certain or probable, but whose amount or accrual date were uncertain at the reporting date. Therefore, the provisions are recognised only when:

- there is a present (legal or constructive) obligation resulting from a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

When the time value is significant and the payment dates of the bonds can be estimated reliably, the allowance is made by discounting, at a rate that reflects the market valuations of the current value of money, the expected cash flows calculated considering the risks associated to the bond. Any increase in the provision relating to the passage of time is recognised in the income statement under "Financial income (expense)".

If the liability refers to items of property, plant and equipment (e.g. dismantling and restoration of sites), the provision is recognised as a balancing entry to the asset it refers to and is recognised in the income statement via the depreciation process. The costs which the entity expects to incur to implement a restructuring plan are recognised in the year in which the plan is formally approved and there is a settled expectation among the affected parties that the restructuring plan will be implemented.

Contingent – not probable – liabilities are not recognised to the balance sheet. However, they are disclosed in the notes, unless the probability of an outflow of resources is remote or the event is deemed insignificant.

The provisions are used only to cover the costs for which they were originally recognised, and they are reversed in the income statement when the obligation is settled or when it is no longer probable that an outflow of resources will be required to settle the present obligation.

This item also includes provisions for credit risk for commitments to disburse funds and on financial guarantees that are subject to the rules of impairment in IFRS 9.

This item also includes the company pension plans and other post-retirement benefit obligations, i.e. the provisions for long-term employment and post-employment benefits.

Provisions for employee benefits

This item includes the staff severance pay (TFR) and other long-term benefits such as loyalty bonus, supplementary funds, other benefits, etc.

Staff severance pay (TFR) covers the entire entitlement accrued by employees at the end of the financial year, as provided by law (Article 2120 of the Italian Civil Code) and applicable employment agreements.

In accordance with IAS 19, staff severance pay is treated as a “Post-employment benefit” and is classified as:

- a “Defined benefit plan” for the portion of staff severance pay accrued by employees until 31 December 2006;
- a “Defined contribution plan” for the portion of staff severance pay accrued by employees beginning 1 January 2007.

The accounting standard envisages that the portions of staff severance pay be recognised at their actuarial value. The accruing and accrued obligations are considered for discounting purposes (these obligations are, respectively, the discounted value of the expected future payments related to benefits accrued during the current financial year and the discounted value of future payments resulting from amounts accrued in previous financial years).

Financial liabilities

Financial liabilities are included in the items “Loans”, “Other financial liabilities”, “Current portions of long-term loans” and “Current financial liabilities”.

Non-current and current financial liabilities, represented by loans raised and securities issued, are recognised initially at cost, i.e. the fair value of the liabilities, less any directly attributable transaction costs. Subsequently, these financial liabilities are measured at amortised cost, using the effective interest rate method.

Financial liabilities also include hedging derivatives which have a negative fair value at the reporting date. See the previous paragraph “Hedging transactions” in section “4. Hedging derivatives” for a description of the financial reporting standards adopted for the recognition of hedging derivatives.

Financial liabilities are derecognised when settled or when the obligation specified in the contract has been satisfied, cancelled or has expired.

Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method. Trade payables are not discounted if the due dates are line with normal commercial terms.

Revenues

Revenues are recognised in such a way as to accurately represent the process of transfer of goods and services to customers in an amount that reflects the consideration that one expects to receive in exchange for supplied goods and services, using a model consisting of five basic steps:

- step 1: identify the contract with the customer;
- step 2: identify the contractual obligations, noting the separable goods or services as separate obligations;
- step 3: determine the price of the transaction, i.e. the amount of the consideration that one expects to receive;
- step 4: allocate the transaction price to each obligation identified in the contract based on the sale price of each individual separable item of goods or services;
- step 5: recognise the revenue when (or if) each contractual obligation is fulfilled through the transfer of the good or service to the customer, i.e. when the customer obtains control of the good or service.

According to the type of transaction, revenue is recognised based on the specific criteria reported below:

- revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer and its amount can be measured reliably and collected;
- revenue from services is recognised with reference to the stage of completion of the activities. In case it is not possible to reliably measure the value of revenue, this is measured up to the amount of the costs incurred that is believed will be recovered;
- revenue accrued in the year for contract work in progress is recognised on the basis of the amounts agreed proportionate to the progress of the work, which is calculated using the cost-to-cost method. In addition to the amount of revenue agreed in the contract, contract revenue includes variations in contract work, reviewed prices and incentive payments, to the extent that it is probable that they will result in revenue and can be reliably measured. Revenue may decrease also as a result of penalties arising from delays caused by group companies.

Revenue from regulated activities is governed by the regulations issued by the Italian Energy Networks and Environment Regulator (ARERA). Consequently, the financial terms and conditions relating to the services provided are not defined by negotiation but in accordance with the relevant regulatory frameworks and the tariffs are set periodically by ARERA and used as a basis to define the tariff criteria for the reference period.

In particular, the tariff system requires that the reference revenue to calculate the tariffs be recognised in order to cover the costs incurred by the operator and provide an equitable return on the capital invested.

There are three cost categories recognised:

- the cost of the net invested capital for RAB (Regulatory Asset Base) purposes through applying a rate of return on that invested capital;
- the economic - technical amortisation covering the investment costs;
- the operating costs covering the running costs.
- Payments collected on behalf of third parties, such as fees for other non-Group grid owners, as well as fees recognised for the balancing of the national electrical energy system, which do not increase equity, are shown net of the related costs.

Financial income (expense)

Financial income (expense) includes:

- interest income and expense;
- income and expense associated with hedging activities;
- gains (losses) on disposal or repurchase;
- income and expense associated with trading activities;
- the net gain (loss) on financial assets and liabilities measured at FVTPL;
- the net adjustments and recoveries for credit risk relating to financial assets measured at amortised cost or at FVTOCI;
- exchange rate differences.

Interest income and expense is recognised in the income statement for all instruments based on amortised cost using the effective interest rate method. The interest also includes the net balance, either positive or negative, of the differentials and margins relating to derivatives.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset. The qualifying assets (property, plant and equipment and intangible assets) involved are those that require at least one year before being ready for use. The directly attributable financial expenses are those that would not have been incurred if the expense for that asset had not been incurred.

Where funds are borrowed specifically, costs eligible for capitalisation are the actual financial expense incurred for that financing, less any income earned on the temporary investment of such borrowings. In regard to the general pool of assumed debt, the amount of financial expenses that can be capitalised is determined by applying a capitalisation rate to the expenses incurred for that asset which corresponds to the weighted average of the borrowing costs applicable to the general pool, excluding any specifically borrowed funds. The amount of borrowing costs capitalised during a financial year shall in any case not exceed the amount of borrowing costs incurred during that year.

The starting date of capitalisation is the date on which all of the following conditions were met for the first time: (a) the costs for the asset were incurred; (b) the financial expenses were incurred; and (c) the activities necessary to prepare the asset for its intended use or for sale were undertaken.

Capitalisation of the financial expenses ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete.

Other information

Leases

Leases are recognised on the basis of the rules in IFRS 16, the standard that has replaced IAS 17 “Leases”, IFRIC 4 “Determining whether an arrangement contains a lease”, SIC 15 “Operating Leases — Incentives” and SIC 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”, and at the same time has regulated new requirements for the accounting of leases.

The standard provides a new definition of lease and introduces a method whereby the control of right of use of an asset discriminates in the identification of contracts that are or contain a lease from those for the supply of services. The key features of this distinction are: the identification of the asset, the absence of substitution rights, the right to obtain substantially all economic benefits resulting from use of the asset and the right to direct the use of the leased asset. Thus, it follows that even rental and hire contracts and leases payable, that were previously excluded from the lease accounting scope, could now be included.

Further changes relate to accounting records; in particular, a single accounting and valuation model for leases was introduced for the lessee, who shall recognise a right-of-use asset underlying the lease and a lease liability consisting in the present value of outstanding lease payments. The main change, for the lessee, consists in overcoming the distinction, provided under IAS 17, between operating and finance leases: in fact, the lessee must recognise all leases in the same way, recognising an asset and a liability, which must then be depreciated over the life of the lease (this period includes any renewal or early termination options, if the exercising of these options is reasonably certain).

Essentially, the balance sheet liabilities show the Lease Liability, which consists of the present value of the payments which, at the valuation date, have yet to be paid to the lessor; the balance sheet assets, on the other hand, show the Right-of-Use Asset, calculated as the sum of the lease still payable, the initial direct costs, the payments made on or before the inception date of the contract (net of any lease incentives received) and the costs of dismantling and/or restoration.

Consequently, the method of recognition of the income statement items is amended: while under IAS 17 lease payments are recognised in "Administrative expenses", under IFRS 16 the expense accrued on the lease liability will be recognised in "Interest expense and similar expense", and the depreciation/amortisation of the Right-of-Use Asset in “Net adjustments to/recoveries on property, plant and equipment and intangible assets”.

For leases involving low value assets and leases with a duration of 12 months or less (i.e. short-term leases), the introduction of IFRS 16 does not entail the recognition of financial liabilities and the relevant right of use, but lease payments shall continue to be recognised in the income statement on a straight line basis for the duration of the respective leases.

On first-time adoption the Group shall apply the new standard according to the “Modified Retrospective Approach”, which allows recognition of the cumulative effect of the initial application of the Standard on the first-time adoption date without restating the comparative information (IFRS 16 C5 b), in the option envisaged in paragraph C.8 b (ii).

More specifically, this approach provides for recognition of the following measurements:

- the lease liability calculated as the present value of the remaining payments due on the lease, discounted at the incremental borrowing rate at the date of initial application (IFRS 16.C8.a);
- the right-of-use asset equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application (IFRS 16.C8.b.ii).

In addition, some of the practical expedients and recognition exemptions provided by the standard have been adopted upon initial application. In particular:

- use of the incremental borrowing rate as the discount rate to calculate the lease liability[51];
- exclusion of leases with a total or remaining lease term[52] of 12 months or less;
- exclusion of leases with a low value at the date of purchase;
- exclusion of the initial direct costs incurred to measure the right-of-use asset at the date of initial application.

Uncertainty on the treatment for the purpose of income tax

An entity shall consider whether it is probable that the relevant taxation authority will accept every tax treatment, or group of tax treatments, it has used or plans to use in its tax return. If the entity concludes that it is probable that a particular tax treatment will be accepted, the entity shall determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its tax documentation. If the entity concludes that it is unlikely that a particular tax treatment will be accepted, the entity must use the most likely amount or the expected value from the tax treatment in determining the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates. The judgement should be based on which method provides the best forecast of how to resolve the uncertainty.

Share-based payments

These are payments to employees as consideration for their work services performed. When specific conditions are met, the cost of employee service is remunerated through stock option plans, whose value is measured according to the fair value of the options granted to employees at the grant date.

The fair value of options granted is recognised in the income statement, under the item “Staff costs” over the vesting period, with a corresponding increase in equity, considering the best possible estimate of the number of options that employees

[51] Rate which represents the rate of interest that a lessee “would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment”.

[52] For the purpose of determining the lease term, it was assumed that the contractual renewal is reasonably certain if:
- there is a clause that grants the lessee the right to renew the contract and there is a clause through which the lessor is obliged to not refuse the renewal request;
- there is a clause that grants the lessee the right to renew the contract and the lessor has not notified his/her desire to exercise the right of refusing the renewal within the contractually set terms.

will be able to exercise. That estimate is revised where subsequent information indicates that the expected number of equity instruments that will vest differs from the estimate previously carried out, independently of market conditions.

The measurement method used to calculate fair value considers all the characteristics of the options (term, price and conditions for exercise, etc.), as well as the value of the underlying security at the grant date, volatility and the yield curve at the grant date, in line with the duration of the plan.

At maturity, the estimate is revised and recognised in the income statement to register the amount corresponding to the number of equity instruments that have effectively vested, independently of whether market conditions have been met.

Grants

Capital grants provided by public entities are recognised when there is reasonable certainty that the conditions established by the granting authorities for obtaining the grant will be met. Their recognition reduces the purchase or transfer price or the production cost of the asset they refer to. Similarly, capital grants received from private parties are accounted for in accordance with the same accounting policies.

Grants for operating expenses can be recognised through profit or loss on an accruals basis when the related costs are incurred or, alternatively, in full when the conditions for their recognition have been met.

With particular reference to connection fees for private users, the remuneration component for the initial installation investment amount is recognised as revenue to be deferred over the useful life of the asset to which it refers, with a balancing entry among other liabilities.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not a forced liquidation or distress sale) at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. Underlying the definition of fair value is the assumption that the entity is operating its business normally without any intention to liquidate its own assets, significantly reduce the level of its own assets, or settle transactions at unfavourable conditions. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

As envisaged in IFRS 13, to measure the fair value, the effect of non-performance risk is also considered. This risk includes both the changes in the counterparty's credit risk and the changes in the issuer's own credit risk.

The fair value of financial instruments is calculated according to a hierarchy of criteria based on the origin, type, and quality of information used. In detail, this hierarchy assigns the highest priority to the prices quoted (and not changed) on active markets and lower importance to unobservable inputs. Three different input levels are identified:

- in the case of instruments listed on active markets, prices on financial markets are used (Level 1);
- in the case of instruments not listed on active markets, recourse is made, where possible, to valuation techniques that use observable market inputs other than quoted prices for the financial instrument but connected with its fair value by non-arbitrage relationships (Level 2);
- in other cases, recourse is made to internal valuation techniques that also use unobservable market inputs that are therefore inevitably subjective to some degree (Level 3).

Since Level 1 inputs are available for numerous financial assets and liabilities, some of which are traded on more than one active market, the entity has to take special care when defining both of the following aspects:

- the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability;
- whether the entity can conclude a transaction involving the asset or liability at that price and on that market at the measurement date.

The CDP RETI Group believes that the principal market of a financial asset or liability can be identified as the market on which the Group normally operates.

A market is considered active if the quoted prices, representing effective and regular market transactions executed during an appropriate reference period, are readily and regularly available through stock exchanges, brokers, intermediaries, specialised firms, quotation services or authorised entities.

In the event of a significant reduction in the volume or level of ordinary activity for the asset or liability (or for similar assets or liabilities) flagged by certain indicators (number of transactions, insignificance of the prices given by the market, significant increase in the implicit premiums for liquidity risk, widening or increase in the bid-ask spread, reduction or total absence of a market for new issues, scanty information in the public domain), the transactions or quoted prices are analysed.

In the case of financial instruments that are not quoted on active markets, valuation using Level 2 inputs requires the use of valuation techniques that process market inputs at different levels of complexity. For example, valuation techniques may involve, in addition to interpolations and extrapolations, the specification of stochastic processes that represent market dynamics and the use of simulations or other numerical techniques to determine the fair value of the instruments being measured.

The Group takes the following into consideration when selecting the valuation techniques to be used in Level 2 measurements:

- simpler valuation techniques are preferred to more complex techniques, all other conditions being equal and as long as they represent all of the relevant characteristics of the product, ensuring that they are reasonably in line with the practices and results of other sector operators;
- valuation techniques are applied consistently over time to consistent categories of instruments, unless objective grounds for replacement emerge;
- all other conditions being equal, preference is given to standard models whose mathematical structure and implementing procedures are familiar to practitioners and implemented in the Group's systems.

The market parameters used as inputs for Level 2 valuations are selected on the basis of non-arbitrage relationships or comparative relationships that define the fair value of the financial instrument being measured as the relative fair value compared with that of financial instruments listed on active markets.

In some cases, in determining the fair value it is necessary to have recourse to valuation techniques that call for inputs that cannot be drawn directly from observable market variables, statistical or "expert-based" estimates by those carrying out the valuation (Level 3).

Level 3 valuation techniques are also applied consistently over time to consistent categories of instruments, unless objective grounds for replacement emerge. Similarly, parameters that cannot be drawn directly from observable market variables are applied consistently over time.

Business combinations

A business combination involves the transfer of control over a business activity or, more generally, a company.

Business combinations are recognised in accordance with the acquisition method, by which the assets transferred and liabilities assumed by the CDP RETI Group at the business combination acquisition date are recognised at fair value. Transaction costs are generally recognised in the income statement in the years when those costs are incurred or the services are rendered.

For newly acquired companies, if the initial values for a business combination are incomplete by the end of the reporting period in which the combination occurs, the CDP RETI Group reports in its consolidated financial statements provisional amounts for the item for which the accounting is incomplete. In accordance with IFRS 3, paragraphs 45 ff., within twelve months of the acquisition date, the differences resulting from the business combination have to be allocated by recognising the fair value at the acquisition date of the identifiable assets acquired and liabilities assumed. The following items are an exception and are measured in accordance with their applicable standard:

- deferred tax assets and liabilities;
- assets and liabilities for employee benefits;
- liabilities or equity instruments related to share-based payment transactions involving shares of the acquiree or share-based payment transactions involving shares of the Group issued in replacement of contracts of the acquiree;
- assets held for sale and discontinued operations.

Goodwill is determined as the excess of the aggregate of the consideration transferred in the business combination, the amount of any non-controlling interest in the acquiree, and the fair value of any equity interest previously held by the acquirer in the acquiree over the fair value at the acquisition date of the net assets acquired and the liabilities assumed. If the fair value at the acquisition date of the net assets acquired and the liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of any equity interest previously held by the acquirer in the acquiree, the excess is recognised in the income statement as a gain from the transaction.

After initial recognition, the goodwill acquired for consideration in a business combination is tested for impairment once annually or whenever there is evidence of impairment. For newly acquired companies, the difference between the acquisition price and equity is provisionally recognised as goodwill, if positive, or under liabilities if negative, net of goodwill, if any, recognised in the financial statements of the acquirees.

At the acquisition date, non-controlling interests are measured at fair value or as a proportionate share of the recognised amounts of the acquiree's identifiable net assets. The measurement method is selected on a transaction basis.

Any contingent consideration provided in the business combination is measured at the acquisition-date fair value and included in the amount of the consideration transferred in the business combination for the purposes of calculating goodwill. Any subsequent changes in that fair value, which qualify as adjustments occurring during the measurement period, are included in goodwill retrospectively. Changes in fair value that can be considered as measurement-period adjustments are those prompted by new information about facts and circumstances that existed at the acquisition date, that has been obtained during the measurement period (which shall not exceed one year from the business combination).

In the case of business combinations achieved in stages, the equity investment previously held by the Group in the acquiree is revalued at the fair value at the date control was acquired and any resulting gain or loss is recognised through profit or loss. Any changes in the value of the previously held equity investment that had been recognised in other comprehensive income are reclassified to the income statement as if the equity investment had been sold. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the CDP RETI Group shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group shall adjust the provisional amounts to reflect new information obtained about facts and circumstances that existed at the acquisition date and that, if known, would have affected the measurement of the amounts recognised at that date.

Business combinations do not include those transactions aimed at obtaining control of one or more companies that do not constitute a business activity or if the business combination is carried out with reorganisation purposes, and thus between two or more entities already belonging to the same Group, and which do not cause changes in the control structure independently of the percentage of non-controlling interests before and after the transaction (referred to as "business combination under common control"). These transactions are in fact considered to have no economic substance.

II - INFORMATION ON THE CONSOLIDATED BALANCE SHEET

I. ASSETS

Non-current assets

1. Property, plant and equipment

Below is a breakdown of the CDP RETI Group's property, plant and equipment, which show a net value of 36,401 million euro at 31 December 2020 (35,547 million euro at 31 December 2019).

Property, plant and equipment: breakdown

(thousands of euro) Items/Figures	31/12/2020 Gross amount	31/12/2020 Provision for amortisation, depreciation and impairment	31/12/2020 Net value	31/12/2019 Gross amount	31/12/2019 Provision for amortisation, depreciation and impairment	31/12/2019 Net value
Owned						
Land	392,143	(841)	391,302	390,243	(866)	389,377
Buildings	3,243,062	(1,132,129)	2,110,933	3,097,436	(1,062,630)	2,034,806
Plant and equipment	50,052,428	(20,947,540)	29,104,888	48,763,242	(19,783,041)	28,980,201
Other plant and equipments	2,534,604	(1,017,831)	1,516,773	2,422,261	(977,252)	1,445,009
Industrial and commercial	455,422	(330,761)	124,661	368,454	(262,298)	106,156
Other assets	206,211	(164,270)	41,941	99,874	(77,070)	22,804
Assets under development and	3,006,261	(68,960)	2,937,301	2,507,500	(65,747)	2,441,753
Right of use acquired under leases ex IAS 17						
Land						
Buildings	720	(139)	581	720	(118)	602
Plant and equipment	6,810	(1,878)	4,932	6,810	(1,588)	5,222
Other plant and equipments						
Industrial and commercial						
Other assets	205	(205)		2,074	(1,849)	225
Assets under development and						
Right of use acquired under leases ex IFRS 16						
Land	12,222	(3,345)	8,877	11,853	(1,930)	9,923
Buildings	136,023	(27,591)	108,432	77,779	(13,690)	64,089
Plant and equipment						
Other plant and equipments	25	(9)	16			
Industrial and commercial	44,709	(18,063)	26,646	40,160	(8,767)	31,393
Other assets	33,044	(9,701)	23,343	19,668	(3,957)	15,711
Assets under development and						
Total	**60,123,889**	**(23,723,263)**	**36,400,626**	**57,808,074**	**(22,260,803)**	**35,547,271**

The item mainly includes investments made by the TERNA Group in power transport lines and transformation stations, investments made by the SNAM Group in transport infrastructure, gas storage and regasification, and the investments made by the ITALGAS Group in the gas distribution segment, limited to land and buildings that are not subject to IFRIC12. Also included are rights of use acquired under a lease and relating to the use of property, plant and equipment (for the lessees), equal to approximately 172 million euro at 31 December 2020.

During the year, the SNAM Group made investments for 1,024 million euro, mainly in the transport sector (856 million euro).

As regards the TERNA Group, investments during the period amounted to 1,249.5 million euro (including 34.1 million euro referring to rights of use recognised pursuant to the new IFRS 16), of which 1,151.4 million euro were for the Group's regulated segment and 98.1 million euro for the unregulated segment, mainly related to private interconnections, to the Brugg group (mainly as a result of application of IFRS 16), third-party variations and activities in Peru.

During the period, investments of the ITALGAS Group amounted to approximately 66 million euro and mainly referred to buildings and equipment (vehicles and computer equipment).

During the period, technical financial depreciation was recorded, determined on the basis of the useful life of the assets, i.e. on their residual useful lives, for a total of 1,514 million euro, substantially attributable to the SNAM Group for 681 million euro, to the TERNA Group for 560 million euro and for the residual part to the ITALGAS Group.

Commitments to purchase property, plant and equipment are listed in paragraph "IX. Guarantees and commitments".

Property, plant and equipment: changes for the year

(thousands of euro) Items/Figures	Land	Buildings	Plant and equipments	Other plant and equipments	Industrial and commercial equipment	Other assets	Assets under development and advances	Total
Gross opening balance	402,096	3,175,935	48,770,052	2,422,261	408,614	121,616	2,507,500	57,808,074
of which Right of use ex IAS 17		*720*	*6,810*			*2,074*		*9,604*
of which Right of use IFRS 16	***11,853***	*77,779*			*40,160*	*19,668*		*149,460*
Provision for amortisation, depreciation and impairment - opening balance	(2,796)	(1,076,438)	(19,784,629)	(977,252)	(271,065)	(82,876)	(65,747)	(22,260,803)
of which Right of use ex IAS 17		*(118)*	*(1,588)*			*(1,849)*		*(3,555)*
of which Right of use ex IFRS 16	***(1,930)***	*(13,690)*			*(8,767)*	*(3,957)*		*(28,344)*
Net opening balance	**399,300**	**2,099,497**	**28,985,423**	**1,445,009**	**137,549**	**38,740**	**2,441,753**	**35,547,271**
of which Right of use ex IAS 17		**602**	**5,222**			**225**		**6,049**
of which Right of use IFRS 16	**9,923**	**64,089**			**31,393**	**15,711**		**121,116**
Gross amount: change for the period								
Change in opening balances								
Investments	744	57,120	3,928	17,000	30,670	12,863	2,217,489	2,339,814
of which Right of use ex IAS 17								
of which Right of use IFRS 16	*603*	*42,355*		*25*	*6,721*	*11,303*		*61,007*
Contributions from business combinations		29,565	40,514	766	74,157	9,796	1	154,799
of which Right of use ex IAS 17								
of which Right of use IFRS 16		*17,309*				*15*		*17,324*
Transfers	2,262	135,549	1,484,871	56,876	12,437	14,530	(1,707,234)	(709)
Disposals	(2,410)	(13,923)	(87,578)	(5,151)	(24,726)	(5,014)	(8,652)	(147,454)
of which Right of use ex IAS 17								
of which Right of use IFRS 16	*(1,942)*	*(2,333)*			*(290)*	*(337)*		*(4,902)*
(Writedowns)/Writebacks		1,143						1,143
Other changes	1,673	(337)	(148,581)	42,877	1,621	85,669	(2,843)	(19,921)
of which Right of use ex IAS 17						*(1,869)*		*(1,869)*
of which Right of use IFRS 16	*1,708*	*913*			*(1,882)*	*2,395*		*3,134*
Reclassifications		(5,247)	(3,968)		(2,642)			(11,857)
Provision for amoirtsation, depreciation and impairment: change for the period								
Change in opening balances								
Depreciation for the period	(2,140)	(87,694)	(1,277,928)	(94,328)	(37,265)	(14,219)		(1,513,574)
of which Right of use ex IAS 17		*(21)*	*(290)*			*(21)*		*(332)*
of which Right of use IFRS 16	*(2,140)*	*(16,452)*		*(9)*	*(10,019)*	*(6,406)*		*(35,026)*
Contributions from business combinations		(4,339)		(161)	(69,047)	(1,066)		(74,613)
Disposals	691	6,128	24,248	2,665	22,589	2,982	183	59,486
of which Right of use ex IAS 17								
of which Right of use IFRS 16	*666*	*959*			*180*	*94*		*1,899*
(Writedowns)/Writebacks			(7,716)	(7,385)		(594)	(3,396)	(19,091)
Other changes	59	(1,681)	92,870	58,621	3,340	(78,403)		74,806
of which Right of use ex IAS 17						*1,665*		*1,665*
of which Right of use IFRS 16	*59*	*1,592*			*543*	*568*		*2,762*
Reclassifications		*4,165*	*3,737*		*2,624*			*10,526*
Gross closing balance	**404,365**	**3,379,805**	**50,059,238**	**2,534,629**	**500,131**	**239,460**	**3,006,261**	**60,123,889**
of which Right of use ex IAS 17		**720**	**6,810**			**205**		**7,735**
of which Right of use IFRS 16	**12,222**	**136,023**		**25**	**44,709**	**33,044**		**226,023**
Provision for amortisation, depreciation and impairment - closing balance	**(4,186)**	**(1,159,859)**	**(20,949,418)**	**(1,017,840)**	**(348,824)**	**(174,176)**	**(68,960)**	**(23,723,263)**
of which Right of use ex IAS 17		**(139)**	**(1,878)**			**(205)**		**(2,222)**
of which Right of use IFRS 16	**(3,345)**	**(27,591)**		**(9)**	**(18,063)**	**(9,701)**		**(58,709)**
Net closing balance	**400,179**	**2,219,946**	**29,109,820**	**1,516,789**	**151,307**	**65,284**	**2,937,301**	**36,400,626**
of which Right of use ex IAS 17		**581**	**4,932**					**5,513**
of which Right of use IFRS 16	**8,877**	**108,432**		**16**	**26,646**	**23,343**		**167,314**

2. Inventories – compulsory stock

Compulsory stock: breakdown

(thousands of euro)/(billions of cu.m.) Items/Figures	31/12/2020 Carrying amount	31/12/2020 Volumes (billions of cu.m.)	31/12/2019 Carrying amount	31/12/2019 Volumes (billions of cu.m.)
Compulsory stock	362,713	4.5	362,713	4.5
Total	**362,713**	**4.5**	**362,713**	**4.5**

Inventories - compulsory stock, equal to 363 million euro, includes the minimum natural gas quantities that the storage companies are required to hold under Presidential Decree no. 22 of 31 January 2001. The stock of gas, equivalent to approximately 4.5 billion standard cubic metres of natural gas, is determined by the Ministry of Economic Development on an annual basis.

3. Intangible assets

The following table shows the breakdown of "Intangible assets", which at 31 December 2020 amounted to 10,383 million euro (9,927 million euro at 31 December 2019).

Intangible assets: breakdown

(thousands of euro)	31/12/2020			31/12/2019		
Items/Figures	Gross amount	Provision for amortisation, depreciation and impairment	Net value	Gross amount	Provision for amortisation, depreciation and impairment	Net value
Goodwill	888,825		888,825	886,263		886,263
Service concession agreements	14,406,635	(6,580,350)	7,826,285	13,786,930	(6,260,083)	7,526,847
Industrial patent and intellectual property rights	1,425,346	(1,137,965)	287,381	1,285,037	(1,030,934)	254,103
Concessions, licenses, trademarks and similar rights	1,352,492	(343,824)	1,008,668	1,336,630	(333,844)	1,002,786
Other intangible assets	642,471	(372,992)	269,479	562,086	(366,260)	195,826
Assets under development and	104,772	(2,147)	102,625	61,215		61,215
Total	**18,820,541**	**(8,437,278)**	**10,383,263**	**17,918,161**	**(7,991,121)**	**9,927,040**

The main component of intangible assets consists of ITALGAS' service concession agreements, which concern public-private agreements relating to the development, financing, maintenance and operation of infrastructures under concession arrangements from the granting authority. The provisions on service concession agreements are applicable to ITALGAS in relation to the public service of natural gas distribution, i.e. agreements whereby the operator undertakes to provide the public service of natural gas distribution at the tariff set by the Italian Energy Networks and Environment Regulator (ARERA), with the right to use the infrastructure controlled by the granting authority in order to provide the public service.

In implementation of the "partial goodwill method" for the recognition of goodwill envisaged by IFRS 3, the item "Goodwill" represents the only share belonging to CDP RETI Group for the goodwill recorded in the consolidated financial statements of TERNA, SNAM, and ITALGAS, as well as the share recorded as a result of allocating the differences between the prices paid for the purchase of equity investments and the relevant equity.

Goodwill recognised in the financial statements as at 31 December 2020 in the amount of 889 million euro, consists of:

- 364 million euro for the TERNA group;
- 403 million euro for the SNAM group;
- 122 million euro for the ITALGAS group.

In relation to TERNA, SNAM and ITALGAS, the CGUs to which goodwill was allocated coincide with the individual legal entities and the recoverable value is equivalent to the market value of the companies, determined on the basis of the weighted average prices of the volumes traded in December. The fair value for each of these three companies was higher than the value of their respective net assets, inclusive of the effects of purchase price allocation.

Intangible assets: changes for the year

(thousands of euro) Items/Figures	Goodwill	Service concession agreements	Industrial patent and intellectual property rights	Concessions, licenses, trademarks and similar rights	Other intangible assets	Assets under development and advances	Total
Gross opening balance	886,263	13,786,930	1,285,037	1,336,630	562,086	61,215	17,918,161
Provision for amortisation, depreciation and impairment - opening balance	-	(6,260,083)	(1,030,934)	(333,844)	(366,260)	-	(7,991,121)
Net opening balance	**886,263**	**7,526,847**	**254,103**	**1,002,786**	**195,826**	**61,215**	**9,927,040**
Gross amount: change for the period							
Investments	-	689,139	29,784	-	105,764	183,207	1,007,894
Contributions from business combinations	6,686	-	186	-	51,360	-	58,232
Transfers	-	30,311	100,760	18,515	(30,311)	(119,275)	-
Disposals	-	(80,918)	(630)	(44)	(53,361)	(37)	(134,990)
(Writedowns)/Writebacks	-	-	-	-	-	-	-
Other changes	(4,124)	(18,827)	10,209	(2,609)	6,933	(20,338)	(28,756)
Reclassifications	-	-	-	-	-	-	-
Provision for amortisation, depreciation and impairment - change for the period							
Depreciation for the period		(418,970)	(107,566)	(9,901)	(53,000)	-	(589,437)
Contributions from business combinations		-	(179)	-	-	-	(179)
Disposals		77,239	589	44	42,503	-	120,375
(Writedowns)/Writebacks		(933)	-	-	(9,202)	-	(10,135)
Other changes		22,397	125	(123)	12,967	(2,147)	33,219
Reclassifications		-	-	-	-	-	-
Gross closing balance	**888,825**	**14,406,635**	**1,425,346**	**1,352,492**	**642,471**	**104,772**	**18,820,541**
Provision for amortisation, depreciation and impairment - closing balance	**-**	**(6,580,350)**	**(1,137,965)**	**(343,824)**	**(372,992)**	**(2,147)**	**(8,437,278)**
Net closing balance	**888,825**	**7,826,285**	**287,381**	**1,008,668**	**269,479**	**102,625**	**10,383,263**

Investments for the period mainly refer to service concession agreements (669 million euro) of the ITALGAS group.

The contractual commitments for the acquisition of intangible assets, as well as for the provision of services connected with their implementation, are reported in paragraph “IX - Guarantees and commitments”.

4. Equity investments

SNAM, TERNA, and ITALGAS’ equity investments are listed below, together with information on the investment relationships.

Equity investments in joint operations, associates and other companies: information on investments

(thousands of euro)

Items/Figures Name	Registered office	Equity investment Investor	% holding	Voting rights %	Carrying amount	Valuation method
A. Companies subject to joint control						
AS Gasinfrastruktur Beteiligung GmbH	Wien	SNAM S.p.A.	40.00%	40.00%	125,207	Equity method
ELMED Etudes S.a.r.l.	Tunisi	Terna S.p.A.	50.00%	50.00%	168	Equity method
Iniziative Biometano S.p.A.	Cittadella (PD)	Snam4Enrvironment S.r.l.	50.00%	50.00%	14,685	Equity method
Metano S.Angelo Lodigiano S.p.A.	Sant'Angelo Lodigiano	Italgas Reti SpA	50.00%	50.00%	2,102	Equity method
OLT Offshore LNG Toscana S.P.A.	Milano	SNAM S.p.A.	49.07%	49.07%	7,470	Equity method
SEleNe CC SA	Salonicco	Terna S.p.A.	25.00%	25.00%	50	Equity method
TEREGA HOLDING S.A.S. (già TIGF Holding S.A.S.)	Pau	SNAM S.p.A.	40.50%	40.50%	337,888	Equity method
Trans Austria Gasleitung GmbH (2)	WIen	SNAM S.p.A.	84.47%	84.,47%	520,989	Equity method
Umbria Distribuzione GAS S.p.A.	Terni	Italgas Reti SpA	45.00%	45.00%	2,317	Equity method
B. Companies subject to significant influence						
CGES A.D.	Podgorica	Terna S.p.A.	22.09%	22.09%	26,694	Equity method
CESI S.p.A.	Milan	Terna S.p.A.	42.70%	42.70%	48,290	Equity method
CORESO S.A.	Bruxelles	Terna S.p.A.	15.84%	15.84%	594	Equity method
Enerpaper S.r.l.	Turin	Seaside S.r.l.	10.00%	10.00%	374	Equity method
Gesam Reti S.p.A.	Lucca	Toscana Energia S.p.A.	42.96%	42.96%	20,716	Equity method
Galaxy Pipeline Assets Holdco Limited	Jersey	SNAM S.p.A.	12.33%	12.33%	207,338	Equity method
Interconnector (UK) Ltd	London	Snam International B.V.	23.68%	23.68%	57,796	Equity method
Interconnector Zeebrugge Terminal S.C./C.V. Scrl	Bruxelles	Snam International B.V.	25.00%	25.00%	566	Equity method
Senfluga Energy Infrastructure Holding S.A.	Athens	SNAM S.p.A.	54.00%	54.00%	137,747	Equity method
Trans Adriatic Pipeline AG	Baar	SNAM S.p.A.	20.00%	20.00%	278,150	Equity method
Valdarno S.r.l. in liquidazione	Pisa	Toscana Energia S.p.A.	30.04%	30.04%	5,562	Equity method
C. Unconsolidated subsidiaries (1)						
Arbolia S.r.l. (già 'ASSET COMPANY 8 B.V.)	San Donato Milanese (MI)	SNAM S.p.A.	100.00%	100.00%	10	At Cost
ASSET COMPANY 7 B.V.	Amsterdam (NL)	SNAM S.p.A.	100.00%	100.00%	1	At Cost
ASSET COMPANY 9 S.r.l.	San Donato Milanese (MI)	SNAM S.p.A.	100.00%	100.00%	10	At Cost
ASSET COMPANY 10 S.r.l.	San Donato Milanese (MI)	SNAM S.p.A.	100.00%	100.00%	10	At Cost
ASSET COMPANY 11 S.r.l.	San Donato Milanese (MI)	SNAM S.p.A.	100.00%	100.00%	10	At Cost
Asset Company 4 S.r.l. (SNAM4EFFICIENCY S.R.L.)	San Donato Milanese (MI)	SNAM S.p.A.	100.00%	100.00%	1,010	At Cost
Copower S.r.l.	Rome	TEP Energy Solution S.r.l.	51.00%	51.00%	46	At Cost
IES Biogas S.r.l. (Argentina)	Argentina	IES Biogas S.r.l.	95.00%	95.00%	10	At Cost
		Snam 4 Mobility S.p.A.	5.00%	5.00%	-	At Cost
Tea Innovazione Due S.r.l.	Brescia	Tea Servizi S.r.l.	100.00%	100.00%	120	At Cost
Ternoroma S.r.l.	Rome	Evolve S.r.l.	100.00%	100.00%	590	At Cost
D. Unconsolidated associates (1)						
Albanian Gas Service Company Sh.a.	Tirana	SNAM S.p.A.	25.00%	25.00%	7	At Cost
Energy Investment Solution S.r.l.	Milan	TEP Energy Solution S.r.l.	40.00%	40.00%	743	At Cost
Latina Biometano S.r.l.	Rome	IES Biogas S.r.l.	32.50%	32.50%	-	At Cost
Senfluga2 S.r.l.	Bruxelles	SNAM S.p.A.	40.00%	40.00%	24	At Cost

(1) Companies in liquidation or subsidiaries in the start-up phase without assets and liabilities

(2) The interest held in Trans Austria Gasleitung GmbH (TAG) is valued on the basis of the % of economic rights held (89.22%).

During the period, the value of the equity investments changed as follows:

Equity investments: changes for the period

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
A. Opening balance	**1,705,720**	**1,878,287**
B. Increases	**464,143**	**286,816**
B.1 Purchases	239,526	3,403
of which business combinations		
B.2 Writebacks		
B.3 Revaluations	196,442	190,513
B.4 Other increases	28,175	92,900
C. Decreases	**(372,569)**	**(459,383)**
C.1 Sales		
of which business combinations		
C.2 Writedowns	(3,996)	(8,077)
C.3 Other decreases	(368,573)	(451,306)
D. Closing balance	**1,797,294**	**1,705,720**

Revaluations made during the period mainly concern the equity investments in Trans Austria Gasleitung GmbH (84 million euro), Teréga Holding S.A.S. (35 million euro), Senfluga Energy Infrastructure Holdings S.A. (27 million euro) and AS Gasinfrastruktur Beteiligung GmbH (9 million euro).

The other negative changes are mainly attributable to decreases for dividends distributed by the investee companies.

Other information on equity investments

Consistent with the provisions set out in IFRS 12 “Disclosure of interests in other entities”, the financial performance of joint operations and associates is summarised below.

Significant equity investments: carrying amount and dividends received

(thousands of euro) Names	Carrying amount	Total Net equity	Pro quota Net Equity	Goodwill	Other changes	Dividend paid
A.1 Joint ventures						
Trans Austria Gasleitung GmbH	520,989	583,972	520,989	11,424		82,598
Terega Holding S.A.S. (già TIGF Holding S.A.S.)	337,888	834,294	337,888			106,204
AS Gasinfrastruktur Beteiligung GmbH	125,207	313,022	125,207			9,200
A.2 Associates						
Trans Adriatic Pipeline AG	278,150	933,855	278,150			
Senfluga Energy Infrastructure Holding	137,747	523,909	137,747			10,949
Galaxy Pipeline Assets Holdco Limited	207,338	1,778,091	207,338			17,109

Significant equity investments: accounting data

(thousands of euro) Names	Cash and cash equivalent	Current assets	Non current asstes	Current financial liabilities	Non current financial liabilities	Current liabilities	Non current liabilities	Revenues
A.1 Joint ventures								
Trans Austria Gasleitung GmbH	7,092	37,356	1,063,474	32,223	301,269	70,996	130,886	321,779
Terega Holding S.A.S.	494,158	73,591	2,959,163	524,390	1,791,716	88,515	287,997	433,164
AS Gasinfrastruktur Beteiligung GmbH	1,064	710	598,139	3,192	39,902	136	243,661	15
A.2 Associates								
Trans Adriatic Pipeline		276,472	4,606,254			323,067	3,625,804	166,476
Senfluga Energy Infrastructure Holding		240,174	821,065			110,225	427,105	153,458
Galaxy Pipeline Assets Holdco Limited		152,247	8,128,090			13,762	6,488,484	219,040

Interest income	Interesent expenses	Depreciation	Income (loss) before taxes on continuing operations	Income (loss) after taxes on continuing operations	Taxes	Net income (loss) for the period (1)	Other comprehensive income net of taxes (2)	Comprehensive income (3)= (1)+(2)
136	(10,140)	(61,014)	93,442		33,000	93,664	342	94,006
	(42,055)	(107,086)	87,360		(39,523)	87,360	3,573	90,933
1,413	(6,878)		22,375		(1)	22,375	(407)	21,968
			75,462			75,462	(80,338)	(4,876)
			77,161	(3,543)		77,161	(3,543)	73,618
			158,605			158,605	12,597	171,202

Non-significant equity investments: accounting data

(thousands of euro) Type of investments	Carryng amount of the investments	Total assets	Total liabilities	Total revenues	Income (loss) before taxes on continuing operations	Income (loss) after taxes on continuing operations	Net income (loss) for the period (1)	Other comprehensive income net of taxes (2)	Comprehensive income (3) = (1)+(2)
Joint ventures	25,022	810,719	796,047	107,182	43		7,321	(3)	7,318
Associates	160,592	1,409,131	563,727	266,512	18,586		18,821	(12,369)	6,452

Obligations relating to equity investments

The main obligations relating to equity investments are set out below:

Trans Adriatic Pipeline AG

SNAM S.p.A. has made commitments to Trans Adriatic Pipeline AG in its capacity as owner responsible for financing the project and for the percentage of investment it possesses. The commitment relates to the overall costs of the project, including the financial expenses accounted for in the work creation phase and deriving from the loan agreement, completed by TAP in December 2018.

5. Non-current financial assets

Below is a breakdown of the CDP RETI Group's non-current financial assets, which had a net value of 936 million euro at 31 December 2020 (503 million euro at 31 December 2019).

Non-current financial assets: financial assets at fair value - breakdown and fair value levels

(thousands of euro)	31/12/2020				31/12/2019			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
A. Financial assets at FVTPL								
A.1 Held for trading								
Debt securities								
Equity securities								
Units in collective investment undertakings								
Loans								
Trading derivatives								
Total								
A.2 Other financial assets at FVTPL								
Debt securities								
Equity securities								
Units in collective investment undertakings								
Loans								
Total								
B. Financial assets at FVTOCI								
Debt securities	22,464	22,464						
Equity securities	127,365	84,379		42,986	38,943	97		38,846
Loans								
Total	**149,829**	**106,843**		**42,986**	**38,943**	**97**		**38,846**
Total	**149,829**	**106,843**		**42,986**	**38,943**	**97**		**38,846**

Non-current financial assets: financial assets measured at amortised cost - breakdown and fair value levels

(thousands of euro)	31/12/2020				31/12/2019			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
Financial assets at amortized cost								
Debt securities	156	156			155	155		
Loans and receivables	687,725			687,725	414,607			414,607
of which finance lease								
Total	**687,881**	**156**		**687,725**	**414,762**	**155**		**414,607**

Non-current financial assets: hedging derivatives - breakdown and fair value levels

(thousands of euro)	31/12/2020				31/12/2019			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
Hedging derivatives								
Hedging derivatives	98,662		98,662		49,307		49,307	
Total	**98,662**		**98,662**		**49,307**		**49,307**	

The main component of the item consists of financial assets measured at amortised cost, which recorded an increase (273 million euro), essentially attributable to SNAM's takeover of the residual portion of a shareholder loan from Iren S.p.A. to OLT, against the acquisition of a 49.07% stake in the share capital of the company

6. Deferred tax assets

Deferred tax assets recorded in the financial statements at 31 December 2020 amount to 927 million euro (843 million euro at 31 December 2019), of which 811 million euro were recorded in the income statement.

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
Deferred tax assets		
- recognised in income statement	811,311	755,816
- recognised in equity	115,620	87,333
Total	**926,931**	**843,149**

Below is the breakdown of deferred tax assets:

Deferred tax assets: breakdown

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
Deferred tax assets recognised in income statement	**811,311**	**755,816**
- losses carried forward	1,150	1,145
- non-repayable grants	64,690	66,623
- misc. impairment	14,230	10,280
- financial instruments		
- payables		
- site decommissioning and reinstatement	199,206	181,600
- provisions	89,757	92,503
- write-downs on receivables	28,297	26,876
- equity investments		
- property, plant and equipment/intangible assets	331,929	312,372
- employee benefits	28,899	32,030
- exchange rate differences		
- other temporary differences	53,153	32,387
Deferred tax assets recognised in equity	**115,620**	**87,333**
- financial assets at FVTOCI		
- exchange rate differences		
- cash flow hedge	88,531	67,297
- other	27,089	20,036
Total	**926,931**	**843,149**

The changes in deferred tax assets during the year, with the balancing entry in the income statement, are shown below:

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
1. Opening balance	**755,816**	**703,312**
Change in opening balance		
2. Increases	**100,758**	**112,736**
2.1 Deferred tax assets recognised during the year	77,446	59,284
a) in respect of previous periods		
b) due to change in accounting policies		
c) writebacks		
d) other	77,446	59,284
2.2 New taxes or increases in tax rates		
2.3 Other increases	23,312	12,303
2.4 Business combinations		41,149
3. Decreases	**(45,263)**	**(60,232)**
3.1 Deferred tax assets derecognised during the year	(41,964)	(56,274)
a) reversals	(41,960)	(55,841)
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
d) other	(4)	(433)
3.2 Reduction in tax rates		
3.3 Other decreases	(3,299)	(3,958)
3.4 Business combination transactions		
4. Closing balance	**811,311**	**755,816**

The changes in deferred tax assets during the year, with the balancing entry in equity, are shown below:

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
1. Opening balance	**87,333**	**36,510**
Change in opening balance		
2. Increases	**29,964**	**52,026**
2.1 Deferred tax assets recognised during the year	5,930	8,843
a) in respect of previous periods		
b) due to change in accounting policies		
c) writebacks	2,205	502
d) other	3,725	8,341
2.2 New taxes or increases in tax rates		
2.3 Other increases	24,034	43,183
2.4 Business combinations		
3. Decreases	**(1,677)**	**(1,203)**
3.1 Deferred tax assets derecognised during the year	(1,677)	(1,203)
a) reversals	(1,677)	(1,203)
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
3.4 Business combination transactions		
4. Closing balance	**115,620**	**87,333**

7. Other non-current assets

Other non-current assets at 31 December 2020 amounted to 237 million euro (171 million euro at 31 December 2019).

The following table shows the breakdown:

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
Accrued income and prepaid expenses from regulated activities	181,991	127,987
Accrued income and prepaid expenses	13,910	11,123
Guarantee deposits	24,272	21,443
Loans and advances to employees	11,303	9,815
Receivables for tax withholdings and direct taxes		
Advances to suppliers		
Other assets	5,661	897
Total	**237,137**	**171,265**

Accrued income and prepaid expenses from regulated activities of 182 million euro at 31 December 2020, which represent the majority of Other non-current assets, relate to the tariff adjustment recognised by the Authority as a consequence of the plan to replace traditional meters with electronic meters entered in the financial statements of the ITALGAS group.

8. Non-current assets held for sale

Assets held for sale at 31 December 2020 amounted to 1.4 million euro (12 million euro at 31 December 2019).

The following table shows the breakdown:

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
A. Individual assets		
A.1 Financial assets		
A.2 Equity investments		9,931
A.3 Tangible assets	1,331	
A.4 Intangible assets		
A.5 Other assets		
Total A	**1,331**	**9,931**
B. Asset groups (discontinued operating units)		
B.1 Property, plant and equipment	69	2,076
B.2 Inventories		
B.3 Intangible assets		
B.4 Equity investments		
B.5 Financial assets		
B.6 Other assets		
Total B	**69**	**2,076**
Total	**1,400**	**12,007**

Current assets

9. Current financial assets

Below is a breakdown of the CDP RETI Group's current financial assets, which had a net value of 655 million euro at 31 December 2020 (524 million euro at 31 December 2019).

Current financial assets: financial assets at fair value: breakdown and fair value levels

(thousands of euro)	31/12/2020				31/12/2019			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
A. Financial assets at FVTPL								
A.1 Held for trading								
Debt securities								
Equity securities								
Units in collective investment								
Loans	981			981				
Trading derivatives								
Total	**981**			**981**				
A.2 Other financial assets at								
Debt securities								
Equity securities								
Units in collective investment								
Loans								
Total								
B. Financial assets at FVTOCI								
Debt securities	614,479	614,479			514,595	514,595		
Equity securities	119			119	119			119
Loans								
Total	**614,598**	**614,479**		**119**	**514,714**	**514,595**		**119**
Total	**615,579**	**614,479**		**1,100**	**514,714**	**514,595**		**119**

Current financial assets: financial assets measured at amortised cost - breakdown and fair value levels

(thousands of euro)	31/12/2020				31/12/2019			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
Financial assets at amortized								
Debt securities								
Loans and receivables	39,574			39,574	7,287			7,287
Total	**39,574**			**39,574**	**7,287**			**7,287**

Current financial assets: hedging derivatives - fair value levels

(thousands of euro)	31/12/2020				31/12/2019			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
Hedging derivatives								
Hedging derivatives	25		25		2,472	2,398	74	
Total	**25**		**25**		**2,472**	**2,398**	**74**	

The increase in financial assets at fair value (101 million euro) refers essentially to the Government securities purchased by the TERNA Group.

10. Income tax receivables

Income tax receivables recorded in the consolidated financial statements at 31 December 2020 amounted to 48 million euro (41 million euro at 31 December 2019) and were broken down as follows:

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
Income tax receivables		
- Ires receivables	43,660	37,832
- Irap receivables	4,533	2,834
- other tax receivables		
Total	**48,193**	**40,666**

11. Trade receivables

Trade receivables recorded in the consolidated financial statements at 31 December 2020 amounted to 3,408 million euro (3,071 million euro at 31 December 2019) and were broken down as follows:

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
Energy-related receivables	844,398	788,778
Grid transport consideration receivables	200,573	314,638
Gas sector trade receivables	1,817,380	1,607,860
Other trade receivables	427,468	225,398
Construction contracts	118,286	134,197
Total	**3,408,105**	**3,070,871**

Trade receivables are calculated net of amounts deemed unrecoverable which, therefore, are recorded as an adjustment to the bad debt provision.

The Gas sector trade receivables mainly relate to:

- SNAM Group receivables, mainly concerning the natural gas transport (1,150 million euro) and storage (176 million euro) sectors;
- trade receivables amounting to 462 million euro, recorded by the ITALGAS Group, mainly relating to gas distribution and related services and including amounts due from Eni S.p.A. (204 million euro) and third parties for the remaining part.

TERNA's trade receivables amounted to 1,245 million euro and mainly include the so-called "pass-through" items related to the activities performed by TERNA to Resolution 111/06 (798 million euro) as well as receivables due from dispatching customers for user fees (27.3 million euro); this item also includes the receivable from Cassa per i Servizi Energetici e Ambientali (CSEA) related to service quality for the ENSR performance assessment (19.4 million euro).

12. Inventories

Inventories at 31 December 2020 were recorded in the financial statements for 266 million euro (215 million euro at 31 December 2019) and are recognised net of the provision for impairment of 45 million euro (47 million euro at 31 December 2019).

Inventories: breakdown

(thousands of euro)	31/12/2020			31/12/2019		
Items/Figures	Gross amount	Provision for impairment	Net value	Gross amount	Provision for impairment	Net value
Raw materials, supplies and consumables	261,314	(13,236)	248,078	210,649	(14,764)	195,885
Finished products and goods	50,172	(32,193)	17,979	51,117	(32,193)	18,924
Total	**311,486**	**(45,429)**	**266,057**	**261,766**	**(46,957)**	**214,809**

Inventories of raw materials, supplies and consumables mainly consist of natural gas of the SNAM group (80 million euro). The item also includes 101 million euro for gas meters to be used in the ITALGAS group's replacement programme, plus approximately 67 million euro related to assets to be used in the operation, maintenance and construction of plants of the TERNA group.

Finished products inventories, equal to 18 million euro in total, net of the relevant provision (19 million euro at 31 December 2019), consist instead of natural gas in the storage network.

13. Other current assets

The breakdown of Other current assets, which at 31 December 2020 amounted to 456 million euro (331 million euro at 31 December 2019), is shown below.

Other current assets: breakdown

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
Accrued income and prepaid expenses from regulated activities	39,763	1,301
Accrued income and prepaid expenses	25,846	24,416
Guarantee deposits	211	73
Loans and advances to employees	163	155
Receivables for tax withholdings and direct taxes	142,047	87,642
Advances to suppliers	30,601	16,559
Other assets	217,715	201,042
Total	**456,346**	**331,188**

The increase (+ 125 million euro) compared to December 2019 is attributable to the increase in receivables for withholding taxes and indirect taxes of the Snam group and of other regulated activities of the Italgas group essentially related to the tariff adjustment recognised by the Authority.

14. Cash and cash equivalents

Cash and cash equivalents, which amounted to 6,470 million euro at 31 December 2020 (4,246 million euro at 31 December 2019) can be broken down as shown in the following table and refer mainly to:

- SNAM Group (3,044 million euro): current accounts and bank deposits in euro with financial institutions, representing the use of cash held for the group's financial needs (2,991 million euro) and the cash equivalents at Gasrule Insurance DAC (23 million euro) and Snam International B.V. (22 million euro).
- TERNA Group (2,689 million euro): short-term, highlyliquid deposits (1,381 million euro) and current accounts and cash in hand (1,308 million euro).

Cash and cash equivalents: breakdown

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
Current accounts and demand deposits	5,087,834	3,598,027
Short-term financial investments	1,380,795	647,419
Cash	1,169	974
Total	**6,469,798**	**4,246,420**

II. LIABILITIES

15. Equity

15 a. Group equity

Equity pertaining to the Group, amounting to 4,391 million euro (4,262 million euro at 31 December 2019) consisted of the following:

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
Share capital	**162**	**162**
Issue premium	**1,315,158**	**1,315,158**
Reserves	**2,873,149**	**2,733,236**
- Legal reserve	32	32
- Reserve for shareholder payments for investments	2,029,921	2,029,921
- Other reserves		
- Retained earnings	843,196	703,283
Valuation reserves	**(95,903)**	**(87,602)**
- Cash flow hedges	(75,631)	(71,476)
- Exchange rate differences	(18,293)	(4,695)
- Actuarial Profit (Loss) on defined-benefit pension plans	(8,373)	(8,001)
- Share of valuation reserves of equity investments accounted for using equity method	(10,439)	(5,656)
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	1,266	535
- Financial assets (equity securities) measured at fair value through other comprehensive income	15,567	1,691
Advances on dividends	**(285,696)**	**(267,004)**
Net income for the period (+/-)	**583,872**	**568,405**
Total	**4,390,742**	**4,262,355**

During the period, there were no changes to the shareholding structure and the number of shares, which remained the same compared to the prior year:

Member / Number of shares / %	Share category A	Share category B	Share category C	%
CDP	95,458			59.10%
State Grid		56,530		35.00%
Cassa Forense			4,253	2.63%
Foundations and Savings Banks			5,273	3.27%
Total	**95,458**	**56,530**	**9,526**	**100.00%**

Shares outstanding at the reporting date consisted of 161,514 shares without nominal value, fully paid-up.

15 b. Non-controlling interests

A breakdown of the item Non-controlling interests is provided below:

(thousands of euro)

Names	31/12/2020	31/12/2019
1. Italgas S.p.A.	1,918,760	1,746,916
2. SNAM S.p.A.	5,777,814	5,814,005
3. Terna S.p.A.	3,672,260	3,588,430
Total	**11,368,834**	**11,149,351**

Non-current liabilities

16. Provisions for risks and charges

The provisions for risks and charges recorded in the consolidated financial statements at 31 December 2020 amounted to 1,172 million euro (1,093 million euro at 31 December 2019) and were broken down as follows:

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
1. Provision for risks of legal disputes	47,742	50,592
2. Provision for early retirement incentives	55,028	59,162
3. Provision for site decommissioning and reinstatement	710,015	647,263
4. Provision for tax risks	13,808	22,532
5. Provision for environmental risks and charges	115,951	119,099
6. Provisions for credit risk on guarantees provided		
7. Other provisions	229,743	193,955
Total	**1,172,287**	**1,092,603**

The provisions for site decommissioning and remediation, which represent the majority of this item, were recorded by the SNAM Group companies to cover the costs they will presumably incur to remove and reinstate natural gas storage and transport facilities.

The changes to the provisions for risks and charges recorded during the year are detailed below:

(thousands of euro) Items/Figures	Provision for risks of legal disputes	Provision for early retirement incentives	Provision for site decommissioning and reinstatement	Provision for tax risks	Provision for environmental risks and charges	Provisions for credit risk on guarantees provided	Other provisions	Total
Opening	**50,592**	**59,162**	**647,263**	**22,532**	**119,099**		**193,955**	**1,092,603**
Change in opening balance								
Changes for business combinations (+/-)							2,049	2,049
Increases:								
Allocation in the	7,002	20,768			77		79,131	106,978
Changes due to			5,744		1,205			6,949
Changes due to			73,044					73,044
Other changes	194	2,697	1	559	4,003		29,919	37,373
Decreases:								
Use in the	(10,045)	(27,599)	(15,210)	(3,377)	(8,433)		(24,528)	(89,192)
- to charges	*(4,557)*	*(27,599)*	*(15,210)*	*(2,657)*	*(8,265)*		*(23,357)*	*(81,645)*
- due to surplus	*(5,488)*			*(720)*	*(168)*		*(1,171)*	*(7,547)*
Changes due to								
Other changes	(1)		(827)	(5,906)			(50,783)	(57,517)
Closing balance	**47,742**	**55,028**	**710,015**	**13,808**	**115,951**		**229,743**	**1,172,287**

17. Provisions for employee benefits

Below is the breakdown of the provisions for employee benefits:

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
Severance pay	129,783	136,978
Long term service award	4,739	4,247
Supplementary health funds	25,422	21,237
Energy discount	3,600	3,673
Other employee benefits	43,063	57,445
Total	**206,607**	**223,580**

The balance of Provisions for employee benefits contracted by 17 million euro from 31 December 2019.

The changes to the Provisions for employee benefits are shown below:

(thousands of euro) Items/Figures	Severance pay	Long-term service award	Supplementary health funds	Energy discount	Other employee benefits	Totale
Opening balance	**136,978**	**4,247**	**21,237**	**3,673**	**57,445**	**223,580**
Changes for business combinations	1,511	568	321			2,400
Current cost	492	259	828		1,905	3,484
Interest expense	677	32	156	13	263	1,141
Revaluations:						
- actuarial profit and loss due to changes in financial assumptions	2,851	(367)	679	139	1,611	4,913
- actuarial profit and loss due to changes in demographic assumptions	107					107
- effect of past experience	(2,091)		2,870		(244)	535
Other changes	(2,532)		(267)	(225)	(3,654)	(6,678)
Paid benefits	(8,210)		(402)		(14,263)	(22,875)
Closing balance	**129,783**	**4,739**	**25,422**	**3,600**	**43,063**	**206,607**

The average actuarial assumptions used by the CDP RETI Group for the purpose of applying IAS 19 are provided below.

Items/Figures %	Min	Max
Discount rate	0.0%	1.0%
Expected rate of salary increases	2.0%	4.0%
Inflation rate	0.0%	1.0%

18. Long-term loans

Long-term loans recorded by the Group at 31 December 2020 amounted to 26,581 million euro (25,228 million euro at 31 December 2019) and were broken down as follows:

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
Bonds		
- EMTN programme	19,139,362	18,688,596
- other issues	749,490	749,169
Bank loans	6,359,920	5,614,296
Lease liabilities	111,370	91,955
Other lenders	221,221	84,237
Total	**26,581,363**	**25,228,253**

The item “EMTN programme” in the long-term loans relates to bond issues in the period by SNAM (7.8 billion euro), TERNA (7.5 billion euro) and ITALGAS (3.8 billion euro).

The item “other issues”, instead, refers to the placement, concluded in May 2015 by CDP RETI, of an unsubordinated and unsecured fixed-rate bond, for a nominal value of 750 million euro.

An analysis of bond issues, with an indication of the issuing company, the currency, the interest rate and maturity, is provided below:

(thousands of euro)

Loans/Bonds	year of issue	Maturity	Currency	Rate	Carrying amount at 31/12/2020	
					Current	Non current
CDP RETI	2015	2022	Eur	0.01875	8,299	749,490
SNAM S.p.A.	2012	2022	Eur	5.25	8,456	580,000
SNAM S.p.A.	2013	2021	Eur	3.375	267,039	
SNAM S.p.A.	2014	2024	Eur	3.25	11,752	383,000
SNAM S.p.A.	2014	2023	Eur	1.5	1,059	76,000
SNAM S.p.A.	2015	2023	Eur	1.375	1,183	271,000
SNAM S.p.A.	2016	2026	Eur	0.875	1,979	1,244,000
SNAM S.p.A.	2017	2025	Eur	1.25	3,944	338,000
SNAM S.p.A.	2017	2022	Eur	0.641	17	151,000
SNAM S.p.A.	2017	2022	Eur	0.836		395,000
SNAM S.p.A.	2017	2024	Eur	1.375	1,616	106,000
SNAM S.p.A.	2018	2020	Eur	0.212		646,058
SNAM S.p.A.	2018	2023	Eur	1	1,487	519,000
SNAM S.p.A.	2019	2025	Eur	1.25	2,140	497,000
SNAM S.p.A.	2019	2030	Eur	1.625	3,666	248,319
SNAM S.p.A.	2019	2024	Eur			696,000
SNAM S.p.A.	2019	2034	Eur	1	1,775	588,000
SNAM S.p.A.	2020	2030	Eur		2,024	498,000
SNAM S.p.A.	2010	2028	Eur			596,000
TERNA S.p.A.		2021	Eur	0.0475	1,258,786	
TERNA S.p.A.		2021	Eur	0.0475	85,962	
TERNA S.p.A.		2022	Eur	0.00875		999,100
TERNA S.p.A.		2023	Eur	0.02731		636,300
TERNA S.p.A.		2023	Eur	0.01		996,400
TERNA S.p.A.		2024	Eur	0.049		921,100
TERNA S.p.A.		2025	Eur	0.00125		495,700
TERNA S.p.A.		2026	Eur	0.01		498,200
TERNA S.p.A.		2026	Eur	0.016		79,200
TERNA S.p.A.		2027	Eur	0.01375		1,039,029
TERNA S.p.A.		2028	Eur	0.01		794,400
TERNA S.p.A.		2032	Eur	0.0075		496,200
TERNA S.p.A.		2030	Eur	0.00375		495,700
TERNA S.p.A.		2044	Eur	0.053303		34,400
ITALGAS S.p.A.	2017	2027	Eur	0.01625	11,555	744,461
ITALGAS S.p.A.	2017	2022	Eur	0.005	1,272	267,709
ITALGAS S.p.A.	2017	2024	Eur	0.01125	4,329	479,378
ITALGAS S.p.A.	2017	2029	Eur	0.01625	11,588	746,452
ITALGAS S.p.A.	2019	2030	Eur	0.00875	3,610	592,584
ITALGAS S.p.A.	2019	2031	Eur	0.01	274	495,423
ITALGAS S.p.A.	2020	2025	Eur	0.0025	651	495,249

Other financial payables can be broken down as follows:

(thousands of euro)					Carrying amount at 31/12/2020	
Loans/Bonds	year of issue	Maturity	Currency	Rate	Current	Non current
Loan 2020	2020	2025	Eur	Euribor 6m + spread	593	934,341
Leasing IFRS 16	2020	2032	Eur	0.0082		314
INTESA Term Loan	2014	2019	Eur	0.25	200,000	
BNL Term Loan	2016	2020	Eur	0.2		
Intesa SanPaolo S.p.a (TL)	2019	2021	Eur	-0.0005	500,000	
UNICREDIT BANK AUSTRIA AG Term Loan	2018	2021	Eur	Fixed for the first 4 year: 0.8392% (0.56% Margin + 0.2792% Mid Swap 4Y) p.a. o Variable last year: (0.56% Margin + Euribor 6 m) p.a.	500,000	
BNL Term Loan	2018	2023	Eur	0.58% +Euribor 3 m		150,000
Bayerische Landesbank Term Loan	2018	2023	Eur	or Fixed per the first 4 year: 0.8392% (0.56% Margin + 0.2792% Mid Swap 4Y) p.a. o Variable last year: (0.56% Margin + Euribor 6 m) p.a.		50,000
BNL (TL)	2020	2022	Eur	0		150,000
BNL (TL)	2020	2023	Eur	0.100		150,000
Intesa SanPaolo S.p.a (TL)	2020	2022	Eur	0.000		250,000
Unicredit S.p.A. (TL)		2022	Eur	0.000		190,000
BEI 300MLN SRG	2009	2029	Eur	0.237	20,000	160,000
BEI 283MLN STG	2013	2033	Eur	0.669	19,624	226,627
BEI 65MLN SRG	2013	2032	Eur	0.556	4,333	47,667
BEI 200MLN SRG	2015	2035	Eur	0.268	13,333	180,000
BEI 373MLN SRG	2015	2035	Eur	0	24,867	348,133
BEI 135MLN SRG	2020	2038	Eur	0		135,000
BEI 310MLN SRG	2017	2037	Eur	1.498		310,000
BEI 25 MLN S4M	2019	2031	Eur	0.54700		25,000
BEI 105 MLN SRG	2019	2039	Eur	0.00642		105,000
-	ND	2025	Eur	Euribor 1 m + 1.5%	170	379
-	ND	2023	Eur	0.02	586	748
Bank loan	ND	2022	Eur	Euribor 3 m + 0.90%	266	199
-	ND	2025	Eur	Euribor 3 m + 0.551%	408	1,372
-	ND	2024	Eur	0.005	1,112	
-	ND	2024	Eur	Euribor 3 m + 1.25%	1,670	4,524
16				0	6,238	14,558
TERNA SPA		2022	Eur	0.0001		200,000
DIFEBAL		2034	Eur	0.04878	2,998	57,359
SOCIETA' BRASILIANE		2042	Eur	0.075	3,065	105,119
LEASING			Eur	0	6,181	42,175
Lease liability			Eur	0	241	225
Bank Loan				0		395,835
TERNA SPA		2041	Eur	0.0005	112,100	1,062,77
TERNA SPA		2042	Eur	0.0132	4,600	511,000
ITALGAS S.p.A. - BEI	2017	2037	Eur	0.35+Euribor 6M		359,809
ITALGAS S.p.A. - BEI	2015	2035	Eur	0.14+Euribor 6M	8,267	115,734
ITALGAS S.p.A. - BEI	2016	2032	Eur	0.47+Euribor 6M	25,000	274,806
TOSCANA ENERGIA S.p.A - BEI	2016	2031	Eur	0.01049	8,181	77,697
Other			Eur	0	2,712	1,796
IFRS16			Eur	0	19,738	54,323

With reference to the analysis of the maturities of payables for loans, please refer to the following table:

(thousands of euro)

Loans/Bonds	year of issue	Maturity	Currency	Rate	Carrying amount at 31/12/2020		Maturity analysis (years)				
					Current	Non current	2021	2022	2023	2024	beyond
CDP RETI	2015	2022	Eur	0.01875	8,299	749,490	749,490				
Loan 2020	2020	2025	Eur	Euribor 6m + spread	593	934,341				934,341	
Leasing IFRS 16	2020	2032	Eur	0.0082		314	22	30	30	30	202
SNAM S.p.A.	2012	2022	Eur	5.25	8,456	580,000	580,000				
SNAM S.p.A.	2013	2021	Eur	3.375	267,039						
SNAM S.p.A.	2014	2024	Eur	3.25	11,752	383,000			383,000		
SNAM S.p.A.	2014	2023	Eur	1.5	1,059	76,000		76,000			
SNAM S.p.A.	2015	2023	Eur	1.375	1,183	271,000		271,000			
SNAM S.p.A.	2016	2026	Eur	0.875	1,979	1,244,000					1,244,000
SNAM S.p.A.	2017	2025	Eur	1.25	3,944	338,000				338,000	
SNAM S.p.A.	2017	2022	Eur	0.641	17	151,000	151,000				
SNAM S.p.A.	2017	2022	Eur	0.836		395,000	395,000				
SNAM S.p.A.	2017	2024	Eur	1.375	1,616	106,000			106,000		
SNAM S.p.A.	2018	2020	Eur	0.212		646,058					646,058
SNAM S.p.A.	2018	2023	Eur	1	1,487	519,000		519,000			
SNAM S.p.A.	2019	2025	Eur	1.25	2,140	497,000				497,000	
SNAM S.p.A.	2019	2030	Eur	1.625	3,666	248,319					248,319
SNAM S.p.A.	2019	2024	Eur			696,000			696,000		
SNAM S.p.A.	2019	2034	Eur	1	1,775	588,000					588,000
SNAM S.p.A.	2020	2030	Eur		2,024	498,000					498,000
SNAM S.p.A.	2010	2028	Eur			596,000					596,000
INTESA Term Loan	2014	2019	Eur	0.25	200,000						
BNL Term Loan	2016	2020	Eur	0.2							
Intesa SanPaolo S.p.a (TL)	2019	2021	Eur	-0.0005	500,000						
UNICREDIT BANK AUSTRIA AG Term Loan	2018	2021	Eur	0.45%.+Euribor 3 m	500,000						
BNL Term Loan	2018	2023	Eur	0.58% +Euribor 3 m		150,000		150,000			
Bayerische Landesbank Term Loan	2018	2023	Eur	or Fixed for the first 4Y: 0.8392% (0.56% Margin + 0.2792% Mid Swap 4Y) p.a. or Variable last Y: (0.56% Margin + Euribor 6 m) p.a.		50,000		50,000			
BNL (TL)	2020	2022	Eur	0		150,000	150,000				
BNL (TL)	2020	2023	Eur	0.100		150,000		150,000			
Intesa SanPaolo S.p.a (TL)	2020	2022	Eur	0.000		250,000	250,000				
Unicredit S.p.A. (TL)		2022	Eur	0.000		190,000	190,000				
BEI 300MLN SRG	2009	2029	Eur	0.237	20,000	160,000					160,000
BEI 283MLN STG	2013	2033	Eur	0.669	19,624	226,627					226,627
BEI 65MLN SRG	2013	2032	Eur	0.556	4,333	47,667					47,667
BEI 200MLN SRG	2015	2035	Eur	0.268	13,333	180,000					180,000
BEI 373MLN SRG	2015	2035	Eur	0	24,867	348,133					348,133
BEI 135MLN SRG	2020	2038	Eur	0		135,000					135,000
BEI 310MLN SRG	2017	2037	Eur	1.498		310,000					310,000
BEI 25 MLN S4M	2019	2031	Eur	0.54700		25,000					25,000
BEI 105 MLN SRG	2019	2039	Eur	0.00642		105,000					105,000
Banca PopSo EVOLVE consolidation	ND	2025	Eur	Euribor 1 m + 1.5%	170	379	118	119	121	21	
Mediocredito in pool EVOLVE consolidation	ND	2023	Eur	0.02	586	748	577	171			
Banco BPM EVOLVE consolidation	ND	2022	Eur	Euribor 3 m+ 0.90%	266	199	199				
BPER RINVENUTO consolidation MIECI	ND	2025	Eur	Euribor 3 m + 0.551%	408	1,372	399	401	403	169	
MPS RINVENUTO consolidation MIECI	ND	2024	Eur	0.005	1,112						
Banca PopSo consolidation TLUX	ND	2024	Eur	Euribor 3 m + 1.25%	1,670	4,524	1,620	1,640	1,264		
IFRS16 others					6,238	14,558	4,800	3,354	2,311	1,971	2,122
TERNA SPA		2021	Eur	0.0475	1,258,786						
TERNA SPA		2021	Eur	0.0475	85,962						
TERNA SPA		2022	Eur	0.00875		999,100	999,100				
TERNA SPA		2023	Eur	0.02731		636,300		636,300			
TERNA SPA		2023	Eur	0.01		996,400		996,400			
TERNA SPA		2024	Eur	0.049		921,100			921,100		
TERNA SPA		2025	Eur	0.00125		495,700				495,700	
TERNA SPA		2026	Eur	0.01		498,200					498,200
TERNA SPA		2026	Eur	0.016		79,200					79,200
TERNA SPA		2027	Eur	0.01375		1,039,029					1,039,029
TERNA SPA		2028	Eur	0.01		794,400					794,400
TERNA SPA		2032	Eur	0.0075		496,200					496,200
TERNA SPA		2030	Eur	0.00375		495,700					495,700
TERNA SPA		2044	Eur	0.053303		34,400	700	1,400	1,400	1,400	29,500
TERNA SPA		2022	Eur	0.0001		200,000	200,000				
DIFEBAL		2034	Eur	0.04878	2,998	57,359	2,900	3,400	3,800	4,000	43,259
Brasilian companies		2042	Eur	0.075	3,065	105,119	32,700	2,900	3,000	3,100	63,419
LEASING			Eur		6,181	42,175	42,175				
LEASING			Eur		241	225	225				
Bank Loan						395,835	395,835				
TERNA SPA		2041	Eur	0.0005017	112,100	1,062,771	112,771	114,000	115,300	115,300	605,400
TERNA SPA		2042	Eur	0.01320790	4,600	511,000	20,500	20,500	28,700	28,700	412,600
ITALGAS S.p.A.	2017	2027	Eur	0.01625	11,555	744,461					744,461
ITALGAS S.p.A.	2017	2022	Eur	0.005	1,272	267,709	267,709				
ITALGAS S.p.A.	2017	2024	Eur	0.01125	4,329	479,378			479,378		
ITALGAS S.p.A.	2017	2029	Eur	0.01625	11,588	746,452					746,452
ITALGAS S.p.A.	2019	2030	Eur	0.00875	3,610	592,584					592,584
ITALGAS S.p.A.	2019	2031	Eur	0.01	274	495,423					495,423
ITALGAS S.p.A.	2020	2025	Eur	0.0025	651	495,249				495,249	
ITALGAS S.p.A. - BEI	2017	2037	Eur	0.35+Euribor 6M		359,809		24,000	24,000	24,000	287,809
ITALGAS S.p.A. - BEI	2015	2035	Eur	0.14+Euribor 6M	8,267	115,734	8,267	8,267	8,266	8,267	82,667
ITALGAS S.p.A. - BEI	2016	2032	Eur	0.47+Euribor 6M	25,000	274,806	25,000	25,000	25,000	25,000	174,806
TOSCANA ENERGIA S.p.A - BEI	2016	2031	Eur	0.01049	8,181	77,697	8,182	8,182	8,182	8,181	44,970
Others			Eur		2,712	1,796	1,796				
IFRS16			Eur		19,738	54,323	16,613	15,881	8,877	4,988	7,964

The table below shows the reconciliation of the liabilities arising from the loans, as required by IAS 7:

(thousands of euro) Items/Figures	31/12/2019	Changes from financing cash flows	No cash flow changes: Effect of changes in foreign exchange rates	No cash flow changes: Changes due to IFRS9	No cash flow changes: Changes arising from obtaining or losing control of subsidiaries or other businesses	31/12/2020
Cash and cash equivalents	4,246,420	2,223,378				6,469,798
Short-term financial debts	2,866,530	1,948,891		784,571	8,554	5,608,546
Long-term financial debts	27,952,077	2,442,131		(793,043)	17,416	29,618,581
Financial debts for leased goods	117,241	(37,095)		63,382		143,528
Gross financial debt	**30,935,848**	**4,353,927**	**-**	**54,910**	**25,970**	**35,370,655**
Net financial debt	**26,689,428**	**2,130,549**	**-**	**54,910**	**25,970**	**28,900,857**

19. Other non-current financial liabilities

Other non-current financial liabilities, recognised in the financial statements at 316 million euro (232 million euro at 31 December 2019), refer to the fair value measurement of cash flow hedge derivative contracts signed by the TERNA Group for 163 million euro and by the ITALGAS Group for 21 million euro, and contracts to hedge interest rate risk signed by CDP RETI for 8 million euro and by the SNAM Group for 34 million euro. The following table shows the breakdown of the item and the respective fair value levels.

(thousands of euro)	31/12/2020			31/12/2019		
Items/Figures	L1	L2	L3	L1	L2	L3
Fair value-related hedging derivatives						
a) interest rate risk						
b) exchange rate risk						
c) several risks						
Cash flow hedge-related derivatives		**225,484**			**189,686**	
a) interest rate risk		225,484			189,686	
b) exchange rate risk						
c) other						
Foreign investments hedging						
a) interest rate risk						
b) exchange rate risk						
c) other						
Non-hedging derivatives		**90,709**			**42,250**	
Totale		**316,193**			**231,936**	

20. Deferred tax liabilities

Deferred tax liabilities recorded at 31 December 2020 amounted to 2,606 million euro (2,699 million euro at 31 December 2019), and consist almost entirely of deferred tax liabilities entered as the balancing entry recognised in the income statement as detailed in the following table:

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
Deferred tax liabilities		
- recognised in income statement	2,602,126	2,690,702
- recognised in equity	3,760	8,693
Total	**2,605,886**	**2,699,395**

Below is the breakdown of deferred tax liabilities:

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
Deferred tax liabilities recognised in income statement	**2,602,126**	**2,690,702**
- surplus paid in instalments	2,319	1,994
- staff severance pay	13,672	12,651
- leasing		1,286
- property, plant and equipment	2,356,666	2,469,387
- own securities		
- equity investments	17,812	15,152
- other financial instruments		
- exchange rate differences		
- other temporary differences	211,657	190,232
Deferred tax liabilities recognised in equity	**3,760**	**8,693**
- financial assets at FVTOCI		
- other reserves	3,760	8,693
- Law 213/98 reserves		
- other reserves		
Total	**2,605,886**	**2,699,395**

The changes in deferred tax liabilities during the year, with the balancing entry in the income statement, are shown below:

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
1. Opening balance	**2,690,702**	**2,737,128**
Change in opening balance		
2. Increases	**70,317**	**98,986**
2.1 Deferred tax liabilities recognised during the year	20,404	13,564
a) in respect of previous periods		
b) due to change in accounting policies		
c) others	20,404	13,564
2.2 New taxes or increases in tax rates		
2.3 Other increases	38,303	16,131
2.4 Business combination transactions	11,610	69,291
3. Decreases	**(158,893)**	**(145,412)**
3.1 Deferred tax liabilities derecognised during the year	(158,893)	(145,412)
a) reversals	(125,943)	(116,073)
b) due to change in accounting policies		
c) others	(32,950)	(29,339)
3.2 Reduction in tax rates		
3.3 Other decreases		
3.4 Business combination transactions		
4. Closing balance	**2,602,126**	**2,690,702**

The changes in deferred tax liabilities during the year, with the balancing entry in equity, are shown below:

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
1. Opening balance	**8,693**	**2,455**
Change in opening balance		
2. Increases		**6,238**
2.1 Deferred tax liabilities recognised during the year		6,238
a) in respect of previous periods		
b) due to change in accounting policies		
c) others		6,238
2.2 New taxes or increases in tax rates		
2.3 Other increases		
2.4 Business combination transactions		
3. Decreases	**(4,933)**	
3.1 Deferred tax liabilities derecognised during the year	(871)	
a) reversals	(871)	
b) due to change in accounting policies		
c) others		
3.2 Reduction in tax rates		
3.3 Other decreases	(4,062)	
3.4 Business combination transactions		
4. Closing balance	**3,760**	**8,693**

21. Other non-current liabilities

The table below provides a breakdown of Other non-current liabilities recognised at 31 December 2020 for a total amount of 1,563 million euro (1,551 million euro at 31 December 2019).

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
Accrued liabilities and deferred income	6,413	12,043
Payments on account and advances		
Accrued liabilities and deferred income from regulated activities	1,237,969	1,259,374
Other liabilities	319,100	279,509
Total	**1,563,482**	**1,550,926**

Other non-current liabilities mainly consist of the following:

- Accrued expenses and deferred income consisting of deferred income for grants related to plants of Terna S.p.A. (80 million euro), and the liability towards lenders financing the Italy-France and Italy-Montenegro private Interconnector (totalling 532 million euro). The item also includes accrued expenses and deferred income related to connection fees of the ITALGAS Group (543 million euro).
- Other liabilities, mainly relating to the security deposits received in favour of the Terna Group from the operators participating in the capacity market pursuant to Resolution 98/2011/R/eel (117 million euro), and the Interconnector Guarantee Fund established for Terna S.p.A. pursuant to the 2016 Stability Law (107 million euro) for the carrying out of interconnection work, pursuant to art. 32 of Law 99/09.

22. Liabilities directly attributable to assets held for sale

At 31 December 2020 this item did not have an entry.

Current liabilities

23. Current portion of long-term loans

This item, which at 31 December 2020 amounted to 3,181 million euro (2,841 million euro at 31 December 2019) includes the current portion of long-term loans. The following table shows its composition:

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
Bonds		
- EMTN programme	1,686,164	1,554,148
- other issues	8,299	8,299
Bank loans	1,453,985	915,421
Lease liabilities	32,158	25,286
Other lenders	140	337,911
Total	**3,180,746**	**2,841,065**

A breakdown of this item is detailed in the tables set out in note 18.

24. Trade payables

Trade payables recorded at 31 December 2020 amounted to 3,380 million euro (3,456 million euro at 31 December 2019) and were broken down as follows:

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
Payables due to suppliers	3,368,149	3,433,357
- energy-related payables	*1,187,149*	*1,358,824*
- non-energy-related payables	*1,017,947*	*1,063,458*
- GAS sector payables	*1,095,490*	*978,011*
- due to other suppliers	*67,563*	*33,064*
Payables for construction contracts	12,276	22,912
Total	**3,380,425**	**3,456,269**

Energy-related trade payables (1,187 million euro) recorded in TERNA's financial statements, relating to the financial effects of "pass-through" costs, principally related to TERNA's electricity dispatching operations, as well as to the transport fees due to other owners of portions of the national transmission grid.

Non-energy related trade payables of 1,018 million euro recorded in TERNA Group's consolidated financial statements refer to amounts owed to suppliers for invoices both already received and yet to be received for tenders, services and the purchase of materials and equipment.

Trade payables from the GAS segment of 1,095 million euro mainly related to the transport sector (465 million euro, of which 378 million euro related to balancing services) of the SNAM Group, and trade payables (303 million euro) of the ITALGAS Group.

25. Income tax liabilities

Current tax liabilities amounted to 38 million euro at 31 December 2020 (40 million euro at 31 December 2019) and were broken down as follows:

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
Income tax payables		
- Ires payables	35,417	32,531
- Irap payables	2,502	7,138
- other tax payables	4	41
Total	**37,923**	**39,710**

26. Current financial liabilities

Current financial liabilities amounted to 5,616 million euro at 31 December 2020 (2,880 million euro at 31 December 2019).

Other financial liabilities amounted to 5,609 million euro at 31 December 2020 (2,867 million euro at 31 December 2019) and mainly related to uncommitted floating-rate credit facilities (1,505 million euro) and the issue of unsecured Euro Commercial Papers (2,503 million euro) of the SNAM group. The increase in the latter item compared to 31 December 2019 is mainly due to higher net drawdowns on uncommitted credit facilities (1,047 million euro) and the issue of new unsecured short-term securities (502 million euro, net of repayments). In addition, the item includes credit lines relating to TERNA for approximately 1 billion euro.

The following table shows the breakdown:

(thousands of euro)	31/12/2020				31/12/2019			
Items/Figures	Carring amount	L1	L2	L3	Carring amount	L1	L2	L3
Fair value-related hedging derivatives	**299**		**299**		**220**	**220**		
a) interest rate risk	299		299		220	220		
b) exchange rate risk								
c) several risks								
Cash flow hedge-related	**6,849**		**6,849**		**13,440**		**13,440**	
a) interest rate risk	6,849		6,849		13,440		13,440	
b) exchange rate risk								
c) other								
Hedging derivatives on foreign investment								
a) interest rate risk								
b) exchange rate risk								
c) other								
Non-hedging derivatives								
Other financial liabilities	**5,608,546**			**5,608,546**	**2,866,530**			**2,866,530**
Total	**5,615,694**		**7,148**	**5,608,546**	**2,880,190**	**220**	**13,440**	**2,866,530**

27. Other current liabilities

Other current liabilities amounted to 1,929 million euro at 31 December 2020 (1,845 million euro at 31 December 2019) and were broken down as shown in the following table:

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
VAT payables	626	11,382
Irpef withholdings on employees	16,288	14,286
Other duties and taxes	9,554	10,807
Accrued liabilities and deferred income	21,282	28,521
Advances	65,254	73,050
Payables due to pension and social security institutions	60,710	51,394
Payables due to employees	118,880	98,913
Accrued liabilities and deferred income from regulated activities	48,426	129,266
Other liabilities	1,588,211	1,427,352
Total	**1,929,231**	**1,844,971**

“Other liabilities” mainly refer to payables for the purchase of non-current assets (394 million euro, mainly related to natural gas transport, for 302 million euro, and natural gas storage, for 47 million euro) and payables due to CSEA (Cassa Conguaglio Settore Elettrico) by the SNAM Group (575 million euro).

III - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

A. REVENUES

28. Revenues from sales and services

Revenues from sales and services: breakdown

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
Revenues from electricity dispatching and distribution		
Grid transport consideration receivables	1,938,081	1,859,472
CTR adjustments for previous years	441	670
Service quality	29,396	20,220
Other energy revenues	221,680	172,786
Other sales and performance	272,120	234,748
Total	**2,461,718**	**2,287,896**
- of which IFRIC 12 revenues	*112,367*	*680,982*
Revenues from storage, transportation, regasification and distribution of natural gas		
Storage	499,000	435,835
Distribution	2,027,971	1,792,253
Transport and dispatching	2,010,000	2,077,560
Regasification	20,923	17,050
Other sales and performance	235,154	132,795
Total	**4,793,048**	**4,455,493**
- of which IFRIC 12 revenues	*668,738*	*621,105*
Total	**7,254,766**	**6,743,389**

Revenues for the dispatching and distribution of electricity (2,462 million euro) increased (approximately +174 million euro compared to the previous year) essentially deriving from the following effects:

- the grid transmission fees (+78,6 million euro compared to the previous year): this item refers to the income for ownership and management of the National Transmission Grid (NTG) earned by Terna S.p.A. (1,796.9 million euro) and the subsidiaries Rete S.r.l (131 million euro) and Terna Crna Gora d.o.o. (10.6 million euro). The increase in revenues from the transmission service is mainly attributable to the impact of the RAB expansion and the relevant portion of the remuneration of digital station systems (29.3 million euro, relating to plants that entered into service until 2018, pursuant to ARERA Resolution 565/2020), partly offset by the negative impact of volumes;
- other energy income (+49 million euro compared to the previous year): consideration paid to the TERNA group for the dispatching and metering service (essentially for the DIS component, amounting to 106.3 million euro, the MIS component, amounting to 0.2 million euro and other energy income amounting to 2.8 million euro) and income from the construction and development of infrastructure under concession, posted for the application of IFRIC 12 (112.4 million euro), which includes income from activities in South America (in Brazil, for 66.3 million euro and in Peru, for 17.6 million euro). The increase in Other energy income and income from activities under concession, amounting to 48.9 million euro, compared to the previous year was mainly due to higher investments for concession activities in Brazil (+38.4 million euro), mainly relating to the lines under construction of the company Linha Verde II acquired in the last part of 2019 (+27.0 million euro) and of the new company Linha Verde I acquired in August 2020 (+15.1 million euro), partly offset by the reduction in operations related to the lines of the companies Santa Lucia and Santa Maria that came into operation in previous years (-3.7 million euro). Also relevant were the higher investments related to the line being completed in Peru for 13.2 million euro.

Revenues in the gas sector, which amounted to 4,793 million euro, refer to the following sectors of activities: transport and dispatching (2,010 million euro); distribution (2,028 million euro, of which 1,322 million euro for natural gas transportation on behalf of all commercial operators that request access to the distribution companies' networks based on the Network code, and an additional 669 million euro for the construction and upgrading of the natural gas distribution infrastructure associated with the concession agreements pursuant to IFRIC 12); natural gas storage (499 million euro); LNG regasification (21 million euro); other sales and services (235 million euro). These revenues are recorded net of the tariff components, in addition to the tariff, which are meant to cover the general costs of the gas system. The amounts collected are then paid to Cassa per i Servizi Energetici e Ambientali (CSEA), for the same amount.

29. Other revenues and income

The table below shows the breakdown of Other revenues and income, which at 31 December amounted to 217 million euro (157 million euro at 31 December 2019):

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
Other industrial revenues	**59,293**	**57,762**
Revenues from the sale of gas for the balancing service	20,770	20,112
Income from the sale of energy efficiency securities		
Contractual penalties and other income relating to trade transactions	38,523	37,650
Other revenues and incomes	**145,023**	**81,779**
Rental income	4,050	3,643
Lease of business unit		
Other contributions	27,803	25,619
Other income	113,170	52,517
Gains on disposal	**12,349**	**17,596**
Gains on disposal from property, plant and equipment	8,776	17,565
Gains on disposal from intangible assets	3,573	31
Total	**216,665**	**157,137**

Compared to the previous year, “other income” increased (+60 million euro). With reference to the TERNA group, other income included income from the higher value of Brugg Cables’ net assets compared to the consideration paid (+73.0 million euro), partly offset by higher insurance compensation for damages recognised in 2019 (-11 million euro) and the reduction in other types of revenues (-4 million euro).

B. OPERATING COSTS

30. Raw materials and consumables used

The breakdown of costs for raw materials is shown in the table below:

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
Raw materials, supplies, consumables and goods	649,195	450,390
Increases for internal work	(130,664)	(102,437)
Total	**518,531**	**347,953**

The item represents the value of materials and miscellaneous equipment consumed in ordinary plant operation and plant maintenance, as well as the consumption of materials for the fulfilment of orders.

31. Services

Costs for services recognised in the financial statements at 31 December 2020 amounted to 939 million euro (920 million euro at 31 December 2019) and were broken down as follows:

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
Construction, planning and works management	430,448	348,067
IT services (Information Technology)	96,866	81,713
Purchase of transport capacity (interconnection)		51,914
Maintenance services	44,831	42,930
Technical, legal, administrative and professional services	151,973	154,076
Personnel-related services	19,625	33,961
Telecommunications services	44,627	41,575
Electricity, thermal energy, water, etc.	30,689	27,078
Insurance	15,584	14,492
Other services	142,354	136,203
Costs for leases and rentals	123,194	121,131
- fees, patents and user licenses	*80,477*	*73,362*
- leases and rentals	*42,717*	*47,769*
Increases for internal work	(164,800)	(135,185)
Commission expenses	3,551	1,939
Total	**938,942**	**919,894**

Costs for professional services include the 2020 fees for auditing, certification and other services provided to companies of the Group by the independent auditors of the parent company CDP RETI, namely Deloitte & Touche S.p.A.

The following disclosure is provided pursuant to Article 149-duodecies of CONSOB Issuers' Regulations:

(thousands of euro)

Items/Figures	Service Provider	31/12/2020
Auditing		1,786
Certification	Deloitte & Touche S.p.A.	339
Other		
Total		**2,125**

32. Staff costs

A breakdown of staff costs is provided below:

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
1) Employees	**894,655**	**809,184**
a) salaries and wages	618,558	575,894
b) social security charges	4,398	5,696
c) staff severance pay	17,787	17,248
d) pension costs	168,847	164,376
e) provision for staff severance pay	1,494	1,936
f) provision for post-employment benefits:		
- defined contribution		
- defined benefits		
g) payments to external supplementary pension plans:	24,921	23,493
- defined contribution	21,759	20,534
- defined benefits	3,162	2,959
h) costs related to payment agreements based on own equity instruments		
i) other benefits for employees	58,650	20,541
2) Other personnel in service	**5,520**	**3,313**
3) Board of Directors and Board of Auditors	**13,727**	**13,557**
4) Retired personnel		
5) Increases for internal work	**(151,271)**	**(134,968)**
Total	**762,631**	**691,086**

Staff costs, which at 31 December 2019, before their allocation to non-current assets, totalled 614 million euro, were mainly attributable to:

- 254 million euro for SNAM Group employees, whose average headcount totalled 3,121 at 31 December 2020;
- 373 million euro for TERNA Group employees, whose average headcount totalled 4,624 in the same period;

- 270 million euro for ITALGAS Group employees, whose average headcount totalled 4,031.

The following table shows the average headcount of group employees by contractual level:

Items/Figures	31/12/2020	31/12/2019
Senior Managers	272	255
Middle Managers	1,497	1,431
Office staff	6,470	6,319
Manual workers	3,538	3,453
Total	**11,777**	**11,458**

33. Amortisation, depreciation and impairment of property, plant and equipment and intangible assets

Amortisation, depreciation and impairment, amounting to 2,131 million euro at 31 December 2020 (2,018 million euro at 31 December 2019) are broken down as follows:

(thousands of euro)	31/12/2020				31/12/2019			
Items/Figures	Amortisation and depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b+c)	Amortisation and depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b+c)
Property, plant and equipment	**1,513,574**	**19,091**	**(1,143)**	**1,531,522**	**1,440,332**	**32,391**		**1,472,723**
- Owned	*1,478,216*	*19,091*	*(1,143)*	*1,496,164*	*1,412,573*	*32,391*		*1,444,964*
- Right of use acquired under leases ex IAS 17	*332*			*332*	*643*			*643*
- Right of use acquired under leases IFRS 16	*35,026*			*35,026*	*27,116*			*27,116*
Intangible assets	**589,437**	**10,135**		**599,572**	**543,231**	**1,908**		**545,139**
- Owned	*589,437*	*10,135*		*599,572*	*543,231*	*1,908*		*545,139*
- Right of use acquired under leases IFRS 16								
Total	**2,103,011**	**29,226**	**(1,143)**	**2,131,094**	**1,983,563**	**34,299**		**2,017,862**

The increase in the item is mainly attributable to the entry into service of new TERNA Group plants, in addition to the contribution of the subsidiary Brugg Cables.

33 a. Net impairment/ recoveries of trade receivables and other receivables

This item, introduced following the adoption of IFRS 9, is equal to -2.2 million euro (+35.6 million euro at 31 December 2019) and essentially refers to the SNAM Group.

34. Other operating costs

Other operating costs, which amounted to 225 million euro at 31 December 2020 (115 million euro at 31 December 2019), are shown in the table below:

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
Indirect duties and taxes	29,425	19,740
Losses from cancellation of property, plant and machine and intangible assets	21,909	21,813
Service quality charges	16,587	3,897
Net provision for risks and charges	78,663	22,002
Other costs	78,067	47,445
Total	**224,651**	**114,897**

The change compared to the previous year (+110 million euro) is due to:

- the increase in net accruals to provisions for risks and charges (+57 million euro), mainly referring to the ITALGAS group;
- the increase in other costs (+31 million euro) mainly relating to the SNAM group.

C. FINANCIAL INCOME (EXPENSE)

35. Financial income

Financial income, amounting to 53 million euro (31 million euro at 31 December 2019) was broken down as follows:

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
Interest income and other financial income	47,385	23,776
- of which: interest income on finance lease		
Interest income on hedging derivatives	3,439	370
Income on trading activities		
Income on hedging transactions	9	4,791
Financial income on disposal and repurchase		
Fair value gains of financial assets measured at fair value		
Recoveries for credit risk relating to financial assets at fair value	1	111
Other financial income	1,934	2,362
Total	**52,768**	**31,410**

36. Financial expenses

Financial expenses recognised at 31 December 2020 amounted to 426 million euro (411 million euro at 31 December 2019) and are broken down as follows:

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
Interest expenses and other charges	322,408	359,615
- of which: interest expenses on bonds	*249,591*	*281,786*
- of which: interest expense on finance lease	*1,408*	*1,257*
Interest expenses on hedging derivatives	2,799	5,811
Exchange rate differences	4,034	5,783
Financial expenses from trading activities	52,312	
Financial expenses from hedging activities	25,239	10,674
Financial expenses on disposal and repurchase	18,007	28,834
Fair value losses of financial assets measured at fair value		
Adjustments for credit risk relating to financial assets	1,054	638
Other financial expenses		
Total	**425,853**	**411,355**

37. Portion of income / (expenses) from equity investments accounted for using the equity method

Income and expenses from equity investments, amounting to 182 million euro at 31 December 2020 (182 million euro at 31 December 2019) consisted of the following:

(thousands of euro)	31/12/2020				31/12/2019			
	Joint	Associates	Other	Total	Joint	Associates	Other	Total
A. Income	**131,616**	**64,826**	**1,655**	**198,097**	**146,412**	**44,101**		**190,513**
1. Income	131,616	64,826		196,442	146,412	44,101		190,513
- Net equity valued investments	131,616	64,826		196,442	146,412	44,101		190,513
- Other investments								
2. Gains on disposal								
3. Writebacks								
4. Other			1,655	1,655				
B. Charges	**(11,230)**	**(4,365)**	**(833)**	**(16,428)**		**(8,077)**		**(8,077)**
1. Impairment		(3,996)		(3,996)		(8,077)		(8,077)
- Net equity valued investments		(3,996)		(3,996)		(8,077)		(8,077)
- Other								
2. Impairment adjustments								
3. Losses on disposal								
4. Other	(11,230)	(369)	(833)	(12,432)				
Total	**120,386**	**60,461**	**822**	**181,669**	**146,412**	**36,024**		**182,436**

For further information see paragraph "4. Equity investments" of these notes.

37a. Other income (expenses) from equity investments

There were no other income (expenses) from equity investments at 31 December 2020.

D. TAXES FOR THE PERIOD

38. Taxes for the period

Taxes for the year amounted to 728 million euro (731 million euro at 31 December 2019) and were broken down as follows:

(thousands of euro) Items/Figures	31/12/2020	31/12/2019
1. Current taxes (+/-)	911,295	868,135
2. Change in current taxes from previous years (+/-)	(7,185)	(1,874)
3. Reduction of current taxes for the year (+)	(2,089)	
4. Change in deferred tax assets (+/-)	(35,482)	(3,010)
5. Change in deferred tax liabilities (+/-)	(138,489)	(131,848)
Taxes for the period	**728,050**	**731,403**

Reconciliation between theoretical and actual tax liability: IRES

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
Income (loss) before taxes	**3,502,816**	**2,406,236**
IRES theoretical tax liability (24.0%)	(840,676)	(839,709)
Increase in taxes	**(99,451)**	**(62,224)**
- non deductible interest expenses 4%	(7,012)	(6,796)
- temporary non deductible differences	(32,006)	(26,265)
- permanent non deductible differences	(30,654)	(5,155)
- equity investments impairment		
- adjustments on receivables		
- effect of different foreign rates (-)	(253)	
- additional IRES tax (so called "Robin Hood tax")		
- technical reserves		
- exchange rate differences		
- other changes	(29,526)	(24,008)
Decreases in taxes	**179,997**	**179,935**
- dividends 95% exempt	140,781	158,180
- non-taxable income		
- ACE benefit	15,760	9,191
- temporary differences	781	
- prior period deductible expenses		
- IRAP deduction	2,192	
- staff bonuses		
- technical reserves		
- use of accruals	4,770	
- exchange rate differences	251	
- effect of different foreign rates (+)		
- other changes	15,462	12,564
IRES Actual tax liability	**(760,130)**	**(721,998)**

Reconciliation between theoretical and actual tax liability: IRAP

(thousands of euro)

Items/Figures	31/12/2020	31/12/2019
IRAP tax base	**3,074,932**	**3,011,797**
IRAP theoretical tax liability 5.57%	(171,274)	(167,757)
Increases in taxes	**(17,456)**	**(3,412)**
- non deductible interest expenses 4%	(67)	(63)
- other non deductible expenses	(10,121)	(389)
- effect of different regional tax rates (-)	(7,268)	(2,960)
Decreases in taxes	**37,565**	**25,032**
- prior period deductible expenses (+)		
- deductible employees costs		
- decreases	6,250	738
- effect of different regional tax rates (+)	31,315	24,294
- IRAP surcharge		
IRAP Actual tax liability	**(151,165)**	**(146,137)**

E. INCOME (LOSS) ON CONTINUING OPERATIONS

39. Income (loss) on discontinued operations

There was no income (loss) on discontinued operations at 31.12.2020.

IV – BUSINESS COMBINATIONS

IV.1 TRANSACTIONS IN THE PERIOD

The following business combinations of relevance for the CDP RETI Group were carried out during 2020.

(thousands of euro) Company name	Date of transaction	(1)	(2)	(3)	(4)
Brugg Kabel AG	20/02/2020	26,196	90%	9,805	392
Evolve S.r.L.	05/10/2020	14,201	100%	23,786	654
MIECI S.p.A.	05/10/2020	59,026	100%	46,802	5,099

(1) = Cost of transaction
(2) = Percentage of voting rights in the Ordinary Shareholders' Meeting
(3) = Total group revenues
(4) = Group net Profit (Loss)

Acquisition of Brugg Kabel AG

On 29 February, to implement the preliminary agreement signed on 20 December 2019, Terna S.p.A., through its subsidiary Terna Energy Solutions S.r.l., acquired 90% of Brugg Kabel AG (Brugg Group), one of the main European operators in the terrestrial cable sector, active in the design, development, construction, installation and maintenance of electrical cables of all voltages and accessories for high voltage cables.

The acquisition of Brugg Kabel enables Terna S.p.A. to equip itself with a centre of excellence for research, development and testing in one of the core technologies for the TSO, i.e. terrestrial cables.

In particular, for Terna S.p.A. the transaction represents an opportunity to quickly integrate core skills, by acquiring an entity which features:

- specialisation on 150kV cables with standards in line with those required by Terna;
- production capacity of HV cables in line with Terna requirements;
- know-how developed over more than 120 years and extensively tested by Terna;
- potential significant synergies with the Group's Non-Regulated Activities.

It should be noted that Terna's Development Plan, in line with the objectives of greater sustainability and resilience of the national transmission grid, envisages doubling of the terrestrial cable stock in the next 10 years; consequently, the development of distinctive expertise in the underground cable sector to support cable design and construction activities, as well as O&M, may represent a crucial point in Terna's future.

There were 381 Company employees at 31 December 2020.

The closing of the transaction, which Terna S.p.A. funded with its own resources, was finalised via the subsidiary Terna Energy Solutions S.r.l.. The preliminary value for the acquisition of 90% of the equity investment was 24.9 million CHF, net of the Purchase Adjustment Price of around 1 million CHF and payment of an additional amount of 0.5 million CHF within the second year from the acquisition date.

The table below shows the consideration paid for the acquisition of the business unit, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction.

(thousands of euro) Items/Figures Assets	Carring amount	Adjustment	Fair value
Cash and cash equivalents	21,848		21,848
Property, plant and equipment	55,722	22,527	78,249
Intangible assets		9,665	9,665
Financial assets	6,043		6,043
Tax assets	51,390		51,390
Other assets	88,570		88,570
Total acquired assets	**176,265**	**38,128**	**214,393**
Liabilities			
Bank financial liabilities			
Non current financial liabilities	56,280		56,280
Tax liabilities	4,720	11,730	16,450
Other liabilities	34,928		34,928
Provision for risks and charges	7,550		7,550
Non controlling interests (+/-)			
Total acquired liabilities	**103,478**	**11,730**	**115,208**
Acquired net assets	**72,787**	**26,398**	**99,185**
Badwill		72,989	72,989
Business combination cost	**72,787**	**(46,591)**	**26,196**

Acquisition of Evolve S.r.l. and Mieci S.p.A.

On 5 October 2020, Snam, through its subsidiary Snam 4 Efficiency, completed the acquisition of a 70% stake in Mieci S.p.A.[53] and Evolve S.r.l., companies operating in the energy efficiency sector in Italy.

At the acquisition date, on the basis of the contractual terms according to which the exercise of the put and call options on non-controlling interests (amounting to 30%) are governed, the transaction was accounted for as if Snam had acquired 100% control of both companies, without therefore recognising any non-controlling interests.

The tables below show the consideration paid for acquisition of the companies, and give a breakdown of the assets acquired and liabilities assumed at the date of the transaction.

Evolve S.r.l.

(thousands of euro) Items/Figures Assets	Carring amount	Adjustment	Fair value
Cash and cash equivalents	1,580		1,580
Property, plant and equipment	1,378		1,378
Intangible assets	7	9,848	9,855
Equity investments	605		605
Tax assets			
Other assets	24,590		24,590
Total acquired assets	**28,160**	**9,848**	**38,008**
Liabilities			
Financial liabilities	11,984		11,984
Tax liabilities	225	2,748	2,973
Other liabilities	7,996		7,996
Severance pay	854		854
Total acquired liabilities	**21,059**	**2,748**	**23,807**
Acquired net assets	**7,101**	**7,100**	**14,201**
Goodwill			
Business combination cost	**7,101**	**7,100**	**14,201**

[53] Includes the subsidiary T. Lux S.r.l.

Mieci S.p.A.

(thousands of euro) Items/Figures Assets	Carring amount	Adjustment	Fair value
Cash and cash equivalents	14,873		14,873
Property, plant and equipment	559		559
Intangible assets	49	30,603	30,652
Financial assets	981		981
Tax assets	111		111
Other assets	32,811		32,811
Total acquired assets	**49,384**	**30,603**	**79,987**
Liabilities			
Financial liabilities	13,985		13,985
Tax liabilities	236	8,538	8,774
Other liabilities	9,788		9,788
Severance pay	657		657
Total acquired liabilities	**24,666**	**8,538**	**33,204**
Acquired net assets	**24,718**	**22,065**	**46,783**
Goodwill		12,243	12,243
Business combination cost	**24,718**	**34,308**	**59,026**

IV.2 BUSINESS COMBINATIONS CARRIED OUT AFTER THE REPORTING DATE

No business combinations were completed in the period running from the reporting date of the consolidated financial statements to the date of their approval by the Board of Directors.

V – TRANSACTIONS WITH RELATED PARTIES

V.1 INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table provides the remuneration amounts for 2020 paid to members of the management and control bodies, and key management personnel of the Parent Company and of the companies that are consolidated on a line-by-line basis.

Remuneration of key management personnel

(thousands of euro)	31/12/2020			
Items/Figures	Directors	Board of auditors	Key management personnel	Total
a) short-term benefits	8,784	1,831	11,344	21,959
b) post-employment benefits	273		598	871
c) other long-term benefits	530		3,563	4,093
d) severance benefits			2,566	2,566
e) share-based payments	2,309		1,490	3,799
Total	**11,896**	**1,831**	**19,561**	**33,288**

V.2 INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

This paragraph provides the disclosures required pursuant to IAS 24 concerning transactions concluded in 2020 between the CDP RETI Group and related parties.

The related parties of the CDP RETI Group are:

- the Ministry of the Economy and Finance (MEF) and the Group's direct and indirect subsidiaries and associates;
- the companies of the CDP Group, including companies subject to joint control or under significant influence, and their subsidiaries;
- the companies of the CDP RETI Group subject to joint control or under significant influence, and their subsidiaries;
- the company State Grid Europe Limited, which exercises significant influence over the parent company CDP RETI;

- key management personnel of the CDP RETI Group, their close family members and any companies controlled by them, even jointly;
- post-employment benefit plans for employees of the CDP RETI Group.

The following table shows the assets, liabilities, guarantees and commitments as well as the financial transactions as at 31 December 2020, broken down by type of related party

Transactions with related parties

(thousands of euro) Items/values	CDP	CDP RETI Group subsidiaries and associates	CDP Group subsidiaries and associates	MEF and MEF subsidiaries and associates	Key management personnel	Other	31/12/2020 Total transactions with related parties	Financial statement item Total	% Impact
Non-current financial assets		307,199					307,199	936,372	33%
Other non-current assets			334				334	237,137	0%
Current financial assets	9,446	184					9,630	655,178	1%
Trade receivables		26,308	391,821	361,701			779,830	3,408,105	23%
Other current assets		11,921	21,312	21,150			54,383	456,346	12%
Cash and cash equivalents	5,884			117			6,001	6,469,798	0%
Total assets	**15,330**	**345,612**	**413,467**	**382,968**			**1,157,377**	**12,162,936**	**10%**
Loans	558,440		314				558,754	26,581,363	2%
Other financial liabilities								316,193	0%
Other non - current liabilities								1,563,482	0%
Current portion of long-term loans								3,180,746	0%
Trade payables	613	10,760	94,429	93,062			198,864	3,380,425	6%
Current financial liabilities	3,875						3,875	5,615,694	0%
Other current liabilities	66		8,158	10,082		2,106	20,412	1,929,231	1%
Total liabilities	**562,994**	**10,760**	**102,901**	**103,144**		**2,106**	**781,905**	**42,567,134**	**2%**
Revenues		29,541	1,603,436	2,176,187			3,809,164	7,471,431	51%
Operating costs	(1,008)	(3,585)	(56,629)	(38,329)		(3,055)	(102,606)	(4,578,039)	2%
Financial income (expense)	(9,353)	12,452	64	15			3,178	(373,085)	-1%
Income Statement items Total (before tax)	**(10,361)**	**38,408**	**1,546,871**	**2,137,873**		**(3,055)**	**3,709,736**	**2,520,307**	**n/s**
Guarantees issued		**1,129,000**	**57,749**	**757,474**			**1,944,223**		
Guarantees received									
Commitments		**113,000**					**113,000**		

Key transactions between the CDP RETI Group and its related parties concern trade relationships with the companies controlled by the MEF, as follows:

- Snam group's trade relationships with ENI and Enel referring, on one hand, to natural gas transportation, regasification and storage services at tariffs set by the Authority, and on the other hand, to electricity purchased from ENI to conduct its business operations;
- Terna group's trade relationships with Enel, concerning NTG remuneration, dispatching fees, services associated with leases, rentals, line maintenance, power line communications on owned power lines and services;
- Italgas group's trade relationships with Eni relating to natural gas distribution, real estate management services and IT-type services and services with Enel Energia relating to natural gas distribution.

A significant item of loans payable is the debt payable by the Parent Company CDP RETI to the direct Parent Company CDP.

VI - FINANCIAL RISK MANAGEMENT

With regard to the financial risks of the Parent Company CDP RETI, reference is made to the specific section of the notes to the financial statements.

With regard to enterprise risk, the main risks measured and managed at the level of the subsidiaries SNAM, ITALGAS and TERNA are indicated below.

SNAM GROUP

Financial risks

Market risk

Interest rate risk

Interest rate risk relates to fluctuations in interest rates, which may affect the market value of the company's financial assets and liabilities and the level of net financial charges.

Snam's objective is to optimise interest rate risk whilst pursuing the objectives set out in its Financial Plan.

The Snam Group has adopted a centralised organisational model. Under this model, Snam's business units cover their financial requirements through recourse to the financial markets and use funds in line with the approved objectives, ensuring that the risk profile is kept within set limits.

As at 31 December 2020, the Snam Group used external financial resources through bond issues and bilateral and syndicated loan agreements with banks and other financial institutions, in the form of medium- and long-term loans and credit facilities at interest rates indexed to benchmark market rates – in particular the Europe Interbank Offered Rate (Euribor) – or at fixed rates. As at 31 December 2020, exposure to interest rate risk, net of outstanding hedges, amounted to approximately 33% of total group exposure (24% at 31 December 2019). As at 31 December 2020, Snam had Interest Rate Swaps (IRSs), for an overall notional amount of 756 million euro, hedging a floating-rate bond of 106 million euro, maturing in 2024, and floating-rate bilateral loans totalling 650 million euro, maturing in 2021 and 2023. The IRS derivative contracts are used to convert the floating-rate loans into fixed-rate loans.

In addition, as at 31 December 2020, Snam had IRS Forward Starting derivative contracts for an aggregate notional value of 250 million euro, with a medium-/long-term tenor, to cover highly likely prospective financial liabilities that will be assumed until 2021 to cover financial requirements. While the Snam Group has put in place a proactive risk management policy, the rise in interest rates relating to floating-rate debt not hedged against interest rate risk might have adverse impacts on the Snam Group's business and balance sheet and cash flow situation. Although the Snam Group's exposure to changes in interest rates is limited to 33% of the Group's total exposure and is fully linked to the Euribor rate, a change in the method of calculating the Euribor rate and any related fallback clauses that may be introduced, could result in the need for the Snam Group to amend the financial agreements affected by the change and/or the management of future cash flows.

Exchange rate risk

With regard to the risk of exposure to changes in exchange rates, due to the current circumstances, at present the Snam Group's exposure is small with regard to transaction risk, while it still has exposure to translation risk in relation to several foreign subsidiaries that prepare their financial statements in currencies other than the euro. For the time being, it has been decided not to adopt specific hedging policies for these exposures. In this regard, it should be noted that the effects of exchange rate differences arising from the difference in translation into the presentation currency (euro) of the functional currencies of these companies are recognised in the statement of comprehensive income.

Credit risk

Credit risk is the company's exposure to potential losses arising from a counterparty defaulting on its obligations. The non-payment or delayed payment of any amounts due may negatively impact Snam's performance and financial balance. With respect to the risk of counterparty default in commercial agreements, credit management is the responsibility of Snam's business units and of its centralised functions in charge of debt collection and dispute management. With regard to regulated activities, which, at present, account for almost the majority, Snam provides its business services to approximately 220 gas sector operators. The top 10 operators account for about 68% of the whole market (Eni, Edison and Enel Global Trading hold the top three positions in the ranking). The rules governing the customers' access to the services offered are established by the Authority and are provided for in the Network Codes, which set out, for each type of service, the duties and responsibilities of the parties selling and providing the services, as well as the contractual clauses that significantly reduce the risk of non-compliance by customers. The Codes provide for the issue of guarantees covering the obligations undertaken. In specific cases, the issue of said guarantees can be mitigated when the customer has a credit rating issued by a major international rating agency. The regulatory framework also provides for specific clauses to guarantee the neutrality of the Balancing activity operator, a role held by Snam Rete Gas as a major transmission service operator since 1 December 2011. More specifically, the current balancing rules require that, on a cost-effective basis, Snam focuses primarily on purchases and sales on the GME balancing platform to guarantee the resources needed for safe and efficient transport of gas from the feed points to the draw points, to ensure the constant balance of the network.

With regard to non-regulated activities, which will become increasingly significant over the plan period, the company, through its centralised functions, carries out a prior analysis of the financial soundness of the counterparties in order to minimise this risk.

The maximum exposure to credit risk for Snam at 31 December 2020 is equal to the carrying value of the financial assets recognised in the consolidated financial statements of the Snam Group at 31 December 2020.

The net carrying amount of the receivables past-due at 31 December 2020, of 194 million euro, mainly relates to the storage sector (77 million euro), primarily linked to VAT invoiced to users for the use of strategic gas unduly charged and not repaid to them in 2010 and 2011 in accordance with the terms established by the Storage Code.

About 34% of trade receivables (39% at 31 December 2019) refers to highly reliable customers, such as Eni, which represents 11% of the total trade receivables (16% at 31 December 2019). The ongoing spread of COVID-19 combined with the macroeconomic scenario could cause situations of financial stress or a slowdown in operations for some customers and suppliers, which, in turn, could have repercussions on Snam's assets and/or liabilities. Likewise, a slowdown in operations and a similar contextual risk is also possible for the development of the energy transition activity, with repercussions on receipts and payments, although, at present, the value of these is extremely limited compared against the entire scope of the Snam group.

Liquidity risk

Liquidity risk is the risk that, due to the inability to raise new funds (funding liquidity risk) or to liquidate assets on the market (asset liquidity risk), the company may be unable to fulfil its payment commitments, resulting in an impact on income if the company is forced to sustain additional costs to meet such commitments or, as an extreme consequence, in a condition of insolvency that puts the continuation of company business at risk. Snam's Risk Management goal is to implement, in its financial plan, a financial structure that, in line with business objectives, guarantees an adequate level of liquidity for the Group, minimising opportunity cost and maintaining an optimal profile in terms of debt maturity and composition. The financial market is characterised by an increasing availability of sources of funding for companies that are able to improve the environmental impact of their investments. The interest of investors is linked and subject to the ability of these companies to achieve specific environmental sustainability goals. With a view to ensuring the proper management of the liquidity risk, the diversification of sources of funding, including through use of sustainable financial instruments, is therefore vital to ensure that companies have wide access to financial markets at competitive conditions, with resulting positive effects on their financial position and performance of operations. Likewise, Snam's failure to meet the KPIs for ESG - within the scope of the Group's general goal to make its business more sustainable over the medium-long term - could in future result in higher borrowing costs or lack of access to certain sources of funding. The mitigation of this risk is further aided by Snam's strong focus on ESG issues, which traditionally form an important and structured part of its business strategy.

In line with this approach, in 2018 Snam converted syndicated credit facilities worth 3.2 billion euro into a sustainability-linked loan - the third largest sustainability-linked loan ever to be entered into in the world and the largest by a gas utility. The loan includes bonus / malus mechanisms subject to meeting specific KPIs for ESG (Environment, Social, Governance). Snam also issued (i) its first Climate Action Bond for 500 million euro, in February 2019, (ii) its first Transition bond, the second in Europe and the first to be issued by a gas transport utility, for a further 500 million euro in June 2020, and (iii) a second Transition Bond for 600 million euro, the longest zero-coupon bond issued by an Italian issuer, in December 2020. The bonds will finance investments in environmental sustainability and energy transition. Lastly, in 2020, Snam renewed its Euro Commercial Paper programme, increasing it from 2 billion euro to 2.5 billion euro and linking it to environmental and social sustainability objectives in line with the sustainable loan and obtaining an ESG rating of EE for the instrument from the ESG rating company Standard Ethics. As noted in the paragraph 26.2 "Interest rate risk", the Company has accessed a large range of funding sources through the credit system and the capital markets (bilateral contracts, syndicated loans by major national and international banks, loan agreements funded by the European Investment Bank - EIB, bonds and Commercial Papers).

Snam's objective is to maintain a balanced debt structure, in terms of subdivision into bonds and bank loans and in terms of availability of committed bank loan facilities, in line with Snam's business profile and regulatory framework.

As at 31 December 2020, Snam had unused long-term committed credit facilities totalling approximately 3.2 billion euro. Moreover, at the same date Snam had a Euro Medium Term Notes (EMTN) programme for an overall maximum nominal value of 11 billion euro, used for approximately 8.2 billion euro, as well as a Euro Commercial Paper (ECP) Programme for an overall maximum nominal value of 2.5 billion euro, fully used at 31 December 2020.

Snam's cash and cash equivalents mainly refer to current accounts and promptly collectable bank deposits.

The Group's main long-term financial debt instruments contain covenants typically used in international practice, which include negative pledge and pari passu clauses. Failure to comply with these clauses or the occurrence of other events, e.g. cross-default events, may result in Snam's failure to comply and could trigger the early repayment of the related loan, resulting in additional costs and/or problems of liquidity. These commitments do not include covenants requiring compliance with economic and/or financial ratios.

Among the factors that determine the risk perceived by the market, the credit rating, assigned to Snam by the rating agencies, plays a decisive role because it affects the company's ability to access sources of funding and the related financial conditions. A deterioration of this credit rating could therefore limit access to the capital market and/or result in an increase in the cost of sources of funding, with consequent adverse effects on the Group's earnings, cash flows and financial position.

Snam's long-term rating is: (i) Baa2 with stable outlook, confirmed on 11 January 2021 by Moody's Investors Services; (ii) BBB+ with stable outlook, confirmed on 22 February 2021 by Standard & Poor's Global Rating ("S&P"); (iii) BBB+ with stable outlook, confirmed on 22 January 2021 by Fitch Ratings ("Fitch"). Snam's long-term rating by Moody's and Standard & Poor's is one notch above that of the Italian Republic, two notches above by Fitch. Based on the methodology adopted by Moody's and S&P, the downgrade by one notch of the Italian Republic's current rating would trigger a likely equivalent downgrade of Snam's current rating. Snam's short-term rating - used in the context of its Commercial Paper programme - is P-2 for Moody's, A-2 for S&P and F2 for Fitch. Although the Snam Group enters into transactions with diversified counterparties of high credit standing based on a risk management policy and the constant monitoring of their credit risk, the default by any counterparty or the difficulty of liquidating assets on the market may have adverse impacts on the Snam Group's business and financial position and performance.

TERNA GROUP

In the course of its operations, the Terna group is exposed to a variety of financial risks: market risk, liquidity risk and credit risk.

In this section, information is provided on the TERNA group's exposure to risks, as well as the aims, policies and processes for managing those risks and the methods used to measure them.

The group's risk management policies seek to identify and analyse the risks to which the group companies are exposed, establish their limits and create a system to monitor them. These policies and the related systems are reviewed on a regular basis in order to take account of any changes in market conditions or in the operations of group companies.

The exposure of the TERNA group is largely represented by the exposure of the parent company. As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically with respect to the instruments to be used and the precise operating limits in managing them.

	31/12/2020			31/12/2019		
(millions of euro)	Loans carried at amortized cost	Hedging derivatives	Total	Loans carried at amortized cost	Hedging derivatives	Total
Assets						
Derivative financial		94.2	94.2		45.1	45.1
Cash and equivalent	2,689.0	611.4	3,300.4	1,057.4	513.3	1,570.7
Trade receivables	1,245.2		1,245.2	1,290.7		1,290.7
Total	**3,934.2**	**705.6**	**4,639.8**	**2,348.1**	**558.4**	**2,906.5**

	31/12/2020			31/12/2019		
(millions of euro)	Payables carried ad amortised cost	Hedging derivatives	Total	Payables carried ad amortised cost	Hedging derivatives	Total
Liabilities						
Long-term debt	11,248.2		11,248.2	9,607.2		9,607.2
Derivative financial		160.4	160.4		160.4	160.4
Trade payables	2,217.3		2,217.3	2,445.2		2,445.2
Total	**13,465.5**	**160.4**	**13,625.9**	**12,052.4**	**160.4**	**12,212.8**

Financial risks

Market and financial risks of the group

In the course of its operations, the Terna group is exposed to a variety of financial risks: market risk, liquidity risk and credit risk.

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risk comprises three forms of risk: exchange rate risk, interest rate risk and inflation risk.

Risk management must pursue the objective of minimising the risks in question by selecting counterparties and instruments compatible with the corporate Risk Management policy. Speculative activity is not envisaged in the corporate mission.

The Terna Group intends to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aiming at minimising risk through continuous monitoring of financial markets in order to execute planned recourse to new debt and hedging transactions in favourable market conditions. The dynamic approach makes it possible to take action to improve existing hedges where changing market conditions or changes in the hedged item make the latter unsuitable or unduly expensive.

The fair value of instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (level 2) by means of appropriate valuation models for each category of financial instrument, using market data as at the end of the financial year (such as interest rates, exchange rates and volatility) and discounting projected cash flows on the basis of the market yield curve at the reporting date.

Interest Rate Risk

Interest rate risk is represented by the uncertainty associated with changes in interest rates. It is the risk that a change in market interest rates could have an impact on the fair value or future cash flows of financial instruments.

In conducting its operations, the Group is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk derives from items of net financial debt and the associated hedging positions in derivatives, which generate financial expenses. Terna's borrowing strategy focused on debt instruments with long-term maturities reflecting the useful life of the company's assets. It also pursued an interest rate risk hedging policy that aimed to cover at least 40% of fixed-rate debt, as established in the company's policies. At the end of 2020, the fixed-rate group debt was 85%.

As at 31 December 2020, interest rate derivatives are fair value hedge derivatives and cash flow hedge derivatives, used to hedge the risk of changes in the cash flows associated with long-term loans.

The following table shows the notional amounts and the fair value of derivatives entered into by the Terna Group:

	31/12/2020		31/12/2019		Change (+ / -)	
(millions of euro)	Notional	Fair value	Notional	Fair value	Notional	Fair value
FVH derivatives	1,600.0	45.0	1,600.0	45.0		
CFH derivatives	4,079.9	(253.8)	3,794.0	(160.4)	285.9	(93.4)

The notional amounts of CFH derivatives as at 31 December 2020, amounting to 4,079.9 million euro, are broken down as follows:

- 1,111.9 million euro (fair value equal to -6.4 million euro) maturing in 2021;
- 300.0 million euro (fair value equal to -0.3 million euro) maturing in 2022;
- 100.0 million euro (fair value equal to -0.2 million euro) maturing in 2023;
- 1,250.0 million euro (fair value equal to -114.1 million euro) maturing in 2027;
- 1,300.0 million euro (fair value equal to -130.2 million euro) maturing in 2028;
- 18.0 million euro (fair value equal to -2.6 million euro) relative to the subsidiary Difebal, maturing in 2032.

The notional amounts of FVH derivatives as at 31 December 2020, amounting to 1,600.0 million euro, are broken down as follows:

- 850.0 million euro (fair value equal to +43.7 million euro) maturing in 2027;
- 750.0 million euro (fair value equal to +50.5 million euro) maturing in 2028.

Sensitivity to interest rate risk

To manage its interest rate risk, after restructuring its derivatives portfolio, Terna has implemented a floating-to-fixed interest rate swap (CFH) to neutralise the risk inherent in expected future cash flows.

Since the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, initially and periodically verified, is high, Terna chose to apply hedge accounting in order to ensure perfect time matching between the hedge and the hedged item. The purpose of hedge accounting is to recognise simultaneously the income statement effects of the hedges and the hedged item. As a result, for CFH derivatives, the fair value changes of the derivative must be recognised in “Other comprehensive income” (immediately recognising any ineffective portion in profit or loss) and then derecognised from Equity and recognised in profit or loss in the same period in which the cash flows relating to the hedged item have an impact on income. The characteristics of the CFH derivative contracts in place mirror those of the underlying hedged items; therefore, the related cash flows shall occur at the same maturities as the interest on debt, with no impact of fair value changes on the income statement.

The following table shows: the amounts recognised in the income statement and in “Other comprehensive income” in respect of positions sensitive to changes in interest rates; the theoretical value of those positions following a positive or negative shift in the market yield curve; and the differential impact of those changes recognisable in the income statement and in “Other comprehensive income”. A hypothetical 10% variation (increases and decreases) in the yield curve with respect to market interest rates at the reporting date has been assumed.

	Net income or loss			Equity		
(millions of euro)	Current rates +10%	Current values	Current rates -10%	Current rates +10%	Current values	Current rates -10%
31 December 2020						
Positions sensitive to changes in interest rates (FVH, bonds, CFH)	(4.0)	(4.1)	(4.2)	(85.1)	(93.4)	(101.7)
Hypothetical change	*0.1*		*(0.1)*	*8.3*		*(8.3)*
31 December 2019						
Positions sensitive to changes in interest rates (FVH, bonds, CFH)	2.4	5.4	8.4	(98.8)	(101.2)	(103.7)
Hypothetical change	*(3.0)*	-	*3.0*	*2.4*		*(2.4)*

Global regulators have begun reforming the IBOR (Interbank Offered Rates) indices, which are the benchmark indices for most financial instruments traded worldwide, in order to restore the reliability and robustness of the benchmarks. Given the high levels of uncertainty regarding the timing of the reform during the transition phase, the Group continues to closely monitor the market and the results generated by the various industry working groups managing the transition to the new benchmark rates, including the announcements made by the regulators regarding the transition from LIBOR to SOFR (Secured Overnight Financing Rate) and from EURIBOR to ESTER (Euro Short-term Rate). Management is aware of the associated risks and accordingly activities are planned to complete the transition in parallel with the changes in the applicable regulations. In addition, all new financial agreements include fallback clauses governing the transition period.

Inflation risk

As regards inflation rate risk, the rates established by the Regulator to remunerate Terna S.p.A.’s activities are determined so as to allow coverage of the sector’s recognised costs. These cost components are updated each year to reflect the accrued impact of inflation. In 2007, the Company used an inflation-linked bond issue, thereby obtaining a partial hedge on net income for the year: any decrease in expected revenues due to a decrease in the inflation rate is partially offset by lower financial expense.

Exchange rate risk

Exchange rate risk management must be carried out with the aim of defending the company’s profitability from the risks of exchange rate fluctuations through continuous market control and constant monitoring of existing exposure. To manage this risk, each time, Terna selects the financial hedging instruments with structural and duration characteristics consistent with the group's exposure to foreign currencies. The instruments used by Terna are those with limited complexity, high liquidity and ease of pricing, such as forward contracts and options. The group’s existing contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from an appreciation or depreciation of the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.

As at 31 December 2020, the Terna Group’s Income Statement exposure to exchange rate risk was residual and due to the subsidiaries Tamini and Brugg.

Liquidity risk

Liquidity risk is the risk that the Terna group might experience difficulties in discharging its obligations in respect of its financial liabilities and operational cycle. Liquidity risk management seeks to ensure adequate coverage of cash needs by obtaining adequate lines of credit and appropriately managing any surplus liquidity. As at 31 December 2020, the Group had approximately 619 million euro available in short-term credit lines (out of total credit lines of around 1,243 million euro), 2,650 million euro in revolving credit lines and around 347 million euro in loans signed, but not yet disbursed.

Credit risk

Credit risk is the risk that a customer or one of the counterparties to a transaction in financial instruments could cause a financial loss by failing to discharge an obligation. It is mainly generated by the Group's trade receivables and financial investments.

The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since, in compliance with financial risk management policies, the counterparties are leading international credit institutions with high ratings.

Terna essentially renders its services to counterparties considered solvent by the market and hence with a high credit standing, and avoids concentrations of credit risk.

Credit risk management is also compliant with Resolution no. 111/06 of the Italian Regulatory Authority for Energy, Networks and the Environment (Autorità di Regolazione per Energia Reti e Ambiente, ARERA), which, at Article 49, introduced instruments to limit the risks linked to the insolvency of dispatching customers, both on a preventive basis and in the event of actual insolvency. In particular, the Resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their turnover), the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee to be defined by ARERA where necessary.

At the end of the year, this exposure was as follows:

(millions of euro)	31/12/2020	31/12/2019	Change (+ / -)
FVH derivatives	94.2	45.0	49.2
Cash and cash equivalents and other financial assets	2,689.0	1,057.4	1,631.6
Trade receivables	1,245.2	1,290.7	(45.5)
Total	**4,028.4**	**2,393.1**	**1,635.3**

Default risk and debt covenants

This risk is associated with the possibility that the loan contracts or bond rules to which the parent company is party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk.

Bank Guarantees

The amount of bank guarantees issued to third parties on behalf of the Group companies as at 31 December 2020 totalled 265.3 million euro, subdivided as follows: 86.0 million euro on behalf of Terna S.p.A., 60.9 million euro on behalf of the company Tamini Trasformatori S.r.l., 59.4 million euro on behalf of the company Terna Rete Italia S.p.A., 39.2 million euro on behalf of the company Terna Interconnector S.r.l., 6.1 million euro on behalf of the company Terna Plus S.r.l., 5.1 million euro on behalf of the company Santa Lucia S.A., 4.1 million euro on behalf of the company Difebal S.A., 2.4 million euro on behalf of the company Terna Perù SAC, 1.0 million euro on behalf of the company Santa Maria SA, 0.7 million euro on behalf of the company Terna Energy Solutions S.r.l., 0.3 million euro on behalf of the company Avvenia The Energy Innovator S.r.l. and 0.1 million euro on behalf of the company Terna Chile S.p.A.

ITALGAS GROUP

The main risks subject to analysis and monitoring by the Italgas group are detailed below.

Financial risks

Interest rate risk

Interest rate fluctuations affect the market value of the company's financial assets and liabilities and the level of net financial charges. The Italgas Group has adopted a centralised organisational model. In accordance with this model, Italgas' various departments access the financial markets and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile is contained within set limits.

Any increase in interest rates not included wholly or partly in the regulatory WACC could have negative effects on the business, financial position and results of the Italgas Group for the variable component of the outstanding debt and for future loans.

Italgas' aim is to maintain a fixed-to-floating rate debt ratio that minimises the risk of a rise in interest rates.

At 31 December 2020, 13.5% of the financial debt was carried at a floating rate and 86.5% was carried at a fixed rate.

At the same date, the Italgas Group was using external financial resources in the following forms: bond issues subscribed by institutional investors, syndicated loans with banks and other financial institutions, in the form of medium- to long-term loans, and, lastly, bank credit lines indexed to benchmark market rates, in particular the Europe Interbank Offered Rate (Euribor).

Fixed-rate financial liabilities amounted to 4,676.3 million euro and consisted of bonds (3,854.5 million euro), three EIB loans (745.5 million euro) and financial payables pursuant to IFRS 16 (76.3 million euro).

Fixed-rate financial liabilities increased by 497.9 million euro on 31 December 2019, mainly due to the bond issue completed in June 2020 for a nominal value of 500 million.

Floating-rate liabilities amounted to 728.8 million euro, up by 161.0 million euro due to the greater use of bank credit lines.

As at 31 December 2020, Italgas had unused committed credit facilities totalling 500 million euro, with maturity in October 2021.

At 31 December 2020 there were no loan agreements containing financial covenants and/or secured by collateral, except for the EIB loan for 90 million euro taken out by Toscana Energia which requires compliance with particular financial covenants.

Some of these contracts provide, inter alia, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations on pledging as collateral or placing other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain non-recurring transactions that the company and its subsidiaries may carry out. At 31 December 2020, these commitments had been met.

Credit risk

Credit risk is the exposure to potential losses arising from a counterparty defaulting on its obligations. The non-payment or delayed payment of any amounts due may negatively impact the performance and financial situation of Italgas.

The rules governing customers' access to the services offered are established by ARERA and are provided for in Network Codes, i.e. in documents that set out, for each type of service, the rules that govern the rights and obligations of the parties providing the services and specify the contractual clauses that reduce the risk of non-compliance by customers, such as the issue of demand bank or insurance guarantees.

It cannot be ruled out, however, that Italgas could incur liabilities and/or losses due to its customers' failure to discharge their payment obligations.

For additional considerations on the impacts associated with COVID-19, as well as the relative accounting implications with regard to measurement of assets and liabilities, refer to the subsequent note "Coronavirus Emergency".

Liquidity risk

Liquidity risk is the risk that, due to the inability to raise new funds (funding liquidity risk) or to liquidate assets on the market (asset liquidity risk), the company may be unable to fulfil its payment commitments, resulting in an impact on income if the company is forced to sustain additional costs to meet such commitments or, as an extreme consequence, in a condition of insolvency that puts the continuation of company business at risk.

Italgas does not expect significant negative impacts, considering the following: (i) the Company has available cash at leading banks amounting to about 663.5 million euro at 31 December 2020 and a committed credit facility of 500 million euro, completely unused and expiring in October 2021, signed with a pool of Italian and international banks; (ii) there are limited requirements for refinancing debt (the first repayment of a bond is scheduled for 2022); (iii) the bonds issued by Italgas at 30 June 2020, under the Euro Medium Term Notes Programme, do not require compliance with covenants relating to financial statement figures.

The financial objective of Italgas is to set up a financial structure that, consistently with its business goals, will guarantee an adequate level for the group in terms of duration and composition of the debt. That financial structure will be realised by monitoring certain key indicators, such as the ratio between debt and RAB, the ratio between short-term and medium-/long-term debt, the ratio between fixed-rate and floating-rate debt, and the ratio between firm commitment bank credit and used bank credit.

Rating risk

On 3 December 2020, the rating agencies Fitch and Moody's confirmed their rating assigned to Italgas S.p.A., respectively at BAA2 with stable outlook and BBB+ with stable outlook, for the long-term debt of the company. Based on the methodologies adopted by the rating agencies, a downgrade by one notch of the Italian Republic's current rating could trigger a downgrade in Italgas' current rating.

Default risk and debt covenants

At 31 December 2020 there were no loan agreements containing financial covenants and/or secured by collateral, except for the EIB loan taken out by Toscana Energia for an amount of 90 million euro, which requires compliance with particular financial covenants. Some of these contracts provide, inter alia, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations on pledging as collateral or placing other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain non-recurring transactions that the company and its subsidiaries may carry out. In regard to the EIB loan of Toscana Energia, see the note "Short-term financial liabilities and long-term financial liabilities". For all other loans, at 31 December 2020, these commitments had been met.

The bonds issued by Italgas as at 31 December 2020 as part of the Euro Medium Term Notes programme provided for compliance with covenants that reflect international market practices regarding, inter alia, negative pledge and pari passu clauses.

The failure to meet the commitments accompanying these loans, and in certain cases only when that default is not remedied by the stipulated deadlines, and the occurrence of other events such as, for example, cross-default events, some of which are subject to specific materiality thresholds, result in defaults by Italgas and could cause the related loan to become immediately due.

As concerns EIB financing, the contracts contain a clause whereby, in the event of a significant reduction in EBITDA resulting from the loss of concessions, this must be notified to the EIB, leading to a consultation period after which the EIB may demand early repayment of the loan.

VII – SHARE-BASED PAYMENTS

2017-2019 LONG-TERM PERFORMANCE SHARE PLAN OF SNAM S.P.A.

The Plan applies to the Chief Executive Officer and to Snam executives who hold offices that have the greatest impact on the company's financial performance or who are strategically important in terms of achieving Snam's multi-year objectives. The plan provides for three cycles of annual assignment of three-yearly targets (so-called Rolling Plan) for the years 2017, 2018 and 2019.

At the end of the three-year performance period, beneficiaries will be entitled to the free assignment of company shares if the conditions underlying the Plan are satisfied.

The maximum number of shares backing the plan is 3,500,000 shares for each year of the Plan. The Plan will end in 2022, that is, on expiry of the three-year vesting period linked to the last assignment of shares (2019).

The number of shares vested is subject to meeting the performance targets, which are measured as the average yearly performance against the parameters established for the three-year vesting period, with impact on EBITDA, adjusted net income and sustainability.

2017 award	Vesting period and performance			2020 free share award
	2017	2018	2019	

2018 award	Vesting period and performance			2021 free share award
	2018	2019	2020	

2019 award	Vesting period and performance			2022 free share award
	2019	2020	2021	

At the end of the Plan's vesting period, the beneficiaries will also receive a Dividend Equivalent, consisting in a number of additional shares equivalent to the ordinary and extraordinary dividends distributed by Snam in the vesting period, which would have accrued on the number of shares effectively assigned to the beneficiaries on the basis of their performance and in accordance with the terms and conditions set out in the Plan.

The Plan applies to the Chief Executive Officer and to Snam executives who hold offices that have the greatest impact on the company's financial performance or who are strategically important in terms of achieving Snam's multi-year objectives. The plan provides for three cycles of annual assignment of three-yearly targets (so-called Rolling Plan) for the years 2017, 2018 and 2019. At the end of the three-year performance period, beneficiaries will be entitled to the free assignment of company shares if the conditions underlying the Plan are satisfied.

The maximum number of shares backing the Plan is 3,500,000 shares backing each three-year period of the Plan. The Plan will end in 2022, that is, on expiry of the three-year vesting period linked to the last assignment of shares (2019).

The number of shares vested is subject to meeting the performance targets, which are measured as the average yearly performance against the parameters established for the three-year vesting period, with impact on EBITDA, adjusted net income and sustainability.

At the end of the Plan's vesting period, the beneficiaries will also receive a Dividend Equivalent, consisting in a number of additional shares equivalent to the ordinary and extraordinary dividends distributed by Snam in the vesting period, which would have accrued on the number of shares effectively assigned to the beneficiaries on the basis of their performance and in accordance with the terms and conditions set out in the Plan. The Chief Executive Officer and the other eligible executives will be subject to a lock-up period of two years on 20% of the shares assigned, as recommended in the Corporate Governance Code.

A total of 5,385,372 shares have been assigned under the Plan, of which 1,368,397 shares in relation to 2017, 2,324,413 shares in relation to 2018 and 1,692,562 shares in relation to 2019. The unit fair value of the shares, which equates to the price of the Snam shares at the grant date, was 3.8548, 3.5463 and 4.3522 euro for the shares granted respectively in 2017, 2018 and 2019. The costs, recognised as labour cost, with a balancing entry in equity reserves, amounted to 6 million euro (7 million euro in 2019).

In July 2020, a total of 1,511,470 shares were granted to Snam's senior managers under the 2017 Performance Share Plan, whose vesting period has ended, with the consequent release of the related equity reserve, established during the three-year vesting period.

2020-2022 Long-term Performance Share Plan

On 18 June 2020, the shareholders' meeting of Snam, in the ordinary session, approved the 2020-2022 Long-term Performance Share Plan, giving the powers necessary to implement the Plan to the board of directors.

2020 award	Vesting period and performance			2023 free share award
	2020	2021	2022	

2021 award	Vesting period and performance			2024 free share award
	2021	2022	2023	

2022 award	Vesting period and performance			2025 free share award
	2022	2023	2024	

The Plan applies to the Chief Executive Officer and to Snam executives who hold offices that have the greatest impact on the company's financial performance or who are strategically important in terms of achieving Snam's multi-year objectives, as well as any additional positions identified in relation to the performance achieved, the available skills or with a view to retention, up to a maximum of 100 beneficiaries.

The Plan provides for three annual awards over the period 2020-2022. Each award is subject to a three-year vesting period. As a result, the shares, if any, are granted between 2023 and 2025, as shown below.

The board of directors set the maximum number of shares backing each three-year period of the Plan to 3,500,000. The Plan will end in 2025, that is, on expiry of the vesting period of the last assignment set for 2022.

The Plan includes free shares granted in variable numbers in relation to the individual assignment and the degree to which the performance targets of the Plan are met. The number of shares vested is subject to meeting the performance targets, verified for all the beneficiaries at the end of each three-year vesting period, upon completion, by the Remuneration Committee, of a thorough process of assessment of the results achieved.

The Plan's performance targets, measured according to a linear interpolation criterion among the minimum, target and maximum values, are linked to the following parameters:

- Accumulated adjusted net income in the three-year period corresponding to the Performance Period, with a weight of 50%;
- Added Value which reflects the value generation of the regulated business, calculated as a change in the RAB in the three-year period corresponding to the Performance Period, added to the dividends distributed, the treasury shares repurchased and reduced by the change in net debt;
- ESG Metric, with a weight of 20%, measured through the results achieved with regard to 2 indicators, aiming to:
  - reduce natural gas emissions in the three-year period corresponding to the Performance Period (weight of 10%);
  - ensure fair representation of the least present gender in Snam's management team (weight of 10%), in terms of % of senior and middle manager positions of the least represented gender on the total of senior and middle manager positions of the Group.

An additional number of shares is also envisaged - defined as dividend equivalent - to be allocated based on the shares actually granted at the end of the vesting period. The number of additional shares to be assigned is determined by dividing the sum of the dividends distributed during the vesting period by the average share price recorded in the month preceding the allocation. For the Chief Executive Officer and the other beneficiaries of the Plan, 20% of the granted shares, gross of those necessary to comply with the tax expense, will be subject to a lock-up period.

For more information see the "2020-2022 Long-term Performance Share Plan Information Document" prepared pursuant to article 84-bis of the Issuers' Regulation, available on Snam's website.

A total of 1,277,996 shares have been assigned under the Plan, in relation to 2020. The unit fair value of the shares, determined by the stock exchange quotation of the price of the Snam shares at the respective grant dates, was 4.441 euro per share and 4.559 euro per share (on 14 October 2020 and 16 December 2020 respectively for the Chief Executive Officer and for the members of the leadership team and the other beneficiaries).

The costs, for the period from 1 July to 31 December 2020, equal to the sum of the number of shares expected to vest at maturity multiplied by their fair value at the grant date, were recognised as a component of labour cost against a corresponding equity reserve, and amounted to around 2 million euro.

2020-2023 LONG-TERM PERFORMANCE SHARE PLAN OF TERNA S.P.A.

In 2020, Terna S.p.A. launched a treasury share buy-back programme to back the 2020-2023 Performance Share Plan, implementing the resolutions of the Shareholders' Meeting of 18 May 2020 and the Board of Directors of 17 June 2020.

The ESG-linked treasury shares buy-back programme (to service the 2020-2023 Performance Share Plan) was completed on 10 August 2020. Terna purchased 1,525,900 treasury shares (0.076% of share capital) under the programme, for a total value of approximately 9.5 million euro. This Programme has a reward/penalty mechanism linked to the achievement of specific environmental, social and governance targets by the Company. This mechanism will allow the Company to contribute to projects of reforestation and creation of green spaces in Italy, further consolidating the central role of sustainability as a strategic driver for creating value for all stakeholders.

2018-2020 LONG-TERM PERFORMANCE SHARE PLAN OF ITALGAS S.P.A.

On 19 April 2018 the Shareholders' Meeting of ITALGAS approved the 2018-2020 long-term performance share plan, for the Chief Executive Officer, General Manager and key managers able to influence the Company's performance, with an annual assignment of three-year targets. At the end of the three-year performance period, beneficiaries will be entitled to the free assignment of company shares if the conditions underlying the Plan are satisfied. The maximum number of shares backing the Plan is 4,000,000 shares. In relation to the above-mentioned Plan, the Board of Directors, on the proposal of the Nomination and Remuneration Committee and in accordance with the 2018 Remuneration Policy, granted rights to receive 341,310 Italgas shares for the 2018-2021 plan, 279,463 for the 2019-2021 plan, and 327,760 for the 2020-2021 plan. The unit fair value of the shares, which equates to the price of the Italgas shares at the grant date, was 4.79, 5.58 and 4.85 euro per share respectively. The cost of the Long-Term Incentive Plan is recognised during the vesting period as a labour cost with a balancing entry in equity reserves.

VIII – OPERATING SEGMENTS

This section of the Notes to the consolidated financial statements has been prepared in compliance with IFRS 8 "Operating Segments", which came into force on 1 January 2009 and replaces IAS 14 "Segment Reporting".

The corporate purpose of CDP RETI is the holding and management, both ordinary and extraordinary, of equity investments in SNAM, TERNA and ITALGAS, monitoring the appropriate development/maintenance of the managed infrastructures, and developing specific skills in the sectors of transport, dispatching, distribution, regasification, gas storage and electricity transmission, in order to better control its investments.

The segments that CDP RETI and its subsidiaries operate in essentially consist of:

- gas transport, regasification and storage by the companies of the SNAM group;
- gas distribution by the companies of the ITALGAS group;
- dispatch and transmission of electricity by the companies of the TERNA group.

The table below shows the results of the CDP RETI Group's operating segments at 31 December 2020, together with a reconciliation with the Group's results.

(million of euro)	31/12/2020							31/12/2019
Items	CDP RETI	SNAM	TERNA	ITALGAS	Intercompany adj.	Other adj.	Group	Group
Revenues from sales and services		2,735	2,462	2,058			7,255	6,743
Other revenues and income		35	114	69	(1)		217	157
Revenues from financial statement		**2,770**	**2,576**	**2,127**	**(2)**		**7,471**	**6,901**
Reclassifications			(62)	(685)			(747)	744
Revenues from sectors		**2,770**	**2,514**	**1,442**	**(2)**		**6,724**	**6,157**
Costs from financial statement (not included Depreciation and Amortization)	**(2)**	**(617)**	**(746)**	**(1,080)**	**1**	**(4)**	**(2,447)**	**(2,038)**
Reclassifications			63	665			728	726
Costs from sectors (not included Depreciation and Amortization)	**(2)**	**(617)**	**(683)**	**(414)**	**1**	**(4)**	**(1,719)**	**(1,312)**
EBITDA	**(2)**	**2,153**	**1,830**	**1,028**	**(1)**	**(4)**	**5,005**	**4,845**
EBITDA margin	-	*78%*	*73%*	*71%*	*0%*	-	*74%*	*78%*
Ammortisation, depreciation and impairment		(773)	(643)	(444)	1	(271)	(2,131)	(2,018)
Reclassifications				20			20	17
Operating profit (EBIT)	**(2)**	**1,380**	**1,187**	**603**		**(275)**	**2,894**	**2,844**
EBIT margin	*0%*	*50%*	*47%*	*42%*	*0%*	*0%*	*43%*	*46%*
Financial income	464	27	19	5		(463)	53	31
Borrowing expenses	(30)	(184)	(157)	(55)			(426)	(412)
Portion of income (expenses) from equity investments valued with the equity method		247	(4)	1		(63)	182	185
Reclassifications								
Taxes for the period	4	(370)	(286)	(152)		76	(728)	(731)
Profit from discontinued operations								(4)
Reclassifications								
Net income from sectros	**436**	**1,101**	**758**	**404**		**(725)**	**1,974**	**1,912**

The balance sheet information analysed by Top Management does not refer directly to the individual segment operations, but rather to the overall valuation and representation of Equity, Net Financial Debt and Technical Investments.

IX - GUARANTEES AND COMMITMENTS

Guarantees and commitments, amounting in total to 8.1 billion euro at 31 December 2020 (7.9 billion euro at 31 December 2019) are broken down as follows:

Guarantees and commitments: breakdown

Items/Figures	31/12/2020	31/12/2019
Guarantees pledged	**1,939,195**	**1,522,662**
Trade guarantees	542,762	366,519
Financial guarantees	1,394,300	1,154,500
Assets held as guarantee for third-party services	2,133	1,643
Commitments	**4,411,722**	**3,959,290**
Commitments for the purchase of goods and services	4,266,927	3,712,062
Commitments for associates	113,009	234,000
Other	31,786	13,228
Risks	**1,799,977**	**2,370,845**
For third-party assets held for safekeeping	1,457,440	2,072,640
For damages and claims	342,537	298,205
Total	**8,150,894**	**7,852,797**

IX.1 GUARANTEES

Guarantees given, for a total amount of 1,939 million euro, refer to indemnities issued to third parties against sureties and other guarantees issued in the interest of subsidiaries or associates to guarantee the performance of works and in relation to tenders and credit facilities associated with the distribution of natural gas.

IX.2 COMMITMENTS

Commitments undertaken towards suppliers to purchase property, plant and equipment and for the supply of services relating to investments in property, plant and equipment and intangible assets under construction/development totalled 4,267 million euro.

Commitments in associates, amounting to 113 million euro, refer to residual commitments of Snam S.p.A. towards Trans Adriatic Pipeline (TAP), in its capacity as a shareholder and in connection with the financing of the gas pipeline construction project, based on the equity investment held (20%). The commitment relates to the overall costs of the project, including the financial expenses accounted for in the work creation phase and deriving from the loan agreement, completed by TAP in December 2018.

IX.3 RISKS

Risks for third-party assets held, amounting to 1,457 million euro, mainly refer to approximately 8 billion cubic metres of natural gas held at storage facilities by the beneficiaries of the service. This amount is determined by measuring the quantities of stored gas at the presumed unitary repurchase cost, amounting to around 0.18 euro per normal cubic metre (0.23 euro per normal cubic metre at 31 December 2019).

Risks associated with compensation and claims, totalling 343 million euro, refer to compensation potentially payable but not probable in relation to ongoing disputes with low probability of verification of the related business risk.

X – DISCLOSURE OF LEASES

X.1 LESSEE

Qualitative disclosures

On first-time adoption the CDP RETI Group applied the new standard according to the "Modified Retrospective Approach", which allows recognition of the cumulative effect of the application of the standard on the first-time adoption date without restating the comparative information.

As a result of this decision, upon first-time adoption no impact on the book equity was recognised at 1 January 2019. Property, plant and equipment includes 81 million euro in right-of-use assets against Operating lease liabilities of 73.4 million euro. Total lease liabilities recognised upon FTA amounted to 73.9 million euro.

The Group has decided to adopt some of the practical expedients and recognition exemptions provided by the standard. In particular:

- exclusion of leases with a total or remaining lease term of 12 months or less;
- exclusion of leases with a low underlying asset value at the date of purchase;
- exclusion of the initial direct costs incurred to measure the right-of-use asset at the date of initial application;
- exclusion of leases of intangible assets (IFRS 16.4).

For further details, please refer to paragraph "I.2 Main items of the consolidated financial statements" in the Notes to the consolidated financial statements.

Quantitative disclosures

Classification by time band of the payments to be made and reconciliation with the lease liabilities recognised

(thousands of euro) Time bands	31/12/2020 Lease payables	31/12/2019 Lease payables
Up to 1 year	32,827	25,865
Between 1 and 2 years	65,863	42,020
Between 2 and 3 years	19,234	17,512
Between 3 and 4 years	11,128	13,721
Between 4 and 5 years	6,862	6,610
Over 5 years	10,240	14,133
Total lease payments to be made	**146,154**	**119,861**
Reconciliation with lease liabilities	**(2,626)**	**(2,620)**
Unearned finance income (+)	(2,626)	(2,620)
Unguaranteed residual value (+)		
Lease liabilities	**143,528**	**117,241**

Exceptions to IFRS 16 (short term, low value, etc.) - Classification by time band of the payments to be received

(thousands of euro) Time bands	31/12/2020 Lease payments to be made	31/12/2019 Lease payments to be made
Up to 1 year	12,722	8,398
Between 1 and 2 years	47,200	26,486
Between 2 and 3 years	3,507	3,663
Between 3 and 4 years	2,418	2,131
Between 4 and 5 years	2,047	1,557
Over 5 years	2,278	3,815
Total	**70,172**	**46,050**

X.2 LESSOR

Qualitative disclosures

The CDP RETI Group has operating leases outstanding for which the related lease payments are recognised in the income statement on a straight-line basis over the term of the contract.

Quantitative disclosures

Classification by time band of the payments to be received

(thousands of euro)	31/12/2020	31/12/2019
Time bands	Lease payments to be received	Lease payments to be received
Up to 1 year	394	
Between 1 and 2 years	288	
Between 2 and 3 years	162	
Between 3 and 4 years	121	
Between 4 and 5 years	85	
Over 5 years		
Total	**1,050**	

ANNEXES

ANNEX 1: SCOPE OF CONSOLIDATION

Company name	Registered office	Share capital (euro)		Investor	% holding	Consolidation method
Parent company						
CDP Reti S.p.A.	Rome	161,514		Cassa depositi e prestiti S.p.A.	59.10%	
				State Grid Europe Limited	35.00%	
				Cassa Nazionale di Previdenza e Assistenza Forense	2.63%	
				Soci terzi	3.27%	
Consolidated companies						
Albanian Gas Service Company Sh.a.	Tirana	171,557,303	(j)	SNAM S.p.A.	25.00%	Unconsolidated subsidiary
Arbolia S.r.l. (già Asset Company 8 S.r.l.)	San Donato Milanese	10,000		SNAM S.p.A.	100.00%	Unconsolidated subsidiary
AS Gasinfrastruktur Beteiligung GmbH	Wien	35,000		SNAM S.p.A.	40.00%	Equity
Asset Company 2 S.r.l.	San Donato Milanese	10,000,000		SNAM S.p.A.	100.00%	Line-by-line
Asset Company 4 S.r.l.	San Donato Milanese	100,000		SNAM S.p.A.	100.00%	Unconsolidated subsidiary
Asset Company 7 B.V.	Amsterdam	1		SNAM S.p.A.	100.00%	Unconsolidated subsidiary
Asset Company 9 S.r.l.	San Donato Milanese	10,000		SNAM S.p.A.	100.00%	Unconsolidated subsidiary
Asset Company 10 S.r.l.	San Donato Milanese	10,000		SNAM S.p.A.	100.00%	Unconsolidated subsidiary
Asset Company 11 S.r.l.	San Donato Milanese	10,000		SNAM S.p.A.	100.00%	Unconsolidated subsidiary
Avvenia The Energy Innovator S.r.l.	Rome	10,000		Terna Energy Solutions S.r.l.	70.00%	Line-by-line
Brugg Cables (India) Pvt., Ltd.	Haryana	48,000,000	(h)	Brugg Kabel AG	99.74%	Line-by-line
				Brugg Kabel GmbH	0.26%	
Brugg Cables (Shanghai) Co., Ltd.	Shanghai	1,600,000	(g)	Brugg Kabel AG	100.00%	Line-by-line
Brugg Cables (Suzhou) Co., Ltd.	Suzhou	32,000,000	(l)	Brugg Cables (Shanghai) Co., Ltd.	100.00%	Line-by-line
Brugg Cables Italia S.r.l.	Milan	10,000		Brugg Kabel AG	100.00%	Line-by-line
Brugg Cables Middle East DMCC	Dubai	100,000	(o)	Brugg Kabel AG	100.00%	Line-by-line
Brugg Kabel AG	Brugg	30,000,000	(n)	Terna Energy Solutions S.r.l.	90.00%	Line-by-line
Brugg Kabel GmbH	Schwieberdingen	103,000		Brugg Kabel AG	100.00%	Line-by-line
CESI S.p.A.	Milan	8,550,000		Terna SpA	42.70%	Equity
CGES A.D.	Podgorica	155,108,283		Terna SpA	22.09%	Equity
Consorizio Tamini - CERB	Sofia	-	(p)	Tamini Trasformatori S.r.l.	78.48%	Line-by-line
Copower S.r.l.	Rome	80,000		Tep Energy Solution S.r.l.	51.00%	Unconsolidated
CORESO S.A.	Bruxelles	1,000,000		Terna SpA	15.84%	Equity
Cubogas s.r.l.	San Donato Milanese	1,000,000		Snam 4 Mobility S.p.A.	100.00%	Line-by-line
Difebal S.A.	Montevideo	140,000	(c)	Terna SpA	100.00%	Line-by-line
Ecoprogetto Milano S.r.l.	Bolzano	1,000,000		Renerwaste S.r.l.	45.00%	Line-by-line
				Renerwaste Lodi S.r.l.	55.00%	
Ecoprogetto Tortona S.r.l.	Bolzano	1,000,000		Renerwaste S.r.l.	100.00%	Line-by-line
ELMED Etudes S.a.r.l.	Tunisi	2,700,000	(i)	Terna SpA	50.00%	Equity
Energy Investment Solution S.r.l.	Milan	100,000		Tep Energy Solution S.r.l.	40.00%	Unconsolidated
Enerpaper S.r.l.	Turin	10,000		Seaside S.r.l.	10.00%	Equity
Enersi Sicilia	San Donato Milanese	400,000		Snam 4 Mobility S.p.A.	100.00%	Line-by-line
Enura S.p.A. (ASSET COMPANY 5 S.r.l.)	San Donato Milanese	3,700,000		SNAM S.p.A.	55.00%	Line-by-line
Esperia S.r.l.	Rome	10,000		Terna S.p.A.	1.00%	Line-by-line
Evolve S.r.l.	Milan	1,450,000		Snam4Efficiency S.r.l.	100.00%	Line-by-line
Galaxy Pipeline Assets Holdoc Limited	Jersey	1,979,221,357	(g)	Snam S.p.A.	12.33%	Equity
Gasrule Insurance D.A.C.	Dublino	20,000,000		SNAM S.p.A.	100.00%	Line-by-line
Gaxa S.p.A. (Medea Newco S.r.l.)	Milan	50,000		Italgas S.p.A.	51.85%	Line-by-line
Gesam Reti S.p.A.	Lucca	28,546,672		Toscana Energia S.p.A.	42.96%	Equity
GNL Italia SpA	San Donato Milanese	17,300,000		SNAM S.p.A.	100.00%	Line-by-line
IES Biogas S.r.l.	Pordenone	100,000		Snam 4 Mobility S.p.A.	100.00%	Line-by-line
IES Biogas S.r.l. (Argentina)	Buenos Aires	100,000	(k)	Snam 4 Mobility S.p.A.	5.00%	Unconsolidated
				IES Biogas S.r.l.	95.00%	
Infrastrutture Trasporto Gas S.p.A.	San Donato Milanese	10,000,000		Asset Company 2 S.r.l.	100.00%	Line-by-line
Iniziative Biometano S.p.A.	Cittadella (PD)	18,000,000		Snam4Environment S.r.l.	50.00%	Equity
Interconnector (UK) Ltd	London	12,754,680	(a)	Snam International B.V.	23.68%	Equity
Interconnector Zeebrugge Terminal S.C./C.V. Scrl	Bruxelles	123,946		Snam International B.V.	25.00%	Equity
Italgas Acqua S.p.A.	Milan	50,000		Italgas S.p.A.	100.00%	Line-by-line
Italgas Newco S.r.l.	Milan	10,000		Italgas S.p.A.	100.00%	Unconsolidated subsidiary
Italgas Reti S.p.A.	Turin	252,263,314		Italgas S.p.A.	100.00%	Line-by-line
Italgas S.p.A.	Milan	1,001,231,518		CDP Reti S.p.A.	26.04%	Line-by-line
				SNAM S.p.A.	13.50%	
Latina Biometano S.r.l.	Rome	10,000		IES Biogas S.r.l.	32.50%	Unconsolidated
Medea S.p.A.	Sassari	95,500,000		Italgas Reti S.p.A.	51.85%	Line-by-line
Metano S.Angelo Lodigiano S.p.A.	Sant'Angelo Lodigiano	200,000		Italgas S.p.A.	50.00%	Equity
Mieci S.p.A:	Milan	200,000		Snam4Efficiency S.r.l.	100.00%	Line-by-line
OLT Offshore LNG Toscana S.P.A.	Milan	40,489,544		SNAM S.p.A.	49.07%	Equity
PI.SA. 2 S.r.l.	Rome	10,000		Terna Interconnecot S.r.l.	100.00%	Line-by-line
Renerwaste Lodi S.r.l.	Bolzano	10,000		Renerwaste S.r.l.	100.00%	Line-by-line
Renerwaste S.r.l.	Bolzano	1,151,391		Snam4Environment S.r.l.	100.00%	Line-by-line
Resia Interconnector S.r.l.	Rome	10,000		Terna S.p.A.	100.00%	Line-by-line

Company name	Registered office	are capital (euro)		Investor	% holding	Consolidation methoc
Rete S.r.l.	Rome	387,267,082		Terna S.p.A.	100.00%	Line-by-line
Rete Verde 17 S.r.l.	Rome	10,000		Terna Energy Solutions S.r.l.	100.00%	Line-by-line
Rete Verde 18 S.r.l.	Rome	10,000		Terna Energy Solutions S.r.l.	100.00%	Line-by-line
Rete Verde 19 S.r.l.	Rome	10,000		Terna Energy Solutions S.r.l.	100.00%	Line-by-line
Rete Verde 20 S.r.l.	Rome	10,000		Terna Energy Solutions S.r.l.	100.00%	Line-by-line
Seaside S.r.l.	Casalecchio di Reno (BO)	60,000		Italgas S.p.A.	100.00%	Line-by-line
SEleNe CC SA	Salonicco	200,000		Terna SpA	25.00%	Equity
Senfluga energy infrastructure holdings S.A.	Athens	20,125,050		SNAM S.p.A.	60.00%	Equity
Senfluga2 S.r.L.	Bruxelles	61,500		SNAM S.p.A.	40.00%	Equity
Snam 4 Mobility S.p.A.	San Donato Milanese	2,320,000		SNAM S.p.A.	100.00%	Line-by-line
Snam Gas & Energy Services (Beijing) Co. Ltd.	Beijing	15,493,800	(l)	Snam International B.V.	100.00%	Line-by-line
Snam International B.V.	Amsterdam	6,626,800		SNAM S.p.A.	100.00%	Line-by-line
Snam Rete Gas S.p.A.	San Donato Milanese	1,200,000,000		SNAM S.p.A.	100.00%	Line-by-line
SNAM S.p.A.	San Donato Milanese (MI)	2,735,670,476		CDP Reti S.p.A.	31.35%	Line-by-line
Snam4Efficiency S.r.l.	San Donato Milanese	2,000,000		SNAM S.p.A.	100.00%	Line-by-line
Snam4Environment S.r.l.	San Donato Milanese	5,000,000		SNAM S.p.A.	100.00%	Line-by-line
SPE Santa Lucia Transmissora de Energia S.A.	Rio de Janeiro	153,714,431	(e)	Terna Chile S.p.A.	0.01%	Line-by-line
				TERNA PLUS S.r.l.	99.99%	
SPE Santa Maria Transmissora de Energia S.A.	Rio de Janeiro	42,474,716	(e)	TERNA PLUS S.r.l.	99.99%	Line-by-line
				Terna Chile S.p.A.	0.01%	
SPE Transmissora de Energia Linha Verde I S.A.	Belo Horizonte	74,999,313	(e)	TERNA PLUS S.r.l.	75.00%	Line-by-line
SPE Transmissora de Energia Linha Verde II S.A.	Belo Horizonte	53,729,548		TERNA PLUS S.r.l.	75.00%	Line-by-line
Stogit S.p.A.	San Donato Milanese	152,205,500		SNAM S.p.A.	100.00%	Line-by-line
Tamini Transformatori India Private Limited	Magarpatta City, Hadapsar, Pune	13,175,000	(h)	Tamini Trasformatori S.r.l.	100.00%	Line-by-line
Tamini Transformers USA L.L.C.	Sewickley	52,089	(g)	Tamini Trasformatori S.r.l.	100.00%	Line-by-line
Tamini Trasformatori S.r.l.	Legnano (MI)	4,285,714		Terna Energy Solutions S.r.l.	70.00%	Line-by-line
Tea Innovazione 2 S.r.l.	Brescia	20,000		Tea Servizi S.r.l.	100.00%	Unconsolidated
Tep Energy Solution S.r.l.	Rome	1,000,000		Snam4Efficiency S.r.l.	100.00%	Line-by-line
Terega Holding S.A.S.	Pau	505,869,374		SNAM S.p.A.	40.50%	Equity
Termoroma S.r.l.	Rome	10,000		Evolve S.r.l.	100.00%	Unconsolidated
Terna 4 Chacas S.A.C.	Lima	1,000	(f)	TERNA PLUS S.r.l.	99.99%	Line-by-line
				Terna Chile S.p.A.	0.01%	
Terna Chile S.p.A.	Santiago del Cile	2,030,800,000	(d)	TERNA PLUS S.r.l.	100.00%	Line-by-line
TERNA Crna Gora d.o.o.	Podgorica	208,000,000		Terna SpA	100.00%	Line-by-line
Terna Energy Solutions S.r.l.	Rome	2,000,000		Terna SpA	100.00%	Line-by-line
Terna Interconnector S.r.l.	Rome	10,000		Terna SpA	65.00%	Line-by-line
				TERNA RETE ITALIA S.p.A.	5.00%	
Terna Peru S.A.C.	Lima	77,043,000	(f)	TERNA PLUS S.r.l.	99.99%	Line-by-line
				Terna Chile S.p.A.	0.01%	
Terna Plus S.r.l.	Rome	16,050,000		Terna SpA	100.00%	Line-by-line
Terna Rete Italia S.p.A.	Rome	300,000		Terna SpA	100.00%	Line-by-line
Terna S.p.A.	Rome	442,198,240		CDP Reti S.p.A.	29.85%	Line-by-line
Toscana Energia Green S.p.A.	Pistoia	6,330,804		Toscana Energia S.p.A.	100.00%	Line-by-line
Toscana Energia S.p.A.	Florence	146,214,387		Italgas S.p.A.	50.66%	Line-by-line
Tlux S.r.l.	Piancocgno (BS)	50,000		Mieci S.p.A.	100.00%	Line-by-line
Trans Adriatic Pipeline AG	Baar	1,405,587,850	(n)	SNAM S.p.A.	20.00%	Equity
Trans Austria Gasleitung GmbH	Wien	76,566		SNAM S.p.A.	84.47%	Equity
Umbria Distribuzione GAS S.p.A.	Terni	2,120,000		Italgas S.p.A.	45.00%	Equity
Valdarno S.r.l. in liquidazione	Pisa	5,720,000		Toscana Energia S.p.A.	30.04%	Equity

(a) values in GBP
(b) of which paid-up share capital 22,061.69 euro
(c) values in Uruguayan Pesos
(d) values in Chilean Pesos
(e) values in Real
(f) values in Nuovo Sol
(g) values in Dollar
(h) values in Indian Rupees
(i) values in Tunisian Dinar
(j) values in Albanian ALL
(k) values in Argentine Pesos
(l) values in Renminbi Chinese
(m) of which the paid-up share capital amounts to 7,676,800 Chinese Renminbi
(n) values in Swiss Francs
(o) values in Dirham Moroccan
(p) values in Lev

ANNEX 2: DISCLOSURE PURSUANT TO LAW 124 OF 4 AUGUST 2017, ARTICLE 1, PARAGRAPHS 125-129

This section is dedicated to the fulfilment of the disclosure obligations introduced, starting from 2018, by Law 124 of 4 August 2017, whose rules have been reformulated by Article 35 of Decree Law no. 34 of 30 April 2019, relating to the disclosure obligations connected to public funds.

The reformulation of the original regulatory provisions clarified some significant interpretation issues raised by the previous formulation, confirming the interpretation guidance shared during the first application of the disclosure obligations, and contained in Assonime circular no. 5 of 22 February 2019 regarding “Transparency in the system of public funding: analysis of the rules and interpretation guidance”.

According to the contents of Article 35 of decree no. 34/2019:

- companies publish in the notes to the separate financial statements and to the consolidated financial statements, if any, the amounts and information relating to subsidies, subventions, benefits, contributions or aid, paid in cash or in kind, not of a general nature and with no consideration, remuneration or compensation, effectively granted to them by government agencies and from companies controlled, directly or indirectly, on a legal or de facto basis, by government agencies, including listed companies and their subsidiaries;
- the publication obligations established for government agencies by Article 26 of Legislative Decree no. 33 of 2013 apply also to entities and companies controlled, directly or indirectly, on a legal or de facto basis by government agencies, with the publication in the notes to their annual accounting reports.

The disclosure obligations established by Law 124 of 2017, in continuity with what was represented during the first application, are thus limited to transactions that provide the beneficiary a direct or indirect economic benefit through the provision of incentives or concessions that have the effect of providing relief, savings or the acquisition of resources, and that are in the nature of gifts or donations.

The disbursements, unless otherwise specified, are recognised on a cash basis. With reference to any disbursements not in cash, the cash criterion is understood in a substantial sense, allocating the economic benefit to the financial year in which it is received.

In accordance with the guidance provided by the Assonime circular no. 5/2019, the information provided in application of Law 124/2017 is provided in table form, indicating:

- the identification details of the granting entity and the beneficiary;
- the amount of the economic benefit awarded or received;
- a brief description of the type of benefit (reason for payment).

The tables below show the public funding received and disbursed in 2020 by the fully-consolidated subsidiaries of the CDP RETI Group basis that fall within the subjective scope of the law in question, as presented in their respective separate or sub-consolidated financial statements.

Public grants pursuant to art.1 c.126 Law no.124/2017

	Beneficiary				
Beneficiary	Name/Company name	Fiscal code	VAT number	Causal	Amount €
TERNA SpA	Presidenza Consiglio dei Ministri	IT97018720587	IT97018720587	donations in favor of the Civil Protection Department in relation to the management of the COVID-19 emergency	20,000
TERNA SpA	Presidenza Consiglio dei Ministri	IT97018720587	IT97018720587	Terna per Protezione Civile - Donation for the purchase of pulmonary ventilators	160,000
TERNA SpA	Palazzo Strozzi	IT04963330487	IT04963330487	Palazzo Strozzi liberality - 2020 Committee Adhesion	30,000
TERNA SpA	Save the Children Italia Onlus	IT07354071008	IT07354071008	Save The Children Charity	20,000
TERNA SpA	Fond.Pol.Univ.A.GEMELLI IRCCS	IT13109681000	IT13109681000	Creation of 50 new Covid ordinary hospitalization places	50,000
TERNA SpA	Fond.Pol.Univ.A.GEMELLI IRCCS	IT13109681000	IT13109681000	liberalisation of 20 additional intensive care places	30,000
TERNA SpA	COMUNE DI CEPAGATTI	IT00221110687	IT00221110687	as support to address the socioeconomic emergency related to the spread of Covid-19'	10,000
TERNA SpA	Fondaz. Accademia Naz. Santa Cecilia	IT05662271005	IT05662271005	2020 Accession as Founding Member of the Fondazione Accademia Nazionale di Santa Cecilia	160,000
TERNA SpA	Fondaz. Accademia Naz. Santa Cecilia	IT05662271005	IT05662271005	2019 Accession as Founding Member of the Fondazione Accademia Nazionale di Santa Cecilia	165,000
TERNA SpA	IL GAZZETTINO SPA	IT02742610278	IT02742610278	Azienda Ospedaliera Padova - Fundraising donations from Il Gazzettino	10,000
TERNA SpA	Presidenza Consiglio dei Ministri	IT97018720587	IT97018720587	Amount raised by donation of one hour's salary for Covid-19 emergency	61,064
TERNA SpA	Ass.ne Comunità Papa Giovanni XXIII	IT01433850409	IT01433850409	Christmas project contribution	10,000
TERNA SpA	Fondaz. Accademia Naz. Santa Cecilia	IT05662271005	IT05662271005	NATIONAL ACADEMY SANTA CECILIA LA ROMA	10,000

Public payments received pursuant

Beneficiary	Licensor: Name/Company name	Licensor: Fiscal code	Licensor: VAT number	Causal	Amount €
ITALGAS RETI S.P.A.	MORRO D'ORO	81000370676	516370673	Contributions for plants and equipments - L.R. 3 April 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84	14,421
ITALGAS RETI S.P.A.	CASALINCONTRADA	273020693	273020693	(*)	89,573
ITALGAS RETI S.P.A.	SELLIA	311650790	311650790	Contributions for plants and equipments Legge 784/80	21,240
ITALGAS RETI S.P.A.	CARAMANICO TERME	228670683	228670683	(*)	23,280
ITALGAS RETI S.P.A.	CIVITAQUANA	80001190687	219500683	(*)	30,783
ITALGAS RETI S.P.A.	MONTEFINO	81000330670	81000330670	(*)	42,200
ITALGAS RETI S.P.A.	BUSSI SUL TIRINO	231710682	231710682	(*)	20,474
ITALGAS RETI S.P.A.	SILVI	81000550673	175740679	(*)	28,793
ITALGAS RETI S.P.A.	BUCCHIANICO	251860598	251860598	(*)	9,720
ITALGAS RETI S.P.A.	CASTIGLIONE MESSER RAIMONDO	80003890672	195720677	(*)	8,287
ITALGAS RETI S.P.A.	CASTILENTI	81000270678	824050678	(*)	19,869
8	INTRODACQUA	197560667	197560667	(*)	12,979
ITALGAS RETI S.P.A.	ELICE	221990682	221990682	(*)	43,680
ITALGAS RETI S.P.A.	CATIGNANO	80001570680	221020688	(*)	2,160
ITALGAS RETI S.P.A.	PINETO	159200674	159200674	(*)	50,000
MEDEA S.P.A.	PORTO TORRES	252040902	252040902	(*)	1,551,012
TOSCANA ENERGIA GREEN S.p.A.	REGIONE TOSCANA	1386030488	1386030488	(*)	109,000
Terna S.p.A.	Regione Siciliana	80012000826	02711070827	-	1,650,334

(*) Contributions for plants and equipments - L.R. 3 April 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84

REPORT OF THE INDEPENDENT AUDITORS

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
CDP Reti S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of CDP Reti S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at December 31, 2020, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of CDP Reti S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.
Codice Fiscale/Registro delle Imprese di Milano Monza Brianza Lodi n. 03049560166 - R.E.A. n. MI-1720239 | Partita IVA: IT 03049560166

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Investments for the operation of infrastructures and for service concession agreements

Description of the key audit matter

The consolidated financial statements of the CDP Reti Group as at and for the year ended 31 December 2020 present "property, plant and equipment" for a value of 36,401 million euro and "intangible assets" for a value of 10,383 million euro. The items mainly include infrastructure investments made by the Group companies which operate in regulated sectors, in particular: (I) from the TERNA group, with regards to electricity transmission grid and transformer substations ; (ii) from the SNAM group with regards to natural gas transportation, storage and regasification of natural gas; and (iii) from ITALGAS group with regards to natural gas distribution.

During the year "properties, plants and equipment" increased by 2,340 million euro whereas "intangible assets" by 1,008 million euro. They experienced decreased for depreciation and amortization respectively by 1,514 million euro and 589 million euro.

In view of the significant amount of infrastructure investments carried out during the year by Group companies and, given that, according to the *Regulatory Asset Based* mechanism, the changes recorded by these investments affect the determination of the revenues to be recognized by the Italian Regulatory Authority for Energy, Networks and Environment ("ARERA"), we have considered as a key audit matter the accuracy of the capitalizations, disposals and depreciations and amortization recorded in the financial year.

Paragraph I.2 and notes 1 and 3 of paragraph II of the consolidated financial statements describe the accounting policies applied by the Group and the changes for the year.

Audit procedures performed

Our audit procedures concerning investments for operation and development of infrastructures and for service concession agreements included for the Group companies, among others, the following:

- understanding of the processes underlying the management of property, plant and equipment and intangible assets with particular reference to infrastructure investments;
- understanding of the relevant controls in place over such processes;
- with reference to capitalizations and disposals occurred in the financial year, selection of a sample of transactions and test of the accuracy of the accounting entries in accordance with the requirements of IAS 16, IAS 38 and IFRIC 12;
- selection of a sample of additions and divestments of the year and test of the alignment between the accounting data and the asset register values;

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- selection of a sample of items and test that depreciation and amortisation of the assets began when the assets were available for use and that rates of depreciation and amortisation were applied correctly based on useful life and asset class.

Finally, we assessed the adequacy of the disclosures included in the notes of the consolidated financial statements and its compliance with the relevant accounting standards.

Other aspects

The consolidated financial statements of the CDP Reti Group for the year ended December 31 2019 were audited by another auditor who expressed an unmodified opinion on these statements on April 20 2020.

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, 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.

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;

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

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

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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 CDP Reti S.p.A. has appointed us on May 10, 2019 as auditors of the Company for the years from December 31, 2020 to December 31, 2028.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of CDP Reti S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of CDP Reti Group as at December 31, 2020, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of CDP Reti Group as at December 31, 2020, and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of CDP Reti Group as at December 31, 2020 and are prepared in accordance with the law.

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

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Exemption from the preparation of the non-financial statement

As illustrated in the report on operations, the directors of CDP Reti S.p.A. have opted to use the exemption from the preparation of the non-financial statement allowed by article 6, paragraph 2 of Legislative Decree No. 254 of 30 December 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Enrico Pietrarelli
Partner

Rome, Italy
April 22, 2021

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

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154 BIS OF LEGISLATIVE DECREE 58/1998

1. The undersigned Fabrizio Palermo, in his capacity as Chief Executive Officer, and Alessandro Uggias, in his capacity as Financial Reporting Manager of CDP RETI S.p.A., hereby certify, taking into account the provisions of article 154-bis, paragraphs 3 and 4, of legislative decree no. 58 of 24 February 1998:
   - the appropriateness with respect to the characteristics of the company; and
   - the actual application of the administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2020.
2. The assessment of the appropriateness of the administrative and accounting procedures adopted in preparing the consolidated financial statements at 31 December 2020 was based on a process developed by CDP RETI S.p.A. in line with the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which is a generally accepted framework at international level.
3. In addition, it is hereby certified that:

   3.1 the consolidated financial statements at 31 December 2020:
   a) have been prepared in compliance with the applicable international accounting standards endorsed by the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   b) correspond to the information in the books and other accounting records;
   c) give a true and fair view of the performance and financial position of the issuer and of the companies included in the scope of consolidation.

   3.2 the report on operations contains a reliable analysis of operations and performance, as well as the situation of the issuer and of the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 22/04/2021

The Chief Executive Officer
Fabrizio Palermo

The Financial Reporting Manager
Alessandro Uggias

3

Report on operations of CDP RETI S.p.A.

1. OPERATING PERFORMANCE OF CDP RETI S.P.A.

1.1 KEY MANAGEMENT FIGURES

Key Management Figures

Key financial figures

Items		31/12/2020	31/12/2019
Dividends	(thousand of euros)	463,084	435,725
- of which SNAM	*(thousand of euros)*	*255,415*	*243,192*
- of which TERNA	*(thousand of euros)*	*153,720*	*143,220*
- of which ITALGAS (1)	*(thousand of euros)*	*53,949*	*49,313*
Pofit (loss) on operations (2)	(thousand of euros)	(31,177)	(30,097)
Net income (loss)	(thousand of euros)	436,148	410,032
Comprehensive income	(thousand of euros)	434,834	411,700

Key balance sheet and cash flow figures

Items		31/12/2020	31/12/2019
Equity investments carrying amount	(thousand of euros)	5,023,065	5,023,065
- of which SNAM	*(thousand of euros)*	*3,086,833*	*3,086,833*
- of which TERNA	*(thousand of euros)*	*1,315,200*	*1,315,200*
- of which ITALGAS	*(thousand of euros)*	*621,032*	*621,032*
Receivables for dividends not yet collected	(thousand of euros)	105,158	*100,101*
Equity	(thousand of euros)	3,514,735	3,508,624
Net financial debt (2)	(thousand of euros)	(1,610,747)	(1,612,472)

Other key figures and ratios

Items			31/12/2020	31/12/2019
Equity investments market value (2) (3)		(thousand of euros)	9,716,143	9,669,117
Dividends collected		(thousand of euros)	458,026	430,983
Dividends distributed		(thousand of euros)	428,723	398,625
Dividend per share		euros	2,700.37	2,538.67
	Interim	euros	*1,768.86*	*1,653.13*
	Final	euros	*931.51*	*885.54*
Net cash flow for the period		(thousand of euros)	(3,083)	10,007
ROE (2)		(%)	12%	12%
Dividends/Borrowing expenses (2)		(numbers)	15.49	15.38
Net financial debt/Equity investments carrying amount (2)		(%)	32%	32%
Net financial debt/Equity (2)		(numbers)	0.46	0.46
Net financial debt/Dividends (2)		(numbers)	3.48	3.70

(1) Company established on 1 June 2016 and previously called ITG Holding S.p.A. (as of 7 November 2016 renamed Italgas S.p.A.)
(2) NON GAAP ratios
(3) Product of the number of CDP RETI shares for the official price per share at the end of the period by Snam, Terna and Italgas

1.2 FINANCIAL PERFORMANCE

To facilitate the reading of the Income statement, in view of the fact that CDP RETI S.p.A. is an investment vehicle, the following reclassified income statement has been prepared, which "inverts the order of the income statement items pursuant to Italian Legislative Decree 127/1991, presenting first those which relate to the financial operations, as this is the most significant component of income for those companies" (see Consob Communication 94001437 of 23 February 1994).

The income statement results of CDP RETI S.p.A. for 2020, compared with the previous year, are summarised in the management Income statement reported below.

Reclassified Income Statement CDP RETI S.p.A.
(thousand of euros)

Items	31/12/2020	31/12/2019
Dividends	463,084	435,725
Pofit (loss) on core business	**463,084**	**435,725**
Financial income and expenses	(29,217)	(28,319)
Depreciation	(14)	
Administrative expenses	(1,946)	(1,779)
Pofit (loss) on operations	**(31,177)**	**(30,098)**
Other revenues and income	22	22
Operating income	**431,929**	**405,649**
Income taxes	4,219	4,383
NET INCOME (LOSS)	**436,148**	**410,032**

The main positive components of CDP RETI's income are determined by the **dividends accruing** from SNAM, TERNA and ITALGAS, totalling 463 million euro, up from 2019 (+27 million euro, +6.2%) due to changes in the dividend policy (in terms of dividend per share) of SNAM (+12.2 million euro), TERNA (+10.5 million euro) and ITALGAS (+4.6 million euro).

More in detail, this item consists of dividends received from:

- **SNAM:** equal to 255 million euro (55% of total dividends) – 243 million euro in 2019 – of which (i) 150 million euro (collected in June 2020) and relating to the 2019 final dividend and (ii) 105 million euro (collected on 20 January 2021) as 2020 interim dividend (resolved by the Board of Directors of Snam S.p.A. on 4 November 2020[54]);
- **TERNA:** equal to 154 million euro (33% of total dividends) – 143 million euro in 2019 – of which (i) 99 million euro (collected in June 2020) and relating to the 2019 final dividend and (ii) around 55 million euro (collected on 25 November 2020) as 2020 interim dividend (resolved by the Board of Directors of Terna S.p.A. on 11 November 2020[55]).
- **ITALGAS:** equal to 54 million euro (12% of total dividends) – 49 million euro in 2019 – collected in May 2020 and relating to the 2019 dividend.

The negative income statement items included the **borrowing expenses**, totalling 30 million euro, mainly relating to:

- the interest expense on the Term Loans (11 million euro also considering the payment of the interest connected to the Swap Transactions);
- the interest expense on the Bond (14 million);
- the effects of the debt refinancing in May 2020 and more specifically the recognition of:

  a) 0.6 million euro resulting from the transfer of the residual value of the fees paid initially to take out the Term Loan of 2017 and subsequently included in the amortised cost[56];

  b) 3.8 million euro representing the negative impacts related to the early closure of the two previous IRS hedging derivatives and the consequent reversal to the income statement of the Cash Flow Hedge Reserve (previously recorded in shareholders' equity).

Administrative expenses are mainly affected by staff costs (including the remuneration of directors and statutory auditors) and the fees paid to the parent company/third party suppliers for the services received in the period.

[54] Based on the results of the first nine months and the forecasts for the entire 2020, the Board of Directors of SNAM resolved on the distribution to the shareholders of an interim dividend, equal to 0.0998 euro per share, with payment starting from 20 January 2021, with coupon due on 18 January and record date 19 January.
[55] Based on the results of the first six months and the forecasts for the entire 2020, the Board of Directors of TERNA resolved on the distribution to the shareholders of an interim dividend, equal to 0.0909 euro per share, with payment starting from 25 November 2020, with coupon due on 23 November 2020 and record date 24 November 2020.
[56] Considered costs directly attributable to the transaction, these fees were amortised from the outset (and recognised among financial charges) by applying the amortised cost of the liability criterion.

Income taxes, positive for about 4 million euro and in line with 2019, primarily refer to the estimated tax consolidation income deriving from the surplus compensation of the ACE benefit (1 million euro) and the surplus compensation (3 million euro) of the interest expense non-deductible on an individual basis and transferable to tax consolidation[57].

The income components above resulted in an **Operating Profit** of 436 million euro, up (26 million euro; +6%) compared to 2019 (410 million euro), mainly due to the higher dividends (+27 million euro) and the positive contribution of tax management, only partly offset by the negative effects (-4 million euro) related to the early closure of previous loans and related hedging derivatives.

1.3 STATEMENT OF FINANCIAL POSITION

CDP RETI S.p.A.'s statement of financial position as at 31 December 2020 and 31 December 2019 is summarised in the following tables.

Reclassified Assets CDP RETI S.p.A.
(thousand of euros)

Items	31/12/2020	31/12/2019
Equity investment in Snam	3,086,833	3,086,833
Equity investment in Terna	1,315,200	1,315,200
Equity investment in Italgas	621,032	621,032
Other assets	121,656	113,272
Cash and cash equivalents	72,844	75,927
TOTAL ASSETS	**5,217,565**	**5,212,264**

As at 31 December 2020, total assets stood at 5,218 million euro and mainly consisted of balance sheet items relating to **equity investments** (about 96% of total assets) in SNAM, TERNA and ITALGAS (for an overall amount of 5,023 million euro and unchanged compared to 2019).

The slight increase in total assets of around 6 million euro is mainly due to the higher receivable from SNAM (105 million euro vs 100 million euro at the end of 2019) for the 2020 interim dividend.

With specific reference to the value of the **equity investments** held, please note that, also in light of the latest stock market values recorded:

- **SNAM**: closing price as at 31 December 2020 equal to 4.60 euro, weighted average with price volumes of the last month before 31 December 2020 equal to 4.56 euro;
- **TERNA**: closing price as at 31 December 2020 equal to 6.25 euro, weighted average with price volumes of the last month before 31 December 2020 equal to 6.13 euro;
- **ITALGAS**: closing price as at 31 December 2020 equal to 5.20 euro, weighted average with price volumes of the last month before 31 December 2020 equal to 5.17 euro;

above the carrying amount (equal to 2.93 euro for **SNAM**, 2.19 euro for **TERNA** and 2.95 euro for **ITALGAS**), as well as the information currently available, no impairment indicators are highlighted that are such to compromise the maintenance of the carrying amount of the equity investments held.

Other assets, totalling 122 million euro, mainly refer to:

- the receivable from SNAM (105 million euro) for the 2020 interim dividend approved in November 2020 by its Board of Directors and collected by CDP RETI in January 2021;
- the receivable (around 4 million euro and in line with 2019) from the parent company CDP by way of compensation of the ACE benefit and the interest expense transferred to the tax consolidation. In this regard, it should be noted that the receivable at 31 December 2019 from the parent company CDP was collected by the Company in December 2020, following filing of the tax consolidation return, as envisaged in the National Fiscal Consolidation for the three-year period 2019-2021[58];
- the receivable from the parent company CDP (9 million euro) for the margin paid to it under the guarantee agreements (Credit Support Agreements) entered into when the cash flow hedge derivatives were taken out. The positive change (3 million euro) compared to 31 December 2019 is due to the mark to market trends of the derivative signed in May 2020 and the closure of IRS derivatives outstanding at the end of 2019.
- the deferred tax assets, equal to about 2 million euro, connected to the two hedging derivatives.

[57] The final amount will be calculated and settled, when preparing the consolidated income tax return.
[58] The consolidation agreement was tacitly extended for the three-year period 2019-2021.

The breakdown of **cash and cash equivalents** refers mainly to bank current accounts (67 million euro) and, to a lesser extent, to the irregular deposit (around 6 million euro) with the parent company CDP[59]. On this point, it is worth remembering that, in terms of allocating the liquidity held in bank current accounts, the Company opened (July 2017) a new current account with a leading credit institution, also with a view to diversifying the counterparty risk.

To better understand the changes in cash and cash equivalents, please refer to the subsequent section "Net Financial Debt".

Reclassified Equity abd Liabilities CDP RETI S.p.A.
(thousand of euros)

Items	31/12/2020	31/12/2019
Equity	3,514,735	3,508,624
- Share capital and reserves	*3,078,587*	*3,098,592*
- Net income for the period	*436,148*	*410,032*
Loans	1,693,037	1,695,286
- of which owed to Cdp	*562,680*	*762,879*
Other liabilities	9,793	8,354
- of which owed to Cdp	*8,260*	*6,846*
TOTAL LIABILITIES	**5,217,565**	**5,212,264**

As at 31 December 2019, **equity** (equal to 3,515 million euro), in addition to the *net income for the period*, mainly includes: i) the item *Shareholders' payment reserve for investments*, representing the value of the payment of about 3.5 billion euro made in 2012 by CDP and intended to finance the purchase of the equity investment in SNAM, net of the portion of this reserve distributed to CDP in 2014 (about 1.5 billion euro), ii) the item *Share premium account* deriving from the transfer in 2014 of TERNA (about 1.3 billion euro), iii) the item *Valuation reserve* (negative for 5 million euro) representing the measurement at fair value of the Interest Rate Swap (IRS) derivatives, net of the connected deferred taxes, and iv) the 2020 interim dividend equal to 286 million euro distributed in December 2020.

Compared to the end of 2019 (when it amounted to 3,509 million euro), the item in question benefited from the net income for the period (436 million euro), partly offset by (i) dividends distributed during the period to shareholders (totalling 429 million euro) as the 2019 final dividend[60] and 2020 interim dividend[61] and (ii) the reduction (around 1 million euro) in the Valuation Reserve.

The **Loans** at 31 December 2020, considering the current portion and the non-current portion, consist of the following:

Loan

(thousand of euros)	31/12/2020		31/12/2019	
Items	Non current	current	Non current	current
Bond	749,490	8,299	749,169	8,299
Lease liabilities	314			
Term Loan Facility	934,341	593	186,989	750,830
Total	**1,684,145**	**8,892**	**936,157**	**759,129**

Total indebtedness at 31 December 2020 amounted to 1,693 million euro (also taking into account interest accrued after 31 December 2020) and was down compared to 31 December 2019 (1,695 million euro) mainly due to the recognition of the arrangement fees connected with the refinancing that reduced the debt and amortised over the duration of the debt, and refers to:

- Term Loans (935 million euro, for a total nominal amount of 938 million) granted by a pool of banks (for a total nominal amount of 716 million euro vs. 516 million euro at the end of 2019) and by the parent company CDP (for a total nominal amount of 222 million euro vs. 422 million at the end of 2019);
- the bond (for a total nominal value of 750 million euro), listed on the Irish Stock Exchange, subscribed by institutional investors (about 412 million euro, equal to 55%) and the Parent Company (about 338 million euro, equal to 45%).

To better understand the Overall financial debt, please refer to the subsequent section "Net Financial Debt".

Other liabilities, totalling 10 million euro and up 2 million euro compared with 2019, mostly due to the higher liability connected with the measurement of the existing derivative, refer, inter alia, to (i) the measurement (8 million euro) of the

[59] Compared to the deposit agreement "under which a party (depositary) receives from the other (depositor) a movable asset with the obligation to safeguard and return it in kind" (art. 1766 of the Italian Civil Code), in the irregular deposit (concerning cash or other interchangeable assets), the depositary is not obliged to return exactly the same assets but must return just as many of them of the same kind and quality. Therefore, the depositary becomes, at the time of delivery, the owner of the assets delivered to it (art. 1782 of the Italian Civil Code).
[60] 143 million euro distributed in the form of 885.54 euro for each of the 161,514 shares.
[61] 286 million euro distributed in the form of 1,768.86 euro for each of the 161,514 shares. This interim dividend was approved (by the Board of Directors on 11 December 2020) on the basis of the Company's accounting situation at 30 June 2020, prepared in accordance with IFRS. The Company ended the period with a net income of approximately 286 million euro and available reserves of approximately 3,369 million euro.

Interest Rate Swaps (IRS) entered into by the company in May 2020 to hedge the Term Loan Facilities, (ii) the recognition of the deferred tax liabilities (1 million euro) arising from the 2020 interim dividend approved by SNAM in November 2020 and received in January 2021, and (iii) trade payables and payables to the Parent Company CDP, primarily in relation to the current service agreements. In terms of variances, this item is also affected by the release of the deferred tax liability recognised as at 31 December 2019 (amounting to 1 million euro) in relation to the receipt of the 2019 interim dividend from SNAM in January 2020.

1.4 NET FINANCIAL DEBT AND CASH FLOWS

As at 31 December 2020, CDP RETI S.p.A.'s net financial position, calculated in compliance with ESMA[62]/2015/1415, the guidelines on alternative performance measures that have been applicable since 3 July 2016, for comparison with the position at the end of 2019, was as follows:

Net Financial Debt
(thousand of euros)

	Items	31/12/2020	31/12/2019
A	Irregular deposit with CdP (1)	5,884	9,997
B	Other cash with banks (1)	66,960	65,930
C	**Liquidity (A) + (B)**	**72,844**	**75,927**
D	**Current Financial Receivable (2)**	**9,446**	**6,887**
E	Current banks portion debt of non current debt (3)	(453)	(412,956)
F	Current CdP portion debt of non current debt (3)	(140)	(337,873)
G	Current Bond issued portion (3)	(8,299)	(8,299)
H	**Current Financial Debt (E) + (F) + (G)**	**(8,892)**	**(759,128)**
I	**Net Current Financial Indebtedness (C) + (D) + (H)**	**73,398**	**(676,314)**
L	Non current banks loans (4)	(713,121)	(102,844)
M	Non current CdP loans (4)	(221,220)	(84,145)
N	Bond issued (4)	(749,490)	(749,169)
O	**Non-current Financial Debt (L) + (M) + (N)**	**(1,683,831)**	**(936,158)**
P	**Net Financial Debt (I) + (O)**	**(1,610,433)**	**(1,612,472)**
Q	Lease liabilities (4)	(314)	
R	**Net Financial Debt including Lease liabilities (P) + (Q)**	**(1,610,747)**	**(1,612,472)**

In the balance sheet of CDP RETI S.p.A.:
(1) The balance is included in the item "Cash and cash equivalents"
(2) The balance is included in the item "Current financial assets"
(3) The balance is included in the item "Current portion of loans"
(4) The balance is included in the item "Loans"

As at 31 December 2020, **net financial debt,** totalling 1,611 million euro (including accrued interest to be paid after 31 December 2020), is essentially in line with the comparison period (1,612 million euro) given that the reduction in the financial debt (as a result of the debt restructuring in May 2020) was substantially offset by the reduction in cash and cash equivalents (which fell from 76 million euro to 73 million euro, mainly due to the changes in dividends paid/received).

At 31 December 2020, the net financial debt towards the parent company CDP amounted to 547 million euro and was down (199 million euro) on 31 December 2019 (746 million euro), mainly due to the reduction in the parent company CDP's participation (from 45% to 24%) in the Term Loan taken out in May 2020. See section 2 "Significant events during the year by sector/company" of the Report on Operations of the consolidated financial statements for a more detailed description of the refinancing.

With regard to the detailed items, the following is noted.

Liquidity as at 31 December 2020 (73 million euro) consists mainly of the sums of deposits held at leading banks (67 million euro) and, to a residual extent, the irregular deposit (6 million euro) with the parent company CDP.

In comparative terms, there was a slight decrease versus 2019 given that the higher dividends received (458 million euro vs 431 million euro; +27 million euro) were mainly offset by the higher dividends distributed to shareholders during the period (429 million euro vs 399 million euro; +30 million euro) and fees related to the debt refinancing. More specifically, the dividends received during the period (458 million euro), together with the collection of the receivable (4.5 million euro) from the parent company CDP arising from participation in the fiscal consolidation, were more than offset by:

- the dividends – 2019 final dividend and 2020 interim dividend – distributed to shareholders (429 million euro);

[62] European Securities and Markets Authority.

- the payment of the bond coupon (14 million euro) and the interest expense (also taking into account (i) the settlement of interest related to the Swap Transactions and (ii) the early closure of the hedging derivatives) connected to the 750 million euro Term Loan (5 million euro) and the 188 million euro Term Loan (6 million euro);
- the arrangement fees related to the refinancing of the debt (4 million euro);
- the settlement of the margins received from the parent company CDP in accordance with the guarantee agreements signed at the same time as the hedging derivatives (with a negative cash flow for the period of around 3 million euro);
- additional outflows connected to ordinary operations.

The **current financial receivables** (9 million euro) refer to the balance of the cash collaterals[63] paid to the counterparty CDP (net of those collected) for transactions on the over-the-counter interest rate contract. Overall, please note that the receivable from SNAM for the 2020 interim dividend (about 105 million euro, collected in January 2021), in line with the approach adopted in previous years, is considered by CDP RETI as cash flow generated by its operating activity and consequently excluded from calculation of the Net Financial Debt.

Current financial debt (9 million euro) refers to the interest due on the Bond (about 8 million euro) and, residually, to that on the Term Loan, totalling 938 million euro, both with financial impacts that will be felt in May 2021. The significant decrease compared to 2019 is attributable to the liability management strategy implemented in May 2020 with the already described restructuring of the previous Term Loan of 750 million euro (maturing in May 2020 and classified as a short-term liability at the end of 2019) and 188 million euro (original maturity 2023) with the new Term Loan of 938 million euro (maturing in 2025).

The **non-current financial debt** (1,684 million euro), which does not consider the merely accounting effects deriving from the measurement at fair value of the derivatives, refers to:

- the Term Loan (934 million euro, equal to the nominal value of around 938 million euro, less the costs associated to it, which are amortised along its duration), granted in May 2020 by a pool of banks (76%) and the parent company CDP (24%) and maturing in 2025;
- the Bond (749 million euro, equal to the nominal value of 750 million euro, less the costs associated to it, which are amortised along its duration), subscribed in May 2015 by institutional investors (about 412 million euro, equal to 55%) and the Parent Company CDP (about 338 million euro, equal to 45%) and maturing in 2022.

The main economic terms of the new loan agreement entered into in May 2020 (overall amounting to 938 million) may be summarised as follows:

- total amount financed of 937,634,700 euro, of which:
  - 715,634,700 euro from a pool of banks;
  - 222,000,000 euro from the parent company CDP;
- floating interest rate, equal to the 6-month Euribor increased by a spread of 105 bps;
- application of a zero floor to the entire interest rate (Euribor + spread);
- interest periods of six months (in May and November);
- arrangement fee equal to 40 bps.

Furthermore, in order to mitigate the variability of the 6-month Euribor rate and the related cash flows and their impact on net income for the period, for these loans the rate was converted from floating to fixed by contracting a derivative - at market conditions[64] to hedge the future cash flows associated with the Term Loans (i.e. Interest Rate Swaps with the parent company CDP hedging against the interest rate risk associated with the Term Loans, in other words minimising the changes in the cash outflows generated by the loans and associated with the floating rates).

The characteristics of the derivative are entirely similar to those of the hedged items, and in particular:

- the notional amount is equal to the nominal value of the respective debts;
- the maturity (May 2025) and the settlement dates of the differentials of the derivative (on a half-yearly basis and in arrears) are aligned with the two loan agreements;
- the underlying variable rate and the spread coincide: 6-month Euribor + 105 bps.

The total mark to market of the IRS derivative, which is not listed on an active market, as calculated weekly by the parent company CDP,[65] amounted to a negative value for CDP RETI of approximately 8 million euro at 31 December 2020. This amount has been classified among financial liabilities, whereas changes in the value of the effective component of the

[63] Sums deposited at the parent company CDP to guarantee the current Interest Rate Swap (with negative fair values as at 31 December and shown in the other liabilities).
[64] That is to say, with a fair value upon the signing of the contract of near zero or else of an insignificant amount in terms of negative fair value as a percentage of the nominal value of the transaction.
[65] On the basis of generally accepted valuation models and techniques, which refer to inputs (the Euribor interest rate curve for the entire period of reference of the contract) observable on the market.

derivatives have been classified to a specific equity reserve (the "Cash Flow Hedge valuation reserve"), net of deferred tax effects, since the conditions for the application of hedge accounting have been satisfied.[66]

As at 31 December 2020, the Net Financial Debt/Equity ratio (leverage) stood at 0.46 and was in line with 2019.

When compared to 2019, the Net Financial Debt/Dividends ratio (representing the profit or loss on the company's core business) is lower instead (from 3.70 to 3.48) due mainly to the higher dividends due.

Cash flows

(thousand of euros)

Items	31/12/2020	31/12/2019
Cash and cash equivalents at the start of the year	**75,927**	**65,921**
Cash flows from operating activities	433,377	408,631
Cash flows from investing/disinvesting activities	(110)	
Cash flows from financing activities	(436,350)	(398,625)
Cash and cash equivalents at year end	**72,844**	**75,927**

The cash flow from operating activities in 2020 was positive (433 million euro) and was up (+24 million euro) on 2019 mainly due to the higher dividends received and lower interest paid on the financial debt, partly offset by the lower fiscal consolidation income received during the period (4 million euro compared with 6 million euro in 2019).

Compared with 2019, there was a cash outflow connected to investing activities, attributable to the outlays incurred for the purchase of licences (including capitalised projects) and the lease for the premises in Via Alessandria, 220 (Rome).

The cash flow from financing activities absorbed a total of 436 million euro, an increase on 2019, mainly due to the higher dividends paid to shareholders. More specifically, the cash flow for 2020 refers to the payment of dividends to shareholders (429 million euro) and the impacts of the debt refinancing (7 million euro).

[66] On 1 January 2018, CDP RETI adopted IFRS 9 as for the rules for classification, measurement and impairment. With regard to the rules on hedge accounting, the Company has exercised the option of maintaining the rules set out under IAS 39, applying the regulatory/accounting choices made by the Parent Company CDP.

2. REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF CDP RETI PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 2, LETTER B) OF THE CONSOLIDATED LAW ON FINANCE

With regard to the "Report on corporate governance and ownership structure: main characteristics of the risk management and internal control systems for financial reporting, including on a consolidated basis, pursuant to Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Finance", it is possible to refer to the contents of paragraph 8 of the Report on Operations of the consolidated financial statements, also applicable to the separate financial statements of CDP RETI S.p.A..

4

2020 separate financial statements

FORM AND CONTENT OF THE SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2020

The separate financial statements at 31 December 2020 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and consist of:

- Balance Sheet;
- Income Statement;
- Statement of comprehensive income;
- Statement of Changes in Equity;
- Statement of Cash Flows;
- the Notes to the financial statements;

The Notes consist of the following:

- Introduction
- I - Basis of presentation and accounting policies
- II - Information on the balance sheet
- III - Information on the income statement
- IV - Information on risks and related hedging policies
- V - Transactions with related parties
- VI – Non-recurring events and significant transactions
- VII – Operating segments

The section “Annexes”, which is an integral part of the financial statements, also includes the analytical list of equity investments owned by CDP RETI and the separate financial statements at 31 December 2019 of the parent company Cassa Depositi e Prestiti S.p.A.

With reference to the report to be made regarding the obligations introduced by Law no. 124 of 4 August 2017, concerning the transparency of public funds, we can state there is nothing that needs reporting.

SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2020

BALANCE SHEET - ASSETS

(euros) Assets	Notes	31/12/2020	*of which from related parties*	31/12/2019	*of which from related parties*
Non-current assets					
Property, plant and equipment	1	333,887	333,887		
Intangible assets	2	88,638			
Equity investments	3	5,023,064,811		5,023,064,811	
Non-current financial assets					
Deferred tax assets	4	2,225,081		1,701,323	
Other non-current assets					
Total non-current assets		**5,025,712,417**	**333,887**	**5,024,766,134**	
Current assets					
Current financial assets	5	9,445,750	9,445,750	6,887,203	6,887,203
Income tax receivables	6	109,566		109,566	
Other current assets	7	109,452,547	109,443,159	104,573,950	104,540,807
Cash and cash equivalents	8	72,844,243	5,884,406	75,927,386	9,997,193
Total current assets		**191,852,106**	**124,773,315**	**187,498,105**	**121,425,203**
Total assets		**5,217,564,523**	**125,107,202**	**5,212,264,239**	**121,425,203**

BALANCE SHEET - LIABILITIES

(euros) Liabilities and equity	Notes	31/12/2020	*of which from related parties*	31/12/2019	*of which from related parties*
Equity					
Share capital	9	161,514		161,514	
Reserves:	10	3,369,430,791		3,369,429,223	
Share premium reserve		*1,315,158,486*		*1,315,158,486*	
Income reserves		*24,352,284*		*24,350,715*	
Other reserves		*2,029,920,022*		*2,029,920,022*	
Valuation reserves	11	(5,309,748)		(3,995,568)	
Interim dividends	12	(285,695,654)		(267,003,639)	
Net income for the period (+/-)		436,147,986		410,032,315	
Total Equity		**3,514,734,890**		**3,508,623,845**	
Non-current liabilities					
Provisions					
Provision for employee benefits	13			25,587	
Loans	14	1,684,145,226	558,804,623	936,157,441	421,270,849
Other financial liabilities	15	7,793,121	7,793,121	2,650,678	2,650,678
Deferred tax liabilities	16	1,261,902		1,201,209	
Other non-current liabilities					
Total non-current liabilities		**1,693,200,248**	**566,597,744**	**940,034,915**	**423,921,527**
Current liabilities					
Current portion of long-term loans	17	8,892,078	3,875,009	759,128,772	341,607,948
Trade payables	18	87,529	1	63,824	
Income tax liabilities					
Current financial liabilities	19			3,786,872	3,786,872
Other current liabilities	20	649,778	466,788	626,011	407,952
- Tax payables		*12,512*		*14,513*	
- Payables to parent companies		*465,457*	*465,457*	*406,649*	*406,648*
- Payables due to pension and social security institutions		*5,167*		*15,022*	
- Other payables		*166,643*	*1,331*	*189,827*	*1,304*
Total current liabilities		**9,629,385**	**4,341,798**	**763,605,479**	**345,802,772**
Total liabilities and equity		**5,217,564,523**	**570,939,542**	**5,212,264,239**	**769,724,299**

INCOME STATEMENT

(euros) Income statement items	Notes	31/12/2020	*of which from related parties*	31/12/2019	*of which from related parties*
Revenues					
Revenues from sales and services					
Other revenues and income	21	21,777		21,777	
Total revenues		**21,777**		**21,777**	
Costs					
Services	22	(1,391,693)	(713,568)	(1,155,723)	(649,436)
Staff costs	23	(520,879)	(129,816)	(612,055)	(120,782)
Amortisation, depreciation and impairment on property, plant and equipment and intangible assets	24	(13,568)			
Net impairment (recoveries) of trade receivables and other receivables					
Other operating costs	25	(33,653)		(10,866)	
Total costs		**(1,959,794)**	**(843,384)**	**(1,778,644)**	**(770,218)**
Profit (loss) on operations		**(1,938,017)**	**(843,384)**	**(1,756,867)**	**(770,218)**
Financial income	26	463,760,273	463,084,008	435,727,949	435,724,934
- of which dividends from subsidiaries		*463,084,008*	*463,084,008*	*435,724,934*	*435,724,934*
Borrowing expenses	27	(29,893,028)	(15,963,767)	(28,321,743)	(15,961,358)
Total financial income (expenses)		**433,867,245**	**447,120,241**	**407,406,206**	**419,763,576**
Income before taxes		**431,929,228**	**446,276,858**	**405,649,339**	**418,993,358**
Income taxes, current and deferred taxes	28	4,218,758		4,382,976	
NET INCOME FOR THE YEAR		**436,147,986**	**446,276,858**	**410,032,315**	**418,993,358**

STATEMENT OF COMPREHENSIVE INCOME

(euros) Comprehensive income items	Notes	31/12/2020	31/12/2019
Income (loss) for the year		**436,147,986**	**410,032,315**
Other comprehensive income net of taxes not transferred to income statement			
Property, plant and equipment			
Defined benefit plans			
Other comprehensive income net of taxes transferred to income statement			
Financial assets at FVTOCI			
Cash flow hedges	11-15	(1,314,180)	1,667,749
Total other comprehensive income net of taxes		**(1,314,180)**	**1,667,749**
COMPREHENSIVE INCOME		**434,833,806**	**411,700,064**

STATEMENT OF CHANGES IN EQUITY: CURRENT FINANCIAL YEAR

(euros)	Notes	Share capital	Legal reserve	Issue premium	Valuation reserves net of taxes
Total equity at 31 december 2019		**161,514**	**32,303**	**1,315,158,486**	**(3,995,568)**
Change in opening					
Total equity at 1 January 2020		**161,514**	**32,303**	**1,315,158,486**	**(3,995,568)**
Net income (loss) for the year					
Other comprehensive income:	11				
- cash flow hedges					(1,314,180)
- defined benefit plans					
- exchange rate differences					
- other					
Total other comprehensive income					**(1,314,180)**
Comprehensive income					**(1,314,180)**
Transactions with Shareholders					
Allocation of previous year net income/(loss):					
- interim dividend 2019	12				
- dividends					
- retained earnings	10				
Interim dividend 2020	12				
Treasury stock transactions					
Total transactions with Shareholders					
Other changes					
Total other changes					
Total equity at 31 december 2020		**161,514**	**32,303**	**1,315,158,486**	**(5,309,748)**

STATEMENT OF CHANGES IN EQUITY: PREVIOUS FINANCIAL YEAR

(euros)	Notes	Share capital	Legal reserve	Issue premium	Valuation reserves net of taxes
Total equity at 31 december 2018		**161,514**	**32,303**	**1,315,158,486**	**(5,663,317)**
Change in opening					
Total equity at 1 January 2019		**161,514**	**32,303**	**1,315,158,486**	**(5,663,317)**
Net income (loss) for the year					
Other comprehensive income:	11				
- cash flow hedges					1,667,749
- defined benefit plans					
- exchange rate differences					
- other					
Total other comprehensive income					**1,667,749**
Comprehensive income					**1,667,749**
Transactions with Shareholders					
Allocation of previous year net income/(loss):					
- interim dividend 2018	12				
- dividends					
- retained earnings	10				
Interim dividend 2019	12				
Treasury stock transactions					
Total transactions with Shareholders					
Other changes					
Total other changes					
Total equity at 31 december 2019		**161,514**	**32,303**	**1,315,158,486**	**(3,995,568)**

Other reserves	Retained earnings	Net income (loss) for the year	Interim dividend	Total equity
2,029,920,022	**24,318,412**	**410,032,315**	**(267,003,639)**	**3,508,623,845**
2,029,920,022	**24,318,412**	**410,032,315**	**(267,003,639)**	**3,508,623,845**
		436,147,986		436,147,986
				(1,314,180)
				(1,314,180)
		436,147,986		**434,833,806**
		(267,003,639)	267,003,639	
		(143,027,107)		(143,027,107)
	1,569	(1,569)		
			(285,695,654)	(285,695,654)
	1,569	**(410,032,315)**	**(18,692,015)**	**(428,722,762)**
2,029,920,022	**24,319,981**	**436,147,986**	**(285,695,654)**	**3,514,734,890**

Other reserves	Retained earnings	Net income (loss) for the year	Interim dividend	Total equity
2,029,920,022	**24,318,001**	**387,559,714**	**(255,938,315)**	**3,495,548,408**
2,029,920,022	**24,318,001**	**387,559,714**	**(255,938,315)**	**3,495,548,408**
		410,032,315		410,032,315
				1,667,749
				1,667,749
		410,032,315		**411,700,064**
		(255,938,315)	255,938,315	
		(131,620,988)		(131,620,988)
	411	(411)		
			(267,003,639)	(267,003,639)
	411	**(387,559,714)**	**(11,065,324)**	**(398,624,627)**
2,029,920,022	**24,318,412**	**410,032,315**	**(267,003,639)**	**3,508,623,845**

STATEMENT OF CASH FLOWS

(euros)	Notes	31/12/2020	31/12/2019
Net income		**436,147,986**	**410,032,315**
Adjustments to net income to reflect cash flow from operating activities:			
Amortisation and depreciation	24	13,568	
Recoveries (impairment) on financial assets	27	(293)	490
Provisions for staff severance pay	13	8,037	7,851
Net writedowns (revaluations) from hedging activities			
Effect of accounting using the equity method			
Net losses (gains) on disposals, cancellations and eliminations of assets			
Dividends	26	(463,084,008)	(435,724,934)
Interest income	26	(676,265)	(3,015)
Interest expense	27	29,917,406	28,321,253
Income taxes	28	(4,218,758)	(4,382,976)
Changes in working capital:			
- Inventories			
- Trade receivables			
- Trade payables		69,734	80,815
- Provisions			
- Current financial assets		(2,559,949)	1,500,002
- Other assets and liabilities		(39,668)	(156)
Cash flow from working capital		**(2,529,883)**	**1,580,662**
Change in provisions for employee benefits	13	(33,597)	
Dividends received	26	458,026,286	430,983,319
Interest received	26	676,265	3,015
Interest paid	27	(25,337,555)	(27,839,999)
Income taxes paid net of tax credits reimbursed / income from participation in the tax consolidation mechanism	7	4,467,694	5,653,314
Cash flow from operating activities		**433,376,884**	**408,631,296**
- with related parties		*444,762,190*	*421,851,545*
Investing activities:			
- Property, plant and equipment	1	(30,000)	
- Intangible assets	2	(80,188)	
- Companies in the scope of consolidation and business units			
- Equity investments			
- Change in payables and receivables relative to investing activities			
Cash flow from investing activities		**(110,188)**	
Divestments:			
- Property, plant and equipment			
- Intangible assets			
- Equity investments			
- Change in payables and receivables relative to divestments			
Cash flow from divestments			
Net cash flow from investing activities		**(110,188)**	
- with related parties			
Assumption of long-term financial debt		930,007,622	
Repayments of long-term financial debt		(187,634,700)	
Increase (decrease) in short-term financial debt		(750,000,000)	
Net equity capital injections			
Dividends distributed to shareholders	10-12	(428,722,762)	(398,624,627)
Net cash flow from financing activities		**(436,349,839)**	**(398,624,627)**
- with related parties		*(608,137,101)*	*(375,113,983)*
Net cash flow for the year		**(3,083,143)**	**10,006,669**
Cash and cash equivalents at start of year	8	75,927,386	65,920,717
Cash and cash equivalents at end of year	8	72,844,243	75,927,386

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

Form and content of the financial statements

The financial statements of CDP RETI have been prepared in accordance with the IFRS and comprise the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and these notes to the financial statements, as well as the Directors' report on operations.

The financial statements clearly present, and give a true and fair view of, the Company's financial performance and results of operations for the year.

The financial statements correspond with the company's accounting records and fully reflect the transactions conducted during the financial year.

All figures in the financial statements and in the tables in the notes are in euros. In the income statement, revenues are indicated without a sign, while costs are shown in brackets. The rounded amounts for the various items are the sum of the rounded balances of sub-items.

As detailed below, the notes to the financial statements provide all information required by law, as well as any supplemental information deemed necessary in order to give a true and fair view of the company's financial performance and standing.

Starting from the financial year 2020, the items which make up the statement of changes in equity were restated in order to provide a clearer reporting.

Auditing of the financial statements

The financial statements of CDP RETI are audited by the independent auditors Deloitte&Touche S.p.A., for the 2020-2028 in compliance with the audit engagement assigned to this firm with shareholders' resolution of 24 June 2015.

The Ordinary Shareholders' Meeting of CDP RETI, held on 10 May 2019, awarded the audit engagement – as mentioned for the period 2020-2028 - to the independent auditors Deloitte&Touche, having joined the procedure for the selection of a single auditor for the Group, initiated by the Parent Company CDP, in view of the upcoming expiry of the audit engagement awarded to PricewaterhouseCoopers S.p.A. for the period 2011-2019.

Management and coordination by CDP S.p.A.

CDP RETI is 59.10% owned by CDP. The Company is subject to management and coordination by CDP. Management and coordination is performed in such a way as to avoid infringing European regulations on state aid.

I - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

I. GENERAL INFORMATION

Declaration of compliance with the International Financial Reporting Standards

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Commission and in force at 31 December 2020, taking into account also the minimum reporting requirements established by the Italian Civil Code, where compatible with the standards adopted.

The international accounting standards include the IFRS issued by the IASB, the IAS still in force issued by the IASC and the interpretations issued by the IFRS Interpretation Committee (IFRS IC), including those previously issued by the International Financial Reporting Interpretations Committee (IFRIC) and, even earlier, by the Standing Interpretations Committee (SIC).

General preparation principles

The financial statement formats used to prepare the financial statements are consistent with the provisions of IAS 1 – Presentation of Financial Statements (hereinafter, IAS 1).

More specifically:

- the items on the balance sheet are classified by distinguishing assets and liabilities as “current / non-current”;
- the income statement has been prepared by classifying costs by their nature, insofar as this form of presentation is deemed the most appropriate for representing the actual situation of the Company, and is consistent with the consolidated practice of firms operating on international markets;
- the statement of comprehensive income shows income inclusive of the revenues and costs that are recognised directly in equity pursuant to IFRS;
- the statement of changes in equity presents the total income (loss) for the year, the transactions with shareholders and other changes in equity;
- the statement of cash flows is drafted by using the “indirect” method, adjusting net income for the effects of non-cash transactions. The statement of cash flows requires a separate indication of the cash flows from operating activities, investing activities and financing activities.

It is believed that these statements present an adequate view of the Company’s financial position and performance of operations.

Reference is made to the section “Transactions with related parties” for information about the net amounts of receivables and payables and transactions with related parties.

The financial statements have been prepared in accordance with the IFRS issued by the IASB (including the SIC and IFRIC interpretations) and endorsed by the European Commission pursuant to Regulation (EC) 1606 of 19 July 2002, published in Official Journal L. 243 of 11 September 2002.

For the purposes of interpretation and to provide support in applying these standards, the following documents have also been considered, although they have not been endorsed by the European Commission:

- the Framework for the Preparation and Presentation of Financial Statements, issued by the International Accounting Standards Board (IASB) in 2001;
- Implementation Guidance, Basis for Conclusions, IFRIC interpretations, and any other documentation prepared by the IASB or IFRIC to supplement the IFRS issued;
- Interpretation documents concerning the application of the IFRS in Italy, prepared by the Organismo italiano di contabilità (Italian Accounting Board, OIC);
- Documents issued by ESMA, IOSCO and Consob with regard to assessments and disclosures required in respect of the impacts of the COVID-19 outbreak.

Where the information required by the IFRS is deemed to be inadequate in presenting the company’s financial standing in a true and fair manner, the explanatory notes also provide supplemental information for such purpose.

The financial statements have been duly prepared on an accrual and going-concern basis. The general principles of the materiality and significance of information and the prevalence of substance over form have also been taken into account.

In compliance with IAS 1 Revised, CDP RETI has conducted an assessment of the Company's ability to continue to operate as a going concern, considering all available information over the medium term.

Based on analysis of this information, CDP RETI feels that it is appropriate to prepare its financial statements on a going concern basis. For further details, see the information provided in the section “COVID-19 note”.

No assets have been offset against liabilities, nor income against expenses, unless expressly required or allowed by an accounting standard or a related interpretation.

Use of estimates

The application of International Financial Reporting Standards in preparing the financial statements requires the company to make accounting estimates for certain balance sheet items that are considered reasonable and realistic according to the information available at the time the estimate is made. Such estimates impact the carrying amount of the assets and liabilities, and the disclosures on contingent assets and liabilities at the reporting date, as well as the amounts reported for revenues and costs for the reporting period. The management estimates and judgments are based on past experience and other factors that are considered to be reasonable in the circumstances. They are used when the carrying value of the assets and liabilities cannot be readily determined from other sources. The actual results may therefore differ from these estimates. Changes in the conditions underlying the judgements, assumptions and estimates used could also have an impact on future earnings results.

The main areas in which management is required to make subjective assessments are:

- the recoverable amount of equity investments: at least annually, the Company assesses the presence of impairment indicators for each equity investment and, if any are identified, it conducts impairment tests on those assets;
- the quantification of impairment losses/reversals of impairment loss on financial assets: at each reporting date, the Company makes a provision for expected losses based on assumptions regarding the risk of default;
- the fair value of interest rate swap hedging derivatives (unlisted financial instruments) using specific valuation techniques;
- leases: in the absence of observable inputs, the Company calculates the present value of the lease payments by estimating the incremental borrowing rate – at the lease inception date – based on assumptions that reflect the duration and contractual conditions of the lease.
- the value of current and deferred tax;

The description of the accounting policies used for the main financial statement items provides details on the main assumptions and assessments used in preparing the financial statements.

Events subsequent to the reporting date

During the period between the reporting date for these financial statements and the date of their approval by the Board of Directors on (26 March 2021), no events occurred that would require an adjustment to the figures approved nor did any significant events occur that would have required providing additional information or additional reporting.

For more details, see the section “SIGNIFICANT EVENTS AFTER 31 DECEMBER 2020” of the Report on Operations in the Consolidated Financial Statements.

Other issues

New international financial reporting standards endorsed and in force from 2020, and new financial reporting standards and interpretations issued and endorsed by the European Union, but not yet in force (entry into force for financial years beginning from 1 January 2021)

As regards the new international financial reporting standards endorsed and in force from 2020, and the new standards and interpretations already issued and endorsed by the European Union, but not yet in force (date of entry into force for financial years beginning from 1 January 2021), reference is made to the Notes to the consolidated financial statements.

COVID-19 note

Disclosure of going concern, significant uncertainties and risks linked to COVID-19

Introduction

In accordance with IAS 10, the Company has classified COVID-19 as a non-adjusting subsequent event for the financial statements for the year ended 31 December 2019, taking the view that this circumstance should not lead to any adjustment of the financial statement figures at 31 December 2019. Although the event did not lead to an adjustment in the figures, it did require a specific disclosure in the financial statements.

As relates to the financial statements for the year ended 31 December 2020, however, the pandemic has been classified as an adjusting event and, as a consequence, its impacts must be reflected in the financial statements.

Accordingly, in preparing the Annual Financial Report at 31 December 2020, the Company mainly assessed (i) the financial sustainability of the business, (ii) the recoverability of the assets and (iii) the determination of any liabilities related to costs resulting from the COVID-19 outbreak. The going concern assumption was reassessed to verify the existence of significant uncertainties. In this regard, in December 2020 the business plans (approved by the Board of Directors on 11 December 2020) were reviewed. This review confirmed that, currently, the dividends expected over the time period examined (the three-year period 2021-2023) are able to meet the requirements of the existing loans/covenants.

For further details on the assessments carried out, see the Report on Operations “5. Business outlook for 2021”.

The assumptions used, the uncertainties identified and the assessments carried out, with their effects on the main areas of the financial statements, are reported below, based on the information currently available.

Going concern

With regard to CDP RETI S.p.A., considering all information available about capital structure, available liquidity and financial performance over the medium term, even in the context of the ongoing COVID-19 outbreak, there is no evidence of factors that might in any way affect the ability to continue operating as a going concern for a period of at least twelve months after the end of the financial year.

Significant uncertainties

Despite the actual objective uncertainties about the extent and duration of the pandemic, the most significant financial items of CDP RETI S.p.A. (i.e. dividends and financial charges) are not expected to be distressed. Based on the information currently available, there is no evidence that could predict significant changes to the 2021 Budget assumptions included in the 2021-2023 Business Plan approved on 11 December 2020.

Indeed, it is not expected to have any significant impact on the strategy and objectives of the Company, on its ability to distribute dividends to Shareholders, nor on the Net Financial Position or cash-flow, or more generally on liquidity risk. There are currently no distressed conditions affecting debt or equity (nor are they reasonably foreseeable) or a financial situation of the Company that would require support from the Shareholders.

With regard to the main assets (i.e. equity investments in the portfolio), based on the stock market values at 31 December 2020 and the information currently available, there is no indication of impairment that could affect the book value of the equity investments held.

Lastly, the maturities (May 2022 for the Bond and May 2025 for the Term Loan) and the composition of the financial debt are fully confirmed, as there is no indication of liquidity distress and the ability to comply with obligations and covenants for existing loans is confirmed.

Risks linked to COVID-19

With regard to the risks that the Company is exposed to, the COVID-19 pandemic has not generated any additional risks or new elements of risk not already addressed.

Based on the current equity investment portfolio, the Company does not have concentrations of activities in sectors most affected by the epidemic (i.e. airlines, hospitality, tourism) and is less exposed to the risk of a significant impact in the short term. There is a reasonable expectation that there will be no increases in operating costs or higher borrowing costs, at least in the short term: (i) due to the positive conclusion – in May 2020 – of the debt refinancing operation and (ii) because the Company has entered into an interest rate swap with CDP on the two floating-rate loans. In addition, the Company is not expected to request a postponement to the payment date of future interest expenses (i.e. May 2021) nor, at this point in time – based on the strategic plans of the subsidiaries – does it expect changes in the cash inflow from dividends from the 2020 income.

Notwithstanding the above, it is not possible to completely exclude that the duration of the emergency could have adverse effects on CDP RETI S.p.A., which cannot be estimated based on the information available at present.

For details of the risk monitoring and management policies, see the section "IV - Information on risks and related hedging policies".

Impairment testing of financial assets

The corporate purpose of the Parent Company CDP RETI S.p.A. is the holding and ordinary and extraordinary management, directly and/or indirectly, of equity investments in SNAM, TERNA and ITALGAS, with the Company acting as a long-term investor with the objective of supporting the development of transport, dispatching, regasification, storage and distribution infrastructures for natural gas, as well as electricity transmission.

At every annual or interim reporting date, objective evidence that the carrying value of the equity investments might not be fully recoverable is assessed. An impairment test is performed when the aforementioned evidence exists, to estimate the recoverable amount of the equity investments and comparing it with their carrying value, to determine the recognition of any impairment losses.

In principle, it should be noted that the CDP RETI Group's core business is represented by the activities conducted by the subsidiaries (SNAM, TERNA and ITALGAS) under a regulated regime and that the stock exchange prices of those subsidiaries at 31 December 2020 were well above their carrying amounts in the Company's financial statements.

In view of the Company's current operations, there is no significant impact on other financial assets (e.g. receivables related to derivative transactions), also with respect to the measurement of expected credit losses according to IFRS 9.

Other areas of focus

Hedge Accounting

Existing hedging relationships have not changed in terms of compliance with hedge effectiveness requirements and, currently, no changes are envisaged on a prospective basis, connected to the situation generated by the COVID-19 pandemic. There is no evidence of situations that would require the early termination of the interest rate swap entered into with the parent company CDP.

Fair value measurement

The Company has no significant impacts to report related to the fair value measurement of financial instruments (e.g. cash flow hedges). Changes in fair value are disclosed in the notes to the financial statements (as required by IFRS 13) and in the section "Fair value measurement" in the description of the measurement techniques used.

Taxes

CDP RETI S.p.A. has not benefited from any of the tax incentives (e.g. tax credits, extension of deadlines for tax payments, funding through grants, etc.) provided for in the COVID-19 measures enacted by the Government.

There has been no impact on the deferred tax assets (whose recoverability has been assessed) or the deferred tax liabilities.

Leases

There are no situations caused by the impacts of COVID-19 referred to contractual amendments, suspensions or requests for deferral of lease payments or the granting of discounts.

Contingent liabilities

As there are no current specific obligations in relation to COVID-19 forecasts that would likely require a future financial outlay, there has been no need to make provisions arising from the pandemic situation.

Suspension of dividend distribution

No suspensions of dividend distributions on the 2020 profit have been announced and no significant impacts are expected on the strategy and objectives of the Company or its ability to distribute dividends to Shareholders.

COVID-19 disclosure on non-financial matters

To guarantee the safety of its employees, the Company has continued to implement a series of initiatives, already undertaken in the first half of 2020, aimed at limiting the mobility of personnel and the risks of contagion, by massively adopting remote working and suspending personnel transfers throughout Italy. Wherever possible, audio-conferencing has been used to hold meetings, including those of the Board of Directors (as provided for by Decree Law no. 18 of 17 March 2020 and Decree Law no. 104 of 14 August 2020, containing urgent measures related to the COVID-19 epidemiological emergency).

In view of CDP RETI S.p.A.'s role as an investment vehicle, there are no issues related to COVID-19 in non-financial areas, such as impacts on the business model and its ability to create value.

II. THE MAIN FINANCIAL STATEMENT ITEMS

The accounting policies used to prepare the separate financial statements of CDP RETI S.p.A., with reference to the main financial statement items, are described in the Notes to the consolidated financial statements, to which reference should be made, except for the accounting policies relating to the treatment of equity investments in subsidiaries, described below.

An asset or liability is classified as "current" when its trading, realisation or settlement are expected within twelve months from the reporting date or within the normal business cycle, if after twelve months; all other assets and liabilities are classified as "non-current".

Equity investments

The equity investments held at 31 December 2020 are listed individually in Annex 1 “Analytical list of equity investments”, which is an integral part of these Notes to the financial statements.

Equity investments are initially recognised at cost as at the settlement date.

The existence of objective evidence that the carrying amount of the equity investments might not be fully recoverable is assessed at every annual or interim reporting date.

Evidence of impairment, based on the existence of qualitative and quantitative indicators, as illustrated hereunder, and in accordance with the internal policies of the Parent company CDP, differs where these involve investments in companies whose shares are or are not listed on active markets.

An impairment test is performed when the aforementioned indicators exist, in accordance with the provisions of IAS 36. This test is aimed at estimating the recoverable amount of the equity investment and comparing it with the carrying value to determine the recognition of any impairment losses.

The following are considered possible indicators of impairment:

- the recognition of losses or significantly lower results than budgeted (or forecast in multi-year plans), if, after specific analyses, they are relevant due to their effects on the estimate of expected future cash flows in any impairment test preparation;
- significant financial difficulty of the investee;
- probability that the investee will declare bankruptcy or enter into other financial reorganisation procedures;
- a carrying value of the investment in the separate financial statements that exceeds the carrying value, in the consolidated financial statements, of the net assets of the investment (including any goodwill);
- the distribution of a higher dividend than the income for the period and the existing income reserves;
- the distribution of a higher dividend by the investee than the income in the comprehensive income (or statement of comprehensive income for financial companies) in the year when it is declared.

With reference to listed equity investments, the following are also considered indicators of impairment:

- a reduction in the market price exceeding the carrying value by over 40% or for more than 24 months;
- a downgrade of the rating of at least four notches from the time when the investment was made, if assessed as relevant together with other available information.

The recoverable amount of the unit is the higher between fair value less costs of disposal and the value in use, being the present value of the future cash flows that the equity investment may generate, including the final disposal value of the investment. If the recoverable amount is lower than the carrying value and if there is persistent or significant impairment, the difference is recognised in the income statement as an impairment loss. If the reasons that led to the recognition of the impairments cease to exist, the impairment losses are reversed, while recognising the effect of this adjustment in the income statement under “Income (expenses) from equity investments”.

The investor’s interest in any losses of the investee that exceed the carrying value of the equity investment is recognised in a specific provision, to the extent that the investor is committed to meeting the legal or constructive obligations of the investee, or otherwise cover its losses.

The dividends are recognised when the investor has the right to receive payment for it (resolution to distribute dividends passed by the shareholders' meeting of the investee or the board of directors, if an advance on the dividend is received). The dividends resolved by the subsidiaries are recognised in the income statement when they are resolved and recognised as financial income regardless of the nature of the distributed reserves (equity or profit reserves and, in this latter case, even when these profits derive from the distribution of profit reserves that were established before the acquisition of the equity investment). In any event, considering that the distribution of those reserves represents an event implying a reduction in the value of the equity investment, the Company verifies the recoverability of the carrying value of the equity investment and, if appropriate, recognises an impairment.

Equity investments are derecognised when the contractual rights to the cash flows deriving from ownership of the equity investments expire or when the financial asset is sold, transferring substantially all risks and rewards connected with it.

Cash and cash equivalents

Cash and cash equivalents include on-demand or near term deposits, as well as short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. They are measured at their nominal amount, which corresponds to fair value.

Financial liabilities measured at amortised cost

This item mainly includes loans granted to the Company by the parent company or by banks, as well as the issuance of the bond in May 2015 which is listed on regulated markets. Financial liabilities other than derivative instruments are recognised when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value adjusted for directly attributable transaction costs. The financial liabilities are subsequently measured at amortised cost, using the effective interest rate method. Financial liabilities are derecognised when settled or when the contractual obligation has been satisfied, cancelled or has expired. When an existing financial liability is replaced by another to the same creditor on substantially different terms, or the terms of an existing liability are substantially modified, that replacement or modification is treated as a derecognition of the original liability and a recognition of a new liability. The difference between the respective carrying amounts is recognised in the income statement.

Hedging derivatives and hedge accounting

Derivatives, including embedded derivatives, are assets and liabilities recognised at fair value. A derivative is a financial instrument or other contract:

- whose value changes in relation to variations in a parameter defined as the “underlying”, such as an interest rate, security or commodity price, foreign exchange rate, index of prices or rates, credit rating or other variable;
- that requires an initial net investment of zero, or less than what would be required for contracts with a similar response to changes in market conditions;
- that is settled at a future date.

In order to classify a transaction as a fair value hedge or a cash flow hedge, formal documentation is prepared at the inception of the hedge that describes the risk management strategies and objectives and identifies the hedging instrument, the instrument hedged, the nature of the hedged risk and how it will be assessed to determine whether the hedging relationship meets the hedge effectiveness requirements. The Company has entered into derivatives with its parent company CDP S.p.A. that hedge the risk of changes in the cash flows of the hedged instruments (cash flow hedges). Changes in the fair value of derivatives that are considered effective are initially recognised in the equity reserve relating to other comprehensive income and subsequently recognised in profit or loss in accordance with the income effects produced by the hedged transaction. The ineffective portion of the hedge is recognised through profit or loss for the year.

Income taxes

Current income taxes are calculated on the basis of the estimated taxable income. With regard to corporate income tax (IRES), CDP RETI, as a consolidated entity, has exercised the option of participating in the national fiscal consolidation together with its parent company CDP S.p.A. Under the group taxation rules, subsidiaries with taxable income are required to pay the tax due to the parent company CDP S.p.A.. This taxable income is adjusted to take into account the recovery – based on the Group’s capacity – of negative components that would have been non-deductible without the consolidation (e.g. interest expense) and the ACE benefit.

Deferred income tax assets and liabilities are calculated on the temporary differences between the values of the assets and liabilities recognised in the financial statements and the corresponding values recognised for tax purposes based on the rates and regulations, applicable in the years when the temporary difference will reverse, approved at the end of the reporting financial year. Deferred tax assets are recognised when their recovery is considered likely and their recoverability is verified at least annually. When the results of operations are recognised directly in equity, the current taxes and the deferred tax assets and liabilities are also recognised in equity.

II - INFORMATION ON THE BALANCE SHEET

I. ASSETS

Non-current assets

1. Property, plant and equipment

Below is a breakdown of property, plant and equipment, which had a net value of 334 thousand euro at 31 December 2020, referring to the rights of use acquired through lease (RoU)[67]. More specifically, the item includes the value of the right of use following the execution - in the last quarter of 2020 - of the lease contract (entered into with CDP IMMOBILIARE as lessor) regarding portions of the property situated at Via Alessandria 220 (Rome). The property is used for office and management purposes. In this regard, please note that at 31 December 2019, due to the Company's decision to use the "recognition exemptions" provided by IFRS 16 (and in particular making use of the possibility to exclude lease contracts with a total or remaining lease term of less than or equal to 12 months and low-value contracts), no right of use had been recognised.

See section "X - Disclosure of leases" for additional information on the accounting method and note 14 "Loans" for liabilities connected to leased assets.

Property, plant and equipment: breakdown

(euros)	31/12/2020			31/12/2019		
Items/Figures	Gross amount	Provision for amortisation, depreciation and impairment	Net value	Gross amount	Provision for amortisation, depreciation and impairment	Net value
Owned						
Right of use acquired under leases ex IFRS 16						
Buildings	343,127	(9,240)	333,887			
Plant and equipment						
Other plant and equipments						
Other assets						
Assets under development and advances						
Total	**343,127**	**(9,240)**	**333,887**	**-**	**-**	**-**

[67] Right of Use (by the Lessee) of an asset for a specific period of time upon paying consideration to the lessor. To this end, we remind you that adoption of the new IFRS 16 (Leases) from 1 January 2019 requires lease contracts to be recorded by recognising a financial liability in the balance sheet, equal to the present value of future lease payments, upon recognition under assets of the right of use of the leased asset.

Property, plant and equipment: changes for the year

(euros) Items/Figures	Buildings	Plant and equipments	Other plant and equipments	Other assets	Assets under development and advances	Total
Gross opening balance						
of which Right of use IFRS 16						
Provision for amortisation, depreciation and impairment - opening balance						
of which Right of use ex IFRS 16						
Net opening balance						
of which Right of use IFRS 16						
Gross amount: change for the period						
Investments	343,127					343,127
of which Right of use IFRS 16	*343,127*					*343,127*
Provision for amortisation, depreciation and impairment: change for the period						
Depreciation for the period	(9,240)					(9,240)
of which Right of use IFRS 16	*(9,240)*					*(9,240)*
Provision for amortisation, depreciation and impairment - closing balance	**(9,240)**					**(9,240)**
of which Right of use IFRS 16	***(9,240)***					***(9,240)***
Net closing balance	**333,887**					**333,887**
of which Right of use IFRS 16	***333,887***					***333,887***

2. Intangible assets

The following table illustrates the breakdown of intangible assets at 31 December 2020, entirely referring to "*Concessions, licenses, trademarks and similar rights*" and "*Assets under development and advances*". The net value totals 89 thousand euro and includes costs incurred to purchase software applications and user licences (41 thousand euro) and the relative portion of the design and implementation phase (48 thousand euro), which will be completed in 2021. Amortisation, amounting to 4 thousand euro, is calculated on a straight-line basis over the remaining useful life (no more than five years).

Intangible assets: breakdown

(euros)	31/12/2020			31/12/2019		
Items/Figures	Gross amount	Provision for amortisation, depreciation and impairment	Net value	Gross amount	Provision for amortisation, depreciation and impairment	Net value
Goodwill						
Service concession agreements						
Industrial patent and intellectual property rights						
Concessions, licenses, trademarks and similar rights	45,140	(4,328)	40,812			
Other intangible assets						
Assets under development and advances	47,826		47,826			
Total	**92,966**	**(4,328)**	**88,638**			

Intangible assets: changes for the year

(euros) Items/Figures	Industrial patent and intellectual property rights	Concessions, licenses, trademarks and similar rights	Other intangible assets	Assets under development and advances	Total
Gross opening balance					
Provision for amortisation, depreciation and impairment - opening balance					
Net opening balance					
Gross amount: change for the period					
Investments		45,140		47,826	92,966
Transfers					
Disposals					
(Writedowns)/Writebacks					
Other changes					
Reclassifications					
Provision for amortisation, depreciation and impairment - change for the period					
Depreciation for the period		(4,328)			(4,328)
Disposals					
(Writedowns)/Writebacks					
Other changes					
Reclassifications					
Gross closing balance		**45,140**		**47,826**	**92,966**
Provision for amortisation, depreciation and impairment - closing balance		**(4,328)**			**(4,328)**
Net closing balance		**40,812**		**47,826**	**88,638**

3. Equity investments

The net amount of this item refers to the value of controlling investments that CDP RETI owns in SNAM S.p.A., Terna S.p.A., and Italgas S.p.A. If impairment indicators have been identified, the recoverable amount is verified, considering the higher of fair value and value in use. The fair value is generally determined based on stock market prices. The value in use estimate is determined based on valuation practice deemed to be in line with the best practices identified on a case-by-case basis. The estimate of recoverable amount of the equity investments recognised in the financial statements was made by determining the fair value. In this respect, please note that the equity investments in question passed the impairment tests.

There were no changes in the value of equity investments in the period and the breakdown of the item is as follows:

Equity investments: breakdown

(euros) Names	31/12/2020	31/12/2019
Italgas SpA	621,032,150	621,032,150
SNAM SpA	3,086,832,661	3,086,832,661
Terna SpA	1,315,200,000	1,315,200,000
Total	**5,023,064,811**	**5,023,064,811**

Equity investments in subsidiaries, joint operations and companies subject to significant influence: information on investments

Names	Registered office	% holding
1. Italgas S.p.A.	Milan	26.04%
2. SNAM S.p.A.	San Donato Milanese (MI)	31.35%
3. Terna S.p.A.	Rome	29.85%

Equity investments in subsidiaries, joint operations and companies subject to significant influence: accounting information

(millions of euro)

Names	Total assets (1)	Total revenues (1)	Net income (loss) (1)	Equity (1)	Carrying amount	Type of transaction
Italgas SpA	9,398	2,127	404	1,981	621	Control
SNAM SpA	26,130	2,770	1,101	6,472	3,087	Control
Terna SpA	20,696	2,576	758	4,416	1,315	Control

(1) Data from the 2020 Annual Report - Consolidated Financial Statements

The table below shows the changes in equity investments:

Equity investments: changes for the year

(euros)

Items/Figures	31/12/2020	31/12/2019
A. Opening balance	**5,023,064,811**	**5,023,064,811**
B. Increases		
B.1 Purchases		
B.2 Writebacks		
B.3 Revaluations		
B.4 Other increases		
C. Decreases		
C.1 Sales		
C.2 Writedowns		
C.3 Other decreases		
D. Closing balance	**5,023,064,811**	**5,023,064,811**
E. Total revaluations		
F. Total impairments		

The share certificates (dematerialised) of equity investments in Italian subsidiaries held by CDP RETI S.p.A. are kept at the premises of the parent company CDP S.p.A. based on a securities custody and administration deposit contract signed by the parties.

4. Deferred tax assets

Following below is a breakdown of “Deferred tax assets” recognised at 31 December 2020 for a total amount of 2,225 thousand euro (1,701 thousand euro at 31 December 2019).

Deferred tax assets: breakdown

(euros)

Items/Figures	31/12/2020	31/12/2019
Deferred IRES	19,560	23,786
Deferred tax assets recognized in equity	2,205,521	1,677,537
Total	**2,225,081**	**1,701,323**

Deferred IRES is calculated on temporary differences between accounting and tax values that will become deductible in years following that in which they are recognised.

Deferred tax assets with an impact on equity are instead related to deferred tax recognised in relation to the Interest Rate Swap (IRS) derivative contract entered into to hedge the Term Loan Facility, both signed by the company in May 2020.

The following tables indicate the change in deferred tax assets during the financial year:

Change in deferred tax assets (recognised in the income statement)

(euros)

Items/Figures	31/12/2020	31/12/2019
1. Opening balance	**23,786**	**23,182**
2. Increases	**19,420**	**23,786**
2.1 Deferred tax assets recognised during the year	19,420	23,786
a) in respect of previous periods		
b) due to change in accounting policies		
c) writebacks		
d) other	19,420	23,786
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**23,646**	**23,182**
3.1 Deferred tax assets derecognised during the year	23,646	23,182
a) reversals	23,646	23,182
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**19,560**	**23,786**

Change in deferred tax assets (recognised in equity)

(euros)

Items/Figures	31/12/2020	31/12/2019
1. Opening balance	**1,677,537**	**2,377,740**
2. Increases	**2,205,521**	**502,082**
2.1 Deferred tax assets recognised during the year	2,205,521	502,082
a) in respect of previous periods		
b) due to change in accounting policies		
c) others	2,205,521	502,082
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**1,677,537**	**1,202,285**
3.1 Deferred tax assets derecognised during the year	1,677,537	1,202,285
a) reversals	1,677,537	1,202,285
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**2,205,521**	**1,677,537**

Current assets

5. Current financial assets

“Current financial assets” at 31 December 2020 amounted to 9,446 thousand euro (6,887 thousand euro at 31 December 2019) and refer to the receivable with the parent company CDP for the margin paid to it under the guarantee agreement (Credit Support Agreement) entered into when the cash flow hedge derivative contract was taken out. The positive change of approximately 3 million euro on 2019 is due to the combined effect of mark to market trends of the cash flow hedge derivatives in 2019 and that of the hedging derivative on the new loan entered into in May 2020.

Current financial assets: breakdown

(euro)

Items/Figures	31/12/2020	31/12/2019
Loans to CDP for CSA	9,445,750	6,887,203
Total	**9,445,750**	**6,887,203**

6. Income tax receivables

The balance of "Income tax receivables" includes assets related to current taxes, and in particular the tax receivables for IRAP, whose amount is unchanged from the previous financial year.

Income tax receivables: breakdown

(euros) Items/Figures	31/12/2020	31/12/2019
IRAP receivables	109,566	109,566
Total	**109,566**	**109,566**

7. Other current assets

The following table shows the breakdown of "Other current assets", which at 31 December 2020 amounted to 109,453 thousand euro (104,574 thousand euro at 31 December 2019):

Other current assets: breakdown

(euros) Items/Figures	31/12/2020	31/12/2019
Receivables from CDP for tax consolidation	4,283,676	4,439,271
Receivables from CDP for tax consolidation: withholdings	1,008	784
Receivables from SNAM for interim dividend	105,158,474	100,100,752
Advances for VAT		28,423
Other current assets	9,389	4,720
Total	**109,452,547**	**104,573,950**

As at 31 December 2020, the amount due from SNAM S.p.A. was recognised under other current assets. The receivable refers to the advance on the 2020 dividend, which was approved by the investee on 5 November 2020 and amounts to 0.0998 euro per share. CDP RETI received the advance on 20 January 2021.

Current assets also include the net amount due from the parent company CDP as a result of the tax consolidation mechanism, including:

- receivables of 778 thousand euro resulting from the excess 2020 ACE (aid to economic growth tax incentive) transferable to tax consolidation;
- receivables of 3,506 thousand euro resulting from excess interest expense that cannot be deducted at individual level but can be transferred to tax consolidation.

The other current assets mainly refer, instead, to the deferral of costs arising during the financial year but related to the following financial year.

8. Cash and cash equivalents

"Cash and cash equivalents" of CDP RETI, equal to approximately 73 million euro and down slightly (-3 million) with respect to the comparable period due to the cash flow used in financing activities (436 million), which was higher than the cash flow generated by operations (433 million), consisted of the following at 31 December 2020:

- balance of bank current accounts;
- balance of the interest-bearing demand deposit held with the parent company CDP.

The table below summarises cash and cash equivalents at 31 December 2020 including interest accrued and not yet paid.

Cash and cash equivalents: breakdown

(euros) Items/Figures	31/12/2020	31/12/2019
Deposit with CDP	5,884,319	9,997,063
Commercial paper issued by CDP		
Banks	66,959,924	65,930,323
Total	**72,844,243**	**75,927,386**

At 31 December 2020, CDP RETI did not have any credit facilities available. For information on financial covenants, see the paragraph "Default risk and debt covenants" in section "IV - Information on risks and related hedging policies".

II. LIABILITIES

Equity

9. Share capital

Share capital: breakdown

(euros)

Items/Figures	31/12/2020	31/12/2019
Share capital	161,514	161,514
Total	**161,514**	**161,514**

At 31 December 2020, the share capital consisted of 161,514 shares without par value (likewise at 31 December 2019), fully paid in.

During the year there were no changes to the ownership structure, which is therefore unchanged from the following situation resulting from the introduction, at the shareholders' meeting of 24 November 2014, of three separate categories of shares giving holders different rights concerning corporate governance:

Share capital: categories of shares

Member / Number of shares / %	Share category A	Share category B	Share category C	%
CDP	95,458			59%
State Grid		56,530		35%
Cassa Forense			4,253	3%
Foundations and Savings Banks			5,273	3%
Total	**95,458**	**56,530**	**9,526**	**100%**

10. Reserves

At the end of the year, "Reserves" were as follows:

Reserves: breakdown

(euros)

Items/Figures	31/12/2020	31/12/2019
Income reserves	24,352,284	24,350,715
Legal reserve	*32,303*	*32,303*
Retained earnings (losses carried forward)	*24,319,981*	*24,318,412*
Share premium reserve	1,315,158,486	1,315,158,486
Reserve for shareholder payments for investments	2,029,920,022	2,029,920,022
Total	**3,369,430,791**	**3,369,429,223**

The item "Reserve for shareholder payments for investments" included the residual value of the payment made by CDP to fund the purchase of the equity investment in SNAM.

At 31 December 2020, the company did not hold treasury shares directly or indirectly through its subsidiaries or intermediaries.

Information required by Article 2427, point 7-bis, of the Italian Civil Code on the individual details of equity items is given, specifying their origin, possible use and possible distribution.

Statement pursuant to Article 2427 of the Italian Civil Code

(euros) Items/Figures	Balance at 31/12/2020	Possible uses (*)	Amount available
Share capital	161,514		
Reserves			
- Legal reserve	32,303	B	32,303
- Retained earnings	24,319,981	A, B, C	24,319,981
- Share premium reserve (**)	1,315,158,486	A, B, C	1,315,158,486
- Shareholder payments for investments	2,029,920,022	A, B, C	2,029,920,022
Valuation reserves			
- CFH reserve	(5,309,748)		
Advances on dividends	(285,695,654)		
Total	**3,078,586,904**		**3,369,430,791**

(*) A = capital increase; B = loss coverage; C = distribution to shareholders
(**) Share premium reserve is fully available for distribution since Legal reserve reached a fifth of Share capital

11. Valuation reserves

Valuation reserves recorded a change as a result of the measurement of the cash flow hedge derivative entered into by the Company in May 2020, net of deferred tax.

Valuation reserves: breakdown

(euros) Items/Figures	31/12/2020	31/12/2019
Valuation reserves CFH Swap	(5,309,748)	(3,995,568)
Total	**(5,309,748)**	**(3,995,568)**

12. Advances on dividends

Having satisfied the requirements of Article 2433-bis of the Italian Civil Code, on 11 December 2020 the Company resolved to distribute advances on dividends for 2020, amounting to 1,768.86 euro per share, for a total of 285,695,654 euro to be paid on 18 December 2020.

Advances on dividends: breakdown

(euros) Items/Figures	31/12/2020	31/12/2019
Interim dividend	(285,695,654)	(267,003,639)
Total	**(285,695,654)**	**(267,003,639)**

Non-current liabilities

13. Provisions for employee benefits

At 31 December 2020 the company settled all the non-current liabilities in the provisions for employee benefits, following the resignation of employees for whom the relevant portion of the severance pay was set aside by law.

For further details, reference should be made to section "3. Organisational structure" in the "Group's Report on Operations".

Staff severance pay: annual changes

(euros) Items/Figures	31/12/2020	31/12/2019
A. Opening balance	**25,587**	**17,790**
B. Increases	**4,089**	**7,851**
B.1 Allocation in the year	4,089	7,851
B.2 Other increases		
C. Decreases	**29,676**	**54**
C.1 Payments made	29,676	
C.2 Other decreases		54
D. Closing balance	**0**	**25,587**

14. Loans

The total of "Loans" at 31 December 2020, considering the current portion and the non-current portion, amounted to 1,693 million euro (1,695 million euro at 31 December 2019).

The breakdown of loans is shown in the table below.

Loans: breakdown

(euros)	31/12/2020		31/12/2019	
Items/Figures	Non current	Current	Non current	Current
Bond	749,489,627	8,299,180	749,168,711	8,299,181
Lease liability	313,981			
Term loan facility 2020	934,341,618	592,898		
Term loan facility 2014				750,579,250
Term loan facility 2017			186,988,730	250,341
Total	**1,684,145,226**	**8,892,078**	**936,157,441**	**759,128,772**

At 31 December 2020, the amount of 1,684 million euro includes the Term Loan Facility signed in May 2020, the bond issued in 2015 and the lease liability linked to the lease of the property portions in Via Alessandria. At 31 December 2020, the total of cash outflow for leases (including the option to extend the contract) included: (i) payments for the principal repayments of the liability for leased assets of 330 thousand euro; (ii) payments for interest expense of 16 thousand euro.

Regarding the breakdown of the current portion of loans, linked to the bond portions maturing within 12 months, a balance in line with 2019 is recorded.

The breakdown of non-current loans into loans agreed or subscribed by the parent company CDP or by the lending banks or by other institutional investors is provided in the table below:

Non-current loans: breakdown by type of creditor

(euros)	31/12/2020			31/12/2019		
Items/Figures	CDP	Other Istitutional Investors	Pool of Banks	CDP	Other Istitutional Investors	Pool of Banks
Bond	337,270,332	412,219,295		337,125,920	412,042,791	
Lease liability		313,981				
Term loan facility 2020	221,220,310		713,121,308			
Term loan facility 2014						
Term loan facility 2017				84,144,929		102,843,801
Total	**558,490,642**	**412,533,276**	**713,121,308**	**421,270,849**	**412,042,791**	**102,843,801**

15. Other financial liabilities

Other financial liabilities: breakdown

(euros) Items/Figures	31/12/2020	31/12/2019
Cash-flow hedge derivative contract	7,793,121	2,650,678
Total	**7,793,121**	**2,650,678**

Other financial liabilities originate from the fair value measurement (level 2) of the cash flow hedge derivative contract entered into by the company in May 2020 to hedge the interest-rate risk connected to the Term Loan Facility entered into in 2020 following the closure of the two Term Loans entered into in 2014 and 2017 respectively.

During the financial year, the overall Mark to market of the IRS derivative was negative by 7,793 million euro.

The features of the derivative contracts are described in the Report on operations, in the Net financial debt section.

16. Deferred tax liabilities

Deferred tax liabilities amounted to 1,262 thousand euro (1,201 thousand euro at 31 December 2019) and are broken down as follows:

Deferred tax liabilities: breakdown

(euros) Items/Figures	31/12/2020	31/12/2019
Deferred tax liabilities recognized in equity		
Deferred tax liabilities recognized in PL	1,261,902	1,201,209
Total	**1,261,902**	**1,201,209**

Deferred tax liabilities recognised in the income statement originate from the recognition of tax on the 2020 dividend advance approved by SNAM in November 2020 and collected in January 2021.

The table below shows the changes in deferred tax liabilities.

Deferred tax liabilities recognised in the Income Statement: changes

(euros) Items/Figures	31/12/2020	31/12/2019
1. Opening balance	**1,201,209**	**1,144,310**
2. Increases	**1,261,902**	**1,201,209**
2.1 Deferred tax liabilities recognised during the year	1,261,902	1,201,209
a) in respect of previous periods		
b) due to change in accounting policies		
c) others	1,261,902	1,201,209
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**1,201,209**	**1,144,310**
3.1 Deferred tax liabilities derecognised during the year	1,201,209	1,144,310
a) reversals		1,144,310
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**1,261,902**	**1,201,209**

Current liabilities

17. Current loans

This item includes the current portion of the loans described above, as well as coupons maturing and expiring within the following financial year. The table below shows the breakdown of the item at 31 December 2020:

Current loans: breakdown by type of creditor

(euros)	31/12/2020			31/12/2019		
Items/Figures	CDP	Other Istitutional Investors	Pool of Banks	CDP	Other Istitutional Investors	Pool of Banks
Bond	3,734,631	4,564,549		3,734,631	4,564,548	
Lease liability						
Term loan facility 2020	140,378		452,520			
Term loan facility 2014				337,760,663		412,818,588
Term loan facility 2017				112,654		137,688
Total	**3,875,009**	**4,564,549**	**452,520**	**341,607,948**	**4,564,548**	**412,956,276**

The decrease, which went from 759,129 thousand euro at 31 December 2019, to 8,892 thousand euro at 31 December 2020, is the result of closing the balance of the two Term Loans entered into by CDP RETI during 2014 and 2017, and the concurrent signing of a new Term Loan Facility in May 2020. Reference is made to section "2. significant events during the year by sector/company" for an analytical description of the debt refinancing transaction concluded in May 2020.

Regarding the current bond portions, a balance in line with 2019 is recorded.

18. Trade payables

"Trade payables" at 31 December 2020 refer to payables to suppliers and are broken down as follows:

Trade payables: breakdown

(euros) Items/Figures	31/12/2020	31/12/2019
Trade payables	5,301	5,306
Trade payables for invoices to receive	82,228	58,518
Total	**87,529**	**63,824**

20. Other current liabilities

"Other current liabilities" refer to short-term payables that will be paid within the financial year following the reporting date.

Other current liabilities: breakdown

(euros) Items/Figures	31/12/2020	31/12/2019
Tax payables	12,512	14,513
Payables to parent companies	465,457	406,649
Payables due to pension and social security institutions	5,167	15,022
Other payables	166,643	189,827
Total	**649,778**	**626,011**

The table below shows the breakdown of tax payables, mainly consisting of the tax withheld by the Company on behalf of its employees and independent contractors, which is paid to the revenue authorities the month after being withheld.

Tax payables: breakdown

(euros)

Items/Figures	31/12/2020	31/12/2019
Irpef withholdings on employees	6,966	12,962
Irpef withholdings on professionals	387	1,538
Other tax payables	5,159	13
Total	**12,512**	**14,513**

The table below provides a breakdown of payables to the parent company recognised in the financial statements at 31 December 2020:

Payables to parent companies: breakdown

(euros)

Items/Figures	31/12/2020	31/12/2019
Administrative services	306,129	287,232
Seconded personnel	85,751	66,711
Payables to directors to pay to CDP	39,891	40,000
Other payables	33,686	12,706
Total	**465,457**	**406,649**

Payables to pension and social security institutions as at 31 December 2020 amounted to 5 thousand euro (15 thousand euro at 31 December 2019) and refer to payables to INPS recognised in December 2019 with reference to the fixed and variable remuneration of employees, as shown in the table below.

Payables due to pension and social security institutions: breakdown

(euros)

Items/Figures	31/12/2020	31/12/2019
Payables to INPS	5,167	15,022
Payables to INAIL		
Total	**5,167**	**15,022**

Other payables amounted to 166 thousand euro (190 thousand euro at 31 December 2019) and are broken down as follows:

Other payables: breakdown

(euros)

Items/Figures	31/12/2020	31/12/2019
Due to company bodies	141,540	163,237
Payables to employees	23,756	25,286
Payables to pension fund	1,347	1,304
Total	**166,643**	**189,827**

Payables to corporate bodies refer to remuneration accrued by members of the Board of Directors (which do not need to be paid to the parent CDP) and members of the Board of Statutory Auditors during the financial year.

Payables to employees primarily originate from recognition under CDP RETI liabilities of deferred remuneration accrued by employees, and from year-end adjustments of the provision for vacation accrued but not used.

Disclosures on the fair value measurement of financial instruments

Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

(euros)	31/12/2020			31/12/2019		
Items/Figures	L1	L2	L3	L1	L2	L3
Non-current financial assets						
Current financial assets						
Total						
Non-current financial liabilities						
- *Other financial liabilities*		7,793,121			2,650,678	
Current financial liabilities						
- *Current financial liabilities*					3,786,872	
Total		**7,793,121**			**6,437,550**	

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level

(euros)	31/12/2020				31/12/2019			
Items/Figures	CA	L1	L2	L3	CA	L1	L2	L3
Non-current assets								
Current assets								
- *Current financial assets*	*9,445,750*			*9,445,750*	*6,887,203*			*6,887,203*
- *Cash and cash equivalents*	*72,844,243*			*72,844,243*	*75,927,386*			*75,927,386*
Total	**82,289,993**			**82,289,993**	**82,814,589**			**82,814,589**
Non-current liabilities								
- *Loans*	*1,684,145,226*	*749,489,627*		*934,655,599*	*936,157,441*	*773,302,500*		*186,988,730*
Current liabilities								
- *Current portion of loans*	*8,892,078*	*8,299,180*		*592,898*	*759,128,772*	*8,299,181*		*750,829,591*
Total	**1,693,037,304**	**757,788,807**		**935,248,496**	**1,695,286,213**	**781,601,681**		**937,818,321**

Other information

Guarantees issued and commitments

The Company did not issue any guarantees or make commitments recognised in the memorandum accounts.

Assets pledged as collateral for own debts and commitments

No collateral or guarantees were pledged either directly or indirectly in the interest of third parties.

Owned securities deposited with third parties

The 1,053,692,127 shares of SNAM S.p.A., the 599,999,999 shares of Terna S.p.A., and the 210,738,424 shares of Italgas S.p.A. owned by CDP RETI are held at the parent company CDP.

III - INFORMATION ON THE INCOME STATEMENT

REVENUES

21. Other revenues and income

This item, with a balance of 22 thousand euro (22 thousand euro at 31 December 2019), refers to the charge-back to State Grid International Development of the costs incurred by CDP RETI for the audit performed on behalf of State Grid on the reporting package at 31 December 2019.

Other revenues and income: breakdown

(euros) Items/Figures	2020	2019
Other income	21,777	21,777
Rounding		
Totale	**21,777**	**21,777**

OPERATING COSTS

22. Services

Costs for services incurred in 2020 amounted to 1,392 thousand euro (1,156 thousand euro in 2019) and are broken down as follows:

Services: breakdown

(euros) Items/Figures	2020	2019
Professional and financial services	671,390	522,317
Outsourcing CDP	611,630	541,347
General and administrative services	57,116	9,755
Utilities and other expenses	51,557	82,304
Total	**1,391,693**	**1,155,723**

The 2020 fees for the independent auditors Deloitte & Touche S.p.a., as provided by Article 149 - duodecies, paragraph 2, of Consob Resolution no. 11971 of 14 May 1999, as amended, are summarised below:

Independent auditors' fees:

(euros)

Type of service/Values	Service Provider	Fees for the year
Auditing	Deloitte & Touche S.p.A.	62,625
Certification		16,370
Other services		
Total		**78,995**

23. Staff costs

Staff costs at 31 December 2020 amounted to 521 thousand euro (612 thousand euro at 31 December 2019) and are broken down as shown in the table below:

Staff costs: breakdown

(euros) Items/Figures	2020	2019
Employees	270,550	380,170
Other personnel in service		
Board of Directors and Board of Auditors	164,578	165,173
Retired personnel		
Recovery of expenses for employees seconded to other companies		
Reimbursement of expenses for third-party employees seconded to the Company	85,751	66,712
Total	**520,879**	**612,055**

The reduction in "Employees" compared to the previous year is due to the drop in the average number of employees (at the reporting date for the financial year 2020, the company had 1 employee compared to 3 in 2019).

On the other hand, the reimbursement of expense for third-party employees seconded to the company by the parent company CDP increased following the entry of an additional resource in the second half of 2020 compared with the previous financial year.

For further information on the organisational structure, reference is made to paragraph "3.1. The organisational structure" in the report on operations.

Average number of employees

The average number of employees broken down by job category is illustrated in the following table:

Average number of employees

Items/Figures	2020	2019
Senior Managers		
Middle Managers	2	3
Office staff		
Manual workers		
Total	**2**	**3**

24. Amortisation, depreciation and impairment of property, plant and equipment and intangible assets

The balance of depreciation/amortisation and impairments is 14 thousand euro and is broken down as shown in the table below:

Amortisation, depreciation and impairment of property, plant and equipment and intangible assets: breakdown

(euros) Items/Figures	2020 Amortisation and depreciation (a)	2020 Impairment adjustments (b)	2020 Write-backs (c)	2020 Net result (a+b+c)	2019 Amortisation and depreciation (a)	2019 Impairment adjustments (b)	2019 Write-backs (c)	2019 Net result (a+b+c)
Property, plant and equipment	**9,240**			**9,240**				
- Owned								
- Right of use acquired under leases IFRS 16	*9,240*			*9,240*				
Intangible assets	**4,328**			**4,328**				
- Owned	*4,328*			*4,328*				
- Right of use acquired under leases IFRS 16								
Total	**13,568**			**13,568**				

The balance of depreciation/amortisation consists of 9 thousand euro related to the depreciation charge pursuant to IFRS 16 of the leased property located in Via Alessandria, while 4 thousand euro is the 2020 amortisation charge for the purchase of the license to use a software application.

25. Other operating costs

Other operating costs incurred by the company in 2020 amounted to 34 thousand euro (11 thousand euro in 2019) and are broken down as follows:

Other operating costs: breakdown

(euros) Items/Values	2020	2019
AGCM Contribution	7,400	7,765
Taxes	230	2,253
Other operating costs	26,023	848
Total	**33,653**	**10,866**

"Other operating costs" increased compared to the previous financial year since it includes the effects connected to the early termination of the two derivatives hedging the previous two Term Loan Facilities entered into in 2014 and 2017 respectively.

For further information on the refinancing operation, reference is made to the specific paragraph in the Report on Operations.

26. Financial income

At 31 December 2020, financial income amounted to 463,760 thousand euro (435,728 thousand euro at 31 December 2019) and is broken down as follows:

Financial income: breakdown

(euros) Items/Figures	2020	2019
Interest income on deposit contract with CDP		
Interest income on CDP Commercial paper		
Interest income on current bank account	3,877	3,015
Interest income on CFH	672,388	
Dividends	463,084,008	435,724,934
Total	**463,760,273**	**435,727,949**

The breakdown of dividends to be distributed by the investee companies, as approved during the financial year, is shown in the following table:

Dividends: breakdown

(euros) Items/Figures	2020	2019
Italgas S.p.A. dividend	53,949,037	49,312,791
SNAM S.p.A. dividend	255,414,972	243,192,143
Terna S.p.A. dividend	153,720,000	143,220,000
Total	**463,084,008**	**435,724,934**

All dividends were collected in the period, except for the advance on the 2020 dividend approved by SNAM S.p.A. in November 2020, equal to 105,158 thousand euro, which was collected in January 2021.

27. Financial expenses

Financial expenses relate mainly to interest expense for the period, as detailed in the table below.

Financial expenses: breakdown

(euros) Items/Figures	2020	2019
Interest on Term facility 2014	1,917,042	5,655,688
Interest on Term facility 2017	1,455,212	2,457,044
Interest on Term Facility 2020	5,454,529	
Interest on Bond	14,383,417	14,360,031
Other interest expense	6,683,123	5,848,490
Impairment losses on financial assets	(293)	490
Total	**29,893,028**	**28,321,743**

Other interest expense amounting to 6,683 thousand euro were recognised with reference to:

- cash flow hedging derivatives (including the unwinding amount for the two hedging derivatives on the Term Loans closed in May 2020) for 6,652 thousand euro;
- interest expense accrued in fulfilment of the guarantee agreement (CSA) entered into with the signing of derivative contracts for 31 thousand euro;
- interest expense accrued on the lease liability following the lease in Via Alessandria for 1 thousand euro.

The calculation of impairment losses on financial assets takes into account their rating, recovery rate and probability of default and is broken down as follows:

Impairment losses on financial assets

(euros) Items/Figures	2020	2019
Adjustments to financial assets:		
- recognised under cash and cash equivalents	344	403
- recognised under other current financial assets	(51)	87
Total	**293**	**490**

INCOME TAXES, CURRENT AND DEFERRED TAXES

28. Income taxes, current and deferred taxes

Taxes for 2020 are detailed below:

Income taxes: breakdown

(euros) Items/Figures	2020	2019
1. Current taxes (-)	4,283,676	4,439,271
- of which income from participation in the tax consolidation mechanism	*4,283,676*	*4,439,271*
2. Change in current taxes from previous years (+/-)		
3. Reduction of current taxes for the year (+)		
4. Change in deferred tax assets (+/-)	(4,226)	604
5. Change in deferred tax liabilities (+/-)	(60,693)	(56,899)
6. Taxes for the year (-) (-1+/-2+3+/-4+/-5)	**4,218,758**	**4,382,976**

Current income taxes reflect the “income from participation in the tax consolidation mechanism” arising from payment of the excess ACE incentive (778 thousand euro) and the excess payment of interest expenses (3,506 thousand euro) that cannot be deducted on an individual basis but can be transferred to the tax consolidation mechanism in accordance with the provisions of the tax consolidation agreement[68]. As a balancing entry for this income, the Company recognised a receivable for the same amount from the parent company CDP.

The “change in deferred tax liabilities” refers to the recognition of deferred tax liabilities on the 2020 dividend approved by SNAM in November 2020 and yet to be collected at the end of the year.

The reconciliation between the theoretical and actual tax liability is shown below:

[68] In consequence of its participation since 2013 in the national tax consolidation mechanism of the CDP Group, which allows calculation of IRES on a consolidated basis for the companies that exercised the option for group taxation, CDP RETI may transfer to the tax consolidation mechanism the excess ACE incentive not used on an individual basis (i.e. deducting it from its own taxable income), consequently obtaining a gain compared to the tax rate in force at that time (24% beginning from 2017). Moreover, again in consequence of its participation in the tax consolidation mechanism, CDP RETI may transfer any excess interest expenses not deductible on an individual basis if and to the extent to which other entities (participating in the tax consolidation mechanism) report excess GOP (Gross Operating Profit) for the same tax period transferable to the Group. In exchange for the transfer of these interest expenses, CDP RETI obtains a gain resulting from lower IRES at the Group level and equal to 50% of the applicable tax year. The agreement relating to the tax consolidation mechanism was tacitly renewed for the period 2019-2021.

Reconciliation between theoretical and actual tax liability: IRES

(euros)

Items/Figures	31/12/2020	Tax rate
Income (loss) before taxes	**431,929,228**	
IRES theoretical tax liability (rate 24%)	**(103,663,015)**	**-24.00%**
Increases in taxes		**0.00%**
- non-deductible temporary differences	(19,420)	0.00%
- non-deductible permanent differences on interest expenses	(7,012,093)	-2.00%
- non-deductible permanent differences	(1,202,464)	0.00%
Decreases in taxes		**0.00%**
- dividends 95% exempt	106,845,055	25.00%
- ACE benefit	5,805,921	1.00%
- excess financial expenses	3,506,047	1.00%
- other	23,646	0.00%
IRES Actual tax liability	**4,283,676**	**1.00%**

Reconciliation between theoretical and actual tax liability: IRAP

(euros)

Items/Figures	31/12/2020	Tax rate
Difference between revenues and production costs	**(1,655,833)**	
IRAP Theoretical tax liability (5.57% rate)	**92,230**	**-5.57%**
Increases in taxes	(117,164)	n.s.
Decreases in taxes	39,186	n.s.
IRAP Actual tax liability	**0**	**n.s.**

IV – INFORMATION ON RISKS AND THE RELATED HEDGING POLICIES

Concerning risk exposure and the related uncertainties, it should be highlighted that, as a holder of significant equity investments, CDP RETI S.p.A. is exposed to the risks typically associated with investee companies. Such risks are monitored through a rigorous risk measurement and control process, which is carried out in first instance by the Directors as part of their assessment of the recoverability of the investments made. Their assessment is then reflected in the carrying amount shown in the financial statements for the related equity investments. Moreover, risk profiles are measured constantly on the basis of market price volatility of the related shares.

The Company is also supported by the parent company CDP, pursuant to the service agreements entered into. In particular, risk management is coordinated at group-level in synergy with the competent structures of CDP.

The main risks identified are listed below.

MARKET RISK

In conducting its business, CDP RETI is exposed to the market risk and, in particular, to the interest rate risk, which is the risk that the fair value or the cash flows of financial instruments may fluctuate due to changes in market interest rates or may lead to unexpected changes in net financial charges in relation to the portion of debt with floating rate.

The Company's policy in the management of interest rate risk is achieved essentially through the definition of an optimal financial structure with the dual objective of stabilisation of expenses and containment of the cost of funding. The Company aims, in particular, to contain financial expenses and their volatility by entering into OTC derivatives (“floating to fixed” Interest Rate Swaps with the parent CDP) with reference maturity and notional principal[69] aligned with those of the underlying financial liability.

[69] Amount according to which the cash flows are exchanged.

The table below shows the breakdown of financial debt by fixed-rate and floating-rate type, as at 31 December 2020 and as at 31 December 2019:

(euros)	31/12/2020		31/12/2019	
Items/Figures	Total	%	Total	%
Fixed interest	758,102,788	44.8%	757,467,892	44.7%
Variable interest	934,934,516	55.2%	937,818,321	55.3%
Total	**1,693,037,304**	**100.0%**	**1,695,286,213**	**100.0%**

Starting from the month of May 2020, the Company has one Interest Rate Swap contract linked to the overall Term Loan of 937.6 million, used to convert floating-rate loans into fixed-rate loans. The outstanding derivative has a total notional value coinciding with the total Term Loan (as mentioned, subscribed in May 2020), and a negative mark to market as of 31 December 2020 equal to 7,793 thousand. Reference is made to the "Net Financial Debt" section of the Report on Operations for a detailed description of the item.

RISK RELATED TO THE FINANCIAL PERFORMANCE AND THE PROFIT OR LOSS OF SNAM, TERNA AND ITALGAS

Given its nature as a financial holding company, the performance and liquidity of the Company are conditioned not only by the market values of its investee companies, but also by the ability of subsidiaries to pay dividends (and by their dividend policies), which is in turn influenced by the financial performance and the profit or loss of the SNAM Group, the TERNA Group and the ITALGAS Group. Consequently, any material change in the two parameters above could have negative effects on the financial performance and profit or loss of CDP RETI.

Through its subsidiaries, CDP RETI is active in the gas transport, regasification and storage sector (SNAM), the electricity dispatching and transmission sector (TERNA) and the gas distribution sector (ITALGAS). Therefore, CDP RETI is exposed to the risks typical of those markets and sectors in which its investees operate.

The dividend policies of the investee companies, which are based on the provisions of the respective strategic plans, are outlined below.

TERNA (2021-2025 Plan presented on 19/11/2020): five-year dividend policy. From 2021 to 2023 the policy provides for a dividend per share, with an average annual growth of 8% on the 2020 dividend. From 2024 to 2025 the policy provides for a 75% payout, with a minimum guaranteed dividend equal to the dividend paid in 2023;

SNAM (2020-2024 Plan presented on 25/11/2020): a 5% increase in the dividend is envisaged over the 2020-2024 plan up to 2022, with an additional minimum growth of 2.5% in the 2023-2024 period. Based on 2020 profits, SNAM expects to distribute in 2021 a total dividend of € 0.2495 per share (of which 40% as an advance payment in January 2021 as approved by the Board of Directors on 4 November 2020, and the remaining balance of 60% paid in June 2021);

ITALGAS (2020-2026 Plan presented on 30/10/2020): based on the Strategic Plan of the ITALGAS Group for the period 2020-2023, a dividend will be distributed equal to the higher of (i) the amount resulting from the 2019 DPS (0.256 euro) plus 4% per year, and (ii) the DPS equivalent to 65% of the adjusted EPS.

RISK RELATED TO RESTRICTIONS ON THE TRANSFER OF FINANCIAL RESOURCES FROM SNAM, TERNA AND ITALGAS

As said, the financial position and operating results of CDP RETI are dependent on the flow of funds received, in the form of dividends, from SNAM, TERNA and ITALGAS. This availability depends not only on the ability of SNAM, TERNA and ITALGAS to generate sufficient cash flow, but also on the ability of the three groups to overcome any legal and contractual restrictions on the distribution of dividends. By way of an example, such restrictions might include: i) regulatory restrictions on increasing tariffs, ii) requests for significant investments on the infrastructure managed by the three groups, iii) the requirement to comply with the covenants of loan agreements. Another restriction, generally speaking, could be the extent of future taxation.

These restrictions, and the resulting fall in inflows, could have significant negative effects on the Parent Company's ability to make the required payments on the bond and the existing loan agreements.

LIQUIDITY AND CREDIT RISK

In relation to its own business activity, the parent company is exposed to the liquidity risk, which is the risk that, due to the inability to raise new funds (funding liquidity risk) or liquidate assets on the market (asset liquidity risk), it is not able to fulfil its own payment commitments or can only fulfil them at unfavourable economic conditions also due to situations of tension or systemic crisis (e.g. crisis in sovereign debt), resulting in an impact on income if the company is forced to sustain additional costs to meet such commitments or, as an extreme consequence, in a condition of insolvency that puts the continuation of company business at risk. Notwithstanding the Company's goal to implement a financial structure that guarantees an adequate level of liquidity and an optimal profile in terms of debt maturity and composition, the effects of external factors cannot be excluded, including, for example, the effects of a negative market or a considerable tightening of bank credit access conditions. In such a scenario, the Company might find it difficult to make the required payments on the bond and on the existing loan agreements.

Access to the capital market and other forms of financing, and the associated costs, is also dependent on the Company's credit rating assigned by the rating agencies. A downgrade in its credit rating could limit the Company's access to the capital market and increase the cost of funding. This would negatively affect the Company's financial position and performance. During 2020, CDP RETI maintained its "investment grade" long-term credit rating. In this regard, it should be noted that on 12 May 2020, the rating agency Fitch reduced CDP RETI's long-term rating from BBB to BBB-70 (while improving its outlook to stable).

The Company's current policy is to maintain available liquidity invested in demand or very short-term bank deposits or other readily liquid instruments, with investments allocated over a reasonable number of counterparties. The management of the CDP RETI liquidity risk is also aimed at maintaining cash and cash equivalents sufficient to meet expected commitments over a given time horizon (especially in light of the financial covenants under the existing loan agreements), as well as maintaining prudent liquidity reserves, sufficient to cope with any unexpected commitments. Debt management also provides for a diversified structure of funding sources (Term Loan and bond issue) and a balanced calendar of due dates (2025 for the Term Loans and 2022 for the bond).

In view of its current business, CDP RETI is not significantly exposed to credit risk, i.e. the possibility of a deterioration in creditworthiness of counterparties that might lead to adverse effects on the expected value of the credit position and/or an increase in collection times. For the Company, the exposure to credit risk is mainly a question of the collection of dividends, approved by the subsidiaries, and the trading of derivatives (for which there is an exchange of cash collateral), bank deposits and irregular deposits with the parent CDP.

CDP RETI's entire debt is in the form of bullet loans, which means that there is no risk of having to resort to refinancing transactions, at least until May 2022, when the bond loan of 750 million euro taken out in May 2015 falls due for repayment.

The table below shows the undiscounted contractual cash flows of gross financial debt at the nominal repayment amounts, and the related interest flows. Interest flows are calculated in accordance with the following terms and interest rates:

as regards the bond71, the annual coupon is equal to 1.875% (payment in May);

as regards the Term Loan totalling 938 million euro, the floating interest rate (payment in May and November) is indexed to the 6-month Euribor (value as at 31 December 2020) and increased by the contractually-agreed margin.

Financial liabilities - Analysis by due date of the contractually agreed payments.

(thousands of euro) Items/Figures		2021	2022	2023	2024	2025
Bond	Principal	0	(750,000)			
	Interests	(14,063)	(14,063)			
Loans (*)	Principal	0	0	0	0	(937,635)
	Interests	(5,098)	(5,157)	(5,659)	(6,379)	(3,286)

(*) Financial flows from hedging derivatives are not included

The cash flows related to the Term Loan do not take into account receipts and payments linked to the derivative hedging instruments, which are analysed in the table hereunder.

(thousands of euro) Items/Figures		2021	2022	2023	2024	2025
Cash Flow Hedge	Payments	(7,464)	(7,464)	(7,464)	(7,464)	(3,442)
	Collections	5,098	5,157	5,659	6,379	3,286
	Net	**(2,365)**	**(2,307)**	**(1,804)**	**(1,085)**	**(156)**

[70] The decision follows the same intervention made by Fitch on the rating of the parent company, Cassa Depositi e Prestiti S.p.A., on 8 May 2020.
[71] On 21 May 2015, CDP RETI concluded the placement of an unsubordinated and unsecured fixed-rate bond, 45% of which is currently held by the parent CDP S.p.A. The bonds - listed at the Irish stock exchange and reserved for institutional investors - have a term of 7 years, annual coupon of 1.875% and an issue price equal to 99.909%. The transaction, structured by Banca Imi, BNP Paribas, HSBC, Mediobanca, Société Générale and UniCredit, was concluded with 150 institutional investors who submitted requests worth over 2 billion.

DEFAULT RISK AND DEBT COVENANTS

Default risk and debt covenants relate to the possibility that loan agreements or bond rules to which CDP RETI is a party may contain provisions that entitle the counterparty to call in such loans immediately upon the occurrence of certain events, thereby generating a liquidity risk.

CDP RETI's long term loans include covenants that are common in international practice. Such covenants refer to:

- the Company's bond debt, entered into in May 2015 for a nominal amount of 750 million euro, falling due in 2022;
- the bank debt, contracted in May 2020 for a nominal value of approximately 715.6 million euro, as part of the Term Loan established with a pool of banks;
- the debt with the parent CDP, entered into in May 2020 for a nominal amount of 222 million euro, always as part of the Term Loan.

The main covenants associated with the bond issue can be summarised as follows:

- "negative pledge" clauses, under which the issuing entity is subject to limitations on the creation or maintenance of restrictions on all or part of its assets or on its revenues in order to guarantee current or future borrowing, except for specifically permitted circumstances;
- "change of control" clauses, under which bondholders have the option of requiring the issuing entity to redeem their securities in the event that Cassa Depositi e Prestiti no longer has control over the company;
- "event of default" clauses, under which, on the occurrence of certain predetermined events (such as, for example, failure to pay, failure to fulfil contractual obligations, etc.), an event of default occurs and the loan in question becomes immediately due; in addition, under the "cross default" clauses, if an "event of default" occurs on any financial borrowing (above certain amounts) issued by the issuer, an event of default also occurs on the loan in question, which becomes immediately due.

On the other hand, the main covenants in the loan agreements signed by CDP RETI in May 2020 with the parent company CDP and a pool of banks are summarised below:

- "pari passu" clauses, under which the Company, for the entire duration of the loans, will ensure that the payment obligations rank pari passu with those of all other unsubordinated unsecured creditors, subject to any privileges assigned by law;
- disclosure obligations, on both a periodic and an occasional basis, upon the occurrence of certain predetermined events;
- mandatory cancellation or early repayment of the loan in the case of, inter alia: (i) unlawfulness, (ii) change of control or (iii) sale, by the Company, of an equity investment in a significant subsidiary if this exceeds the threshold defined with CDP and the Bank Lenders (10%);
- observance of the following financial covenants to avoid an event of default:
  - *Loan to Value*: ratio, expressed as a percentage, between (i) Financial Debt (net of Cash and cash equivalents) and (ii) the market value (in the 180 days prior to the measurement date) of SNAM, TERNA and ITALGAS shares. This ratio must not exceed 50%;
  - *Dividend Interest Coverage Ratio* (DICR): ratio, with reference to the 12 months prior to the measurement date, between (i) the cash deriving from dividends received and (ii) interest paid on the Financial Debt. This ratio must not be less than 1.25;
  - *Total Debt Service Amount* (TDSA): at all times, CDP RETI must have cash or cash equivalents in an amount not less than interest, fees, commissions and other costs related to the Financial Debt to be paid in the following 6 months.

During the year, the Company complied with the capital and economic-financial requirements deriving from loan agreements.

CDP RETI mitigates the foregoing risks by monitoring any aspects that might have negative effects on its financial position and performance, also with a view to ensuring compliance with the covenants envisaged in the existing loans. With regard to the subsidiaries TERNA, SNAM and ITALGAS, CDP RETI closely monitors their market value, with particular attention to all aspects that might have an impact on their dividend distribution policies.

With regard to liquidity, discussions are held periodically with the parent CDP to assess the need to apply for credit lines. There are no liquidity difficulties to be reported as at 31 December 2020; CDP RETI collected around 458 million in dividends from its subsidiaries in the period and the balance of its cash and cash equivalents was approximately 73 million at 31 December 2020.

V – TRANSACTIONS WITH RELATED PARTIES

INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

Remuneration of key management personnel

(euros) Items/Figures	Board of Directors	Board of Auditors	Key management personnel
a) short-term benefits	99,891	101,540	355,434
b) post-employment benefits			
c) other long-term benefits			
d) severance benefits			
e) share-based payments			
Total	**99,891**	**101,540**	**355,434**

Remuneration paid to the Board of Directors and the Board of Statutory Auditors

(euros) Name	Position	Period in office	Expiry of office (1)	Compensation and bonuses	
Directors in office as at 31 December 2020					
Giovanni Gorno Tempini	Chairman	01/01/2020-31/12/2020	2023	20,000	
Fabrizio Palermo	Chief Executive Officer	01/01/2020-31/12/2020	2023	20,000	(2)
Coletti Sabrina	Director	04/03/2020-31/12/2020	2023	16,557	(2)
Yanli Liu	Director	01/01/2020-31/12/2020	2023	20,000	(3)
Yunpeng He	Director	01/01/2020-31/12/2020	2023	20,000	(3)
Outgoing Directors in 2020					
Cristiana Procopio	Director	01/01/2020-01/03/2020	01/03/2020	3,333	(2)
Statutory Auditors in office as at 31 December 2020					
Guglielmo Marengo (5)	Chairman	01/01/2020-31/12/2020	-	38,100	(4)
Benedetta Navarra (5)	Auditor	01/01/2020-31/12/2020	-	31,720	(4)
Paolo Sebastiani	Auditor	01/01/2020-31/12/2020	2023	31,720	(4)

(1) Appointed by Shareholders' Meeting of 20 January 2021 and in office up to the date of the Shareholders' Meeting called for the approval of the financial statement for the year ended 31 December 2023

(2) Compensation paid to Cassa depositi e prestiti S.p.A.

(3) Compensation is paid to State Grid International Development Limited

(4) The amounts include remuneration accrued by members of the Board of Statutory Auditors and the Supervisory Body

(5) In office up to the date of Shareholders' Meeting of 20 January 2021

INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

The Company is subject to management and coordination by CDP, the majority shareholder.

It should be noted that the Company did not carry out any atypical or unusual transactions with related parties whose size could have an impact on the assets and liabilities or performance of the Company. All transactions with related parties were carried out on an arm's length basis (i.e. at the conditions that would be applied between two independent parties) and form part of the ordinary operations of CDP RETI.

Transactions with the parent company

(euros) Items/Figures	31/12/2020	31/12/2019
Assets		
- Deposit balance	5,884,319	9,997,193
- Receivable for tax consolidation (withholding tax)	1,008	784
- Receivable for tax consolidation	4,283,676	4,439,271
- Receivable for CSA financial transactions	9,445,750	6,887,203
- Commercial Paper		
Liabilities		
- Payables for seconded personnel	(85,751)	(66,711)
- Payables for directors' compensation to pay to CDP	(39,891)	(40,000)
- Payables for outsourced services	(306,129)	(287,232)
- Other payables	(33,686)	(12,706)
- CFH derivative agreement	(7,793,121)	(6,437,550)
- Loans:		
included in current liabilities	*(3,875,009)*	*(341,607,948)*
included in non-current liabilities	*(558,490,642)*	*(421,270,849)*
Revenues		
- Interest income on CFH	672,388	
Costs		
- Interest expense on loan	(13,133,953)	(10,112,734)
- Interest expense on CFH	(2,799,179)	(5,811,200)
- Interest expense on CSA	(30,635)	(37,291)
- Impairment of financial assets	(8)	(132)
- Outsourced services rendered to CDP RETI	(611,542)	(541,347)
- Costs for personnel seconded to CDP RETI	(85,751)	(66,712)
- Costs for directors' compensation to pay	(39,891)	(40,000)
- Other personnel costs	(4,174)	(6,940)
- Other costs	(33,943)	(25,786)
- Commissions for loan structuring		
Cash flows		
Cash flow from operating activities	(13,216,963)	(9,064,117)
Net cash flow from investing activities		
Net cash flow from financing activities	(458,083,869)	(235,595,117)

Transactions with CDP in 2020, which are summarised in the preceding table, concerned the following:

- the deposit agreement with the parent company CDP;
- the cash flow hedge derivative contract with regard to which, at 31 December 2020, the related liability and interest expense were recognised at fair value;
- the receivable deriving from the CSA financial transactions related to the derivative contracts;
- the receivables and payables arising from the participation of CDP RETI in the tax consolidation mechanism;
- the payable for the loan taken out in May 2020 connected to the portions subscribed by CDP, the bond, the interest accrued on the loans closed in the first half of 2020 and the portion of interest on the new Term Loan;
- outsourcing services provided by CDP to CDP RETI;
- the remuneration of directors paid to the Parent Company;
- the contracts of two CDP employees partially seconded to CDP RETI.

Transactions with other related entities

(euros) Items/Figures	31/12/2020	31/12/2019
Assets		
- Property, plant and equipment - RoU IFRS 16	333,887	
- Receivables from SNAM for interim dividend	105,158,474	100,100,752
- Receivables from SGEL for cost recharge		
Liabilities		
Lease liability	(313,981)	
- Payables for pension fund	(1,331)	(1,304)
Revenues		
- Dividends from subsidiaries	463,084,008	435,724,934
- Other income from cost recharge to SGEL		
Costs		
- Rental costs from FINTECNA	(41,320)	(82,304)
- Ifrs 16 costs	(19,477)	
- Costs related ti pension fund	(7,286)	(7,131)
Cash flows		
Cash flow from operating activities	457,999,483	430,915,662
Net cash flow from investing activities		
Net cash flow from financing activities	(150,053,232)	(139,518,867)

The net cash flows from operating activities are substantially attributable to the collection of dividends from subsidiaries. Conversely, the net cash flows from financing activities relate to the distribution of dividends to SGEL approved during the financial year.

FINANCIAL HIGHLIGHTS OF THE COMPANY PERFORMING MANAGEMENT AND COORDINATION

In compliance with Article 2497-bis, paragraph 4, of the Italian Civil Code, the financial highlights from last year's financial statements of the parent company Cassa Depositi e Prestiti S.p.A. are shown in Annex 2.

VI – NON-RECURRING EVENTS AND SIGNIFICANT TRANSACTIONS

Pursuant to Consob memorandum no. DEM/6064293 of 28 July 2006, there were no non-recurring events and significant transactions during the year, that is transactions whose occurrence is not recurrent or transactions or events that are not frequently repeated in the course of ordinary operations.

VII – OPERATING SEGMENTS

In accordance with the guidelines provided in IFRS 8 – Operating Segments, for those companies that publish the group consolidated financial statements and the separate financial statements of the parent company in a single document, segment reporting is given only in reference to the consolidated financial statements. Therefore, reference is made to the analogous part of the Notes to the financial statements of the CDP RETI Group.

X – DISCLOSURE OF LEASES

X.1 LESSEE

Qualitative disclosures

Leases falling within the scope of IFRS 16 consist of the lease relating to parts of the property located in Via Alessandria, 220 in Rome. The property is used for office and management purposes.

CDP RETI has calculated the duration of the lease, considering the "non-cancellable" period during which it has the right to use the underlying asset by measuring all the contractual aspects that may change this duration, among which, in particular, is the possible presence of:

- any period covered by an option to extend the lease, if it is reasonably certain that the option will be exercised;
- any period covered by an option to terminate the lease, if it is reasonably certain that the option will not be exercised.

The contract provides for a rental period of 6 years, renewable automatically for a further 6 years, and the possibility of early termination with 12 months' notice. There is no option to purchase the property at the end of the lease period.

In accordance with the rules of the principle according to which "the underlying asset can be of low value only if:

- the lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee; and
- the underlying asset is not highly dependent on, or highly interrelated with, other assets";

CDP RETI applies the exemption for lease contracts when the value of the asset on the purchase date is lower than 5,000 euro.

CDP RETI considers a lease to be "short-term" when it has a maximum lease duration of 12 months and does not include any option to extend (and to purchase) that may be exercised at the discretion of the lessee.

For these contracts, the related payments are recorded in the income statement on a straight line basis for the corresponding duration.

Quantitative disclosures

Classification by time band of the payments to be made and reconciliation with the lease liabilities recognised

(euros) Time bands	Total 31/12/2020 Lease payables	Total 31/12/2019 Lease payables
Up to 1 year	7,500	
Between 1 and 2 years	30,000	
Between 2 and 3 years	30,000	
Between 3 and 4 years	30,000	
Between 4 and 5 years	30,000	
Over 5 years	202,500	
Total lease payments to be made	**330,000**	
Reconciliation with lease liabilities	**(16,019)**	
Unearned finance income (+)	(16,019)	
Unguaranteed residual value (+)		
Lease liabilities	**313,981**	

X.2 LESSOR

At 31 December 2020, this item did not appear in the financial statements of CDP Reti.

PROPOSAL FOR ALLOCATION OF THE NET INCOME FOR THE YEAR

For 2020, the Board of Directors is proposing to distribute a total dividend of 436,147,560.18 euro, of which 285,695,654.04 euro relating to the advance approved on 11 December 2020.

The Board of Directors therefore proposes to allocate the 2020 net income of CDP RETI S.p.A., equal to 436,147,986.11 euro, as follows:

- 285,695,654.04 euro to cover the advance on the dividend paid by 18 December 2020;
- 150,451,906.14 euro to pay the balance of the dividend to be distributed, equal to 931.51 euro for each of the 161,514 shares;
- 425.93 euro as retained earnings.

The ordinary Shareholders' Meeting has been called to approve the financial statements of CDP RETI S.p.A. as at 31 December 2020 and to resolve on the proposed allocation of net income.

ANNEXES

ANNEX 1

Analytical list of equity investments

ANNEX 2

Separate financial statements at 31 December 2019 of Cassa Depositi e Prestiti S.p.A.

ANNEX 1

Analytical list of equity investments

(unità di euro)

A. Imprese quotate	Denominazioni	Sede	Quota di partecipazione %	Valore di bilancio	Tipo rapporto
	Italgas S.p.A.	Milano	26,00%	621.032.150	Controllo
	SNAM SpA	San Donato Milanese (MI)	31,35%	3.086.832.661	Controllo
	TERNA S.p.A.	Roma	30,00%	1.315.200.000	Controllo

ANNEX 2

Cassa Depositi e Prestiti società per azioni.

Registered office in Rome, Via Goito no. 4, Tax Code 80199230584

BALANCE SHEET

(euro)

Assets	31/12/2019	31/12/2018
10. Cash and cash equivalents	2.945	4.968
20. Financial assets measured at fair value through profit or loss	2.877.621.143	2.764.648.580
a) Financial assets held for trading	132.354.188	71.025.547
b) Financial assets designated at fair value		
c) Other financial assets mandatorily measured at fair value	2.745.266.955	2.693.623.033
30. Financial assets measured at fair value through other comprehensive income	12.132.370.946	11.463.816.657
40. Financial assets measured at amortised cost	337.105.174.693	323.523.877.889
a) Loans to banks	27.030.998.423	20.179.064.614
b) Loans to customers	310.074.176.270	303.344.813.275
50. Hedging derivatives	381.346.407	679.154.031
60. Fair value change of financial assets in hedged portfolios (+/-)	1.467.342.668	131.580.898
70. Equity investments	30.708.619.338	30.316.282.467
80. Property, plant and equipment	352.570.349	322.660.563
90. Intangible assets	30.778.670	20.946.199
- of which goodwill		
100. Tax assets	470.532.581	480.439.453
a) current tax assets	78.805.161	1.044.283
b) deferred tax assets	391.727.420	479.395.170
110. Non-current assets and disposal groups held for sale		
120. Other assets	325.097.376	312.075.968
Total assets	**385.851.457.116**	**370.015.487.673**

Cassa Depositi e Prestiti società per azioni.

Registered office in Rome, Via Goito no. 4, Tax Code 80199230584

(euro)

Liabilities and equity	31/12/2019	31/12/2018
10. Financial liabilities measured at amortised cost	356.166.295.137	342.568.459.670
a) due to banks	30.219.811.671	30.429.338.747
b) due to customers	305.895.813.522	293.196.243.128
c) securities issued	20.050.669.944	18.942.877.795
20. Financial liabilities held for trading	128.929.516	70.980.902
30. Financial liabilities designated at fair value		500.023.869
40. Hedging derivatives	2.682.554.691	656.432.622
50. Adjustment of financial liabilities in hedged portfolios (+/-)	18.698.844	26.033.402
60. Tax liabilities	285.024.331	394.012.110
a) current tax liabilties	105.092.507	284.550.223
b) deferred tax liabilties	179.931.824	109.461.887
70. Liabilities associated with non-current assets and disposal groups held for sale		
80. Other liabilities	789.434.298	753.397.724
90. Staff severance pay	962.548	1.035.773
100. Provisions for risks and charges	828.826.174	250.773.280
a) guarantees issued and commitments	219.382.082	120.441.569
c) other provisions	609.444.092	130.331.711
110. Valuation reserves	902.073.725	539.854.697
120. Redeemable shares		
130. Equity instruments		
140. Reserves	15.371.824.233	15.341.579.796
150. Share premium reserve	2.378.517.244	2.378.517.244
160. Share capital	4.051.143.264	4.051.143.264
170. Treasury shares (-)	(489.110.970)	(57.220.116)
180. Net income (loss) for the year (+/-)	2.736.284.081	2.540.463.436
Total liabilities and equity	**385.851.457.116**	**370.015.487.673**

Cassa Depositi e Prestiti società per azioni.

Registered office in Rome, Via Goito no. 4, Tax Code 80199230584

INCOME STATEMENT

(euro)

Items		2019	2018
10.	Interest income and similar income	6.988.054.591	7.849.429.210
	of which: interest income calculated using the effective interest rate method	*7.242.285.057*	*8.074.651.562*
20.	Interest expense and similar expense	(4.462.007.713)	(4.266.256.100)
30.	**Net interest income**	**2.526.046.878**	**3.583.173.110**
40.	Commission income	391.782.321	396.384.656
50.	Commission expense	(1.483.724.319)	(1.537.340.203)
60.	**Net commission income (expense)**	**(1.091.941.998)**	**(1.140.955.547)**
70.	Dividends and similar revenues	1.423.995.543	1.362.386.971
80.	Profits (losses) on trading activities	(22.386.973)	2.852.174
90.	Fair value adjustments in hedge accounting	(31.274.015)	(16.694.547)
100.	Gains (losses) on disposal or repurchase of:	743.604.178	16.977.220
	a) financial assets measured at amortised cost	632.736.830	53.948.941
	b) financial assets measured at fair value through other comprehensive income	110.867.348	(36.952.465)
	c) financial liabilities		(19.256)
110.	Profits (losses) on financial assets and liabilities measured at fair value through profit or loss	(7.804.414)	(30.007.376)
	a) financial assets and liabilities designated at fair value	23.869	1.527.286
	b) other financial asstes mandatorily measured at fair value	(7.828.283)	(31.534.662)
120.	**Gross income**	**3.540.239.199**	**3.777.732.005**
130.	Net adjustments/recoveries for credit risk relating to:	76.749.381	(65.137.062)
	a) financial assets measured at amortised cost	80.839.149	(64.114.115)
	b) financial assets at fair value through other comprehensive income	(4.089.768)	(1.022.947)
140.	Gains/losses from changes in contrats without derecognition	(496.967)	(2.199.115)
150.	**Financial income (expense), net**	**3.616.491.613**	**3.710.395.828**
160.	Administrative expenses	(177.078.353)	(216.233.304)
	a) staff costs	(110.968.473)	(153.068.946)
	b) other administrative expenses	(66.109.880)	(63.164.358)
170.	Net accruals to the provisions for risks and charges	(60.517.547)	(42.286.102)
	a) guarantees issued and commitments	(10.304.725)	(8.505.950)
	b) other net accruals	(50.212.822)	(33.780.152)
180.	Net adjustments to/recoveries on property, plant and equipment	(9.057.661)	(4.352.487)
190.	Net adjustments to/recoveries on intangible assets	(5.678.147)	(3.198.155)
200.	Other operating income (costs)	13.329.498	6.303.373
210.	**Operating costs**	**(239.002.210)**	**(259.766.675)**
220.	Gains (losses) on equity investments	61.346.965	(172.032.794)
230.	Gains (losses) on tangible and intangibile assets measured at fair value		
240.	Goodwill impairment		
250.	Gains (losses) on disposal of investments	(43.487)	(4.042)
260.	**Income (loss) before tax from continuing operations**	**3.438.792.881**	**3.278.592.317**
270.	Income tax for the year on continuing operations	(702.508.800)	(738.128.881)
280.	**Income (loss) after tax on continuing operations**	**2.736.284.081**	**2.540.463.436**
290.	Income (loss) after tax on discontinued operations		
300.	**Net income (loss) for the year**	**2.736.284.081**	**2.540.463.436**

Cassa Depositi e Prestiti società per azioni.

Registered office in Rome, Via Goito no. 4, Tax Code 80199230584

STATEMENT OF COMPREHENSIVE INCOME

(euro)

Items		2019	2018
10.	**Net Income (loss) for the tear**	**2.736.284.081**	**2.540.463.436**
	Other comprehensive income net of tax not transferred to income statement	**61.837.532**	**(270.092.787)**
20.	Equity securities designated at fair value through other comprehensive income	61.837.532	(270.092.787)
	Other comprehensive income net of tax transferred to income statement	**300.381.496**	**(243.914.971)**
120.	Cash flow hedges	(8.951.269)	(11.922.482)
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	309.332.765	(231.992.489)
170.	**Total other comprehensive income net of tax**	**362.219.028**	**(514.007.758)**
180.	**Comprehensive Income (Items 10+170)**	**3.098.503.109**	**2.026.455.678**

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

REPORT OF THE BOARD OF STATUTORY AUDITORS TO SHAREHOLDERS' MEETING, IN ACCORDANCE WITH ARTICLE No. 153 OF THE LEGISLATIVE DECREE No. 58/1998 (CONSOLIDATED FINANCE ACT), AND ARTICLE No. 2429 OF THE ITALIAN CIVIL CODE

Dear Shareholders,

As a preliminary point, we hereby remind you that during the accounting period related to 2020, the Board of Statutory Auditors was made up of the following members: Mr Guglielmo Marengo, Mrs Benedetta Navarra, Mr Paolo Sebastiani. Subsequently, Shareholders' Meeting held on January 20th 2021, has taken the resolution – for the three-year period 2021, 2022, and 2023 (precisely until the calling date of the Shareholders' Meeting summoned for the approval of Financial Statements related to the accounting period closed on December 31st 2023) – to appoint the Board of Statutory Auditors by identifying the following members: Mrs Florinda Aliperta, Mrs Paola Dinale, and Mr Paolo Sebastiani.

Through this report, drawn-up in accordance with article 2429, paragraph 2, of the Italian Civil Code (hereinafter C.C.), the Board of Statutory Auditors of the company named CDP RETI SpA, hereby reports to the Ordinary Shareholders' Meeting – summoned for the approval of Financial Statements related to the accounting period closed on December 31st 2020 – on the outcome of the above mentioned accounting period, and on the activity carried out by the Board of Statutory Auditors in fulfilling its duties, by paying attention to behaviour rules of the Board of Statutory Auditors recommended by National Board of Chartered Accountants and Accountancy

Experts, as well as recommendations released by CONSOB (Italian Stock-Exchange Authority), and information included in the Self-Regulatory Code.

The Board of Statutory Auditors has drawn up this report in accordance with article No. 2429 of the C.C., because Ordinary Shareholders' Meeting held on May 10th 2019 has taken the resolution to appoint (pursuant to Corporate ByLaws, for the years as from 2020 until 2028) for the office of Legal Auditor – according to article No. 13 of the Legislative Decree No. 39 dated January 27th 2010 – the Auditing Company named "Deloitte & Touche S.p.A." (Deloitte).

Therefore, this report summarizes activity concerning provisions included in article 2429, paragraph 2, of the C.C.; more precisely:

- on the outcome of the accounting period;
- on the activity carried out in fulfilling duties, as envisaged by proivisions of law;
- on observations and propositions related to Financial Statements, in particular with reference to the possible use by the administrative body of the derogation rule included in article 2423, paragraph 4, of the C.C.;
- on any reports issued by shareholders in accordance with article 2408 of the C.C.

1. Meetings of the Board of Statutory Auditors

Over the accounting period related to 2020, the Board of Statutory Auditors met seven times.

Activity carried out by the Board of Statutory Auditors concerned, from the temporal point of view, the whole accounting period, and, during said period, meetings pursuant to article 2404 of the C.C. have regularly been held; as regards such meetings, regular minutes have been drawn-up and undersigned, as unanimous approval.

Furthermore, the Board of Statutory Auditors attended Shareholders' Meetings, as well as meetings of the Board of Directors held during the accounting period.

2. Supervision activity concerning respect of provisions of law, of the Memorandum of Association, and of the principles of correct management

The Board of Statutory Auditors supervised, pursuant to article 2403 of the C.C., on respect of provisions of law and of the Memorandum of Association, on respect of the principles of correct management, and on adequacy of the organizational, administrative and accounting system, adopted by the company so as to carry out its own activity. Such a supervision activity has been carried out by the Board of Statutory Auditors, also by attending at meetings of the Board of Directors, as well as through meetings and exchange of information with persons in charge of the main company departments (in particular, with the Executive responsible for drawing-up of corporate accounting documents, and Internal Auditing and Operations' structures, besides of the Auditing Company).

The Board of Statutory Auditors has received – pursuant to the frequency set out by provisions of law, and article 19, paragraph 11, of the Corporate ByLaws – pieces of information concerning management general trend and its foreseeable evolution, as well as on the more relevant transactions (for dimensions and features), carried out by the company and its subsidiaries.

4

According to the foregoing, neither irregularities nor meaningful critical events arisen.

Decisions taken by Shareholders' Meetings and by the Board of Directors conform with provisions of law and the Corporate ByLaws, and they have been neither hazardous nor unwary; in other words, integrity of company's assets has always been safeguarded.

Transactions have always been carried out in compliance with provisions of law and the Memorandum of Association, and not in potential conflict with resolutions taken by Shareholders' Meetings; in other words, integrity of company's assets has always been safeguarded.

Moreover, no reports concerning any irregularities and/or infringements – drawn-up pursuant to article 2408 of the C.C. – have been received by the Board of Statutory Auditors.

It hasn't been necessary for the Board of Statutory Auditors to undertake any specific actions due to omissions by the Board of Directors pursuant to article 2406 of the C.C.

No reports pursuant to article 2409, paragraph 7, of the C.C. have been received by the Board of Statutory Auditors.

3. Supervision activity concerning adequacy of the organizational system, and on internal auditing and risk management

The Board of Statutory Auditors has supervised on the adequacy of company's organizational system and the way it actually works, through meetings and exchange of information with persons in charge of the main supervised activities. Furthermore, the Board of Statutory Auditors has supervised on the efficiency of the internal auditing system and risk management, in order to assess their effectiveness. The Board of Statutory Auditors also operates as Supervisory Body.

Through meetings held with corporate departments and through documents collected, necessary information has been drawn with reference to correct application of the Organizational, Management, and Control Model, pursuant to Legislative Decree no. 231/2001. The Supervisory Body, in its six-month reports for the year 2020, has also reported that – pursuant to inspections carried out – no critical elements with a meaningful impact arisen.

4. Supervision activity carried out on the administrative and accountancy system, and on the financial information process

The Board of Statutory Auditors monitored the process concerning financial information, and also supervised on the adequacy of company's administrative and accountancy system and its reliability in timely and correctly describing management events, also through meetings held with the Executive in charge of drawing-up of corporate accounting documents, as well as through analysis of corporate documents, and analysis of the outcome concerning activity carried out by the Auditing Company.

Furthermore, the Board of Statutory Auditors supervised on respect of provisions of law concerning drawing-up of Financial Statements and the Management Commentary, by collecting pieces of information from the Auditing Company. In particular, from the additional report drawn-up by the Auditing Company pursuant to article 11 of the EU Regulation No. 537/2014, do not arise any meaningful gaps of the internal auditing system in relation with financial information process.

According to inspections carried out, no meaningful impact critical points arisen, which could undermine the adequacy judgement and the appropriate application of the administrative and accountancy procedures.

5. Financial Statements

The Board of Statutory Auditors analysed the project concerning Financial Statements of the company named CDP RETI SpA closed on December 31st 2020, approved by said company's Board of Directors during the meeting held on March 26th 2021, as well as related report released by the Auditing Company.

On this issue, the Board of Statutory Auditors reports as follows:

- Financial Statements of the company named CDP RETI SpA, closed on December 31st 2020, have been drawn-up in accordance with "IFRS" international accounting standards (which include International Accounting Standards – IAS), released by the International Accounting Standard Board (IASB), in force on December 31st 2020, and approved by European Commission;
- The correct description of the management events in the accounting records, and their indication in Financial Statements – pursuant to IAS/IFRS standards – have been supervised by Deloitte & Touche S.p.A., which is responsible of the Legal Auditing of accounts;
- Financial Statements closed on December 31st 2020 highlight a net profit corresponding to € 436,147,986.00, and an Equity corresponding to € 3,514,734,890.00, including said profit.

In accordance with article 154-bis of the Legislative Decree No. 58/1998, both the Managing Director and the Executive in charge of drawing-up of CDP's corporate accounting documents have stated – through a specific report attached to the Financial Statements' project related to year 2020 – as follows: (i) adequacy and appropriate application of the administrative and accountancy procedures, in order to draw-up said Financial Statements; (ii) compliance of the Financial Statements' contents with the applicable international accounting standards approved by European Union, pursuant to EU Regulation No. 1606/2002; (iii) matching of the Financial Statements to accounting books and accounting records, and their appropriateness in truly and correctly describing assets, liabilities, equity, incomes, expenses, and financial issues; (iv) that the Management Commentary – attached to Financial Statements – includes a detailed analysis of the management trend and the management outcome, together with a description of the main threats and risks the company is going to go through.

Schemes used in drawing-up Financial Statements, conform with provisions indicated in IAS No. 1 "Presentation of the Financial Statements". Financial Statements comply with provisions of law with regard to the structure, drawing-up, and presentation of pieces of information to the Shareholders' Meeting.

Management Commentary has been drawn-up in accordance with provisions of law.

The Board of Directors, in drawing-up Financial Statements, didn't derogate to provisions of law pursuant to article 2423, paragraph 4, of the C.C.

In compliance with provisions stated in "IAS No. 1 – revised", CDP RETI effected an assessment of the company's ability to keeping on operating as a going concern, by paying attention to available information related to a medium term scenario. In particular, by referring to said information, the company reckons as appropriate to effect Financial Statements' assessments by referring to the going concern concept, also in light of the present economic context, which is rather uncertain with regard to future trends, because of the spreading of Covid-19 virus, of which enough information has been provided for in the section named “Events arisen subsequently to December 31st 2020”, included in the Annual Financial Report for the year 2020.

Financial Statements correspond to events and information as checked out by the Board of Statutory Auditors in fulfilling its duties.

The Board of Statutory Auditors hereby states that Directors, when drawing-up Management Commentary, with reference to trends for the year 2021, highlighted the impossibility to assess with complete accuracy impacts arising from healthcare emergency due to Covid-19 virus, even though relevant impacts on strategies and objectives of the company are not expected.

6. Supervision activity carried out in accordance with article 19 of the Legislative Decree No. 39/2010

In accordance with article 19 of the Legislative Decree No. 39/2010, the Board of Statutory Auditors monitored the activity concerning legal auditing of the accounts. On this issue, the Board of Statutory Auditors has met over and over again with representatives of the Auditing Company – also with regard to article 2409-septies of the C.C. – in order to exchange information concerning activity carried out by said Auditing Company. During periodical exchange of information between the Board of Statutory Auditors and the Auditing Company’s representatives, no relevant events to report of arisen.

Moreover, the Board of Statutory Auditors has checked out and monitored independence of the Auditing Company, in particular with reference to the adequacy in providing for non-auditing services, in compliance with provisions stated in articles No. 4 and No. 5 of the EU Regulation No. 537/2014. On this issue, we hereby point out that – in attachment to the aforesaid additional report – Deloitte & Touche S.p.A. submitted to the Board of Statutory Auditors a statement concerning independence – as requested by article 6 of the EU Regulation No. 537/2014 – from which neither situations suskeptible to undermine independence, nor conflicts of interest arisen.

Furthermore, the Board of Statutory Auditors acknowledged about the transparency report drawn-up by Deloitte & Touche S.p.A., in accordance with article 18 of the Legislative Decree No. 39/2010.

7. More relevant transactions, transactions carried out with related parties, and unusual transactions

Within the context of information flows – pursuant to article 19, paragraph 11, of the corporate ByLaws – the Board of Statutory Auditors has periodically received – on a requested regular basis – information related to more relevant transactions (for dimensions and features), carried out by the company and its subsidiaries; such transactions are exhaustively described in explanatory notes to Financial Statements concerning "Transactions carried out with related parties" (to which we explicitly refer in order to identify the kind of transactions, and related asset, economic, and financial impact).

On this issue, the Board of Statutory Auditors reckons as detailed enough, information delivered by the Board of Directors in the Management Commentary. In particular, the Board of Statutory Auditors has not identified any unusual transactions which – according to their meaningfulness or relevance, nature of the counterparts, subject and/or amount – could give rise to doubts with regard to accuracy and completness of pieces of information indicated in Financial Statements, or could be considered as explicitly unwary or hazardous, or carried out by infringing provisions on conflict of interest.

8. More relevant events, and meaningful facts

With regard to the main relevant events which affected the company, by highlighting that said events belong to specific information included in the document named "Annual Financial Report for the year 2020", with reference to those aspects falling within responsibilities of the Board of Statutory Auditors, we hereby report the following relevant facts occurred during 2020, in particular:

- the Board of Directors held on April 1st 2020, approved the transaction concerning re-funding of CDP RETI's indebtedness, for a total amount of about €937.6 mn, arising from ongoing funding contracts.

Therefore, on May 5th 2020, CDP RETI, in coordination with competent CDP's structures, has underwritten as final borrower two funding contracts for a total amount corresponding to € 937,634,700.00 with:

- CDP for the amount of €222 mn, corresponding to 24% of the New Term Loan;
- a pool of funding banks for an amount corresponding about to €715.6 mn, corresponding to 76% of the New Term Loan.

Furthermore, in order to guarantee a better stability and foreseeability to CDP RETI's Income Statement, New Term Loan interest rate – corresponding to a six-month Euribor rate increased with a margin of 105 basis points – has been turned in a fixed interest rate of 0.796%, through an interest rate swap transaction;

- the Board of Directors held on December 11th 2020 has taken a resolution concerning distribution of an interim dividend for the year 2020, corresponding to €286 mn;

- the Board of Directors held on March 4th 2020 because of resignation handed in by Director Mrs Cristiana Procopio, has taken the resolution to appoint – through cooptation, in accordance with aricle 2386, paragraph 1 of the C.C. – Mrs Sabina Coletti; said appointment has been confirmed by Shareholders' Meeting held on April 23rd 2020.

With reference to relationships with sister companies:

- on April 23rd 2020, the Ordinary Shareholders' Meeting of CDP RETI, pursuant to the Corporate ByLaws, authorized resolutions – taken on the same day by the Board of Directors – whose subject consists in designation of candidates' lists for the office of Director and Statutory Auditor of TERNA, for the three-year period 2020-2022, given the related Shareholders' Meeting scheduled on May 18th 2020;

- on April 30th 2020 the Board of Directors approved voting instructions to be given (pursuant to the Corporate ByLaws) to members of the Consultation Committee (so called Consultation Committee), given the Ordinary Shareholders' Meeting of ITALGAS, scheduled on May 12th 2020;

- on April 30th 2020 the Board of Directors approved voting instructions concerning Extraordinary Shareholders' Meeting of TERNA, summoned on May 18th 2020, in order to take resolution on modification of the Corporate ByLaws concerning gender balance, pursuant to provisions enforced by

Budget Law for the year 2020;

- on June 9th 2020 CDP RETI's Board of Directors gave mandate to the Managing Director – with the option to further delegate – to voting in the Extraordinary Shareholders' Meeting of SNAM, held on June 18th 2020, with regard to cancellation of own shares on hand, without reduction of the Share Capital. Because of said cancellation (occurred on July 6th 2020), CDP RETI's participation percentage in SNAM swung upwards, precisely as of 31.04% up to 31.35%.

9. Healthcare emergency due to Covid-19 virus, and events occurred after the approval date of the Financial Statements' project

Because of the healthcare emergency due to Covid-19 virus, as from the month of March 2020, the Board of Statutory Auditors, also acting as Supervisory Body, has received enough information concerning measures and initiatives undertaken by the company in order to counteract and contain spreading of Covid-19 virus, at the workplace environment.

With regard to the main events occurred after the closing date of the accounting period, we hereby point out as follows:

- on January 20th 2021, collection of SNAM's interim dividend corresponding to about €105 mn;
- on January 11th 2021, the Chairman of the Board of Directors called for Ordinary Shareholders' Meeting of CDP RETI in order to take resolution on renewal of the Board of Directors and the Board of Statutory Auditors (whose ordinary deadline was May 2020, and both bodies remained in office till January 20th 2021). On this point, Shareholders' Meeting held on January 20th 2021, given that Board of Directors' office expired, appointed a new

Board of Directors, made up of five Directors, which will take office for three accounting periods, and whose deadline falls in 2024, precisely on the Shareholders' Meeting summoning date for the approval of Financial Statements related to the accounting period closed on December 31st 2023. On the same meeting, on the grounds of the list voting system, the Board of Statutory Auditors has also been renewed (with the same deadline of the new Board of Directors). Moreover, the Board of Directors held on January 25th 2021, has also entrusted the new Board of Statutory Auditors with the office of Supervisory Body.

10. Conclusions

Within the context of the supervision activity carried out by the Board of Statutory Auditors, neither infringements nor irregularities arisen.

With specific regard to the Financial Statements' project related to the accounting period closed on December 31st 2020, drawn-up by the Board of Directors, including Management Commentary, and submitted to Shareholders' Meeting approval, the Board of Statutory Auditors, by paying attention to specific tasks carried out by the Auditing Company, concerning accountancy supervision and inspection on Financial Statements' reliability, acknowledged the contents of the reports released by said Auditing Company together with statements jointly released by the Managing Director and the Executive in charge, has no observations to deliver to Shareholders' Meeting. Therefore, the Board of Statutory Auditors unanimously reckons that there are no impediments to the approval of Financial Statements closed on December 31st 2020 by Shareholders' Meeting; furthermore, it is in agreement with the Board of Directors' indication concerning allocation of profit for the year.

Rome, April 22, 2021

For the Board of Statutory Auditors

President

Mrs Florinda Aliperta

REPORT OF THE INDEPENDENT AUDITORS

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
CDP Reti S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of CDP Reti S.p.A. (the "Company"), which comprise the balance sheet as at December 31, 2020, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

There are no key audit matters to communicate in this report.

Other aspects

The financial statements of CDP Reti S.p.A. for the year ended December 31 2019 were audited by another auditor who expressed an unmodified opinion on these statements on April 20 2020.

Deloitte.

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, 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;

Deloitte.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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

The Shareholders' Meeting of CDP Reti S.p.A. has appointed us on May 10, 2019, as auditors of the Company for the years from December 31, 2020 to December 31, 2028.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of CDP Reti S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of CDP Reti S.p.A. as at December 31, 2020, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of CDP Reti S.p.A. as at December 31, 2020 and on their compliance with the law, as well as to make a statement about any material misstatement.

Deloitte.

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 CDP Reti S.p.A. as at December 31, 2020 and are prepared in accordance with the law.

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

DELOITTE & TOUCHE S.p.A.

Signed by
Enrico Pietrarelli
Partner

Rome, Italy
April 22, 2021

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

CERTIFICATION OF THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154 BIS OF LEGISLATIVE DECREE NO. 58/1998

1. The undersigned Fabrizio Palermo, in his capacity as Chief Executive Officer, and Alessandro Uggias, in his capacity as Financial Reporting Manager of CDP RETI S.p.A., hereby certify, taking into account the provisions of article 154-bis, paragraphs 3 and 4, of legislative decree no. 58 of 24 February 1998:
   - the appropriateness with respect to the characteristics of the company; and
   - the actual application of the administrative and accounting procedures for the preparation of the separate financial statements during 2020.
2. The assessment of the appropriateness of the administrative and accounting procedures adopted in preparing the separate financial statements at 31 December 2020 was based on a process developed by CDP RETI S.p.A. in line with the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which is a generally accepted framework at international level.
3. In addition, it is hereby certified that:
   3.1 the separate financial statements at 31 December 2020:
      a) have been prepared in compliance with the applicable international accounting standards endorsed by the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
      b) correspond to the information in the books and other accounting records;
      c) give a true and fair view of the performance and financial position of the issuer.

   3.2 The report on operations contains a reliable analysis of operations and performance, as well as the situation of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Rome, 22/04/2021

The Chief Executive Officer
Fabrizio Palermo

The Financial Reporting Manager
Alessandro Uggias

5

Resolution of the shareholders' meeting

The Ordinary Shareholders' Meeting of CDP RETI, held on 10 May 2021 and chaired by Giovanni Gorno Tempini, approved the separate financial statements for 2020. In particular, the shareholders' meeting resolved:

- "(...) to approve the following allocation of profit for the period, amounting to 436,147,986.11 euro:
- 285,695,654.04 euro, to cover the 2020 interim dividend, paid by 18 December 2020;
- 150,451,906.14 euro, to pay the balance of the 2020 dividend, equal to 931.51 euro, before tax, for each of the 161,514 shares, to be paid no later than 31 May 2021;
- 425.93 euro, as retained earnings."

Summary table of the allocation of net income for the year

Below is the summary table of the allocation of net income for the year:

(euro)	
Net Income	436,147,986.11
Total Dividend	436,147,560.18
Advance on the dividend	*285,695,654.04*
Balance of the dividend	*150,451,906.14*
Retained earnings	425.93
Dividend per share	2,700.37
Advance on the dividend	*1,768.86*
Balance of the dividend	*931.51*

CDP RETI S.p.A.

Registered office

Via Goito 4

I - 00185 Rome

Share capital euro 161.514,00 fully paid-in

Rome Chamber of Commerce REA 1349016

Fiscal Code, Company Registrar and VAT no.12084871008

The company is managed and coordinated by Cassa depositi e prestiti società per azioni, Via Goito n. 4, 00185 Rome – Share capital euro 4.051.143.264,00 fully paid-in – Rome Chamber of Commerce REA 1053767, Fiscal code and Company Registrar 80199230584 – VAT no. 07756511007

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