2020

ANNUAL REPORT

sorgenia

YOUR NEXT ENERGY

IN SHORT

REPORT ON OPERATIONS

CONTEXT OF REFERENCE

SORGENIA GROUP

SORGENIA SPA

GOVERNANCE

ADDITIONAL SIGNIFICANT INFORMATION

CONSOLIDATED FINANCIAL STATEMENTS

STATUTORY FINANCIAL STATEMENTS

OTHER RELATED REPORTS

IN SHORT

REPORT ON OPERATIONS

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

REPORTS CORRELATED WITH THE FINANCIAL STATEMENTS

LETTER OF THE CHIEF EXECUTIVE OFFICER

> *We were established 20 years ago, together with the free energy market, and today we are the leading Italian private energy operator.*
>
> *Our objective is to promote the transition to a fully sustainable energy production, management and use model.*
>
> *We have leveraged innovation and digital technologies to provide our customers with simple, custom and sharable energy and solutions.*

Gianfilippo Mancini - Chief Executive Officer

A new phase

October 2020 saw the completion of the acquisition of Sorgenia by F2i (leading Italian infrastructural fund) and the Spanish fund Asterion Industrial Partners.
As part of the transaction, in 2021, F2i will transfer roughly 300 MW of wind plants and 70 MW of vegetable biomass plants, with the associated organisations.

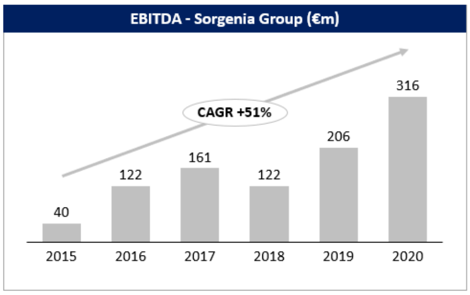
And so will begin a new chapter for Sorgenia, which is putting itself in the running to be a key player in Italy's energy transition.

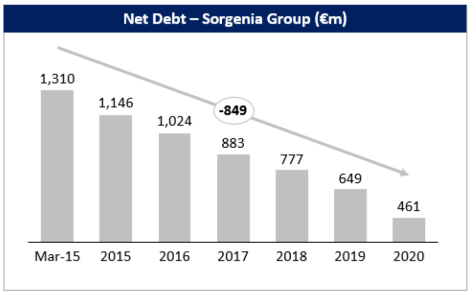
The crisis and results in 2020

The global crisis which took hold a year ago is the most dramatic in recent decades. In Italy, the pandemic arrived on the back of a 20-year period of slow and continuous decline and presented us with a greater challenge than other countries. The energy market was also hit, primarily due to the drop in demand and prices.
Sorgenia, built around a model based on **flexibility, speed and digital**, was not, however, unprepared. On the contrary, thanks to our **flexibility**, we provided the network with the necessary resources to tackle the crisis. Thanks to our **speed**, we readapted the production and customer relationship systems, addressing the difficulties and new requirements of small businesses and households.
Sorgenia had already decided, in 2015, to purposefully focus on **digital** channels in terms of relations with customers, and to transform itself, to all intents and purposes, into the first "*Digital Energy Company*" in Italy. The work carried out

from that point in this domain has enabled us to seize the benefits of the digital acceleration triggered by the pandemic.

Thanks to all of the above, Sorgenia turned the market discontinuity into opportunities and economic-financial results: EBITDA increased from 206 million euro in 2019 to 316 million euro in the year just ended, while net financial debt fell from 649 million euro as of December 31, 2019 to 461 million euro as of December 31, 2020.





Generation and Energy Management

The year 2020 was characterised by a slump in electricity demand, which stood at just over 300 TWh in Italy, equal to that roughly twenty years ago. In contrast to the considerable decrease in consumption in the manufacturing sector and services, a slight increase was recorded in household consumption.

At national level, a decrease was recorded in thermoelectric production (187.3 TWh in 2019 vs 175.4 TWh in 2020) and, in particular, coal production decline (17.1 TWh in 2019 vs 12.4 TWh in 2020).

The sudden reduction in electricity demand and the growing presence of non-programmable renewable sources (wind, solar and hydroelectric) led to instability in the national electricity grid.
In this context, our *energy management* of combined cycle gas plants (3.2 GW of installed capacity, flexible and high-automated) was carried out in a strictly integrated manner with the energy markets. This enabled us to best respond to the volatility of the wholesale market and ensure the continuity of the supplies required on the electricity grid during periods of prolonged instability.

Despite a slight decrease in production volumes, Sorgenia posted better economic results than the previous year.

Also in the future, which will be characterised by the growing role of renewable sources (by nature, less programmable) and by the abandonment of coal, Sorgenia will be able to rely on two fundamental assets: gas-efficient, flexible and low environmental impact plants, and solid dynamic management skills on wholesale markets.

Tirreno Power

2020 was also a positive year for Tirreno Power, a company in which Sorgenia holds a stake of 50%, and which owns combined cycle gas (2.4 GW) and hydroelectric (75 MW) plants.
Also thanks to the shareholders' direction, Tirreno Power achieved positive and growing economic results in 2020, which allowed early repayments of the debt to the lending banks.

Development of renewable energy sources

In 2020, we continued to develop our portfolio of projects for renewable energy generation plants: biomethane, hydroelectric, photovoltaic, wind and geothermal.

At the end of the year, we commenced preliminary works for the construction of an innovative biomethane plant in Marcallo, in the province of Milan. The investment, worth roughly 20 million euro, will make it possible to produce renewable energy from the organic fraction of solid urban waste (FORSU).

Sale to end customers

In 2020, Sorgenia managed to consolidate its position as a leading company in terms of innovation and the number of customers acquired and managed through digital channels in the households and small business sectors. The ability to put the central focus on the needs of customers, and to guarantee a superior *customer experience*, at such a difficult time for Italian citizens and businesses, was a determining factor in this.
From this perspective, the *customer journey* went fully digital also for business customers and the MySorgenia *App* was redesigned, becoming a platform that involves customers and rewards eco-sustainable behaviour.

Turning our eye to environmental sustainability, we extended our sales offering to photovoltaic and energy efficiency solutions, by creating, inter alia, through Sorgenia Green Solutions, out first Renewable Energy Community (REC), an innovative energy production and sharing model, which represents an important building block in the country's energy transition process.

Again with a view to sustainability and the use of digital, in the first few months of 2020, we extended the offer to FTTH ultrafast fibre optic (*Fiber to the Home*), meeting customers' expectations of having a single provider with the highest quality standards for all household uses.
This strategy delivered positive results: an increased customer portfolio from 345 thousand to 416 thousand, marking a rise of more than 20% compared to the previous year, and constantly improved economic results.

Positioning, environmental and social sustainability

We are fully aware that companies today play a key social role and are required to operate responsibly towards the community in which they operate. The extremely serious epidemiological situation Italy is experiencing has driven us to play an even bigger part.
Therefore, we have shown our commitment through donations and projects, primarily stemming from listening to and support for the voluntary work of various employees.

We started by distributing sanitary materials to some hospitals in the areas hit hardest by the pandemic. In *lock-down* we then donated - together with the *start-up* Nonny - tablets which were simplified to allow over-80 customers to video-call their relatives. Finally, on exiting the first *lock-down*, together with our personnel and our customers, we provided crucial support for the circular solidarity project spesasospesa.org, which distributes food to the needy, by making use of *blockchain* technology.

We also continued to commit efforts to tackling gender violence through the communication campaign #sempre25novembre, designed this year to make the younger generation aware of an issue that is as serious as it is, unfortunately, increasingly more topical.

Innovation, people, identity and values

The CoViD-19 emergency meant almost all our activities were carried out remotely.

We were prepared also for this challenge: some time ago, Sorgenia already launched a process of significant development targeted at greater autonomy and responsibility of its people, their well-being and engagement, starting with the ability to identify with the principles and values expressed by the company.

This evolution, which had, inter alia, already led to the introduction of *smart working* for employees a few years ago, has enabled us to quickly prepare the technological, organisational and cultural tools to work remotely.

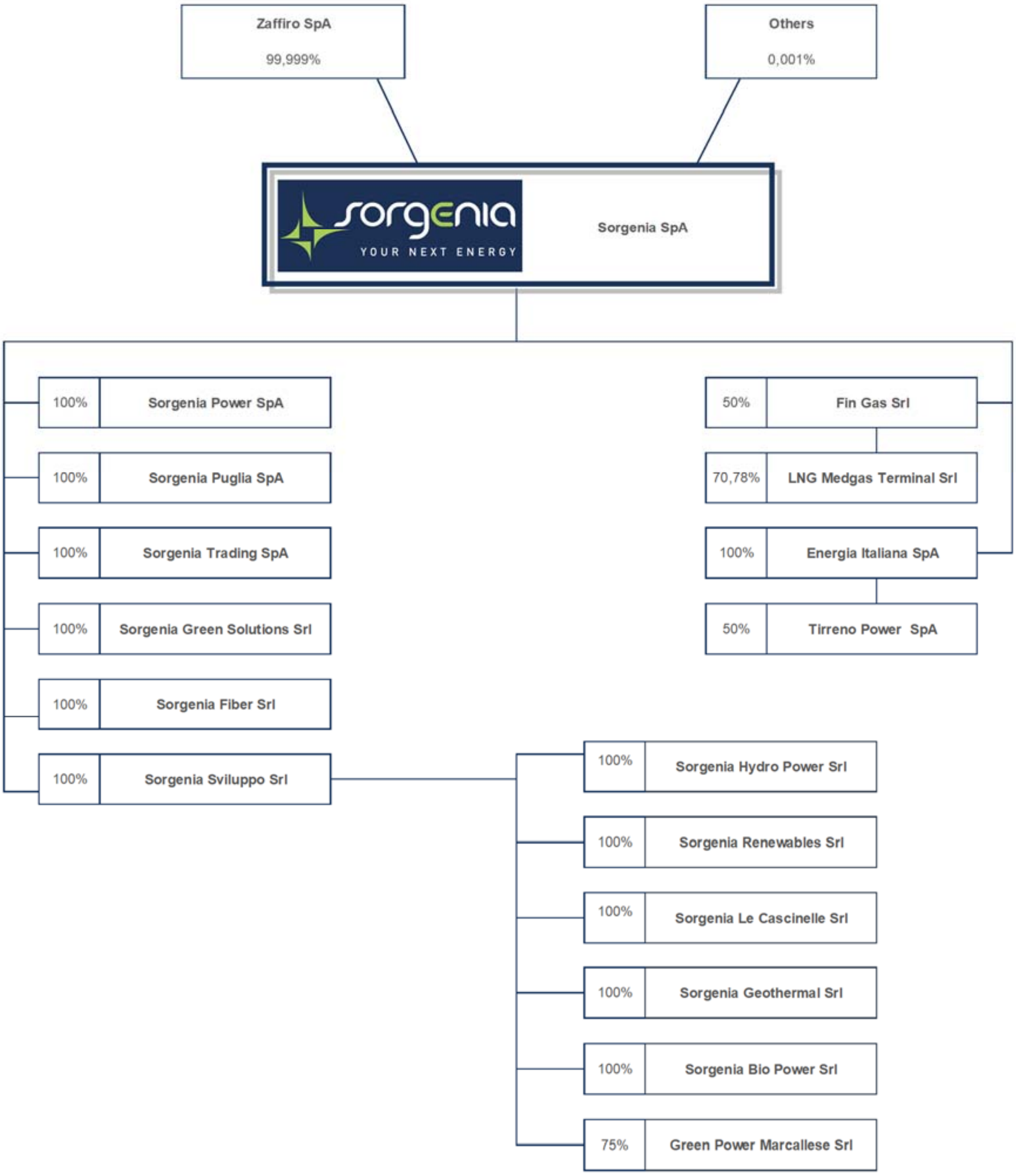
For Sorgenia, confidence, enthusiasm and innovation are the cornerstone of our identity. This represents a huge strength: a young organisation, which has put the central focus on people, their energy and passion they put into everything they do. It is not by chance that Sorgenia was also recognised as 2020-2021 "*Great Place To Work Italia*".

Thanks

And indeed, despite such a difficult year Sorgenia achieved highly positive results and so we must thank all the men and women of the company for reacting to the challenges of the emergency with every ounce of their enthusiasm, innovation and team work.

Milan, March 22, 2020

THE SORGENIA GROUP AND THE SHAREHOLDERS



THE COMPANY BODIES

BOARD OF DIRECTORS

Chairman	Angelo Barbarulo
Chief Executive Officer	Giovanni (known as Gianfilippo) Mancini
Directors	Bice Di Gregorio Guido Mitrani Alessandra Moiana Roberta Neri Alberto Ponti Corrado Santini

BOARD OF STATUTORY AUDITORS

Chairman	Maurizio Di Marcotullio
Statutory Auditors	Fabrizio Bonelli Daniele Discepolo

INDEPENDENT AUDITORS

EY SpA

Company name	***Sorgenia SpA***
Share Capital	406,676,603.81 euro
Divided into	40,667,660,381 shares (par value not stated)
Registered and administrative office	***Via A. Algardi, 4 - Milan, Italy***
Taxpayer's Code and Milan Register of Companies	no. 07756640012
VAT	no. 12874490159

PERFORMANCE INDICATORS

In order to provide information in line with the analysis and control parameters by the Management of the Group's performance, the Statement of Financial Position and Income Statement referring to the consolidated financial statements as of December 31, 2020, as well as those relating to 2019 were reclassified and supplemented with a series of operating indicators.

The alternative performance indicators shown in the Reclassified Income Statement and in the Reclassified Balance Sheet, not defined by the national accounting standards (OIC) issued by the ODCEC (National Institute of Chartered Accountants), are used by the Management because they contribute to providing useful information for a better assessment of the performance of the economic management and the financial position (*Non-GAAP Measures*). These indicators must not be considered replacements for those set forth in the national accounting standards (OIC).

The content of the alternative performance indicators and the items reclassified or grouped, not immediately traced back to the Financial Statements, are illustrated below:

- **EBITDA (Gross Operating Margin)**: this parameter is used by Sorgenia as *financial indicator* in internal presentations (reporting) and external ones (e.g. to analysts and investors) to assess the operating performance of the individual Group companies, in addition to EBIT (Operating result). These indicators are determined as follows:

Income (loss) before taxes	
+	Financial expense
-	Financial income
+/-	Adjustment of values of financial assets and dividends
EBIT - Operating Result (A-B)	
+/-	Write-downs (reversing impairment losses) of tangible and intangible assets
+	Depreciation and amortisation
+/-	Allocations (releases) to provision for the write-down of receivables
EBITDA - Gross Operating Margin	

- **Change in Revenues, EBITDA and EBIT**: these indicators express the change, in absolute value and/or as a percentage of revenues, in EBITDA and EBIT. Sorgenia believes that the presentation of this additional information offers a more complete and effective comparison of the deviation of the Group's operating performance between two years.

- **Net Financial Debt**: Sorgenia believes that Net Financial Debt represents an indicator of the ability to meet its financial obligations, represented by the Gross financial debt less Cash and cash equivalents and Other financial assets (current and non-current). Net Financial Debt includes net financial assets and liabilities *at fair value* relating to derivative contracts entered into to hedge interest rate risk. This Report on Operations includes a table highlighting the values of the equity and financial position used for calculating Group Net Financial Debt. Net Financial Debt is calculated as follows:

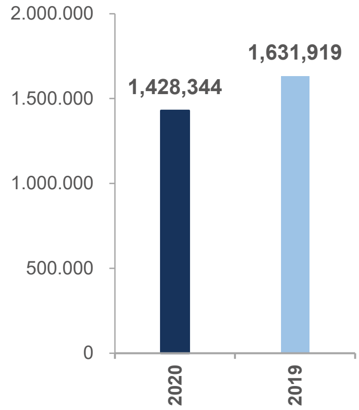
+	Non-current financial liabilities
+	Current financial liabilities
+	Current and non-current liabilities from financial hedging contracts
A) Gross Financial Debt	
+	Non-current financial assets
+	Current financial assets
+	Current and non-current assets from financial hedging contracts
+	Cash and other cash equivalents
B) Financial Assets	
C =(A-B) Net Financial Debt	

All items are stated at amortised cost or *at fair value*.

KEY INDICATORS OF THE SORGENIA GROUP

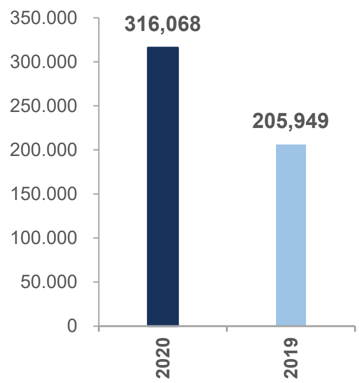
SALES REVENUES

The decrease in revenues registered compared to December 31, 2019 is mainly the result of the combined effect of: *(i)* lower revenues from the sale of electricity reported by the thermoelectric power plants due to the decline in production, only partly offset by the better results achieved in the Services market; *(ii)*lower revenues from the sale of electricity and gas on wholesale markets, linked to a reduced price scenario for all the main *energy commodities* and; *(iii)* lower revenues from the sale of electricity and gas to end customers due to the CoViD-19 emergency, which led to a reduction in consumption by high-end customers, small and medium enterprises (SMEs) and professionals; by contrast, the Residential segment recorded an increase in consumption.



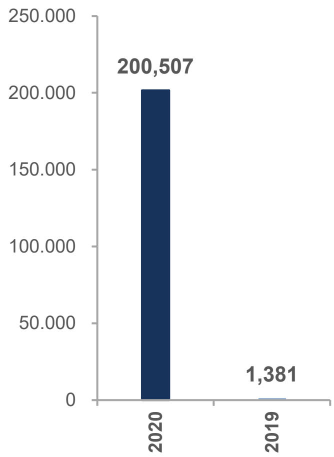
EBITDA or GROSS OPERATING MARGIN

EBITDA - Gross Operating Margin in 2020 stood at 316,068 thousand euro. The significant growth, amounting to 110,119 thousand euro compared to 2019, is attributable mainly to the increase in generation margins thanks to the fact that all the opportunities that presented themselves on the Dispatching Services Market (MSD) during the year were fully capitalised on and the effect of the revaluation at Tirreno Power Spa amounting to 29,729 thousand euro in 2019 and 62,341 in 2020.



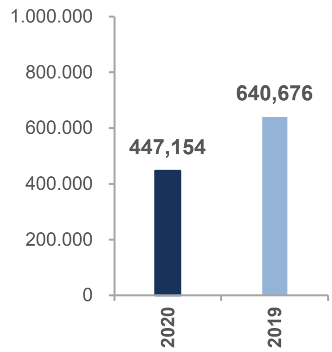
NET INCOME (LOSS) OF THE GROUP

Profit in 2020 amounted to 200,507 thousand euro. The increase compared to 2019 is attributable to the better results deriving from ordinary business (improvement in EBITDA) plus the better results of financial management (net expenses of 24,659 thousand euro in 2020 vs 149,418 thousand euro in 2019, of which 114,232 thousand euro connected with higher figurative financial expenses from the *change in estimates*). These effects were partially offset by a higher tax burden in 2020, attributable to higher taxable profits than 2019



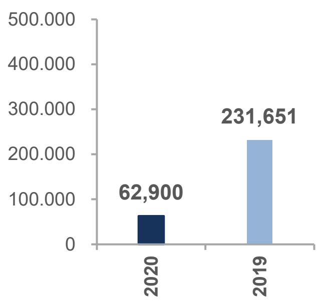
NET FINANCIAL DEBT

The Net Financial Debt in 2020 came to 447,154 thousand euro, marking a decrease of 193,522 thousand euro (-30.2%) compared to 2019 due to the cash generated by ordinary operations. It should be noted that, during the year, following the transfer of the Sorgenia Group and the refinancing of financial debt, which involved the full repayment of the existing bank debts as of December 31, 2019, for an amount of 878,506 thousand euro and the taking out of a new loan of 516,276 thousand euro.



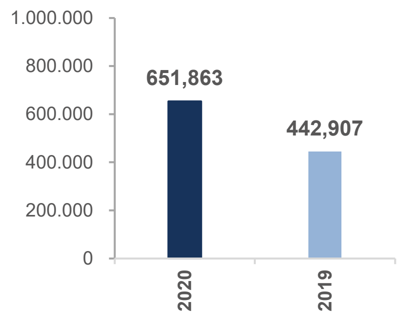
CASH AND CASH EQUIVALENTS

The liquidity of the Sorgenia Group as of December 31, 2020 stood at 62,900 thousand euro, registering a decrease of 78%. The change relates primarily to the net effect between the cash generated by ordinary operations and the repayments of loans made.



GROUP SHAREHOLDERS' EQUITY

The Group Shareholders' Equity as of December 31, 2020 was 651,863 thousand euro. The increase recorded compared to the previous year is due to the combined effect of the positive result of the Group (200,507 thousand euro), and the positive change in the reserve for expected cash flow hedge transactions (8,438 thousand euro).



KEY INDICATORS OF THE SORGENIA GROUP

The Consolidated Financial Statements of the Sorgenia Group as of December 31, 2020 were drawn up in compliance with the valuation and measurement criteria established by the national OIC accounting standards issued by ODCEC (national institute of chartered accountants).

It should be noted that, following the adoption of the national OIC accounting standards for the drafting of the Consolidated Financial Statements as of December 31, 2020, the comparative data as of December 31, 2019 were re-stated in line with the provisions of the Italian accounting standards issued by the OIC (Italian Accounting Standards Setter).

EUR/000	**31/12/2020**	**31/12/2019**	**Change %**
ECONOMIC DATA			
Sales revenues	1,428,344	1,631,919	(12.47%)
Gross Operating Margin	316,068	205,949	53.47%
% Sales revenues	22.1%	12.6%	
Operating result	239,878	141,371	69.68%
% Sales revenues	16.8%	8.7%	
Profit (loss) before tax	215,220	(8,047)	N.S.
Net income (loss) of the Group	200,507	1,381	N.S.
% Sales revenues	14.0%	0.1%	

EQUITY AND FINANCIAL DATA	**31/12/2020**	**31/12/2019**	**Change %**
Net Invested Capital	1,099,017	1,083,583	1.42%
Net Financial Debt amortised cost/FV Adj	447,154	640,676	(30.21%)
Shareholders’ Equity of the Group	651,863	442,907	47.18%

OPERATIONAL DATA	**31/12/2020**	**31/12/2019**	**Change %**
Employees - exact value	370	352	5.1%
Employees – average	360	339	6.2%

IN SHORT

REPORT ON OPERATIONS

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

REPORTS CORRELATED WITH THE FINANCIAL STATEMENTS

RELEVANT CONTEXT

_Main macroeconomic indicators

_Macroeconomic scenario

_Legislative and regulatory provisions of the electricity and gas sector

MAIN MACROECONOMIC INDICATORS

GDP	**2020**	**2019**	**2018**
Eurozone (18 countries)	(6.80%)	1.30%	1.80%
Italy	(8.90%)	0.30%	0.90%
Eurostat, Bloomberg data			

Unemployment rate	**2020**	**2019**	**2018**
Eurozone (18 countries)	8.00%	7.60%	8.20%
Italy	9.40%	9.90%	10.60%
Eurostat, Bloomberg data			

Main power exchanges *(EUR/MWh)*	**2020**	**2019**	**2018**
IPEX	38.90	52.35	61.29
EPEX GER	30.70	37.93	44.64
EPEX FR	32.16	39.48	50.20
GME and EEX data			

Exchange rates	**2020 (annual average)**	**2019 (annual average)**	**2018 (annual average)**
EUR/USD	1.14	1.12	1.18
EUR/GBP	0.89	0.88	0.88
ECB data			

Interest Rates	**2020**	**2019**	**2018**
ECB	0.00%	0.00%	0.00%
FED	0.25%	1.75%	2.50%
BoE	0.10%	0.75%	0.75%
ECB, FED, BoE data			

CO_2 markets *(EUR/t)*	**2020 (annual average)**	**2019 (annual average)**	**2018 (annual average)**
EUA	24.72	24.83	15.94
CER	0.29	0.26	0.24
Source: Bloomberg listings ICE			

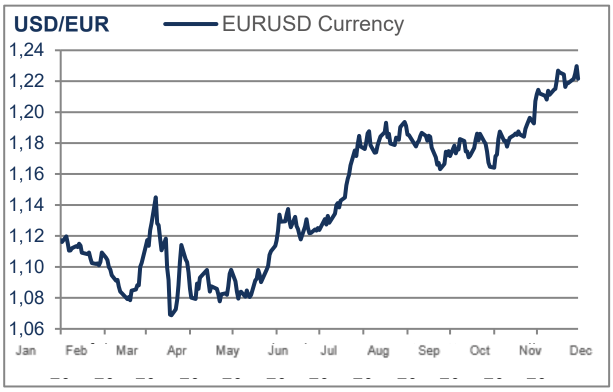
MACROECONOMIC SCENARIO

Italian economy[1]

In 2020, a huge decrease in GDP (-8.9%) was recorded, related to the significant impact of CoViD-19 and the measures adopted to mitigate its consequences. Demand slumped by 8% compared to the previous year, despite the positive figure of 9.2% recorded in the third quarter with respect to the previous year. The fresh spread of the virus obligated the Government to intervene to reduce hospital admissions, but also to support the stability of income, extending the wage guarantee fund and providing indemnities for the self-employed. Therefore, in 2020, the unemployment rate fell to 9.4% compared to 9.9% in 2019.

EUR/USD exchange rate

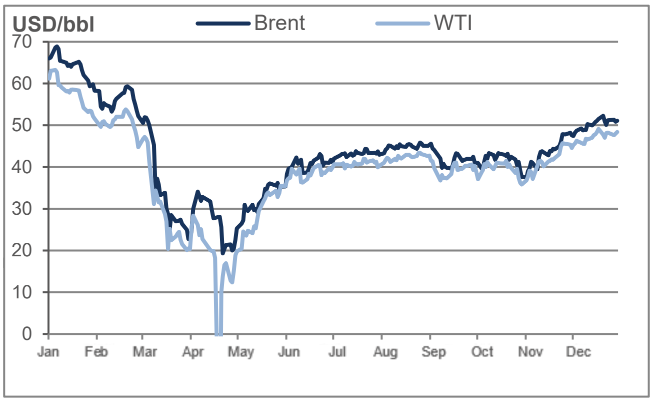
The EUR/USD, following a weak start of the year linked to the uncertainty of Brexit, the economic data and the lack of harmony within the European Commission, bucked the previous trend, closing the year in the region at +1.23, thanks to the agreement over the recovery plan and better management of the pandemic with respect to the situation in the US.



In the final quarter, the resumption of talks over a tax plan from the new Biden administration, and the positive news regarding the results of vaccines contributed to the weakening of the dollar. GDP in the Eurozone recorded a drop of -6.8%, down compared to the previous year; while in the US, a reduction of -3.5% was registered.

[1] Source: Istat and Bank of Italy

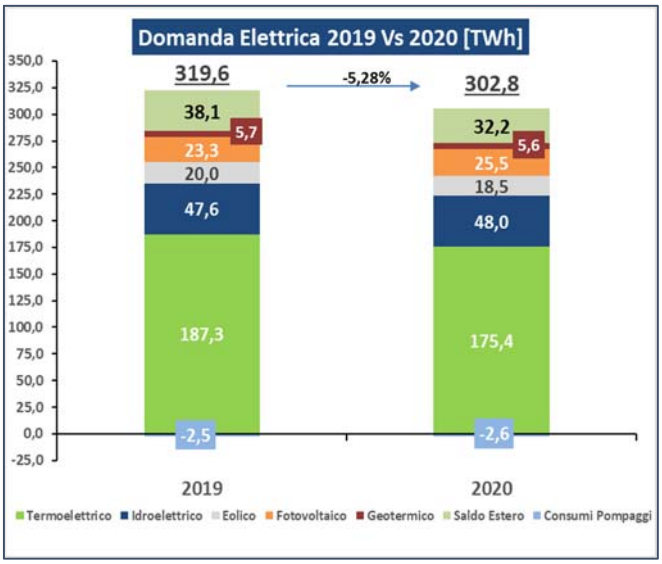
Oil[2]



The impact of the global pandemic reduced global oil demand in 2020 by 9.8 Mbbl/day, bringing it to 90 Mbbl/day. The Brent went from 66 USD/bbl, to a low of 19.3 USD/bbl, then closed the year above 51 USD/bbl: while the WTI reached a value of -37 USD/bbl at the end of April, due to the surplus which could no longer be managed by the Cushing storage centre in Oklahoma.

The news on development of a vaccine and the strong cohesion of the OPEC countries, which reduced production by 7.7 Mbbl/day, allowed an increase in prices in the final part of the year.

Electricity demand in Italy[3]



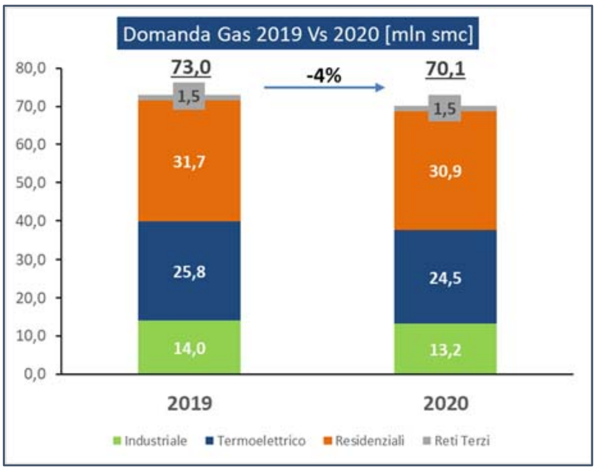
Terna's figures for 2020 show a significant decrease in demand for electricity, which, at the end of the year was 5.3% lower than in 2019, reaching an estimated value of 302.8 TWh. The foreign balance in 2020 fell to net imports of 32.2 TWh, marking a decrease of 15.6% compared to 2019, determined primarily by a reduction in flows in the April-September period. Thermoelectric plants recorded a decrease of 6.4% in annual production compared to the previous year. During the national *lockdown* months between March and June, production dropped by an average of 27%. Looking specifically at the technologies, a reduction of 6% was recorded in production by combined cycle plants (102.8 TWh); while coal plants registered a decrease of 28.2%. The cause of this decrease lies in the greater competitiveness of gas fuel with respect to coal. Comparing production from renewable energies with 2019 shows an increase of 1.1%, corresponding to production over the year of 97.7 TWh.

[2] source: OPEC and ICE

[3] Source: Terna and GME

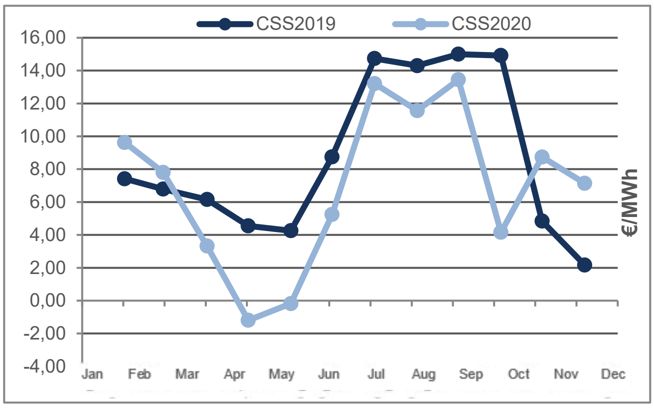
An analysis of the trend by individual technology shows a redistribution between renewables: compared to a decrease in wind production of 7.4%, photovoltaic production rose by 9.6% (hitting a record level of 25.5 TWh), while the contribution from hydroelectric plants remained almost unchanged.

Natural gas demand[4]



Gas consumption declined with respect to 2019, recording a reduction of 4%. The demand estimated by Snam is 70.1 billion cubic meters. Thermoelectric demand fell by 5.3%; falling to 24.5 billion cubic metres. All other sectors also showed a reduction compared to last year. The most significant reduction concerns the industrial sector, which recorded a decrease of 5.7%, falling to 13.2 billion cubic metres. A total of 10.5 billion cubic metres was injected into storage centres, a reduction of 9% compared to 2019, owing to higher stocks at the start of the injection campaign.

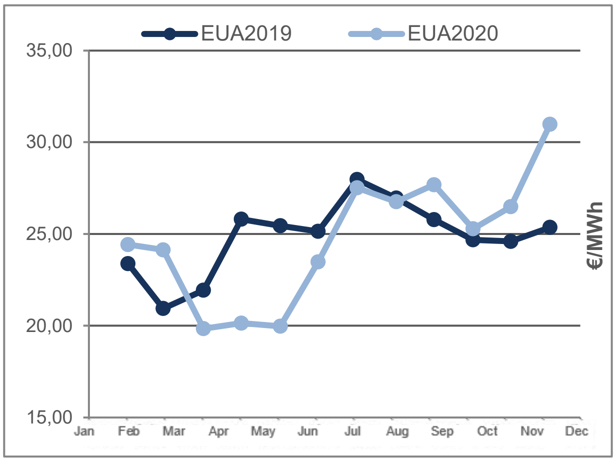
Clean spark spread



The *clean spark spread baseload* (CSS) in Italy fell by 20%, sitting at roughly 7 €/MWh. Despite the continuous decrease in gas prices which took hold in 2019, the main driver in the reduction of the CSS was the significant drop in the price of electricity, identified in the second quarter due to the introduction of the first *lockdown*. Electricity demand recovered thanks to the subsequent easing of restrictions, positively influencing the CSS level, bringing it back to the levels of the previous year. In the final quarter of the year, cold temperatures in large parts of Europe helped support demand, bringing the CSS to even higher levels than 2019.

CO_2

[4] Source: Snam



The pandemic and the containment measures helped reduce EUA demand during the first half of 2020; while the euphoria of the markets at the end of the year following the discovery of vaccines led to a price increase, pushing it to the highest ever level of 33.4 €/tons in December. The end of the year was also marked by significant volatility due to the constant updates regarding the resolution of Brexit. The average annual price in 2020 was 24.7 €/tons, in line with the average in the previous year.

LEGISLATIVE AND REGULATORY PROVISIONS OF THE ELECTRICITY AND GAS SECTOR

LEGISLATIVE PROVISIONS

By means of **Decree Law no. 162 of December 30, 2019** (the **Milleproroghe Decree**, published in the Official Gazette on December 31, 2019) provision was made for the postponement to January 1, 2021 of the Additional Safeguards for small businesses (pursuant to Article 2 of Directive (EU) 2019/944), and to January 1, 2022 for the micro-firms (referred to in Article 2 of Directive (EU) 2019/944) and for household customers.

The Authority for Energy, Networks and Environment took action, through its provisions, to define the regulation of the gradual safeguards service pursuant to Competition Law 124/2017, as amended by the 2019 Milleproroghe Decree, to guarantee continuity of the service for small businesses.

By means of **Decree of the Ministry of Economic Development of January 12, 2021**, the end of the additional safeguards for small businesses was regulated, plus the start of the communication campaigns for all consumers, including household users, in order to guarantee a fully-informed entry of said parties into the unregulated market.

Publication of the ministerial decree in the Register of Suppliers is pending and the decree will govern the end of safeguards for micro-firms and household users.

Italian **Law no. 160 of December 27, 2019 (2020 Budget Law** published in the Official Gazette on December 30, 2019) provides for the repeal, with effect from January 1, 2020, of the rule that made provision for the transfer of the tax credit for energy redevelopment initiatives through the installation of renewable plants (Article 10, paragraph 3-ter of Italian Law Decree no. 34 of April 30, 2019, converted into Italian Law no. 58 of June 28, 2019).

By means of **Decree Law no. 34 of May 19, 2020**(**Relaunch Decree**), adopted to kick-start the economy following the national emergency (CoViD-19), an incentive mechanism was introduced for energy redevelopment initiatives. Article 119 of the decree makes provision, in particular, for the recognition of the so-called Superbonus (tax deductions at 110%) for specific energy redevelopment initiatives (as well as the reduction of seismic risk), installation of photovoltaic plants, storage systems, and installation of infrastructures for electric vehicle charging, carried out by December 31, 2021.

Finally, **Law no. 178 of December 30, 2020** (2021 Budget Law published in the Official Gazette on December 30, 2020) extended the validity of the Superbonus to 110% as of June 30, 2022, a term which can be extended for another 6 months for works that are at least 60% completed at said date.

Article 121 of the **Relaunch Decree** also provided the possibility of transforming a series of tax deductions (energy redevelopment expenses and expenses for the reduction of seismic risk) to a transferable tax credit and/or discount on the consideration due.

Pending the acknowledgement of European Directive 2018/2001/EU (Directive RED2) for promotion of the use of renewable energy, **Decree Law no. 162 of December 30, 2019** (**Milleproroghe Decree**) allowed the activation of forms of collective self-consumption from renewable sources or the creation of renewal energy communities. The Authority for Energy, Networks and Environment and the GSE defined the implementing provisions through their own measures.

In 2019, the Court of Cassation (see **Court of Cassation decision no. 15198 of June 4, 2019, no. 27099 of October 23, 2019 and no. 27101 of October 23, 2019**) declared that the provincial surcharge on the electricity excise duty pursuant to Italian Law Decree no. 511 of November 28, 1988, with EU regulations (Council Directive no. 2008/118/EC of December 16, 2008), applied to the supply of electricity in 2010 and 2011, was incompatible.

Sorgenia, as the party obliged to pay the excise duty and the associated surcharges, has exercised its right to claim these sums back from customers, applying the surcharge to the excise duty in force at the time on them in the invoices issued.

As a result of the aforementioned legal rulings, considering the purely private relationship, end consumers who intend to object to their supplier's incorrect charging of amounts by way of excise duty and surcharge, must exercise the action of recovery of objective undue payments in accordance with Article 2033 of the Italian Civil Code within the ten-year period, at the end of which the associated right is extinguished.

At present, the Company is evaluating the procedure to be followed and the potential effects deriving from the position taken by the Court of Cassation, which are not currently estimated, taking into account the uncertainty of possible scenarios. In this regard, various trade associations have also decided to submit to the attention of the Ministry of Economy and Finance and the competent authorities the problem in question and the critical issues that may derive from the application of the repayment and recovery procedure currently in force.

It was published in the Official Gazette Law no. 120 of September 11, 2020, converting with amendments Decree Law no. 76 of July 16, 2020 (**so-called Simplifications Decree**), containing urgent measures for digital simplification and innovation. The purposes of the regulation are streamlining and further digitalisation of bureaucracy, by influencing strategic matters including administrative procedures and green economy initiatives.

REGULATORY MEASURES

Gradual Safeguards Service

The aforementioned Law 124/2017 (annual law for the market and competition), acknowledging the obligations imposed by Directive EU 2019/944, established the end of safeguard services (active at present in the electricity sector for household customers and small companies and in the natural gas sector solely for household customers). The expiry, initially set for July 1, 2019, was then put back by Decree Law no. 162/2019 (so-called Milleproroghe decree), which established two phases for the cessation of the additional safeguards service: January 1, 2021 for small companies and for some categories of micro-firms and January 1, 2022 for household customers and the remaining micro-firms.

For small companies that, at January 1, 2021, have not chosen an operator on the unregulated market, the Regulatory Authority for Energy, Networks and Environment, by means of resolution 491/2020/R/eel published on November 24, 2020, made provision for a mechanism, the so-called gradual safeguards service), whose objective is to ensure continuity of supply.

Resolution 491/2020/R/eel of ARERA sets forth that tenders for the award of the service are to be held between April and May 2021, in which companies operating on the electricity market that possess the characteristics of economic, financial and operating solidity, can participate.

Essential nature of Modugno plant

With reference to Sorgenia Puglia SpA, on June 4, 2019, the Regulatory Authority for Energy, Networks and Environment approved, through resolution 222/2019, the inclusion by Terna of the Modugno plant in the list of essential plants (with reference to the period July 15, 2019 - December 31, 2019), in accordance with the regulations on the essentiality governed by resolution 111/06.

A production plant is defined as essential for the safety of the electrical system if, in the absence of the plant, it is not possible to ensure adequate safety management standards of the system itself, also due to the planned maintenance requirements of the other production plants and of the network elements.

Article 63.11 of resolution 111/06 provides that dispatching users who own essential plants may request, for the period of validity of the list drawn up by Terna or for a multi-year period starting from the beginning of the period of validity of the same list, the admission to the cost recovery regime.

On June 18, 2019, Sorgenia presented ARERA (Regulatory Authority for Energy, Networks and Environment) with an application for admission to the cost recovery regime for a multi-year period for the Modugno plant.

Through the adoption of Resolution 290/2019, on July 2, 2019 ARERA resolved to accept the request for admission to the recovery regime relating to the Modugno plant, based on the higher expected benefit for consumers, also for the period from January 1, 2020 to December 31, 2020.

IN SHORT

REPORT ON OPERATIONS

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

REPORTS CORRELATED WITH THE FINANCIAL STATEMENTS

SORGENIA GROUP

_Group results of operations

_Analysis of the main business sectors

_Significant events of the year

GROUP RESULTS OF OPERATIONS

The Consolidated Financial Statements of the Sorgenia Group as of December 31, 2020 were drawn up in compliance with the valuation and measurement criteria established by the national OIC accounting standards issued by ODCEC (national institute of chartered accountants).

It should be noted that, following the adoption of the national OIC accounting standards for the drafting of the Consolidated Financial Statements as of December 31, 2020, the comparative data as of December 31, 2019 were re-stated in line with the provisions of the Italian accounting standards issued by the OIC (Italian Accounting Standards Setter).

GROUP ECONOMIC RESULTS

EUR/000

	31/12/2020	31/12/2019	Change %
RECLASSIFIED INCOME STATEMENT			
SALES REVENUES	1,428,344	1,631,919	(12.5%)
Other revenues and income	27,278	49,355	(44.7%)
A - NET REVENUES	**1,455,622**	**1,681,274**	**(13.4%)**
Increase in fixed assets	1,829	1,244	47.0%
B - VALUE OF PRODUCTION	**1,457,451**	**1,682,519**	**(13.4%)**
Consumption of raw materials (-)	(610,163)	(821,300)	(25.7%)
Services (-) **	(471,156)	(528,404)	(10.8%)
Change in inventories	(5,065)	(24,218)	(79.1%)
Lease and rental costs (-)	(84,100)	(93,856)	(10.4%)
C - VALUE ADDED	**286,967**	**214,741**	**33.6%**
Labour cost (-)	(33,116)	(39,431)	(16.0%)
Income (Expenses) from trading activities	(123)	910	(113.6%)
Revaluation (write-down) of jointly-controlled equity investments	62,341	29,729	109.7%
D - GROSS OPERATING MARGIN	**316,068**	**205,949**	**53.5%**
Amortisation and write-downs of fixed assets (-)	(50,147)	(49,110)	2.1%
Allocations to provision for the write-down of receivables (-)	(15,086)	(7,227)	108.7%
Allocations to provisions for risks and losses (-)	(10,957)	(8,241)	33.0%
E - NET OPERATING PROFIT	**239,878**	**141,371**	**69.7%**
Net financial income (expense)	(25,662)	(147,473)	(82.6%)
Revaluation (write-down) of financial assets	1,004	(1,945)	(151.6%)
F - RESULT BEFORE EXTRAORDINARY COMPONENTS AND TAXES	**215,220**	**(8,047)**	**N.S.**
Extraordinary income (expense)	-	-	-
G - RESULT BEFORE TAXES	**215,220**	**(8,047)**	**N.S.**
Income taxes for the year	(9,611)	2,272	N.S.
Deferred tax assets (liabilities)	(5,101)	7,156	(171.3%)
H - INCOME/(LOSS) FOR THE YEAR	**200,507**	**1,381**	**N.S.**
Profit (loss) for the year pertaining to minority interests	**-**	**-**	**-**
I - GROUP PROFIT (LOSS) FOR THE YEAR	**200,507**	**1,381**	**N.S.**

** the balance as of December 31, 2020 includes the costs incurred by the Group for the acquisition of new customers (so-called *Cost to acquire*) for an amount of 11,784 thousand euro.

The main results of the Group *income statement* are provided below, adjusted if account was taken of the capitalisation of the costs for acquiring new customers (so-called "*Cost to acquire")*, as of December 31, 2020:

EUR/000	**31/12/2020**
RECLASSIFIED INCOME STATEMENT	
SALES REVENUES	1,428,344
Other revenues and income	27,278
A - NET REVENUES	**1,455,622**
Increase in fixed assets	1,829
B - VALUE OF PRODUCTION	**1,457,451**
Consumption of raw materials (-)	(610,163)
Services (-)	(459,373)
Change in inventories	(5,065)
Lease and rental costs (-)	(84,100)
C - VALUE ADDED	**298,750**
Labour cost (-)	(33,116)
Income (Expenses) from trading activities	(123)
Revaluation (write-down) of jointly-controlled equity investments	62,341
D - GROSS OPERATING MARGIN	**327,851**

Consolidated revenues in 2020 amounted to 1,428,344 thousand euro (1,631,919 thousand euro in 2019), a reduction of 12.5% compared to the previous year.

The decrease in revenues registered compared to December 31, 2019 is mainly the result of the combined effect of: *(i)* lower revenues from the sale of electricity reported by the thermoelectric power plants due to the decline in production, only partly offset by the better results achieved in the Dispatching Services Market (MSD); *(ii)*the reduction in revenues from the sale of electricity and gas on the wholesale market, linked to a reduced price scenario for the *energy* commodities; *(iii)* lower revenues from the sale of electricity and gas to end customers due to the CoViD-19 emergency, which led to a reduction in consumption by high-end customers, small and medium enterprises (SMEs) and professionals; the Residential segment recorded an increase in consumption. Vice versa, the customer portfolio grew considerably, rising from about 345 thousand as of December 31, 2019 to approximately 416 thousand in 2020, marking a growth of 20.6% compared to the previous year.

It should also be noted that, the item also includes the revenues achieved by the subsidiary Sorgenia Puglia SpA, following ARERA's approval of Terna's inclusion of the Modugno plant in the list of essential plants and the subsequent admission to the generation costs recovery regime relating to the Modugno plant, for an amount of 33,147 thousand euro.

Other revenues and income amounting to 27,278 thousand euro (49,355 thousand euro in 2019), mainly include contingent assets, the releases of provisions for risks and losses and other revenues. The decrease recognised with respect to the previous year, is attributable primarily *(i)* to the lower considerations paid by Terna for the availability of productive capacity pursuant to Resolution 48/04 for 2019, with respect to the amount paid for 2018; *(ii)* to the reduction in insurance payouts obtained in 2020 compared to 2019 by the subsidiary Sorgenia Power SpA, for accidents that occurred in previous years at the Aprilia plants in

Bertonico-Turano Lodigiano; *(iii)* to the recognition in 2019 of extraordinary non-recurring income by the subsidiary Sorgenia Puglia SpA - relating to the release of a residual part of the provision for risks allocated in 2017, in light of the preliminary investigation procedure and a fact-finding survey launched by the Regulatory Authority for Energy, Networks and Environment (”ARERA”), for an amount of 12,200 thousand euro following the Directors' examination of the likelihood of occurrence of the scenarios of potential action by the Authority-; and by the subsidiary Sorgenia Power SpA - relating to the reimbursement of the penalty issued by Snam, which rectified the incorrect measurement of gas capacity used by the Aprilia plant.

Costs for the purchase of raw materials in 2020 came to 610,163 thousand euro (821,300 thousand euro in 2019), marking a decrease of 211,137 thousand euro compared to the previous year. The change in the item (25.7%) is mainly linked to: *(i)* lower purchase costs of electricity on the wholesale market due to both the decrease in the price with respect to 2019, and the fall in volumes partly offset by *(ii)* higher gas purchase costs due to the higher volumes handled, in particular through the subsidiary Sorgenia Trading SpA, whose increase was only partially offset by the reduction in the price of the *commodity* and *(iii)* higher purchase costs of emission rights by the subsidiary Sorgenia Trading SpA, connected with a higher price of quotas than the previous year, only partially offset by lower volumes.

Costs for services recorded a 10.8% decrease during the year, falling from 528,404 thousand euro in 2019 to 471,156 thousand euro in 2020. The decrease with respect to the previous year is attributable mainly: *(i)* to lower transport, dispatch and distribution costs deriving from the fall in the volumes of electricity and gas sold and handled, due to the CoViD-19 emergency and the subsequent *lockdown*, *(ii)* to the higher customer support costs, linked to the growth in the customer base and the objective of acquiring an increasingly higher number of customers; *(iii)* to the lower maintenance costs linked to both the LTSAs (*Long Term Service Agreement*) for the change in the general running profiles of the Group generation plants with respect to the previous year, and the ordinary maintenance activities that involved shorter interruptions with a lower increase in *extra-works* which instead occurred in 2019; (*iv*) to the recognition, in 2019, of extraordinary costs linked to the completion of the Group purchase and sale transaction and the allocation of a variable medium/long-term incentive (LTI).

Lastly, it should be stressed that the balance of costs for services shown in the financial statements as of December 31, 2020 includes the costs incurred by the Group in acquiring new customers (*Cost to acquire*), for an amount of 11,784 thousand euro.

The change in inventories, amounting to 5,065 thousand euro (24,218 thousand euro in 2019), is mainly representative of the net change in purchases and sales of natural gas and CO_2 certificates. The change with respect to the previous year mainly reflects the decline in natural gas prices throughout 2020, which led to a lower valuation of warehouse stocks relating to the 2020-2021 storage campaign, despite the increase in the award of auctions for the allocation of storage capacity at Stogit SpA compared to the previous year.

The item Lease and rental costs, amounting to 84,100 thousand euro (93,856 thousand euro in 2019) mainly includes: the costs incurred for the leasing of offices and the properties not owned by the Group companies, miscellaneous operating costs relating primarily to the obligations due to GSE for the return of the CO_2 quotas by the Group's plants, and contingent liabilities. A decrease was recorded compared to the previous year, mainly linked to the lower production volumes reported by the Group's plants, which involved lower CO_2 costs, despite the increase in the unit price.

The cost of labour which fell from 39,431 thousand euro to 33,116 thousand euro, reflects the recognition, in 2019, of the allocation of the medium/long-term variable incentive (*long-term incentive* or *LTI*), despite the increase in the average headcount with respect to 2019, which rose from 352 to 370 in 2020.

The item "Revaluation (write-down) of jointly controlled equity investments" (62,341 thousand euro in 2020) represents the income for reaching the pro rata value of shareholders' equity, recorded on December 31, 2020 in order to align the value of the equity investment in the affiliate Tirreno Power to the corresponding portion of shareholders' equity pertaining to the Group, net of the nominal value of the Participating Financial Instruments, PFIs, (for more details please refer to the next paragraph "Analysis of the main business sectors").

The Gross Operating Margin was positive, amounting to 316,068 thousand euro, marking an 110,119 thousand euro increase over the previous year (positive for 205,949 thousand euro). The variation is attributable mainly to the increase in generation margins, thanks to the full capitalisation on all the opportunities that presented themselves during the year on the Dispatching Services Market (MSD) and the effect of the revaluation at Tirreno Power Spa amounting to 29,729 thousand euro in 2019, and 62,341 thousand euro in 2020.

The Operating Result of 2020 was positive for 239,878 thousand euro (positive for 141,371 thousand euro in the previous year), marking an increase of 98,507 thousand euro. The change is essentially attributable to the positive trend in the Gross Operating Margin, which was outlined previously, partially offset by the higher allocations to the provision for the write-down of receivables (up by 7,858 thousand euro compared to 2019), given that the receivables past due as of December 31, 2020 presented a lower probability of recovery than previous recognitions as a result of the CoViD-19 emergency.

Financial management (including the items “Net financial income/expenses” and “Revaluation/write-down of financial assets”) shows a net charge of 24,659 thousand euro, marking a net decrease of 124,759 thousand euro compared to the previous year (net charge of 149,418 thousand euro in 2019).
The change with respect to the previous year is attributable mainly to the recognition, in 2019, of higher figurative financial expense from the *change in estimates* of financial payables due to banks (totalling 114,232 thousand euro) as a result of the forecast finalisation of the Group's purchase and sale transaction, envisaged in 2020, and which would have entailed the full repayment of the payables; executing the refinancing of the Sorgenia Group's bank debt and, therefore, requiring the recognition of the difference

between the present value of expected cash flows and their nominal value as of December 31, 2019. Financial management in 2020 was also characterised by:

- interest expense on the nominal value of payables (10,679 thousand euro);
- figurative interest expense deriving from the "measurement at amortised cost" (8,989 thousand euro, of which relating to figurative financial expenses pertaining to 2020*(i)* on the bond loan and loan extinguished as part of the refinancing of the Sorgenia Group for 8,065 thousand euro; and *(ii)* on the new bank loan in place as of December 31, 2020, for 924 thousand euro):
- expenses for *commitment fees* and *agency fees* (2,692 thousand euro), incurred as a result of the Group's financial debt to the banking system, through the taking out of a new loan obtained on the market;
- other miscellaneous financial income/expense tied to Group operations, mainly including commissions and charges on guarantees and bank guarantees and bank fees for financing (net charges totalling 3,302 thousand euro).

The consolidated result before tax was positive for 215,220 thousand euro (negative for 8,047 thousand euro in 2019), marking an increase of 223,267 thousand euro. The positive change compared to 2019 is attributable to the improvement effect deriving from financial management, in addition to the improvement effect recognised on the Gross Operating Margin, as described above.

The tax component was negative for 14,713 thousand euro (positive for 9,428 thousand euro in the previous year), and relates primarily:

- to taxes for IRAP (regional business tax), pertaining to 2020, amounting to 9,449 thousand euro;
- deferred tax assets and deferred tax liabilities on temporary differences amounting to 5,101 thousand euro.

The change recognised with respect to 2019, is primarily justified by *(i)* recognition as of December 31, 2019 of the income from tax consolidation for the 2013 tax period recognised by CIR SpA (which, in 2013, was the tax consolidating entity), for an amount of 8,576 thousand euro; *(ii)* release of deferred tax assets on provision for legal and tax risks for 5,151 thousand euro in 2020*; (iii)* use of amounts of tax losses and ACE (aid for economic growth) in 2020, higher than the previous year, as a result of the realisation of higher taxable profits.

As a result of the above, the Sorgenia Group reported a profit of 200,507 thousand euro in 2020 (profit of 1,381 thousand euro in the year 2019).

ANALYSIS OF THE EQUITY AND FINANCIAL STRUCTURE OF THE GROUP

It should be noted that, following the adoption of the national OIC accounting standards for the drafting of the Consolidated Financial Statements as of December 31, 2020, the comparative data as of December 31, 2019 were re-stated in line with the provisions of the Italian accounting standards issued by the OIC (Italian Accounting Standards Setter).

EUR/000	31/12/2020	31/12/2019	Change %
RECLASSIFIED BALANCE SHEET			
A - NET FIXED ASSETS			
Net Intangible Fixed Assets	49,519	49,431	0.2%
Net Tangible Fixed Assets	925,651	949,289	(2.5%)
Financial Fixed Assets and other non-current assets	136,024	67,217	102.4%
TOTAL fixed assets	**1,111,194**	**1,065,937**	**4.2%**
Inventories (+)	25,939	29,325	(11.5%)
Trade receivables (+)	224,429	256,231	(12.4%)
Other assets (+)	45,390	20,012	126.8%
Accrued income and prepaid expenses (+)	4,430	4,255	4.1%
Other liabilities (-)	(74,250)	(42,821)	73.4%
Accrued expenses and deferred income (-)	(1,006)	(375)	168.2%
Trade Payables (-)	(230,205)	(238,321)	(3.4%)
TOTAL net working capital	**(5,274)**	**28,307**	**(118.6%)**
C - MEDIUM//LONG-TERM LIABILITIES	**-**	**-**	**-**
Maintenance, dismantling and miscellaneous provisions (-)	(52,214)	(43,871)	19.0%
Provisions for risks and losses	(25,607)	(45,603)	(43.8%)
Deferred Tax Assets	72,301	80,051	(9.7%)
Employee leaving indemnity (TFR) (-)	(1,383)	(1,238)	11.7%
D - NET INVESTED CAPITAL (A+B+C)	**1,099,017**	**1,083,583**	**1.4%**
E - SHAREHOLDERS' EQUITY			
Receivables due from shareholders	-	-	-
Share capital	406,677	406,677	-
Share premium reserve	-	-	-
Legal Reserve	1,834	1,816	1.0%
Other reserves	(22,208)	(25,772)	N.S.
Retained earnings (accumulated losses)	65,054	58,805	(58.0%)
Group profit (loss) for the year	200,507	1,381	N.S.
Profit (loss) for the year pertaining to minority interests	-	-	-
Minority Interests in Shareholders' Equity	-	-	-
TOTAL shareholders' equity	**651,863**	**442,907**	**47.2%**
F - NET FINANCIAL DEBT			
Medium/long-term Financial Debt (+)	455,698	404,432	12.7%
Short-term Financial Payables (Receivables) (+)	54,506	469,252	(88.4%)
Financial receivables that do not constitute fixed assets (-)	-	-	-
Cash and cash equivalents (-)	(62,900)	(231,651)	(72.8%)
Financial payables due to (receivables due from) subsidiaries (-)	-	(1,341)	(100.0%)
Derivatives	(150)	(16)	N.S.
TOTAL net financial debt	**447,154**	**640,676**	**(30.2%)**
G - TOTAL SOURCES OF NET FUNDS (E+F)	**1,099,017**	**1,083,583**	**1.4%**

The Group’s equity and financial position in 2020 showed that Net Invested Capital increased by 15,434 thousand euro compared to December 31, 2019.
This change mainly refers to:

- the 45,257 thousand euro increase in fixed assets mainly due to the following events:
  - decrease of 23,638 thousand euro in tangible assets, deriving mainly from the amortisation in the year of 33,654 thousand euro partially offset, for a total of 10,078 thousand euro, by investments made in the period for the renewal and improvement of the Group's thermoelectric plants for energy production;
  - increase in the value of the equity investments in companies measured at equity for an amount of 62,341 thousand euro, deriving entirely from the revaluation of the jointly controlled investment held in Tirreno Power.

    In the previous years, until 2018, the Directors had saw fit, despite the positive operating results generated by the jointly-controlled subsidiary, to maintain the book value of the equity investment in Tirreno Power aligned to the value resulting from an appraisal carried out by an independent third party, following the signing, in 2015, of the Financial Debt Restructuring Agreement, endorsed pursuant to Article 182-bis of the Bankruptcy Law (amounting to 25,000 thousand euro), given considered representative of the recoverable value. At the close of the financial statements as of December 31, 2019 and December 31, 2020, the book value of the equity investment, measured using the equity method, was aligned with the value of the corresponding portion of the shareholders’ equity of the jointly-controlled subsidiary at the same date (net of the nominal value of the Participating Financial Instruments, PFIs) given considered recoverable in consideration of the constant improved results achieved in the last three years, compared to the final Business and Financial Plan underlying the Restructuring Agreement.

    More specifically, the shareholders' equity of Tirreno Power as of December 31, 2020 amounted to 518,565 thousand euro and the nominal value of the PFIs came to 284,387 thousand euro, therefore, the portion of the shareholders' equity pertaining to the Sorgenia Group corresponded to 117,070 thousand euro;
  - increase in financial receivables, amounting to 5,982 thousand euro, of which 6,322 thousand euro granted to the subsidiary Green Power Marcallese Srl (the purchase of 75% of the Company's capital, completed on December 28, 2020, therefore, is not included in the scope of consolidation as of December 31, 2020, and was made by the parent company Sorgenia Sviluppo Srl, whose share capital is wholly-owned by Sorgenia SpA);

- the 33,580 thousand euro reduction of net working capital mainly due to:
  - the decrease in current trade assets amounting to 31,802 thousand euro compared to 2019, attributable primarily to lower receivables due from end customers, due to further improvement in the management of credit collection and recovery activities and, also partly due to the reduction in the volumes of electricity and gas sold as a result of the CoViD-19 emergency; to the reduction in

the receivables of the subsidiary Sorgenia Trading SpA, due from leading third party counterparties, linked to lower volumes of electricity and natural gas sold in the final few months of 2020, which more than offset the higher receivables of the parent company Sorgenia SpA due from Terna, connected with the increased operations of the Group's production plants on the services markets in the final part of 2020.

However, note should also be taken of the significant growth in the customer portfolio compared to the previous year, with the customer base rising by 20.6% from 345 thousand in 2019 to around 416 thousand in 2020;

- the negative net change in other liabilities and other current assets for an amount of 6,052 thousand euro, due mainly to the increase in volumes in proprietary trading operations carried out by the subsidiary Sorgenia Trading Spa with respect to 2019;

- the net increase in the provisions for risks and losses and maintenance and dismantling, totalling 11,652 thousand euro, due predominantly:
  - to the allocation set aside by the subsidiary Sorgenia Power in 2020, for the likely expense payable by the Company for the adjustment of the imbalance by the transport operator due to possible revisions of national production, for an amount of 3,500 thousand euro (adjusting the amount allocated in 2019 equal to 6,959 thousand euro);
  - to the allocation made by the parent company Sorgenia SpA in 2020, for an amount of 3,080 thousand euro, relating to the probable expense to be paid to the transport operator - for the 2015-2020 period, as a result of the issuing of resolutions 670/2017/R/gas and 782/2017/R/gas by the Authority, which designed a model for calculating the positions accrued by the operators as a result of the adjustments of the measurements of the points underlying the distribution networks (so-called “*Settlement*”);
  - to the use, during the year, for an amount of 21,042 thousand euro, of the provision for risks relating to the allocation of a variable medium/long-term incentive in favour of Directors and employees carried out in 2019; partly linked to the sale of the Group, described in the paragraph "Significant events in the year";

- to the decrease in deferred taxes of 7,750 thousand euro, mainly due to the *(i)* negative change in deferred tax assets recognised on ACE and on derivative liabilities recognised in 2019; and *(ii)* the release of the provision for deferred taxes allocated on the effect of the amortised cost.

Consolidated Shareholders’ Equity as of December 31, 2020 was positive and totalled 651,863 thousand euro, versus positive Shareholders’ Equity of 442,907 thousand euro as of December 31, 2019. The change of 208,956 thousand euro is attributable, not only to the result achieved during the year, but also to the positive change in the reserve for hedging transactions on expected cash flows.

The breakdown by due date and type of Net Financial Debt, as presented in the Financial Statements and at nominal value, is shown in the following tables.

EUR/000	31/12/2020	31/12/2019	Change %
MEDIUM/LONG-TERM FINANCIAL DEBT			
Non-current bonds	-	-	-
Non-current payables for loans to banks	(455,698)	-	-
Other financial payables	-	(519)	(100.0%)
SHORT-TERM FINANCIAL PAYABLES (RECEIVABLES)			
Current bonds	-	(403,913)	(100.0%)
Current payables for loans to banks	(60,578)	(474,593)	(87.2%)
Other current financial receivables	6,071	5,341	13.7%
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	62,900	231,651	(72.8%)
FINANCIAL PAYABLES DUE TO (RECEIVABLES DUE FROM) SUBSIDIARIES			
Current financial receivables due from parent company	-	1,000	(100.0%)
Current financial receivables due from subsidiaries	-	341	(100.0%)
Current financial payables due to parent company	-	-	-
Current financial payables due to parent company	-	-	-
DERIVATIVES			
Assets from financial hedging contracts	150	16	N.S.
Liabilities from financial hedging contracts	-	-	-
Long-Term Financial Debt	**(455,548)**	**(503)**	**N.S.**
Short-Term Financial Debt	**8,394**	**(640,173)**	**(101.3%)**
NET FINANCIAL DEBT	**(447,154)**	**(640,676)**	**(30.2%)**

The short-term net financial position as of December 31, 2020 amounted to a positive 8,394 thousand euro (a negative 640,173 thousand euro as of December 31, 2019) while the long-term net financial position amounted to a negative 455,548 thousand euro (a negative 503 thousand euro as of December 31, 2019).

As already described in the paragraph "Significant events in the year", it should be noted that, on October 6, 2020, with the finalisation of the Group purchase and sale transaction by F2i SGR SpA and Asterion Industrial Partners SGEIC SA, the Sorgenia Group's financial debt as at said date was refinanced with the banking system, through the taking out of a new loan obtained on the market which entailed the full repayment of existing financial payables as of December 31, 2019 and the termination of the Debt Restructuring Agreement.

Therefore, in light of the considerations outlined above, and based on what it is reported in the paragraph "Significant events in the year", it is stressed that, the phenomena that modified the net financial debt with respect to December 31, 2019, are the following:

- full reimbursement of the bond loan and the existing financial payables as of December 31, 2019 amounting to 878,506 thousand euro following the purchase and sale transaction and the refinancing of the Sorgenia Group;

- taking out of a new bank *loan granted to the parent company Sorgenia SpA, comprised of a term* loan *debt line of 565,000 thousand euro and a* revolving debt line of 75,000 thousand euro which, as of December 31, 2020, totalled 515,884 thousand euro, of which 485,885 thousand euro relates to the *term loan* line, and for 30,000 thousand euro to the *revolving* line.
  It is specified that the expense for the year recognised as of December 31, 2020 for the new bank loan, in application of the measurement at amortised cost, amounted to 13,515 thousand euro.
  The corresponding nominal value, as of December 31, 2020, amounted to 529,400 thousand euro, comprised for 499,400 euro of the *term loan* line, and for 30,000 euro of the *revolving* line. It is also specified that the part shown under "Current payables for loans to banks", amounting to 60,187 thousand euro, is composed for 30,000 thousand euro of the *revolving* line, reimbursed in January 2021;
- the decrease in cash and cash equivalents, which totalled 168,751 thousand euro. The change mainly relates to the net effect of the operating *cash flow* generated during the year and repayments of loans made during the year, and the refinancing completed at the time of the Group purchase and sale transaction.

It should be noted that the net financial position includes the financial assets and liabilities from the *fair value* measurement of financial derivative contracts to hedge interest rate risk, for a positive net value of 150 thousand euro as of December 31, 2020 and 16 thousand euro as of December 31, 2019.

Lastly, the following table shows the nominal values of the Net Financial Debt and the effects of its recognition according to the OIC national accounting standards adopted by the Sorgenia Group, which require that the financial debt be measured at amortised cost and the assets and liabilities regarding the derivatives at fair value.

EUR/000	NFD NOMINAL VALUE	AMORTISED COST AND ADJUSTED FV	IFN FAIR VALUE
MEDIUM/LONG-TERM FINANCIAL DEBT			
Non-current bonds	-	-	-
Non-current payables for loans to banks	(465,520)	9,822	(455,698)
Other non-current financial payables	-	-	-
SHORT-TERM FINANCIAL PAYABLES (RECEIVABLES)			
Current bonds	-	-	-
Current payables for loans to banks	(64,271)	3,693	(60,578)
Other current financial receivables	6,071	-	6,071
	-	-	-
CASH AND CASH EQUIVALENTS	-	-	-
Cash and cash equivalents	62,900	-	62,900
FINANCIAL PAYABLES DUE TO (RECEIVABLES DUE FROM) SUBSIDIARIES			
Current financial receivables due from parent company	-	-	-
Current financial receivables due from subsidiaries	-	-	-
Current financial payables due to parent company	-	-	-
Current financial payables due to parent company	-	-	-
DERIVATIVES			
Assets from financial hedging contracts	-	150	150
Liabilities from financial hedging contracts	-	-	-
Long-Term Financial Debt	**(465,520)**	**9,972**	**(455,548)**
Short-Term Financial Debt	**4,701**	**3,693**	**8,394**
NET FINANCIAL DEBT	**(460,819)**	**13,665**	**(447,154)**

More specifically, based on the requirements of OIC 19, these effects are represented by the recognition according to the amortised cost method when financial payables are discounted, totalling 13,515 thousand euro, and by recognition at *fair value* of derivatives, for 150 thousand euro, according to the provisions of OIC 32.

Note that the *fair value* effect from the amortised cost is solely due to the *fees* incurred in taking out the loan.

ANALYSIS OF THE MAIN BUSINESS SECTORS

GENERATION AND ENERGY MANAGEMENT AREA

	2020	2019	Change %
Electricity (GWh)			
Volumes generated	6,673	7,574	(11.9) %
Volumes sold*	5,499	6,603	(29.6) %

** Not including Sorgenia Trading volumes for proprietary trading activities*

At national level, a decrease was recorded in thermoelectric production (187.3 TWh in 2019 vs 175.4 TWh in 2020) and, in particular, coal production decline (17.1 TWh in 2019 vs 12.4 TWh in 2020). The sudden reduction in electricity demand and the growing presence of non-programmable renewable sources (wind, solar and hydroelectric) led to instability in the national electricity grid.

In this context, Sorgenia's *energy management* of combined cycle gas plants (3.2 GW of installed capacity, flexible and high-automation) was carried out in a strictly integrated manner with the energy markets. This enabled us to best respond to the volatility of the wholesale market and ensure the continuity of the supplies required on the electricity grid during periods of prolonged instability.

Despite a slight decrease in production volumes, Sorgenia posted better economic results than the previous year.

Termoli (CB) Combined Cycle plant

In 2020, the Termoli power plant produced 1,713 GWh (1,883 GWh in 2019) and the average load was 250 MW during the hours of operation.

Modugno (BA) Combined Cycle plant

In 2020, the Modugno power plant produced 1,835 GWh (1,364 GWh in 2019) and the average load was 280 MW.

Turano Lodigiano – Bertonico (LO) Combined Cycle plant

In 2020, the Turano Lodigiano - Bertonico power plant produced 1,412 GWh (2,114 GWh in 2019) and the average load was 370 MW.

Aprilia (LT) Combined Cycle plant

In 2020, the Aprilia power plant produced 1,713 GWh (2,213 GWh in 2019) and the average load was 300 MW.

In 2020, the parent company Sorgenia SpA sold total energy of 5,499 GWh, of which 2,690 GWh relates to end customers, as specified below, and the remainder is connected to the energy management activities carried out on the wholesale markets.

MARKET AREA

	2020	2019	Change %
Electricity (GWh)			
Volumes sold to end customers	2,690	3,059	(12)%
Gas (MSm3)			
Volumes sold to end customers	132	142	(7.0)%

In 2020, the volumes of electricity and gas sold to end customers recorded were lower than those in 2019, mainly due to the reduction in consumption by high-end customers, Small and Medium Enterprises (SMEs) and Professionals due to the CoViD-19 emergency; by contrast, growth in consumption was registered in the Residential segment. Vice versa, the customer portfolio grew considerably in 2020, rising from about 345 thousand in 2019 to approximately 416 thousand in 2020, marking growth of 20.6% compared to the previous year.

The development of the sales network for businesses continued during the year, through the definition of a more widespread territorial organisation focused, in particular, on Small and Medium Enterprises and Professionals, in which Sorgenia has operated for many years. In 2020, the Group continued to invest in the digitalisation of sales processes, completely overhauled the product portfolio and implemented a fully digital *customer experience* also for this customer segment.
Through the subsidiary Sorgenia Green Solutions, ESCo certified pursuant to standard UNI CEI 11352, the Group is also active in the energy efficiency services market. In particular, the sales processes were strengthened in relation to the sales drive determined by the so-called Superbonus (Relaunch Decree).

In 2020, Sorgenia SpA strengthened its position as the leading Italian *digital energy company*, confirming its position as a leading company in the sector in Italy in terms of number of customers acquired through digital channels in the Residential and Professionals segments. The main innovations achieved include the improvement in customer profiling with respect to the offer system and company values already at the signing phase, thanks to the introduction of a Chat Bot – an artificial intelligence tool that has allowed *prospective* customers to obtain 24/7 support, every day of the year.
The sorgenia.it *website*, the main entry point to the acquisition *funnel*, has been completely redesigned with the objective of bolstering Sorgenia's strategic presence on digital channels. Released in November 2020,

the new portal integrates the company's positioning story and the sales functionalities, representing the sustainable and digital identity of the company in a single solution.
As in previous years, the sales strategy focuses heavily on digital channels, which represent the biggest channel for expanding the Customer Base, with an offer in 2020 which saw the integration of (*Fiber to the Home*) fibre optics.
The Next Fiber offer was launched in January 2020, bundled with Lighting and/or Gas services. The customers who signed up to the offer, distributed over roughly 200 Italian cities, recognise our meticulous care for the details, speed in activating the service and our transparency, and so were generally extremely satisfied (*Net promoter score* >45%).

As with the acquisition, also customer management does not provide for physical sales points and branches: assistance is guaranteed through the different channels available to the customer - telephone, e-mail, chat, WhatsApp, social channels - plus the dedicated *App* and Web Area Bills can be paid exclusively through automated and digital methods (e.g. direct debiting of current account or DD/SDD, credit card, PayPal and similar tools).
The *Web* Area and *App* are the focal point of the customer relationship and are subject to a process of continuous development and expansion of functionalities, with the goal of optimising the customer *experience*.
In fact, as part of a constant improvement process, a project was launched during the year for the transformation of the Customer Service too which, according to the *design thinking* and *human centred design* methods, aims to introduce elements of innovation to managing the relationship, with a view to digitalisation and personalisation of the service.
More generally speaking, Sorgenia continued to commit efforts to constantly improving the process of management and assistance of *end customers,* through numerous projects targeted specifically at improving the quality and *experience* of customers in the phase of on-boarding, expanding assistance channels on the world of social media and increasing the efficiency of their performances, reducing the rate of customer complaints, as well as improving the management of responses to complaints, in terms of quality and times.
Also in support of this work, development of the *dashboard* was launched for control of the process and generation of *insights*.
Two important certifications were also confirmed: that obtained in 2018 by CODICI (Centro per i Diritti del Cittadino), one of the major consumer protection associations, with the maximum rating of “Highly Reliable Operator”; and that for the quality of the management processes of the assistance to end customers issued for the first time in 2015 by DNV GL, then renewed each year through audits of the certification body.

In January 2019, Sorgenia had obtained - the first utility in Italy - the certification of its *Credit Risk Management* system from the certification body DNV, a certification also renewed for 2020, with the

recognition of a note of merit for the significant process innovations made to *Credit Risk Management* in terms of risk assessment grids and the digitalisation of credit processes.
The objective of an increasingly closer service to customers and an advanced management of energy supply, able to use the most advanced technologies in an efficient and sustainable manner, are perfectly consistent with Sorgenia's positioning in the last three years.

The 2020 advertising campaign "Guardiamo lontano" (we look far), launched in November, was created by combining attention to the environment with technological innovation and the participation of individual customers in a long-term vision of sustainability.

Once again Paralympic fencing champion Bebe Vio was the leading light, bringer of limitless vital energy, a symbol of technology serving people and projecting towards the future. For the first time since the launch of the collaboration with the company, in 2017, the champion introduces a clear reference to a Sorgenia market proposal: energy efficiency and photovoltaic, whose value transcends a simple financial benefit for the customer, but becomes a practical and tangible contribution to long-term sustainable development, to which everyone can also contribute with the support of Sorgenia - a vision summarised by the campaign *claim*: "Se tutti guardiamo lontano, ci avviciniamo a un mondo migliore" (If we all look far, we're moving closer to a better world).
Although in the communication campaign, the commitment in which Sorgenia involves the public and customers is first and foremost environmental, in 2020 the company stayed true to the social sustainability commitments undertaken in previous years. In particular, for the third year in a row, in November it promoted the campaign #sempre25novembre to raise awareness of violence against women (in fact, November 25 is the International Day for the Elimination of Violence Against Women). After one million people engaged with the campaign in 2018 and the activation, in 2019, that led to a year of energy being donated to 23 refuges, in 2020 the focus was on preventing the phenomenon, starting with the young generations, with a completely unique initiative in the Italian landscape: a live Instagram recording by the rapper Ernia, interviewed by the dj Ema Stokholma starting with questions collected via social media. On the whole, also thanks to radio and publishing support, the proposed message reached more than 20 million people, around half of which between the age of 13 and 25.
The focus on young people who are, for Sorgenia, the symbol of a future we all need to contribute to, was also the stimulus for the "Energia dei giovani" (energy of young people) programme, launched in October with a video circulated on digital channels, with a strong appeal to the adult target - in conjunction with the reopening of schools - to enhance the typical abilities of young people and support them in their growth project towards a better world. Sorgenia also showed its concrete commitment in providing 20 study grants for an amount of 5,000 euro each to final year students who intend to continue their studies on environment and sustainability, and created specific educational material on sustainable development channelled through Parole Ostili, the social project against the violence of words which the company has supported for many years.

The CoViD-19 emergency, with its social and economic repercussions, has inevitably impacted some of the strategic choices of Sorgenia, that reformulated its communication activities to meet the expectations of the public, but in particular it took action with practical aid, first and foremost all for its *stakeholders*. It therefore financed the purchase of medical equipment by the hospitals of Termoli and Codogno, close to two of its combined cycle plants.

Viewing its role as a genuine service for customers, it provided customers with elderly parents with hundreds of "Nonny" *devices*: special tablets configured to be activated with a simple touch and automatically start video calls - a technological solution based on Sorgenia's principle of a technology for the benefit of people.

The most significant proof of the practical social contribution, targeted use of digital technologies, creation of a genuine value-based community with its customers, was the Spesa Sospesa initiative, a "circular solidarity" project created due to the health emergency, but intended to endure over time. The Spesa Sospesa model allows the company to help the most vulnerable and needy citizens, by donating shopping baskets, and together supporting food companies in difficulty, allowing them to sell their products. The enabling technological platform, thanks to the use of *blockchain* technology, guarantees the tracking of each donation, up to delivery to the Municipalities and beneficiaries, in a fully verifiable and transparent manner.

In order to support the project, Sorgenia involved its *network* of employees, suppliers and, especially customers, donating the equivalent of a month's electricity bill based on the choice of a token contribution by the customer.

Established on the back of a partnership between the founding committee Lab00 and technical partners, which Sorgenia supported from the initial stages, in just over 8 months, Spesa Sospesa built a solid network of cooperation with non-profit organisations - including Banco Alimentare, Emergency and Terre des Hommes – Italian municipalities – including Naples and Milan.

Sorgenia and its community of customers and employees supported the initiative in 2020 with total donations of roughly 630,000 euro.

INDUSTRIAL DEVELOPMENT AREA

In 2020, the Sorgenia Group continued and further strengthened the development of its portfolio of renewable energy projects, favouring diversification of sources, innovation and eco-compatibility of the solutions identified, consistently with the market context and the decarbonisation targets outlined by the PNIEC (National Integrated Energy and Climate Plan 2030). The portfolio of initiatives aims to capitalise on the opportunities offered by the specific incentive measures issued recently or soon to be issued, as well as the reduction in the costs of some technologies, close to *market parity,* such as photovoltaic and wind.

Geothermal

During the year, the company explored potential partnership with leading industry operators of international renown, in consideration of the level of development of the *pipeline*.

The technical-economic optimisation of the project of the authorised geothermal plant “Saragiolo” was concluded, to be carried out as part of the thirty-year production concession called “Poggio Montone”, with the simultaneous updating of the budget. In order to boost the profitability of the “Saragiolo” project, an *application* was submitted in October to the first phase of the *Innovation Fund*, a European funding programme for the development of innovative, low carbon emissions technologies. Note should be taken of the ruling of November 15, 2020 of the Regional Administrative Court of Tuscany, which rejected some appeals submitted against the authorisation measures of the geothermal plant. The initial assessments regarding an additional 5MW plant were also started, to be constructed in the Eastern area of the concession called Poggio Montone.

Following the application for the Single Regional Authorisation presented in September 2019, in relation to the binary "zero emissions" geothermal plant called “Val di Paglia”, falling within the Municipality of Abbadia San Salvatore (SI), the first contributions and addition requests from the authorities and administrations concerned were received. In 2020, in order to overcome the negative opinions of the Superintendency and the Union of Municipalities of Amiata Val d’Orcia, a full review of the plant's architectural and environmental design was conducted. The additions requested and the updated design documentation were filed at the end of November 2020.

The usual development activities and follow-ups of *early stage* geothermal projects continued in 2020; for some of these, research permits have still not been issued.

Photovoltaic

Sorgenia intends to continue to solidify its important position at national level in the industrial photovoltaic sector, seizing the opportunities offered by the considerable reduction in generation costs from this source and exploiting consolidated skills and experience.

The development and *follow-up* of initiatives in the industrial photovoltaic domain continued in 2020, consolidating the Group's regional presence through dialogue and meetings with the main *stakeholders* involved in the authorisation processes of the plants being developed. The number of co-development contracts with engineers and contacts with the main suppliers of trackers, modules and inverters was expanded.

Greenfield initiatives for a total of roughly 170 MW are at an advanced stage of development, mainly in agricultural areas, and designs are in place for photovoltaic plants to be constructed in the areas owned by the Group's CCGT plants.

Mini-hydro

In 2020, the development and *follow-up* of the hydroelectric *pipeline* continued, consisting of small power plants (mini-hydro) with high environmental compatibility. Certain opportunities for the acquisition of companies owning hydroelectric plant authorisations were identified; non-binding proposals were submitted for some of these.

In February 2020, the company became holder of the authorised hydroelectric project called “Torre” on the river Oglio. The project was acquired against consideration from the company BG Hydro Srl and it obtained access to the registers of GSE incentives (tender III), pursuant to Ministerial Decree 04/07/2019.

Access to the register of GSE incentives was obtained for the authorised project "Dora" (tender II); the non-substantive variation to the authorisation of the project and a further extension to the start of works were also approved. The Tribunale Superiore delle Acque Pubbliche (High Court of Public Waters), through ruling 132/2020, also upheld the evidence of the defence presented, rejecting the appeal submitted by a competing company for cancellation of the authorisations issued.

For the authorised projects “Taro” and “Arno”, the declarations of conformity of the offtake concessions with given environmental guidelines were requested and obtained from the Competent Authority, necessary for requesting access to the incentives pursuant to Ministerial Decree 04/07/2019. In addition, further extensions to the start of works were obtained.

Biomethane

The main areas of activity related to the development of plants for the production of biomethane from organic matrices (FORSU (Organic Fraction of Solid Urban Waste), agricultural by-products, purification sludge, etc.) regarded, on the one hand, the possible acquisition of projects at the advanced authorisation/construction stage, and on the other hand the “*greenfield*” development of similar initiatives in areas of strategic interest (Lazio, Puglia, Tuscany, etc.).

In December 2020, the closing was completed for the acquisition of 75% of the company Green Power Marcallese Srl, SPV holding the authorisation for the treatment of 35,000 tonnes of the organic fraction of solid urban waste (FORSU) and the production of advanced biomethane through the Marcallo con Casone plant, located in the Province of Milan.

In addition, the identification and preliminary planning of an additional initiative was identified in the municipality of Terlizzi. The project provides for the anaerobic digestion of agricultural by-products (for the vast majority of olive pulp, supplied by virtue of an agreement signed with Consorzio Italia Olivicola (Italian Consortium for olive growing)) and the production of bioLNG and liquefied CO2.

Wind power

In 2020, scouting activities were launched in order to acquire authorised wind initiatives or in authorisation procedures (“*brownfield*” initiatives), located in Italy and in line with corporate objectives.

Added to this was the identification of areas suitable for the development of *greenfield* projects. This involved the creation of a network of companies and professionals (*origination*, *know-how*, activation of the appropriate channels in support of this type of development) and the definition of the associated contractual framework (advisory and co-development contracts). The initiatives identified, both at the preliminary development and advanced phases, located in the area of southern Italy and the Major Islands, are consistent with the Group's objective for generation from this specific source.

TIRRENO POWER SPA

Tirreno Power, a joint venture that is 50% owned by the Sorgenia Group and Engie Italia SpA, is active in the production of thermoelectric and hydroelectric energy.
In particular, the company operates through the production units of Vado Ligure, Torrevaldaliga, Naples (with thermoelectric production units with a capacity of roughly 2.4 GW), and through 18 hydroelectric plants located along the entire arc of the Ligurian Apennines (renewable sources production units with a capacity of 75 MW).

The **energy sold** in 2020 came to 6,944 GWh, a decrease of 1,296 GWh compared to the previous year. The lower sales volumes are attributable to the drop in sales in the Day-Ahead Market. In fact, the ongoing health crisis led to a significant reduction in electricity demand, especially in March, April and May. By contrast, increased sales were recorded on the Dispatching Services Market. Low demand, with a subsequently higher quota of requirements met by renewable sources, actually had significant effects on the DSM.
The **energy injected** by the Company during the year came to 4.15 TWh, down by 0.87 TWh compared to 2019.
In 2020, production by CCGT plants was down on the whole compared to the previous year, as a result of the worsening in market margins, especially for the Vado Ligure and Torrevaldaliga plants.

However, for this year, the decrease in production due to the worsening of market margins was mitigated by increased operations in the Dispatching Services Market.
Hydroelectric production also registered a decrease with respect to the previous year, down 12 GWh, due to both the low rainfall, and the shutdown of 3 plants seriously damaged by floods in October.

The main operating figures of the various production units and the main economic, equity and financial figures are shown below.

OPERATIONAL DATA		**2020**	**2019**	**Change %**
Energy injected				
Vado Ligure	*(GWh)*	1,265	1,913	(33.9%)
Torrevaldaliga	*(GWh)*	1,537	1,777	(13.5%)
Naples	*(GWh)*	1,344	1,329	1.1%
Renewable sources	*(GWh)*	166	178	(6.7%)
Total energy injected	*(GWh)*	*4,313*	*5,197*	*(17.0%)*
Energy sold	*(GWh)*	*7,000*	*8,240*	*(15.0%)*

ECONOMIC DATA		**2020**	**2019**	**Change %**
Turnover	*(EUR/million)*	603	672	(10.2%)
Gross Operating Margin	*(EUR/million)*	256	213	19.9%
Net profit (loss) for the period	*(EUR/million)*	126	167	(24.9%)

EQUITY AND FINANCIAL DATA		**2020**	**2019**	**Change %**
Net financial debt	*(EUR/million)*	84	305	(72.4%)
Shareholders' Equity	*(EUR/million)*	519	393	31.8%
Net Invested Capital	*(EUR/million)*	603	698	(13.6%)
Employees	*(units)*	233	231	0.9%

Sales and service revenues as of December 31, 2020, totalled 599,632 thousand, a reduction of 66,912 thousand euro compared to the previous year. Other operating income amounted to 3,694 thousand euro. In particular, sales revenues on the DAM fell, attributable to lower sales, partly offset by the higher revenues deriving from the ancillary services requested on the DSM.

The gross operating margin stood at a value of 255,601 thousand euro, up by 42,421 thousand euro compared to December 31, 2019. The substantial improvement is mainly due to higher market margins, especially in the Dispatching Services Market and a general reduction of all operating costs.

Financial management presents a net expense of 8,944 thousand euro, a decrease of 2,585 thousand euro compared to the previous year (net expense of 7,362 thousand euro in 2019), mainly due to the early reimbursement of the payable in 2020 through the "*Cash Sweep*" and "*Prepayment*" mechanism. Net financial debt went from 304,518 thousand at December 31, 2019 to 88,136 thousand euro at December 31, 2020. The reduction is the net result of the amount repaid in the year (258,520 thousand euro in terms of principal and interest); partially offset by the additional drawdowns of loans (20,000 thousand euro) and the increase deriving from the capitalisation of financial expenses in the year for a total of 5,750 thousand euro.

Shareholders' equity came to 518,565 thousand euro as of December 31, 2020 and changed with respect to December 31, 2019, due to the net profit for the year, amounting to 125,513 thousand euro, as well as due to the net decrease of 374 thousand euro in IAS 19 and IFRS 9 reserves.

In particular, the results in 2020 were a significant improvement compared to the previous year (Gross Operating Margin of 255,601 thousand euro, compared to 213,180 thousand euro realised in 2019 and the Operating Result which, in 2019, had come to 155,641 thousand euro, showed an increase of 14,310 thousand); in addition to the economic results achieved in previous years, and in particular in 2018 and 2019, they confirmed better performances than those forecast in the Business and Financial Plan; in addition, the identified capacity to generate cash enabled an acceleration in repayment of the loan which meant that the entire Tranche "A" was extinguished (three years earlier than the natural expiry of the instalments) and that a considerable part of Tranche "B" (183 million euro) was repaid earlier than the contractual expiry of December 2024. These events instilled confidence in the Directors of the Sorgenia Group over Tirreno Power's ability to achieve the results expected in the "Plan" also in future years.
Therefore, for the purposes of the preparation of the financial statements as of December 31, 2020, the Directors decided to carry out the revaluation of the equity investment in Tirreno Power, aligning it to the value of the corresponding portion of shareholders' equity (net of the nominal value of the Participating Financial Instruments, PFIs) held in the jointly-controlled subsidiary at the same date.

The value of the equity investment, shown in the financial statements as of December 31, 2020, amounts to 117,070 thousand euro, an increase of 62,341 thousand euro compared to December 31, 2019.

SIGNIFICANT EVENTS OF THE YEAR

Sorgenia Green Solutions Srl

By means of resolution of the Extraordinary Shareholders' Meeting of March 16, 2020, the name of the company Universal Sun Srl, whose share capital is wholly-owned by Sorgenia SpA, was changed to Sorgenia Green Solutions Srl

Extraordinary transaction involving the acquisition of Sorgenia SpA

At the end of 2018, in order to identify the opportunities for growth of the Sorgenia Group (hereinafter “the Group”), also through the change of the shareholding structure, Nuova Sorgenia Holding S.p.A. - Group controlling shareholder (whose shareholders are Banco BPM, Banca Intesa, Monte dei Paschi di Siena, Ubi and UniCredit) - gave an advisory mandate to independent professionals. After assessing the offers received, on December 23, 2019 Nuova Sorgenia Holding S.p.A. announced that it accepted the binding purchase offer of the Group formulated jointly by F2i SGR S.p.A. (hereinafter “F2i”), independent Italian manager of infrastructural funds, and by the Asterion Industrial Partners SGEIC SA Fund (hereinafter “Asterion”), an independent Spanish fund specialised in infrastructural investments in Europe.

The preliminary contract for the purchase/sale of the Group was signed on June 3, 2020 (*signing*) and, after having obtained approval of the transaction from the Authority for the protection of competition and the market and the Presidency of the Council of Ministers as part of the application of the "golden power" regulation, on October 6, 2020 (*closing*), the purchase/sale contract was signed between Nuova Sorgenia Holding SpA and Banca Monte dei Paschi di Siena SpA on the one side, and Zaffiro SpA on the other (share capital 72.38% owned by F2i ER1 SpA, with the remaining 27.62% held by Zaffiro Spain BitCO Srl of the Asterion Group), regarding 99.99% of Sorgenia SpA's share capital.

At the *closing* date, the extraordinary shareholders' meeting of the company took place, which adopted the new articles of association, as did the ordinary shareholders' meeting, which resolved on (i) the appointment of the new Board of Directors and Board of Statutory Auditors, (ii) the appointment of the new independent auditors, to satisfy the request from the new shareholder to ensure a single audit of the subsidiaries of said Zaffiro SpA, and (iii) on the identification of the beneficial owner, through residual criteria pursuant to art. 20, paragraph 5, of Legislative Decree 231/2007.

A financing transaction was also approved and signed on the same date, targeted at the full refinancing of the financial debt of the Sorgenia Group. In particular, Sorgenia subscribed to (i) a *term loan* for a total of 565 million euro, which enabled it to refinance the existing financial debt of the company itself and its subsidiary Sorgenia Power SpA, regulated by the 2007 Debt Restructuring Agreement, and (ii) a *revolving* loan for a maximum of 75 million euro, intended to finance the Group's general cash requirements.

The new loan agreement, secured by the normal guarantees envisaged for similar transactions, makes provision, *inter alia*, for the completion of the reverse merger by incorporation of Zaffiro SpA in Sorgenia by June 15, 2021.

The parent company also has an "excise" loan agreement comprised of a line up to 70,000 thousand euro provided to the Group to cover the financial requirements that should arise from any refund requests on excise paid in due course by end customers and not due from the latter pursuant to the regulations in force. The payment, also following a ruling, of the refunds to end customers by the company means that the latter is due a receivable from the tax authorities.
The signing of the excise loan agreement satisfied one of the three conditions set out in the transaction involving the sale of Sorgenia SpA's shares.
The "excise" loan has an annual interest rate of 2.25%, which is added to the three-month Euribor (with floor at *zero*), and a commitment fee of 1% per annum.

In addition, within the context of the financial debt refinancing transaction, Sorgenia and its subsidiary Sorgenia Power SpA, on the one side, and the associated financial creditors on the other, signed the documentation relating to the extinguishment of the existing debt, including therein the agreement for the early and consensual termination of the Debt Restructuring Agreement pursuant to art. 182-bis of the Bankruptcy Law signed in 2017.

Marcallo Project

On December 28, 2020, following complex negotiations, Sorgenia Sviluppo Srl, whose share capital is wholly-owned by Sorgenia SpA and authorised previously by the latter, given that all the conditions precedent set forth in the binding offer presented on October 1, 2018 were satisfied, acquired a stake of 75% in Green Power Marcallese Srl.

The purpose of the transaction is to create, in the Municipality of Marcallo con Casone (MI), a project for the production of advanced biomethane through the recovery of the organic fraction of separated collection of solid urban waste (FORSU) with the use of an innovative patented technology called “Biosip”.

The project, which expects the plant to be completed by the first half of 2022, will enable the Sorgenia Group to consolidate its position in the energy transition process.

Sorgenia SpA

KEY INDICATORS OF SORGENIA SPA

The Financial Statements of Sorgenia SpA at December 31, 2020 were drawn up in compliance with the national OIC accounting standards issued by ODCEC.

KEY INDICATORS OF SORGENIA SPA

EUR/000	**31/12/2020**	**31/12/2019**	**Change %**
ECONOMIC INDICATORS			
Revenues from Sales	1,516,852	1,747,705	(13.2)%
Gross Operating Margin	11,474	(14,561)	NS
% of Sales Revenues	0.8%	-0.8%	NS
Net Operating Margin	(16,920)	(34,617)	NS
% of Sales Revenues	(1.1)%	(2.0)%	NS
Net Income/(Loss)	73,047	358	NS
% of Sales Revenues	4.8%	0.0%	NS
FINANCIAL INDICATORS			
Net Capital Invested	571,484	527,355	8.4%
Net Financial Debt/(Surplus)	186,208	223,564	(16.7)%
Net Financial Debt/(Surplus)	192,476	227,807	(15.5)%
Shareholders' Equity	385,276	303,791	26.8%
OPERATING FIGURES			
Employees - actual number	271	256	5.9%
Employees - average	263	238	10.5%

RESULTS OF OPERATIONS OF SORGENIA SpA

ECONOMIC RESULTS OF SORGENIA SPA

EUR/000

RECLASSIFIED INCOME STATEMENT	31/12/2020	31/12/2019	Variazione %
Sales revenues	1,475,054	1,700,009	(13.2%)
Other revenues and income	41,798	47,696	(12.4%)
REVENUES FROM SALES AND OTHER OPERATING INCOME	**1,516,852**	**1,747,705**	**(13.2%)**
Consumption of raw materials, change in inventories	(1,023,885)	(1,206,618)	(15.1%)
Services and miscellaneous operating costs	(456,592)	(524,210)	(12.9%)
Labour costs	(24,901)	(31,438)	(20.8%)
GROSS OPERATING MARGIN	**11,474**	**(14,561)**	**(178.8%)**
Amortization, depreciation and write-down of fixed assets	(13,308)	(12,853)	3.5%
Net provision for risks and losses	(15,086)	(7,203)	109.4%
NET OPERATING MARGIN	**(16,920)**	**(34,617)**	**(51.1%)**
Net financial income (expenses)	9,089	(51,329)	(117.7%)
Revaluation (write-down) of financial assets	59,168	86,754	(31.8%)
INCOME BEFORE TAXES	**51,337**	**809**	**N.S.**
Current/ deferred taxes	21,710	(451)	N.S.
INCOME (LOSS) FOR THE PERIOD/ YEAR	**73,047**	**358**	**N.S.**

In 2020, Sorgenia SpA reported total revenues amounting to 1,516,852 thousand euro (1,747,705 thousand euro in the previous year), down compared with the previous year.

Revenues from sales recorded a change of 224,955 thousand euro compared to the previous year (1,475,054 thousand euro in 2020 compared to 1,700,009 thousand euro in 2019), attributable primarily to: i) lower revenues from sales of electricity and natural gas to end customers, which went from 641,736 thousand euro in 2019 to 550,938 thousand in 2020, marking a variation of 90,798 thousand euro; this decrease is due to the reduction of the price of *commodities* and the decline in consumption by high-end customers, small and medium enterprises and Professionals as a result of the CoViD-19 emergency; sales in the Residential segment instead recorded an increase. Vice versa, the customer portfolio rose significantly from around 345 thousand in 2019 to roughly 416 thousand in 2020, marking growth of over 20.6% with respect to the previous year; (ii) lower revenues of 9,903 thousand euro linked to the sale of CO_2 emission rights to Group companies that own generation plants, attributable to the lower emissions resulting from a drop in the production of the plants of the subsidiary Sorgenia Power SpA; (ii) lower revenues for 90,276 thousand euro due to the sale of natural gas to Group companies that own generation plants due to the decrease in the *commodity* price which reached record lows in the first half of the year, as well as to the lower volumes sold; (iv) lower revenues for 33,607 thousand euro for the sale of electricity and gas on wholesale markets, also through the subsidiary Sorgenia Trading.

Other operating income decreased from 47,696 thousand euro in 2019 to 41,798 thousand euro in the year under review. The item mainly includes: (i) contingent assets, (ii) releases of provisions for risks and (iii) revenues from the charge-back of intercompany costs. The net change of 5,898 thousand euro is attributable to: (i) lower contingent assets linked to the recognition of the consideration for the availability of production capacity pursuant to Resolution 48/04 for the year 2019 compared to the amount recognised for 2018 and (ii) higher *intercompany* charge-backs for costs incurred by the parent company on behalf of Group companies.

The costs for consumption of raw materials (including the change in inventories too), especially relating to the purchases of electricity and natural gas and CO_2 emission certificates carried out during the year were 1,023,885 thousand euro (1,206,618 thousand euro in 2019), marking a decrease of 15.1% compared to the previous year. The change is mainly linked to: (i) lower purchase costs of emission rights both due to the lower quantities purchased, only partly offset by the higher unit price compared to the previous year; (ii) higher gas purchase costs due to the higher volumes handled whose increase more than offset the reduction in the price of the *commodity* (iii) lower purchase costs of electricity on the wholesale markets due to the reduction in the price compared to 2019, and the contraction in volumes.
Costs for services and other operating costs (including electricity and gas transportation, distribution and dispatching costs, marketing costs, etc.) came to 456,592 thousand euro (524,210 thousand euro during the previous year), marking a change of 12.9%. The decrease is represented: i) by the reduction in transportation, dispatching and distribution costs deriving from a reduction in sales of electricity and gas on the wholesale market; this decrease is attributable primarily to the fall in consumption by high-end customers, small and medium enterprises and professionals due to the CoViD-19 emergency); and ii) the elimination of the extraordinary fees of directors following the purchase and sale transaction of the Sorgenia Group, which were present in the previous year.

Personnel costs totalled 24,901 thousand euro (31,438 thousand euro in the previous year). The change is mainly tied to the fact that the allocation of a medium/long-term variable incentive (LTI) for management (*long-term incentive* or *LT*I) was present in the previous year, connected with purchase and sale transaction of the Sorgenia Group.

The Gross Operating Margin was a positive 11,474 thousand euro (negative 14,561 thousand euro in 2019), therefore improving by 26,035 thousand euro, due to the phenomena described above.

An Operating Loss of 16,920 thousand euro was recorded (loss of 34,617 thousand euro in the previous year). The improvement, which totalled 17,697 thousand euro was mainly determined by:

- the positive change in the Gross Operating Margin for 26,035 thousand euro;
- the increase in the net allocations to the provision for the write-down of receivables and losses on receivables amounting to 7,883 thousand, due to a slight deterioration in the quality of loans to

customers, in terms of the probability of recovery, lower than the previous ones recognised as a result of the CoViD-19 emergency;

- the increase in amortisation, depreciation and write-downs of 455 thousand euro, an increase justified by investments in intangible fixed assets.

Financial management recorded net income of 9,089 thousand euro (net charges of 51,329 thousand euro in 2019), and was mainly characterised by the recognition, in 2020, of dividends distributed by the subsidiary Sorgenia Puglia SpA amounting to 22,000 thousand euro and the recognition of interest expense on the value of payables.

Specifically, it is noted that in 2020:

- financial income of 26,849 thousand euro was recognised, relating mainly to: i) dividends distributed by the subsidiary Sorgenia Puglia SpA of 22,000 thousand euro; ii) financial income of 2,981 thousand euro, relating to interest income accrued on *intercompany* loans until December 31, 2020; iii) financial income of 1,864 thousand euro, relating to the application of the amortised cost calculated on the financial receivable extinguished in the period under review for an amount of 1,364 thousand euro, and on the financial receivable in place amounting to 500 thousand euro due from the subsidiary Sorgenia Power SpA;
- financial expenses of 12,655 thousand euro relating primarily to: i) expenses recorded on the bond loan (extinguished following the finalisation of the Sorgenia Group development operation on October 6, 2020) amounting to 4,915 thousand euro, composed of interest expense on the nominal value of the bond loan amounting to 1,540 thousand euro, augmented by 3,375 thousand euro for the recognition of the figurative financial expense pertaining to the period under review, in application of the amortised cost method; ii) expenses recorded on the loan of 7,164 thousand euro, composed of interest expense on the nominal value of the payable of 5,374 thousand euro (of which 717 thousand euro relating to the loan extinguished, 4,423 thousand euro relating to the existing loan, and 233 thousand euro on the *revolving* line of the new loan) augmented by 1,790 thousand euro deriving from the recognition of the figurative financial expense pertaining to the period under review in application of the amortised cost method (of which 866 thousand euro relating to the loan extinguished and 924 thousand euro relating to the existing loan);
- bank charges and commissions related to the Company’s operations were recorded for an amount of 2,692 thousand euro;
- expenses for *commitment fees* and *agency fees* (2,692 thousand euro) were recognised as a result of the Group's financial debt to the banking system, through the taking out of a new loan obtained on the market;

The change of 60,418 thousand euro is attributable mainly to the recognition, in 2019, of the expense deriving from the *change in estimates* of future cash flows, amounting to 58,871 thousand euro.

The item Revaluation/write-down of the financial assets showed net income of 59,168 thousand euro (86,754 thousand euro in income in 2019). The 2020 balance is mainly composed of revaluations and write-downs of equity investments, which present a positive balance of 58,236 thousand euro; in particular, write-backs were recorded on the equity investments in Energia Italiana Spa for 62,414 thousand euro, in contrast to the write-down of the equity investments in Sorgenia Sviluppo Srl, Sorgenia Fiber Srl and Sorgenia Green Solutions Srl for a total of 4,177 thousand euro.

Therefore, for the purposes of the preparation of the financial statements as of December 31, 2020, the Directors of the subsidiary Energia Italiana SpA decided to carry out the partial restoration of the value of the equity investment in Tirreno Power SpA (previously written down), aligning it to the value of the corresponding portion of shareholders' equity, net of the nominal value of the junior participating financial instruments held amounting to 284,386 thousand euro. Tirreno Power's result for the year was 125,513 thousand (167,099 thousand euro in 2019). As a result of the economic results achieved in previous years and in 2020, which confirmed the better performances than those expected in the Business and Financial Plan, the shareholders' equity as of December 31, 2020 stood at 518,565 thousand euro. As a result of the considerations reported above, the Directors of the Company partially restored the value of the equity investment in Energia Italiana SpA, aligning the value of the equity investment to the shareholders' equity of the subsidiary.

The balance also contains the revaluation of 939 thousand euro of instruments hedging against the risk of volatility of the consideration for transfer capacity assignment (CCC) to the market operators who are holders of dispatching points for generation and import units.

The result before tax was positive for 51,337 thousand euro (for 809 thousand euro in 2019), marking an improvement of 50,528 thousand euro, due to the phenomena described above.

The tax component was a positive 21,710 thousand euro (negative 451 thousand euro in the previous year), and was generated by the following phenomena:

- recognition of income for current taxes of 21,531 thousand euro, equivalent to the benefit recognised as a result of participation in the tax consolidation;
- net income of 299 thousand euro relating to deferred tax assets and deferred tax liabilities;
- recognition of taxes relating to previous years for a net expense of 120 thousand euro.

In 2020, Sorgenia SpA recorded a profit of 73,047 thousand euro (profit of 358 thousand euro in the previous year).

ANALYSIS OF THE EQUITY AND FINANCIAL STRUCTURE OF SORGENIA SPA

EUR/000

RECLASSIFIED BALANCE SHEET	31/12/2020	31/12/2019
Net intangible assets	26,454	25,045
Net tangible assets	1,250	1,841
Financial assets and other non-current assets	552,828	482,310
TOTAL Net fixed assets	**580,532**	**509,196**
Inventories	16,182	23,042
Trade receivables	326,714	318,032
Other current assets	52,420	20,162
Other current liabilities	(27,948)	(21,582)
Trade payables	(393,532)	(323,203)
TOTAL Net working capital	**(26,164)**	**16,451**
Agents' leaving indemnity	(2,472)	(1,914)
Provisions for risks and losses	(17,134)	(35,526)
Severance indemnity fund (TFR)	(622)	(560)
Prepaid taxes	37,342	39,708
NET INVESTED CAPITAL	**571,484**	**527,355**
Share capital	406,677	406,677
Reserves	3,492	(4,964)
Retained earnings (losses)	(97,940)	(98,280)
Net income (loss) for the period/ year	73,047	358
TOTAL Shareholders' equity	**385,276**	**303,791**
Medium and long term borrowings	455,698	0
Short term borrowings (receivables)	60,578	320,665
Cash and cash equivalents	(31,188)	(108,798)
Financial payables (Receivables) from subsidiaries	(298,730)	11,699
Derivatives	(150)	(2)
TOTAL net financial debt	**186,208**	**223,564**
TOTAL SOURCES OF FUNDS	**571,484**	**527,355**

Net Invested Capital amounted to 571,484 thousand euro, compared to 527,355 thousand euro at December 31, 2019, marking an increase of 44,129 thousand euro, due mainly:

- to the increase in net fixed assets of 71,336 thousand euro, relating mainly: i) to the decrease of 818 thousand euro in tangible assets and intangible assets due to the net effect of amortisation, depreciation and write-downs, and investments in the year aimed at improvements in the company IT system, ii) the increase in financial fixed assets for 70,518 thousand euro due primarily to the revaluation of the equity investments in Energia Italiana Spa of 62,414 thousand euro as described above; in addition to the payment to the other reserves account made in December in favour of the subsidiary Sorgenia Sviluppo

Srl for an amount of 7,000 thousand euro, and to provide it with the necessary funding to finalise the acquisition of the Marcallo and Ferrandina projects;

- to the 42,615 thousand euro reduction of net working capital mainly due to the following phenomena:
  - the decrease of 6,860 thousand euro in inventories, due mainly to the decline in raw material prices that the market recorded throughout 2020, which led to a lower valuation of warehouse stocks relating to the 2020-2021 storage campaign, despite the increase in the award of auctions for the allocation of storage capacity at Stogit SpA compared to the previous year;
  - net decrease in trade receivables and payables of 61,647 thousand euro, attributable primarily to i) the reduction in consumption by high-end customers, small and medium enterprises and professionals due to the CoViD-19 emergency; ii) higher receivables for invoices to be issued to Terna connected with greater operations of the Group's production plants on the services markets in the final part of the year; iii) higher receivables due from Sorgenia Power SpA related to greater volumes of gas sold in December at a higher price, plus the repurchases of energy on the Dispatching Services, Intra-Day and Balancing Markets; iv) higher payables due to the subsidiary Sorgenia Power SpA owing to greater volumes of electricity produced and the higher prices than those of the previous year, v) higher payables due to Sorgenia Puglia SpA for the electricity purchased as a result of the increase in volumes produced during the year due to the admission of the plant to the cost recovery regime, which took place on July 2, 2019 by means of Resolution 222/2019, extended to the whole of 2020 under Resolution 290/2019 and vi) higher payables due to Sorgenia Trading SpA due to greater quantities of electricity and gas purchased:
  - the increase in other current assets and liabilities amounting to 25,892 thousand euro mainly as a result of the recognition of receivables due from Group companies that subscribe to tax consolidation.

It should be noted that the change in net working capital also includes:

- the decrease in provision for risks and losses for 17,834 thousand euro, mainly due to the presence, in the previous year, of an allocation of a medium/long-term variable incentive in favour of company directors and employees;

- the decrease of 2,366 thousand euro of deferred tax assets and liabilities on temporary differences mainly due to the change in receivables for deferred tax assets commented on in the tax component of the Income Statement.

Net Invested Capital was funded through a Net Financial Debt of 186,208 thousand euro, compared to 223,564 thousand euro at December 31, 2019, with a 37,356 thousand euro change.

The breakdown by due date and type of Net Financial Debt, as presented in the Financial Statements and at nominal value, is shown in the following tables. In particular, the valuation of financial payables at amortised cost reflects the effects of the differential between the contractual interest rate and the market interest rate.

The shareholders' equity of Sorgenia SpA as of December 31, 2020 stood at 385,276 thousand euro, up by 81,485 thousand euro compared to December 31, 2018 (303,791 thousand euro) due to the result for the year and the positive effect of the change in the cash flow hedge reserve (8,438 thousand euro).

NET FINANCIAL DEBT

EUR/000	**31/12/2020**	**31/12/2019**
Non-current financial liabilities		
Non-current bonds	-	-
Non-current borrowings	(455,698)	-
Non-current borrowings - intercompany	-	-
Other non-current borrowings	-	-
Non-current borrowing - finance leases	-	-
Non-current financial assets		
Non-current financial receivables	-	-
Non-curren financial assets	264,939	-
Non-curren financial assets - intercompany	-	-
Non-current asset from financial hedging contracts	-	-
Non-current borrowing - finance leases	-	-
Current financial liabilities		
Current bonds	-	(221,660)
Current financial liabilities	(60,578)	(99,405)
Current borrowings - intercompany	(341)	(12,727)
Other current borrowings	-	-
Current borrowing - finance leases	-	-
Current financial assets		
Current financial receivables	-	-
Current financial assets	-	400
Current financial assets - intercompany	34,132	1,029
Current asset from financial hedging contracts	150	2
Cash and cash equivalents	31,188	108,798
Net financial debt - Long Term	**(190,759)**	**-**
Net financial debt - Short Term	**4,551**	**(223,564)**
Net Financial Debt	**(186,208)**	**(223,564)**

In particular, it should be noted that the finalisation of the Sorgenia Group development operation on October 6, 2020 led to the refinancing of Sorgenia Group's financial debt with the banking system, through the taking out of a new loan obtained on the market, which entailed the full repayment of existing financial payables and the termination of the Debt Restructuring Agreement.

The Group's financial debt shows the following as of December 31, 2020:

- payables to banks for loans include the value of the amortised cost of the debt outstanding at said date for 516,118 thousand euro (corresponding to a nominal value of 529,400 thousand euro (100,266 thousand euro as of December 31, 2019), of which 60,420 thousand euro due after the next financial year;
- financial receivables due from Sorgenia Power SpA and disbursed in October for an amount of

307,000 thousand euro (the maximum amount that can be disbursed is 350,000 thousand euro), taken out to replace the borrowings fully repaid by Sorgenia Power SpA following the completion of the sale of the Sorgenia Group, which involved the full repayment of the borrowings and simultaneous termination of the 2017 Restructuring Agreement. The loan was repaid in December for an amount of 3,400 thousand euro. The receivable is measured at amortised cost and its value at year-end is 298,952 thousand euro (of which 34,132 thousand euro within the next financial year and 264,820 after the next financial year).

Lastly, the table below shows the nominal values of the Net Financial Debt and the values at *fair value* and the effects of its recognition according to OIC standards.

EUR/000	NFP Nominal value	FAIR VALUE ADJUSTED	NFP Fair Value
Non-current financial liabilities			
Non-current bonds	-	-	-
Non-current borrowings	(465,520)	9,822	(455,698)
Non-current borrowings - intercompany	-	-	-
Other non-current borrowings	-	-	-
Non-current borrowing - finance leases	-	-	-
Non-current financial assets			
Non-current financial receivables	-	-	-
Non-curren financial assets	270,279	(5,340)	264,939
Non-curren financial assets - intercompany	-	-	-
Non-current asset from financial hedging contracts	-	-	-
Non-current borrowing - finance leases	-	-	-
Current financial liabilities			
Current bonds	-	-	-
Current financial liabilities	(64,271)	3,693	(60,578)
Current borrowings - intercompany	(341)	-	(341)
Other current borrowings	-	-	-
Current borrowing - finance leases	-	-	-
Current financial assets			
Current financial receivables	-	-	-
Current financial assets	-	-	-
Attività finanziarie correnti	36,188	(2,056)	34,132
Current asset from financial hedging contracts	-	150	150
Cash and cash equivalents	31,188	-	31,188
Net financial debt - Long Term	**(195,241)**	**4,483**	**(190,759)**
Net financial debt - Short Term	**2,765**	**1,786**	**4,551**
Net Financial Debt	**(192,476)**	**6,269**	**(186,208)**

GOVERNANCE

_Corporate Governance

_Sustainability governance

_Risk management

_Human resources

CORPORATE GOVERNANCE

The Sorgenia Group corporate governance and control system is based on the central role of the Board of Directors of the Parent Company Sorgenia SpA and is hinged on the concept of balance in representation and in the roles of the Company bodies, on communication and collaboration with the stakeholders and on transparency both toward the market and in the internal procedures.
The governance structure of the Sorgenia Group includes the following bodies: Shareholders' Meeting, Board of Directors, Board of Statutory Auditors and Supervisory Body. The Sorgenia Group has adopted its Code of Ethics, available on Sorgenia' SpA's website, with the aim of clearly and transparently defining the set of values and principles to which Group companies are inspired by pursuing their objectives, observing national and international regulations, in compliance with the legitimate interests of the various categories of *stakeholders*.

Shareholders' Meeting

The Shareholders' Meeting is called in accordance with the law and with the Articles of Association. The Shareholders' Meeting is chaired by the Chairman of the Board of Directors or, in his absence, by the Vice Chairman if appointed or, in his absence, by the person appointed by the Shareholders' Meeting.

No provision was made for the adoption of a shareholders' meeting regulation.
The procedure for voting on the single items is established by the Chairman of the Board of Directors, with secret voting ruled out.

Board of Directors

The Board of Directors manages and governs the Company while pursuing the goal of creating value for the shareholders in strict observance of the law, the Articles of Association, the ESG (*Environmental, Social e Governance*) principles and correct ethical conduct.
All projects that have a significant impact on the *performance* of the organisation are evaluated by the Chief Executive Officer who submits the most important issues to the Board of Directors.
The current Board of Directors, consisting of eight members, was appointed by resolution of the Shareholders' Meeting of October 6, 2020. The mandate of the Directors, for the three-year period 2020-2022, will therefore expire on approval of the financial statements as of December 31, 2022. On November 4, 2020, following the resignation of a Director, the Board of Directors, with the favourable opinion of the Board of Statutory Auditors, pursuant to art. 2386, paragraph 1, of the Italian Civil Code, appointed a new Director by co-optation to replace him.
The Board of Directors of Sorgenia SpA usually meets once a month.

The mechanisms for appointing the Board of Directors of the Parent Company, together with the criteria for selecting the directors in connection with the limited ownership structure, are contained in the Articles of Association; the Board of Directors is made up of a majority of non-operational directors as such to guarantee, in terms of number and authoritativeness, that their judgement can have a significant weight in taking Board decisions.
The assignment and revocation of the mandates to the directors are the responsibility of the Board of Directors that also defines the limits and procedures for exercising the mandate awarded.

The remuneration of the directors holding special offices is established by the Board of Directors after receiving the favourable opinion of the Board of Statutory Auditors.
In light of the above:

- the Shareholders' Meeting of October 6, 2020 resolved not only the reimbursement of the expenses incurred for the fulfilment of office, but the compensation to be paid to the Chairman and each member of the Board of Directors, leaving the Board to determine, pursuant to and in accordance with art. 2389, paragraph 3, Italian Civil Code, the remuneration of the Chief Executive Officer;
- On October 6, 2020, therefore, the Board of Directors appointed the Chief Executive Officer and, taking account of the specific powers attributed, resolved the compensation due to the Chief Executive Officer.

The current Board of Directors is composed as follows:

DIRECTOR	OFFICE HELD	COMMENCEMENT OF MANDATE	EXPIRATION OF MANDATE
Chairman	Angelo Barbarulo	October 6, 2020	Approval of the 2022 Financial Statements
Chief Executive Officer	Giovanni (known as Gianfilippo) Mancini	October 6, 2020	Approval of the 2022 Financial Statements
Directors	Bice Di Gregorio	October 6, 2020	Approval of the 2022 Financial Statements
	Guido Mitrani	October 6, 2020	Approval of the 2022 Financial Statements
	Alessandra Moiana	October 6, 2020	Approval of the 2022 Financial Statements
	Roberta Neri	November 4, 2020	Next shareholders' meeting
	Alberto Ponti	October 6, 2020	Approval of the 2022 Financial Statements
	Corrado Santini	October 6, 2020	Approval of the 2022 Financial Statements

Board of Statutory Auditors

The Board of Statutory Auditors, appointed by the Shareholders' Meeting, is made up of three statutory auditors and two alternate auditors selected from independent professionals who have gained professional experience deemed adequate in connection with the complexity of the office assigned.

The Board of Statutory Auditors plays a central role in the Group Corporate Governance system in so far as it supervises observance of the law and of the Articles of Association, interacting with the various Group functions and with the Independent auditors appointed to audit the Financial Statements.
The current Board of Statutory Auditors was appointed, for the three-year period 2020-2022, by resolution of the Shareholders' Meeting on October 6, 2020.

OFFICE HELD	AUDITOR	COMMENCEMENT OF MANDATE	EXPIRATION OF MANDATE
Chairman	Maurizio Di Marcotullio	October 6, 2020	Approval of the 2022 Financial Statements
Statutory Auditors	Fabrizio Bonelli	October 6, 2020	Approval of the 2022 Financial Statements
	Daniele Discepolo	October 6, 2020	Approval of the 2022 Financial Statements
Alternate Auditors	Giuseppe Cassinis	October 6, 2020	Approval of the 2022 Financial Statements
	Davide Martelli	October 6, 2020	Approval of the 2022 Financial Statements

Supervisory Body

Since 2005, the Company (and its main subsidiaries subsequently) have decided to adopt, in addition to the Group's Code of Ethics, their own organisational, management and control model in accordance with the principles established by Legislative Decree 231/2001 and in line with Confindustria Guidelines (Model 231), thus developing a specific *compliance* system. The Supervisory Body (SB) is responsible for overseeing the functioning of and compliance with the Model.

The current Supervisory Body, composed of two external professionals (one of which as Chairman) and the Internal Audit, Compliance & Risk Control Manager of the Company, was appointed by resolution of the Board of Directors on October 6, 2020 and will remain in office until the end of the term of office of the same Board of Directors (approval of the financial statements as of December 31, 2022).

CONTROL TOOLS

The internal control system of the Sorgenia Group is understood as the set of processes aimed at guaranteeing honesty, transparency, efficiency, effectiveness and reliability of corporate management, observance of the laws and the prevention of fraud to the detriment of the Company.
The systematic control of the correct application of corporate governance principles takes place through a system that envisages the presence of dedicated corporate structures, which carry out risk assessments for the identification and management of risks, monitoring and control (I levels), compliance verification (II level) and audit activities (III level).
The main control bodies are set out below.

Independent Auditors

The appointment of auditing the Parent Company's financial statements and the consolidated financial statements of the Sorgenia Group, pursuant to art. 14 of Italian Legislative Decree no. 39 of 27/1/2010, as well as the limited audit of the Consolidated half-yearly report was assigned, for the three-year period 2019-2022, to the independent auditors EY SpA.

Supervisory Body

The Supervisory Body was established at the Sorgenia Group companies equipped with the Organisational Model pursuant to Italian Legislative Decree 231/2001, and it supervises the implementation and updating of this model. The members of the Supervisory Body were also appointed with the renewal of the Board of Directors on October 6, 2020.
In 2020, all the Group's Supervisory Bodies periodically reported to the Board of Directors and to the Board of Statutory Auditors on the activities carried out.

Internal Audit, Compliance and Risk Control

The Internal Audit, Compliance & Risk Control Department performs monitoring functions and checks the proper functioning of the corporate internal control system.
In particular, as regards the area of Compliance, the company operates by monitoring developments in the reference legislation, especially Italian Legislative Decree 231/2001 and GDPR compliance, in close cooperation with the business areas concerned.
In the Internal Audit domain, this department carries out audits which are integrated as much as possible, aimed at checking respect for the legislation and the internal procedures and provisions, and reports any corrective actions to top management.
The Internal Audit, Compliance & Risk Control Department, which oversees the main Group companies, receives the 231 Audit Plan annually, based on a *risk-based* approach, shared with the Board of Directors and defined by the Supervisory Bodies of the Group companies.
In 2020, the 231 Models of Sorgenia SpA, Sorgenia Power SpA, Sorgenia Puglia SpA and Sorgenia Trading SpA were updated on two occasions in order to bring them into line with the new organisational structure and the new offences introduced by the reference decrees, subsequently carrying out specific training for company personnel.

The main changes to Model 231 approved in 2020 regard the following issues:

- fraud in sports competitions, abusive gaming and betting practices and games of chance exercised by means of prohibited equipment (art. **25-*quatercedies***);
- introduction of cases regarding "*cybersecurity*" (art. **24-*bis***);

- introduction of tax crimes (art. **25-*quinquiesdecies***);
- under art. **24** ("*Undue receipt of funds, fraud against the State, a public body or the European Union or for the achievement of public funds and IT fraud against the State or a public body and fraud in public supplies*") crimes of fraud in public supplies (art. 356 of the Italian Criminal Code) and fraud against the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development (art. 2 of Law 898/1986);
- under art. **25** ("*Embezzlement, extortion, undue inducement to give or promise benefits, bribery and abuse of office*") crimes of embezzlement (art. 314, paragraph of the Italian Criminal Code), embezzlement through profiting from the error of others (art. 316 of the Italian Criminal Code) and abuse of office (art. 323 of the Italian Criminal Code) (relevant for the purposes of Italian Legislative Decree 231/2001 if they are to the detriment of the European Union's financial interests);
- under art. **25-*quinquiesdecies*** ("*Tax crimes*") crimes of unfaithful declaration (art. 4 of Italian Legislative Decree, omitted declaration (art. 5 of Italian Legislative Decree 74/2000) and unlawful compensation (art. 10-*quater* Italian Legislative Decree 74/2000), (relevant for the purposes of Italian Legislative Decree 231/2001 if committed in fraudulent cross-border systems and in order to avoid value added tax for a total amount of no less than ten million euro);
- under art. **25-*sexiesdecies*** ("*Crimes of contraband*") crimes of contraband (articles 282 et seq. of Presidential Decree no. 43 of January 23, 1973).

SUSTAINABILITY GOVERNANCE

Governance of the Corporate Social Responsibility activities involves the different functions right across the Sorgenia Group. The monitoring of these activities can be summarised in this table:

Field	Activity	Department/Function
GOVERNANCE	Relations with the financial community	*Business Planning & Investor Relations*
	Monitoring and verification of the correct functioning of the internal control and supervision system of company processes	*Internal Audit & Compliance*
	Risk management	*Risk Owner/Risk Control*
INSTITUTIONS	Institutional relations	*Regulatory and institutional affairs*
PERSONNEL	Personnel administration and management	*People and Organisation*
	Personnel training	*People and Organisation*
MARKET	Management of the business partners and agencies throughout the territory	*Sales*
	Management of customer relations	*ICT Market*
	Management of relations with the Consumer Associations	*Regulatory and institutional affairs*
	Management of suppliers	*Procurement & General Services*
COMMUNITIES	Social activities and initiatives	*Brand Management*
	Activities and initiatives for the local community	*Generation & Energy Management*
ENVIRONMENT	Plant monitoring and management	*Health, Safety & Environment*
	Research and development	*Industrial Development*

RISK MANAGEMENT

Since 2016, the Sorgenia Group has adopted a new system of policies, procedures and organisational structures with the main purpose of monitoring and managing risks that might undermine the attainment of strategic and operational objectives, and observance of the current regulations.

The Group first of all defined a Group Risk Policy that sets out a common methodological approach with identified and repeatable phases. The players involved in the process and their activities/responsibilities are also specified. Afterwards, specific policies for managing homogeneous risk categories and an enterprise risk management policy were defined to monitor other risks not managed by the specific policies in the Group.

The risk management system is structured on specific roles and responsibilities, such as the risk management manager called Risk Owner, the independent control function called Risk Control, the Chief Executive Officer of Sorgenia SpA who approves the policies and sets the risk limits, while the Board of Directors of Sorgenia SpA approves the Group Risk Policy.

The main risks systematically monitored and actively managed by the Group are indicated below.

ENERGY RISKS

Market Risk

The Sorgenia Group is potentially exposed to the change in prices of energy commodities and to the exchange rates of the currencies in which they are traded, with potential effects on assets, liabilities, cash flows and profitability.
For this reason, a specific Commodity Risk Policy was defined, with the objective of specifying the guidelines, principles, responsibilities and methods for managing these risks.
The Energy Risk & Quantitative Analysis function within the Generation & Energy Management area is appointed to monitor market risk through specific tools in observance of the Risk Policy.
The Risk Control function is appointed to observe the performance of the risk indicators established and compliance with the aforesaid Risk Policy.

FINANCIAL RISKS

Interest Rate Risk

Interest rate risk is described and managed by a specific policy and focuses on managing the risk that the value of a financial instrument may fluctuate because of changes in market rates. This risk is particularly evident for financial instruments where the expense calculation is linked to the value of one or more market variables.

Sorgenia Group is exposed to interest rate risk because of the presence in its Balance Sheet of interest-bearing assets and liabilities whose value is based on indexes quoted in the market.

As regards the debt exposure of the Sorgenia Group, the interest rate risk is mostly due to the changes in the structure for EURIBOR expiries. The Sorgenia Group manages its exposure to interest rate risk by executing derivative instruments, traded solely for non-speculative purposes and with leading banks so as to minimize counterparty risk.

At the reporting date, the derivative instruments traded by the Group to hedge interest rate risk were in the form of Interest Rate Caps. It should be specified that, pursuant to the Facilities Agreement, which Sorgenia SpA signed up to on October 6, 2020, a Hedging Strategy was agreed, which makes provision for hedging of interest rate risk on debt until December 2023 for a notional amount of no less than 84%.

For interest rate risk hedging instruments, hedge accounting rules are applied and, in particular, cash flow hedges, if they can be demonstrated.

The Sorgenia Group has adopted tools suitable for running financial tests necessary to prove the future and retrospective effectiveness of the derivatives used as hedges.

Liquidity Risk

The liquidity risk is managed and described by a specific policy. On the one side, it consists of counterparty risk management in the case of liquidity deposit, and on the other, of proper short-term financial planning in order to meet one’s financial and business obligations.

This risk is managed centrally by Sorgenia SpA, which periodically checks the net financial position of the Group and its breakdown.

By preparing and analysing reports on the incoming and outgoing cash flows, the Administration, Finance and Control department aims at ensuring adequate coverage of Sorgenia Group’s needs, allowing accurate monitoring of loans, available credit lines, and the relative uses, in order to optimise financial resources and manage any temporary liquidity surpluses.

Commercial and Counterparty Credit Risk

Commercial and counterparty credit risk is managed and described with a specific policy, and it represents the exposure to potential losses deriving mainly from the sale activity and the counterparty risk in case of purchasing activities.

Risk prevention starts at the customer acquisition phase through a complex credit check process, structured by consumption brackets, which adjusts the severity of the rating to the potential amount of the credit risk.

The final customer credit recovery processes are divided into three macro-phases: Dunning with suspension of the supply, Collection and Litigation. The Dunning phase is activated on all active customers, which start within 15 days from the expiry of the invoice, and reaches the ultimate phase of deactivation

and/or termination of the supply of electricity and gas in compliance with the timescales and methods envisaged by sector regulations. On the other hand, Collection and Litigation activities are addressed to all customers with terminated supplies and are broken down into specific recovery modules, designed on the basis of the amount and ageing of the loans and of the customer segment.
In the “Over the Counter” wholesale activity, this risk is measured, in respect of a specific procedure, through the allocation of credit limits and monitoring of contractual positions.
The credit line process, in particular, presumes the quantitative analysis of the financial statements data and any qualitative information available, in order to attain an allocation for each individual counterparty of a rating that summarises its credit rating and, consequently, makes it possible to set their operating limits.

OPERATING RISKS

Technological Risk

The Sorgenia Group manages technologically complex electricity generation plants built with technologies based on the market’s Best Available Technology, with high safety standards to protect assets and personnel, and significant levels of automation in order to minimise possible human error.
Periodic control plans and regular maintenance operations are aimed at keeping the plants in an optimum state of operation. Nonetheless, the plants still remain potentially subject to possible damages to the machinery or to unforeseeable events, such as to make production unavailable with resulting financial losses.
The dedicated business units, with the help of the Procurement & Insurance department, identify possible risk scenarios, assessing appropriate risk prevention, protection and reduction initiatives, also through an appropriate insurance programme.

Information Technology Risks

In 2014, the Sorgenia Group signed a long-term contract to fully outsource all services relating to the Information & Communication Technology (ICT) area with a leading operator in the field.
The contract provides for operational management of the platforms and application services, as well as the management of all their evolutions. In particular, in 2019 the review and modification of the entire existing application map continued to support the new objectives of the Sorgenia Group.
The contract is managed by Sorgenia personnel who control and verify the contractual contents and observance of specific service levels agreed to by the parties. A governance structure that involves several company representatives (Process Owners) of various company areas with duties of liaising with the contacts specified by the outsourcer has been established.
The infrastructural systems are hosted and managed in a data centre of a leading telecommunications operator boasting high physical security protection standards, while the operating software is managed in Cloud mode.

Safety and Environment Risks

The Group has adopted procedures and models that fall under the certified integrated environment and safety management systems aimed at guaranteeing the health and safety of personnel working on the plants, in addition to that of the neighbouring communities and protection of the environment. In full observance of current legislation, these guidelines adopt universally shared international industrial standards based on the industry's best practices.

COMPLIANCE RISKS

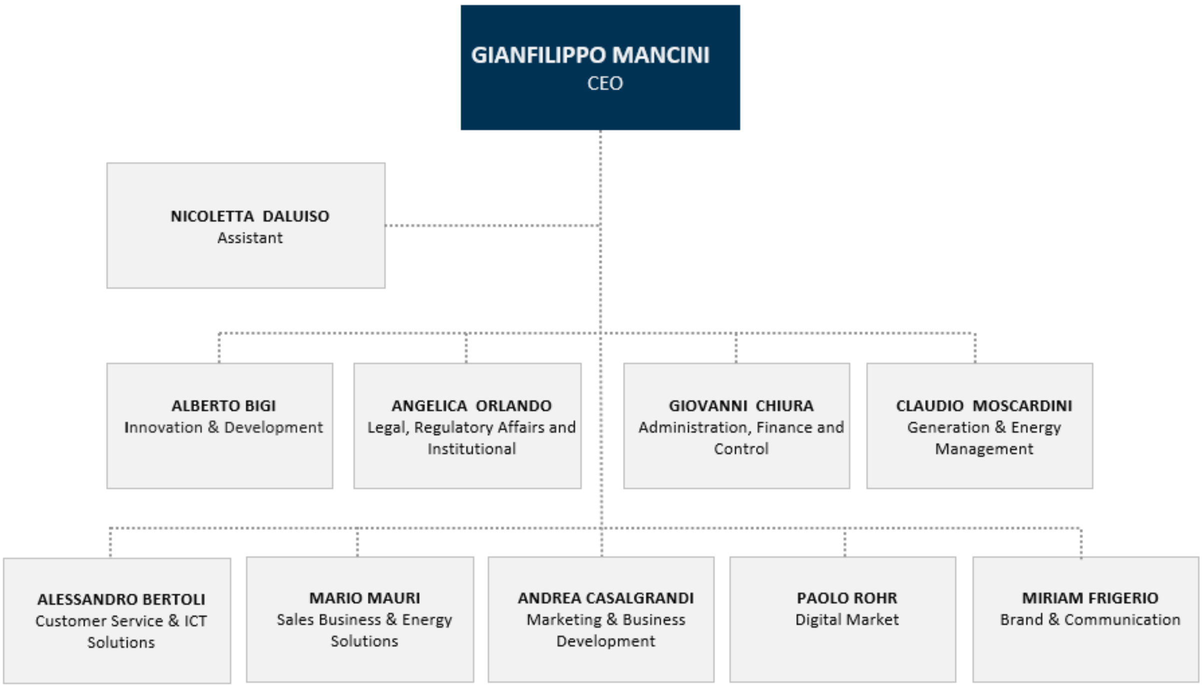
The Group operates in a strictly regulated sector that requires that national laws and rules implementing international protocols be observed.

The functions responsible for managing these risks are:

- *Institutional Affairs*, which monitors parliamentary and ministerial activities and the stages of any proposed new laws, ensuring that the relevant Group departments are kept informed*;*
- *Regulatory Affairs,* which ensures oversight of sector regulations (gas, power and environmental markets) and related application within the Group, in addition to compliance management as indicated in the antitrust model;
- *Compliance & Privacy,* which monitors the correct application of the organisational, management and control model adopted pursuant to Legislative Decree 231/2011 and manages issues relating to other compliance regulations, in particular as regards the new European regulations on privacy (GDPR).

HUMAN RESOURCES

Organisational structure



Personnel in figures

The total number of employees of the entire Sorgenia Group as of December 31, 2020 was 370.
The breakdown by gender shows a presence of men equal to 65% of the Group's population compared to female employees. As proof of the special attention it focuses on the subject of the work-life balance, the Company has granted 13 *part-time* positions to female personnel (approving 100% of the requests received over the years).
As of December 31, 2020, approximately 98% of the workers were employed with an open-ended contract.

	2020			2019		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
WORKERS	20	-	**20**	20	-	**20**
OFFICE STAFF	152	96	**248**	141	93	**234**
MANAGERS	51	32	**83**	46	33	**79**
EXECUTIVES	17	2	**19**	17	2	**19**
TOTAL	240	130	**370**	224	128	**352**

The average age of employees is 38.

People strategy

For the personnel evaluation and incentive process, in 2020, we reviewed our Management *by Objectives* system (*MBO* process) which today assumes the characteristics of genuine Performance Management, combining qualitative objectives with company results and introducing two changes: the qualitative evaluation is strictly related to our *Leadership Model* and the six macro-skills that compose it; in addition, every person receives *feedback* from his/her *peers* or *co-workers* and is required to perform his/her own self-evaluation, all before the final judgment of his/her manager. The new *MBO* system is applied to all the Group's employees.

Also in 2020, Sorgenia chose to rely on the ***Great Place To Work*** **Italia** for its *engagement survey*: this enables us to continue to compare ourselves with other companies and their *best practices* with a view to continuous improvement, to enhance all the activities and projects in which we are the key players and compare ourselves with other businesses in the Italian panorama in the *Best Workplaces Italia 2020* rankings.

Sorgenia SpA was awarded a prize as a **Certified Company by Great Place to Work® Italia for 2019-2020 and was classified 8th as a "Great Place to Work Italy" among the companies in the 150-499 employees' category.** In addition, Sorgenia SpA was classified as "Best Place To Work Italy 2020" in the "Women" and category, thus confirming that it is one of the best Italian companies to work for according to the opinion of its employees in general, and in particular according to female workers.

Sorgenia SpA has already reached the requirements for certification as a **Certified Company by Great Place to Work® Italia in 2020-2021.**

In 2020, Sorgenia invested heavily in *Employer Branding* policies through the strengthening of *partnerships* with the most prestigious universities throughout the country, the provision of various Work Experience projects, participation in the main *Career Days* at the main Italian universities and also through specific initiatives by employees as part of academic programmes and some events intended for students and those in the final year of their degrees. The majority of these events and initiatives were held in *on-line* mode.

In order to meet the need for a greater presence of the Sorgenia Group in university programmes and student guidance activities, an internal *community* of *Ambassadors* was created, dedicated to these activities.

Smart working

On February 23, 2020, in conjunction with the onset of the state of health emergency caused by the CoViD-19 pandemic, *smart working* was strongly recommended as the main way of working for office personnel and for staff operating at plants. This extraordinary measure is still in place, on a precautionary basis.

In order to deal with the state of health emergency, in March 2020, a series of new practices and procedures were implemented to manage spaces and for the sanitisation of company premises, to maximise the safety of employees who access work offices and minimise the influx of people from outside the company.
In addition, an internal Crisis Committee was set up, which meets periodically to analyse the regional and national provisions and to decide, day after day, which measures to implement to guarantee the safety and well-being of the Group's employees.

Training and development

In-house training focused on both basic technical courses, many of which funded by Fondimpresa and customised for the people involved, to implement and improve the English language, *Microsoft Office Excel* and *Power Point*, and on soft skills development courses and advanced technical courses to promote and accelerate the *digital transformation* already under way.
In March 2020, all company training was converted to *remote learning* mode.

In 2020, new *individual coaching* courses were initiated for managers; in addition to a new *team coaching* projects for some company departments, in some cases also inter-functional, with the goal of increasing effectiveness and collaboration among the team's members and between inter-related teams.

The "*IDeaLs Year 2*" project was launched in March 2020, in collaboration with the Milan Polytechnic, with the goal of continuing to involve our employees. The project commenced two years ago when we involved employees in the co-creation of the *new meaning* of the Sorgenia Group through a *survey* and two on-site workshops, then continued in the first half of 2020 with some digital meetings in which we delved deeper into the new meaning of the Sorgenia Group and translated it into *story-making* activities with both professional and personal implications for each participant. Around 20 employees took part in the activities, who applied on a voluntary basis.
The activities initiated by "Project O.N.E." - launched in September 2018 with the goal of stimulating the innovative process and creating a "collective intelligence" - continue through the development of new *business innovation* initiatives, expanding its spectrum of action increasingly more and involving even more people in the design of new initiatives.

The training course relating to *soft skills* for plant personnel is continuing at the plants; the course on developing leadership, addressed both to the role of "plant manager" and to the professional role of the "Plant-Deputy Manager" is also continuing.

The *talent management* project targeted at young people between the ages of 28 and 31, launched in September 2019, concluded in the first half of 2020. This was a training and research project developed through classroom-based training and also through team activities carried out via remote *working* between one class module and another. Classroom-based training, provided at the office of the MIP - Business School of the Milan Polytechnic - concerned the following topics: *Public Speaking, Innovation Strategy, Innovation & Organisation, Digital Experience, Design Thinking Sprint*.

The commitment required by the project from its participants - around 30 young people - was as follows:

- hours in the classroom: 56;
- average percentage of hours dedicated to research in the field and to the production of deliverables, calculated out of total daily hours of a "typical day": 16% or 1.5 hours/day;
- project milestones: 4 (*work packages* produced: 6 of which 6 Power Point presentations and 5 videos for each team).

This project, leveraging on company's strategic activities, enabled the exploration of new technologies which combine research with the capacity for innovation and the production of new business development proposals.

In the first quarter of 2020, genuine "short digital clips" were provided, usable via an e-learning platform, to continue with the improvement of the *digital skills* of all personnel of the Sorgenia Group.

As part of the Q-Data project, whose objective is to implement a system that includes infrastructure, processes and tools built around Big-*Data*, together with the development of the skills to use these, in 2020, the participants in the “Barracuda” project - around 20 people - carried out roughly 80 hours of training each, in relation to which they were able to take part in the development of interfunctional integration projects of the utmost value for the Sorgenia Group's business. The training provided to participants in the “Barracuda” project aims to:

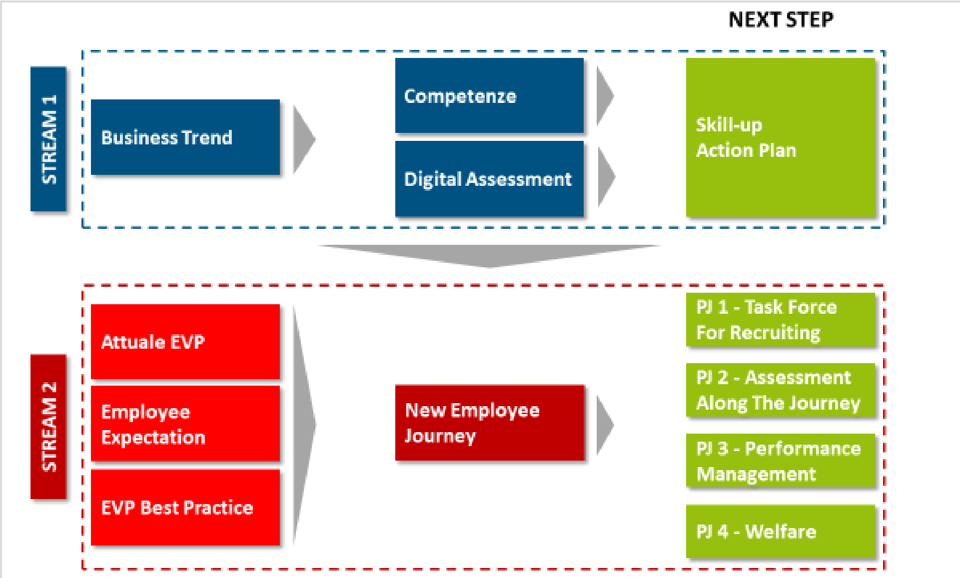
- improve the use and management of the data and information of big data
- automate repetitive activities
- construct analyses targeted at improving business actions.

Lastly, in 2020 approximately 70 people managers received training on the new *Leadership Model* and advanced selection techniques, able to transform selection interviews into hiring interviews. Our managers were offered a high-quality, innovative training programme with highly practical content, together with a shared methodology with the HR department and the possibility of carrying out activities in the field to employ the skills acquired and the methodology learned.

Project EVP – Employer-Employee Value Proposition: review of HR processes and new *Leadership Model*

In 2020, the second stream of the EVP project launched in 2019, took concrete shape.

The overall set-up of the project is as follows:



The **first stream** of the project concerned the potential development of the business trends of the energy market and the possible role of Sorgenia, in order to define the system of skills that will allow us to tackle the ongoing change as key players.

Thanks to this activity, we have acquired greater awareness of the skills we need to invest in and are already working on structuring new development processes.

In the **second stream** of the project, we were instead questioned on the current Employer-Employee Value Proposition proposal of Sorgenia, by comparing it with the best market practices, in order to design a new one that is able to generate constant innovation, attract and retain the best talents.

Therefore, in 2020 we devised new "focus areas" created by the EVP project:

- ***Task Force For Recruiting***: in the first half of 2020, we completely overhauled the selection process, with the goal of improving brand *positioning* and *attraction* and building an objective and unique evaluation system for HR and the managers. Alongside the complete overhaul of the process, which gave a more "active" role to managers, training sessions were provided to both the HR team and the managers involved in the selection of candidates;

- ***Performance Management***: the new MBO process got under way, which requires the behavioural evaluation, together with company quantitative targets, to be incorporated in the calculation of performances and in the personnel variable incentive system. The behavioural evaluation is carried out on the basis of the six macro-skills of the Leadership *Model* and requires each person to identify 5 *Peers/Co-Workers* who can provide their *feedback* in support of the final judgment of the Manager. In addition, alongside the evaluation of *Peers/Co-Workers*, provision is also made for a self-evaluation of the individual, which helps to enhance self-awareness;

- ***Welfare***: in June 2020, we introduced new forms of company *welfare* through the WELFARE 4U programme, designed to be "*on top*" of the remuneration of each employee and boasting a catalogue of personalisable services which allows each person to choose based on their needs. It was designed in line with our Meaning - Trilobe - and is composed of 3 pillars:
    - ***FLEXIBLE BENEFITS***: each employee has a budget to spend on a basket of goods which envisages interest expense on mortgages, supplementary pension, *voucher welfare* in the educational, health and leisure domain (for yourself and your family), coupons/vouchers. The solution is highly personalisable and flexible;
    - ***COMMUNITY WELFARE***: all employees can make use of *welfare* services based on their needs, with no *cap* restrictions, starting from the priorities identified in the listening phase and according to a programme that functions on a "campaign" basis. The services are subsidised by the company and free for the employee, with access through a payment. Some examples: guidance/*employability* for the children of employees of middle/high school age, coaching, short video clips on supplementary pension and on how to redeem degree years for pension purposes, theme-based medical prevention campaigns, etc.;
    - ***#CONCILIAMO***: Sorgenia took part in the national tender #Conciliamo, and it was admitted for evaluation of its company *welfare* project; in the event of approval by the commission/department for *welfare* policies, we may add additional *welfare* services, again "*on top*" of the amount already paid out; authorisations for employees for the vaccination of children, nursery school place, additional paternity leave, assistance for relatives/elderly/people with disabilities and the vulnerable, contributions for nursery schools/summer schemes/study holidays, education and transport reimbursement, study grants, emergency *baby-sitting* service, guidance and training for *caregivers*", nutrition and well-being courses.

The WELFARE 4U plan is the result of work that involved everyone at the company through an *on-line survey* targeted at all employees, *focus groups* for *clusters* of the population under 35 and over 35 and in-depth telephone interviews. This project methodology allowed us to construct a range of offers in line with the actual needs of our people.

Vision, Values, Conduct

Sorgenia's values, *vision* and *mission* are the result of team work commenced in July 2015 which has continued over the years and which is today encapsulated by our "Trilobe":

Indeed, in 2020, "Trilobe" spawned our new *Leadership Model* which is composed of six macro-skills:

With the goal of involving all of Sorgenia's people in testing new attitudes and behaviours that are in line with the new *Leadership Model*, in October 2020, we launched the in-house engagement and communication project called "LET'S GROOVE"**.** Through the metaphor of music, we support employees on a journey lasting 5 weeks, trying out a new way of talking about behaviour, in a light-hearted and fun way. To do this, we used storytelling tool, the *podcast*, together with the MS Teams collaboration platform, through which we launched engaging activities which employees could carry out in teams, in pairs or independently, depending on the area of competence to be explored.

The world of music lends itself well to representing a group of people who want to share the same score, leaving room for individual talent. Rhythm and enjoyment form the basis of this *concept*, and also the ability to listen and follow the same sound all together. Practice, perseverance and enthusiasm are the fundamental elements for building bonds, like a real jazz band. This is Sorgenia!

CoViD-19 Task Force: listening and *caring* initiatives for people

Various actions were taken to deal with the CoViD-19 emergency: support and care for the people we work with (employees and customers), support for the local area in which we operate (the sites of the offices and the plants).

PHASE 1

Employees - all:

- *smart working* strongly encouraged from February 23, even before the *lockdown*, for personnel in the Milan, Bergamo, Rome offices
- extraordinary measures for personnel working at the 4 plants, the first to start being Lodi: method of working at the plant radically altered to safeguard the health of our employees and to continue to always provide energy to the homes of our customers:
    - body temperature measurements at the entrance, in addition to all the necessary PPE
    - we reduced the presence of personnel in plants and changed our routines, to avoid close contact between people
    - all operators and shift managers clean their workstation and collective use equipment at the start and end of each shift, both in the control room and for on-site activities
    - complexity
- internal Crisis Committee that meets every day + various round-table work groups to address the many new activities starting up
- different internal communication and reassurance actions from the company
- extraordinary insurance cover against CoViD-19 payable by the company, to cover the expenses of any required hospitalisation
- Coved20 project: involvement, listening and *caring* of employees through daily meetings: a short video clip and a podcast to stimulate thoughts on some key words and provide tools to deal with the emergency + a listening service through a counselling support centre from March to April 2020; the project was headed up by an occupational psychologist with the contribution of a film and new media expert

- Coved20 - Again project: from April to July 2020, a weekly podcast released every Monday, again recorded by the occupational psychologist together with the film and new media expert and created in collaboration with Sorgenia's employees: for each instalment, a host employee proposes a film or a book or song linked to the theme of the day
- *cross training* lessons and yoga through videos each day (including weekends) and also live lessons on Zoom 4 times a week
- virtual cafes and lunches on Teams and Zoom to feel closer to one another, even if physically distant
- a section of the social intranet dedicated to exchanging contents to generate a positive approach to the pandemic: #AndraTuttoBene
- we launched a survey to best understand the (new) needs of our employees, based on the new method of working (forced) remotely, with the objective of improving people's well-being and also looking to future developing needs.

Customer Service:

- around 300 call centre operators (our call centre is outsourced) have been working in *smart working* mode for many months

All Sorgenia customers:

- *caring* and reassurance letter to customers signed by Sorgenia employees
- concessions, promotions and advisory services for different customer segments

Donations:

- donation of the "Nonny" Tablet to our over-80 customers
- targeted donation for urgent equipment for the hospitals of Termoli and Codogno
- launch of the SPESA SOSPESA project to support Italian families suffering financial hardship:
    - www.spesasospesa.org ;
    - http://www.regusto.eu/;
    - https://up.sorgenia.it/it/spesasospesaorg-marco-vitale-blockchain-al-servizio-della-solidarieta;
    - https://www.youtube.com/watch?v=9RjlvfeJeBA;
    - https://www.youtube.com/watch?v=xidkyYwKvOg

PHASE 2

Employees - all:

- *Smart working* strongly encouraged for all + extraordinary measures for those who want to return to the office a few days a week: always to safeguard the health of our people, we allowed people to return to the office for a few days through a desk booking service and through a specific procedure
- 2 cycles of ANTIBODY TESTS by the company for all Group employees (optional): the first carried out between May and June, the second in September on return from holidays
- Round-table work group #Ripartiamo to deal with the temporary phase (Phase 2) and the subsequent period (Autumn and going forward), in particular:
    - management of *smart working* and training activities
    - improving our well-being and our effectiveness at the same time
    - designing and planning people listening actions

PHASE 3 (CURRENT):

Employees - all:

- *Smart working* strongly encouraged for personnel working in the offices of Milan, Bergamo and Rome
- Sorgenia launched a campaign to offer the FLU VACCINE to its employees and to one relative/spouse, always on an optional basis
- after having collected the results of the *survey* launched, we provided our employees working remotely (and who requested it) with an additional screen to be able to use at home, along with a keyboard and mouse, which were delivered to their home
- we launched a new listening and *caring* service for our employees through 2 projects running in parallel;
    - WE CARE: through a group activity, participants openly discuss the specific themes for best dealing with the current emergency situation and, thanks to the mediation of the psychologist, thoughts are stimulated and prospects and successful strategies shared, in an exchange of mutual support. The course is composed of 7 meetings - lasting around 1 hour and a half each, on a fortnightly basis - which are held via remote link-up in an environment of complete confidentiality. The groups are designed for around 7/8 people;

- WE SHARE: is designed as an informal opportunity to get together and share opinions and points of view on areas of shared interest, from how the company's business is going to the work/life balance and much more. Meetings are held every Monday from 09.00 to 10.00 on the Zoom platform, with an initial contribution from our CEO and/or external host, which is followed by a period of discussion in which to share opinions, ask questions and offer insights. Participation is optional and open to all.

Health and safety at Sorgenia

Sorgenia has always focused its company culture on the health and safety of people, whether they are its own employees or contractors. It is for this reason that Sorgenia is committed to spreading and consolidating a culture of health and safety, encouraging the adoption of responsible behaviour, promoting greater attention and awareness of risks and working on the continuous improvement of *Health & Safety* standards.

Workplace safety, training and professional development, internal environment and company welfare have been the focus of significant commitment, especially during this difficult year characterised by the presence of an unforeseen and unfortunately unknown risk, namely the Coronavirus.

The efforts expended by Sorgenia, encapsulated by the anti-virus protocols shared with the trade union associations, have been crucial in protecting the people who work at Sorgenia from the virus and to provide them with comprehensive support during the difficult periods of the *lockdown*.

Despite the many resources used in managing the risk due to the presence of the virus, Sorgenia has managed to continue to focus significant attention on other aspects of safety both during daily activities and during shutdowns of the combined cycle plants for maintenance. These efforts have been repaid by the absence of any accidents involving either company personnel or contracting companies.

In 2020, many health and safety projects were developed, the most important being the geolocation system for personnel working alone and the replacement of the application that manages work permits and safety initiatives. The first allows the team responsible for handling emergencies to provide first aid as quickly as possible to workers in difficulty, by pinpointing their exact location, while the second will enable plant personnel to more easily manage all the necessary operations for safely carrying out the activities contracted to external firms

But the interventions do not stop here: an augmented reality project is in the pilot phase to provide additional information and suggestions from colleagues remotely, thereby guaranteeing greater speed of interventions and the easy resolution of any problems. In this way, not only are costs lower, but information is obtained in real time on the power plants equipment.

What ensues from all this is the overall improvement of the health, safety and well-being conditions of all individuals directly and indirectly involved in the Company’s growth.

A summary of the data pertaining to the accidents that occurred during the three-year period under review follows:

	2020		2019		2018	
Accidents	**TOTAL**	**0**	**TOTAL**	**1**	**TOTAL**	**3**
	men	**0**	men	**1**	men	**3**
	women	**0**	women	**0**	women	**0**
Accidents while travelling	**TOTAL**	**0**	**TOTAL**	**3**	**TOTAL**	**1**
	men	**0**	men	**1**	men	**1**
	women	**0**	women	**2**	women	**0**
Severity index[1]	**TOTAL**	**0**	**TOTAL**	**0.03**	**TOTAL**	**0.09**
Frequency index[2]	**TOTAL**	**0**	**TOTAL**	**1.9**	**TOTAL**	**5.78**

(1) Accident severity index, calculation method: (no. days of temporary disability*1,000)/hours worked. The indicator does not take into account the accidents while travelling

(2) Accident frequency index, calculation method: (no. days of temporary disability*1,000,000)/hours worked. The indicator does not take into account the accidents while travelling

IN SHORT

REPORT ON OPERATIONS

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

REPORTS CORRELATED WITH THE FINANCIAL STATEMENTS

ADDITIONAL SIGNIFICANT INFORMATION

_Additional information

_Business outlook

_Proposal for allocation of the profit/(loss) of Sorgenia SpA

ADDITIONAL INFORMATION

TREASURY SHARES OF SORGENIA SPA

Pursuant to Article 2428 of the Italian Civil Code (points 3 and 4), it is reported that the Company held 415,500 treasury shares, 0.001%, as of December 31, 2020, does not hold shares of parent companies and did not carry out any transactions on them during the year.

MAIN OFFICES

Registered and Administrative Office

Milan, Via Alessandro Algardi, 4 20148

SIGNIFICANT EVENTS AFTER DECEMBER 31, 2020

Merger by incorporation of Zaffiro SpA in Sorgenia SpA

Following the extraordinary transaction, which involved a change of the Company's majority shareholder and the signing of the new loan agreement, fully detailed in the paragraph "Significant events during the year", the Company's Board of Directors and the Board of Directors of Zaffiro SpA approved, by means of resolution of February 18, 2021, the plan for a reverse merger by incorporation of Zaffiro SpA in Sorgenia SpA, pursuant to Articles 2501-bis and 2501-ter of the Italian Civil Code (the "Merger"), which also constitutes a leveraged merger.

The Merger, expressly set forth in the new loan agreement, is incorporated in a broader business strategy project launched by Zaffiro SpA's shareholders (F2i and Asterion) aimed at creating a *leading* operator on the domestic energy market that carries out both the production and sale of electrical energy from renewable sources - currently performed by Zaffiro SpA and its subsidiaries - and the production and sale of electrical energy from traditional sources - currently carried out by Sorgenia SpA directly and through its subsidiaries and investees.

The balancing of the production of electrical energy from renewable sources - central to the National Energy Strategy but, by very nature, discontinuous and non-programmable - with the generation of power from efficient and flexible traditional sources will enable continued production and allow optimal strategies for the sale of electricity in deregulated markets.

In addition, the integration of the activities performed by the two companies participating in the Merger will make it possible to create a large industrial operator, with diversified and complementary plants and technologies and boasting the necessary strength to become an aggregating entity within the context of a highly fragmented market, also generating a number of operating and management advantages.

At the date of effectiveness (which will coincide with the date of the last of the registrations in the Register of Companies set forth in Article 2504 of the Italian Civil Code), the Merger will determine, in particular, (i) the extinguishment of Zaffiro SpA and the assumption of the rights and obligations of said company by Sorgenia SpA; (ii) without prejudice to the amount of Sorgenia SpA's share capital, the cancellation of all shares currently issued and outstanding by Sorgenia SpA and Zaffiro SpA and the issue of new Sorgenia SpA's shares of a different category, to be assigned to the shareholders of Zaffiro SpA and of Sorgenia SpA other than Zaffiro SpA and Sorgenia SpA; (iii) the adoption of new articles of association by Sorgenia SpA.

In particular, the Merger will be realised, notwithstanding the current share capital, through the cancellation of all the shares of the two companies participating in the Merger and the simultaneous issue of (a) new ordinary shares, to be assigned to the current shareholders of Sorgenia SpA other than Zaffiro SpA and Sorgenia SpA, based on a ratio of one new ordinary share for every share held previously, and (b) category "A" and category "B" shares to be assigned to the current shareholders of Zaffiro SpA based on the share swap ratio identified in the merger plan. The shares assigned will give the right to profit-sharing with Sorgenia SpA from the date of effectiveness of the Merger, while the Merger will take effect, for accounting and tax purposes, from the first day of the year in which the Merger produces its effects vis-à-vis third parties.

As part of the Merger plan, Sorgenia SpA's Board of Directors determined the share swap ratio on the basis of the balance sheet situations of the companies participating in the Merger as of October 31, 2020 and the valuations of said companies carried out in consideration of the respective business, economic and financial prospects, as per the Business Plan, as well as the number of shares into which the share capital of the companies participating in the Merger is divided, net of treasury shares.

In addition, given that provisions were made in the new articles of association for (i) restrictions on the circulation of shares not present in the current articles of association of Sorgenia and (ii) the issue and assignment by Sorgenia SpA of special category shares that attribute additional rights to those recognised by the shares held by the current shareholders of Sorgenia SpA other than Zaffiro SpA, the current shareholders of Sorgenia SpA other than Zaffiro SpA shall have the right to withdraw, if these shareholders should not contribute to the approval of the Merger resolution during the shareholders' meeting of Sorgenia SpA.

Therefore, at the same meeting on February 18, 2021, the Board, having received the favourable opinion of the Board of Statutory Auditors and the independent auditors, determined the relevant liquidation value of the shares pursuant to Article 2437-ter of the Italian Civil Code.

Lastly, the Board of Directors, in connection with the Merger, resolved to propose to the extraordinary shareholders' meeting to also approve, at the same time as approval of the Merger, a share capital reduction, to be implemented after the Merger takes effect, pursuant to Article 2445 of the Italian Civil Code, from the current amount of 406,676,603.81 euro to 150,000,000 euro, notwithstanding the subdivision of the capital of Sorgenia SpA, subsequent to effectiveness of the Merger.

The proposed share capital reduction, incorporated in the context of the overall restructuring of Sorgenia SpA realised through the Merger, is aimed at providing the Company with a more rational equity and financial structure and in line with the market *standards* of the reference economic sector, ensuring Sorgenia SpA with greater financial flexibility without, however, compromising its equity strength.

On February 18, 2021, the independent auditors issued the limited audit report on the equity position as of October 31, 2020 and the report on the merger plan pursuant to Article 2501-bis, paragraph 5, of the Italian Civil Code.

On February 19, 2021, Baker Tilly Revisa SpA, as expert appointed by the Court of Milan at the joint request of the companies participating in the Merger presented, pursuant to Article 2501-sexies, Italian Civil Code, issued the report in accordance with Articles 2501-bis, paragraph 4, and 2501-sexies of the Italian Civil Code for the certification of the reasonableness of the assumptions relating to the financial resources available to the merging company and for the fulfilment of its financial obligations as well as consistency of the share swap ratio.

The Shareholders' Meeting called for March 23, 2021 will, therefore, be called to resolve, inter alia, (i) on the Merger and on the subsequent adoption of the new Articles of Association, (ii) on the share capital reduction.

CoViD-19

It should be noted that the Group, considering the sector in which it operates and the essential nature of the services provided, is not subject to the production limits imposed by the Government and, therefore, Generation and *Energy Management/Trading* (GEM) activities and electricity and gas sales on wholesale markets and to end customers also continued in 2021, with the necessary attention on the safety of employees and plants. As regards the measures adopted by the Group for protecting the health of employees, please refer to the paragraph "Human Resources".

With reference to the operating performance in the first few months of 2021, note the following:
In the first few months of the year, the thermoelectric production plants operating on the basis of the deregulated market regime, recording healthy results, particularly in the dispatching services market (MSD), which remains the most important market for CCGTs. These figures are better than the provisional data for 2021.

With reference to trading activities, it should be noted that operations in the first few months of the year remained contained, and took place predominantly with financially sound counterparties or that presented guarantees. In addition, attempts were made to limit the Group's sales exposure. In this regard, it should be noted that the Group operates almost exclusively by carrying out hedging of the industrial portfolio. Therefore, as of today, the economic impacts of the current scenario, which is characterised by elevated volatility, are contained and, nonetheless, essentially in line with the Budget assumptions.
In relation to the sale of energy and gas to end customers, any possible effects of the current context, such as the reduction in sales, postponement of collections and the increase in overdue payments, are monitored carefully and constantly. As regards the decrease in revenues, no situations of criticality were recorded in relation to profit margins in the first few months of 2021.
In relation to the development of new initiatives in the renewable sources sector, note that, following an initial delay in the planned activities in 2020, they are now proceeding according to the Budget forecasts.
In light of the above, it is confirmed that the Group's management has constantly monitored the actual and potential impacts of the CoViD-19 emergency on the Group's business activities and its financial and economic position. In consideration of the economic performance of the Group during the health emergency period, no impacts were registered which could represent an indicator of impairment. However, in consideration of the persistent uncertainties characterising the reference macroeconomic framework, the directors will continue to carefully monitor the development of the health emergency.

The Directors, based on these assumptions, despite being fully aware that the expected results in the foreseeable future may only materialise on verification of events connected with the trends in the economic scenario and the reference markets, as well as regulatory developments, subject, due to their nature, to uncertainties in terms of how and when they will be implemented - considered it reasonable to assume that the Group may continue to operate in the foreseeable future as an operating entity, by drafting these annual financial statements on the basis of the going concern assumption.

BUSINESS OUTLOOK

In 2021, the company will also go ahead with implementing the strategic actions set out in the Business and Financial Plan approved on January 21, 2021, with the aim of:

- Electricity generation: guaranteeing high levels of safety, reliability, efficiency and flexibility of the CCGT thermoelectric power plants, in order to take advantage of all opportunities on the Day-Ahead Market (MGP) and on the Dispatching Services Market (MSD);
- *Energy Management: optimise dispatching of the generation plants and keep up adequate physical and financial coverage through transactions on the forward markets in order to protect the margins from generation and sales to end customers, and from strong volatility of the energy scenarios;*
- Sales to end customers market: continue the commercial development in the market of small and medium-sized enterprises (SMEs) and "Professionals" - market segments in which Sorgenia has been operating since it was formed - and continue to grow in the Residential segment through innovative full digital offers;
- Improving operational efficiency and maintaining an extremely streamlined, efficient and flexible cost structure, in order to ensure a competitive advantage both in generation and in sales to end customers and with the aim of becoming industry *best practices* in terms of cost structure.
- integrating into the organisation the new companies that will join the Sorgenia Group following the reverse merger with the parent company Zaffiro SpA and, in particular, the VRG wind plants (for roughly 300 Megawatts of installed capacity) and San Marco Bioenergie Group, the main Italian operator in the production of electricity from vegetable biomass (with approximately 70 Megawatts of installed capacity). For more details, please see the previous paragraph.

PROPOSAL FOR ALLOCATION OF THE PROFIT/(LOSS) OF SORGENIA SpA

Dear Shareholders,

the Financial Statements as of December 31, 2020, which we are submitting for your approval, show a profit of 73,047 thousand euro.

Pursuant to Article 2427, paragraph 1, number 22-septies of the Italian Civil Code, we propose that you:

- allocate the amount of 3,652 thousand euro to the Legal Reserve;
- carry forward the amount of 69,394 thousand euro to the following year.

Milan, March 22, 2021

for the Board of Directors

____

IN SHORT

REPORT ON OPERATIONS

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

REPORTS CORRELATED WITH THE FINANCIAL STATEMENTS

_Consolidated statements of the Sorgenia Group

CONSOLIDATED BALANCE SHEET

EUR/000

BALANCE SHEET - ASSETS	31/12/2020		31/12/2019	
A) RECEIVABLES DUE FROM SHAREHOLDERS				
I. FOR PAYMENTS STILL DUE		-		-
B) FIXED ASSETS				
I. INTANGIBLE ASSETS				
1) Start-up and expansion costs	-		1	
2) Development costs	838		427	
3) Industrial patent and intellectual property rights	37		91	
4) Concessions, licenses, trademarks and similar rights	136		147	
5) Goodwill	-		-	
6) Assets in progress and advance payments	9,715		10,574	
7) Other intangible fixed assets	38,793		38,190	
TOTAL INTANGIBLE ASSETS		**49,519**		**49,431**
II. TANGIBLE ASSETS				
1) Land and buildings	93,961		96,691	
2) Plant and machinery	810,198		837,938	
3) Industrial and commercial equipment	10,480		10,864	
4) Other assets	1,400		1,825	
5) Assets in progress and advance payments	9,612		1,971	
TOTAL TANGIBLE ASSETS		**925,651**		**949,289**
III. FINANCIAL FIXED ASSETS				
1) EQUITY INVESTMENTS IN:				
a) non-consolidated subsidiaries	270		21	
b) associates	117,070		54,729	
c) parent companies	-		-	
d) due from companies subject to control of parent companies	-		-	
d-bis) from other companies	-		-	
2) RECEIVABLES:				
a) from non-consolidated subsidiaries	6,322		341	
b) due from associates	-		-	
c) due from parent companies	-		1,000	
d) due from companies subject to control of parent companies	-		-	
d-bis) due from others	11,776		11,755	
3) OTHER SECURITIES	-		-	
4) DERIVATIVE ASSETS	150		-	
TOTAL FINANCIAL FIXED ASSETS		**135,589**		**67,846**
TOTAL FIXED ASSETS (B)		**1,110,759**		**1,066,566**
C) CURRENT ASSETS				
I. INVENTORIES				
1) Raw materials, secondary materials and consumables	7,201		5,406	
2) Work in progress and semi-finished products	-		-	
3) Contract work in progress	2,556		877	
4) Finished products	16,182		23,042	
5) Advance payments	-		-	
TOTAL INVENTORIES		**25,939**		**29,325**

BALANCE SHEET - ASSETS continued	31/12/2020	31/12/2019
II. RECEIVABLES		
1) DUE FROM CUSTOMERS		
a) due within one year	224,429	256,196
a) due after one year	-	-
2) DUE FROM NON-CONSOLIDATED SUBSIDIARIES		
a) due within one year	-	5
a) due after one year	-	-
3) DUE FROM ASSOCIATES		
a) due within one year	-	-
a) due after one year	-	-
4) DUE FROM PARENT COMPANIES		
a) due within one year	-	30
b) due after one year	-	-
5) DUE FROM COMPANIES SUBJECT TO CONTROL OF PARENT COMPANIES		
a) due within one year	-	-
b) due after one year	-	-
5-bis) TAX RECEIVABLES		
a) due within one year	22,677	17,256
b) due after one year	585	715
5-ter) DEFERRED TAX ASSETS		
a) due within one year	73,320	83,277
b) due after one year	-	-
5-quater) DUE FROM OTHERS		
a) due within one year	10,486	7,830
b) due after one year	-	-
TOTAL RECEIVABLES	**331,497**	**365,310**
III. SHORT-TERM INVESTMENTS		
1) Investments in non-consolidated subsidiaries	-	-
2) Equity investments in associates	-	-
3) Equity investments in parent companies	-	-
3-bis) Equity investments in companies subject to control of parent companies	-	-
4) Other equity investments	-	-
5) Derivative assets	18,298	279
6) Other securities	-	-
7) Financial assets for centralised treasury management		
TOTAL FINANCIAL ASSETS	**18,298**	**279**
IV. CASH AND CASH EQUIVALENTS		
1) Bank and post office deposits	62,893	231,642
2) Cheques	-	-
3) Cash and valuables on hand	7	8
TOTAL CASH AND CASH EQUIVALENTS	**62,900**	**231,651**
TOTAL CURRENT ASSETS	**438,634**	**626,565**
D) ACCRUED INCOME AND PREPAID EXPENSES		
1) Accrued income	-	49
2) Prepaid expenses	4,430	4,206
TOTAL ACCRUALS AND DEFERRALS	**4,430**	**4,255**
TOTAL ASSETS	**1,553,823**	**1,697,386**

EUR/000

BALANCE SHEET - LIABILITIES	31/12/2020	31/12/2019
A) SHAREHOLDERS' EQUITY		
I. Share capital	406,677	406,677
II. Share premium reserve	-	-
III. Revaluation reserves	-	-
IV. Legal Reserve	1,834	1,816
V. Statutory reserves	-	-
VI. Other reserves	(24,458)	(19,583)
VII. Reserve for hedging transactions on expected cash flows	2,249	(6,189)
VIII. Retained earnings (accumulated losses)	65,054	58,805
IX. NET INCOME (LOSS) FOR THE YEAR	200,507	1,381
X. Negative reserve for treasury shares in the portfolio	-	-
TOTAL SHAREHOLDERS' EQUITY	**651,863**	**442,907**
B) PROVISIONS FOR RISKS AND LOSSES		
1) Retirement provision and similar obligations	2,492	1,934
2) Provisions for taxes, including deferred	1,019	3,226
3) Derivative liabilities	20,682	3,455
4) Other	75,329	87,539
TOTAL PROVISIONS FOR RISKS AND LOSSES	**99,521**	**96,154**
C) EMPLOYEE LEAVING INDEMNITY (TFR)	**1,383**	**1,238**
D) PAYABLES		
1) Bonds	-	-
2) Convertible bonds		
a) due within one year	-	403,913
b) due after one year	-	-
3) Payables due to shareholders for loans	-	-
4) Bank borrowings:		
a) due within one year	60,578	474,593
b) due after one year	455,698	519
5) Payables due to other lenders	-	-
6) Advance payments	1,884	5,068
7) Trade payables:		
a) due within one year	227,898	233,047
b) due after one year	-	-
8) Payables represented by credit instruments	-	-
9) Payables due to non-consolidated subsidiaries	-	-
10) Payables due to associates		
a) due within one year	1,246	705
11) Payables due to parent companies		
a) due within one year	-	19
b) due after one year	-	-
11-bis) Payables due to companies subject to control of parent companies		
a) due within one year	12	-
12) Tax payables		
a) due within one year	8,940	9,047
b) due after one year	-	-
13) Payables due to social security institutions	3,433	3,142
14) Other payables		
a) due within one year	39,761	26,660
b) due after one year	600	-
TOTAL PAYABLES	**800,049**	**1,156,711**
E) ACCRUED EXPENSES AND DEFERRED INCOME		
1) Accrued expenses	489	327
2) Deferred income	517	48
TOTAL ACCRUALS AND DEFERRALS	**1,006**	**375**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,553,823**	**1,697,386**

CONSOLIDATED INCOME STATEMENT

EUR/000

INCOME STATEMENT	31/12/2020		31/12/2019	
A) VALUE OF PRODUCTION				
1) Revenue from sales and services	1,426,667		1,631,936	
2) Changes in work in progress, semi-finished and finished products	-		-	
3) Changes in contract work in progress	1,679		(17)	
4) Increase in fixed assets for internal work	1,829		1,244	
5) Other revenues and income, with separate indication of operating grants	27,304		49,393	
TOTAL VALUE OF PRODUCTION		**1,457,479**		**1,682,556**
B) COSTS OF PRODUCTION				
6) Raw materials, secondary materials, consumables and goods	610,165		821,300	
7) Services	474,467		531,597	
8) Lease and rental costs	3,109		2,522	
9) Personnel costs				
a) Wages and salaries	23,548		28,440	
b) Social security costs	7,340		8,895	
c) Employee leaving indemnity (TFR)	1,494		1,436	
d) Retirement provision and similar obligations	-		-	
e) Other costs	358		223	
10) Amortisation, depreciation and write-downs:				
a) Amortisation of intangible assets	15,206		14,981	
b) Depreciation of tangible assets	33,654		34,108	
c) Other write-downs of fixed assets	1,287		21	
d) Write-down of receivables included in current assets and cash and cash equivalents	15,111		7,265	
11) Changes in inventories of raw materials, secondary materials, consumables and goods	5,065		24,218	
12) Risk provision	-		178	
13) Other provisions	10,957		8,062	
14) Miscellaneous operating costs	80,991		91,334	
TOTAL COSTS OF PRODUCTION		**1,282,751**		**1,574,580**
DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION (A-B)		**174,728**		**107,976**
C) FINANCIAL INCOME AND EXPENSE				
15) Income from equity investments:				
a) from non-consolidated subsidiaries	-		-	
b) from associates	-		-	
c) from companies subject to control of parent companies	-		-	
d) from parent companies	-		-	
e) others	-		-	
Total income from equity investments		-		-
16) Other financial income:				
a) from receivables recognised under fixed assets				
- from non-consolidated subsidiaries	-		2	
- from associates	-		-	
- from parent companies	-		-	
- from companies subject to control of parent companies	-		-	
- other	-		-	
b) from securities recognised under fixed assets other than equity investments	-		-	
c) from securities recognised under current assets other than equity investments	-		-	
d) income other than above:				
- from non-consolidated subsidiaries	-		-	
- from associates	-		-	
- from parent companies	-		537	
- from companies subject to control of parent companies	-		-	
- other	99		96	
Total other financial income		99		635

Income Statement continued	**31/12/2020**		**31/12/2019**	
17) Interest and other financial charges:				
- to non-consolidated subsidiaries	-		-	
- to associates	-		-	
- to parent companies	-		-	
- to companies subject to control of parent companies	-		-	
- other	22,823		145,346	
Total financial expense		22,823		145,346
17-bis) Foreign exchange gains and losses		(5)		(5)
TOTAL FINANCIAL INCOME AND EXPENSE (C)		**(22,729)**		**(144,716)**
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS				
18) Revaluations				
a) of equity investments	62,341		31,814	
b) of financial fixed assets	-		-	
c) of securities recorded under current assets	-		-	
d) of derivatives	19,047		27,574	
19) Write-downs				
a) of equity investments	8		-	
b) of financial fixed assets	-		-	
c) of securities recorded under current assets	-		-	
d) of derivatives	18,159		30,694	
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS AND LIABILITIES (18-19) (D)		**63,221**		**28,693**
RESULT BEFORE TAXES		**215,220**		**(8,047)**
22) Income taxes for the year: current, deferred and prepaid		14,713		(9,428)
NET INCOME (LOSS) FOR THE YEAR		**200,507**		**1,381**

CHANGE IN GROUP SHAREHOLDERS' EQUITY

31/12/2018 - 31/12/2019

EUR/000	Share Capital	Legal Reserve	OIC conversion reserve	CFH Reserve	Retained earnings (accumulated losses)	Income/(loss) for the year	Total
Shareholders' equity as of 31/12/2018	**406,677**	**1,816**	**(17,659)**	**1,909**	**12,715**	**44,166**	**449,623**
Alloc. of income from previous year	-	-	(2,190)	-	46,356	(44,166)	-
Other changes - IAS adjustment	-	-	267	-	(267)	-	-
Other changes - change in CFH reserve	-	-	-	(8,098)	-	-	(8,098)
Income/(loss) for the year	-	-	-	-	-	1,381	1,381
Total change in the year	**-**	**-**	**(1,924)**	**(8,098)**	**46,089**	**(42,784)**	**(6,717)**
Shareholders' equity as of 31/12/2019	**406,677**	**1,816**	**(19,583)**	**(6,189)**	**58,805**	**1,381**	**442,907**

31/12/2019 - 31/12/2020

EUR/000	Share Capital	Legal Reserve	OIC conversion reserve	CFH Reserve	Retained earnings (accumulated losses)	Income/(loss) for the year	Total
Shareholders' equity as of 31/12/2019*	**406,677**	**1,816**	**(19,583)**	**(6,189)**	**58,805**	**1,381**	**442,907**
Alloc. of income from previous year	-	18	(4,875)	-	6,238	(1,381)	-
Other changes - change in CFH reserve	-	-	-	8,438	-	-	8,438
Income/(loss) for the year	-	-	-	-	11	200,507	200,518
Total change in the year	**-**	**18**	**(4,875)**	**8,438**	**6,249**	**199,126**	**208,956**
Shareholders' equity as of31/12/2020*	**406,677**	**1,834**	**(24,458)**	**2,249**	**65,054**	**200,507**	**651,863**

*it is specified that as a result of the decision approved by the Board of Directors, at the request of the shareholders, regarding the change of accounting standards used to prepare the consolidated financial statements of the Group as of December 31, 2020, the opening balances as of December 31, 2019 were re-stated in accordance with the OIC accounting standards.

For the reconciliation between said balances and the closing balances as of December 31, 2019, approved by the BoD on March 27, 2020, please see the detailed information in the paragraph "INFORMATION RELATING TO THE CHANGE OF ACCOUNTING STANDARDS AND THE ADOPTION OF NATIONAL ACCOUNTING STANDARDS (OIC)", in accordance with the provisions of OIC 33.

**for details of the items and their changes please refer to Note A - Group shareholders' equity, in the paragraph "DESCRIPTION OF LIABILITIES".

STATEMENT OF CASH FLOWS

The following chart shows the Consolidated Statement of Cash Flows with a breakdown by area where the cash flows are generated.

EUR/000	**31.12.2020**	**31.12.2019**
A. Cash flows from operations		
Profit (loss) for the period	200,507	1,381
Income taxes	14,713	(9,703)
Interest expense (interest income)	25,657	147,473
1. Profit (loss) for the year before taxes, interest, dividends and capital gains/losses from disposal	**240,877**	**139,151**
Adjustments for non-monetary elements that do not have a contra-entry in net working capital		
Allocations to provisions	20,511	40,838
Provision for employee leaving indemnity	1,494	1,436
Depreciation of fixed assets	48,860	49,089
Write-down of intangible assets	1,287	21
Value adjustments to equity investments	(62,332)	(29,729)
Decrease/(increase) in derivatives	(134)	-
Other adjustments for non-monetary items	(889)	3,123
2. Cash flow before changes in net working capital	**8,797**	**64,778**
Change in net working capital		
Decrease/(increase) in receivables due from customers	31,767	(33,716)
Increase/(decrease) in trade payables	(4,649)	1,297
Decrease/(increase) in accrued income and prepaid expenses	(176)	794
Increase/(decrease) in accrued expenses and deferred income	631	(4,587)
Change in inventories	3,386	24,250
Change in tax payables and tax receivables	(14,894)	3,370
Change in ICY payables and receivables	1,146	(1,016)
Other changes in working capital	15,712	(3,928)
3. Cash flow after changes in net working capital	**32,923**	**(13,537)**
Change in financial receivables	(6,003)	(7,490)
Income taxes (paid) and collected	-	5,853
Interest (paid)	(16,767)	(8,809)
Interest received	179	97
(Use of provisions)	(28,816)	(23,234)
(Use of provision for employee leaving indemnity)	(1,348)	(1,245)
4. Cash flow after other adjustments	**(52,755)**	**(33,827)**
Cash flows from operations (A)	**229,842**	**155,564**

Statement of cash flows continued

	31.12.2020	31.12.2019
B. Cash flows from investment activities		
Tangible assets		
(Investments)	(10,079)	(6,312)
Sale price of disinvestments	62	178
Intangible assets		
(Investments)	(16,618)	(15,485)
Sale price of disinvestments	39	-
Financial fixed assets		
(Investments)	(258)	(3)
Sale price of disinvestments	-	-
Cash flows from investment activities (B)	**(26,855)**	**(21,622)**
C. Cash flows from investment activities		
Third-party financing		
Increase (decrease) in short-term payables to banks		
Obtainment of loans	559,000	
Repayment of loans	(522,038)	(130,596)
Equity		
Paid increase in share capital	-	-
Convertible bond	(408,700)	-
Cash flows from financing activities (C)	**(371,738)**	**(130,596)**
Increase (decrease) in cash and cash equivalents (A+B+C)	(168,751)	3,346
Cash and cash equivalents at January 1	**231,651**	**228,305**
Cash and cash equivalents at December 31	**62,900**	**231,651**

The item Cash and cash equivalents in the consolidated Statement of Cash Flows is made up exclusively of the positive balances of current accounts with banks together with cash balances.

The cash flow from operating activities generated liquidity of 229,831 thousand euro. Investment activities absorbed liquidity for an amount of 26,855 thousand euro.

During the year, the existing financial payables at December 31, 2019 were fully repaid, and the Sorgenia Group was refinanced through the taking out of a new loan obtained on the market (for more details, please refer to the paragraph "Significant events in the year").

The Group's net financial debt as of December 31, 2020 is 447,154 thousand euro (640,676 thousand euro as of December 31, 2019).

EUR/000	31/12/2020	31/12/2019
Cash and cash equivalents	62,900	231,651
Other current financial receivables	6,071	5,341
Current financial receivables due from parent company	-	1,000
Current financial receivables due from subsidiaries	-	341
Current payables for loans to banks	(60,578)	(474,593)
Current bonds	-	(403,913)
TOTAL NET CURRENT FINANCIAL DEBT	**8,394**	**(640,173)**
Assets for financial hedging contracts	150	16
Other non-current financial receivables	-	-
Non-current bonds	-	-
Non-current payables for loans to banks	(455,698)	-
Other financial payables	-	(519)
Non-current liabilities from derivative instruments	-	-
TOTAL NET NON-CURRENT FINANCIAL DEBT	**(455,548)**	**(503)**
NET FINANCIAL DEBT	**(447,154)**	**(640,676)**

The current net financial position as of December 31, 2020 amounted to a positive 8,394 thousand euro (negative 640,173 thousand euro as of December 31, 2019) while the non-current net financial position amounted to a negative 455,548 thousand euro (a negative 503 thousand euro as of December 31, 2019). As already described in the paragraph "Significant events in the year", it should be noted that, on October 6, 2020, with the finalisation of the Group purchase and sale transaction by F2i SGR SpA and Asterion Industrial Partners SGEIC SA, the Sorgenia Group's financial debt as of said date was refinanced with the banking system, through the taking out of a new loan obtained on the market which entailed the full repayment of existing financial payables at December 31, 2019 and the termination of the Debt Restructuring Agreement.

Therefore, in light of the considerations outlined above, and based on what it is reported in the paragraph "Significant events in the year", it is stressed that, the phenomena that modified the net financial debt with respect to December 31, 2019, are the following:

- full reimbursement of the bond loan and the existing financial payables as of December 31, 2019 amounting to 878,506 thousand following the purchase and sale transaction and the refinancing of the Sorgenia Group;
- taking out of a new bank loan granted to the parent company Sorgenia SpA, comprised of a *term loan* debt line of 565,000 thousand euro and a *revolving* debt line of 75,000 thousand euro which, as of December 31, 2020, totalled 515,884 thousand euro, of which 485,885 thousand euro, relate to the *term loan* line, and for 30,000 thousand euro to the *revolving* line.

It is specified that the expense for the year recognised at December 31, 2020 for the new bank loan, in application of the measurement at amortised cost, amounted to 13,515 thousand euro.

The corresponding nominal value, as of December 31, 2020, amounted to 529,400 thousand euro, comprised for *499,400* euro of the term loan line, and for 30,000 euro by the *revolving* line. It is also specified that the part shown under "Current payables for loans to banks", amounting to 60,187 thousand euro, is composed for 30,000 thousand euro of the *revolving* line, reimbursed in January 2021;

- the decrease in cash and cash equivalents, which totalled 168,751 thousand euro. The change mainly relates to the net effect of the operating *cash flow* generated during the year and repayments of loans made during the year, and the refinancing completed at the time of the Group purchase/sale transaction.

It should be noted that the net financial position includes the financial assets and liabilities from the *fair value* measurement of financial derivative contracts to hedge interest rate risk, for a positive net value of 150 thousand euro as of December 31, 2020 and 16 thousand euro as of December 31, 2019.

Lastly, it should be noted that, at December 31, 2019 the item “Other bank borrowings” included the financial payables of the subsidiary Sorgenia Green Solutions Srl.

IN SHORT

REPORT ON OPERATIONS

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

REPORTS CORRELATED WITH THE FINANCIAL STATEMENTS

_Explanatory Notes to the Consolidated Financial Statements

GENERAL CRITERIA

The Group financial statements were prepared on the basis of going concern assumption, based on the results achieved by the Group in 2020 and the forecast results in the Group plan, as well as the considerations reported in subsequent paragraphs, "Significant events in the year" and "Significant events after December 31, 2020".

SIGNIFICANT EVENTS OF THE YEAR

Extraordinary transaction involving the acquisition of Sorgenia SpA

At the end of 2018, in order to identify the opportunities for growth of the Sorgenia Group (hereinafter "the Group"), also through the change of the shareholding structure, Nuova Sorgenia Holding S.p.A. - Group controlling shareholder (whose shareholders are Banco BPM, Banca Intesa, Monte dei Paschi di Siena, Ubi and UniCredit) - gave an advisory mandate to independent professionals. After assessing the offers received, on December 23, 2019 Nuova Sorgenia Holding S.p.A. announced that it accepted the binding purchase offer of the Group formulated jointly by F2i SGR S.p.A. (hereinafter "F2i"), independent Italian manager of infrastructural funds, and by the Asterion Industrial Partners SGEIC SA Fund (hereinafter "Asterion"), an independent Spanish fund specialised in infrastructural investments in Europe.

The preliminary contract for the purchase/sale of the Group was signed on June 3, 2020 (*signing*) and, after having obtained approval of the transaction from the Authority for the protection of competition and the market and the Presidency of the Council of Ministers as part of the application of the "golden power" regulation, on October 6, 2020 *closing*, the purchase/sale contract was signed between Nuova Sorgenia Holding SpA and Banca Monte dei Paschi di Siena SpA on the one side, and Zaffiro SpA on the other (share capital 72.38% owned by F2i ER1 SpA, with the remaining 27.62% held by Zaffiro Spain BitCO Srl of the Asterion Group), regarding 99.99% of Sorgenia SpA's share capital.

At the *closing* date, the extraordinary shareholders' meeting of the company took place, which adopted the new articles of association, as did the ordinary shareholders' meeting, which resolved on (i) the appointment of the new Board of Directors and Board of Statutory Auditors, (ii) the appointment of the new independent auditors, to satisfy the request from the new shareholder to ensure a single audit of the subsidiaries of said Zaffiro SpA, and (iii) on the identification of the beneficial owner, through residual criteria pursuant to art. 20, paragraph 5, of Legislative Decree 231/2007.

A financing transaction was also approved and signed on the same date, targeted at the full refinancing of the financial debt of the Sorgenia Group. In particular, Sorgenia subscribed to (i) a *term loan* for a total of 565 million euro, which enabled it to refinance the existing financial debt of Sorgenia and its subsidiary Sorgenia Power SpA, regulated by the 2007 Debt Restructuring Agreement, and (ii) a *revolving* loan for a maximum of 75 million euro, intended to finance the Group's general cash requirements.

The new loan agreement, secured by the normal guarantees envisaged for similar transactions, makes provision, *inter alia*, for the completion of the reverse merger by incorporation of Zaffiro SpA in Sorgenia by June 15, 2021.

The parent company also has an "excise" loan agreement comprised of a line up to 70,000 thousand euro provided to the Group to cover the financial requirements that should arise from any refund requests on excise paid in due course by end customers and not due from the latter pursuant to the regulations in force. The payment, also following a ruling, of the refunds to end customers by the company means that the latter is due a receivable from the tax authorities.
The signing of the excise loan agreement satisfied one of the three conditions set out in the transaction involving the sale of Sorgenia SpA's shares.
The "excise" loan has an annual interest rate of 2.25%, which is added to the three-month Euribor (with *floor* at zero), and a commitment fee of 1% per annum.

In addition, within the context of the financial debt refinancing transaction, Sorgenia and its subsidiary Sorgenia Power SpA, on the one side, and the associated financial creditors on the other, signed the documentation relating to the extinguishment of the existing debt, including therein the agreement for the early and consensual termination of the Debt Restructuring Agreement pursuant to art. 182-bis of the Bankruptcy Law signed in 2017.

CoViD-19

Starting from January 2020, the national and international scenario was characterised by the spread of CoViD-19 and by the consequent restrictions for its containment, put in place by the public authorities of the countries concerned. These extraordinary circumstances, in terms of nature and scope, are having repercussions on the economic context, and have created a climate of general uncertainty, whose developments and associated effects are difficult to predict at present.
It should be noted that the Group, considering the sector in which it operates and the essential nature of the services provided, is not subject to the production limits imposed by the Government and, therefore, generation and *Energy Management/Trading* (GEM) activities and electricity and gas sales on wholesale markets and to end customers have continued, with the necessary attention on the safety of employees and plants.
In order to address this difficult context, the Directors have implemented all the necessary measures to ensure the safe operation of production plants, maintain high standards of service to customers and guarantee the performance of the Sorgenia Group's operating activities.
The Group has been prompt in reacting to the CoViD-19 emergency as regards safeguarding the health of its employees. In fact, an internal Crisis Committee has been set up, composed of employees who meet on a daily basis to ensure optimum management of the situation. In addition, given that the Group has

always focussed on the digitalisation of processes and on "*smart working*", remote working for employees was authorised, where possible.

With reference to the operating performance in 2020, note the following:

In 2020, the thermoelectric production plants operating on the basis of the deregulated market regime, recording healthy results, particularly in the dispatching services market (MSD), which remains the most important market for CCGTs. The Modugno plant, operating under the regulated regime, ensures profit margins not subject to market fluctuations. Therefore, at the date of drafting of these consolidated financial statements, therefore, the Group is registering positive results in line with the Budget forecasts.

With reference to the trading activities performed by the Group, it should be noted that operations in 2020 remained contained, and took place predominantly with financially sound counterparties or that presented guarantees. In addition, attempts were made to limit the Group's sales exposure. In this regard, it should be noted that the Group operates almost exclusively by carrying out hedging of the industrial portfolio. Therefore, as of today, the economic impacts of the current scenario, which is characterised by elevated volatility, are contained and, nonetheless, fully in line with the Budget assumptions.

In relation to the sale of energy and gas to end customers, any possible effects of the current context, such as the reduction in sales, postponement of collections and the increase in overdue payments, are monitored carefully and constantly. As regards the decrease in revenues, no situations of criticality were recorded in relation to profit margins. Furthermore, no especially worrying signs of an increase in overdue payments materialised in 2020.

As a result of the restrictions on the movement of people imposed by the Government, the activities targeted at the acquisition of new *corporate* customers by the physical network tailed off, which, however, in the short-term, involves a subsequent contraction in costs directly related to said activities, therefore highlighting a positive repercussion from a financial perspective, however offset by a reduction in the rate of abandonment, due to the reduced activities of competitors' sale networks. On the residential segment, given that the Parent Company Sorgenia SpA has been active in the digital sales channel for some time, no decreases were recorded with respect to the levels of acquisition forecast in the Budget and, at the same time, an increase in consumption was registered by residential customers, similar to what was verified at national level.

In relation to the development of new initiatives in the renewable sources sector, note should be taken of a slowdown in the activities set out in the Budget caused by the CoViD-19 emergency, but in consideration of the current status of the projects that the company is implementing in the absence of operating revenues, no signs were identified as such to spark any worries.

Lastly, at the current state of play, no indicators of impairment have been recorded for items booked in the Group's statement of financial position.

With reference to the Sorgenia Group's purchase and sale transaction, please refer to the information provided in the previous paragraph "Extraordinary transaction involving the acquisition of Sorgenia S.p.A."

SIGNIFICANT EVENTS AFTER DECEMBER 31, 2020

Merger by incorporation of Zaffiro SpA in Sorgenia SpA

Following the extraordinary transaction, which involved a change of the Company's majority shareholder and the signing of the new loan agreement, fully detailed in the previous section "Significant events during the year", the Company's Board of Directors and the Board of Directors of Zaffiro SpA approved, by means of resolution of February 18th, 2021, the plan for a reverse merger by incorporation of Zaffiro SpA in Sorgenia SpA, pursuant to articles 2501-bis and 2501-ter of the Italian Civil Code (the "Merger"), which also constitutes a leveraged merger.

The Merger, expressly set forth in the new loan agreement, is incorporated in a broader business strategy project launched by Zaffiro SpA's shareholders (F2i and Asterion) aimed at creating a *leading* operator on the domestic energy market that carries out both the production and sale of electrical energy from renewable sources - currently performed by Zaffiro SpA and its subsidiaries - and the production and sale of electrical energy from traditional sources - currently carried out by Sorgenia SpA directly and through its subsidiaries and investees.

The balancing of the production of electrical energy from renewable sources - central to the National Energy Strategy but, by very nature, discontinuous and non-programmable - with the generation of power from efficient and flexible traditional sources will enable continued production and allow optimal strategies for the sale of electricity in deregulated markets.

In addition, the integration of the activities performed by the two companies participating in the Merger will make it possible to create a large industrial operator, with diversified and complementary plants and technologies and boasting the necessary strength to become an aggregating entity within the context of a highly fragmented market, also generating a number of operating and management advantages.

At the date of effectiveness (which will coincide with the date of the last of the registrations in the Register of Companies set forth in art. 2504 of the Italian Civil Code), the Merger will determine, in particular, (i) the extinguishment of Zaffiro SpA and the assumption of the rights and obligations of said company by Sorgenia SpA; (ii) without prejudice to the amount of Sorgenia SpA's share capital, the cancellation of all shares currently issued and outstanding by Sorgenia SpA and Zaffiro SpA and the issue of new Sorgenia SpA shares of a different category, to be assigned to the shareholders of Zaffiro SpA and of Sorgenia SpA other than Zaffiro SpA and Sorgenia SpA; (iii) the adoption of new articles of association by Sorgenia SpA.

In particular, the Merger will be realised, notwithstanding the current share capital, through the cancellation of all the shares of the two companies participating in the Merger and the simultaneous issue of (a) new ordinary shares, to be assigned to the current shareholders of Sorgenia SpA other than Zaffiro SpA and Sorgenia SpA, based on a ratio of one new ordinary share for every share held previously, and (b) category "A" and category "B" shares to be assigned to the current shareholders of Zaffiro SpA based on the share swap ratio identified in the merger plan. The shares assigned will give the right to profit-sharing with

Sorgenia SpA from the date of effectiveness of the Merger, while the Merger will take effect, for accounting and tax purposes, from the first day of the year in which the Merger produces its effects vis-à-vis third parties.

As part of the Merger plan, Sorgenia SpA's Board of Directors determined the share swap ratio on the basis of the balance sheet situations of the companies participating in the Merger as of October 31st, 2020 and the valuations of said companies carried out in consideration of the respective business, economic and financial prospects, as per the Business Plan, as well as the number of shares into which the share capital of the companies participating in the Merger is divided, net of treasury shares.

In addition, given that provisions were made in the new articles of association for (i) restrictions on the circulation of shares not present in the current articles of association of Sorgenia and (ii) the issue and assignment by Sorgenia SpA of special category shares that attribute additional rights to those recognised by the shares held by the current shareholders of Sorgenia SpA other than Zaffiro SpA, the current shareholders of Sorgenia SpA other than Zaffiro SpA shall have the right to withdraw, if these shareholders should not contribute to the approval of the Merger resolution during the shareholders' meeting of Sorgenia SpA.
Therefore, at the same meeting on February 18th, 2021, the Board, having received the favourable opinion of the Board of Statutory Auditors and the independent auditors, determined the relevant liquidation value of the shares pursuant to art. 2437-ter of the Italian Civil Code.

Lastly, the Board of Directors, in connection with the Merger, resolved to propose to the extraordinary shareholders' meeting to also approve, at the same time as approval of the Merger, a share capital reduction, to be implemented after the Merger takes effect, pursuant to art. 2445 of the Italian Civil Code, from the current amount of 406,676,603.81 thousand euro to 150,000,000 thousand euro, notwithstanding the subdivision of the capital of Sorgenia SpA, subsequent to effectiveness of the Merger.
The proposed share capital reduction, incorporated in the context of the overall restructuring of Sorgenia SpA realised through the Merger, is aimed at providing the Company with a more rational equity and financial structure and in line with the market *standards* of the reference economic sector, ensuring Sorgenia SpA with greater financial flexibility without, however, compromising its equity strength.

On February 18, 2021, the independent auditors issued the limited audit report on the equity position as of October 31, 2020 and the report on the merger plan pursuant to art. 2501-bis, paragraph 5, Italian Civil Code.
On February 19, 2021, Baker Tilly Revisa SpA, as expert appointed by the Court of Milan at the joint request of the companies participating in the Merger presented, pursuant to art. 2501-sexies, Italian Civil Code, issued the report in accordance with articles 2501-bis, paragraph 4, and 2501-sexies of the Italian Civil Code for the certification of the reasonableness of the assumptions relating to the financial resources

available to the merging company and for the fulfilment of its financial obligations as well as consistency of the share swap ratio.

The shareholders' meeting called for March 23, 2021 will, therefore, be called to resolve, inter alia, (i) on the Merger and on the subsequent adoption of the new articles of association, (ii) on the share capital reduction.

CoViD-19

It should be noted that the Group, considering the sector in which it operates and the essential nature of the services provided, is not subject to the production limits imposed by the Government and, therefore, generation and Energy Management/Trading (GEM) activities and electricity and gas sales on wholesale markets and to end customers have continued, with the necessary attention on the safety of employees and plants. As regards the measures adopted by the Group for protecting the health of employees, please refer to the paragraph "Human Resources".

With reference to the operating performance in the first few months of 2021, note the following:

In the first few months of the year, the thermoelectric production plants operating on the basis of the deregulated market regime, recording healthy results, particularly in the dispatching services market (MSD), which remains the most important market for CCGTs. These figures are better than the provisional data for 2021.

With reference to trading activities, it should be noted that operations in the first few months of the year remained contained, and took place predominantly with financially sound counterparties or that presented guarantees. In addition, attempts were made to limit the Group's sales exposure. In this regard, it should be noted that the Group operates almost exclusively by carrying out hedging transactions. Therefore, as of today, the economic impacts of the current scenario, which is characterised by elevated volatility, are contained and, nonetheless, fully in line with the Budget assumptions.

In relation to the sale of energy and gas to end customers, any possible effects of the current context, such as the reduction in sales, postponement of collections and the increase in overdue payments, are monitored carefully and constantly. As regards the decrease in revenues, no situations of criticality were recorded in relation to profit margins in the first few months of 2021.

In relation to the development of new initiatives in the renewable sources sector, note that, following an initial delay in the planned activities in 2020, they are now proceeding according to the Budget forecasts.

In light of the above, it is confirmed that the Group's management has constantly monitored the actual and potential impacts of the CoViD-19 emergency on the Group's business activities and its financial and economic position. In consideration of the economic performance of the Group during the health emergency period, no impacts were registered which could represent an indicator of impairment. However, in consideration of the persistent uncertainties characterising the reference macroeconomic framework, the directors will continue to carefully monitor the development of the health emergency.

The Directors, based on these assumptions, despite being fully aware that the expected results in the foreseeable future may only materialise on verification of events connected with the trends in the economic scenario and the reference markets, as well as regulatory developments, subject, due to their nature, to uncertainties in terms of how and when they will be implemented - considered it reasonable to assume that the Group may continue to operate in the foreseeable future as an operating entity, by drafting these annual financial statements on the basis of the going concern assumption.

FINANCIAL STATEMENTS

The consolidated financial statements of the Sorgenia Group at December 31, 2020 were drafted in compliance with the rules contained in articles 2423 et seq. of the Italian Civil Code and in compliance with Italian Legislative Decree 139/2015, as interpreted and supplemented by the Italian accounting standards issued by the OIC - Italian Accounting Standards Setter (the "OIC accounting standards") in force for financial statements for years starting on January 1, 2016.
The consolidated financial statements are composed of the consolidated balance sheet (drafted in compliance with the layout set forth in articles 2424 and 2424-bis of the Italian Civil Code), the consolidated income statement (drafted in compliance with the layout set out in articles 2425 and 2425-bis of the Italian Civil Code), the consolidated statement of cash flows (whose contents, compliant with art. 2425-ter of the Italian Civil Code, are presented in conformance with accounting standard OIC 10) and these consolidated explanatory notes.

The explanatory notes have the objective of providing descriptions, analyses and, in some cases, supplementary information to financial statement figures, and contain the information required by Articles 2427 and 2427-bis of the Italian Civil Code, other provisions of the Italian Civil Code regarding financial statements, and other previous laws. Moreover, the notes provide all complementary information deemed necessary to provide a more transparent and complete representation, even if not required by specific legal provisions.

The Consolidated Financial Statements have been drawn up in thousands of euro without any decimals, except where stated otherwise; likewise, the comments on the individual items of the various statements contained in the explanatory notes are also expressed in thousands of euro.
The Financial Statements used for the consolidation are those prepared by the subsidiaries at December 31, 2020, amended, where necessary, to bring them into line with the accounting principles of the Group, which comply with the OIC national accounting standards.
These Consolidated Financial Statements have also been audited for legal purposes by EY SpA.

CONSOLIDATION METHODS

The Consolidated Financial Statements include the Financial Statements of the Parent Company Sorgenia SpA and the companies over which the former exercises direct, indirect, or de facto control. These companies are consolidated using the line-by-line method of assets and liabilities and costs and revenues from the date of their acquisition or from the date on which control is acquired by the Group.

In this case, the assets, liabilities, income, and expense of companies being consolidated are included in Consolidated Financial Statements on a line-by-line basis. The carrying amount of equity investments is eliminated against the corresponding portion held in the shareholders' equity of the investee companies.

The identifiable assets and liabilities acquired that meet the conditions for recognition are accounted for at their *fair value* on the date of acquisition of control. Any positive difference between the acquisition cost and the *fair value* of the portion of net assets acquired, pertaining to the Group, is accounted for as goodwill or, vice versa, if negative, this is recognised in the shareholders' equity item called "Consolidation reserve".

Receivables, payables, income, and expense relating to transactions carried out between companies included in the consolidation are eliminated. Gains on transactions between the various companies on values that are included in the assets of the Group are eliminated.

Gains on the sale of equity investments in consolidated companies, without any transfer of control, are recognised to the Income Statement for the amount corresponding to the difference between the selling price and the corresponding portion of the shareholders' equity sold, reflected in the consolidated financial statements.

Companies controlled jointly with other shareholders and associates over which a significant influence is exercised are valued using the equity method. The carrying amount of these investments is therefore adjusted to take into account the economic results of the investee company as well as any changes in its shareholders' equity.

The portions of shareholders' equity and the result attributable to minority shareholders, where present, are shown separately in the consolidated Balance Sheet and consolidated Income Statement, respectively.

The assets and liabilities of foreign companies included in the consolidation that are expressed in a currency other than the euro, where present, are translated at the period-end exchange rate for asset/liability items. Income and expense items are translated at the average exchange rate for the year and shareholders' equity items are translated at historical exchange rates.

Any translation differences are recognised to shareholders' equity, where they are shown separately in a specific reserve.

The currency translation reserve is recognised to the Income Statement when the investment is sold or when the capital invested is reimbursed.

At December 31, 2020, the assets and liabilities of all consolidated companies are expressed in euro.

SCOPE OF CONSOLIDATION AT DECEMBER 31, 2020

Companies consolidated on a line-by-line basis

Company name	Percentage of ownership for consolidation purposes			Consolidation/measurement method
	direct	indirect	total	
Energia Italiana SpA	100.00%		100.00%	Line-by-line
Sorgenia Power SpA	100.00%		100.00%	Line-by-line
Sorgenia Puglia SpA	100.00%		100.00%	Line-by-line
Sorgenia Trading SpA	100.00%		100.00%	Line-by-line
Sorgenia Fiber Srl	100.00%		100.00%	Line-by-line
Sorgenia Green Solution Srl	100.00%		100.00%	Line-by-line
Sorgenia Sviluppo Srl (formerly Sorgenia Hydro Srl)	100.00%		100.00%	Line-by-line
Sorgenia Hydro Power Srl		100.00%	100.00%	Line-by-line
Sorgenia Bio Power Srl		100.00%	100.00%	Line-by-line
Sorgenia Renewables Srl		100.00%	100.00%	Line-by-line
Sorgenia Le Cascinelle Srl		100.00%	100.00%	Line-by-line
Sorgenia Geothermal Srl		100.00%	100.00%	Line-by-line

Companies valued using the equity method

Company name	Percentage of ownership for consolidation purposes			Consolidation/measurement method
	direct	indirect	total	
Fin Gas Srl	50.00%		50.00%	Shareholders' Equity
LNG Med Gas Terminal Srl		35.39%	35.39%	Shareholders' Equity
Tirreno Power SpA		50.00%	50.00%	Shareholders' Equity

Other non-consolidated companies

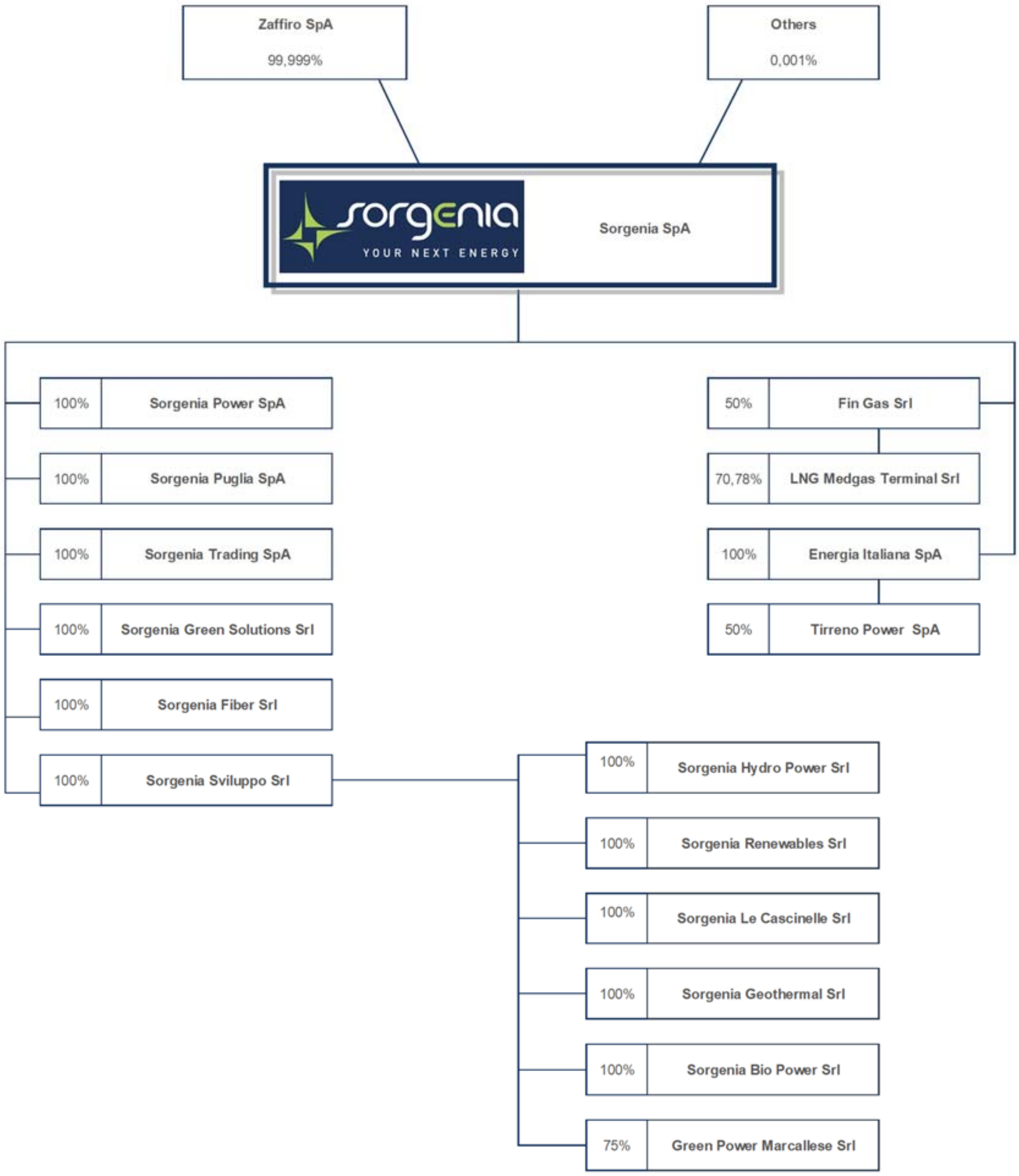
Company name	Percentage of ownership for consolidation purposes		
	direct	indirect	total
Green Power Marcallese Srl	75%	-	75%

As of December 31, 2020, no changes to the scope of consolidation were registered with respect to the financial statements for the year ended as of December 31, 2019.

As also shown in the paragraph "Significant events in the year" in the Report on Operations as of December 28, 2020, the company Sorgenia Sviluppo Srl, whose share capital is wholly owned by Sorgenia SpA, acquired a stake of 75% in Green Power Marcallese Srl.

For the purposes of the consolidated financial statements as of December 31, 2020, the newly acquired company was not included in the scope of consolidation owing to the "irrelevance of the subsidiary", as regulated by art. 28 of Italian Legislative Decree 127/91.

The following table shows the Group's shareholding in its entirety at December 31, 2020.


Zaffiro SpA
99,999%
Others
0,001%
sorgenia
YOUR NEXT ENERGY
Sorgenia SpA
100% Sorgenia Power SpA
100% Sorgenia Puglia SpA
100% Sorgenia Trading SpA
100% Sorgenia Green Solutions Srl
100% Sorgenia Fiber Srl
100% Sorgenia Sviluppo Srl
50% Fin Gas Srl
70,78% LNG Medgas Terminal Srl
100% Energia Italiana SpA
50% Tirreno Power SpA
100% Sorgenia Hydro Power Srl
100% Sorgenia Renewables Srl
100% Sorgenia Le Cascinelle Srl
100% Sorgenia Geothermal Srl
100% Sorgenia Bio Power Srl
75% Green Power Marcallese Srl

ACCOUNTING POLICIES

INFORMATION RELATING TO THE CHANGE OF ACCOUNTING STANDARDS AND THE ADOPTION OF NATIONAL ACCOUNTING STANDARDS (OIC)

Introduction

The Consolidated Financial Statements of the Sorgenia Group as of December 31, 2019 have been prepared in compliance with the "International Financial Reporting Standards – IFRS" issued by the International Accounting Standards Board (IASB). These IFRS standards also include all revised international accounting standards (known as "IAS") and all interpretations of the *International Financial Reporting Interpretations Committee* ("IFRIC"), previously known as the *Standing Interpretations Committee* ("SIC").

Following the acquisition of the stake of 99.99% in Sorgenia SpA by Zaffiro SpA on October 6, 2020, the need arose to harmonise the accounting standards used to draft the consolidated financial statements of the Sorgenia Group with the accounting standards of the acquirer ultimately responsible for drafting the consolidated financial statements in accordance with Italian Legislative Decree 127/91 (F2i ER1 SpA).
It should be noted that, already at the end of 2019, following acceptance of the binding purchase offer of the Group formulated jointly by F2i on December 23, 2019, and if the purchase/sale should be completed before the close of the financial year, the Management had evaluated the opportunity to convert the Group's consolidated financial statements from the IAS/IFRS accounting standards to the national accounting standards issued by the Organismo Italiano di Contabilità (OIC) - Italian Accounting Standards Setter. With completion of the closing on October 6, 2020, the Group's management took the definitive decision regarding the conversion, considering that:

- the financial statements and the consolidated financial statements of the consolidating entity F2i ER1 SpA, as well as of its subsidiaries, are drafted on the basis of OIC accounting standards; if Sorgenia SpA's management had continued to draft the consolidated financial statements according to the IFRS / IAS accounting standards, it would have, nonetheless, had to prepare a consolidated reporting package in the OIC version, to be included in the consolidated financial statements of the parent company F2i ER1 SpA;
- the financial statements of Sorgenia SpA and of its subsidiaries are already drafted according to OIC accounting standards.

As required by *OIC 33 - Transfer to national accounting standards*, the main information is provided, relating to the differences due to the switch to national accounting standards, which led to an adjustment of the balances at the transition date and the date of closure of the comparative financial statements, as well as

a reconciliation of the comparative income statement. The transition date means January 1, 2019. These adjustments are stated gross of the associated tax effects, which are shown separately. A reconciliation of the statement of cash flows is also provided, which shows the significant adjustments made.
National accounting standard OIC 33 governs the method of drafting the first financial statements prepared according to the provisions of the Italian Civil Code and the national accounting standards by a company that previously prepared the financial statements in compliance with other rules (international accounting standards, etc.).
The objective of OIC 33 is to provide financial statements readers with clear and transparent evidence of the effects of the adoption of the national accounting standards, through both an indication of the impact of said change on the opening equity balances of the financial statements, and a comparison with the equity and financial position and with the statement of cash flows of the previous year, reported in the comparative financial statements.

To that end, the following are provided:

- Statement of reconciliation of the balance sheet at January 1, 2019;
- Statement of reconciliation of the balance sheet at December 31, 2019;
- Statement of reconciliation of the statement of cash flows at December 31, 2019;
- Statement of reconciliation of the balance sheet at January 1, 2019;
- Statement of reconciliation of the shareholders' equity at December 31, 2019.

Statement of reconciliation of the balance sheet at January 1, 2019 following the transition to OICs

EUR/000

BALANCE SHEET - ASSETS	01/01/2019 IFRS	RECLASSIFICATIONS /ADJUSTMENTS	01/01/2019 OIC
B) fixed assets			
I - Intangible assets:	47,408	(13)	47,394
II - Tangible assets:	984,936	(8,152)	976,785
III – Financial fixed assets	38,431	(6,630)	31,801
Total Fixed Assets (B)	**1,070,775**	**(14,795)**	**1,055,980**
C) Current assets:			
I - Inventories:	52,626		52,626
II – Receivables	360,292	2,654	362,946
III – Short-term investments:	28,092		28,092
IV – Cash and cash equivalents:	228,305		228,305
Total current assets (C)	**669,315**	**2,654**	**671,969**
D) Accruals and deferrals	**5,049**	**-**	**5,049**
Total assets	**1,745,139**	**(12,141)**	**1,732,998**

BALANCE SHEET - LIABILITIES	01/01/2019 IFRS	RECLASSIFICATIONS /ADJUSTMENTS	01/01/2019 OIC
A) Shareholders' Equity:			
I - Share capital;	406,677		406,677
IV – Legal reserve;	1,816		1,816
VI – Other reserves		(19,850)	(19,850)
VII. Reserve for hedging transactions on expected cash flows	1,909		1,909
VIII – Retained earnings (accumulated losses);	59,071		59,071
IX - Net income (loss) for the year;			
Total shareholders' equity	**469,472**	**(19,850)**	**449,622**
B) Provisions for risks and losses:	131,089	7,780	138,869
C) Employee leaving indemnity (TFR)	1,118	(71)	1,047
D) Payables	1,138,496		1,138,496
E - ACCRUED EXPENSES AND DEFERRED INCOME	4,962		4,962
Total Liabilities	**1,745,139**	**(12,141)**	**1,732,998**

Statement of reconciliation of the balance sheet at December 31, 2019 following the transition to OICs

EUR/000

BALANCE SHEET - ASSETS	31/12/2019 IFRS	RECLASSIFICATIONS /ADJUSTMENTS	31/12/2019 OIC
B) Fixed assets			
I - Intangible assets:	62,625	(13,194)	49,431
II - Tangible assets:	967,194	(17,905)	949,289
III – Financial fixed assets	71,901	(4,055)	67,846
Total Fixed Assets (B)	**1,101,720**	**(35,154)**	**1,066,566**
C) Current assets:			
I - Inventories:	29,325	-	29,325
II – Receivables	363,308	2,001	365,310
III – Short-term investments:	263	16	279
IV – Cash and cash equivalents:	231,651	-	231,651
Total current assets (C)	**624,547**	**2,017**	**626,565**
D) Accruals and deferrals	**4,160**	**94**	**4,255**
	0		
Total assets	**1,730,428**	**(33,042)**	**1,697,386**
A) Shareholders' Equity:			
I - Share capital;	406,677	-	406,677
IV – Legal reserve;	1,816	-	1,816
VI – Other reserves		(19,582)	(19,582)
VII. Reserve for hedging transactions on expected cash flows	(6,189)	-	(6,189)
VIII – Retained earnings (accumulated losses);	58,806	-	58,806
IX - Net income (loss) for the year;	6,256	(4,875)	1,381
Total shareholders' equity	**467,366**	**(24,457)**	**442,907**
B) Provisions for risks and losses:	95,103	1,050	96,154
C) Employee leaving indemnity (TFR)	1,325	(88)	1,238
D) Payables	1,166,267	(9,556)	1,156,711
E) Accruals and deferrals	367	9	375
	-	-	-
Total Liabilities	**1,730,428**	**(33,042)**	**1,697,386**

Statement of reconciliation of the income statement at December 31, 2019

The effects at income statement level on the comparative financial statements at December 31, 2019 are shown below:

EUR/000

INCOME STATEMENT	31/12/2019 IFRS	RECLASSIFICATIONS /ADJUSTMENTS	31/12/2019 OIC
A – VALUE OF PRODUCTION			
1) Revenue from sales and services;	1,576,824	55,112	1,631,936
2) Changes in work in progress, semi-finished and finished products	-	-	-
3) Changes in contract work in progress	(17)	-	(17)
4) Increase in fixed assets for internal work	1,115	129	1,244
5) Other revenues and income	49,394	(1)	49,393
Total	**1,627,316**	**55,240**	**1,682,556**
B) Costs of production:			
6) Raw materials, secondary materials, consumables and goods;	767,343	53,957	821,300
7) services;	517,661	13,936	531,597
8) Lease and rental costs;	1,007	1,515	2,522
9) Personnel costs:	38,933	62	38,994
10) Amortisation, depreciation and write-downs:	71,185	(14,810)	56,375
11) change in inventories of raw materials, secondary materials, consumables and goods;	24,218	-	24,218
12) risk provisions;	178	-	178
13) Other provisions	-	8,062	8,062
14) miscellaneous operating costs;	91,336	(1)	91,334
Total	**1,511,860**	**62,720**	**1,574,580**
Difference between value and costs of production (A-B)	**115,456**	**(7,480)**	**107,976**
C) Financial income and expense:			
15) Income from equity investments	-	-	-
16) other financial income:			
d) income other than above	-	-	-
- from subsidiaries	2	-	2
- from parent companies	537	-	537
- other	96	-	96
17) interest and other financial charges			
- other	145,346	-	145,346
b) financial expense to parent companies			
c) financial expense to subsidiaries			
17 bis) Foreign exchange gains and losses	(2,717)	2,712	(5)
Total (15 + 16 +17+ 17-bis)	**(147,429)**	**2,712**	**(144,716)**

INCOME STATEMENT	31/12/2019 IFRS	RECLASSIFICATIONS /ADJUSTMENTS	31/12/2019 OIC
D) Adjustments to the value of financial assets and liabilities:			
18) Revaluations:			
a) of equity investments;	31,814		31,814
d) of derivatives	702	26,872	27,574
19) Write-downs			
a) of equity investments			
d) of derivatives	2,392	28,302	30,694
Total adjustments (18-19)	**30,124**	**(1,430)**	**28,693**
Result before taxes (A-B+-C+-D):	**(1,849)**	**(6,198)**	**(8,047)**
20) Income taxes for the year: current, deferred and prepaid;	8,106	1,323	9,428
Income/(loss) for the year	**6,256**	**(4,875)**	**1,381**

Statement of reconciliation of the statement of cash flows at December 31, 2019

EUR/000	31.12.2019 IFRS	RECLASSIFICATIONS	31.12.2019 OIC
Cash flows from operations (A)	**188,895**	**(33,331)**	**155,564**
Cash flows from investment activities (B)	**(45,316)**	**23,694**	**(21,622)**
Cash flows from financing activities (C)	**140,233**	**9,637**	**(130,596)**
Increase (decrease) in cash and cash equivalents (A+B+C)	3,346	-	3,346
Cash and cash equivalents at January 1	**228,305**	**-**	**228,305**
Cash and cash equivalents at December 31	**231,651**	**-**	**231,651**

Description of the main impacts of the conversion from IAS/IFRS standards to OIC standards in the classification of cash flows at December 31, 2019

As part of the conversion from IAS/IFRS standards to OIC accounting standards, cash flows from operations worsened, mainly due to the combined effect of the following factors:

i) inclusion in the operations of the OIC layout, of the disbursement connected with customer acquisition costs (so-called “cost to acquire”) for 15,366 thousand euro, whose financial realisation was recorded under investment activities in the IAS/IFRS schemes, in compliance with the provisions of IFRS 15;

ii) inclusion in the operations of the OIC layout, of the financial realisation connected with use of the cyclical maintenance provision of Sorgenia Power and Sorgenia Puglia for 8,739 thousand euro. In the IAS/IFRS layouts, said transaction was financially recognised in the investment activity area, given the cost of the operation was capitalised in the item "Plant and machinery" of tangible assets in compliance with the provisions of IAS 37;

iii) recognition, in the operations of the OIC layout, of the net amount of interest paid/collected of 8,000 thousand euro, which were shown in the financing activities area in the IAS/IFRD layouts;

iv) inclusion, in operations of the OIC layout, of the amount of lease fees paid of 1,638 thousand euro, that were financially recognised in the IAS/IFRS layouts as a reduction of financial payables in the financing activities area, in compliance with the provisions of IFR 16.

The factors outlined above also explain the different classification of cash flows relating to investment activity and financing activity.

Statement of reconciliation of the balance sheet at January 1, 2019

EUR/000	**Share Capital**	**Share prem. res.**	**Leg. reserve**	**Transl. Reserve OIC**	**Res. CFH**	**Retained earnings (accumulated losses)**	**Income/(loss) for the year**	**Total**
Shareholders' equity at 01/01/2019 IAS	**406,677**	**-**	**1,816**	**-**	**1,909**	**12,715**	**46,356**	**469,473**
Other changes - OIC TRANSITION								-
IFRS 15 - Revenues from contracts with customers	-	-	-	(10,178)	-		(4,078)	(14,255)
IFRS 16 - Leases	-	-	-	-	-		-	-
IAS 37 - Maintenance and Dismantling	-	-	-	(7,299)	-		(2,469)	(9,769)
IAS 37 - Discounting of FISC (provision for agent's leaving indemnities)	-	-	-	(294)	-		64	(230)
IAS 19 - Discounting of employee leaving indemnity (TFR)	-	-	-	75	-		-	75
IAS 16 - Amortisation of capitalised financial expense	-	-	-	(6,827)	-		204	(6,623)
IAS 36 - Adjustment of write-down of plants - Impairment test	-	-	-	919	-		(29)	890
IAS 16 - Costs for technical advisory services not capitalised for IAS purposes	-	-	-	2,100	-		(63)	2,037
Tax effect				6,255			1,770	8,025
Allocation of profit	-	-	-	(4,600)	-	46,356	(41,756)	-
Total changes OIC transition	**-**	**-**	**-**	**(19,850)**	**-**	**46,356**	**(46,356)**	**(19,850)**
Shareholders' equity of the Group 01/01/2019 OIC	**406,677**	**-**	**1,816**	**(19,850)**	**1,909**	**59,071**	**(0)**	**449,623**

Statement of reconciliation of the shareholders' equity at December 31, 2019

EUR/000	**Share Capital**	**Leg. reserve**	**Transl. Reserve OIC**	**Res. CFH**	**Retained earnings (accumulated losses)**	**Income/(loss) for the year**	**Total**
Shareholders' equity as of 31/12/2019 IAS	**406,677**	**1,816**	**-**	**(6,189)**	**58,806**	**6,256**	**467,365**
Other changes - OIC TRANSITION							-
IFRS 15 - Revenues from contracts with customers	-	-	(14,255)	-		*(2,491)*	*(16,746)*
IFRS 16 - Leases	-	-		-		*207*	*207*
IAS 37 - Maintenance and Decommissioning	-	-	(10,217)	-		*(4,078)*	*(14,295)*
IAS 37 - Discounting of provision for agents' leaving indemnities	-	-	(358)	-		*113*	*(245)*
IAS 19 - Discounting of employee leaving indemnity (TFR)	-	-	128	-		*(62)*	*66*
IAS 16 - Amortisation of capitalised financial expense	-	-	(6,622)	-		*204*	*(6,418)*
IAS 16 - Additional expenses			2,037			*(62)*	*1,975*
IAS 36 - Adjustment of write-down of plants - Impairment test	-	-	890	-		*(29)*	*860*
IAS Revaluation - CONSO TP	-	-	209	-		-	*209*
Tax effect			8,606			1,323	*9,929*
Total changes OIC transition	**-**	**-**	**(19,582)**	**-**	**-**	**(4,875)**	**(24,458)**
Shareholders' equity of the Group 31/12/2019 OIC	**406,677**	**1,816**	**(19,582)**	**(6,189)**	**58,806**	**1,381**	**442,907**

Explanatory notes to the reconciliation statements at December 31, 2019 due to transition to OICs

The main differences that impacted the shareholders' equity at December 31, 2018 are shown below:

- Revenue from Contracts with Customers: according to international accounting standards (IFRS 15), costs to sell incurred for the acquisition of contracts with end customers defined as "cost to acquire" are deemed as the cost to defer over the time emerged, in line with the duration of the contract in place with the end customers, capitalising it in Balance Sheet assets and therefore amortising it over the expected economic useful life of these contracts, rather than considering said costs such as sales commissions to be recorded in the Income Statement of the year in which they were generated, as happens for the OIC standards. This different accounting approach generated a cancellation of the equity reserves at December 31, 2019 for 14,255 thousand euro and a negative impact on the 2019 result of 2,491 thousand euro, before taxes of 4,672 thousand euro
- Leases: according to international accounting standards (IFRS 16), finance leases, operating leases, but also hires or rentals, are accounted for according to the ""lessee accounting" method, i.e. by recognising the asset in balance sheet assets (right of use) and the financial payable under balance sheet liabilities. The right of use was subject to amortisation, while the liability reimbursed over time in respect of payments to the supplier with recognition of the relative financial interest. According to national accounting standards, the operating cost for the year is recognised in the income statement. Therefore, no amortisation and financial expense will be recognised. This different accounting approach generated a positive impact on the result for 2019, amounting to 207 thousand euro, before taxes of 57 thousand euro;
- Provisions and contingent liabilities for the decommissioning and maintenance of plants: according to international accounting standards (IAS 37), provisions relating to the provision for the decommissioning of thermoelectric plants periodically estimated during the life of the plant to fulfil the legal or implicit obligations for restoration of the site and the decommissioning of the asset are discounted and capitalised under fixed assets, and depreciated during its useful life, while under national accounting standards, the estimated costs to fulfil the legal or implicit obligations for restoration of the site and the decommissioning of the asset are allocated annually, and expensed to the income statement under the item 'provisions' during the useful life of the plant. As regards maintenance, according to the international accounting standards (IAS 37), the estimated costs for periodic maintenance are capitalised under fixed assets and depreciated during its useful life, while under the national accounting standards, the costs estimated and allocated for periodic maintenance are allocated annually and expensed to the item 'provisions' in the income statement

This different accounting approach generated a cancellation of the equity reserves at December 31, 2019 for 10,217 thousand euro and a negative impact on the 2019 result of 4,078 thousand euro, before taxes of 4,008 thousand euro

- Provision for agents' leaving indemnities (FISC): according to IFRS, this liability falls under the category 'Provisions, assets, contingent liabilities (IAS 37), for which an actuarial evaluation is required (mortality, foreseeable salary changes, etc.) for expressing the present value of the indemnity, payable at the end of the employment relationship, in the event in which the open-ended contract is terminated by the principal company due to an event unrelated to the agent. The Italian accounting standards require the recognition of a liability for the Provision for agents' leaving indemnities based on an estimate, reviewed periodically at each reporting date. This different accounting approach generated a negative impact on the equity reserves at December 31, 2019 for 358 thousand euro and a positive impact on the 2019 result of 113 thousand euro, before taxes of 68 thousand euro;
- Liabilities for employee benefits (discounting of employee leaving indemnity): according to the IFRS, the TFR benefit accrued until December 31, 2006 falls under the category of defined benefit plans subject to actuarial evaluations (mortality, foreseeable salary changes, etc.) for expressing the present value of the benefit, payable at the end of the employment relationship, that employees have accrued at the reporting date. The Italian accounting standards require the recognition of a liability for the Employee Leaving Indemnity based on the nominal payable accrued to individual employees according to the statutory provisions in force at the date of the close of the financial year. This different accounting approach generated a positive impact on the equity reserves at December 31, 2019 for 128 thousand euro and a negative impact on the 2019 result of 62 thousand euro;
- Capitalisation of borrowing costs: IAS 23 governs the criteria for recognising borrowing costs as a component of the book value of plants constructed on a timework basis. For the financial statements prepared according to OICs, no use was made of this right. This different accounting approach generated a negative impact on the equity reserves at December 31, 2019 for 6,622 thousand euro and a positive impact on the 2019 result of 204 thousand euro, before taxes of 1,790 thousand euro;
- Additional expenses of tangible assets: according to OIC 16, some additional purchase costs that contribute to the formation of the initial costs of the fixed assets can be capitalised. For IAS 16, these costs did not meet the requirements for increasing the value of the fixed asset. This different accounting approach generated a positive impact on the equity reserves at December 31, 2019 for 2,037 thousand euro and a negative impact on the 2019 result of 62 thousand euro, before taxes of 551 thousand euro.

CHANGES IN ACCOUNTING POLICIES

The criteria for measuring the items in the financial statements conform to those established by art. 2426 of the Italian Civil Code and the reference accounting standards.

In this regard, it should be noted that, following the adoption of the national OIC accounting standards for the drafting of the Consolidated Financial Statements at December 31, 2020, the comparative data at December 31, 2019 were re-stated in line with the provisions of the Italian accounting standards issued by the OIC (Italian Accounting Standards Setter).

In this regard, please refer to the detailed information in the next paragraph "INFORMATION RELATING TO THE CHANGE OF ACCOUNTING STANDARDS AND THE ADOPTION OF NATIONAL ACCOUNTING STANDARDS (OIC)".

The accounting standards discussed below were adjusted with the amendments, supplements, and new items introduced to the Italian Civil Code by Legislative Decree 139/2015, which implemented accounting Directive 34/2013/EU in Italy. In particular, the national accounting standards were reformulated by OIC in the version issued December 22, 2016 and subsequent updates.

The financial statements were prepared on a going concern basis, whose assumptions are described in greater detail above.

Applying the principle of prudence means that each asset or liability item is measured individually, thus avoiding the possibility of offsetting losses which need to be recognised with unrealised gains which should not be recognised.
In compliance with the accrual principle, transactions and other movements were accounted for and were posted to the year to which they actually refer, regardless of when the payments (incoming and outgoing) actually took place.

The most important valuation criteria adopted to draft the Consolidated Financial Statements at December 31, 2020, and the rules of first-time application adopted in drafting the financial statements are presented below, in accordance with Article 2426 of the Italian Civil Code and the aforementioned accounting standards.

ASSETS

B) FIXED ASSETS

B. I – Intangible fixed assets

In order to be classified under this category, items must have a lasting useful life. In particular, this item includes: development costs, patent rights, concessions, licenses, trademarks and similar rights, intangible assets in process and other intangible assets.

Intangible assets with multi-year useful life are recorded at historical acquisition cost and are shown net of amortisation calculated on a straight-line basis in relation to the residual useful life and posted directly to the individual items.

Software is amortised over three or five years depending on the type of investment made.

Concessions, licenses, trademarks and similar rights refer to software amortised on a straight-line basis over a period of ten years.

Leasehold improvements are capitalised and recognised in “Other intangible assets”, as they are not separable from the assets. They are amortised on a straight-line basis over the shorter of the period of expected future use and the residual lease period.
"Other intangible fixed assets" also include the expenses incurred for easements (rights of way), which can have both a finite or indefinite useful life. Where these are identifiable as having a finite useful life, they are amortized over the period of their duration.

Intangible assets which, whose recoverable value at the date of year-end, had undergone a lasting loss in value compared with their carrying amount were written down to the lower amount; the original value is restored in the event the reasons which led to the adjustment cease to exist up to the value that the asset would have had if the impairment loss had never taken place.

B. II – Tangible fixed assets

These are recorded at purchase or production costs inclusive, where explicitly indicated, of any financial expense for the period of construction of the asset, in accordance with the provisions of Article 2426 of the Italian Civil Code and accounting standards, and adjusted for accumulated depreciation.

The book value takes into account ancillary charges and direct and indirect costs for the portion reasonably attributable to the asset and until the asset enters into operation, i.e. from the moment when the asset can be used.
Any cyclical or extraordinary maintenance costs that modify the potential or size of the asset, are accounted for using the accrual criterion, and amortised in relation to their residual possibility of use.

The costs incurred to expand, modernise or improve the structural elements of a tangible asset are capitalised if they produce a significant and measurable increase in its safety or useful life. If such costs do not produce these effects, they are treated as routine maintenance and expensed to the income statement.

Tangible fixed assets also include the cost of spare parts with a significant unit cost and non-recurring use, depreciated over the shorter period from a comparison between the residual useful life of the asset to which they refer and their useful life calculated through an estimate of usage times.

No revaluation allowed by law was applied to tangible assets, nor was there any discretionary or voluntary revaluation.

Accumulated depreciation, which is recognised to the Income Statement, is calculated on the basis of the expected use of the asset, its intended use, and its economic and technical useful life, based on the criterion of residual useful life, which we consider to be appropriately represented by the following rates:

CATEGORY	DESCRIPTION	% DEPRECIATION
1) Land and buildings	Land	0%
1) Land and buildings	Industrial Buildings-Thermoelectric Plants	2.5%
1) Land and buildings	Light constructions	10%
2) Plant and machinery	Plant and machinery-Thermoelectric Plants	2.5%
2) Plant and machinery	DCS Plant	10%
2) Plant and machinery	Telephone systems	25%
2) Plant and machinery	Other plant and machinery	20%
3) Industrial and commercial equipment	Miscellaneous equipment	10%
4) Other assets	Electronic machines	20%
4) Other assets	Furniture and fittings	12%
4) Other assets	Mobile phones	25%

Depreciation begins from the month in which the asset is actually available and ready for use (*pro-rata temporis*) in the year of acquisition.

The value of land is shown separately from the value of the property built on it and is not subject to depreciation.

Lastly, it should be noted that combined cycle gas plants (CCGT), from 2018, are depreciated over the economic-technical useful life of 40 years, as a result of the assessments carried out by the Group with the support of an independent expert of primary standing specialised in the energy sector.

Fixed assets under construction are measured at acquisition or production cost, including financial expenses relating to the period of realisation of the asset, in compliance with the accounting standards and are not subject to amortisation as they are not yet available for use.

Tangible fixed assets which, at the close of the year, had undergone a lasting loss in value compared with their carrying amount were written down to the lower amount; the original value is restored in the event the reasons which led to the adjustment cease to exist up to the value that the asset would have had if the impairment loss had never taken place.

B. III – Financial fixed assets

Equity investments and debt securities are recognised under financial assets as they are intended to remain in the parent company's assets for a considerable period of time.
Equity investments in subsidiaries, excluded from the scope of consolidation, in the cases permitted by Article 28, paragraph 2, of Italian Legislative Decree 127/91, are measured using the equity method, net of any impairment.

Investments in joint ventures and associates are measured using the equity method. This method applies to Tirreno Power SpA and Fingas Srl and to all their subsidiaries and associates.

If an impairment loss is detected, the value of the investment is reduced to the lower recoverable amount, which is determined based on the future benefits that are expected to flow to the investor.

The original value is written back in subsequent years, if the reasons for the write-down no longer apply until the cost is restored.

In the event that the parent company is obliged to cover losses incurred by an investee, a provision is needed to meet the liability, for the portion pertaining to the Company, to cover the investee's capital deficit.
Debt securities are valued using the amortised cost method.
The amortised cost of a security is the value at which the security was measured upon initial recognition, net of capital repayments, increased or decreased for accumulated amortisation, using the effective interest criterion, on any difference between the initial value and the value at maturity, and excluding any reduction for impairment (recognised directly or through a provision). The book value at initial recognition is the acquisition or subscription price net of any commissions and fees.

Intercompany loans granted to non-consolidated subsidiaries, with maturities of more than 12 months, which are non-interest-bearing or with rates that are considerably lower than the market rate, are initially recognised at the present value of future cash flows of the loan, discounted at the market rate and subsequently measured on the basis of the amortised cost method.

Guarantee deposits for the lease and rental costs and for the supply of services are recognised according to the amortised cost criterion, taking into consideration the time factor and the presumed realisable value. The amortised cost criterion is not applied when the effects are irrelevant, or when the transaction costs and any other difference between the initial value and the value at maturity are negligible, or if the guarantee deposits are short term (or with maturity of less than 12 months).

C) CURRENT ASSETS

C. I - Inventories

Inventories are measured at the lower of the purchase cost determined according to the weighted average cost method and the estimated realisable value taken from market trends (Article 2426, no. 9 of the Italian Civil Code).
Purchase cost refers to the actual purchase price plus accessory charges, excluding financial expenses.
In relation to their nature, inventories are written down using special provisions recorded in the Balance Sheet which reduce the amount of the asset entry. These provisions are released when the reasons that determined the allocation cease to apply.

C. II – Receivables

Receivables are recognised in the Balance Sheet according to the amortised cost criterion, taking into consideration the time factor and the presumed realisable value. The amortised cost criterion is not applied when the effects are immaterial, or when the transaction costs, commissions paid between the parties, and any other differences between the initial value and the value at maturity are negligible, or if the receivables are short term (with maturity of less than 12 months).
Receivables with maturities of more than 12 months from initial recognition, which do not include the payment of interest, or with interest that is significantly different than market interest rates, and the relative revenues, are initially recorded at the value calculated by discounting the future cash flows at the market interest rate. The difference between the value at initial recognition of the receivable thus calculated and the value at maturity is charged to the Income Statement as financial income over the life of the receivable using the effective interest rate criterion.

In addition, the nominal value of receivables is adjusted to consider expected losses for uncollectability and other causes for lower realisation, through a specific provision for the write-down of receivables, which takes into account the receivable position, the general economic conditions of the sector, as well as loss projections for situations of credit risk that have already arisen or are considered probable, and for other non-collection events that have already arisen or that are still to occur but considered likely.

If the trade receivables are sold to an external factoring company, the Group derecognises the loan from the Financial Statements when:

a) the contractual rights to the cash flows deriving from the receivable are extinguished (partially or totally); or

b) ownership of the contractual rights on the cash flows deriving from the receivable is transferred and with the same transfer substantially all the risks inherent in the receivable.

C. IV - Cash and cash equivalents

Cash and cash equivalents at the end of the year are valued at nominal value. Cash and cash equivalents in foreign currencies are valued at the year-end exchange rate.

D – ACCRUED INCOME AND PREPAID EXPENSES

These include items of cost and revenue that are common to two or more years, in compliance with the accrual accounting principle.

For accruals and deferrals over periods of several years, the conditions which determined their original recognition were verified and, where necessary, the appropriate adjustments were made.

LIABILITIES AND SHAREHOLDERS' EQUITY

B – PROVISIONS FOR RISKS AND LOSSES

Provisions for risks and losses are set aside to cover losses or payables that are certain or likely to arise, for which, however, the exact amount or the date of occurrence cannot be determined at the close of the year.
The provisions set aside reflect the best possible estimate based on the elements available. Allocations to provisions for risks and losses are recognised firstly as cost items in the income statement for the relevant classes (B, C, or D). Any time that a correlation cannot be made between the nature of the allocation and one of the items in these classes, the allocations for risks and losses are recognised in items B12) and B13) of the Income Statement.

The site decommissioning and restoration provision includes the estimated costs it is presumed will be incurred at the end of electricity production activities for abandonment of the area, dismantling, removal of structures and restoration of the site. The costs are allocated annually based on the useful life of the plant. The cyclical maintenance provision includes the best estimate of the costs accrued in the year relating to extraordinary maintenance works that will be carried out according to the engineering plans for restoring the efficiency and successful operation of the plants. The allocations to said provision aim to distribute over the various years, according to the accrual principle, the cost of maintenance that, although performed after a certain number of years, refers to the use of an asset also verified in the years prior to that in which the maintenance is carried out.

C – EMPLOYEE LEAVING INDEMNITY (TFR)

Employee leaving indemnity is recognised for the amount that employees would have the right to receive, in the event of termination of the employment relationship, at the reporting date, in compliance with Article 2120 of the Italian Civil Code and governing employment contracts, considering continuous forms of pay. The seniority indemnities constituting the above item, i.e. the portion of the allocation for the year and the annual revaluation of the pre-existing provision, are determined in compliance with current regulations. The employee leaving indemnity is recognised in item C of liabilities and shareholders' equity and the relative allocation is charged to item B9 of the Income Statement.

Note that amendments made to the TFR regulations of Law no. 296 of December 27, 2006 (2007 Finance Law) and subsequently implemented Decrees and Regulations, modified the accounting criteria applied to the portions of the TFR accrued at December 31, 2006 and those accruing from January 1, 2007. As such, with the establishment of the "Fund to disburse to employees in the private sector of employee leaving indemnities pursuant to Article 2120 of the Italian Civil Code" (Treasury Fund managed by INPS on behalf of the State), employers that have at least 50 employees are required to pay into this Treasury Fund the portions of TFR accrued in relation to those workers that have not chosen to transfer their portion to a complementary pension fund. Hence, the amount of the employee leaving indemnity shown in Financial Statements is net of the portion paid to said INPS Treasury Fund.

D - PAYABLES

Payables are recognised according to the amortised cost criterion, taking into consideration the time factor. The amortised cost criterion is not applied to payables if its effects are irrelevant. Effects are considered irrelevant for short-term payables (or with maturity less than 12 months).

Payables with maturities of more than 12 months from the initial recognition, which do not include the payment of interest, or with interest that is significantly different than market interest rates, and the relative costs, are initially recorded at the value calculated by discounting the future cash flows at the market interest rate. The difference between the value at initial recognition of the payable thus calculated and the value at maturity is charged to the Income Statement as financial expense over the life of the payable using the effective interest rate criterion.

The convertible bonds constitute hybrid contracts, for which the allocation of the value collected for the issue of the convertible bond between the primary contract (the bond) and the derivative contract (the conversion option) takes place first by determining the *fair value* of the primary contract (assuming the future cash flows of the obligation at the market interest rate of a bond without the conversion option) and assigning the residual value to the derivative contract. The bond is then valued using the amortised cost method.

The separate derivative instrument, or the option to convert the loan into an equity instrument, is recognised in a shareholders' equity reserve, without modifying its value in the future. Any transaction costs are divided proportionally between the payable and the reserve. The reserve is not subject to subsequent valuations.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial assets and liabilities recognised at fair value when the contractual rights and obligations envisaged by the instrument arise.

In order to cover the risk of changes in the interest rate, the Group stipulates derivatives to hedge specific financing transactions and also, to pursue the objective of optimising the management of the Group's *assets*, with particular reference to the objective of maximising the usage opportunities for the production capacity of the thermoelectric power plants owned by the subsidiaries Sorgenia Power SpA and Sorgenia Puglia SpA, and of the sale to end customers of electricity and gas. Therefore, it stipulates derivative trading contracts for the purchase/sale of energy and natural gas with various product and timing profiles (i) both directly with financial counterparties operating on OTC (*over-the-counter*) markets, as well as (ii) through the subsidiary Sorgenia Trading SpA, through the institution of the mandate without representation, according to which the subsidiary, Sorgenia Trading SpA, executes transactions with leading financial counterparties on regulated markets and OTC.

Derivatives are classified as *hedge accounting* instruments only when, at the inception of the hedge, there is a close and documented correlation between the characteristics of the hedged item and those of the hedging instrument and this hedging relationship is formally documented and the effectiveness of the hedge, verified periodically, is high.

When hedging derivatives hedge the risk of changes in the *fair value* of the hedged instruments (*fair value hedge*), they are recognised at *fair value* and the effects are booked to the income statement; accordingly, the hedged items are adjusted to reflect the changes in *fair value* associated with the hedged risk.

When derivatives hedge the risk of changes in future cash flows of the hedged item (*cash flow hedge*), the effective portion of profits or losses on the derivative is suspended in equity. Gains and losses associated with the ineffective portion of a hedge are charged to the Income Statement. At the moment the relative transaction is realised, accumulated gains and losses, which until that moment were recognised in shareholders' equity, are recognised in the Income Statement (as an adjustment or supplement to the Income Statement items affected by the hedged cash flows).

For derivatives that are not classified as hedging instruments as they do not meet *hedge accounting* requirements, changes in *fair value* are recognised in the income statement.

Therefore, changes in the relative *fair value* of the derivative are booked:

- to the income statement under items D)18) or D)19) in the case of the *fair value* hedging of an asset or liability recognised in the financial statements as with changes in the *fair value* of the hedged elements (in the event in which the *fair value* change of the hedged element is higher in absolute value than the *fair value* change of the hedging instrument, the difference is booked to the income statement item concerned by the hedged element);
- to an appropriate shareholders' equity reserve (in item AVII "Reserve for hedging transactions on expected cash flows") in the event of the hedging of cash flows according to methods as such to offset the effects of the flows subject to hedging (the ineffective component, as with the change in the time value of options and *forwards*, is classified to the items D)18) and D)19).

Derivatives, designated by the Sorgenia Group for hedging purposes, are accounted for on the basis of *hedge accounting* requirements, if demonstrated.

Derivatives embedded in other financial instruments must also be measured at *fair value*. An embedded derivative is separated from the primary contract and recognised as a derivative if, and only if:

a) the economic characteristics and risks of the incorporated derivative are not strictly correlated to the economic characteristics and risks of the primary contract. There is a strict correlation in the cases in which the hybrid contract is stipulated according to market practices;

b) the definition of a derivative financial instrument, according to OIC 32.11, is satisfied.

INCOME STATEMENT

REVENUE RECOGNITION

Revenues from the sale of goods are recognised when ownership is substantially transferred, not only formally, assuming the transfer of risks and benefits as a reference parameter.

Revenues from the sale of products and goods, or from the supply of services relative to ordinary operations, are recognised net of returns, discounts, allowances, and bonuses, as well as taxes directly connected with the sale of products and services.

Sales of electricity and gas

Revenues from the sale of electricity and gas to customers refer to quantities supplied and delivered during the year, even where not yet invoiced, and are calculated by supplementing the consumption figures received from the distributors with appropriate estimates calculated internally. These revenues are based on contractual agreements with customers and, where applicable, on the tariffs and the related restrictions prescribed by the legal provisions and by the Regulatory Authority for Energy, Networks and Environment (ARERA), in force during the reference period.

Sale of goods and services

Revenues from the sale of goods other than electricity and gas and revenues from services are recognised when the goods have been shipped and the services rendered and the Group has transferred substantially all of the risks and rewards of ownership of the goods or completion of the services to the buyer.

Trading activities

Physical and financial trading of energy *commodities* continued as part of Sorgenia Group's core business. These activities are governed by the appropriate procedures and are segregated on an *ex ante* basis from the other ordinary activities (Industrial activities”) in special “Trading Portfolios”; they are measured at *fair value* with any changes in *fair value* being posted to the Income Statement.

COST RECOGNITION

Costs are recorded, according to the accrual principle, during the year, regardless of the payment date and, therefore, the transfer of ownership or of service provision also prevails for them, net of returns, discounts, rebates and premiums.

FINANCIAL INCOME AND EXPENSES

Financial income and expenses are recognised in application of the accrual principle. Costs for transactions to divest receivables of any type (recourse and non-recourse) and of any nature (commercial, financial, other) are charged during the year in which they accrue.

DIVIDENDS

Dividends from non-consolidated subsidiaries are recorded in the year in which they are resolved by the Shareholders' Meeting.
Dividends are recognised as financial income regardless of the nature of the reserves that are distributed.

TAXES

Taxes are posted on an accrual basis and represent a realistic estimate of the tax expenses to be paid according to current tax regulations.

Current income taxes are calculated on the basis of an estimate of taxable income for the year in compliance with current regulations.

Deferred tax liabilities and assets are calculated on the temporary differences between the values of the assets and liabilities determined according to statutory criteria and the corresponding values recognised for tax purposes. Their valuation is carried out considering the presumed tax rate that the Group is expected to incur in the year in which these differences will contribute to the formation of the tax profit or loss, given the rates in effect or already issued at the reporting date, and are recognised in the Provision for deferred taxes under the liability item Provision for risks and losses, or in the item Deferred tax assets under current assets.
Deferred tax assets are recognised for all deductible temporary differences, in accordance with the principle of prudence, if there is the reasonable certainty that a taxable income not less than the amount of the differences will be available in the years in which the differences will be reversed. Deferred tax assets may also result from carrying forward tax losses or non-deductible interest expense during the current year.

The Group records deferred tax assets on tax losses only if there is the reasonable certainty that they can be recovered through the existence of future taxable income. Similar considerations are made for recognising deferred tax assets on temporarily non-deductible interest.
Conversely, deferred tax liabilities are recognised on all taxable temporary differences.

USE OF ESTIMATES

Note that preparation of the Consolidated Financial Statements requires the Directors to make estimates and assumptions that affect the values of revenues, costs, assets, and liabilities; estimates and assumptions also have to be made in determining the *fair value* of financial instruments and in the disclosures regarding contingent assets and liabilities at the date of the consolidated financial statements.

If in the future these estimates and assumptions differ from the real situation, they will be amended appropriately in the period when the change in circumstances becomes known.

The use of estimates is particularly significant for the following items:

REVENUE RECOGNITION

Revenues from sales of electricity and gas to end customers are recognised at the moment of supply and, apart from what is billed on the basis of quantitative data provided by the distributors and assignable to the year, they also include an estimate of the electricity and gas distributed in the year but not yet billed, represented by the difference between the total amount of electricity and gas injected into the grid and the amount actually billed in the year, calculated by taking into account any leaks in the network. This estimate of revenues is based on estimates of the client’s consumption based on his or her historical profile, adjusted to take into account weather conditions or any other factors that could affect the consumption being estimated.

PROVISION FOR THE WRITE-DOWN OF RECEIVABLES

The provision for the write-down of receivables reflects the estimated losses on the Group’s receivable portfolio. Provisions are made against expected credit losses, estimated both on the basis of past experience with reference to loans with similar credit risk and on the basis of the estimate of the expected future loss of open positions at the reporting date, as well as careful monitoring of the quality of the loan portfolio.

While the existing provision is considered adequate, the use of different assumptions or a change in economic conditions could result in adjustments to the provision for the write-down of receivables, which would have an impact on the Group's result. The estimates and assumptions are revised periodically and the effects of each variation are reflected in the Income Statement in the appropriate year.

VERIFICATION OF THE RECOVERABLE VALUE OF FIXED ASSETS

Fixed assets include properties, plant and machinery and intangible assets relating primarily to the CCGT plants owned by the Group, and the equity investments in associates and other companies. The Directors periodically review, and in any case in the presence of impairment indicators, the book value of fixed assets held and the financial fixed assets.
With reference to property, plant and machinery, this verification of recoverable value is carried out by using the estimates of expected cash flows from the use or sale of the asset and adequate discount rates for the calculation of the present value. If the book value of a non-current asset undergoes impairment, the Group would recognise a write-down for the value of the surplus between the book value of the asset and its recoverable value through the use or the sale of the asset, determined as described above.

With reference to equity investments, the recoverable value is determined on the basis of the future benefits that are expected to flow to the investor's economy. If the book value of an investee is impaired, the Group would recognise a write-down for the value of the excess between the book value of the investee and its recoverable value. The original value is restored in subsequent years if the reasons for the write-down no longer apply until the cost is restored in the case of equity investments.

FUTURE RECOVERY OF DEFERRED TAX ASSETS

The preparation of the Consolidated Financial Statements requires Directors to measure deferred tax assets relating to previous tax losses and the recognition of financial costs deductible in subsequent years, within the limits of the Sorgenia Group companies' ability to generate taxable income.

The evaluation of the aforementioned recoverability takes into account the estimates of future taxable income and is based on the multi-year plan approved by the Directors of the Sorgenia Group, and on forecasts extended to the period of operations of the assets held by Sorgenia Group companies as the result of complex assumptions; however, if at any time it were to become obvious that the Group and the Company were not able to recover all or part of these deferred tax assets in future periods, the resulting adjustment would be recognised to the Income Statement in the year in which such a circumstance came to pass.

LEGAL AND TAX DISPUTES

The Group makes provisions mainly for pending legal and tax disputes.

Given the nature of these disputes, it is not always objectively possible to foresee the final result of these proceedings, some of which could have an unfavourable outcome.

The estimate of the provisions on these subjects is the result of a complex process that involves the Company management making subjective judgements.

DETERMINATION OF THE FAIR VALUE OF DERIVATIVES

The Group measures derivatives at *fair value* at every reporting date, using measurement techniques that are adapted to the circumstances and for which there are sufficient data available for measuring the *fair value*, maximising the use of relevant observable inputs and minimising the use of non-observable inputs.
Derivatives for which the *fair value* is measured or shown in the financial statements are categorised on the basis of the *fair value* hierarchy, as described below:

- Level 1 - prices quoted (non-adjusting) in active markets for identical assets or liabilities which the entity can access at the measurement date;
- Level 2 - inputs other than quoted prices included in Level 1, observable directly or indirectly for the asset or the liability;
- Level 3 - measurement techniques for which the input data are not observable for the asset or the liability.

The *fair value* measurement is classified internally in the same level of the *fair value* hierarchy in which the lowest level input of the hierarchy used for the measurement is classified.

OTHER ITEMS IN THE FINANCIAL STATEMENTS

In addition to the items indicated above, the use of estimates concerned the following balance sheet items:

- the measurement of assets and liabilities, other than derivative financial instruments, at amortised cost;
- the determination of the useful life of tangible and intangible assets for the calculation of their depreciation and amortisation respectively;
- the measurement of liabilities for the decommissioning and restoration of sites.

COMMENT ON THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

B – FIXED ASSETS

B. I – Intangible fixed assets

The following table highlights the changes that took place to intangible fixed assets with reference to the year 2020.

EUR/000	OPENING POSITION	CHANGES IN YEAR				CLOSING POSITION		
	31/12/2019	INV.	DECR.	AMORT./WRITE-DOWNS	RECLASS./OTHER CHANGES	31/12/2020	of which ORIG. COST	of which ACCUM. AMORT.
Start-up and expansion costs	1	-	-	(1)	-	-	30	(30)
Development costs	427	469	-	(620)	561	838	2,585	(1,747)
Industrial patent and intellectual property rights	91	16	-	(76)	5	37	52	(15)
Concessions, licenses, trademarks and similar rights	147	-	-	(11)	-	136	187	(50)
Goodwill	-	-	-	-	-	-	-	-
Intangible assets in progress and advance payments	10,574	9,059	(38)	(13)	(9,868)	9,715	9,715	-
Other intangible assets	38,190	7,074	(2)	(15,771)	9,303	38,793	163,160	(124,367)
TOTAL INTANGIBLE ASSETS	**49,431**	**16,618**	**(40)**	**(16,490)**	**1**	**49,519**	**175,729**	**(126,210)**

B. I. 2 – Development costs

Development costs amounted to 838 thousand euro and include:

- development costs, capitalised by the Parent company Sorgenia SpA, amounting to 434 thousand euro, relating to the *Your Next Experience* project, through which the customer relationship channels developed and, in particular, the new *APP* and the *WEB* Customer Area;
- development costs capitalised internally by the subsidiary Sorgenia Fiber, for a total of 278 thousand euro, attributable to the development of the project linked to the definition and implementation of a growth strategy for appurtenances in the *Ultra Broad-Band* market in partnership with an operator active in the telecommunications market;
- costs incurred internally by the subsidiary Sorgenia Green Solutions Srl, for the implementation of new projects aimed at achieving the strategic objectives of growth in size and improvement of the Company's processes, amounting to 126 thousand euro.

Development costs are amortised over five years.

B. I. 3 –Industrial patent and intellectual property rights

Industrial patent and intellectual property rights amounted to 37 thousand euro and include the costs incurred entirely by the subsidiary Sorgenia Green Solutions Srl.

B. I. 4 – Concessions, licenses, trademarks and similar rights

This item amounted to 136 thousand euro and mainly includes the user licences acquired by the companies operating in the renewables sector.

B. I. 6 - Assets in progress and advance payments

This item includes 9,714 thousand euro for advance payments for intangible assets being acquired.
The increases in the year are mainly attributable to *(i)* the continuation of the constant improvement process of the *Digital Strategy* described above, *(ii)* the phase of implementation of the Systems and Processes relating to Security and *Privacy* and *(iii)* the development of new components of the *Big Data* infrastructure.

This category also includes development costs, amounting to 532 thousand euro, relating to the *Your Next Experience* project, through which the customer relationship criteria were defined for the development of the new APP and the *WEB* Customer Area, which are not yet ready for use as of December 31, 2020.

The “Reclassifications” column shows the amounts relating to software projects and development costs for which advances were paid to suppliers in previous years and which became operational during the year ended as of December 31, 2020.

B. I. 7 – Other intangible fixed assets

The other intangible assets amounted to 38,794 thousand euro and include mainly, *(i)* the costs incurred for unprotected IT systems needed for the Group's sales and organisational development amounting to 19,757 thousand euro; *(ii)* expenses relating to the signing of agreements with the Municipalities bordering the thermoelectric plants of Bertonico-Turano Lodigiano and Aprilia; as well as the costs of activation and monitoring of the maintenance service relating to the Bertonico-Turano Lodigiano and Aprilia plants for 11,318 thousand euro; *(iii)* the expenses incurred on third-party assets, amounting to 1,909 thousand euro, primarily regarding the works performed for the renovation of the company's office on Via Algardi 4 (the costs relating to leasehold improvements are amortised on the basis of the duration of the rental agreement, in particular, for the Milan office, over twelve years; *(iv)* easements on the land concerned by the construction of gas pipelines and power lines, connected to the Group's power plants for an amount of 3,942 thousand euro (the latter, relating to expenses with an indefinite useful life are not amortised); and *(v)* the positive difference from the cancellation allocated to intangible assets “*know-how*” for a value of 802 thousand euro (before the related deferred taxes) as of December 31, 2020, recognised at the moment of first-time consolidation of the subsidiary Sorgenia Green Solutions Srl as of January 1, 2019, and amortised for a period of 5 years.

The most significant increases during the year refer mainly to the *software* projects in progress for implementation of the *Digital Strategy* for the acquisition and management of customers by the subsidiary Sorgenia SpA, for an amount of 12,784 thousand euro (of which 5,820 thousand euro was already accounted for under fixed assets under construction in the previous year).

Solutions are also being implemented that *(i)*improve the level of security and *privacy* envisaged by both current regulations and the risks identified, and *(ii)*the development of systems that allow greater knowledge and better relations with the customer through *Big Data, Business Analytics* and *Advanced Analytics* infrastructures.

It is specified that, in 2020, the item was written down for an amount of 1,273 thousand euro, in relation to *software* considered technologically outdated and replaced by new developments.

The ERP IT system implemented in 2016 is amortised over a period of five years, which corresponds to the economic-technical useful life of the system, valued in consideration of the financial and commercial benefits as part of expected sales growth. Other *software* is instead amortised over a period of three years.

B. II – Tangible fixed assets

The following table highlights the changes that took place to tangible assets with reference to the year 2020.

EUR/000	OPENING POSITION	CHANGES IN YEAR				CLOSING POSITION		
	31/12/2019	INV.	DECR.	DEPREC./WRITE-DOWNS	RECLASS./OTHER CHANGES	31/12/2020	of which ORIG. COST	of which ACCUM. DEPREC.
Land and buildings	96,691	78	-	(2,915)	107	93,961	142,917	(48,957)
Plant and machinery	837,938	1,580	(2)	(29,600)	282	810,198	1,549,433	(739,234)
Industrial and commercial equipment	10,864	148	0	(538)	5	10,479	18,163	(7,684)
Other assets	1,825	157	(14)	(601)	33	1,400	15,519	(14,118)
Intangible assets in progress and advance payments	1,971	8,114	-	-	(473)	9,612	9,612	-
TOTAL TANGIBLE ASSETS	**949,289**	**10,078**	**(16)**	**(33,654)**	**(46)**	**925,651**	**1,735,644**	**(809,993)**

Verification of recoverable value of Fixed Assets

For the purposes of the drafting of the financial statements as of December 31, 2020, in accordance with the provisions of OIC 9, the Group conducted an analysis on potential indicators of impairment of fixed assets, both external and internal, for which the following considerations should be noted:

- the economic and financial results obtained in 2020 were significantly better than those forecast in the Budget;
- the prospective flows in the Business Plan confirm the absence of indicators of impairment of assets;
- in November 2019, the auctions for the awarding of the Capacity market for the 2022 and 2023 period were held. The Sorgenia Group obtained the awarding of the entire production capacity offered, with an auction premium equal to the maximum one that can be awarded, for both years, during which a lower volatility of generation margins can be relied on.
- the change in the elements incorporated in the weighted average cost of capital would have resulted in the determination of a lower discount rate compared to the last *impairment* test.

In light of these considerations, the Directors did not identify any potential impairment indicators that would require a new verification of the recoverable value of the fixed assets.

B. II. 1 – Land and buildings

The item 'Land' amounted to 93,961 thousand euro and includes land intended to house production sites and the buildings owned by the Group.
The balance is composed primarily of industrial land (8,282 thousand euro at December 31, 2020) located in the Municipalities of Modugno-Bari-Bitonto, for the subsidiary Sorgenia Puglia SpA and Turano Lodigiano – Bertonico, Termoli and Aprilia for the subsidiary Sorgenia Power SpA; as well industrial buildings (85,678 thousand euro as of December 31, 2020), which are housed on said areas of land, and relating to the thermoelectric plants.

The increase recorded compared to December 31, 2019 for an amount of 185 thousand euro refers primarily to the construction of a car park at the Termoli plant by the subsidiary Sorgenia Power SpA.

The useful life of the industrial buildings is aligned to that of the plants and, therefore, it is depreciated over 40 years of useful life of the plants themselves.

B. II. 2 - Plant and machinery

The item Plant and machinery amounts to 810,198 thousand euro and refers almost entirely to the Group's plants used for the production of conventional energy. This category includes the thermoelectric power plants situated in the municipalities of Termoli, Modugno, Turano Lodigiano – Bertonico and Aprilia.
The increases, amounting to 1,862 thousand euro (of which 282 thousand euro was already accounted for under fixed assets under construction in the previous year), refer mainly to the capitalisation of costs relating to specific new plants and strategic spare parts of the four operating plants, and the expenses incurred for the improvement of the Aprilia plant's control system.

It should be noted that the process of depreciation of the assets forming the thermoelectric plants of Termoli, Turano Lodigiano – Bertonico, Aprilia and Modugno started from the date of delivery by the constructor, with a reference useful life initially estimated at 25 years. The useful life was modified to 40 years, in 2018, as a result of the assessments carried out by the Group with the support of an independent expert of primary standing specialised in the energy sector.
The expense of the maintenance contracts is not capitalised, given that it relates to costs of a recurring and ordinary nature for maintenance or restoration of efficiency and successful operation of the plants, and is therefore incumbent upon each individual year.
Any cyclical or extraordinary maintenance costs that modify the potential or size of the asset, are accounted for using the accrual criterion.
The item 'plant and machinery' under tangible assets is shown net of a write-down provision of 189,774 thousand recorded in 2013, in application of the provisions of "OIC9 - Write-down due to impairment".

B. II. 3 - Industrial and commercial equipment

The Industrial and commercial equipment item, amounting to 10,479 thousand euro as of December 31, 2020, includes almost entirely the industrial and commercial equipment of the Group used to run the thermoelectric power plants.

The increase of 154 thousand euro recorded compared to December 31, 2019, refers mainly to the costs capitalised by the subsidiary Sorgenia Power SpA for 117 thousand euro, as a result of the purchase of the equipment needed to improve the safety levels within the plants.

B. II. 4 - Other assets

The item Other assets amounted to 1,400 thousand euro and mainly includes office furniture and IT equipment (hardware).

B. II. 5 - Assets under construction and advance payments

Assets in progress and advance payments amount to 9,612 thousand euro and include advances to suppliers of assets in progress together with the costs incurred for investment projects not yet finalised. The balance recorded in the column "increases" amounting to 8,114 thousand euro, refers to*(i)* the costs incurred in 2020, by the subsidiary Sorgenia Power SpA, for an amount of 4,632 thousand euro, relating almost entirely to the purchase of a new rotor for the turbine generator at the Lodi Power Plant, which will be completed in the next year;*(ii)* the expenses incurred by the subsidiary Sorgenia Puglia SpA, for a total amount of 2,305 thousand euro, and relating mainly to the improvement works carried out on the boilers and the compressors of the gas turbines of the Modugno plant; *(iii)* the costs pertaining to 2020, incurred by the subsidiaries Sorgenia Hydro Power Srl and Sorgenia Geothermal Srl, for the implementation of investment projects in the renewable energies sector, for a total of 1,109 thousand euro.

B. III – Financial fixed assets

EUR/000	31/12/2019	Increases	Decreases	Revaluations/ Write-downs	31/12/2020
1) EQUITY INVESTMENTS IN:					
a) non-consolidated subsidiaries	**21**	**270**	**(21)**	**-**	**270**
Fingas Srl	-	-	-	-	-
Sorgenia International BV	21	-	(21)	-	-
Green Power Marcallese Srl	-	270	-	-	270
b) associates	**54,729**	**-**	**-**	**62,341**	**117,070**
Tirreno Power SpA	54,729	-	-	62,341	117,070
TOTAL EQUITY INVESTMENTS	**54,750**	**270**	**(21)**	**62,341**	**117,340**
2) RECEIVABLES DUE FROM:					
a) non-consolidated subsidiaries	**341**	**6,322**	**(341)**	**-**	**6,322**
Sorgenia Solar Srl - in liquidation	341	-	(341)	-	-
Green Power Marcallese Srl	-	6,322	-	-	6,322
C) Parent company	**1,000**	**-**	**(1,000)**	**-**	**-**
Nuova Sorgenia Holding SpA	1,000	-	(1,000)	-	-
d) Other	**11,755**	**938**	**(917)**	**-**	**11,776**
Guarantee deposits	11,755	938	(917)	-	11,776
TOTAL RECEIVABLES	**13,096**	**7,260**	**(2,258)**	**-**	**18,099**
3) Other securities	**-**	**-**	**-**	**-**	-
4) Derivative assets	**16**	**150**	**(16)**	**-**	**150**
4) Derivative assets	16	150	(16)	-	150
TOTAL FINANCIAL FIXED ASSETS	**67,862**	**7,680**	**(2,295)**	**-**	**135,589**

B. III. 1- Equity investments

Investments in non-consolidated subsidiaries

The value of the equity investment of the subsidiary Fingas Srl, in previous years, was written down for the entire book value of the equity investment, since the subsidiary is not deemed strategically significant within the Group. It should be specified that the original cost of recognition of the equity investment was 555 thousand euro.

The decrease, amounting to 21 thousand euro, is the result of the striking off from the Dutch Register of Companies, of the subsidiary Sorgenia International BV in liquidation, which took place on October 26,

2020. As of December 31, 2019, the equity investment in Sorgenia International BV in liquidation, measured using the cost method, was booked at zero under balance sheet assets.

The increase of 270 thousand euro recorded in the year, in relation to the value of the equity investments in non-consolidated subsidiaries, refers to the acquisition of the equity investment in Green Power Marcallese Srl, equal to a stake of 75% of the new subsidiary.
The acquisition was concluded on December 28, 2020, by the company Sorgenia Sviluppo Srl, whose share capital is wholly-owned by Sorgenia SpA.

For the purposes of the consolidated financial statements as of December 31, 2020, the newly acquired company was not included in the scope of consolidation, as regulated by art. 28 of Italian Legislative Decree 127/91, owing to the "irrelevance of the subsidiary" and was measured using the equity method (the respective portion of goodwill is implicit in the measurement shown in the financial statements as of December 31, 2020)

It should be specified that, on March 11, 2020, the subsidiary Sorgenia Solar in liquidation was struck off the register of companies. As of December 31, 2019, the equity investment in Sorgenia Solar in liquidation, was booked at zero under balance sheet assets.

Equity investments in associates

The value of equity investments in associates refers entirely to the value of the equity investment held in the company Tirreno Power SpA - 50% stake held through the subsidiary Energia Italiana SpA – equal to 117,070 thousand euro at December 31, 2020.
In the previous years, until 2018, the Directors had saw fit, despite the positive operating results generated by the jointly-controlled subsidiary, to maintain the book value of the equity investment in Tirreno Power aligned to the value resulting from an appraisal carried out by an independent third party, following the signing, in 2015, of the Financial Debt Restructuring Agreement, endorsed pursuant to Article 182-bis of the Bankruptcy Law (amounting to 25,000 thousand euro), given considered representative of the recoverable value. At the close of the financial statements as of December 31, 2019 and December 31, 2020, the book value of the equity investment, measured using the equity method, was aligned with the value of the corresponding portion of the shareholders' equity of the jointly-controlled subsidiary at the same date (net of the nominal value of the Participating Financial Instruments, PFIs, amounting to 284,386 thousand euro) given considered recoverable in consideration of the constant improved results achieved in the last three years, compared to the final Business and Financial Plan underlying the Restructuring Agreement.
In particular, the result for the year achieved by the jointly controlled subsidiary as of December 31, 2020, was 125,513 thousand euro, a slight reduction compared to last year (equal to 167,099 thousand euro). However, the Gross Operating Margin improved significantly compared to the previous year, amounting to 255,601 thousand euro, compared to 213,180 thousand euro realised in 2019, and also the Operating

Result, which amounted to 155,641 thousand euro in 2019, showed an increase of 14,310 thousand euro in 2020.

Consequently, as a result of the economic results achieved in previous years and in 2020, which confirmed the better performances than those expected in the Business and Financial Plan, the shareholders' equity as of December 31, 2020 stood at 518,565 thousand euro. This trend confirms the reasonableness of the assumptions used by Tirreno Power SpA Directors in the preparation of the business plan and its update, making the latter aware of the company's ability to reach the results expected in the business plan also for future years, although it is aware that the results expected in the Plan may only occur when the assumptions provided for therein occur.

It should also be noted that the shareholders' equity of Tirreno Power, net of the participating financial instruments, amounted to 234,178 thousand euro, and was supported by the *impairment test* performed by the company, which concluded that the value of the fixed assets as of December 31, 2020 is recoverable.

The above considerations led the Directors to determine that the reasons that had led to the write-down of the equity investment held in Tirreno Power in previous years had ceased to exist and, therefore, to proceed with the measurement of the equity investment at an amount corresponding to the portion of shareholders' equity pertaining to the closing date of the financial statements.

B. III. 2 - Receivables

Receivables due from non-consolidated subsidiaries

Receivables due from non-consolidated subsidiaries, posted in the financial statements as of December 31, 2020, are represented by the loan granted to the subsidiary Green Power Marcallese Srl, for an amount of 6,322 thousand euro.

As described in the previous paragraph, the purchase of 75% of the company's share capital, was completed on December 28, 2020 by the parent company Sorgenia Sviluppo Srl, whose share capital is wholly-owned by Sorgenia SpA. For the purposes of the consolidated financial statements as of December 31, 2020, the newly acquired company was not included in the scope of consolidation owing to the "irrelevance of the subsidiary", as regulated by art. 28 of Italian Legislative Decree 127/91.

As of December 31, 2019, the balance shown in the financial statements was 341 thousand euro, relating to the interest-bearing loan granted to the subsidiary Sorgenia Solar Srl in liquidation, not included in the scope of consolidation in 2019. The loan was repaid in the first few months of 2020 following the liquidation of the subsidiary and striking off from the register of companies.

Receivables due from parent companies

The financial receivable due from parent companies, amounting to 1,000 thousand euro in the financial statements as of December 31, 2019, represented the non-interest bearing long-term loan granted to the former parent company Nuova Sorgenia Holding SpA in 2018.

This loan was repaid in October 2020, following the Group's purchase by F2i SGR SpA and Asterion Industrial Partners SGEIC SA, as described in the paragraph "Significant events in the year".

Receivables due from others

The item under review includes long-term receivables designed for business operations, such as *(i)* security deposits for the lease or rental of third-party assets, *(ii)*deposits paid to companies involved in electricity transportation and gas distribution, and to institutional counterparties with which the Group operates in the electricity and gas markets.

In particular, the item refers mainly to the payment of security deposits, made by the parent company Sorgenia SpA, in favour of Terna during the previous year, on behalf of the subsidiaries Sorgenia Power SpA and Sorgenia Puglia SpA, based on the mandate without representation conferred by the subsidiaries in favour of the parent company.

These payments, made in the form of security deposits, represent the payment of contributions to the guarantee fund *(i)* for the purposes of participation in the Aste Madri (Main Auctions) for the procurement of electricity production capacity with delivery in the years 2022 and 2023, and *(ii)* for the purposes of qualification for the Asta Madre of new production units still not authorised for the procurement of capacity with delivery in the 2023.

Derivative assets

The item as of December 31, 2020, includes the *fair value* relating to the derivative subscribed by the parent company Sorgenia SpA to hedge the risk of interest rate fluctuations on the outstanding bank loan as of December 31, 2020.

The contract was signed on November 3, 2020, for the 2020-2023 period with five leading operators in the banking sector, with a strike price of 0.25% and debt hedging equal to roughly 84% of the bank loan to the parent company Sorgenia SpA, as at the date of year-end. The classification of these instruments in fixed assets follows the classification of the underlying whose expiry is predominantly after 12 months.

C - CURRENT ASSETS

C. I - Inventories

EUR/000	**31/12/2020**	**31/12/2019**
Gas	16,065	22,830
CO_2 certificates	117	212
Spare parts	7,201	5,406
Work in progress and semi-finished products	2,556	877
TOTAL	**25,939**	**29,325**

The item inventories amounts to 25,939 thousand euro (29,325 thousand euro as of December 31, 2019) and includes mainly the value of gas inventories stored at Stogit SpA and IGS at December 31, 2020.
The decrease recorded in 2020, equal to 3,386 thousand euro, mainly reflects the reduction in natural gas stocks that the market recorded throughout 2020, which led to a lower valuation of stocks relating to the 2020-2021 storage campaign, despite the increase in the awarding of auctions for the allocation of storage capacity at Stogit SpA, compared to the previous year.
The storage transactions were implemented in order to guarantee flexibility in procurement and to manage the volatility of intra-day prices. Inventories are recognised at weighted average cost.
Stocks relating to spare parts refer to those needed for maintenance of the thermoelectric plant. The change with respect to the previous year relates to the acquisition of some spare parts necessary for the functioning of the plants. These inventories are measured at weighted average cost.

Work in progress refers to long-term works performed by the subsidiary Sorgenia Green Solutions Srl for the development of photovoltaic projects; measured on the basis of the fees accrued with reasonable certainty, according to percentage completion method, determined by comparing the costs incurred with total costs estimated to complete the works.

The rise reflects the increased operations of the subsidiary in 2020, and in particular, in the final quarter of the year, due to the stipulation of contracts aimed at carrying out works meeting the “Ecobonus” requirements.

C. II – Receivables

EUR/000	Within 12 months	After 12 months	31/12/2020	31/12/2019
1) Due from customers	224,429	-	224,429	256,196
2) Due from non-consolidated subsidiaries	-	-	-	5
3) Due from associates	-	-	-	-
4) due from parent companies	-	-	-	30
5) due from companies subject to control of parent companies	-	-	-	-
5/bis) Tax receivables	22,677	585	23,262	17,971
5-ter) Deferred tax assets	73,320	-	73,320	83,277
5-quater) due from others	10,486	-	10,486	7,830
TOTAL	**330,912**	**585**	**331,497**	**365,310**

C. II. 1 - Due from customers

Trade receivables amounted to 224,429 thousand euro, and refer almost entirely to trade receivables arising from the Group's supply of electricity and the sale of natural gas.

The decrease of 31,767 thousand euro, recorded as of December 31, 2020 compared to the previous year, is the result of the combined effect, primarily of:

- higher receivables for invoices to be issued by the parent company Sorgenia SpA to Terna linked to the increased operations of the Group's production plants on the services markets in the final part of 2020;
- lower receivables of the subsidiary Sorgenia Trading SpA due to leading third-party counterparties, linked to lower volumes of electricity and natural gas sold in the final few months of 2020;
- lower receivables due from the end customers of the parent company Sorgenia SpA, attributable to the reduction in the volumes of electricity and gas sold to end customers, mainly due to the reduction in consumption by high-end customers, small and medium enterprises (SMEs) and professionals due to the CoViD-19 emergency, plus the reduction in *commodity* prices; in the Residential segment, sales instead continued at high rates, with no decrease in consumption.

It should also be noted that, vice versa, the customer portfolio rose from around 345 thousand as of December 31, 2019 to roughly 416 thousand in 2020, marking an increase of 20.6% compared to the previous year.

It should also be noted that the adjustment of the nominal value of the receivables to their presumed realisable value was obtained through a provision for the write-down of receivables amounting to 34,104 thousand euro as of December 31, 2020 (31,019 thousand euro as of December 31, 2019) which represents the best estimate of the risk of breach of the obligations assumed by customers.
In this regard, the Group identifies three homogeneous classes of customers: “Mass market customers” attributable to micro-enterprises and “Corporate”, attributable to small, medium and large enterprises and "residential" attributable to domestic customers. Overdue receivables are managed by type of recovery action and written down on the basis of the expected outcome of the recovery action taken.
With respect to the year ended at December 31, 2019, the provision for the write-down of receivables increased given that past due receivables are of lower quality, in terms of recoverability, than the previous ones recognised as a result of the CoViD-19 emergency.

The item “Miscellaneous operating costs” as of December 31, 2020 includes the net effect of losses on receivables, deriving from the recognition of losses on receivables amounting to 11,930 thousand euro (12,022 thousand euro in the previous year), fully covered by the use of the provision for the write-down of receivables. During the year under review, the amount of 15,049 thousand euro (7,240 thousand euro in the previous year) was allocated to the provision for the write-down of receivables, which is reflected in the Income Statement under the item "Write-down of receivables included in current assets and cash and cash equivalents".

C. II. 5/bis – Tax receivables

EUR/000	**31/12/2020**	**31/12/2019**
Within 12 months		
Receivables due from tax authorities for current VAT	18,277	12,090
Other tax credits	4,400	5,166
After 12 months		
Other tax credits	585	715
TOTAL	**23,262**	**17,971**

Receivables from Tax Authorities for current VAT, amounting to 18,277 thousand euro (12,090 thousand euro at December 31, 2019), relate mainly to the Parent Company Sorgenia SpA, by virtue of the Group VAT agreement in place with the subsidiaries.
In particular, it should be underlined that, in 2020, the parent company requested the refund *(i)*of a VAT credit for 5,000 thousand euro, as per the annual VAT return for 2019; this receivable was subsequently factored on a non-recourse basis and collected in April 2020 net of the commissions applied; *(ii)* of a VAT credit accrued in the year amounting to 4,300 thousand euro.

The residual part of tax receivables due within the next year, shown in the financial statements as of December 31, 2020, represent:

- receivables from the Tax Authorities for excise duties, amounting to 2,598 thousand euro, generated as a result of the higher payments made in previous years;
- Other receivables due from the Tax Authorities, for an amount of 1,801 thousand euro, composed primarily of residual IRES and IRAP tax credits in relation to higher advance payments made in previous years.

The item tax receivables due from the tax authorities due after one year mainly includes the IRES receivables of the subsidiary Energia Italiana SpA, which arose due to the tax transparency regime with the jointly controlled subsidiary Tirreno Power in previous years, for which a specific request for reimbursement was submitted. These receivables amounted to 525 thousand euro at December 31, 2020 (704 thousand euro at December 31, 2019).

C. II. 5/ter – Deferred tax assets

Deferred tax assets amount to 73,320 thousand euro (83,277 thousand euro at December 31, 2019) and include the deferred tax assets relating to the temporary differences between the values of the assets and liabilities recorded in the financial statements and the corresponding values recognised for tax purposes, as well as the deferred tax assets recorded on the previous tax losses for the portion deemed recoverable.
The value consists primarily of deferred tax assets recognised on the various risk provisions and the provision for the write-down of receivables (15,938 thousand euro), the decommissioning and maintenance

provision (14,221 thousand euro), plus the deferred tax assets recognised on tax losses, transferred to the Group tax consolidation regime (41,985 thousand euro), and the ACE (aid for economic growth) benefit (354 thousand euro).

The variation compared to December 31, 2019, negative for 9,957 thousand euro, is due mainly to the combined effect: *(i)* of the use of ACE, amounting to 6,288 thousand euro; *(ii)* of the net effects of the changes in deferred tax assets relating to provisions for risks and charges, and the provisions for decommissioning and maintenance, which involved a total reduction of 2,247 thousand euro and *(iii)* the decrease in deferred tax assets on derivative liabilities of 1,954 thousand euro.

In relation to the tax losses and the ACE recorded, the Directors deemed that the tax recoverability will be reasonably certain over a time horizon until 2024. The recoverability of the aforementioned tax losses and ACE was estimated on the basis of the future taxable income of tax consolidation deriving from the 2020 – 2024 Business Plan, approved by Sorgenia SpA's Board of Directors on January 21st, 2021, which acknowledges the pre-closing data as of December 31st, 2020 and the forecasts relating to Budget 2021. The Directors deemed that this plan represents convincing evidence to support the recoverability of deferred tax assets. However, given the long time horizon of the aforementioned forecast plan, the estimates made could differ, including significantly from the actual circumstances, leading to a subsequent impact on the recoverability of deferred tax assets.
As regards the measurement of the recoverability of deferred tax assets on temporarily non-deductible interest recognised prior to the participation in tax consolidation (84,841 thousand euro, which corresponds to a tax credit of 20,362 thousand euro), the Directors judged that there is no reasonable certainty as to the recoverability of the associated deferred tax assets, in consideration of a different time horizon for recovery of said temporary difference, as well as the effects of the refinancing of the Group that involves the incurring of higher financial expenses, hence not allowing the deductibility of previous financial expenses.

For a breakdown of the composition of this item and of the changes that took place in the year under review, see the paragraph entitled "Income Taxes".

C. II. 5/quater - Receivables - others

The item receivables due from others amounted to 10,486 thousand at December 31, 2020.
These receivables mainly include:

- for 6,071 thousand euro, restricted sums (mainly on the Macquarie Ltd and ED&F account) in order to guarantee the operations of the subsidiary Sorgenia Trading SpA on regulated energy and gas markets. As of December 31, 2019, the item came to 4,941 thousand euro; the increase recorded in 2020 is connected with increased transactions on organised markets (Cleared);

- advance payments and payments on account made to suppliers for 1,844 thousand euro, which include significant sums paid in advance by the parent company Sorgenia SpA to agents for 1,157 thousand euro;
- margin calls made in favour of leading wholesalers during the year for the purposes of the operations of Sorgenia Trading SpA on the electricity and gas markets for a total of 1,050 thousand euro;

The change with respect to the previous year, amounting to 2,656 thousand euro, relates mainly to the increase in the sums deposited (described above) by the subsidiary Sorgenia Trading SpA, from which the payment of higher restricted sums was requested as a result of increased operations and future commitments for which contracts have been drawn up, and higher advance payments to suppliers in 2020.

C. III – Short-term investments

EUR/000	**31/10/2020**	**31/12/2019**
1) Investments in non-consolidated subsidiaries	-	-
2) Equity investments in associates	-	-
3) Equity investments in parent companies	-	-
3-bis) Equity investments in companies subject to control of parent companies	-	-
4) Other equity investments	-	-
5) Derivative assets	18,298	279
6) Other securities	-	-
7) Financial assets for centralised treasury management	-	-
TOTAL	**18,298**	**279**

C. III. 5 – Derivative assets

The fair value of derivative contracts stated under current assets is 18,298 thousand euro at December 31, 2020 and includes the fair value of derivative assets on energy commodities. In particular, the amount includes the *fair value* asset, shown at net amount by deal, of derivatives stipulated for speculative purposes of proprietary trading with leading physical counterparties (trading portfolio), in order to maximise arbitrage opportunities offered by the market through fluctuations in pricing. The increase recorded compared to the previous year, for an amount of 18,035 thousand euro, derives mainly from the rise in the volumes of proprietary trading carried out in 2020.

This item includes 16 thousand euro for the *fair value* as of December 31, 2019 of the *Interest Rate Cap* derivative subscribed by Sorgenia SpA and the subsidiary Sorgenia Power SpA in 2017 to hedge the risk of interest rate fluctuations on the outstanding borrowings at the close of the previous year. This instrument was extinguished following the repayment of the bank payables, resulting from the Group sale transaction, completed in October 2020, and subsequent refinancing.

C. IV – Cash and cash equivalents

EUR/000	**31/10/2020**	**31/12/2019**
1) Bank and post office deposits	62,893	231,642
2) Cheques	-	-
3) Cash and valuables on hand	7	8
TOTAL	**62,900**	**231,651**

C. IV. 1 – Bank and post office deposits

The item Bank and post office deposits to 62,893 thousand euro, with a negative change of 168,749 thousand euro. The change is mainly due to the net effect of: *(i)* the operating *cash flow* generated by the Group companies during the year; *(ii)*the *cash flow* absorbed by investment activities and repayments of loans made during the year.

For additional details about the financial trends in 2020, please refer to the Statement of Cash Flows.

In addition, it should be noted that the item includes the credit balances relating to bank current accounts, to accounts with *clearing houses* (on which positions outstanding in financial derivatives are settled on a daily basis) and foreign currency accounts and bank deposits at December 31, 2020.

D – ACCRUALS AND DEFERRALS

EUR/000	**31/12/2020**	**31/12/2019**
Accrued income	-	49
Prepaid expenses	4,430	4,206
TOTAL	**4,430**	**4,255**

The item 'prepaid expenses' came to 4,430 thousand as of December 31, 2020.

The balance refers entirely to amounts paid in advance, but pertaining to the next year, mainly relating to *(i)* commissions on sureties (687 thousand euro); (ii) insurance, advertising, lease fees, maintenance and *software contracts* (2,881 thousand euro) *(iii)* renewal of *cloud* services for Group information systems incurred for the July 2020/December 2022 period (465 thousand euro);*(iv)*premium paid for the *Interest Rate Cap derivative* (358 thousand euro), subscribed by the parent company Sorgenia SpA on November 3, 2020, with "*effective date*" from December 31, 2020.

As of December 31, 2020, the Group recorded prepaid expenses relating to insurance, for an amount of 57 thousand euro, with maturity after five years.

DESCRIPTION OF LIABILITIES AND SHAREHOLDERS' EQUITY ITEMS

A – SHAREHOLDERS' EQUITY

Group shareholders' equity at December 31, 2020 amounted to 651,863 thousand euro, an increase of 208,956 thousand euro compared with the end of 2019 when Group shareholders' equity stood at 442,907 thousand euro.

The change is mainly related to the profit achieved in the first half of 2020, equal to 200,507 thousand euro and the positive change in the *Cash flow hedge* reserve amounting to 8,438 thousand euro.

The balance of the *Cash Flow Reserve*, which contributed to forming the value of Group shareholders' equity at December 31, 2019 amounts to 2,249 thousand euro, net of the associated tax (negative amount of 6,189 thousand at December 31, 2019).

The changes in the items of shareholders' equity compared to December 31, 2019 are shown below:

EUR/000	Share Capital	Legal Reserve	OIC conversion reserve	CFH Reserve	Retained earnings (accumulated losses)	Income/(loss) for the year	Total
Shareholders' equity as of 31/12/2019	**406,677**	**1,816**	**(19,583)**	**(6,189)**	**58,805**	**1,381**	**442,907**
Alloc. of income from previous year	-	18	(4,875)	-	6,238	(1,381)	-
Other changes - change in CFH reserve	-	-	-	8,438	-	-	8,438
Income/(loss) for the year	-	-	-	-	11	200,507	200,518
Total change in the year	**-**	**18**	**(4,875)**	**8,438**	**6,249**	**199,126**	**208,956**
Shareholders' equity as of 31/12/2020	**406,677**	**1,834**	**(24,458)**	**2,249**	**65,054**	**200,507**	**651,863**

I - Share capital

The Parent Company's share capital at the close of 2020, fully subscribed and paid-in, amounts to 406,677 thousand euro and is represented by 39,746,225,100 ordinary shares with no nominal value and 921,435,281 shares with a nominal value of 0.01 euro each, for a total of 40,667,660,381 shares, as detailed in the table below:

Holder	No. of Shares repres.	%
Zaffiro SpA	40,667,170,208	99.9988%
Sorgenia SpA (treasury shares)	415,500	0.001%
Others	74,673	0.0002%
TOTAL	**40,667,660,381**	**100.000%**

The share capital of Sorgenia Group is held as follows:

- A stake of 99.9726% in the share capital is held by Zaffiro SpA (value of 406,672 thousand euro).
- A stake of 0.0002% in the share capital is held by individuals (value of 1 thousand euro)
- The remaining 0.001% of the share capital consists of ordinary treasury shares (value of 4 thousand euro).

For more details on the changes in the period regarding the composition of the shareholding structure, please refer to the section "Significant events in the year".

IV – Legal reserve

The Legal Reserve, amounting to 1,834 thousand euro, increased by 18 thousand euro during the year as a result of the allocation of 5% of the profit of the previous year made by the parent company Sorgenia SpA.

VI – Other reserves

The balance shown at December 31, 2020, includes, for a negative amount of 24,458 thousand euro, the negative value of the translation reserve generated as a result of the transition to national accounting standards (OIC) for the first-time preparation of the consolidated financial statements at December 31, 2020.

For more details on the changes in the period, regarding the change of accounting standards used for the preparation of the Group's financial statements as of December 31, 2020, please refer to the paragraph "INFORMATION RELATING TO THE CHANGE OF ACCOUNTING STANDARDS AND THE ADOPTION OF NATIONAL ACCOUNTING STANDARDS (OIC)", according to the provisions of OIC 33.

VII - Reserve for hedging transactions on expected cash flows

The balance as of December 31, 2020 of the *cash flow* reserve, amounting to a 710 thousand euro, includes the net *fair value* liability for financial instruments stipulated by the parent company Sorgenia Trading, as part of the already mentioned mandate without representation agreement in place between the two Group companies, net of the related tax effect. The derivative has the objective of hedging risks of fluctuations in *commodity* prices in future cash flows, in accordance with requirements for hedge accounting.

The change in the period under review is reported below:

EUR/000	Reserve for hedging transactions on expected cash flows
Opening value	**(6,189)**
Changes in the period	**8,438**
Increase for *fair value* changes	-
Decrease for *fair value* changes	11,103
Release to income statement	
Release as adjustment of asset/liability	
Deferred tax effect	(2,665)
Closing value	**2,249**

VIII – Retained earnings (losses)

The item includes the sum of all earnings retained by the Group companies following the allocation of the profit in the previous year.

IX - Net income (loss) for the year

The item includes the result for the year recorded by Group companies.

For more details on changes in the individual items in the current year and the previous year, please refer to the table of changes in shareholders' equity.

The table of reconciliation between the net result and the shareholders' equity of the parent company with respect to the net result and shareholders' equity of the Group is attached.

EUR/000	Income/(loss) for the year	Shareholders' Equity
Sorgenia SpA – Parent Company	**73,047**	**385,276**
Results of subsidiaries	205,935	205,935
Income of subsidiaries of previous years not distributed	-	120,432
Elimination of intercompany dividends	(22,000)	-
Amortisation of consolidation difference - Sorgenia Green Solutions Srl	(193)	578
Sterilisation of write-down of equity investments - 2020	6,132	2,056
Sterilisation of revaluation of equity investments at equity- 2020	(62,414)	(62,414)
Sorgenia Group – Consolidated	**200,507**	**651,864**

B – PROVISIONS FOR RISKS AND LOSSES

EUR/000	31/12/2019	Provision	Decreases	Other changes	31/12/2020
B.1) Retirement provision and similar obligations - sales force	1,934	626	(68)	-	2,492
B.2) Provision for deferred taxes	3,226	710	(2,917)	-	1,019
B.3) Provisions for derivative liabilities	3,455	18,159	(932)	-	20,682
B.4) Other provisions for risks and losses	87,539	20,015	(29,376)	(2,849)	75,329
TOTAL	**96,155**	**39,510**	**(33,293)**	**(2,849)**	**99,521**

B. 1 - Retirement provision

The retirement provision relating to the sales force amounts to 2,492 thousand euro (1,914 thousand as of December 31, 2019) and includes the amounts of the client indemnity to which the commercial agents working for the Group are entitled.

B. 2 - Provision for deferred taxes

The provision for “Deferred tax liabilities” amounts to 1,019 thousand euro at December 31, 2020 (3,226 thousand euro at December 31, 2019), with a decrease of 2,207 thousand euro. The decrease recorded compared to December 31, 2019 is attributable to the use of the deferred taxes recorded in previous years on the measurement at amortised cost of the Group's financial payables, following the reimbursement of loans in October 2020, following the purchase of the Group by F2i SGR SpA and Asterion Industrial Partners SGEIC SA, as described in the paragraph "Significant events in the year".

For changes in and the breakdown of the item in question, please refer to the appropriate section of the Income Statement relating to income taxes.

B. 3 - Provisions for derivative liabilities

The item, amounting to 20,682 thousand as of December 31, 2020, includes the *fair value* of derivative contracts and in particular:

- the negative *fair value*, shown at net amount by deal, of forward purchase and sales contracts for electricity and gas designated in the trading portfolio for 18,340 thousand euro, relating to derivatives stipulated for purposes of proprietary trading with leading physical counterparties as part of the trading portfolio;
- the *fair value* measurement of instruments hedging against the risk of volatility of the consideration for transfer capacity assignment (CCC), i.e. 2,342 thousand euro.

The increase recorded compared to the previous year, for an amount of 17,277 thousand euro, derives mainly from the rise in the volumes of proprietary trading carried out in 2020 by the subsidiary Sorgenia Trading SpA.

B.4 - Other provisions for risks and losses

EUR/000	31/12/2019	Allocation	Decreases	Other changes	31/12/2020
Decommissioning provision	23,789	1,865	-	-	25,654
Provision for maintenance	18,148	9,092	(3,171)	-	24,069
Other provisions for current risks and losses	45,244	8,772	(25,846)	(2,849)	25,321
Provisions for bonus on volumes	359	286	(359)	-	286
OTHER PROVISIONS FOR RISKS AND LOSSES	**87,539**	**20,015**	**(29,376)**	**(2,849)**	**75,329**

The decommissioning provision, amounting to 25,654 thousand euro, includes the estimated expense that Group must incur for the decommissioning of the thermoelectric plants and the restoration of the relevant sites at the end of their useful life. The provision is made on a straight line basis over the useful life of the plants.

The maintenance provision of 24,069 thousand euro represents the best estimate of the costs of extraordinary maintenance works that will be carried out according to the engineering plans for restoring the efficiency and successful operation of the plants. During the year, this provision was used for an amount of 3,171 thousand euro relating mainly*(i)* to expenses for the maintenance of the Termoli plant of the so-called *Balance of Plant* (BOP), such as, for example, the refurbishment of the bottom of a recovery boiler and internal coatings of tanks and reservoirs for 1,661 thousand euro;*(ii)*works carried out on the steam turbine at the Bertonico-Turano Lodigiano plant for 354 thousand euro, and *(iii)* periodic works carried out at the Aprilia plant on a gas turbine for which the subsidiary Sorgenia Power SpA paid the *milestone fee* set forth in the LTSA contract for 607 thousand euro.

Other provisions for current risks and losses, which have a balance of 25,321 thousand euro, mainly refer:

- to the provision for customer disputes and teleseller agency and miscellaneous disputes, for an amount of 4,138 thousand euro (3,385 thousand euro as of December 31, 2018), which includes the estimated costs of legal proceedings brought by customers, as well as the estimate for other outstanding legal disputes. During the year under review, provisions of 1,227 thousand euro, releases of 337 thousand euro and uses of 137 thousand euro were recorded;
- to the provision for future expenses relating to sales activities, for 3,034 thousand euro (2,986 thousand euro as of December 31, 2019) attributable to the best estimate made, at the date of preparation of the financial statements, for *(i)* costs linked to *"collector"* activities for trade receivable recovery actions; *(ii)* costs relating to the payment of fees for the enforcement of injunction orders against defaulting customers and *(iii)*costs for likely repurchases of receivables transferred to a factoring company in previous years as a result of the suspension of the contract. In 2020, there were uses of 501 thousand

euro and provisions of 549 thousand euro;

- to the risk provision for Settlement by the gas Transport Operator. Following the issue by the Authority of resolutions 670/2017/R/gas and 782/2017/R/gas, the recalculation by the gas Transport Operator of the economic and physical items of 2015 began. The aforementioned resolutions outlined a model for calculating the positions accrued by the operators as a result of adjustments to the measurements of the points underlying the distribution networks (the “Settlement”). Based on the information available on the new *Settlement* model introduced by the Authority, the estimate of the probable charge to be paid to the Transport Operator for the period 2015-2020 was quantified at 5,080 thousand euro (1,931 thousand euro as of December 31, 2019). This estimate was made based on the measurement adjustments communicated to Sorgenia by the distributors and on the comparison of these updated measures with the values considered at the time by the Operator, in line with the indications contained in resolutions 670/2017/R/gas and 782/2017/R/gas. In 2020, the provision under review recorded a reduction due to use for amount of 32 thousand euro; a decrease for release of 399 thousand euro, a reclassification from the item "trade payables" for 500 thousand euro, and a provision of 3,080 thousand euro;
- the risk provision connected with the ARERA preliminary investigation and AGCM investigation on prices in dispatching services amounting to 2,000 thousand euro (1,297 thousand euro as of December 31, 2019) is attributable to the potential outlay as a result of the Order to Comply no. 461/2017/E/EEL and penalty proceedings no. DSAI/96/2017/EEL. In 2020, the provision recorded a write-back of 703 thousand euro. The amount corresponds to the best estimate of the probable charge that the parent company must incur for the penalty proceeding which is still in progress;
- to the provision for risks established in 2019 by the subsidiary Sorgenia Power SpA, for a total amount of 10,459 thousand euro, for the likely expense payable by the subsidiary for the adjustment of the imbalance by Terna due to possible revisions of national production; the change in the year came to 3,500 thousand euro.

The decrease in the item, amounting to 19,923 thousand euro, is mainly due to the combined effect of the following phenomena:

i) to the allocation set aside by the subsidiary Sorgenia Power SpA, for the likely expense payable by the Company for the adjustment of the imbalance by Terna due to possible revisions of national production, for an amount of 3,500 thousand euro (adjusting the amount allocated at the close of the financial statements as of December 31, 2019);

ii) the use for an amount of 21,042 thousand euro, with reference to the provision for risks related to the allocation of a medium/long-term variable incentive in favour of Company Directors and employees of Sorgenia SpA and Sorgenia Power SpA, partly linked to a Group sale transaction for an amount of 25,439 thousand euro as of December 31, 2019). The residual amount, as of

December 31, 2020, was reclassified to the item "Other payables", as a result of verification of the financial conditions underlying the recognition of the incentive;

iii) to the decrease for the use relating to the risk provision established by the subsidiary Sorgenia Power SpA, amounting to 2.500 thousand euro, in view of the dispute pertaining to the technical adjustments of the thermoelectric plant located in the Municipality of Aprilia, following a settlement agreement reached and signed with the Municipality of Aprilia in 2020;

iv) the use of the risk provision recognised by the parent company Sorgenia SpA on the equity investment in the subsidiary Sorgenia Solar Srl (in liquidation) amounting to 260 thousand euro as of December 31, 2019. The provision was allocated to cover expected future losses in light of the company's negative shareholders' equity and the costs that had to be incurred, and was used during the year as a result of the liquidation of the subsidiary in the first few months of 2020.

The volume bonus provision, amounting to 286 thousand euro (359 thousand euro as of December 31, 2019 and used in 2020) is linked to the signing of annual supply contracts by the Company Sorgenia SpA with its customers, which provide for the payment of bonuses if certain targets are reached in terms of volumes of electricity and gas withdrawn. At December 31, 2020, these bonuses, which are specific in nature and are likely to exist, are uncertain in terms of their amount and timing. The amount shown in the Financial Statements relates only to bonuses to be paid to customers on consumption in 2020.

In compliance with the matters laid down by OIC 31, the allocations to risk provisions are recorded under the ordinary operations to which the transaction refers, with the classification of costs “by nature” as the prevailing principle.

C – EMPLOYEE LEAVING INDEMNITY (TFR)

EUR/000	**31/12/2019**	**Use**	**Provision**	**31/12/2020**
Provision for employee leaving indemnity	1,238	(1,348)	1,494	1,383

The employee leaving indemnity allocated for work services represents the Group's debt to employees, as of December 31, 2020, net of any advances paid out.

Uses include portions of employee leaving indemnity, accrued before the reform of 2007 and therefore still held by the Company, and paid during the year to employees who terminated their employment relationship during the year.

The uses also include the amounts transferred to the INPS treasury fund or to supplementary pension funds, the advances paid, the use for the excess of the employee leaving indemnity bonus pertaining to the previous year disbursed during the year under review.

D - PAYABLES

EUR/000	Within 12 months	After 12 months	After 5 years	31/12/2020	31/12/2019
1) Bonds	-	-	-	-	-
2) Convertible bonds	-	-	-	-	403,913
3) Payables due to shareholders for loans	-	-	-	-	-
4) Bank borrowings	60,578	455,698	-	516,276	475,111
5) Payables due to other lenders	-	-	-	-	-
6) Advance payments	1,884	-	-	1,884	5,068
7) Trade payables	227,898	-	-	227,898	233,047
8) Payables represented by credit instruments	-	-	-	-	-
9) Payables due to non-consolidated subsidiaries	-	-	-	-	-
10) Payables due to associates	1,246	-	-	1,246	705
11) Payables due to parent companies	-	-	-	-	19
11-bis) Payables due to companies subject to control of parent companies	12	-	-	12	-
12) Tax payables	8,940	-	-	8,940	9,047
13) Payables due to social security institutions	3,433	-	-	3,433	3,142
14) Other payables	39,761	600	-	40,361	26,660
TOTAL	**343,752**	**456,298**	**-**	**800,049**	**1,156,711**

D. 2 - Convertible bonds

The value shown in the financial statements as of December 31, 2019 included the value of the mandatory convertible bond of the companies of the Sorgenia SpA Group and Sorgenia Power SpA issued on March 27, 2015, in execution of the 2015 Restructuring Agreement and subsequently amended in 2017 as a result of the Financial Debt Restructuring Agreement.

More specifically, the 2015 Restructuring Agreement made provision for the issuing of a mandatory convertible bond through the issuing of bonds intended for subscription and discharge at par by the creditor banks, through offsetting the financial receivables due from the Group companies.
As a result of the changes made to the Financial Debt Restructuring Agreement, the mandatory convertible bond is interest-bearing, regulated at a nominal fixed rate of 1% and maturing on December 31, 2027.

As described in the paragraph "Sorgenia Group development operations" to which reference should be made, on October 6, 2020, the sale of Sorgenia SpA's shares to the company Zaffiro SpA was completed.

On the same date, the Sorgenia Group's financial debt was refinanced with the banking system. Therefore, the bond loan was repaid in full and the 2017 Restructuring Agreement was simultaneously terminated.

D. 4 – Bank borrowings

EUR/000	31/12/2020	31/12/2019
Current accounts and bank charges	157	1
Loans	516,118	475,110
TOTAL	**516,276**	**475,111**

The item bank borrowings, amounting to 516,276 thousand euro, includes:*(i)* payables due to banks for loans, amounting to 516,118 thousand (of which 233 thousand euro relating to loan interest), *(ii)* bank charges still not debited at December 31, 2020, amounting to 157 thousand euro.

The following table details the characteristics of the Group's loans at the close of the year:

EUR/000

Company	Type	Maturity date	Nominal value 31.12.2020	Amortised cost 31.12.2020	Of which Short	Of which Long
Sorgenia SpA	*Term Loan* line	Dec-24	499,400	485,884	30,187	455,697
Sorgenia SpA	*Revolving* line	Dec-24	30,000	30,000	30,000	-
BANK BORROWINGS			**529,400**	**515,884**	**60,187**	**455,697**

As already described in the paragraph "Significant events in the year", it should be noted that, on October 6, 2020, with the finalisation of the Group purchase and sale transaction by F2i SGR SpA and Asterion Industrial Partners SGEIC SA, the Sorgenia Group's financial debt as at said date was refinanced with the banking system, through the taking out of a new loan obtained on the market which entailed the full repayment of existing financial payables and the termination of the Debt Restructuring Agreement.

On October 6, 2020, the Sorgenia Group's new financing structure became operational, which is composed of a *term loan* line of 565,000 thousand euro and a *revolving* line of 75,000 thousand euro granted to the parent company Sorgenia SpA, at a floating rate (6-month Euribor for the *term loan* lines and 3/6-month Euribor for the *revolving*) line with an initial margin of 3.50%, which may reduce six-monthly based on the attainment of defined thresholds of the *Net Debt/EBITDA* ratio.

Both the *term loan* and *revolving* lines expire in December 2024.

The *term loan* lines make provision for half-yearly instalments and a balloon final payment, while the *revolving* line envisages up to 15 contemporary uses with an interest and repayment period of 3 or 6 months; in relation to the latter, there is also a *commitment fee* on amounts not disbursed equal to 35% of the reference margin.

Provision is made for an additional early repayment mechanism through *cash sweep* on the surplus cash generated, to be applied annually at first, then every six months from June 2022.

The parent company also has an "excise" loan agreement comprised of a line up to 70,000 thousand euro provided to the Group to cover the financial requirements that should arise from any refund requests on excise paid in due course by end customers and not due from the latter pursuant to the regulations in force. The payment, also following a ruling, of the refunds to end customers by the company means that the latter is due a receivable from the tax authorities.
The signing of the excise loan agreement satisfied one of the three conditions set out in the transaction involving the sale of Sorgenia SpA's shares.
The "excise" loan has an annual interest rate of 2.25%, which is added to the three-month Euribor (with *floor* at zero), and a commitment fee of 1% per annum.

It is specified that, at December 31, 2020, the Group:

- repaid a portion of the principal on the loan disbursed, corresponding to the *term loan* line of 29,600 thousand euro, hence reducing the nominal portion to an amount of 499,400 thousand euro;
- used a portion of the *revolving* line, for an amount of 30,000 thousand euro (repaid in January 2021);
- recognised the expense pertaining to 2020, in application of the measurement at amortised cost for an amount of 13,515 thousand euro.

D.6 -Advance payments

The balance shown in the item Advance payments, amounting to 1,884 thousand euro, as of December 31, 2020, refers mainly to the advances received from the subsidiary Sorgenia Green Solutions Srl for the implementation of photovoltaic projects.
The decrease refers mainly to the balance shown as of December 31, 2019, by the subsidiary Sorgenia Trading SpA, and relates to the advance payment of 2,998 thousand euro received from a commercial counterparty for the sale of gas with physical delivery in the first quarter of 2020, a sale completed on behalf of Sorgenia SpA as part of the mandate without representation agreement.

D. 7 - Trade payables

The item Trade payables amounted to 227,898 thousand euro (233,047 thousand euro at December 31, 2019), of which 166,529 thousand euro for invoices to be received.
These payables refer to costs for services, supplies, transportation costs, and ancillary costs relating to electricity and gas exchange.

Payables are measured at their nominal value, which approximates the value of payables at amortised cost, since there are no payables due after one year.

D. 10 - Payables – associates

The balance of the item payables due to associates, amounted to 1,246 thousand euro at December 31, 2020, and includes the payables due to Tirreno Power SpA, as a result of the application of the tax transparency regime that the Group signed with the jointly controlled subsidiary in previous years for 835 thousand euro, and trade-related payables of 412 thousand euro for the purchase of electricity by the subsidiary Sorgenia Trading SpA.

The increase compared to December 31, 2019 is due to the settlement of the requests for the reimbursement of IRES from IRAP, carried out by the jointly controlled subsidiary Tirreno Power SpA, for the years 2007 – 2011.

D. 12 – Tax payables

The item Payables due to the tax authorities amounted to 8,940 thousand euro (9,047 thousand euro at December 31, 2019). It mainly includes *(i)* the payable for IRAP for the year of 3,925 thousand euro; *(ii)* the payable for excise duties to be paid for 4,403 thousand euro; *(iii)*IRPEF withholdings for employees and professionals to be paid, amounting to 1,487 thousand euro.

D. 13 – Payables due to social security institutions

The item payables due to social security institutions came to 3,433 thousand euro at December 31, 2020 (3,142 thousand euro at December 31, 2019) and includes payables due for social security contributions by the Group for the associated employee withholdings.
The payables in question are due within one year.

D. 14 – Other payables

EUR/000	**31/12/2020**	**31/12/2019**
Due to employees	12,035	6,088
Due to others	28,326	20,572
TOTAL	**40,361**	**26,660**

The item Payables due to employees amounted to 12,035 thousand euro (6,088 thousand euro at December 31, 2019) and includes both a productivity bonus accrued by employees during the year (5,192 thousand euro), and the cost for holidays accrued and not yet taken (2,791 thousand euro).

This item includes the payable for the variable medium/long-term incentive in favour of employees, partly connected with the sale transaction of the Group, for an amount of 4,052 thousand euro. At December 31, 2019, this payable was reported under the item Provisions for risks and losses of Balance Sheet liabilities.

Other payables, amounting to 28,326 thousand euro, mainly includes the payable for the requirement to transfer CO_2 quotas to GSE, accrued during the year based on the electricity output and relative emissions of the Group-owned plants. Despite the overall reduction in the volumes of production of Group plants in

2020, the increase compared to the previous period is attributable to both the higher production recorded in the final quarter of the year and an increase in the unit cost of CO2 quotas with respect to the last quarter of the previous year.

E - ACCRUED EXPENSES AND DEFERRED INCOME

EUR/000	**31/12/2020**	**31/12/2019**
Accrued expenses	489	327
Deferred income	517	48
TOTAL	**1,006**	**375**

The item accrued expenses amounted to 489 thousand euro at December 31, 2020, and refers entirely to the adjusting entries between the year due to close and the subsequent year recorded by the subsidiary Sorgenia Power SpA, calculated using the accrual method, relating to the costs of maintenance of the Termoli plant.

Deferred income refers primarily to the income realised by the subsidiary Sorgenia Trading SpA, for an amount of 480 thousand euro, relating to derivatives outstanding forming part of the Industrial Portfolio, pursuant to OIC 32 *own use exemption* and that have physical delivery in 2021, but which are traded on clearing houses, with cash settlement on a daily basis, and therefore pertaining to 2020.

DESCRIPTION OF INCOME STATEMENT ITEMS

A – VALUE OF PRODUCTION

EUR/000	**31/12/2020**	**31/12/2019**	**CHANGE**
1) Revenue from sales and services	1,426,667	1,631,936	(205,269)
2) Changes in work in progress, semi-finished and finished products	-	-	-
3) Changes in contract work in progress	1,679	(17)	1,696
4 – Own work capitalised	1,829	1,244	585
5) Other revenues and income	27,304	49,393	(22,089)
TOTAL VALUE OF PRODUCTION	**1,457,479**	**1,682,556**	**(225,077)**

A. 1 – Revenue from sales and services

At December 31, 2020, consolidated revenues amounted to 1,426,667 thousand euro and were mainly due: *(i)* to revenues from end customers and other counterparties for the sale of electricity and natural gas for 733,130 thousand euro, *(ii)* to revenues for the Energy Management activities carried out on wholesale markets, and on the Dispatching Services Market (MSD) for 647,876 thousand euro.

The decrease in turnover registered compared to December 31, 2019 is mainly the result of the combined effect of: *(i)* lower revenues from the sale of electricity reported by the thermoelectric power plants due to the decline in production, only partly offset by the better results achieved in the services market; *(ii)*the lower revenues from the sale of electricity and gas on the wholesale market, linked to a reduced price scenario; *(iii)* lower revenues from the sale of electricity and gas to end customers due to the CoViD-19 emergency, which led to a reduction in consumption by high-end customers, small and medium enterprises and professionals; by contrast, sales continued at high rates in the Residential segment with no decreases in consumption. Vice versa, the customer portfolio grew considerably, rising from about 345 thousand at December 31, 2019 to approximately 416 thousand in 2020, marking growth of 20.6% compared to the previous year.

It should also be noted that, the item also includes the revenues achieved by the subsidiary Sorgenia Puglia SpA, following ARERA's approval of Terna's inclusion of the Modugno plant in the list of essential plants and the subsequent admission to the generation costs recovery regime relating to the Modugno plant, based on the expected greater benefit for consumers, for an amount of 33,147 thousand euro.

The following tables provides details on revenues from sales and services realised by geographical area of revenues broken down on the basis of the market between "Italy revenues" and "foreign revenues".

EUR/000	**31/12/2020**	**31/12/2019**	**CHANGE**
Domestic	1,326,890	1,567,882	(240,992)
Foreign	99,777	64,054	35,723
REVENUES BY GEOGRAPHICAL AREA	**1,426,667**	**1,631,936**	**(205,269)**

A.3 - Contract work in progress

Work in progress refers to revenues realised by the subsidiary Sorgenia Green Solutions Srl, and relating to works of interim duration connected with the implementation of photovoltaic projects. The increase reflects the rise in operations of the subsidiary in 2020, and in particular during the last quarter of the year.

A.4 – Own work capitalised

The item, amounting to 1,839 thousand euro as of December 31, 2020, refers to the capitalisation of personnel costs incurred by the Group companies for the development and implementation of software projects.

A.5 - Other revenues and income

EUR/000	**31/12/2020**	**31/12/2019**
Other Revenues	26,971	49,098
Revenues from the charge-back of costs	332	295
TOTAL	**27,304**	**49,393**

The item other revenues and income totalled 27,034 thousand euro at December 31, 2020 (49,393 thousand euro at December 31, 2019). The change recorded with respect to 2019, is attributable *to the combined effect connected (i)* to the lower fees paid by Terna for the availability of productive capacity pursuant to Resolution 48/04 for 2019, with respect to the amount paid for 2018; *(ii)* to the reduction in insurance payouts obtained in 2020 compared to 2019 by the subsidiary Sorgenia Power SpA, for accidents that occurred in previous years at the Aprilia plants in Bertonico-Turano Lodigiano; *(iii)* to the recognition in 2019 of extraordinary non-recurring income by the subsidiary Sorgenia Puglia SpA - relating to the release of a residual part of the provision for risks allocated in 2017, in light of the preliminary investigation procedure and a fact-finding survey launched by the Regulatory Authority for Energy, Networks and Environment (”the authority”), for an amount of 12,200 thousand euro following the Directors' examination of the likelihood of occurrence of the scenarios of potential action by the Authority -; and by the subsidiary Sorgenia Power SpA– relating to the reimbursement of the penalty issued by Snam, which rectified the incorrect measurement of gas capacity used by the Aprilia plant.

Specifically, the item at December 31, 2020 mainly includes:

- fees paid by Terna attributable to the basic and additional "consideration for the availability of production capacity pursuant to Resolution 48/04", for the plants of the companies Sorgenia Power SpA and Sorgenia Puglia SpA, amounting to 14,891 thousand euro;
- higher revenues pertaining to previous years, amounting to 2,088 thousand euro, attributable primarily to the adjustments recognised by Terna for 1,567 thousand euro;
- income relating to the contingent lack of costs allocated in previous years amounting to 1,463 thousand euro;
- non-recurring income relating to the release of the risk provisions set aside in 2020 for an amount of 1,400 thousand euro;
- higher revenues, for 1,957 thousand euro, relating to insurance reimbursements received in 2020 to compensate for claims, opened in previous years, regarding the technical damage suffered by the reducers of the Bertonico - Turano Lodigiano plants of the subsidiary Sorgenia Power SpA;
- non-recurring income relating to the non-existence of payables for invoices to be received relating to previous years, amounting to 1,147 thousand euro.

B) COSTS OF PRODUCTION

EUR/000	**31/12/2020**	**31/12/2019**	**CHANGE**
6) Raw materials, secondary materials, consumables and goods	610,165	821,300	(211,135)
7) Services	474,467	531,597	(57,130)
8) Lease and rental costs	3,109	2,522	587
9) Personnel costs	32,739	38,994	(6,255)
10) Amortisation, depreciation and write-downs	65,258	56,375	8,883
11) Changes in inventories of raw materials, secondary materials, consumables and goods	5,065	24,218	(19,152)
12) Risk provisions	-	178	(178)
13) Other provisions	10,957	8,062	2,895
14) Miscellaneous operating costs	80,991	91,334	(10,343)
TOTAL COSTS OF PRODUCTION	**1,282,751**	**1,574,580**	**(291,829)**

B. 6 – Raw materials, secondary materials, consumables and goods

EUR/000	31/12/2020	31/12/2019	CHANGE
Asset purchase costs	584,222	810,552	(226,330)
Cost of purchase of rights and certificates	20,405	9,957	10,448
Income/expense from business acquisition hedging contracts	4,926	187	4,739
Other asset purchase costs	612	605	8
TOTAL COSTS FOR PURCHASE OF RAW MATERIALS, SECONDARY MATERIALS, CONSUMABLES AND GOODS	**610,165**	**821,300**	**(211,135)**

In 2020, the item costs for raw materials, secondary materials, consumables and goods amounted to 610,165 thousand euro.
This amount essentially comprises the costs for the purchase of electricity and natural gas on wholesale markets.

The decrease of 211,135 thousand euro in the item compared to 2019 is mainly due to a combined effect connected to: *(i)* lower purchase costs of electricity on the wholesale market due to both the decrease in the price with respect to 2019, and the fall in volumes partly offset by *(ii)* higher gas purchase costs due to the higher volumes handled, in particular through the subsidiary Sorgenia Trading SpA, whose increase was only partially offset by the reduction in the price of the *commodity* and *(iii)* higher purchase costs of emission rights by the subsidiary Sorgenia Trading SpA, connected with a higher price of quotas than the previous year, only partially offset by lower volumes.

B. 7 – Services

EUR/000	31/12/2020	31/12/2019	CHANGE
Sales and distribution costs	40,545	37,012	3,533
Compensation, consulting and costs for services	29,142	42,497	(13,355)
Advertising and marketing	5,559	9,013	(3,454)
Energy and gas transport and storage	363,873	405,302	(41,429)
Maintenance costs and contracts	29,440	30,904	(1,464)
Personnel-related services	1,402	2,407	(1,006)
Other costs for services	4,506	4,461	45
TOTAL COSTS FOR SERVICES	**474,467**	**531,597**	**(57,130)**

Costs for services include all costs relating to routine business operations which, in 2020, amounted to 474,467 thousand euro, down by 57,130 thousand euro compared to the previous year.

The item Sales and distribution costs include customer assistance costs, costs for outsourced billing services, credit management costs and costs related to after-sales services provided to customers. This item also includes costs incurred for commissions, i.e. fees due to agents, brokers and telesellers.

Consulting and costs for services mainly refers to legal, fiscal and administrative services, as well as ICT services needed to adapt the Group companies' computer systems to changes in the legislation governing electricity and gas, as well as to meet the needs of users who require systems increasingly able to support them in handling issues related to customers. This item also includes fees accrued by directors and the fees due to the members of the Board of Statutory Auditors and the independent auditors; as well as costs for bank commissions, guarantee expenses and commitment fees.

Costs for transport and storage refer to the expenses incurred for transport and distribution of electricity, transport costs and gas distribution.

The item maintenance costs includes primarily costs connected to the maintenance contracts stipulated for the maintenance and restoration of efficiency of the plants located in Aprilia, Lodi, Termoli and Modugno.

The item personnel-related services, includes the personnel recruitment and training costs, as well as the costs relating to board and lodging and travel expenses of employees.

Other costs for services, include: *(i)*insurance costs that mainly contain the cost of the "*All Risks*" insurance policy taken out after the four plants owned by the Group companies started operating;*(ii)* costs relating to electricity and telephone utilities.

The overall decrease in the item costs for services with respect to the previous year, amounting to 57,130 thousand euro, is attributable mainly: *(i)* to lower transport, dispatch and distribution costs deriving from the fall in the volumes of electricity and gas sold and handled, due to the CoViD-19 emergency , *(ii)* to the higher customer support costs, linked to the growth in the customer base and the objective of acquiring an increasingly higher number of customers *(iii)* to the lower maintenance costs linked to both the LTSAs (*Long Term Service Agreement*) for the change in the general running profiles of the Group generation plants with respect to the previous year, and the ordinary maintenance activities that involved shorter interruptions with a lower increase in *extra-works* which instead occurred in 2019; (iv) to the recognition, in 2019, of extraordinary costs linked to the completion of the Group purchase/sale transaction and the allocation of a variable medium/long-term incentive (LTI).

Lastly, it should be stressed that the balance of the item shown in the financial statements as of December 31, 2020 includes the costs incurred by the Group in acquiring new customers (*Cost to acquire*), for an amount of 11,784 thousand euro.

B. 8 – Lease and rental expenses

EUR/000	31/12/2020	31/12/2019	CHANGE
Rent	2,127	1,851	276
Lease / hire of the company car fleet	941	632	310
Other lease and rental costs	41	39	2
TOTAL OTHER LEASE AND RENTAL COSTS	**3,109**	**2,522**	**587**

The item rent mainly includes the costs incurred primarily for the leasing of offices in Milan, as well as off-site personnel and the rental of a building outside the Group companies for warehouse use.
The balance in the financial statements also includes the fees for short- and long-term car hire. Lastly, the other lease and rental costs refer to the monthly fees for the ICT services, and rental of the other equipment and machinery needed for the operation of the plants owned by the Group companies.

B. 9 - Personnel

EUR/000	31/12/2020	31/12/2019	CHANGE
Personnel costs	30,888	37,335	(6,447)
Employee leaving indemnity (TFR)	1,494	1,436	57
Other personnel costs	358	223	135
TOTAL PERSONNEL COSTS	**32,739**	**38,994**	**(6,255)**

Personnel costs totalled 32,739 thousand euro and include all expenses for employed staff, including the merit pay increases, promotions, automatic cost-of-living increases, cost of holidays not taken, and provisions as per the law and national labour agreements and production bonuses. The applicable national labour agreement is that of the electricity segment.

The change compared to 2019 is tied primarily to the combined effect of:*(i)* the increase in the average headcount;*(ii)* the recognition of lower costs connected to medium/long-term variable bonuses and incentives (*LTI*) compared to December 31, 2019.

The following chart shows the breakdown of Group personnel at December 31, 2020:

	31/12/2019	HIRES	DEPARTURES	31/12/2020	YEAR AVG
Executives	19	-	-	19	19
Managers	79	10	6	83	81
Office staff	234	34	20	248	240
Workers	20	-	-	20	20
TOTAL EMPLOYEES	**352**	**44**	**26**	**370**	**360**

The Sorgenia Group reported, at the end of 2020, a total 370 employees and an average for the year of 360.

B. 10 – Amortisation, depreciation and write-downs

EUR/000	31/12/2020	31/12/2019	CHANGE
Amortisation of intangible assets	15,206	14,981	225
Depreciation of tangible assets	33,654	34,108	(454)
Write-downs of fixed assets	1,287	21	1,266
Provisions on receivables	15,111	7,265	7,846
TOTAL AMORTISATION, DEPRECIATION AND WRITE-DOWNS	**65,258**	**56,375**	**8,883**

In 2020, the item under review amounted to 65,258 thousand (56,375 thousand euro as of December 31, 2019).

B. 10. a – Amortisation of intangible fixed assets

Amortisation of intangible assets, amounting to 15,206 thousand euro, was calculated according to the useful life of the asset and its use during the production phase, for Group software and IT systems.

For the relative analysis, please refer to paragraph "B. I - Intangible assets".

B. 10. b – Depreciation of tangible fixed assets

Also the depreciation of tangible assets, amounting to 33,654 thousand euro (34,108 thousand euro as of December 31, 2019) was also calculated on the basis of the duration of the economic-technical useful life of the asset and its use during the production phase.
Please refer to paragraph "B. II - Tangible assets" for more details.

B. 10. c – Other write-downs of fixed assets

The item under review which amounts to 1,287 thousand euro, refers mainly to the write-down carried out by the parent company Sorgenia SpA for 1,273 thousand euro, in relation to *software* considered technologically outdated and replaced by new developments.
Please refer to paragraph "B. I - Intangible assets" for more details.

B. 10. d – Write-down of receivables included in current assets and cash and cash equivalents

The item “Write-down of receivables included in current assets”, amounting to 15,111 thousand euro as of December 31, 2020 (7,265 thousand as of December 31, 2019) refers to the allocation made to adjust the nominal value of trade receivables to their presumed realisable value (for more details, please refer to paragraph "C. II. 1 – Receivables due from customers". With respect to the year ended at December 31, 2019, the provision for the write-down of receivables increased given that past due receivables, at the date of drafting of these financial statements, are of lower quality, in terms of recoverability, than the previous ones recognised as a result of the CoViD-19 emergency.

B. 11 – Change in inventories of raw materials, secondary materials, consumables and goods

EUR/000	31/12/2020	31/12/2019
Gas and CO_2certificates	6,872	24,612
Spare parts	(1,807)	(394)
TOTAL	**5,065**	**24,218**

The item under review, amounting to 5,065 thousand euro as of December 31, 2020, represents the net change in purchases and sales of natural gas and CO_2 certificates; as well as the net change in purchases and uses of materials and other spare parts for the proper functioning of the Group's thermoelectric plants. Please refer to paragraph "C. I - Inventories, for more details on the breakdown and changes in the item".

B. 13 - Other provisions

The item 'other provisions', amounting to 10,957 thousand euro as of December 31, 2020, includes the allocations made in the year under review, relating to:

- the decommissioning provision, amounting to 1,865 thousand euro;
- the maintenance provision, amounting to 9,092 thousand euro.

Please see the comments in paragraph "B.4 - Other provisions or risks and losses" for the relevant details.

B. 14 – Miscellaneous operating costs

EUR/000	31/12/2020	31/12/2019	CHANGE
Indirect taxes, local taxes and other	1,772	1,476	296
Contingent liabilities	3,943	11,289	(7,346)
Losses on receivables	-	-	-
Other operating costs	75,276	78,569	(3,293)
TOTAL MISCELLANEOUS OPERATING COSTS	**80,991**	**91,334**	**(10,343)**

The item “Miscellaneous operating costs” includes ordinary operating costs not attributable to the other items of aggregate B) and ancillary operating costs (other than financial expense) which are not classified as extraordinary costs.

The item also includes the costs relating to obligations to GSE for the return of the CO_2 quotas for 74,029 thousand euro, calculated on the electricity production of the Group's plants, as established in the legislation in force governing the reduction of greenhouse gases. The decrease compared to December 31, 2019, refers to the reduction of the production volumes of the Group's plants, which more than offset the increase in the cost of CO_2, recorded in 2020.

Miscellaneous contingent liabilities include mainly costs pertaining to previous years and, in particular, refer mainly to the adjustments relating to the costs pertaining to previous years and the release of higher allocations for invoices to be issued for 3,183 thousand euro.

C – FINANCIAL INCOME AND EXPENSE

EUR/000	**31/12/2020**	**31/12/2019**	**CHANGE**
15) Income from equity investments	-	-	-
16) Other financial income	99	635	(536)
17bis) Foreign exchange gains and losses	(22,823)	(145,346)	122,524
17 bis) Foreign exchange gains and losses	(5)	(5)	(0)
TOTAL	**(22,729)**	**(144,716)**	**121,987**

C. 16 – Other financial income

EUR/000	**31/12/2020**	**31/12/2019**	**CHANGE**
From non-consolidated subsidiaries	-	2	(2)
From associates	-	-	-
From parent companies	-	537	(537)
From companies subject to control of parent companies	-	-	-
Others	99	96	3
TOTAL	**99**	**635**	**(536)**

C. 16. d – income other than above

The item under review which, as of December 31, 2020, amounted to 99 thousand euro, includes financial income connected with Group operations, and relating primarily to default interest from end customers.

It should also be noted that the balance shown in the financial statements as of December 31, 2019 also included the value of interest income relating to the application of the amortised cost method, pertaining to 2019, recognised on the loan granted to the former parent company Nuova Sorgenia Holding SpA in 2018, and repaid in October 2020, following purchase of the Group by F2i SGR SpA and Asterion Industrial Partners SGEIC SA, as described in the paragraph "Significant events in the year".

C.17 - Interest expense and other financial expenses

EUR/000	**31/12/2020**	**31/12/2019**	**CHANGE**
To non-consolidated subsidiaries	-	-	-
To associates	-	-	-
To parent companies	-	-	-
To companies subject to control of parent companies	-	-	-
Others	22,823	145,346	(122,524)
TOTAL	**22,823**	**145,346**	**(122,524)**

To others

The item under review, which amounted to 22,823 thousand euro as of December 31, 2020, includes the costs deriving from financial management and is composed mainly of:

- interest expense on the bond loan for a total of 7,723 thousand euro, accounted for at effective interest rates and market rates (2,935 thousand euro relating to the nominal interest rate, for 4,787 thousand euro deriving from the recognition of the figurative financial expense pertaining to the period under review in application of the amortised cost method);
- interest expense on the loan totalling 11,946 thousand euro accounted for at effective interest rate and market rates (7,744 thousand euro relating to the nominal interest rate and for 4,202 thousand euro deriving from the recognition of figurative financial expense pertaining to the period under review in application of the amortised cost method, of which 3,278 thousand euro relating to the loan extinguished and 924 thousand euro relating to the loan outstanding);
- expenses for *commitment fees* and *agency fees* for 2,692 thousand euro, incurred as a result of the Group's financial debt to the banking system, through the taking out of a new loan obtained on the market.

It should be specified that, as described in paragraph "D.4 - Bank borrowings" (to which reference should be made for more information), with the finalisation of the Group purchase and sale transaction by F2i SGR SpA and Asterion Industrial Partners SGEIC SA, on October 6, 2020, the Sorgenia Group’s financial debt as at said date was refinanced with the banking system, through the taking out of a new loan obtained on the market, which entailed the full repayment of existing financial payables and the termination of the Debt Restructuring Agreement.

C. 17 bis – Foreign exchange gains and losses

The item Foreign exchange gains and losses reported a negative balance of 5 thousand euro and includes the foreign exchange gains and losses realised as of December 31, 2020, deriving from the differences realised on the translation, at the exchange rate prevailing on December 31, of the amounts relating to the current accounts in dollars and cash in foreign currency.

D – ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS AND LIABILITIES

D. 18 – Revaluations

EUR/000	31/12/2020	31/12/2019	CHANGE
Of equity investments	62,341	31,814	30,527
Of financial fixed assets	-	-	-
Of securities recorded under current assets	-	-	-
Of derivatives	19,047	27,574	(8,526)
TOTAL	**81,388**	**59,388**	**22,000**

D. 18a – Revaluation of equity investments

The positive balance of the item is attributable entirely to the revaluation of the value of the equity investment held in Tirreno Power SpA, - a shareholding 50% held through the subsidiary Energia Italiana SpA - for an amount equal to the portion pertaining to the Group of the shareholders' equity held in the subsidiary as of December 31, 2020, net of the nominal value of Participating Financial Instruments - PFIs. For more details, please refer to paragraph "B. III. 1- Equity investments".

D. 18.d - Revaluations of derivatives

The item, which amounted to 19,047 thousand euro, mainly includes: *(i)* the positive change in the *fair value* of the derivatives hedging the risk of the volatility of the consideration for award of the transport capacity (CCC) amounting to 939 thousand euro; *(ii)* the positive change in the *fair value* relating to energy *commodity* derivatives, subscribed for speculative purposes of proprietary trading with leading physical counterparties - "trading portfolio" - carried out by the subsidiary Sorgenia Trading SpA, amounting to 18,035 thousand euro.

D. 19 – Write-downs

EUR/000	31/12/2020	31/12/2019	CHANGE
Of equity investments	8	-	8
Of financial fixed assets	-	-	-
Of securities recorded under current assets	-	-	-
Of derivatives	18,159	30,694	(12,535)
TOTAL	**18,167**	**30,694**	**12,527**

D. 19.d - Write-downs of derivatives

The item, which amounted to 18,159 thousand euro as of December 31, refers entirely to the *fair value* change in the liability relating to the derivatives on *energy commodities*, subscribed for speculative purposes of proprietary trading with leading physical counterparties - "trading portfolio" - carried out by the subsidiary Sorgenia Trading SpA.

22 – INCOME TAXES FOR THE YEAR

EUR/000	**31/12/2020**	**31/12/2019**	**CHANGE**
Current taxes	9,449	6,466	2,983
Deferred taxes	5,101	(7,156)	12,258
Taxes relating to previous years	163	(8,738)	8,900
TOTAL	**14,713**	**(9,428)**	**24,141**

The tax component of 2020 was negative by 14,713 thousand euro (positive by 9,428 thousand euro in the previous year). This change is primarily justified by: *(i)*the recognition as of December 31, 2019 of the income from tax consolidation for the 2013 tax period recognised by CIR SpA (which in 2013 was the tax consolidating entity), amounting to 8,576 thousand euro; This income arose from the recalculation of taxable income for 2013 by Sorgenia Power SpA and Sorgenia Puglia SpA and the consolidating company CIR SpA following the receipt, in the first half of 2019, of a positive opinion by the Tax Authorities on the 'interpello' (request for a tax ruling) presented regarding the deductibility of the write-down of the plants carried out in 2013; *(ii)* the release of the deferred tax assets on provisions for legal and tax risks for 5,151 thousand euro, carried out in 2020; *(iii)*the use of tax losses and ACE (aid for economic growth) as of December 31, 2020, higher than the previous year due to the realisation of higher taxable profits.

The recognition of higher deferred tax assets on tax losses derives from the recoverability analysis carried out by the Management on the achievement of sufficient future taxable profits for the use of the benefits of deferred tax assets.
For additional details, please refer to the comments of the related Balance Sheet items "Deferred tax assets" and "Deferred tax liabilities".

The following table details the temporary tax differences.

EUR/000	31/12/2019			31/12/2020		
PREPAID AND DEFERRED TAXES FOR THE YEAR	**Temp. Differ.**	**Rate**	**Tax effect**	**Temp. Differ.**	**Rate**	**Tax effect**
Fees of the Directors, Board of Statutory Auditors and Independent Auditors	1,404	24.00%	337	1,344	24.00%	323
Decommissioning and maintenance provision	41,936	28.60%	11,995	49,723	28.60%	14,221
Provision for agents' leaving indemnities and merit system provisions	2,186	6.40%	140	2,185	6.39%	140
Provisions for legal and tax risks	47,165	27.82%	13,121	28,350	28.11%	7,969
Provision for the write-down of receivables	29,793	24.00%	7,150	32,620	24.00%	7,829
Derivative instruments in CFH	8,144	24.00%	1,954	-	24.00%	-
Tax losses	172,625	24.00%	41,430	174,937	24.00%	41,985
ACE (aid for economic growth)	27,679	24.00%	6,643	1,477	24.00%	354
Other temporary differences	1,801	28.14%	507	1,766	28.28%	499
DEFERRED TAX ASSETS FOR THE YEAR	**332,731**		**83,277**	**289,442**		**73,320**
Amortised cost of financial payables	(8,065)	24.00%	(1,936)	-	24.00%	-
Derivative instruments in CFH	-	24.00%	-	(2,960)	24.00%	(710)
Surplus value of urbanisation charges	(3,344)	28.55%	(955)	-	24.00%	-
Capital gain from acquisition	(1,070)	27.90%	(299)	(802)	27.90%	(224)
Other temporary differences	(154)	24.00%	(37)	(353)	24.00%	(85)
DEFERRED TAX LIABILITIES FOR THE YEAR	**(12,633)**		**(3,226)**	**(4,118)**		**(1,019)**
TOTAL DEFERRED TAX LIABILITIES FOR THE YEAR						
NET ECONOMIC EFFECT			**9,460**			**(7,750)**
of which:						
Effect on Balance Sheet			**2,303**			**(2,649)**
Net Economic Effect for the Year			**7,157**			**(5,101)**

RELATED PARTY TRANSACTIONS

TAX CONSOLIDATION

Following the resolution of the Board of Directors on May 31, 2018, the national tax consolidation was renewed (pursuant to Articles 117 et seq. of Italian Presidential Decree 917/86 - Consolidation Act on Income Taxes - TUIR) for the 2018-2020 period, with the scope of consolidation including the consolidating entity, Sorgenia SpA and four consolidated companies: Sorgenia Power SpA, Sorgenia Puglia SpA, Sorgenia Trading SpA and Energia Italiana SpA.
From June 2010, following the resolution of the Board of Directors of June 18, 2020, the national tax consolidation is in place (pursuant to Articles 117 et seq. of Italian Presidential Decree 917/86 - Consolidation Act on Income Taxes - TUIR) for the 2020-2022 period, with the scope of consolidation including the consolidating entity Sorgenia SpA and eight consolidated companies: Sorgenia Sviluppo Srl, Sorgenia Geothermal Srl, Sorgenia Hydro Power Srl, Sorgenia Renewables Srl, Sorgenia Le Cascinelle Srl, Sorgenia Bio Power Srl, Sorgenia Fiber Srl and Sorgenia Green Solutions Srl.
National consolidation makes it possible to determine current IRES on a taxable basis corresponding to the algebraic amount of positive and negative taxable amounts reported by participating companies. The financial relations, in addition to reciprocal liability and obligations, are regulated by specific agreements between the parties, according to which, in the case of positive taxable amounts, the subsidiaries transfer to the Parent Company the financial resources corresponding to the higher tax amount owed by the subsidiaries by virtue of participation in national tax consolidation. In the case of negative taxable amounts, they receive compensation amounting to the corresponding tax savings gained by the Parent Company, if and in the amount in which there are expected earnings that enable the Group to recognise deferred tax assets.

GROUP VAT

Sorgenia SpA officially stated that it would be availing itself of the special VAT regime provided for parent companies and their subsidiaries in which the companies who meet the requisites according to tax regulations, can take part (Article 73, last paragraph of Italian Presidential Decree 633/72 – Article 3 Ministerial Decree 13.12.79).
In this area, all debit and credit positions with the Inland Revenue are transferred on a monthly basis to the Parent Company Sorgenia SpA, which will carry out the liquidation of Group VAT and, in the case of debit balance, the related tax payment.

The subsidiaries that participate in the VAT regime indicated above are Sorgenia Power SpA, Sorgenia Puglia SpA, Sorgenia Trading SpA, Sorgenia Sviluppo Srl, Sorgenia Le Cascinelle Srl, Sorgenia Renewables Srl, Sorgenia Bio Power Srl, Sorgenia Hydro Power Srl, Sorgenia Geothermal Srl and

Sorgenia Green Solutions Srl.

With respect to the previous tax period, Sorgenia Solar Srl in liquidation left the Group VAT regime and Sorgenia Green Solutions Srl joined it.

OTHER RELATED PARTIES

The transactions between the Group and related parties mainly refer to trading goods, providing services, funding and use of financial means with parent companies, subsidiaries, associated companies and companies under joint control.

All of the transactions were carried out in the interest of the Group as part of ordinary operations and were regulated under market conditions, i.e. under the conditions and terms that would be applied to transactions between two independent parties.

The breakdown of Balance Sheet and Income Statement balances generated by related party transactions is shown in the following tables:

	REVENUES		COSTS FOR SERVICES AND PURCHASE OF GOODS			FINANCIAL INCOME AND EXPENSE	
EUR/000	**Trade**	**Other operating Revenue**	**Costs for serv.**	**Costs for the purchase of goods**	**Other operating costs**	**Fin. income**	**Fin. expense**
J. VENTURES - Other companies							
Tirreno Power	-	-	-	1,656	81	-	-
LNG Medgas Terminal	-	31	-	-	-	-	-
Fingas	-	15	-	-	-	-	-
Società VRG	-	-	-	12	-	-	-
TOTAL J. VENTURES - Other companies	-	**46**	**-**	**1,668**	**81**	**-**	**-**
TOTAL RELATED PARTIES	-	**46**	**-**	**1,668**	**81**	**-**	**-**
TOTAL ITEMS IN FINANCIAL STATEMENTS	**1,430,175**	**27,304**	**474,467**	**610,165**	**198,120**	**99**	**22,823**
Incidence %	**0.00%**	**0.17%**	**0.00%**	**0.27%**	**0.04%**	**0.00%**	**0.00%**

	FIXED ASSETS		CURRENT ASSETS			PAYABLES DUE AFTER ONE YEAR			PAYABLES DUE WITHIN ONE YEAR		
EUR/000	**Financ.**	**Other**	**Trade**	**Financ.**	**Other**	**Trade**	**Financ.**	**Other**	**Trade**	**Financ.**	**Other**
SUBSIDIARIES											
Green Power Marcallese	6,322	-	-	-	-	-	-	-	-	-	-
TOTAL SUBSIDIARIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
J. VENTURES - Other companies	-	-	-	-	-	-	-	-	-	-	-
Tirreno Power	-	-	-	-	-	-	-	-	412	-	835
Società VRG	-	-	-	-	-	-	-	-	12	-	-
TOTAL J. VENTURES - Other companies	-	-	-	-	**-**	-	-	-	**424**	-	**835**
TOTAL RELATED PARTIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**424**	-	**835**
TOTAL ITEMS IN FINANCIAL STATEMENTS	**136,748**	**975,170**	**313,269**	**6,071**	**123,105**	**-**	**455,698**	**750,847**	**232,861**	**60,578**	**54,379**
Incidence %	**4.6%**	**0.0%**	**0.0%**	**20.1%**	**0.0%**	**0.0%**	**0.0%**	**0.3%**	**0.2%**	**0.0%**	**1.5%**

*Value after the provision for write-down of receivables

INFORMATION ON THE *FAIR VALUE* OF DERIVATIVES

Appendix B of OIC 32 requires a classification of derivatives at *fair value*, maximising the use of significant observable parameters and minimising the use of non-observable parameters according to the *fair value* hierarchy described in Article 2426, paragraph 4 of the Italian Civil Code.

The above-mentioned “*fair value* hierarchy” is divided into three levels that give priority, as part of the *fair value* measurement, to the use of objective market information with respect to specific information and establish three levels for the measurement of *fair value*, based on the nature of the inputs used in the measurement of an asset or liability at the measurement date.

The *fair value* measurement hierarchy is defined as follows:

level 1: determination of *fair value* based on market value, for derivatives for which it is possible to easily identify an active market. This category includes the instruments with which the company operates directly in active markets or *Over-the-Counter* markets that represent identical *assets* compared to the corresponding organised markets (e.g., *futures* traded on the stock exchange).

level 2: if the market value cannot be easily identified for an instrument, but can be identified for its components or for a similar instrument, the market value may be derived from that of the components or the similar instrument.

This category includes the instruments with which the company operates in *Over-the-Counter* markets, not characterised by a sufficient level of liquidity or which do not continuously express a market price (e.g. derivatives with physical delivery subscribed on OTC markets);

level 3: determination of *fair value* based on generally accepted valuation models and techniques, whose inputs are not based on observable market data either directly or indirectly (unobservable *inputs*) in any active market.

Based on the above considerations, it should be noted that inclusion in level 1 of the *fair value* hierarchy is only possible for *fair value* measurements deriving from the market price of an identical instrument; it is not possible to include in this level a *fair value* measurement based on a valuation technique, although the only inputs used are derived directly from indices or market rates. For this reason, if the measurement techniques do not respect the conditions stated above, the derivative financial instruments must be classified in Level 2 even though they are measured on the basis of variables directly observable in the market.

Based on the above, the portfolio of financial instruments of the Group is classified as follows:

TYPE OF INSTRUMENT	FAIR VALUE HIERARCHY
Industrial and trading portfolio derivatives (with financial settlement)	Level 1
Industrial and trading portfolio derivatives (with physical delivery)	Level 2
Interest Rate Derivatives (IRS, Collar, Cap, Basis Swap)	Level 2
CCC Hedges	Level 3

In particular, it is noted that in relation to the *fair value* of Level 2 derivatives, this was calculated using the *forward* curve of energy *commodity* prices at December 31, 2020.

Also classifiable as Level 2 is the Interest Rate CAP derivative negotiated by the parent company Sorgenia SpA to hedge the interest rate risk on the loan.

As regards hedging instruments against the risk of volatility in the transportation capacity allocation price (CCC), considering that the relative *fair value* is determined on the basis of valuation models and techniques whose inputs are not based on observable market data, either directly or indirectly in any active market, they can be classified as Level 3. In particular, the *fair value* was calculated using the PUN curve inferred from the market and the zone price curve determined using internal estimation models.

The following schedules provide information required by Article 2427-bis of the Italian Civil Code in table format.

Hedging contracts

The table below refers to derivative contracts acquired for hedging purposes but not designated in *hedge accounting* and derivative contracts managed for hedging purposes designated in hedge accounting.

EUR/000	2020			2019		
	Notional amount	**Positive Fair Value**	**Negative Fair value**	**Notional amount**	**Positive Fair Value**	**Negative Fair value**
Cash Flow Hedge						
Interest rate risk						
Interest rate CAP	2,282,218	150	-			
Total *Cash Flow Hedges*	**2,282,218**	**150**	**-**	**-**	**-**	**-**
Fair value hedges						
Total fair value hedges	**-**	**-**	**-**	**-**	**-**	**-**
Trading derivatives						
Commodity price risk						
IB/EUA Formula	-	-	-	-	-	-
CCC	397	-	(2,342)	1,109		(3,274)
Interest rate CAP	-	-	-	425,020	16	-
Interest rate risk						
IRS ISPMI Power 2 (vis-à-vis Sorgenia Power SpA)	-	-	-	-	-	-
IRS ISPMI Power 2 (vis-à-vis Banca IMI)	-	-	-	-	-	-
Total trading derivatives	**397**	**-**	**(2,342)**	**426,129**	**16**	**(3,274)**
Total hedging derivatives - Assets/(Liabilities)	**2,282,615**	**150**	**(2,342)**	**426,129**	**16**	**(3,274)**

The *fair value* of derivative contracts consists of:

- a positive component of 150 thousand euro relating to the *Interest Rate Cap*, which corresponds to short-term investments;
- a negative component of 2,342 thousand euro for CCC, which corresponds to provisions for derivative liabilities.

Changes in the *fair value* of derivatives with separate indication of the changes booked directly to the income statement, as well as those recognised to shareholders' equity reserves:

EUR/000	Derivative assets to hedge expected cash flows (interest rate risk)	Derivative assets to hedge expected cash flows (commodities risk)	Derivative liabilities to hedge expected cash flows (commodities risk)	Derivative trading assets	Derivative trading liabilities
Opening value	**-**	**-**	**-**	**16**	**(3,274)**
Changes in the period					
Premium paid	508	-	-	-	-
Increase due to *fair value* change booked to the equity reserve before taxes	-	-	-	-	-
Decrease due to *fair value* change booked to the equity reserve	-	-	-	-	-
Increase for *fair value* changes booked to income statement	-	-	-	72	(2,342)
Decrease for *fair value* change booked to income statement	-	-	-	-	3,274
Ineffectiveness recognised in income statement	-	-	-	-	-
Change in time value*	(358)	-	-	(88)	-
Measurement of Mirror Derivative - Sorgenia Power SpA	-	-	-	-	-
Closing value	**150**	**-**	**-**	**-**	**(2,342)**

Therefore, the item 18 d) Revaluations of derivatives comprises the following elements:

EUR/000	2020	2019
Positive change in *fair value* of derivatives not designated in *hedge accounting*	1,004	-
Positive effect of ineffectiveness of *cash flow hedges* recognised in income statement	-	-
Positive effect of time value of *options/forward* contracts designated in *cash flow hedges* and recognised in income statement	-	-
Reversal to income statement of the "reserve for hedging transactions on expected cash flows" if the future transactions are no longer considered highly likely	-	-
Other impacts	8	-
Balance as of December 31, 2020	**1,012**	**-**

The item 19 d) Write-downs of derivatives comprises the following elements:

EUR/000	**2020**	**2019**
Negative change in *fair value* of derivatives not designated in *hedge accounting*	-	(3,274)
Negative effect of ineffectiveness of *cash flow hedges* recognised in income statement	-	-
Negative effect of time value of *options/forward* contracts designated in *cash flow hedges* and recognised in income statement	-	-
Reversal to income statement of the "reserve for hedging transactions on expected cash flows" if the future transactions are no longer considered highly likely	-	-
Reversal to income statement of the "reserve for hedging transactions on expected cash flows" if its recovery is not expected	-	-
Other impacts	-	(427)
Balance as of December 31, 2020	-	**(3,700)**

Speculative derivative contracts

The table below shows the details of the commitments concerning the "**Trading portfolio**", which includes both instruments with physical delivery of the *commodity* ("Physical contracts") and instruments with financial settlement ("Financial contracts").

TRADING PORTFOLIO - *COMMODITY*	**Notional amount**	**Positive Fair Value 31.12.2020**	**Negative Fair Value 31.12.2020**	**Notional amount**	**Positive Fair Value 31.12.2019**	**Negative Fair Value 31.12.2019**
Interconnection and electricity services	35,048,467	2,698,080	-	-	-	-
Energy	6,863,785	15,600,296	(18,339,825)	2,021,148	52,188	(32,739)
Gas	-	-	-	944,420	210,826	(148,337)
PHYSICAL CONTRACTS	**41,912,252**	**18,298,376**	**(18,339,825)**	**2,965,568**	**263,014**	**(181,076)**
Futures Power_Macquarie	-	-	-	-	-	-
FINANCIAL CONTRACTS	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL TRADING PORTFOLIO	**41,912,252**	**18,298,376**	**(18,339,825)**	**2,965,568**	**263,014**	**(181,076)**

The *fair value* in euro of physical contracts is positive for 18,298 thousand euro and negative for 18,340 thousand euro, which corresponds to current financial assets and provisions for derivative liabilities of an equal amount. The notional value is equal to 41,912 thousand euro and refers to contracts for the purchase and sale of electricity and gas with industry counterparties of prime market standing expiring during 2021.

In addition, it should be noted that the Group, through the subsidiary Sorgenia Trading SpA, has derivative financial contracts in place with the *Clearing Houses*, relating to the proprietary portfolio, whose positions are settled in cash on a daily basis, whose negative *fair value* is 99 thousand euro and refers to contracts for the purchase and sale of electricity and gas expiring in 2021-2022. By contrast, the derivatives subscribed in the Industrial Portfolio have a positive *fair value* of 1,111 thousand euro as of December 31, 2020. Both positions represent cash as they are settled financially on a daily basis.

Changes in the *fair value* of derivatives with separate indication of the changes booked directly to the income statement, are shown below.

EUR/000	Derivative trading assets (trading portfolio)	Derivative trading liabilities (trading portfolio)	Derivative assets (industrial portfolio)	Derivative liabilities (industrial portfolio)
Opening value 1.1.2020	**263**	**181**	**-**	**-**
Changes in the year				
Increase for *fair value* changes booked to income statement	18,035			-
Decrease for *fair value* change booked to income statement		18,159		
Reclassification of balance sheet				
Closing value 31.12.2020	**18,298**	**18,340**	**-**	**-**

Therefore, the item 18 d) Revaluations of derivatives comprises the following elements:

EUR/000	2020	2019
Positive change in *fair value* of derivatives (trading portfolio)	18,035	26,872
Positive change in *fair value* of derivatives (industrial portfolio)	1,111	
Re-crediting of positive *fair value* change of industrial portfolio to the parent company Sorgenia SpA recognised as liability to the parent company	(1,111)	
Total at December 31, 2020	**18,035**	**26,872**

The item 19 d) Write-downs of derivatives comprises the following elements:

EUR/000	2020	2019
Negative change in *fair value* of derivatives (trading portfolio)	18,159	25,962
Negative change in *fair value* of derivatives (industrial portfolio)		(3,316)
Charge-back of negative *fair value* change of industrial portfolio to the parent company Sorgenia SpA recognised as an asset to the parent company		3,316
Total at December 31, 2020	**18,159**	**25,962**

OTHER INFORMATION

THE GROUP

Sorgenia SpA is a Company controlled as follows:

a) 99.9988% by the company Zaffiro SpA;

b) 0.001% by Sorgenia SpA (treasury shares);

c) 0.0002% by other shareholders.

For more details on the changes in the period regarding the composition of the shareholding structure and the group, please refer to the section "Significant events in the year".

DIVIDENDS

In the year ended at December 31, 2020, the company Sorgenia SpA has not paid any dividend to the Parent Company.

COMMITMENTS AND GUARANTEES

EUR/000	**31/12/2020**	**31/12/2019**	**CHANGE**
Guarantees issued	128,370	117,430	10,940
Bank guarantees	346,766	373,992	(27,226)
Commitments	68,885	68,465	420
TOTAL	**544,021**	**559,887**	**(15,866)**

Guarantees issued

Guarantees were given in the Group to third parties for a total amount of 128,370 thousand euro.
In particular, it should be noted that, as collateral for loans obtained by subsidiaries, the Parent Company Sorgenia SpA had pledged, in favour of the disbursing institutions, securities representing the share capital of the company Sorgenia Power SpA for a total of 5,000 thousand euro (same amount as of December 31, 2019), and securities representing the share capital of the subsidiary Sorgenia Puglia SpA, for an amount of 11,151 thousand euro.

The Parent Company Sorgenia SpA has also provided, on behalf of the subsidiary Sorgenia Trading SpA, guarantees for 76,200 thousand euro (63,500 thousand euro as of December 31, 2019) to the suppliers of electricity and gas, to cover any failure on the part of the subsidiary to meet its obligations.

Lastly, Sorgenia SpA, on behalf of the subsidiaries, issued guarantees for 36,019 thousand euro for the transfer of Group VAT credits for the years 2014, 2015 and 2017 and the first quarter of 2018 (48,930 thousand euro as of December 31, 2019).

Bank guarantees

Within the Group, there are bank guarantees issued to third parties for a total amount of 240,511 thousand euro.

Bank guarantees, issued by banks to guarantee third parties, mainly regard:

- electricity and gas transport and transmission contracts for 94,576 thousand euro;
- electricity and gas purchase contracts, as well as balancing contracts, dispatching and guarantees given to participate in interconnection auctions for 82,194 thousand euro;
- lease contracts for offices and land for 1,667 thousand euro;
- guarantees issued to the Italian Revenue Agency and Italian Customs Agency for payments related to excise and custom duties amounting to 690 thousand euro;
- contracts for input and output dispatch signed with Terna by the Group for 32,945 thousand euro.

INDEPENDENT AUDITORS

As regards the requirements of paragraph 16-bis of Article 2427 of the Italian Civil Code, information is hereby provided on fees for services supplied by the Company holding the audit mandate:

EUR/000	**31/12/2020**
Legal audit of the Financial Statements	285
Other services	82
TOTAL	**367**

Milan, March 22, 2021

for The Board of Directors

ANNEXES

LIST OF EQUITY INVESTMENTS INCLUDED IN LINE-BY-LINE CONSOLIDATION - OIC 17

Company name	Registered office	Share Capital		% ownership for consolidation purposes				Consolidation method	Participant	% of Share Capital
		currency	amount	direct	indirect	31/12/2020	31/12/2019			
Energia Italiana SpA	Milan (IT)	EUR	26,050,000	100.00%	0.00%	100.00%	100.00%	Line-by-line	Sorgenia SpA	100.00%
Sorgenia Power SpA	Milan (IT)	EUR	5,000,000	100.00%	0.00%	100.00%	100.00%	Line-by-line	Sorgenia SpA	100.00%
Sorgenia Puglia SpA	Milan (IT)	EUR	11,150,778	100.00%	0.00%	100.00%	100.00%	Line-by-line	Sorgenia SpA	100.00%
Sorgenia Trading SpA	Milan (IT)	EUR	20,000,000	100.00%	0.00%	100.00%	100.00%	Line-by-line	Sorgenia SpA	100.00%
Sorgenia Green Solutions Srl	Grassobbio (IT)	EUR	111,111	100.00%	0.00%	100.00%	100.00%	Line-by-line	Sorgenia SpA	100.00%
Sorgenia Fiber Srl	Milan (IT)	EUR	10,000	100.00%	0.00%	100.00%	100.00%	Line-by-line	Sorgenia SpA	100.00%
Sorgenia Sviluppo Srl (formerly Hydro Srl)	Milan (IT)	EUR	375,000	100.00%	0.00%	100.00%	100.00%	Line-by-line	Sorgenia SpA	100.00%
Sorgenia Geothermal Srl	Milan (IT)	EUR	10,000	0.00%	100.00%	100.00%	100.00%	Line-by-line	Sorgenia Sviluppo Srl	100.00%
Sorgenia Hydro Power Srl	Milan (IT)	EUR	10,000	0.00%	100.00%	100.00%	100.00%	Line-by-line	Sorgenia Sviluppo Srl	100.00%
Sorgenia Renewables Srl	Milan (IT)	EUR	10,000	0.00%	100.00%	100.00%	100.00%	Line-by-line	Sorgenia Sviluppo Srl	100.00%
Sorgenia Le Cascinelle Srl	Milan (IT)	EUR	10,000	0.00%	100.00%	100.00%	100.00%	Line-by-line	Sorgenia Sviluppo Srl	100.00%
Sorgenia Bio Power Srl	Milan (IT)	EUR	10,000	0.00%	100.00%	100.00%	100.00%	Line-by-line	Sorgenia Sviluppo Srl	100.00%

LIST OF EQUITY INVESTMENTS CONSOLIDATED USING THE EQUITY METHOD - OIC 17

Company name	Registered office	Share Capital		% ownership for consolidation purposes				Consolidation method	Participant	% of Share Capital
		currency	amount	direct	indirect	31/12/2020	31/12/2019			
Fin Gas Srl	Milan (IT)	EUR	10,000	50.00%	0.00%	50.00%	50.00%	SHAREHOLDERS' EQUITY	Sorgenia SpA	50.00%
									IREN Energia Spa	50.00%
LNG MedGas Terminal Srl	Rome (IT)	EUR	16,602,236	0.00%	35.39%	35.39%	35.39%	SHAREHOLDERS' EQUITY	Fin Gas Srl	70.78%
									MedGas Italia Srl	29.22%
Tirreno Power SpA	Rome (IT)	EUR	60,516,142	0.00%	50.00%	50.00%	50.00%	SHAREHOLDERS' EQUITY	Energia Italiana SpA	50.00%
									Engie	50.00%

IN SHORT

REPORT ON OPERATIONS

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

REPORTS CORRELATED WITH THE FINANCIAL STATEMENTS

_ Statutory Financial Statement of Sorgenia SpA

Balance Sheet – Sorgenia SpA

EUR

BALANCE SHEET - ASSETS	31/12/2020		31/12/2019	
A) SHARE CAPITAL ISSUED AND NOT YET PAID				
I. SHARE CAPITAL ISSUED AND NOT YET PAID		-		-
B) FIXED ASSETS				
I. INTANGIBLE FIXED ASSETS				
1) Start-up and expansion costs	-		-	
2) Research costs	433,615		-	
3) Industrial patents and intellectual property rights	-		-	
4) Concessions, licenses, trademarks and similar rights	-		-	
5) Goodwill	-		-	
6) Assets in process and advance payments	7,533,804		6,749,793	
7) Other	18,486,324		18,295,335	
TOTAL INTANGIBLE ASSETS		**26,453,743**		**25,045,128**
II. TANGIBLE FIXED ASSETS				
1) Land and buildings	-		-	
2) Plants and machinery	143,248		238,195	
3) Industrial and commercial equipment	-		-	
4) Other assets	1,090,014		1,518,459	
5) Assets in process and advance payments	17,040		84,678	
TOTAL TANGIBLE ASSETS		**1,250,302**		**1,841,332**
III. FINANCIAL FIXED ASSETS				
1) EQUITY INVESTMENTS IN:				
a) Subsidiaries	535,743,911		468,472,459	
b) Affiliates	-		-	
c) Parent companies	-		-	
d) Affiliated companies	-		-	
d-bis) Other	-		-	
2) RECEIVABLES FROM:				
a) Subsidiaries				
- due within 12 months	47,253,095		4,306,900	
- due after 12 months	264,820,295		5,069,011	
b) Affiliates	-		-	
c) Parent companies	-		-	
- due within 12 months			1,000,000	
d) Affiliated companies	-		-	
d-bis) Other	9,945,570		10,406,880	
3) OTHER SECURITIES	-		-	
4) DERIVATIVE ASSETS	149,910		-	
TOTAL FINANCIAL FIXED ASSETS		**857,912,781**		**489,255,250**
TOTAL FIXED ASSETS (B)		**885,616,826**		**516,141,710**

Continue BALANCE SHEET - ASSETS	31/12/2020		31/12/2019	
C) CURRENT ASSETS				
I. INVENTORIES				
1) Raw materials, secondary materials and consumables	-		-	
2) Work in progress and semi-finished goods	-		-	
3) Contracted work in progress	-		-	
4) Finished goods	16,181,787		23,042,225	
5) Advance payments	-		-	
TOTAL INVENTORIES		**16,181,787**		**23,042,225**
II. RECEIVABLES				
1) TRADE RECEIVABLES:				
a) due within 12 months	216,451,057		223,312,286	
b) due after 12 months	-		-	
2) SUBSIDIARIES				
a) due within 12 months	137,244,137		96,530,698	
b) due after 12 months	-		-	
3) AFFILIATES				
a) due within 12 months	-		-	
b) due after 12 months	-		-	
4) PARENT COMPANIES				
a) due within 12 months	-		-	
b) due after 12 months	-		-	
5) AFFILIATED COMPANIES				
a) due within 12 months	-		-	
b) due after 12 months	-		-	
5-bis) TAX RECEIVABLES				
a) due within 12 months	19,202,024		13,292,500	
b) due after 12 months	59,846		5,542	
5-ter) DEFERRED TAX ASSETS				
a) due within 12 months	38,052,674		40,726,364	
b) due after 12 months	-		-	
5-quater) FROM OTHERS				
a) due within 12 months	1,845,659		1,499,008	
b) due after 12 months	-		-	
TOTALE CREDITI		**412,855,397**		**375,366,398**
III. SHORT - TERM INVESTMENTS				
1) Investments in subsidiaries	-		-	
2) Investments in affiliates	-		-	
3) Investments in parent companies	-		-	
3-bis) Investments in affiliated companies	-		-	
4) Other investments	-		-	
5) Derivative assets	-		1,928	
6) Other securities	-		-	
7) Financial assets for centralized treasury management	-		-	
TOTAL FINANCIAL ASSETS		**-**		**1,928**
IV. CASH AND CASH EQUIVALENTS				
1) Bank and postal deposits	31,184,772		108,794,508	
2) Cheques	-		-	
3) Cash and valuables on hand	3,095		3,009	
TOTAL CASH AND CASH EQUIVALENTS		**31,187,867**		**108,797,517**
TOTAL CURRENT ASSETS		**460,225,051**		**507,208,068**
D) ACCRUED INCOME AND PREPAID EXPENSES				
1) Accrued income	-		-	
2) Prepaid expenses	4,390,889		3,958,820	**3,958,820**
TOTAL ACCRUED INCOME AND PREPAID EXPENSES		**4,390,889**		**3,958,820**
TOTAL ASSETS		**1,350,232,766**		**1,027,308,598**

EUR

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2020	31/12/2019
A) SHAREHOLDERS' EQUITY		
I. Share capital	406,676,604	406,676,604
II. Share premium reserve	-	-
III. Revalutation reserves	-	-
IV. Legal reserve	1,833,913	1,816,011
V. Statutory reserves	-	-
VI. Other reserves	213,396	213,396
VII. Cash flow hedge reserve	2,249,403	(6,189,091)
VIII. Retained earnings (losses)	(97,940,049)	(98,280,180)
IX. NET INCOME (LOSS) FOR THE PERIOD	73,046,716	358,033
X. Treasury stock negative reserve	(804,402)	(804,402)
SHAREHOLDERS' EQUITY OF THE GROUP	**385,275,581**	**303,790,371**
B) PROVISION FOR RISKS AND CHARGES		
1) Retirement funds	2,471,513	1,914,111
2) Deferred taxes provisions	710,338	1,017,976
3) Derivative liabilities	2,341,711	3,273,578
4) Others	17,133,763	35,525,730
TOTAL PROVISION FOR RISKS AND LOSSES	**22,657,325**	**41,731,395**
C) STAFF LEAVING INDEMNITY	**621,870**	**560,348**
D) LIABILITIES		
1) Bonds	-	-
2) Convertible bonds	-	221,660,456
3) Loans from shareholder's		
a) due within 12 months	-	-
b) due after 12 months	-	-
4) Loans from banks		
a) due within 12 months	60,577,758	99,404,963
b) due after 12 months	455,697,756	-
5) Other financing creditors		
a) due within 12 months	-	-
b) due after 12 months	-	-
6) Advance payments	-	-
7) Payables to suppliers		
a) due within 12 months	178,162,539	178,074,381
b) due after 12 months	-	-
8) Bonded debts	-	-
9) Payables to sudsidiaries		
a) due within 12 months	222,313,080	164,430,220
b) due after 12 months	5,922,900	5,922,900
10) Payables to associates	-	-
11) Payables to parent companies		
a) due within 12 months	-	-
b) due after 12 months	-	-
11-bis) Payables to affiliated companies		
a) due within 12 months	12,445	-
b) due after 12 months	-	-
12) Tax payables		
a) due within 12 months	5,665,200	3,939,291
b) due after 12 months	-	-
13) Social security payables	2,707,374	2,491,261
14) Other payables		
a) due within 12 months	10,604,467	5,301,012
b) due after 12 months	-	-
TOTAL PAYABLES	**941,663,519**	**681,224,484**
E) ACCRUED EXPENSES AND DEFERRED INCOME		
1) Accrued expenses	-	-
2) Deferred income	14,471	2,000
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**14,471**	**2,000**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,350,232,766**	**1,027,308,598**

Income Statement

EUR

INCOME STATEMENT	**31/12/2020**		**31/12/2019**	
A) VALUE OF PRODUCTION				
1) Revenues from sales and services	1,475,056,187		1,700,014,629	
2) Changes in inventories of work in progress, semi-finished and finished goods	-		-	
3) Changes in contracted work in progress	-		-	
4) Own work capitalized	1,131,453		376,394	
5) Other revenues and income	40,692,465		47,356,888	
TOTAL VALUE OF PRODUCTION		**1,516,880,105**		**1,747,747,911**
B) COSTS OF PRODUCTION				
6) Raw materials, secondary materials, consumables and goods	1,017,027,304		1,182,006,553	
7) Services	438,330,020		493,418,997	
8) Cost of utilisation of third parties' assets	2,283,753		2,016,230	
9) Personnel costs				
a) Salaries and wages	17,765,687		22,851,824	
b) Social security contributions	5,340,390		6,945,476	
c) Severance indemnity	1,166,408		1,111,582	
d) Retirement and similar benefits	-		-	
e) Other costs	337,035		204,824	
10) Amortization, depreciation and write-downs:				
a) Amortization of intangible fixed assets	11,419,162		12,164,973	
b) Depreciation of tangible fixed assets	616,152		688,381	
c) Other write-downs of fixed assets	1,272,628		-	
d) Write-downs of receivables included in current assets and of cash adn cash equivalent	15,111,420		7,240,291	
11) Change in inventories of raw materials, secondary materials, consumables and goods	6,860,438		24,616,456	
12) Risk provisions	-		-	
13) Other provisions	-		-	
14) Miscellaneous operating costs	18,962,463		31,463,845	
TOTAL COSTS OF PRODUCTION		**1,536,492,860**		**1,784,729,432**
OPERATING INCOME (A-B)		**(19,612,755)**		**(36,981,521)**

Continue INCOME STATEMENT	31/12/2020		31/12/2019	
C) FINANCIAL INCOME AND EXPENSES				
15) Income from equity investments:				
a) Subsidiaries	22,000,000		22,000,000	
b) Affiliates	-		-	
d) Affiliated companies	-		-	
e) Parent companies	-		-	
f) Other	-		-	
Total income from equity investments		22,000,000		22,000,000
16) Other financial income:				
a) from receivables included in fixed assets				
- Subsidiaries	-		-	
- Affiliates	-		-	
- Parent companies	-		-	
- Affiliated companies	-		-	
- Other	-		-	
b) from securities included in fixed assets	-		-	
c) from securities included in current assets	-		-	
d) income other than the above:				
- Subsidiaries	4,844,942		368,261	
- Affiliates	-		-	
- Parent companies	-		537,351	
- Affiliated companies	-		-	
- Other	97,781		242,532	
Total other financial income		4,942,723		1,148,144
17) Interest and other financial expenses:				
- Subsidiaries	27,103		75,481	
- Affiliates	-		-	
- Parent companies	-		-	
- Affiliated companies	-		-	
- Other	15,128,753		72,032,570	
Total interest and other financial expenses		15,155,856		72,108,051
17-bis) Foreign exchange gains (losses)		4,946		3,536
TOTAL FINANCIAL INCOME AND EXPENSES (C)		**11,781,921**		**(48,963,443)**
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS				
18) Revaluation				
a) of equity investments	62,413,938		99,757,340	
b) of financial fixed assets	-		-	
c) of securities registered current assets that do not constitute equity investments	-		-	
d) of derivatives	939,739		-	
19) Write-downs				
a) of equity investments	4,186,146		9,302,745	
b) of financial fixed assets	-		-	
c) of securities registered current assets	-		-	
d) of derivatives	-		3,700,390	
TOTAL ADJUSTMENTS (18-19) (D)		**59,167,531**		**86,754,205**
INCOME (LOSS) BEFORE TAXES		**51,336,697**		**809,241**
22) Income taxes for the period		21,710,019		(451,208)
NET INCOME (LOSS) OF THE PERIOD		**73,046,716**		**358,033**

Statement of Cash Flows

EUR	**31.12.2020**	**31.12.2019**
A. Cash flows from operating activities		
Net income (loss) of the period	73,046,716	358,033
Income taxes	(21,710,019)	451,208
Interest expense (interest income)	10,213,133	70,637,340
(Dividends)	(22,000,000)	(22,000,000)
1. Profit (loss) before taxes, interest, dividends, gains/losses on disposal	**39,549,831**	**49,446,581**
Adjustments for non-cash items that had no contra-entry in net working capital		
Provisions	8,239,758	25,318,603
Severance indemnity provision	1,166,408	1,112,000
Depreciation and amortisation of tangible and intangible fixed assets	12,035,314	12,853,353
Writedown of intangible assets	1,272,628	-
Writedowns for impairment losses on financial assets	(60,292,003)	(88,369,310)
Decrease (increase) in derivative financial instruments	(147,982)	3,704,248
Other adjustments for non-cash items	(931,024)	(3,043,945)
2. Cash flow before changes in NWC	**(38,656,902)**	**(48,425,050)**
Change in net working capital		
Decrease (increase) in trade receivables	6,861,229	(42,483,418)
Increase (decrease) in trade payables	588,158	15,350,796
Decrease (increase) in accrued income and prepaid expenses	(432,069)	856,185
Increase (decrease) in accrued expenses and deferred income	12,471	(4,148,400)
Change in inventories	6,860,438	24,616,456
Changes in tax receivables and payables	17,293,781	3,671,756
Change in ICY receivables and payables	29,152,288	25,382,277
Other changes in working capital	4,195,154	1,540,803
3. Cash flow after changes in net working capital	**64,531,450**	**24,786,454**
Change in financial receivables	(3,192,679)	(9,236,634)
Change in financial payables	-	12,716,053
Tax paid for refund	-	(3,064,961)
Interest (paid)	(9,990,531)	(1,345,092)
Interest received	3,078,485	294,441
Dividends received	22,000,000	-
(Use of provisions)	(25,584,116)	(2,382,087)
(Use of severance indemnity provision)	(1,104,885)	(1,043,328)
4. Cash flow after other adjustments	**(14,793,727)**	**(4,061,609)**
CASH FLOWS FROM OPERATING INCOME (A)	**50,630,653**	**21,746,376**

Continue Cash Flow Statement

	31.12.2020	31.12.2019
B. Cash flows from investing activities		
Tangible assets		
(Investments)	(87,904)	(193,502)
Sale price of disposals	70,066	-
	-	-
Intangible assets	-	-
(Investments)	(15,542,997)	(10,312,777)
Sale price of disposals	1,434,015	-
	-	-
Financial assets	-	-
(Investments)	(304,158,252)	(1,905,509)
Sale price of disposals	-	-
CASH FLOWS GENERATED BY INVESTING ACTIVITIES (B)	**(318,285,072)**	**(12,411,789)**
C. Cash flows from financing activities		
Minority interests		
Increase (decrease) in short-term payables to banks	-	-
New loans	559,000,000	-
Reimbursement of amounts due to other lenders	(143,919,832)	(41,841,920)
	-	-
Own funds	-	-
Cash increase in capital	-	-
Convertible Bond Loan	(225,035,398)	-
CASH FLOWS FROM FINANCING ACTIVITIES (C)	**190,044,770**	**(41,841,920)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	(77,609,649)	(32,507,333)
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	**108,797,516**	**141,304,849**
CASH AND CASH EQUIVALENTS - END OF THE YEAR	**31,187,867**	**108,797,516**

IN SHORT

REPORT ON OPERATIONS

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

REPORTS CORRELATED WITH THE

FINANCIAL STATEMENTS

_ Explanatory Notes to the Statutory Financial Statement

EXPLANATORY NOTES

THE GROUP

Pursuant to Article 2359 of the Italian Civil Code, Sorgenia SpA is a Company 99.9988% controlled by the company Zaffiro SpA. It is also invested in by other entities with a stake of 0.0002% and the remaining stake of 0.001% is made up of treasury shares.

All transactions with the Parent Company are detailed in these Explanatory Notes.

Sorgenia Group development operation

On December 23, 2019, on completion of a competitive procedure launched in 2018 aimed at identifying growth opportunities for the Group, also through the modification of the shareholding structure, Nuova Sorgenia Holding SpA (whose shareholders are Banco BPM, Banca Intesa, Monte dei Paschi di Siena, Ubi and UniCredit), controlling shareholder of the Sorgenia Group (the "Group"), announced that it had accepted a binding offer for the purchase of the Group presented jointly by F2i, independent Italian manager of infrastructural funds, and Asterion, an independent Spanish company specialised in infrastructural investments in Europe.

Once the conditions precedent set forth in the offer were verified (including the approval by the Authority for protection of competition and the market, obtained by means of resolution of July 14, 2020, published in the Authority's Bulletin on August 3, 2020, and by the Ministry of Economic Development as part of the “golden power” regulation, approved by the Council of Ministers on July 29, 2020), October 6, 2020 saw the completion of the transfer of Sorgenia SpA's shares held by Nuova Sorgenia Holding SpA and by Monte dei Paschi di Siena SpA, equal to 99.99% of the share capital, to the company Zaffiro SpA, whose share capital is 72.38% owned by F2i ER1 SpA, with Zaffiro Spain BitCO S.L. holding the remaining 27.62% (Asterion Group company). On the same date, the Sorgenia Group’s financial debt with the banking system was refinanced, through the taking out of a new bank loan obtained on the market, which entailed the full repayment of existing financial payables and simultaneous termination of the 2017 Restructuring Agreement.

Name and registered office of the company that prepares the Consolidated Financial Statements for the largest set of companies to which it belongs

Sorgenia S.p.A. drafts its consolidated financial statements pursuant to Legislative Decree 127/91.

In accordance with Article 2427, paragraph 1, no. 22-quinquies and sexies of the Italian Civil Code, note that the Parent Company F2i ER 1 SpA is ultimately responsible for drafting the Consolidated Financial Statements, with registered office in Milan, via San Prospero 1, where a copy of these Consolidated Financial Statements is also filed.

SIGNIFICANT EVENTS OF THE YEAR

Starting from January 2020, the national and international scenario was characterised by the spread of CoViD-19 and by the consequent restrictions for its containment, put in place by the public authorities of the countries concerned. These extraordinary circumstances, in terms of nature and scope, are having repercussions on the economic context, and have created a climate of general uncertainty, whose developments and associated effects are difficult to predict at present.

It should be noted that the Company, considering the sector in which it operates and the essential nature of the services provided, is not subject to the limits on production imposed by the Government and, therefore, the electricity and gas sales to end customers have continued, with the necessary attention on the safety of employees and plants.

In order to address this difficult context, the Directors have implemented all the necessary measures to ensure the safe operation of production plants, maintain high standards of service to customers and guarantee the performance of Sorgenia's operating activities.

The Company has been prompt in reacting to the CoViD-19 emergency as regards safeguarding the health of its employees. In fact, an internal Crisis Committee has been set up, composed of employees who meet on a daily basis to ensure optimum management of the situation. In addition, given that Sorgenia has always focussed on the digitalisation of processes and on "*smart working*", remote working for employees was authorised, where possible.

With reference to the operating performance in 2020, it should be noted that, in relation to the sale of energy and gas to end customers, any possible effects of the current context, such as a reduction in sales, postponement of collections and an increase in unpaid amounts, are carefully and constantly monitored. As regards the decrease in revenues, no situations of criticality were recorded in relation to profit margins. Furthermore, no especially worrying signs of an increase in unpaid amounts materialised in 2020.

As a result of the restrictions on the movement of people imposed by the Government, the activities targeted at the acquisition of new corporate customers by the physical network tailed off, which, however, in the short-term, involves a subsequent contraction in costs directly related to said activities, therefore highlighting a positive repercussion from a financial perspective, however offset by a reduction in the rate of abandonment, due to the reduced activities of competitors' sale networks. On the residential segment, given that the Company has been active in the digital sales channel for some time, no decreases were recorded with respect to the levels of acquisition forecast in the Budget and, at the same time, an increase in consumption was registered by residential customers, similar to what was verified at national level.

Lastly, at the current state of play, no indicators of impairment have been recorded for items booked in the Company's statement of financial position.

For additional significant events which occurred during the year, reference should be made to the Report on Operations.

SIGNIFICANT EVENTS WHICH OCCURRED AFTER THE YEAR-END CLOSING

Merger by incorporation of Zaffiro SpA in Sorgenia SpA

Following the extraordinary transaction, which involved a change of the Company's majority shareholder and the signing of the new loan agreement, fully detailed in the previous section "Significant events during the year", the Company's Board of Directors and the Board of Directors of Zaffiro SpA approved, by means of resolution of February 18, 2021, the plan for a reverse merger by incorporation of Zaffiro SpA in Sorgenia SpA, pursuant to Articles 2501-bis and 2501-ter of the Italian Civil Code (the "Merger"), which also constitutes a leveraged merger.

The Merger, expressly set forth in the new loan agreement, is incorporated in a broader business strategy project launched by Zaffiro SpA's shareholders (F2i and Asterion) aimed at creating a *leading* operator on the domestic energy market that carries out both the production and sale of electrical energy from renewable sources - currently performed by Zaffiro SpA through its subsidiaries - and the production and sale of electrical energy from traditional sources - currently carried out by Sorgenia SpA directly and through its subsidiaries and investees.

The balancing of the production of electrical energy from renewable sources - central to the National Energy Strategy but, by very nature, discontinuous and non-programmable - with the generation of power from efficient and flexible traditional sources will enable continued production and allow optimal strategies for the sale of electricity in deregulated markets.

In addition, the integration of the activities performed by the two companies participating in the Merger will make it possible to create a large industrial operator, with diversified and complementary plants and technologies and boasting the necessary strength to become an aggregating entity within the context of a highly fragmented market, also generating a number of operating and management advantages.

At the date of effectiveness (which will coincide with the date of the last of the registrations in the Register of Companies set forth in Article 2504 of the Italian Civil Code), the Merger will determine, in particular, (i) the extinguishment of Zaffiro SpA and the assumption of the rights and obligations of said company by Sorgenia SpA; (ii) without prejudice to the amount of Sorgenia SpA's share capital, the cancellation of all shares currently issued and outstanding by Sorgenia SpA and Zaffiro SpA and the issue of new Sorgenia

SpA's shares of a different category, to be assigned to the shareholders of Zaffiro SpA and of Sorgenia SpA other than Zaffiro SpA and Sorgenia SpA; (iii) the adoption of new articles of association by Sorgenia SpA.

In particular, the Merger will be realised, notwithstanding the current share capital, through the cancellation of all the shares of the two companies participating in the Merger and the simultaneous issue of (a) new ordinary shares, to be assigned to the current shareholders of Sorgenia SpA other than Zaffiro SpA and Sorgenia SpA, based on a ratio of one new ordinary share for every share held previously, and (b) category "A" and category "B" shares to be assigned to the current shareholders of Zaffiro SpA based on the share swap ratio identified in the merger plan. The shares assigned will give the right to profit-sharing with Sorgenia SpA from the date of effectiveness of the Merger, while the Merger will take effect, for accounting and tax purposes, from the first day of the year in which the Merger produces its effects vis-à-vis third parties.

As part of the Merger plan, Sorgenia SpA's Board of Directors determined the share swap ratio on the basis of the balance sheet situations of the companies participating in the Merger as of October 31, 2020 and the valuations of said companies carried out in consideration of the respective business, economic and financial prospects, as per the Business Plan, as well as the number of shares into which the share capital of the companies participating in the Merger is divided, net of treasury shares.

In addition, given that provisions were made in the new articles of association for (i) restrictions on the circulation of shares not present in the current articles of association of Sorgenia and (ii) the issue and assignment by Sorgenia SpA of special category shares that attribute additional rights to those recognised by the shares held by the current shareholders of Sorgenia SpA other than Zaffiro SpA, the current shareholders of Sorgenia SpA other than Zaffiro SpA shall have the right to withdraw, if these shareholders should not contribute to the approval of the Merger resolution during the shareholders' meeting of Sorgenia SpA.
Therefore, at the same meeting on February 18, 2021, the Board, having received the favourable opinion of the Board of Statutory Auditors and the independent auditors, determined the relevant liquidation value of the shares pursuant to Article 2437-ter of the Italian Civil Code.

Lastly, the Board of Directors, in connection with the Merger, resolved to propose to the extraordinary shareholders' meeting to also approve, at the same time as approval of the Merger, a share capital reduction, to be implemented after the Merger takes effect, pursuant to Article 2445 of the Italian Civil Code, from the current amount of 406,676,603.81 euro to 150,000,000 euro, notwithstanding the subdivision of the capital of Sorgenia SpA, subsequent to effectiveness of the Merger.
The proposed share capital reduction, incorporated in the context of the overall restructuring of Sorgenia SpA realised through the Merger, is aimed at providing the Company with a more rational equity and

financial structure and in line with the market *standards* of the reference economic sector, ensuring Sorgenia SpA with greater financial flexibility without, however, compromising its equity strength.

On February 18, 2021, the independent auditors issued the limited audit report on the equity position as of October 31, 2020 and the report on the merger plan pursuant to Article 2501-bis, paragraph 5, Italian Civil Code.

On February 19, 2021, Baker Tilly Revisa SpA, as expert appointed by the Court of Milan at the joint request of the companies participating in the Merger presented, pursuant to Article 2501-sexies, of the Italian Civil Code, issued the report in accordance with Articles 2501-bis, paragraph 4, and 2501-sexies of the Italian Civil Code for the certification of the reasonableness of the assumptions relating to the financial resources available to the merging company and for the fulfilment of its financial obligations as well as consistency of the share swap ratio.

The shareholders' meeting called for March 23, 2021 will, therefore, be called to resolve, *inter alia*, (i) on the Merger and on the subsequent adoption of the new Articles of Association, (ii) on the share capital reduction.
No other significant events occurred after the end of the financial year, except for those reported in the corresponding paragraph of the Report on Operations.

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The Financial Statements were drafted in compliance with Italian Civil Code regulations, interpreted and supplemented by accounting standards and criteria developed by the Italian Accounting Board (OIC), and finally, where necessary and not in contrast with Italian accounting standards and norms, standards issued by the International Accounting Standard Board (IASB).
The Financial Statements consist of the Balance Sheet, Income Statement, Statement of Cash Flows (prepared in accordance with the schedules contained in Articles 2424 and 2424-bis, Articles 2425 and 2425-bis, and Article 2425-ter, respectively of the Italian Civil Code) and these explanatory notes.

The explanatory notes have the objective of providing descriptions, analyses and, in some cases, supplementary information to financial statement figures, and contain the information required by Articles 2427 and 2427-bis of the Italian Civil Code, other provisions of the Italian Civil Code regarding financial statements, and other previous laws. Moreover, the notes provide all complementary information deemed necessary to provide a more transparent and complete representation, even if not required by specific legal provisions.

The Balance Sheet, Income Statement and the Statement of Cash Flows are drafted in Euros. The Explanatory Notes are drawn up in thousands of euro, as are the information and comments on the individual items of the Balance Sheet and Income Statement in the Explanatory Notes.

For each item of the Balance Sheet and Income Statement, the corresponding values as of December 31, 2019 are provided. If the items are not comparable, the figures for the previous year were adjusted, with related comments on the significant events provided in the Explanatory Notes.
Lastly, to complete the Balance Sheet and Income Statement, a Statement of Cash Flows has been prepared setting out the changes in cash and cash equivalents during the year.

The Report on Operations describes the main events affecting the Company which took place during the year, with the main economic and financial effects highlighted in special reclassified statements.

These Financial Statements have also been audited for legal purposes by EY SpA.

EXCEPTIONS

Note that, in both the valuation of individual items of the Balance Sheet and Income Statement, as well as the definition of its structure, no exceptions envisaged in governing regulations were applied.

VALUATION CRITERIA AND ACCOUNTING STANDARDS ADOPTED

The accounting standards discussed below were adjusted with the amendments, supplements, and new items introduced to the Italian Civil Code by Legislative Decree 139/2015, which implemented accounting Directive 34/2013/EU in Italy. In particular, the national accounting standards were reformulated by OIC in the version issued December 22, 2016 and subsequent updates.

Applying the principle of prudence means that each asset or liability item is measured individually, thus avoiding the possibility of offsetting losses which need to be recognised with unrealised gains which should not be recognised.
In compliance with the accrual principle, transactions and other movements were accounted for and were posted to the year to which they actually refer, regardless of when the payments (incoming and outgoing) actually took place.

The most important valuation criteria adopted to draft the Financial Statements as of December 31, 2020, in accordance with Article 2426 of the Italian Civil Code and the aforementioned accounting standards, are presented below.

ASSETS

B) FIXED ASSETS

B. I – Intangible fixed assets

In order to be classified under this category, items must have a lasting useful life. In particular, this item includes: fixed assets in progress and other intangible assets.

Intangible assets with multi-year useful life are recorded at historical acquisition cost and are shown net of amortisation calculated on a straight-line basis in relation to the residual useful life and posted directly to the individual items.

Software is amortised over three or five years depending on the type of investment made.

Leasehold improvements are capitalised and recognised in “Other intangible assets”, as they are not separable from the assets. They are amortised on a straight-line basis over the shorter of the period of expected future use and the residual lease period.

Intangible assets, whose recoverable value at the date of year-end had undergone a lasting loss in value compared with their carrying amount, were written down to the lower amount; the original value is restored in the event the reasons which led to the adjustment cease to exist up to the value that the asset would have had if the impairment loss had never taken place.

B. II – Tangible fixed assets

These are recorded at purchase or production costs inclusive, where explicitly indicated, of any financial expense for the period of construction of the asset, in accordance with the provisions of Article 2426 of the Italian Civil Code and accounting standards, and adjusted for accumulated depreciation. The book value takes into account ancillary charges and direct and indirect costs for the portion reasonably attributable to the asset and until the asset enters into operation, i.e. from the moment when the asset can be used.
No revaluation allowed by law was applied to tangible assets, nor was there any discretionary or voluntary revaluation.

Accumulated depreciation, which is recognised to the Income Statement, is calculated on the basis of the expected use of the asset, its intended use, and its economic and technical useful life, based on the criterion of residual useful life, which we consider to be appropriately represented by the following rates:

CATEGORY	DESCRIPTION	% DEPRECIATION
2) Plants and machinery	Telephone equipment	25%
2) Plants and machinery	Other plants and machinery	20%
3) Industrial and commercial equipment	Equipment	10%
4) Other assets	Electronic equipment	20%
4) Other assets	Furniture	12%
4) Other assets	Mobile phones	25%

Depreciation begins from the month in which the asset is actually available and ready for use (*pro-rata temporis*) in the year of acquisition.

Fixed assets under construction are measured at acquisition or production cost, including financial expenses relating to the period of realisation of the asset, in compliance with the accounting standards and are not subject to amortisation as they are not yet available for use.

Tangible assets, whose recoverable value at the date of year-end had undergone a lasting loss in value compared with their carrying amount, were written down to the lower amount; the original value is restored in the event the reasons which led to the adjustment cease to exist up to the value that the asset would have had if the impairment loss had never taken place.

Routine maintenance and repair costs are charged in full to the Income Statement. Maintenance costs that add value are allocated to the assets in question and depreciated over their residual useful life.
The costs incurred to expand, modernise or improve the structural elements of a tangible asset are capitalised if they produce a significant and measurable increase in its safety or useful life. If such costs do not produce these effects, they are treated as routine maintenance and expensed to the income statement.

B. III – Financial assets

Investments and debt securities are recognised under financial assets as they are intended to remain in the Company's assets for a considerable period of time.
Investments are valued at cost and may be written down to show any impairment loss. The cost method assumes that the initial book value of assets shown in the Balance Sheet is determined on the basis of purchase or subscription price, including ancillary costs.

If an impairment loss is detected, the value of the investment is reduced to the lower recoverable amount, which is determined based on the future benefits that are expected to flow to the investor.

The original value is written back in subsequent years, if the reasons for the write-down no longer apply until the cost is restored.

In the event that the Company is obliged to cover losses incurred by an investee, a provision is needed to meet the liability, for the portion pertaining to the Company, to cover the investee's capital deficit.

Investments included under fixed assets are long-term strategic investments made by the Company.

Debt securities are valued using the amortised cost method.
The amortised cost of a security is the value at which the security was measured upon initial recognition, net of capital repayments, increased or decreased for accumulated amortisation, using the effective interest criterion, on any difference between the initial value and the value at maturity, and excluding any reduction for impairment (recognised directly or through a provision). The book value at initial recognition is the acquisition or subscription price net of any commissions and fees.

Intercompany loans, with maturities of more than 12 months, which are non-interest-bearing or with rates that are considerably lower than the market rate, are initially recognised at the present value of future cash flows of the loan, discounted at the market rate and subsequently measured on the basis of the amortised cost method.

Guarantee deposits for the lease and rental costs and for the supply of services are recognised according to the amortised cost criterion, taking into consideration the time factor and the presumed realisable value. The amortised cost criterion is not applied when the effects are irrelevant, or when the transaction costs and any other difference between the initial value and the value at maturity are negligible, or if the guarantee deposits are short term (or with maturity of less than 12 months).

C) CURRENT ASSETS

C. I - Inventories

Inventories are measured at the lower of the purchase cost determined according to the weighted average cost method on a continuous basis per change and the estimated realisable value taken from market trends (Article 2426, no. 9 of the Italian Civil Code). Purchase cost refers to the actual purchase price plus accessory charges, excluding financial expenses. In relation to their nature, inventories are written down using special provisions recorded in the Balance Sheet which reduce the amount of the asset entry. These provisions are released when the reasons that determined the allocation cease to apply.

C. II – Receivables

Receivables are recognised in the Balance Sheet according to the amortised cost criterion, taking into consideration the time factor and the presumed realisable value. The amortised cost criterion is not applied when the effects are immaterial, or when the transaction costs, commissions paid between the parties, and any other differences between the initial value and the value at maturity are negligible, or if the receivables are short term (with maturity of less than 12 months).

Receivables with maturities of more than 12 months from initial recognition, which do not include the payment of interest, or with interest that is significantly different than market interest rates, and the relative revenues, are initially recorded at the value calculated by discounting the future cash flows at the market interest rate. The difference between the value at initial recognition of the receivable thus calculated and the value at maturity is charged to the Income Statement as financial income over the life of the receivable using the effective interest rate criterion.

In addition, the nominal value of receivables is adjusted to consider expected losses for uncollectability and other causes for lower realisation, through a specific provision for the write-down of receivables, which takes into account the receivable position, the general economic conditions of the sector, as well as loss projections for situations of credit risk that have already arisen or are considered probable, and for other non-collection events that have already arisen or that are still to occur but considered likely.

If the trade receivables are sold to an external factoring company, the Company derecognises the loan from the Financial Statements when:

a) the contractual rights to the cash flows deriving from the receivable are extinguished (partially or totally); or b) ownership of the contractual rights on the cash flows deriving from the receivable is transferred and with the same transfer substantially all the risks inherent in the receivable.

C. IV - Cash and cash equivalents

Cash and cash equivalents at the end of the year are valued at nominal value. Cash and cash equivalents in foreign currencies are valued at the year-end exchange rate.

D – ACCRUED INCOME AND PREPAID EXPENSES

These include items of cost and revenue that are common to two or more years, in compliance with the accrual accounting principle.
For accruals and deferrals over periods of several years, the conditions which determined their original recognition were verified and, where necessary, the appropriate adjustments were made.

LIABILITIES AND SHAREHOLDERS' EQUITY

B – PROVISIONS FOR RISKS AND LOSSES

Provisions for risks and losses are set aside to cover losses or payables that are certain or likely to arise, for which, however, the exact amount or the date of occurrence cannot be determined at the close of the year.
The provisions set aside reflect the best possible estimate based on the elements available. Allocations to provisions for risks and losses are recognised firstly as cost items in the income statement for the relevant classes (B, C, or D). Any time that a correlation cannot be made between the nature of the allocation and one of the items in these classes, the allocations for risks and losses are recognised in items B12 and B13 of the Income Statement.

C – EMPLOYEE LEAVING INDEMNITY (TFR)

Employee leaving indemnity is recognised for the amount that employees would have the right to receive, in the event of termination of the employment relationship, at the reporting date, in compliance with Article 2120 of the Italian Civil Code and governing employment contracts, considering continuous forms of pay. The seniority indemnities constituting the above item, i.e. the portion of the allocation for the year and the annual revaluation of the pre-existing provision, are determined in compliance with current regulations. The employee leaving indemnity is recognised in item C of liabilities and shareholders' equity and the relative allocation is charged to item B9 of the Income Statement.

Note that amendments made to the TFR regulations of Law no. 296 of December 27, 2006 (2007 Finance Law) and subsequently implementing Decrees and Regulations, modified the accounting criteria applied to the portions of the TFR accrued at December 31, 2006 and those accruing from January 1, 2007. As such, with the establishment of the "Fund to disburse to employees in the private sector of employee leaving indemnities pursuant to Article 2120 of the Italian Civil Code" (Treasury Fund managed by INPS on behalf of the State), employers that have at least 50 employees are required to pay into this Treasury Fund the portions of TFR accrued in relation to those workers that have not chosen to transfer their portion to a complementary pension fund. Hence, the amount of the employee leaving indemnity shown in Financial Statements is net of the portion paid to said INPS Treasury Fund.

D - PAYABLES

Payables are recognised according to the amortised cost criterion, taking into consideration the time factor. The amortised cost criterion is not applied to payables if its effects are irrelevant. Effects are considered irrelevant for short-term payables (or with maturity less than 12 months).

Payables with maturities of more than 12 months from the initial recognition, which do not include the payment of interest, or with interest that is significantly different than market interest rates, and the relative costs, are initially recorded at the value calculated by discounting the future cash flows at the market interest rate. The difference between the value at initial recognition of the payable thus calculated and the value at maturity is charged to the Income Statement as financial expense over the life of the payable using the effective interest rate criterion.

The convertible bonds constitute hybrid contracts, for which the allocation of the value collected for the issue of the convertible bond between the primary contract (the bond) and the derivative contract (the conversion option) takes place first by determining the *fair value* of the primary contract (assuming the future cash flows of the obligation at the market interest rate of a bond without the conversion option) and assigning the residual value to the derivative contract. The bond is then valued using the amortised cost method.

The separate derivative instrument, or the option to convert the loan into an equity instrument, is recognised in a shareholders' equity reserve, without modifying its value in the future. Any transaction costs are divided proportionally between the payable and the reserve. The reserve is not subject to subsequent valuations.

DERIVATIVES

The Company pursues the objective of optimising the management of the Group's *assets*, with particular reference to the objective of maximising the usage opportunities for the production capacity of the thermoelectric power plants owned by the subsidiaries Sorgenia Power and Sorgenia Puglia, and of the sale to end customers of electricity and gas. Therefore, it stipulates derivative trading contracts for the purchase/sale of energy and natural gas with various product and timing profiles (i) both directly with financial counterparties operating on OTC (*over-the-counter*) markets, as well as (ii) through the subsidiary Sorgenia Trading, through the institution of the mandate without vitviwirxexmsr, according to which the subsidiary, Sorgenia Trading, executes transactions with leading financial counterparties on regulated markets and OTC.

Derivatives, designated by the Company for hedging purposes, are accounted for on the basis of *hedge accounting* requirements, if demonstrated.

Derivatives are financial assets and liabilities recognised at *fair value when* the contractual rights and obligations envisaged by the instrument arise.

Derivatives are classified as *hedge accounting* only when, at the inception of the hedge, there is a close and documented correlation between the characteristics of the hedged item and those of the hedging instrument and this hedging relationship is formally documented and the effectiveness of the hedge, verified periodically, is high.

When hedging derivatives hedge the risk of changes in the *fair value* of the hedged instruments (*fair value hedge*), they are recognised at *fair value* and the effects are booked to the income statement; accordingly, the hedged items are adjusted to reflect the changes in *fair value* associated with the hedged risk.

When derivatives hedge the risk of changes in future cash flows of the hedged item (*cash flow hedge*), the effective portion of profits or losses on the derivative is suspended in equity. Gains and losses associated with the ineffective portion of a hedge are charged to the Income Statement. At the moment the relative transaction is realised, accumulated gains and losses, which until that moment were recognised in shareholders' equity, are recognised in the Income Statement (as an adjustment or supplement to the Income Statement items affected by the hedged cash flows).

For derivatives that are not classified as hedging instruments as they do not meet *hedge accounting* requirements, changes in *fair value* are recognised in the income statement.

Derivatives embedded in other financial instruments must also be measured at *fair value*. An embedded derivative is separated from the primary contract and recognised as a derivative if, and only if:

a) the economic characteristics and risks of the incorporated derivative are not strictly correlated to the economic characteristics and risks of the primary contract. There is a strict correlation in the cases in which the hybrid contract is stipulated according to market practices;
b) the definition of a derivative financial instrument, according to OIC 32.11, is satisfied.

INCOME STATEMENT

REVENUE RECOGNITION

Revenues from the sale of goods are recognised when ownership is substantially transferred, not only formally, assuming the transfer of risks and benefits as a reference parameter.

Revenues from the sale of products and goods, or from the supply of services relative to ordinary operations, are recognised net of returns, discounts, allowances, and bonuses, as well as taxes directly connected with the sale of products and services.

Sales of electricity and gas

Revenues from the sale of electricity and gas to customers refer to quantities supplied and delivered during the year, even where not yet invoiced, and are calculated by supplementing the consumption figures received from the distributors with appropriate estimates calculated internally. These revenues are based on contractual agreements with customers and, where applicable, on the tariffs and the related restrictions prescribed by the legal provisions and by the Regulatory Authority for Energy, Networks and Environment (ARERA), in force during the reference period.

COST RECOGNITION

Costs are recorded, according to the accrual principle, during the year, regardless of the payment date and, therefore, the transfer of ownership or of service provision also prevails for them, net of returns, discounts, rebates and premiums.

FINANCIAL INCOME AND EXPENSES

Financial income and expenses are recognised in application of accrual principle. Costs for transactions to divest receivables of any type (recourse and non-recourse) and of any nature (commercial, financial, other) are charged during the year in which they accrue.

DIVIDENDS

Dividends are recorded in the year in which they are resolved by the Shareholders' Meeting.
Dividends are recognised as financial income regardless of the nature of the reserves that are distributed.

INCOME TAXES

Taxes are posted on an accrual basis and represent a realistic estimate of the tax expenses to be paid according to current tax regulations.

Current income taxes are calculated based on an estimate of taxable income for the year and in accordance with current tax regulations.

On June 24, 2015, Sorgenia's Board of Directors decided to exercise, as consolidating entity, the three-year option for tax consolidation effective from the 2015 tax period. This option was renewed on May 31, 2018 for the next three-year period. Having expressed their intention to do so, the consolidating entity Sorgenia SpA and its subsidiaries adhered to said system. This compliance makes it possible to calculate current IRES on a tax base corresponding to the algebraic sum of the positive and negative taxable income of the participating companies. The financial relations, in addition to reciprocal responsibilities and obligations, are regulated by specific agreements between the parties, according to which, in the case of positive taxable amounts, the subsidiaries transfer to the Parent Company the financial resources corresponding to the higher tax amount owed by the subsidiaries by virtue of participation in national tax consolidation. In the case of negative taxable amounts, they receive compensation amounting to the corresponding tax savings gained by the Parent Company, if and in the amount in which there are expected earnings that enable the Group, in the presence of a national tax consolidation, to recognise deferred tax assets. The tax, net of payments made on account, of withholding tax applied and of any tax credits in general, is recorded in the item Payables/Receivables with the Parent Company.

Current IRAP tax is recorded based on the estimated taxable income in accordance with tax regulations in force, taking into account any exemptions or exclusions applicable.
Deferred tax liabilities and assets are calculated on the temporary differences between the values of the assets and liabilities determined according to statutory criteria and the corresponding values recognised for tax purposes. Their valuation is carried out considering the presumed tax rate that the Company is expected to incur in the year in which these differences will contribute to the formation of the tax profit or loss, given the rates in effect or already issued at the reporting date, and are recognised in the Provision for deferred taxes under the liability item Provision for risks and losses, or in the item Deferred tax assets under current assets.

Deferred tax assets are recognised for all deductible temporary differences, in accordance with the principle of prudence, if there is the reasonable certainty that a taxable income not less than the amount of the differences will be available in the years in which the differences will be reversed. Deferred tax assets may also result from carrying forward tax losses or non-deductible interest expense during the current year.

The Company records deferred tax assets on tax losses only if there is the reasonable certainty that they can be recovered through the existence of future taxable income. Similar considerations are made for recognising deferred tax assets on temporarily non-deductible interest.
Conversely, deferred tax liabilities are recognised on all taxable temporary differences.

CURRENCY TRANSLATION CRITERIA FOR VALUES NOT EXPRESSED IN EURO

Non-monetary assets and liabilities denominated in foreign currency are recorded in the Balance Sheet at the exchange rate at the time of purchase, i.e. at the cost of initial recognition. In order to determine whether the cost (possibly reduced by depreciation and amortisation in the case of tangible and intangible assets) can be maintained in the Financial Statements, it must be compared with the recoverable amount (for fixed assets) or realisable value based on market trends (for non-monetary items in foreign currencies recorded in current assets). Any exchange differences (positive or negative) are included in the calculation of the recoverable amount. Therefore, when preparing the Financial Statements, the assessment of items in foreign currency is performed first, then the result is converted into euro.

Monetary assets and liabilities originally denominated in foreign currency are converted at the spot exchange rate at the Balance Sheet date. At the end of the year, assets and liabilities in foreign currency, with the exception of fixed assets, are recorded at the spot exchange rates in force at the reporting date, taking into account the related *forward* hedging contracts; the related exchange gains and losses are recorded in the income statement and any net profit is allocated to a specific non-distributable reserve until realisation.

USE OF ESTIMATES

It should be noted that the preparation of the Statutory Financial Statements requires the Board of Directors to make estimates and assumptions that affect the value of revenues, costs, assets and liabilities in the said Financial Statements. They also affect information regarding any potential assets and liabilities at the Balance Sheet date. If, in the future, these estimates and assumptions, which are based on the Board’s best valuation at the time, should differ from the actual circumstances, they would be modified accordingly in the period in which the circumstances change.

The use of estimates is particularly significant for the items described below.

REVENUE RECOGNITION

Revenues from sales of electricity and gas to end clients are recognised at the moment of supply and, apart from what is billed on the basis of quantitative data provided by the distributors and assignable to the period, they also include an estimate of the electricity and gas distributed in the year but not yet billed, represented by the difference between the total amount of electricity and gas injected into the grid and the amount actually billed in the year, calculated taking into account any leaks in the network. This estimate of revenues is based on estimates of the client's consumption based on his or her historical profile, adjusted to take into account weather conditions or any other factors that could affect the consumption being estimated.

PROVISION FOR THE WRITE-DOWN OF RECEIVABLES

The provision for the write-down of receivables reflects the estimated losses on the Company's portfolio of receivables. Provisions are made against expected credit losses, estimated both on the basis of past experience with reference to loans with similar credit risk and on the basis of the estimate of the expected future loss of open positions at the reporting date, as well as careful monitoring of the quality of the loan portfolio.

Although the provision set up is considered to be appropriate, the use of different assumptions or a change in economic conditions could result in variations to the provision for the write-down of receivables and thus have an impact on the result of the Company. The estimates and assumptions are revised periodically and the effects of each variation are reflected in the Income Statement in the appropriate year.

VERIFICATION OF THE RECOVERABLE VALUE OF FIXED ASSETS

Fixed assets include equity investments in subsidiaries, associates and other companies. The Directors periodically review, and in any case in the presence of impairment indicators, the book value of financial fixed assets. With reference to equity investments, the recoverable value is determined on the basis of the future benefits that are expected to flow to the investor's economy. If the book value of an investee is impaired, the Company would recognise a write-down for the value of the excess between the book value of the investee and its recoverable value. The original value is restored in subsequent years if the reasons for the write-down no longer apply until the cost is restored in the case of equity investments.

FUTURE RECOVERY OF DEFERRED TAX ASSETS

The preparation of the Financial Statements requires Directors to measure deferred tax assets relating to previous tax losses and the recognition of financial costs deductible in subsequent years, within the limits of the Sorgenia Group companies' ability to generate taxable income.

The evaluation of the aforementioned recoverability takes into account the estimates of future taxable income and is based on the multi-year plan approved by the Directors of the Sorgenia Group, and on forecasts extended to the period of operations of the assets held by Sorgenia Group companies as the result of complex assumptions; however, if at any time it were to become obvious that the Company was unable to recover all or part of these deferred tax assets in future periods, the resulting adjustment would be recognised to the Income Statement in the year in which such a circumstance came to pass.

LEGAL AND TAX DISPUTES

The Company makes provisions linked mainly to outstanding legal and tax disputes.

Given the nature of these disputes, it is not always objectively possible to foresee the final result of the proceedings, some of which could have an unfavourable outcome.

The estimate of the provisions on these subjects is the result of a complex process that involves the Company management making subjective judgements.

OTHER ITEMS IN THE FINANCIAL STATEMENTS

In addition to the items indicated previously, the use of estimates concerned the measurement of assets and liabilities, other than derivatives, with the amortised cost criterion; the determination of the useful life of tangible and intangible assets for the purposes of calculating the related amortisation/depreciation.

DESCRIPTION OF ASSET ITEMS

B – FIXED ASSETS

B. I – Intangible fixed assets

EUR/000	OPENING POSITION			CHANGES IN THE PERIOD					CLOSING POSITION		
	ORIGINAL COST	ACCRUED AMORTIZ.	31/12/2019	INVESTM.	DECREM.	AMORTIZ.	OTHER CHANGES COST	RESTATE MENTS COST	ORIGINAL COST	ACCRUED AMORTIZ.	31/12/2020
1) START-UP AND EXPANSION COSTS	-	-	-	-	-	-	-	-	-	-	-
2) DEVELOPMENT COSTS	-	-	-	88	-	(99)	-	445	533	(99)	434
3) INDUSTRIAL PATENTS AND INTELLECTUAL PROPERTY RIGHTS	-	-	-	-	-	-	-	-	-	-	-
4) CONCESSIONS, LICENSES, TRADEMARKS AND SIMILAR RIGHTS	-	-	-	-	-	-	-	-	-	-	-
5) GOODWILL	-	-	-	-	-	-	-	-	-	-	-
6) INTANGIBLE ASSETS IN PROCESS AND ADVANCE PAYMENTS	6,750	-	6,750	8,492	(1,434)	-	(9)	(6,265)	7,534	-	7,534
7) OTHER INTANGIBLE FIXED ASSETS	111,621	(93,327)	18,295	6,964	-	(11,320)	(1,273)	5,820	123,134	(104,647)	18,486
Costs for improvements to leased or rented property	2,380	(378)	2,002	23		(214)	-	85,000	2,488	(592)	1,896
Other intangible fixed assets	109,242	(92,949)	16,293	6,941	-	(11,107)	(1,273)	5,735	120,646	(104,056)	16,590
TOTAL INTANGIBLE ASSETS	**118,372**	**(93,327)**	**25,045**	**15,543**	**(1,434)**	**(11,419)**	**(1,281)**	**-**	**131,201**	**(104,746)**	**26,453**

The table above shows the amounts of the changes in the individual items relating to intangible fixed assets.

The categories existing at year-end can be broken down as follows:

B. I. 2 – Development costs

This category includes development costs, amounting to 434 thousand euro, relating to the *Your Next Experience* project, through which the customer relationship channels developed and, in particular, the new *APP* and the *WEB* Customer Area. Development costs are amortised over five years.

B. I. 6 - Assets in progress and advance payments

This item contains advance payments for intangible assets being acquired.

The increase recorded during the year, amounting to 8,492 thousand euro, is attributable mainly to the continuation of the constant improvement process of the *Digital Strategy*, the implementation phase of the Systems and Processes relating to Security and *Privacy* and the development of new components of the *Big Data* infrastructure.

This category also includes development costs, amounting to 532 thousand euro, relating to the *Your Next Experience* project, through which the customer relationship criteria were defined for the development of the new *APP* and the *WEB* Customer Area, which are not yet ready for use as of December 31, 2020.

The decreases column shows, in the amount of 1,434 thousand euro, the charge-back of costs directly attributable and related to the IT services and telecommunications activities incurred by the Company on behalf of the subsidiaries, as envisaged by the related *cross-charge* contracts.

The “Reclassifications” column mainly shows the amounts relating to software projects and development costs for which advances were paid to suppliers in previous years and which became operational during the year.

B. I. 7 – Other intangible fixed assets

This item mainly includes the costs incurred for the purchase of IT systems required for the commercial and organisational development of the Company. During the year, the item recorded increases of 12,676 thousand euro (of which 5,735 thousand euro had already been recognised under assets in progress in the previous year), mainly attributable to *software* projects in progress for the implementation of the *Digital* Strategy for the acquisition and management of customers. Solutions are also being implemented that improve the level of Security and *Privacy* envisaged by both current regulations and the risks identified, the development of systems that allow greater knowledge and better relations with the customer through *Big Data, Business Analytics and Advanced Analytics* infrastructures.

The column Other changes includes the write-downs carried out during the year, amounting to 1,273 thousand euro, of *software* deemed technologically outdated and replaced by new developments.

The ERP IT system implemented in 2016 is amortised over a period of five years, which corresponds to the economic-technical useful life of the system, valued in consideration of the financial and commercial benefits as part of expected sales growth. Other *software* is instead amortised over a period of three years.

This category also includes the expenses incurred on third party assets amounting to 1,896 thousand euro, mainly relating to the works carried out for the renovation of the headquarters of the Company in Via Algardi 4.

Costs relating to leasehold improvements are amortised over the duration of the lease agreement, in particular for the Milan registered office over 12 years.

B. II – Tangible fixed assets

EUR/000	OPENING POSITION			CHANGES IN THE PERIOD						CLOSING POSITION		
	ORIGINAL COST	ACCRUED AMORTIZ.	31/12/2019	INVESTM.	DECR.	AMORTIZ.	OTHER CHANGES COST	OTHER CHANGES ACCRUED AMORTIZ.	RESTATEMENTS	ORIGINAL COST	ACCRUED AMORTIZ.	31/12/2020
1) LANDS AND BUILDINGS	-	-	-	-	-	-	-	-	-	-	-	-
2) PLANT AND MACHINERY	**2,005**	**(1,767)**	**238**	-	-	**(95)**	-	-	-	**2,005**	**(1,862)**	**143**
Plant and machinery	2,005	(1,767)	238	-	-	(95)	-	-	-	2,005	(1,862)	143
3) INDUSTRIAL AND COMMERCIAL EQUIPMENT	-	-	-	-	-	-	-	-	-	-	-	-
Sundry equipment	-	-	-	-	-	-	-	-	-	-	-	-
4) OTHER GOODS	**14,952**	**(13,434)**	**1,518**	**76**	-	**(521)**	**(221)**	**228**	**11**	**14,818**	**(13,728)**	**1,091**
Mobile phones	288	(203)	85	10	-	(71)	(230)	228	1	70	(46)	24
Electric office equipment	68	(44)	24	-	-	(13)	-	-	-	68	(58)	10
Furniture and fittings	1,109	(265)	844	51	-	(124)	9	-	1	1,170	(389)	781
Electronic office equipment	13,487	(12,922)	565	15	-	(313)	-	-	8	13,510	(13,235)	275
5) ASSETS UNDER CONSTRUCTION AND SUNDRY ADVANCE PAYMENTS	**85**	-	**85**	**12**	-	-	**(68)**	-	**(11)**	**17**	-	**17**
Assets under construction and sundry advance payments	85	-	85	12	-	-	(68)	-	(11)	17	-	17
TOTAL TANGIBLE ASSETS	**17,042**	**(15,201)**	**1,841**	**88**	-	**(616)**	**(290)**	**228**	-	**16,841**	**(15,590)**	**1,251**

The above chart shows the changes in the individual items of tangible assets.

The categories present as of December 31 can be broken down as follows:

B. II. 2 - Plant and machinery

This item includes the costs incurred for the construction of connectivity infrastructure for the *call centre* data network, the Company's offices and the costs related to the installation of components for the *data centre*. The item also includes the costs incurred for the construction of four photovoltaic shelters and some charging stations for electric vehicles at the Company's registered office in Via Algardi 4.

B. II. 4 - Other assets

The item furniture and fittings changed during the period under review mainly as a result of the purchases of the furnishings necessary for the headquarters in Via Algardi 4. This item also includes the purchases of furniture for the new offices in Milan, in Via Silva 36.

Electronic office equipment includes *hardware* equipment in the offices as well as server updates.

B. II. 5 - Assets under construction and advance payments

The balance of the item includes advances paid to suppliers for fixed assets not yet operational.

B. III – Financial fixed assets

EUR/000	31/12/2019	Increase	Decrease	Other changes	Revaluation/ Depreciations	31/12/2020
1) EQUITY INVESTMENTS:						
a) Subsidiaries	**468,472**	**7,000**	**(21)**	**-**	**60,292**	**535,744**
Energia Italiana SpA	54,984	-	-	-	62,414	117,398
Sorgenia Puglia SpA	145,704	-	-	-	-	145,704
Sorgenia Power SpA	244,321	-	-	-	-	244,321
Sorgenia Sviluppo Srl	2,133	7,000	-	-	(2,122)	7,011
Sorgenia Trading SpA	20,000	-	-	-	-	20,000
Sorgenia International BV - in liquidation	21	-	(21)	-	-	0
Sorgenia Green Solutions Srl	1,099	-	-	-	-	1,099
Sorgenia Fiber Srl	210	-	-	-	-	210
TOTAL INVESTMENTS	**468,472**	**7,000**	**(21)**	**-**	**60,292**	**535,744**
2) RECEIVABLES FROM:						
a) Subsidiaries	**9,376**	**397,350**	**(87,256)**	**(7,396)**	**-**	**312,073**
Sorgenia Sviluppo Srl	2,902	130	(2)	-	-	3,030
Sorgenia Solar Srl - in liquidation	341	-	(341)	-	-	-
Sorgenia Power SpA	5,988	309,748	(9,388)	(7,396)	-	298,952
Sorgenia Bio Power Srl	-	53	-	-	-	53
Sorgenia Hydro Power Srl	120	913	-	-	-	1,033
Sorgenia Le Cascinelle Srl	1	230	(1)	-	-	230
Sorgenia Renewables Srl	1	1,425	(1)	-	-	1,425
Sorgenia Green Solutions Srl	2	1,935	(2)	-	-	1,935
Sorgenia Fiber Srl	-	5,406	-	-	-	5,406
Sorgenia Trading SpA	20	77,508	(77,520)	-	-	8
c) Parent Company	**1,000**	**-**	**(1,000)**	**-**	**-**	**0**
Nuova Sorgenia Holding SpA	1,000	-	(1,000)	-	-	0
d) Other	**10,407**	**629**	**(1,090)**	**-**	**-**	**9,946**
Security deposits	10,407	629	(1,090)	-	-	9,946
TOTAL RECEIVABLES	**20,783**	**397,979**	**(89,346)**	**(7,396)**	**-**	**322,019**
3) OTHER SECURITIES						
4) FINANCIAL DERIVATIVE ASSETS						
Financial derivative assets	-	-	150	-	-	150
TOTAL	**489,255**	**404,979**	**(89,217)**	**(7,396)**	**60,292**	**857,913**

B. III. 1- Equity investments

The list of investments in subsidiaries and associates recorded under financial assets is provided on the basis of Article 2427, paragraph 1.5 of the Italian Civil Code, as can be inferred from the last set of financial statements approved by the same, by means of the following table:

EUR/000	REGISTERED OFFICE	SHARE CAPITAL 31/12/2020	NET EQUITY 31/12/2020	NET INCOME (LOSS) 31/12/2020	PERCENTAGE OF OWNERSHIP	PORTION OF SHAREHOLDERS' EQUITY (A)	CARRYING VALUE (IN THE BALANCE SHEET) (B)	DIFFERENCE (A-B)
Subsidiaries								
Energia Italiana SpA	Milano	26,050	117,398	62,414	100%	117,398	117,398	-
Sorgenia Puglia SpA	Milano	11,151	245,220	15,257	100%	245,220	145,704	99,516
Sorgenia Power SpA	Milano	5,000	407,193	133,662	100%	407,193	244,321	162,872
Fingas Srl	Milano	10	11,794	(27)	50%	5,897	-	5,897
Sorgenia Trading SpA	Milano	20,000	26,285	1,120	100%	26,285	20,000	6,285
Sorgenia Sviluppo Srl	Milano	375	7,011	(2,122)	100%	7,011	7,011	-
Sorgenia Green Solutions Srl	Bergamo	111	(400)	(551)	100%	(400)	1,099	(1,499)
Sorgenia Fiber Srl	Milano	10	(1,636)	(1,677)	100%	(1,636)	210	(1,846)

Equity investments represent long-term investments made for the establishment or acquisition of new companies.

Changes in the value of equity investments are detailed in the above statement of changes and outlined hereunder.

The increases refer to the payment of 7,000 thousand euro to the other reserves account in December in favour of the subsidiary Sorgenia Sviluppo Srl, to provide it with the financial resources needed to finalise the purchase transaction of the company that owns the Marcallo project and for the Ferrandina project.

The decreases, amounting to 21 thousand euro, are the result of the striking off from the Dutch Register of Companies, of the subsidiary Sorgenia International BV already in liquidation, which took place on October 26, 2020.

As of December 31, 2020, following the positive results recorded by Tirreno Power SpA – 50% shareholding held through the subsidiary Energia Italiana SpA – the book value of the equity investment in Energia Italiana SpA was aligned to the value of the corresponding fraction of shareholders' equity at the closing date (net of the nominal value of the equity financial instruments) held in the subsidiary; consequently, determining a partial restoration of the value of the equity investment in Energia Italiana SpA amounting to 62,414 thousand euro.

The value of the equity investment in Energia Italiana SpA as of December 31, 2018 amounted to 25 million euro, corresponding to the book value of the equity investment in Tirreno Power SpA, the only asset held, in the financial statements of Energia Italiana SpA. Specifically, following the Financial Debt Restructuring Agreement pursuant to and in accordance with Article 182-bis of the Bankruptcy Law, which involved Tirreno Power SpA, for the purposes of the financial statements for the year ended December 31, 2015, also on the basis of the assessment made by an independent expert, which indicated that the value of the equity investment in Tirreno Power SpA held by the subsidiary would amount to 25 million euro, the Directors of Energia Italiana SpA adjusted its value to 25 million euro. This valuation was deemed representative of the recoverable value of the investee.

Therefore, for the purposes of the preparation of the financial statements as of December 31, 2020, the Directors of the subsidiary Energia Italiana SpA decided to carry out the partial restoration of the value of the equity investment in Tirreno Power SpA, aligning it to the value of the corresponding portion of shareholders’ equity.

The result of Tirreno Power SpA was a positive 125,513 thousand euro.

As a result of the economic results achieved in previous years and in 2020, which confirmed the better performances than those expected in the Business and Financial Plan, the shareholders' equity as of December 31, 2020 stood at 518,565 thousand euro. This trend confirms the reasonableness of the assumptions used by Tirreno Power Directors in the preparation of the “Plan” and its update, making the latter aware of the company’s ability to reach the results expected in the “Plan” also for future years, although it is aware that the results expected in the Plan may only occur when the assumptions provided for therein occur.

It should also be noted that the shareholders' equity of Tirreno Power SpA, net of the equity financial instruments, amounted to 234,140 thousand euro, and was supported by the *impairment test* performed by the company, which concluded that the value of the fixed assets as of December 31, 2020 is fully recoverable.

As a result of the considerations reported above, the Directors of the Company partially restored the book value of the equity investment in Energia Italiana SpA, aligning the book value of the equity investment to the shareholders’ equity of the subsidiary.

As of December 31, 2020, the Company recorded a provision for risks in the financial statements to cover future expected losses, in light of the negative shareholders' equity, of the subsidiary Sorgenia Fiber Srl amounting to 1,646 thousand euro and the subsidiary Sorgenia Green Solutions Srl for 410 thousand euro. The value of the investment in these companies is considered recoverable based on future economic forecasts.

At the end of the year under review, after having carried out the comparison between the book value of the equity investment in the financial statements and the relevant portion of shareholders' equity, the company saw fit to write down the equity investment in Sorgenia Sviluppo Srl for 2,122 thousand euro. This write-down derives from the presence in the company of projects and initiatives in an embryonic phase, both in the geothermal and photovoltaic and bio-methane sectors.

It is remembered that, as of December 31, 2019, the Directors, following the positive results achieved by the subsidiary Sorgenia Power SpA and the positive forecasts in the 2020 Budget which confirm the performances recorded, considered the reasons for the write-downs carried out in previous years to no longer apply and, therefore, restored the value, up the limits of the cost, of the equity investment in Sorgenia Power SpA, corresponding to the entire amount of the write-down, amounting to 68,846 thousand euro.

It should be noted that the subsidiary Sorgenia Solar Srl in liquidation was struck off the Register of Companies on March 11, 2020; the company had been placed into liquidation on January 11, 2017. The Directors had recognised a provision for risks of 260 thousand euro in the financial statements as of December 31, 2019 to cover the expected future losses in light of the negative shareholders' equity of the company and the costs that should be incurred. This provision was released at the same time as the recognition of the distribution plan which occurred in the first few months of 2020.

With regard to the other equity investments held during the year under review, the Directors did not identify any impairment indicators that would require a check of the recoverable value of the equity investments held by the Company.

B. III. 2 – Receivables

EUR/000

FINANCIAL RECEIVABLES	up to 12 months	over 12 months	over 5 years	31/12/2020	31/12/2019
a) Subsidiares	47,252	264,820	-	312,073	9,376
b) Associates	-	-	-	-	-
c) Parent Companies	-	-	-	-	1,000
d) Others	4,023	5,923	-	9,946	10,407
TOTAL	**51,275**	**270,743**	**-**	**322,019**	**20,783**

Receivables due from subsidiaries

By means of intercompany loan agreements, Sorgenia SpA has provided subsidiaries with part of the financial resources necessary to implement investment projects and optimise the management of available funds and current financial requirements.

All loan agreements are interest-bearing and fixed rate with an adjustment at least annually. This item includes receivables relating to interest accrued during the year and still not collected as of December 31, 2020.

The receivables from subsidiaries are represented as follows:

- an interest-bearing loan granted to the subsidiary Sorgenia Sviluppo Srl in the amount of 3,030 thousand euro (2,902 thousand euro as of December 31, 2019), taken out in previous years to provide it with the means needed to sustain costs linked to ordinary business. The balance at year-end includes receivables for interest income accrued in the final quarter of the year, and still not collected, for an amount of 27 thousand euro;
- an interest-bearing loan granted to the subsidiary Sorgenia Power SpA and disbursed in October for an amount of 307,000 thousand euro (the maximum amount that can be disbursed is 350,000 thousand euro), taken out to replace the borrowings fully repaid by Sorgenia Power SpA following the completion of the sale of the Sorgenia Group, which involved the full repayment of the borrowings and simultaneous termination of the 2017 Restructuring Agreement. The loan was repaid in December for an amount of 3,400 thousand euro. The receivable is measured at amortised cost and its value at year-end is 298,952 thousand euro. The balance at year-end includes receivables for interest income accrued in the final quarter of the year, and still not collected, for an amount of 2,748 thousand euro;
- an interest-bearing loan granted to the indirect subsidiary Sorgenia Hydro Power Srl in the amount of 1,033 thousand euro (120 thousand euro as of December 31, 2019), taken out in previous years to provide it with the means needed to sustain costs linked to ordinary business; the balance at year-end includes receivables for interest income accrued in the final quarter of the year, and still not collected, for an amount of 8 thousand euro;
- an interest-bearing loan granted to the subsidiary Sorgenia Green Solutions Srl, in the amount of 1,935 thousand euro, taken out in previous years to provide it with the means needed to sustain costs linked to ordinary business; the balance at year-end includes receivables for interest income accrued during the year, and still not collected, for an amount of 20 thousand euro;
- an interest-bearing loan granted to the indirect subsidiary Sorgenia Le Cascinelle Srl in the amount of 230 thousand euro, taken out in previous years to provide it with the means needed to sustain costs linked to ordinary business; the balance at year-end includes receivables for interest income accrued in the final quarter of the year, and still not collected, for an amount of 2 thousand euro;
- an interest-bearing loan granted to the indirect subsidiary Sorgenia Bio Power Srl, taken out to provide it with the means needed to sustain costs linked to ordinary business; In the year under review, disbursements were made totalling 53 thousand euro; the balance at year-end includes receivables for interest income accrued in the final quarter of the year, and still not collected;
- an interest-bearing loan granted to the indirect subsidiary Sorgenia Renewables Srl, taken out to provide it with the means needed to sustain costs linked to ordinary business. During the year, disbursements were made for a total of 1,418 thousand euro. The balance at year-end of 1,425 thousand euro includes receivables for interest income accrued in the final quarter of the year, and still not collected, for an amount of 7 thousand euro;
- an interest-bearing loan granted to the subsidiary Sorgenia Fiber Srl to provide it with the means needed to sustain costs linked to ordinary business. During the year, disbursements were made for

5,360 thousand euro. The balance at year-end includes receivables for interest income accrued in the final quarter of the year, and still not collected, for an amount of 46 thousand euro.

During the year, the Company disbursed to the subsidiary Sorgenia Trading SpA 77,508 thousand euro in relation to the reciprocal interest-bearing loan agreement taken out in previous years. The loan was repaid in full by the subsidiary during the year. As of December 31, this item includes receivables for interest income accrued in the final quarter of the year, and still not collected, for an amount of 8 thousand euro.

As of December 31, 2019, the Company recorded financial receivables relating to the long-term loan granted to Sorgenia Power SpA. This loan was taken out in previous years to provide Racoon Srl (subsequently merged into Sorgenia Power SpA) with the resources necessary to incur the costs related to the implementation of the urbanisation works of the area where Sorgenia Power SpA's Turano Lodigiano plant is located. This loan was repaid in full by the subsidiary in October following the conclusion of the sale transaction of the Sorgenia Group and the closure of the Financial Debt Restructuring Agreement.

As of December 31, 2019, the Company also recorded financial receivables due from the subsidiary Sorgenia Solar Srl in liquidation in the amount of 340 thousand euro. These receivables were represented by the interest-bearing loan taken out in previous years to provide the subsidiary with the means necessary to incur the costs linked to the liquidation and repaid in the first few months of 2020 due to the closure of the subsidiary's liquidation.

It should be noted that, due to the new Loan Agreement, financial receivables due from subsidiaries are subject to transfer as guarantee in favour of the disbursing institutions.

Receivables due from parent companies

As of December 31, the Company recorded receivables due from parent companies, amounting to 1,000 thousand euro, which represented the multi-year non-interest bearing loan granted to the parent company Nuova Sorgenia Holding SpA and disbursed in the previous years; this receivable was repaid in October, following the purchase and sale transaction of the Sorgenia Group.

Receivables due from others

The residual item "Receivables due from others" includes long-term receivables designed for business operations, such as guarantee deposits for the lease and rental expenses, deposits paid to companies involved in electricity transportation and gas distribution, and to institutional counterparties with which the Company operates in the electricity and gas markets.

The item includes security deposits paid in favour of Terna SpA in the previous year, for an amount of 6,973 thousand euro (8,013 thousand euro as of December 31, 2019), and detailed as follows:

- 3,782 thousand euro paid pursuant to the Regulation governing the system of remuneration of the availability of electricity production capacity, on behalf of the subsidiary Sorgenia Power SpA, as contribution to the guarantee fund, in the form of an interest-bearing security deposit, for participation in the 'Asta Madre' (Main Auction) for the procurement of capacity with delivery in 2022 and 2023;
- 814 thousand euro paid pursuant to the Regulation governing the system of remuneration of the availability of electricity production capacity, on behalf of the subsidiary Sorgenia Power SpA, as non-interest bearing security deposit, for the purposes of qualification, in an 'Asta Madre', of a unit of New Products not authorised for the procurement of capacity with delivery in 2023;
- 1,327 thousand euro paid pursuant to the Regulation governing the system of remuneration of the availability of electricity production capacity, on behalf of the subsidiary Sorgenia Puglia SpA, as contribution to the guarantee fund, in the form of an interest-bearing security deposit, for participation in the 'Asta Madre' for the procurement of capacity with delivery in 2022 and 2023.
- 1,050 thousand euro relating mainly to the renewal of the input dispatch contract paid in previous years.

The deposits described above were made on behalf of Sorgenia Power SpA and Sorgenia Puglia SpA since Sorgenia Spa is the dispatching user on behalf of the subsidiaries. In respect of the deposits made, the Company collected the sums paid early, which it records under payables due to subsidiaries for an amount of 5,923 thousand euro (6,468 thousand euro at December 31, 2019), which must be repaid to the subsidiaries in the event in which the deposit is returned wholly or partially by Terna SpA.

The net change with respect to the previous year, amounting to 461 thousand euro, relates primarily to:

- the obtainment of new deposits in the period for 629 thousand euro, in particular in favour of Ital Gas Storage SpA for the participation in storage auctions;
- the partial repayment of the security deposit paid in the previous year in favour of Terna SpA for an amount of 1,040 thousand euro, detailed as follows:
    - repayment by Terna SpA of 495 thousand euro paid in the previous year as a contribution to the guarantee fund for participation in the 'Asta Madre' for the procurement of foreign capacity with delivery in 2022 and 2023;
    - repayment by Terna SpA of 545 thousand euro, paid in the previous year pursuant to the Regulation governing the system of remuneration of the availability of electricity production capacity, on behalf of the subsidiary Sorgenia Power SpA, as non-interest bearing security

deposit, for the purposes of qualification in an 'Asta Madre', of a unit of New Products not authorised for the procurement of capacity with delivery in 2023. In respect of said repayment, the Company repaid the full amount for which it was responsible to the subsidiary.

B. III. 4 – Derivative assets

The item includes, for 150 thousand euro, the *fair value* as of December 31, 2020, relating to the *Interest Rate Cap* derivative subscribed by Sorgenia SpA on November 3, 2020, to hedge the risk of interest rate fluctuations on the new outstanding loan.

C - CURRENT ASSETS

C. I – Inventories

EUR/000

INVENTORIES	31/12/2020	31/12/2019	CHANGE
Gas	16,065	22,830	(6,766)
CO2	117	212	(96)
TOTAL INVENTORIES	**16,182**	**23,042**	**(6,860)**

This item shows the value of inventories of natural gas, stored at Stogit SpA and IGS, which amount to 16,065 thousand euro (22,830 thousand euro as of December 31, 2019). The decrease recorded in the year is the result of the decline in raw material prices that the market recorded throughout 2020, which led to a lower valuation of warehouse stocks relating to the 2020-2021 storage campaign, despite the increase in the award of auctions for the allocation of storage capacity at Stogit SpA compared to the previous year.

The storage transactions were implemented in order to guarantee flexibility in procurement and to manage the volatility of intra-day prices.

As regards the item CO_2 quotas, Sorgenia SpA operates on the relative markets in favour of Group companies, mainly Sorgenia Power SpA and Sorgenia Puglia SpA. The item includes the inventories of CO_2 quotas for an amount of 117 thousand euro (212 thousand euro as of December 31, 2019).

Inventories are recorded at the weighted average cost on a continuous basis due to changes during the period.

C. II – Receivables

EUR/000

RECEIVABLES	Entro 12 mesi	Oltre 12 mesi	31/12/2020	31/12/2019
1) Trade receivables	216,451	-	216,451	223,312
2) Subsidiares	137,244	-	137,244	96,531
3) Associates	-	-	-	-
4) Parent Companies	-	-	-	-
5) Affiliated companies	-	-	-	-
5-bis) Tax receivables	19,202	60	19,262	13,299
5-ter) Deferred tax assets	38,053	-	38,053	40,726
5- quater) Others	1,845	-	1,845	1,499
TOTAL	**412,795**	**60**	**412,855**	**375,367**

The breakdown of receivables by geographical area is as follows:

EUR/000

RECEIVABLES BY GEOGRAPHICAL AREA	31/12/2020	31/12/2019
ITALY	412,852	374,953
EU	-	413
EXTRA EU	3	1
TOTAL	**412,855**	**375,367**

C. II. 1 – Trade receivables

The amount refers to trade receivables deriving from the supply of electricity and from the sale of natural gas.

These receivables due from customers include invoices to be issued for 158,552 thousand euro (153,036 thousand euro as of December 31, 2019).

The adjustment of the nominal value of the receivables to their presumed realisable value was obtained through a provision for the write-down of receivables amounting to 34,003 thousand euro as of December 31, 2020 (30,910 thousand euro as of December 31, 2019). The provision for the write-down of receivables represents the best estimate of the risk that customers will not meet their obligations. The Company identifies three homogeneous classes of customers: "*Mass market* customers" attributable to micro-enterprises, "*Corporate"* attributable to small, medium and large enterprises and "Residential". Overdue receivables are managed by type of recovery action and written down on the basis of the expected outcome of the recovery action taken.

The change in the item "Receivables due from customers" with respect to December 31, 2019 is attributable mainly: i) to the reduction in consumption by high-end customers, small and medium enterprises (SMEs) and professionals due to the CoViD-19 emergency; in the Residential segment, sales instead continued at high rates, with no decrease in consumption. Vice versa, the customer portfolio grew considerably, up from around 345 thousand in 2019 to roughly 416 thousand in 2020, with growth of 20.6% compared to the previous year; ii) to the higher receivables for invoices to be issued to Terna connected with the greater operations of the Group's production plants on the services markets in the final part of the year.

On November 25, 2020, the Company sold a portfolio of trade receivables deriving from electricity and gas supply contracts to a third party. The nominal value of the portfolio amounted to 6,472 thousand euro (fully recognised as a loss in previous years), for a price of 336 thousand euro. This consideration was collected in November.

The item “Miscellaneous operating costs” includes the net effect of losses on receivables, deriving from the recognition of losses on receivables amounting to 11,930 thousand euro (12,022 thousand euro in the previous year), fully covered by the use of the provision for the write-down of receivables. During the year under review, the amount of 15,049 thousand euro (7,240 thousand euro in the previous year) was allocated to the provision for the write-down of receivables, which is reflected in the Income Statement under the item "Write-down of receivables included in current assets and cash and cash equivalents".

With respect to the previous year, the provision for the write-down of receivables increased given that past due receivables are of lower quality, in terms of recoverability, than the previous ones recognised as a result of the CoViD-19 emergency.

C. II. 2 - Receivables - subsidiaries

The breakdown of this item is provided in the following table:

EUR/000

RECEIVABLES - SUBSIDIARIES	31/12/2020	31/12/2019
Energia Italiana SpA	-	4
Sorgenia Puglia SpA	26,100	21,303
Sorgenia Power SpA	77,653	42,717
Fin Gas Srl	-	5
Sorgenia Fiber Srl	1,832	3,947
Sorgenia Trading SpA	31,037	28,265
Sorgenia Sviluppo Srl	-	10
Sorgenia Green Solutions Srl	622	281
TOTAL	**137,244**	**96,531**

The amount relates primarily to trade receivables, as well as, to a small extent, to tax credits (VAT and IRES from tax consolidation) with a maturity of less than 12 months, as analysed below.

The breakdown of trade receivables is shown in the following table:

EUR/000

TRADE RECEIVABLES FROM SUBSIDIARIES	31/12/2020	31/12/2019
Energia Italiana SpA	-	4
Sorgenia Puglia SpA	18,913	19,552
Sorgenia Power SpA	57,937	42,717
Fin Gas Srl	-	5
Sorgenia Fiber Srl	1,832	3,947
Sorgenia Trading SpA	30,959	28,214
Sorgenia Green Solutions Srl	622	281
TOTAL	**110,263**	**94,720**

As regards trade receivables, this item mainly includes:

- receivables due from Sorgenia Power SpA and Sorgenia Puglia SpA for the sale of electricity as part of the management of IPEX markets and related services on the Dispatching and Imbalances market;
- receivables due from Sorgenia Power SpA and Sorgenia Puglia SpA for the sale of the natural gas needed for operation of the plants; the higher receivables due from Sorgenia Power SpA are connected with the higher volumes of gas sold in December at a higher price, plus the repurchases of energy on the Dispatching Services (MSD), Intra-Day (MI) and Balancing (MB) markets;
- receivables due from Sorgenia Trading SpA related to the settlement of transactions concerning the industrial portfolio that the subsidiary carried out on behalf of the parent company and the receivables relating to *service* activities linked to importing and the wholesaling of electricity and natural gas managed according to market approaches; the increase with respect to the previous year is connected with the higher volumes handled on behalf of the parent company;
- receivables due from Sorgenia Green Solutions Srl for services provided by the Company's sales network for the promotion of the subsidiary's products and services, as well as for the charge-back of costs directly attributable to and connected with the activities of IT and telecommunications services, employees, human resources and general services, incurred by the Company on behalf of the subsidiary as envisaged by the related *cross-charge contract*;
- receivables due from Sorgenia Fiber Srl relating mainly to the charge-back of development costs and software purchase costs incurred by the Company on behalf of the subsidiary as owner of all the Group's ICT contracts.

The item "Receivables due from subsidiaries" also includes VAT consolidation receivables of 3,674 thousand euro (10 thousand euro as of December 31, 2019), transferred by the companies to the Parent Company under the Group VAT agreement.

The breakdown is as follows:

EUR/000

RECEIVABLES FROM SUBSIDIARIES FOR IVA CONSOLIDATION	31/12/2020	31/12/2019
Sorgenia Puglia SpA	3,595	-
Sorgenia Trading SpA	78	-
Sorgenia Sviluppo Srl	-	10
TOTAL	**3,673**	**10**

Receivables for VAT consolidation were collected by the Company in January 2021.

The item “Receivables due from subsidiaries for tax consolidation" included, as of December 31, 2019, receivables of 1,802 thousand euro, transferred by the subsidiaries based on the tax consolidation contract renewed on May 31, 2018 for the 2018-2020 three-year period. These receivables were collected by the Company during the year.

As of December 31, 2020, the Company shows receivables for tax consolidation as detailed below:

EUR/000

RECEIVABLES FROM SUBSIDIARIES FOR TAX CONSOLIDATION	31/12/2020	31/12/2019
Sorgenia Puglia SpA	3,592	1,751
Sorgenia Power SpA	19,716	-
Sorgenia Trading SpA	-	50
TOTAL	**23,308**	**1,801**

The change in the receivables due from the subsidiary Sorgenia Power SpA is attributable to the non-transfer, as of December 31, 2019, of the taxable income to tax consolidation, as a result of the use of the surplus previous losses, generated before the participation in tax consolidation and ACE (aid for economic growth).

C. II. 5/bis – Tax receivables

EUR/000

TAX CREDIT	31/12/2020	31/12/2019
Up to 12 months		
VAT credits	16,111	9,435
Other tax credits	3,092	3,858
Over 12 months		
Other tax credits	60	6
Total	**19,263**	**13,299**

The item VAT credits, amounting to 16,111 thousand euro, represents the tax receivable from the Tax Authorities mainly generated, for 11,811 thousand euro (9,284 thousand euro as of December 31, 2019), by the Group VAT agreement in place also for 2020.

During the year, the Company requested reimbursement of:

- the VAT credit as per the annual VAT Return for 2019 for an amount of 5,000 thousand euro; this receivable was subsequently factored on a non-recourse basis and collected in April 2020 net of the commissions applied;
- the VAT credit accrued in the year, amounting to 4,300 thousand euro.

The item "Other tax credits due within one year", amounting to 3,092 thousand euro (3,858 thousand euro as of December 31, 2019), is mainly composed of:

- for 2,598 thousand euro (3,112 thousand euro as of December 31, 2019) relating to the amounts concerning the receivables due from the individual UTF offices (Ufficio Tecnico di Finanza - Technical Department of Finance) for excise duties on electricity and gas;
- for 492 thousand euro (732 thousand euro as of December 31, 2019), to tax receivables from the Tax Authorities for higher IRES advances paid in previous years, as well as IRAP advances paid in 2012, net of any uses.

C. II. 5/ter – Deferred tax assets

Deferred tax assets amount to 38,053 thousand euro (40,726 thousand euro at December 31, 2019) and include the deferred tax assets relating to the temporary differences between the values of the assets and liabilities recorded in the financial statements and the corresponding values recognised for tax purposes, as well as the deferred tax assets recorded on the previous tax losses considered recoverable. The value consists primarily of deferred tax assets recognised on the provision for the write-down of receivables (7,734 thousand euro), taxes recorded on the various risk provisions (4,882 thousand euro), the receivable for deferred tax assets on previous own tax losses (689 thousand euro) and on tax losses and previous ACE (aid for economic growth) deriving from the participation in tax consolidation (24,107 thousand euro).

The change compared to December 31, 2019, negative for 2,674 thousand euro, is mainly due to the net effect of:

- the use of the portion of tax losses and ACE, generated after the Company's participation in the tax consolidation regime, totalling 13,526 thousand euro;
- the recognition of the deferred tax assets on the part deemed recoverable of the tax losses and the ACE generated after the Company's participation in the tax consolidation regime, totalling 17,367 thousand euro;
- the net effects arising from changes in deferred tax assets relating to the risk provisions, the provision for the write-down of receivables and other minor temporary differences, totalling 4,568 thousand euro;
- the reclassification of deferred tax assets previously recorded on derivative liabilities amounting to 1,954 thousand euro and recognised as deferred tax liabilities as of December 31, 2020.

The recoverability of deferred tax assets as of December 31, 2020 is subject to the achievement of sufficient future taxable profits for the use of deferred tax benefits.

In relation to the tax losses and the ACE recorded (103,316 thousand euro, which corresponds to a tax credit of 24,796 thousand euro), the Directors deemed that the tax recoverability will be reasonably certain over a time horizon until 2024. The recoverability of the aforementioned tax losses and ACE was estimated on the basis of the future taxable income of tax consolidation deriving from the 2020–2024 Business Plan, approved by Sorgenia SpA's Board of Directors on January 21, 2021, which acknowledges the pre-closing data as of December 31, 2020 and the forecasts relating to the 2021 Budget. The Directors deemed that this plan represents convincing evidence to support the recoverability of deferred tax assets. However, given the long time horizon of the aforementioned forecast plan, the estimates made could differ, including significantly from the actual circumstances, leading to a subsequent impact on the recoverability of deferred tax assets.

As regards the measurement of the recoverability of deferred tax assets on temporarily non-deductible interest recognised prior to the participation in tax consolidation (84,841 thousand euro, which corresponds to a tax credit of 20,362 thousand euro), the Directors judged that there is no reasonable certainty as to the recoverability of the associated deferred tax assets, in consideration of a different time horizon for recovery of said temporary difference, as well as the effects of the refinancing of the Group that involves the incurring of higher financial expenses, hence not allowing the deductibility of previous financial expenses.

For more details, please refer to the "Table showing temporary differences and deferred taxes" in the paragraph “Temporary Differences and Deferred Taxes”.

C. II. 5/quater - Receivables – others

EUR/000

RECEIVABLES - OTHERS	31/12/2020	31/12/2019
Suppliers	1,216	1,075
Others receivables	629	424
Total	**1,845**	**1,499**

The balance of the Suppliers item is represented by advances on supply provided for in the contract and mainly consists of advances for legal and tax advisory services amounting to 59 thousand euro. The item also includes advances to agents of 1,157 thousand euro, stated net of a provision for the write-down of receivables of 306 thousand euro allocated in view of any non-recoverability of the receivable.

On December 19, 2019 the Company acquired the receivable due to the subsidiary Sorgenia Solar Srl in liquidation from a company active in the sector of production and sale of photovoltaic modules. The receivable is shown in this item net of a provision for credit risks and amounts to 10 thousand euro.

The item 'Other receivables' mainly includes, for 619 thousand euro, the receivable that the Company recognised from the Government for the RAI fee due to higher payments made in the year with respect to the charge-backs to customers, as a result of Legislative Decree no. 94 of May 13, 2016 which makes the electricity companies responsible for collecting said tax. As of December 31, 2019, the Company recorded payables due to the Government relating to charge-backs from the Company to customers.

The item Other receivables included, as of December 31, 2019, mainly the amount of 400 thousand euro, attributable to the sale of the equity investment of Volterra in January 2017 for 3,000 thousand euro, which was fully collected at the end of the period under review.

C. III – Short-term investments

EUR/000

SHORT - TERM INVESTMENTS	31/12/2020	31/12/2019
1) Investments in subsidiaries	-	-
2) Investments in affiliates	-	-
3) Investments in parent companies	-	-
3-bis) Investments in affiliated companies	-	-
4) Other investments	-	-
5) Derivative assets	-	2
6) Other securities	-	-
7) Financial assets for centralized treasury management	-	-
TOTAL	**-**	**2**

C. III. 5 – Derivative assets

This item included 2 thousand euro for the *fair value* as of December 31, 2019 of the *Interest Rate Cap* derivative subscribed by Sorgenia SpA in 2017 to hedge the risk of interest rate fluctuations on the outstanding loan, paying a total premium of 875 thousand euro. This instrument was extinguished following the repayment of the payable resulting from the sale transaction of the Sorgenia Group and subsequent refinancing.

C. IV – Cash and cash equivalents

EUR/000

CASH AND CASH EQUIVALENTS	31/12/2020	31/12/2019
Bank and post office deposits	31,185	108,795
Cheques	-	-
Cash and valuables on hand	3	3
Total	**31,188**	**108,798**

The item "Bank and postal deposits" includes the balances as of December 31, 2020 relating to bank current accounts, current accounts in foreign currency, bank deposits, and reflects the changes in the cash flows for the year as represented in the cash flow statement to which reference is made.

Any balance in foreign currencies has been reported at the local currency based on the year-end exchange rate, recording any exchange gains or losses directly in the Income Statement.

The item "Cash and cash equivalents" represents the amount of cash, in euro and in foreign currency, deposited in the Company’s accounts as of December 31, 2020. Amounts in foreign currency were adjusted to the year-end exchange rate.

It should be noted that, due to the new Loan Agreement, the Company's bank current accounts are subject to a pledge in favour of the disbursing institutions.

D – ACCRUED INCOME AND PREPAID EXPENSES

EUR/000

ACCRUED INCOME AND PREPAID EXPENSES	31/12/2020	31/12/2019
Accrued income	-	-
Prepaid Expenses	4,391	3,959
Total	**4,391**	**3,959**

The breakdown of Prepaid expenses is as follows:

EUR/000

PREPAID EXPENSES	31/12/2020	31/12/2019
Commissions on guarantees	687	694
Other prepaid expenses	3,704	3,265
Total	**4,391**	**3,959**

The item “Prepaid expenses” includes:

- prepaid expenses related to commission on guarantees in favour of the Company's suppliers;
- prepaid expenses relating to purely commercial costs such as insurance, advertising, rental and maintenance contracts and *software*;
- prepaid expenses relating to costs for the renewal of the *Cloud* services for the Group's information systems incurred for the July 2020/December 2022 period, for an amount of 465 thousand euro;
- prepaid expenses, for an amount of 358 thousand euro, relating to the part of the premium paid for the *Interest Rate Cap* derivative subscribed by Sorgenia SpA on November 3, 2020 and pertaining to subsequent years.

As of December 31, 2020, the Company recorded prepaid expenses relating to insurance, for an amount of 57 thousand euro, with maturity after five years.

DESCRIPTION OF LIABILITIES AND SHAREHOLDERS' EQUITY ITEMS

A – SHAREHOLDERS' EQUITY

The following tables provide a detailed breakdown of the Company's shareholders' equity and the reasons for the changes that have taken place over the last two years.

EUR/000

SHAREHOLDERS' EQUITY	I. Share Capital	IV. Legal Reserve	VI. Tresury stock Reserve	VII. Cash flow hedge reserve	VIII. Retained earnings (loss)	IX. Net Income (loss)	X. Negative reserve for treasury shares in portfolio	TOTAL
Balance at 31/12/2018	**406,677**	**1,816**	**213**	**1,909**	**(116,647)**	**18,367**	**(804)**	**311,531**
Decrease	-	-	-	(8,098)	-	-	-	(8,098)
Allocation of Net Loss at 31/12/2018	-	-	-	-	18,367	(18,367)	-	-
Net Income (loss) for the year	-	-	-	-	-	358	-	358
Balance at 31/12/2019	**406,677**	**1,816**	**213**	**(6,189)**	**(98,280)**	**358**	**(804)**	**303,791**
Decrease	-	-	-	8,438	-	-	-	8,438
Allocation of Net Income at 31/12/2019	-	18	-	-	340	(358)	-	-
Net Income (loss) for the yearperiod	-	-	-	-	-	73,047	-	73,047
Balance at 31/12/2020	**406,677**	**1,834**	**213**	**2,250**	**(97,940)**	**73,047**	**(804)**	**385,276**

AVAILABLE RESERVES

EUR/000	AMOUNT	ESTIMATED USEFUL LIFE	AVAILABLE AMOUNT	RECAP OF USES OVER THE LAST 3 FINANCIAL YEARS: Cover of losses	RECAP OF USES OVER THE LAST 3 FINANCIAL YEARS: Others
Share Capital	406,677		-	-	-
CAPITAL RESERVES					
Share-premium reserve	-		-	-	-
EARNINGS RESERVES					
Legal reserve	1,834	B	-	-	-
Other reserve	213	AB	213	-	-
TOTAL	**408,724**		**213**	**-**	**-**
Net distributable amount **			213		
Remaining distributable amount			-		

Key: A Capital increase; B Cover of losses; C Distribution to Shareholders
**Not distributable portion 213 K Euros

I - Share capital

The Company's Share Capital at December 31, 2020, fully subscribed and paid-in, amounts to 406,677 thousand euro and is represented by 39,746,225,100 ordinary shares with no nominal value and 921,435,281 shares with a nominal value of 0.01 euro each, for a total of 40,667,660,381 shares, as detailed below:

HOLDER	N.° SHARES HELD/000	VALUE REPRESENTED IN EURO/000	%
Zaffiro SpA	40,667,170	406,672	99.9988%
Others	75	1	0.0002%
Sorgenia SpA (own shares)	416	4	0.001%
TOTAL	**40,667,661**	**406,677**	**100%**

As regards the changes to the shareholding structure in the year, please refer to the paragraph "Sorgenia Group development operations".

IV – Legal reserve

The Legal Reserve, amounting to 1,834 thousand euro, increased by 18 thousand euro during the year as a result of the allocation of 5% of the profit of the previous year.

VI – Other reserves

The item relates to the merger surplus generated as a result of the merger of Sorgenia Progetti Srl in Sorgenia SpA in October 2009 for 213 thousand euro.

This item has not changed during the year.

VII - Reserve for hedging transactions on expected cash flows

The balance as of December 31, 2020 of the cash flow reserve, amounting to 2,250 thousand euro, includes the net *fair value* liability for financial instruments stipulated, through Sorgenia Trading SpA, as part of the already mentioned mandate without representation agreement, net of related tax effect. The derivative has the objective of hedging risks of fluctuations in commodity prices in future cash flows, in accordance with requirements for hedge accounting. The contra-entry of this reserve, before taxes, was classified under receivables due from subsidiaries.

Changes during the year are shown below:

EUR/000	Cash flow hedge reserve
Start Balance	**(6,189)**
Variation during the period	
Increase for Fair Value variation	
Decrease for Fair Value variation	
Release in Income Statement	11,103
Release at rectification of asset/liability	
Defferred tax effetc	(2,665)
Final Balance	**2,250**

For these contracts, the Company verified the effectiveness of the hedge by checking the existence of a close and documented correlation between the characteristics of the underlying and those of the hedging instrument.

VIII – Retained earnings (losses)

The item includes the sum of all earnings retained by the Company following the allocation of the profit in the previous year, as detailed in the statement of changes in equity.

IX - Net income (loss) for the year

This item includes the Company's results for the year.

B – PROVISIONS FOR RISKS AND LOSSES

EUR/000

PROVISIONS FOR RISK AND LOSSES	31/12/2019	Provision	Decreases	Other movements	31/12/2020
B.1) Retirement funds and similar obbligations	1,914	626	(68)	-	2,472
B.2) Provision for deferred taxes	1,018	710	(1,018)	-	710
B.3) Provisions for other derivative liabilities	3,274	-	(932)	-	2,342
B.4) Other provision for risks and losses	35,526	7,614	(22,039)	(3,968)	17,134
TOTAL	**41,732**	**8,950**	**(24,057)**	**(3,968)**	**22,657**

B. 1 - Retirement provision

The provision for retirement benefits, amounting to 2,472 thousand euro (1,914 thousand euro as of December 31, 2019) includes provisions similar to employee leaving indemnity that are set aside pursuant to collective labour agreements or supplementary company agreements. In this case, the amounts relate to agents' leaving indemnity to which the commercial agents working for the Group are entitled.

B. 2 - Provision for deferred tax

As of December 31, 2020, the item includes the provision for deferred tax liabilities of the *cash flow hedge* reserve on commodity derivatives (710 thousand euro). For further details, please refer to the "Table showing temporary differences and deferred taxes".

The value included, as of December 31, 2019, the provision for deferred tax liabilities linked to the application of OIC 19, in relation to the application of the amortised cost method on bank and bond payables. The decrease compared to December 31, 2019 is attributable to the use of deferred taxes recognised in previous years on the measurement at amortised cost of the financial payables of the Company, as a result of the revision of the estimate of the flows of repayments of bank and bond payables carried out during the previous year to reflect the effect of the Group's purchase and sale transaction.

B. 3 - Provisions for derivative liabilities

The item includes the fair value, amounting to 2,342 thousand euro, deriving from the valuation of hedging instruments, entered into with Terna for the year 2020, against the volatility risk of the consideration for transfer capacity assignment (CCC) to the market operators who are holders of dispatching points for generation and import units.

B. 3 - Other provisions for risks and losses

The item other provisions includes:

- the provision for tax risks, amounting to 253 thousand euro (123 thousand euro at December 31, 2019), refers to the excise duty disputes ongoing with the Customs Agency and the IRAP (regional business tax) assessment. During the period under review, allocations totalling 130 thousand euro were recorded;
- to the provision for customer and teleseller, agency and miscellaneous disputes, for an amount of 4,138 thousand euro (3,385 thousand euro as of December 31, 2019), which includes the estimated costs of legal proceedings brought by customers, as well as other outstanding legal disputes. During the period under review, provisions of 1,227 thousand euro, releases of 337 thousand euro and uses of 137 thousand euro were recorded;
- the volume bonus provision, amounting to 287 thousand euro (359 thousand euro last year), related to allocations for premiums relating to electricity and natural gas. During the year under review, the provision saw the following changes:

  - use of the provision set aside at December 31, 2019 following recognition to end customers of 249 thousand euro of electricity and gas bonuses;
  - a release of 110 thousand euro;
  - a provision for the year of 286 thousand euro.

  The volume bonus provision is linked to the Company's signing of annual supply contracts with its customers that provide for the payment of bonuses if certain targets are reached in terms of volumes of electricity and gas withdrawn. At the reporting date, these bonuses, which are specific in nature and are likely to exist, are uncertain in terms of their amount and timing. The amount present in the financial statements at the end of the period refers exclusively to the premiums to be paid to customers on consumption during the year;
- the provision for future charges for commercial activities for 3,034 thousand euro (2,986 thousand euro as of December 31, 2019), is attributable to the best estimate at the date of preparation of these financial statements that includes:
  - costs linked to "collector" activities for trade receivable recovery actions;
  - costs relating to the payment of fees for the execution of injunctions orders toward defaulting customers;
  - costs for probable repurchase of receivables sold to a factoring company in previous years following the suspension of the contract.

  This provision posted a utilisation of 501 thousand euro and allocations of 549 thousand euro during the year;
- risk provision for Settlement by the gas Transport Operator. Following the issuing by the Authority of resolutions 670/2017/R/gas and 782/2017/R/gas, the gas Transport Operator recalculated the economic and physical items from the 2015 period. The aforementioned resolutions outlined a model for calculating the positions accrued by the operators as a result of adjustments to the measurements of the points underlying the distribution networks (the "Settlement"). Based on the information available on the new Settlement model introduced by the Authority, the estimate of the probable charge to be paid to the Transport Operator for the period 2016-2020 was quantified at 5,080 thousand euro (1,931 thousand euro as of December 31, 2019). This estimate was made based on the measurement adjustments communicated to Sorgenia SpA by the distributors and on the comparison of these updated measures with the values considered at the time by the Operator, in line with the indications contained in resolutions 670/2017/R/gas and 782/2017/R/gas. During the year, an allocation of 3,080 thousand euro was made, an amount of 32 thousand euro was used, a release of 399 thousand euro was recorded and an amount of 500 thousand euro was reclassified from the item "trade payables" relating to the allocation for 2019;
- the risk provision connected with the ARERA preliminary investigation and AGCM investigation on prices in dispatching services amounting to 2,000 thousand euro (1,297 thousand euro as of December 31, 2019) attributable to the potential outlay as a result of the Order to Comply no. 461/2017/E/EEL and penalty proceedings no. DSAI/96/2017/EEL. The amount corresponds to the

best estimate of the probable charge that the Company must incur for the penalty proceeding which is still in progress and, during the year, an amount of 703 thousand euro was reinstated;

- the provision for risks on equity investment of 2,056 thousand euro relating to provisions:
    - for the subsidiary Sorgenia Fiber Srl for an amount of 1,646 thousand euro;
    - for the subsidiary Sorgenia Green Solutions Srl for an amount of 410 thousand euro.

  This provision was recorded in light of the companies' negative shareholders' equity;
- the provision for excise duty disputes, amounting to 287 thousand euro, which includes the estimate of the legal costs related to proceedings for disputes brought by customers.

As of December 31, 2019, the Company recorded a provision for risks related to the allocation of a medium/long-term variable incentive in favour of Company Directors and employees, partly linked to a Group sale transaction for an amount of 25,185 thousand euro. This provision was used during the period for an amount of 20,860 thousand euro. The residual amount, standing at 4,325 thousand euro, was released for an amount of 348 thousand and reclassified for the remainder, amounting to 3,977 thousand euro, to the item "Other payables" of the Balance Sheet and following the verification of the financial conditions underlying the recognition of the incentive.

As of December 31, 2019, the Company also recognised a provision for risks on the equity investment in the subsidiary Sorgenia Solar Srl relating to the allocations made in previous years amounting to 260 thousand euro; this provision was utilised following the closure of the liquidation of the subsidiary in the first few months of 2020.

In compliance with the matters laid down by OIC 31, the allocations to risk provisions are recorded under the ordinary operations to which the transaction refers, with the classification of costs "by nature" as the prevailing principle.

C – EMPLOYEE LEAVING INDEMNITY (TFR)

EUR/000	**31/12/2019**	**Decreases**	**Provision**	**31/12/2020**
TFR	560	(1,105)	1,166	622

The employee leaving indemnity set aside represents the actual amount payable by the Company at the close of the reporting period to employees on the books as of that date, net of any advances paid.

Uses include portions of employee leaving indemnity, accrued before the reform of 2007 and therefore still held by the Company, and paid during the year to employees who terminated their employment relationship with Sorgenia SpA.

The uses also include the amounts transferred to the INPS treasury fund or to supplementary pension funds, the advances paid, the use for the excess of the employee leaving indemnity bonus pertaining to the previous year disbursed during the year.

The Company's workforce at the reporting date is shown in the following table.

	31/12/2019	HIRES	DEPARTURES	31/12/2020	AVERAGE FOR THE YEAR
Directors	18	-	-	18	18
Managers	69	7	3	73	70
Office staff	169	27	16	180	175
TOTAL EMPLOYEES	**256**	**34**	**19**	**271**	**263**

D - PAYABLES

The breakdown of payables by due date is provided below:

EUR/000

LIABILITIES	Up to 12 months	over 12 months	over 5 years	31/12/2020	31/12/2019
1) Bonds	-	-	-	-	-
2) Convertible Bonds	-	-	-	-	221,660
3) Shareholder loans	-	-	-	-	-
4) Bank borrowings	60,578	455,698	-	516,276	99,405
5) Other financing creditors	-	-	-	-	-
6) Advance Payments	-	-	-	-	-
7) Payables to suppliers	178,163	-	-	178,163	178,074
8) Payables in the form of notes	-	-	-	-	-
9) Payables to subsidiaries	222,313	5,923	-	228,236	170,353
10) Payables to Associates	-	-	-	-	-
11) Payables to Parent Companies	-	-	-	-	-
11-bis) Payables to affiliated companies	12	-	-	12	-
12) Tax Payables	5,665	-	-	5,665	3,939
13) Social security payables	2,707	-	-	2,707	2,491
14) Other payables	10,604	-	-	10,604	5,300
Total	**480,043**	**461,621**	**-**	**941,664**	**681,222**

The breakdown of payables by geographical area is as follows:

EUR/000

PAYABLES BY GEOGRAPHICAL AREA	31/12/2020	31/12/2019
ITALY	940,691	671,992
EU	490	9,000
EXTRA EU	483	230
TOTAL	**941,664**	**681,222**

D. 2 - Convertible bonds

The Bonds recognised in the financial statements as of December 31, 2019 included the mandatory convertible bond issued on March 27, 2015, in execution of the 2015 Restructuring Agreement and subsequently amended in 2017 as a result of the Financial Debt Restructuring Agreement.

The 2015 Restructuring Agreement made provision for the issuing of a mandatory convertible bond for a nominal total amount of 198,731 thousand euro, through the issuing of bonds intended for subscription and discharge at par by the creditor banks, through offsetting the financial receivables due from the Company.

As a result of the changes made to the Financial Debt Restructuring Agreement, the mandatory convertible bond was interest-bearing, regulated at a nominal fixed rate of 1% and maturing on December 31, 2027.

As described in the paragraph "Sorgenia Group development operations" to which reference should be made, on October 6, 2020, the sale of Sorgenia SpA's shares to the company Zaffiro SpA was completed. On the same date, the Sorgenia Group’s financial debt was refinanced with the banking system. Therefore, the bond loan was repaid in full and the 2017 Restructuring Agreement was simultaneously terminated.

D. 4 – Bank borrowings

Amounts due to banks comprise:

EUR/000

LOANS FROM BANKS	31/12/2020	31/12/2019
Overdraft facilities and advances	158	1
Loans	516,118	99,404
TOTAL	**516,276**	**99,405**

The item bank current accounts and advances, amounting to 158 thousand euro, is composed of bank charges still not debited.

Payables to banks for loans include, at December 31, 2020, the value of the amortised cost of the debt outstanding at said date for 516,118 thousand euro (99,404 thousand euro as of December 31, 2019), corresponding to a nominal value of 529,400 thousand euro (100,266 thousand euro as of December 31, 2019).

It should be noted that financial payables for loans due within one year amount to 60,420 thousand euro, with 455,698 thousand euro due after one year.

As already described in the paragraph "Sorgenia Group development operations" at December 31, 2019, the estimate of the payment flows of the debt used for the measurement at amortised cost was modified to reflect the effect of the Group’s purchase and sale transaction by the offerers (F2i and Asterion). In particular, it should be noted that the finalisation of the transaction on October 6, 2020 led to the refinancing of Sorgenia Group’s financial debt with the banking system, through the taking out of a new loan obtained on the market, which entailed the full repayment of existing financial payables and the termination of the Debt Restructuring Agreement.

On October 6, 2020, the Sorgenia Group's new financing structure became operational, which is composed of a *term loan* line of 565,000 thousand euro and a *revolving* line of 75,000 thousand euro granted to Sorgenia SpA, at a floating rate (6-month Euribor for the *term loan* lines and 3/6-month Euribor for the *revolving*) line with an initial margin of 3.50%, which may reduce six-monthly based on the attainment of defined thresholds of the *Net Debt/EBITDA* ratio.

Both the *term loan* and *revolving* lines expire in December 2024.

The *term loan* lines make provision for six-monthly instalments and a balloon final payment, while the *revolving* line envisages up to 15 contemporary uses with an interest and repayment period of 3 or 6 months; in relation to the latter, there is also a *commitment fee* on amounts not disbursed equal to 35% of the reference margin.
Provision is made for an additional early repayment mechanism through *cash sweep* on the surplus cash generated, to be applied annually at first, then every six months from June 2022.

It is specified that, at December 31, 2020, the Company:

- repaid a portion of the principal on the loan disbursed, corresponding to the *term loan* line of 29,600 thousand euro, hence reducing the nominal portion to an amount of 499,400 thousand euro;
- used a portion of the *revolving* line, for an amount of 30,000 thousand euro (repaid in January 2021);
- recognised the expense pertaining to 2020, in application of the measurement at amortised cost for an amount of 13,515 thousand euro.

The Company also has an "excise" loan agreement comprised of a line up to 70,000 thousand euro provided to the company to cover the financial requirements that should arise from any refund requests on excise paid in due course by end customers and not due from the latter pursuant to the regulations in force. The payment, also following a ruling, of the refunds to end customers by the company means that the latter is due a receivable from the Tax Authorities.
The signing of the excise loan agreement satisfied one of the three conditions set out in the transaction involving the sale of Sorgenia SpA's shares.
The "excise" loan has an annual interest rate of 2.25%, which is added to the three-month Euribor (with *floor* at zero), and a non-use commitment fee of 1% per annum.

D. 7 - Trade payables

Trade payables, which show a balance of 178,163 thousand euro (178,074 thousand euro as of December 31, 2019), of which 126,658 thousand euro for invoices to be received, are recorded net of any trade discounts; cash discounts are instead recognised on payment. The balance includes the amount due for the provision of services, purchases and invoices to be received for the purchase of electricity and natural gas and transportation costs for electricity and gas, as well as the invoices to be received for ancillary services related to trading in electricity and gas.

D. 9 - Payables - subsidiaries

Amounts due to subsidiaries are made up as follows:

EUR/000

PAYABLES - SUBSIDIARIES	31/12/2020	31/12/2019
Energia Italiana SpA	557	13
Sorgenia Puglia SpA	52,547	52,356
Sorgenia Power SpA	122,793	74,537
Sorgenia Bio Power Srl	31	2
Sorgenia Fiber Srl	588	200
Sorgenia Hydro Power Srl	43	52
Sorgenia Le Cascinelle Srl	149	19
Sorgenia Renewables Srl	634	1,109
Sorgenia Trading SpA	50,447	42,015
Sorgenia Geothermal Srl	113	37
Sorgenia Sviluppo Srl	59	-
Sorgenai Green Solutions Srl	276	13
TOTAL	**228,236**	**170,353**

Financial payables are summarised below:

EUR/000

FINANCIAL PAYABLES TO SUBSIDIARIES	31/12/2020	31/12/2019
Energia Italiana SpA	325	-
Sorgenia Puglia SpA	-	11,502
Sorgenia Fiber Srl	-	200
Sorgenia Renewables Srl	-	1,025
Sorgenia Trading SpA	16	-
TOTAL	**341**	**12,727**

The company posted financial payables due to subsidiaries in relation to reciprocal interest-bearing loans. The balance includes the portion of interest accrued in the final quarter of the year and still not paid as of December 31, 2020.

Payables due to subsidiaries present as of December 31, 2019 related to loans disbursed in relation to the reciprocal loan agreements, at a fixed rate, with at least annual adjustment and were repaid during the period.

Trade payables are detailed below:

EUR/000

TRADE PAYABLES TO SUBSIDIARIES	31/12/2020	31/12/2019
Sorgenia Puglia SpA	51,220	37,775
Sorgenia Power SpA	113,737	65,909
Sorgenia Trading SpA	50,392	41,977
Sorgenia Green Solutions Srl	7	13
TOTAL	**215,357**	**145,674**

The balance is mainly made up of:

- trade payables for invoices received and to be received from Sorgenia Puglia SpA and Sorgenia Power SpA for the purchase of electricity;
- trade payables for invoices received and to be received from Sorgenia Trading SpA, which are attributable to purchases of electricity and natural gas within the scope of the service for the wholesale purchase of electricity and natural gas assigned to the subsidiary, as part of the mandate without representation agreement.

The change is mainly linked to: i) payables due to the subsidiary Sorgenia Power SpA for the higher volumes of electricity produced and higher prices than those of the previous year, ii) the payables due to Sorgenia Puglia SpA for the electricity acquired as a result of the increase in the volumes produced during the year due to the admission of the plant to the cost recovery regime, which took place on July 2, 2019 by means of Resolution 222/2019 extended to the whole of 2020 under Resolution 290/2019 and iii) payables due to Sorgenia Trading SpA for greater quantities of electricity and gas purchased.

The item “Payables due to subsidiaries” also includes 4,798 thousand euro that the Company owes to Group companies following their application of Group VAT consolidation also for 2020. The breakdown is as follows:

EUR/000

PAYABLES TO SUBSIDIARIES FOR VAT CONSOLIDATION	31/12/2020	31/12/2019
Sorgenia Puglia SpA	-	1,753
Sorgenia Power SpA	4,460	4,032
Sorgenia Bio Power Srl	5	2
Sorgenia Hydro Power Srl	26	52
Sorgenia Le Cascinelle Srl	34	19
Sorgenia Renewables Srl	162	84
Sorgenia Trading SpA	-	38
Sorgenia Geothermal Srl	58	37
Sorgenia Sviluppo Srl	12	-
Sorgenia Green Solutions Srl	41	-
TOTAL	**4,798**	**6,017**

This item also includes payables for tax consolidation, for an amount of 1,794 thousand euro, connected to disposal of ROL and tax losses used in the tax consolidation, as shown below:

EUR/000

PAYABLES TO SUBSIDIARIES FOR TAX CONSOLIDATION	31/12/2020	31/12/2019
Energia Italiana SpA	232	13
Sorgenia Bio Power Srl	26	-
Sorgenia Fiber Srl	565	-
Sorgenia Hydro Power Srl	17	-
Sorgenia Le Cascinelle Srl	115	-
Sorgenia Renewables Srl	472	-
Sorgenia Trading SpA	38	-
Sorgenia Geothermal Srl	55	-
Sorgenia Sviluppo Srl	46	-
Sorgenia Green Solutions Srl	228	-
TOTAL	**1,794**	**13**

It should be noted that the increase in the payable is due to the re-application of National Tax Consolidation (pursuant to Articles 117 et seq. of Presidential Decree 917/86 - TUIR - Consolidated Law on Income Tax) for the 2020-2022 three-year period of the subsidiaries, as specified above.

This item also includes the other payables due to subsidiaries, for an amount of 5,945 thousand euro, relating primarily to the payables due to Sorgenia Power SpA (4,596 thousand euro) and Sorgenia Puglia SpA (1,327 thousand euro) relating to security deposits paid by the company in favour of Terna SpA on behalf of the subsidiaries, expiring after 12 months, as shown in the item "Financial fixed assets" under Balance Sheet Assets.

D. 12 – Tax payables

EUR/000

TAX PAYABLES	**31/12/2020**	**31/12/2019**
Withholding tax deducted - to be paid in	1,262	913
Due to inland revenue - electricity and gas duties	4,402	3,026
TOTAL	**5,664**	**3,939**

The amounts recorded under withholding tax deducted and to be paid regard withholding taxes relating to professionals and IRPEF (personal income tax) for employees of 124 thousand euro (106 thousand euro as of December 31, 2019) and 1,137 thousand euro (805 thousand euro as of December 31, 2019) respectively, relating to December 2020 and duly paid the following month.

Amounts due to Tax Authorities for excise duties, totalling 4,402 thousand euro (3,026 thousand euro as of December 31, 2019), will be cancelled due to the payment of the adjustment that will be made in March 2021.

D. 13 – Social security payables

The item “Social security payables” amounting to 2,707 thousand euro (2,491 thousand euro as of December 31, 2019) includes payables for social security contributions payable by the Company and withholdings deducted from employees according to current law and under the collective labour agreement. The payables in question are due within one year. Social security payables also include the amounts of contributions on bonuses or on holidays accrued at year-end for 1,583 thousand euro (1,200 thousand euro as of December 31, 2019).

D. 14 – Other payables

EUR/000

PAYABLES OTHERS	**31/12/2020**	**31/12/2019**
Due to employees	10,604	5,180
Due to others	-	121
TOTAL	**10,604**	**5,301**

The item “Payables due to employees”, amounting to 10,604 thousand euro (5,180 thousand euro as of December 31, 2019), includes the expense for holidays accrued and not taken for 2,064 thousand euro and the payable for the productivity bonus accrued for employees amounting to 4,558 thousand euro. This item includes the payable for the variable medium/long-term incentive in favour of Company employees, partly connected with the sale transaction of the Group, for an amount of 3,977 thousand euro. This amount will be paid, as set out in the underlying agreement, following approval of the financial statements as of December 31, 2020. As of December 31, 2019, this payable was reported under the item Provisions for risks and charges of Balance Sheet liabilities.

As of December 31, 2019, the item “Payables - others” mainly included, for 120 thousand euro, the Company’s payable to the Government for the RAI licence fee. The payable for the RAI licence fee arose following Italian Legislative Decree no. 94 of May 13, 2016, which delegates to electricity companies the burden of collecting this tax. The balance was composed of charges made by the Company to customers. As of December 31, 2020, the Company recorded a receivable due from the Government due to higher payments made during the year and classified to the item "Receivables due from others".

E - ACCRUED EXPENSES AND DEFERRED INCOME

EUR/000

ACCRUED EXPENSES AND DEFERRED INCOME	31/12/2020	31/12/2019
Accrued expenses	-	-
Deferred income	14	2
TOTAL	**14**	**2**

The balance of the item as of December 31, 2020 includes deferred income related to commissions on the new loan which were charged back to the subsidiary Sorgenia Power SpA for the amount relating to it.

There are no accrued expenses and deferred income with a duration of beyond five years as of December 31, 2020.

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES NOT REPORTED IN THE BALANCE SHEET

Commitments not reported in the Balance Sheet comprise:

EUR/000	**31/12/2020**	**31/12/2019**
1. Guarantees issued	128,370	117,430
2. Bank guarantees	217,768	237,773
3. Commitments	-	-
TOTAL	**346,137**	**355,203**

1. Guarantees issued

The guarantees include:

- the securities representing the share capital of the subsidiary Sorgenia Power SpA, provided as pledges to lending banks for the new loan agreement, for 5,000 thousand euro (for the same amount as of December 31, 2019);
- the securities representing the share capital of the subsidiary Sorgenia Puglia SpA, provided as pledges to lending banks for the new loan agreement, for 11,151 thousand euro;
- guarantees provided by the consolidating company Sorgenia SpA for VAT credits transferred by the subsidiaries for the years 2014, 2015, 2017 and the first quarter of 2018 for 36,019 thousand euro (48,930 thousand euro as of December 31, 2019);
- guarantees provided, on behalf of Sorgenia Trading SpA, by the Parent Company Sorgenia SpA, totalling 76,200 thousand euro (63,500 thousand euro as of December 31, 2019), to electricity and gas suppliers, in order to guarantee any default by the subsidiary.

2. Bank guarantees

Bank guarantees, issued by banks to guarantee third parties, mainly regard:

- electricity and gas transport and transmission contracts for 94,576 thousand euro (108,692 thousand euro as of December 31, 2019);

- electricity and gas purchase contracts, as well as balancing contracts, dispatching and guarantees given to participate in interconnection auctions for 82,194 thousand euro (87,869 thousand euro as of December 31, 2019);
- office and land lease contracts for 1,667 thousand euro (2,320 thousand euro as of December 31, 2019);
- guarantees issued to the Italian Revenue Agency and Italian Customs Agency for payments related to excise and custom duties for 690 thousand euro (for the same amount as of December 31, 2019);
- contracts for input and output dispatch signed with Terna by the Group for 32,945 thousand euro (for the same amount as of December 31, 2019).

DESCRIPTION OF INCOME STATEMENT ITEMS

A – VALUE OF PRODUCTION

EUR/000

VALUE OF PRODUCTION	31/12/2020	31/12/2019	CHANGE
1) Revenue from sales and services	1,475,056	1,700,015	(224,958)
2) Changes in work in progress, semi-finished and finished products	-	-	-
3) Changes in contracted work in progress	-	-	-
4) Increase in fixed assetsfor internal work	1,131	376	755
5) Other income	40,692	47,357	(6,664)
TOTAL	**1,516,879**	**1,747,748**	**(231,622)**

A. 1 – Revenue from sales and services

During the year, the Company recorded revenues for sales of 1,475,056 thousand euro.

This item mainly refers to (i) revenues from end customers for the sale of electricity and natural gas for 550,938 thousand euro, (ii) revenues from *Energy Management* activities, carried out on wholesale markets, for 293,083 thousand euro and (iii) revenues from related parties of 631,035 thousand euro for the sale of electricity, natural gas and CO_2 certificates.

Revenues from sales recorded a negative change of 224,958 thousand euro compared to the previous year (1,475,056 thousand euro in 2020 compared to 1,700,015 thousand euro in 2019), attributable primarily to: i) lower revenues from sales of electricity and natural gas to end customers, which went from 641,736 thousand euro in 2019 to 550,938 thousand in 2020, marking a variation of 90,798 thousand euro; this decrease is mainly due to the decline in consumption by high-end customers, small and medium enterprises (SMEs) and professionals as a result of the CoViD-19 emergency; sales in the Residential segment instead continued at high rates, with no decreases on consumption. Vice versa, the customer portfolio rose significantly from around 345 thousand in 2019 to roughly 416 thousand in 2020, marking growth of over 20.6% with respect to the previous year; (ii) lower revenues of 9,903 thousand euro linked to the sale of CO_2 emission rights to Group companies that own generation plants, attributable to the lower emissions resulting from a drop in the production of the plants of the subsidiary Sorgenia Power SpA; (ii) lower revenues for 90,276 thousand euro due to the sale of natural gas to Group companies that own generation plants due to the decrease in the *commodity* price which reached record lows in the first half of the year, as well as to the lower volumes sold; (iv) lower revenues for 33,607 thousand euro for the sale of electricity and gas on wholesale markets, also through the subsidiary Sorgenia Trading SpA.[1]

The details of revenue by business sector and geographical area are provided below:

EUR/000

REVENUES BY BUSINESS SECTOR	31/12/2020	31/12/2019	CHANGE
Sales of goods	1,475,056	1,700,015	(224,959)
TOTAL	**1,475,056**	**1,700,015**	**(224,959)**

EUR/000

REVENUES BY GEOGRAPHICAL AREA	31/12/2020	31/12/2019	CHANGE
Domestic	1,475,056	1,700,015	(224,959)
TOTAL	**1,475,056**	**1,700,015**	**(224,959)**

Revenue from sales and services resulting from transactions with related parties are reported below:

EUR/000

REVENUES FROM SALES AND SERVICES - RELATED PARTIES	31/12/2020	31/12/2019	CHANGE
Sorgenia Puglia SpA	86,694	74,512	12,182
Sorgenia Power SpA	217,236	329,081	(111,845)
Sorgenia Green Solutions Srl	38	2	35
Sorgenia Trading SpA	327,067	250,614	76,453
TOTAL	**631,035**	**654,209**	**(23,175)**

The amounts mainly regard the sale of:

- the electricity produced by Sorgenia Power SpA and Sorgenia Puglia SpA and sold by Sorgenia SpA on behalf of the subsidiaries, on the Day-Ahead Market (MGP);
- of the electricity produced by Sorgenia Power SpA and Sorgenia Puglia SpA and sold by Sorgenia SpA on behalf of the same subsidiaries, on the Dispatching Services Market (MSD) and on the Intra-Day Market (MI); these revenues are shown net of the related costs as described below;
- natural gas to Sorgenia Power SpA and Sorgenia Puglia SpA;
- electricity to Sorgenia Power SpA and Sorgenia Puglia SpA for auxiliary plant services;
- electricity and natural gas to Sorgenia Trading SpA for the wholesale purchase and sale and on forward markets by the latter.

[1] *In 2020, the average price of natural gas recorded a decrease comparing to 2019, falling from 16.1 €/MWh to 10.4 €/MWh in 2020.*

In order to explain relations between related parties, note that the electricity produced by Sorgenia Power SpA and Sorgenia Puglia SpA is purchased entirely by Sorgenia SpA, which is the dispatching user for all Group plants.

The purchase costs of electricity produced by Sorgenia Power SpA and Sorgenia Puglia SpA and placed on the Day-Ahead Market (MGP) are regulated by a specific bilateral contract between the parties and are shown separately under purchase costs for raw materials from related parties.

Sorgenia SpA sells on the electricity exchange the entire quantity of energy underlying the bilateral contract and repurchases (on the same exchange) the energy necessary to meet the demand of end customers.

Sorgenia SpA also carries out energy purchase and sale transactions on behalf of Sorgenia Power SpA and Sorgenia Puglia SpA, on the Dispatching Services Market (MSD) and on the Intra-Day Market (MI), aimed at optimising the production profile and offering balancing services for the electricity system. These transactions on the MSD and MI assume the nature of a pass-through charge for the Parent Company, since they have no effect on its income statement. In order to avoid double reporting of revenue and costs for the same quantities, the net effects are presented by reporting the costs for the purchase of energy from related parties associated with an adjustment in the item "Revenues" for the sale of energy which amount to 541,261 thousand euro at the end of the year.

For comments of an industrial nature, we recommend reading the Report on Operations which analyses the value of the revenue from sales and services shown above by business lines.

A. 4 – Own work capitalised

The item, amounting to 1,131 thousand euro (376 thousand euro as of December 31, 2019), refers to the capitalisation of personnel costs incurred for the development and implementation of *software* projects.

A. 5 - Other revenues and income

EUR/000

OTHER REVENUES	31/12/2020	31/12/2019	CHANGE
Other Revenues	21,419	29,902	(8,483)
Revenues from charge-back of costs	19,274	17,455	1,819
TOTAL	**40,693**	**47,357**	**(6,664)**

The item "Other revenues" mainly contains the items specified below:

- contingent assets for an amount of 19,513 thousand euro, to be considered together with the contingent liabilities included under the item "Miscellaneous operating costs", which primarily consists of:

  - o 14,891 thousand euro relating to the fees paid by Terna attributable to the 2019 basic and additional "consideration for the availability of production capacity pursuant to Resolution 48/04", (so-called Capacity *Payment*) for Sorgenia Power SpA and Sorgenia Puglia SpA's plants;
  - o 2,088 thousand euro relating to higher revenues pertaining to previous years not allocated or insufficiently allocated, in particular, for an amount of 1,567 thousand euro, relating to adjustments recognised by Terna;
  - o 1,463 thousand euro due to the lack of costs allocated in previous years;
  - o 336 thousand euro relating to the sale of *NPLs* - non-performing loans - (written down in full) for a nominal amount of 6,472 thousand euro;
  - o 303 thousand euro relating to VAT amending notes on receivables written down and reimbursements to customers in addition to adjustments to losses on receivables recognised in previous years;
  - o 211 thousand euro relating to tax credits for research and development activities relating to 2019, pursuant to Article 3 of Italian Law Decree no. 145 of 23/12/13 and subsequent amendments;
  - o 122 thousand euro relating to the IRES refund by the Italian Revenue Agency for non-deductible IRAP for the years 2010 and 2011;

- contingent assets for the release of provisions for risks, for 1,104 thousand euro, in particular:
  - o 337 thousand euro for the elimination of risks connected with legal disputes;
  - o 399 thousand euro for the release of part of the "*Settlement*" following the closure of recalculations for 2015;
  - o 348 thousand euro for the recalculation of the contributions relating to the medium/long-term variable incentive in favour of Company Directors and employees, partly linked to the Group sale transaction.

The item "Revenues from the charge-back of costs" mainly refers to charge-backs to related parties and in particular:

- 14,806 thousand euro for services (technical-operational, administrative, management, financial and others) rendered to Group companies and regulated by specific agreements;
- 1,374 thousand euro for the charge-back of commissions on the loan disbursed to the subsidiary Sorgenia Power SpA;
- 1,203 thousand euro for the charge-back of guarantee commission vis-à-vis the subsidiaries Sorgenia Power SpA, Sorgenia Puglia SpA and Sorgenia Trading SpA for the guarantees issued in their favour by the Company;
- 671 thousand euro for charge-back of costs for bank guarantees on behalf of the subsidiaries Sorgenia Power SpA and Sorgenia Puglia SpA;

- 547 thousand euro for the charge-back to contracted Sorgenia Fiber Srl of advisory and *ICT* development costs incurred by the Company on behalf of the subsidiary;
- 248 thousand euro, mainly related to costs re-invoiced to the subsidiary Sorgenia Green Solutions Srl relating to costs incurred by the Company on behalf of the subsidiary, as envisaged by a specific service agreement;
- 55 thousand euro relating to tax advisory services incurred by the Company on behalf of the subsidiaries Sorgenia Power SpA, Sorgenia Puglia SpA, Sorgenia Trading SpA and Sorgenia Fiber Srl.

The item also includes 175 thousand euro for the charge-back of legal expenses, registered letter costs and suspension to end customers.

Other revenues and income from transactions with related parties are shown in the table below:

EUR/000

OTHER REVENUES AND INCOME - RELATED PARTIES	31/12/2020	31/12/2019	CHANGE
Sorgenia Holding SpA	-	3	(3)
Energia Italiana SpA	111	114	(3)
Sorgenia Puglia SpA	3,173	3,331	(158)
Sorgenia Power SpA	10,986	10,095	891
Fin Gas Srl	15	15	-
LNG MedgasTerminal Srl	31	31	-
Sorgenia Bio Power Srl	73	51	22
Sorgenia Fiber Srl	1,063	976	87
Sorgenia Hydro Power Srl	161	74	87
Sorgenia Le Cascinelle Srl	179	160	19
Sorgenia Renewables Srl	876	585	291
Sorgenia Trading SpA	1,854	1,594	260
Sorgenia Geothermal Srl	209	182	27
Sorgenia Sviluppo Srl	65	16	49
Sorgenia Green Solutions Srl	363	170	193
TOTAL	**19,159**	**17,397**	**1,762**

B) COSTS OF PRODUCTION

EUR/000

COSTS OF PRODUCTION	31/12/2020	31/12/2019	CHANGE
6) Raw materials , secondary materials, consumables and goods	1,017,027	1,182,007	(164,979)
7) Services	438,330	493,419	(55,089)
8) Lease and rental costs	2,284	2,016	268
9) Personnel costs	24,610	31,114	(6,503)
10) Amortization, depreciation and write-downs	28,420	20,093	8,325
11) Changes in inventories of raw materials, secondary materials, cosumables and goods	6,860	24,616	(17,756)
12) Risk provisions	-	-	-
13) Other provisions	-	-	-
14) Miscellaneous operating costs	18,962	31,464	(12,500)
TOTAL	**1,536,493**	**1,784,729**	**(248,234)**

B. 6 – Raw materials, secondary materials, consumables and goods

This item includes all the costs, certain or estimated, regarding the purchase of raw materials.

These are mainly costs incurred by the Company for (i) the purchase of electricity and natural gas and CO_2 certificates from related parties for an amount of 786,545 thousand euro, as detailed below, (ii) the purchase of electricity and natural gas on wholesale markets for 230,482 thousand euro.

The change is mainly linked to: (i) lower purchase costs of emission rights both due to the lower quantities purchased, only partly offset by the higher unit price compared to the previous year; (ii) higher gas purchase costs due to the higher volumes handled whose increase more than offset the reduction in the price of the *commodity* (iii) lower purchase costs of electricity on the wholesale markets due to the reduction in the price compared to 2019, and the contraction in volumes.

The table below shows details on costs for raw materials, secondary materials, consumables and goods pertaining to transactions with related parties:

EUR/000

RAW MATERIALS, SECONDARY MATERIALS, CONSUMABLES AND GOODS - RELATED PARTIES	31/12/2020	31/12/2019	CHANGE
Sorgenia Puglia SpA	48,524	50,157	(1,633)
Sorgenia Power SpA	189,818	304,831	(115,013)
Sorgenia Trading SpA	548,168	392,271	155,897
Tirreno Power SpA	22	50	(28)
Sorgenia Green Solutions Srl	-	13	(13)
VRG Wind 030 S.r.l.	2	-	2
VRG Wind 040 S.r.l.	1	-	1
VRG Wind 060 S.r.l.	3	-	3
VRG Wind 070 S.r.l.	3	-	3
VRG Wind 129 S.r.l.	1	-	1
VRG Wind 819 S.r.l.	1	-	1
VRG Wind 840 S.r.l.	2	-	2
TOTAL	**786,545**	**747,322**	**39,223**

The amounts are mainly related to:

- purchases by the subsidiaries Sorgenia Puglia SpA and Sorgenia Power SpA of electricity for an amount of 238,342 thousand euro, as already described in paragraph “A.1 – Revenues from sales and services”;
- purchases by the subsidiary Sorgenia Trading SpA of electricity for 40,615 thousand euro, natural gas for 455,629 thousand euro and CO_2 certificates for 51,924 thousand euro.

B. 7 – Services

EUR/000

SERVICES	31/12/2020	31/12/2019	CHANGE
Consulting	15,525	14,874	651
Directors' fees	1,720	16,483	(14,763)
Statutory auditors' fees	187	206	(19)
Auditors' fees	196	230	(34)
Personnel related services	984	1,436	(452)
Agent commission	18,552	20,578	(2,026)
Maintenance and repairs	156	182	(26)
Advertising and marketing	5,426	5,396	30 *
Insurance	748	928	(180)
Energy and gas transport costs	362,733	403,342	(40,609)
Client services	20,767	19,256	1,511 *
Other costs for services	11,336	10,509	827
TOTAL	**438,330**	**493,420**	**(55,090)**

* the costs of *web advertising* were reclassified to the item "Customer-related services" in the first half of 2020; therefore, it was necessary to reclassify these costs also as of December 31, 2019 given that they were posted under the item "Advertising and marketing"

This item includes all costs deriving from the purchase of services in the conduct of ordinary business operations.

Details on such costs are provided below:

- consultancy mainly refers to legal, tax and administrative advisory services, in addition to IT consulting services necessary to adapt the Company's systems to changes to current regulations on electricity and gas, as well as to meet the needs of users who need systems that are increasingly able to support them in managing customer-related issues; this item also includes consultancy relating to the Sorgenia Group's valuation process for the purposes of sale;
- fees accrued by Company directors by means of resolution of the Shareholders' Meeting;
- fees accrued by members of the Board of Statutory Auditors and the Independent Auditors;
- costs for personnel-related services include meal vouchers and costs for contract staff;
- costs for commissions include fees due to agents, brokers and *telesellers*;
- costs for maintenance and repairs include expenses incurred for office maintenance;
- advertising and *direct marketing* costs;
- insurance costs;
- costs for transport and dispatch of electricity and costs for transport and distribution of natural gas. The change recorded in the reference period is to be read together with the change in sales revenues;
- costs for customer-related services mainly relate to services provided by *outsourcers* in customer management. These costs include:
    - customer analysis during pre-activation, as a check from a financial and equity point of view to support the credit check;
    - verification and activation of end customers;
    - customer assistance service linked to *call centre* costs;
    - credit management activities;
    - expenses for payments from end users by direct debit on current account;
    - activities carried out through various channels to promote customer loyalty;
- other costs for services mainly consist of:
    - the costs relating to *fees* paid to the subsidiary Sorgenia Trading SpA for the activities carried out on behalf of the parent company on the wholesale market;
    - costs for bank fees, expenses for bank guarantees, and non-use commitment fees, in addition to expenses for outsourced management of payments received by postal slips that were not pre-compiled;
    - costs for electricity and gas utilities;
    - costs for landline telephony and telecommunications;
    - costs relating to employee accommodation and travel expenses.

The table below shows details on costs for services deriving from transactions with related parties:

EUR/000

SERVICES - RELATED PARTIES	31/12/2020	31/12/2019
Nuova Sorgenia Holding SpA	-	391
Sorgenia Trading SpA	4,991	4,173
Sorgenia Green Solutions Srl	-	3
TOTAL	**4,991**	**4,567**

The balance to Sorgenia Trading SpA mainly concerns the costs relating to *fees* paid to the latter for the activities carried out on behalf of the parent company on the wholesale market as part of an intercompany mandate without representation agreement. The change compared to the previous year is attributable to higher volumes traded on wholesale markets.

B. 8 – Lease and rental expenses

The item "Lease and rental expenses" refers mainly to the following:

EUR/000

LEASE AND RENTAL EXPENSES	31/12/2020	31/12/2019	CHANGE
Rent	1,262	1,162	100
Lease / hire of the company car fleet	457	481	(24)
Other lease and rental expenses	565	373	192
TOTAL	**2,284**	**2,016**	**268**

The item, amounting to 2,284 thousand euro as of December 31, 2020, mainly includes:

- 1,262 thousand euro for the costs incurred mainly for the rent of offices located in Milan;
- 457 thousand euro for lease payments for the company car fleet;
- 521 thousand euro for fees for the use of web "domains".

The table below shows details on lease and rental expenses deriving from transactions with related parties:

EUR/000

LEASE AND RENTAL EXPENSES - RELATED PARTIES	31/12/2020	31/12/2019	CHANGE
Tirreno Power SpA	75	77	(2)
TOTAL	**75**	**77**	**(2)**

The balance with Tirreno Power relates to the sub-letting contract of the offices that the Company occupies in via Barberini, 47 in Rome.

B. 9 - Personnel

This item includes all of the expense for employed staff, merit pay increases, promotions, automatic cost-of-living increases, the cost of holidays not taken and provisions as per the law and national labour agreements. The decrease is mainly linked to the allocation of a medium/long-term variable incentive in the previous year, partly linked to the Group's purchase and sale transaction.

See the changes in employee leaving indemnities for information on average number of employees for the year.

The applicable national labour agreement is that of the electricity segment.

B. 10 – Amortisation, depreciation and write-downs

B. 10. a – Amortisation of intangible fixed assets

Amortisation was calculated according to the useful life of the asset and its use during the production phase.

For the related analysis, please refer to the details on intangible fixed assets.

B. 10. b – Depreciation of tangible fixed assets

As is the case for the amortisation of intangible assets, the depreciation of tangible assets is calculated on the basis of the useful life of the asset and its use during the production phase.

For the related analysis, please refer to the details on tangible fixed assets.

B. 10. c – Other write-downs of fixed assets

The other write-downs of fixed assets include, as of December 31, 2020, the write-down of intangible fixed assets relating to *software* considered no longer used in company processes for an amount of 1,273 thousand euro.

B. 10. d – Write-down of receivables included in current assets and cash and cash equivalents

The item “Write-down of receivables included in current assets” refers to the allocation made to adjust the nominal value of trade receivables to their presumed realisable value. For further details, please refer to the comment on trade receivables.

B. 11 – Change in inventories of raw materials, secondary materials, consumables and goods

This item reflects the net change in purchases and sales of natural gas at the closing date of these financial statements. For further details, please refer to the description of "Inventories".

B. 14 – Miscellaneous operating costs

EUR/000

MISCELLANEUOS OPERATING COSTS	31/12/2020	31/12/2019	CHANGE
Indirect taxes, local taxes and other	876	530	346
Contingent liabilities	16,981	30,439	(13,458)
Other operating costs	1,105	495	610
TOTAL	**18,962**	**31,464**	**(12,502)**

The item “Miscellaneous operating costs” includes ordinary operating costs not attributable to the other items of aggregate B) and ancillary operating costs (other than financial expense) which are not classified as extraordinary costs.

The item “Indirect taxes, local taxes and other” includes the fees paid to the Chamber of Commerce, stamp duty and registration tax.

The various contingent liabilities mainly include costs relating to prior years, to be considered in conjunction with contingent assets included in other revenues and income, for a total of 16,981 thousand euro, regarding among other things:

- 14,891 thousand euro for the charge-back of the “consideration for the availability of productive capacity pursuant to Resolution no. 48/04 2018” (so-called “*Capacity Payment*”) recognised to the thermoelectric plants that must be viewed together with contingent assets for the same amount;
- 849 thousand euro, related to the release of higher allocations of invoices to be issued;
- 271 thousand euro for write-offs of tax credits no longer recoverable;
- 523 thousand euro for costs related to previous years.

As already pointed out in receivables due from customers under Balance Sheet assets, the item "Losses on receivables" was zero, and represents the net effect deriving from the recognition of losses on receivables amounting to 11,930 thousand euro, covered by the use of the provision for the write-down of receivables for the same amount; losses recognised and detailed below include:

- 1,413 thousand euro for the write-off of receivables, subject to repayment plans (with a negative outcome);
- 5,645 thousand euro for receivables referring to customers for which the recovery procedures carried out had a negative outcome;
- 4,872 thousand euro for the receivables to be written off as it was not deemed worthwhile to undertake collection activities.

Other operating expenses mainly include the following items:

- charitable donations of 786 thousand euro, relating mainly to the Spesa Sospesa initiative as already fully detailed in the Report on Operations;
- contributions to trade associations for 249 thousand euro;
- gifts of 26 thousand euro.

C – FINANCIAL INCOME AND EXPENSE

EUR/000

FINANCIAL INCOME AND EXPENSES	31/12/2020	31/12/2019	CHANGE
15) Income for equity investments	22,000	22,000	-
16) Other financial income	4,943	1,148	3,794
17) Interest and other financial expense	(15,156)	(72,108)	56,953
17 bis) Foreign exchange gains and losses	(5)	(4)	(2)
TOTAL	**11,781**	**(48,964)**	**60,745**

C. 15 – Income from equity investments

C. 15. a - from subsidiaries

This item includes the dividends resolved by the subsidiary Sorgenia Puglia SpA on June 25, 2020, amounting to 22,000 thousand euro, fully collected in the period under review.

C. 16 – Other financial income

EUR/000

OTHER FINANCIAL INCOME	31/12/2020	31/12/2019	CHANGE
a) from receivables included in fixed assets	-	-	-
b) from securities included in fixed assets	-	-	-
c) from securities included in current assets	-	-	-
d) income other than the above	4,943	1,148	3,795
TOTAL	**4,943**	**1,148**	**3,795**

C. 16. d – other than above

EUR/000

INCOME OTHER THAN ABOVE	31/12/2020	31/12/2019	CHANGE
Subsidiaries	4,845	368	4,477
Affiliates	-	-	-
Parent company	-	537	(537)
Other companies	98	243	(145)
TOTAL	**4,943**	**1,148**	**3,795**

From subsidiaries

The summary table is provided below:

EUR/000

FINANCIAL INCOME AND EXPENSES FROM SUBSIDIARIES	31/12/2020	31/12/2019	CHANGE
Sorgenia Power SpA	4,612	316	4,296
Sorgenia Solar Srl	-	2	(2)
Sorgenia Bio Power Srl	1	-	1
Sorgenia Fiber Srl	77	-	77
Sorgenia Hydro Power Srl	14	-	14
Sorgenia Le Cascinelle Srl	2	3	(1)
Sorgenia Renewables Srl	8	1	7
Sorgenia Trading SpA	58	40	18
Sorgenia Sviluppo Srl	54	4	50
Sorgenia Green Solutions Srl	20	2	18
TOTAL	**4,845**	**368**	**4,478**

Financial income from subsidiaries relate:

- to financial income of 1,864 thousand euro relating to the application of the amortised cost method to the financial receivable extinguished during the period under review amounting to 1,364 thousand euro and to the financial receivable outstanding amounting to 500 thousand euro from the subsidiary Sorgenia Power SpA.
- to financial income amounting to 2,981 thousand euro, relating to interest income accrued up to December 31, 2020 on *intercompany* loans.

From other companies

Income from other companies, amounting to 98 thousand euro, mainly relates to penalty interest from end customers.

C.17 - Interest expense and other financial expenses

EUR/000

INTEREST AND OTHER FINANCIAL EXPENSES	31/12/2020	31/12/2019	CHANGE
Subsidiaries	27	75	(48)
Affiliates	-	-	-
Parent companies	-	-	-
Affiliated companies	-	-	-
Other companies	15,129	72,033	(56,904)
TOTAL	**15,156**	**72,108**	**(56,952)**

To subsidiaries

As of December 31, 2020, the item includes 27 thousand euro for financial expenses accrued on the loan disbursed during the year by the subsidiary Sorgenia Puglia SpA amounting to 7 thousand euro, by Sorgenia Trading SpA for 16 thousand euro and for 4 thousand euro by Sorgenia Renewables.

To other companies

Interest and other financial expenses include costs related to financial management.

The item mainly comprises:

- interest expense on the bond totalling 4,915 thousand euro accounted for at effective interest rate and market rates (1,540 thousand euro relating to the nominal interest rate, for 3,375 thousand euro deriving from the recognition of figurative financial expense pertaining to the period under review in application of the amortised cost method);
- interest expense on the loan totalling 7,164 thousand euro accounted for at effective interest rate and market rates (5,374 thousand euro relating to the nominal interest rate and for 1,790 thousand euro deriving from the recognition of figurative financial expense pertaining to the period under review in application of the amortised cost method, of which 866 thousand euro relating to the loan extinguished and 924 thousand euro relating to the loan outstanding);
- commissions on the bank loan amounting to 2,513 thousand euro.

As described in the paragraph "Payables due to banks", to which reference should be made for more information, it should be noted that the finalisation of Sorgenia Group development operations on October 6, 2020 led to the refinancing of the Sorgenia Group’s financial debt with the banking system, through the taking out of a new loan obtained on the market, which entailed the full repayment of existing financial payables and the termination of the Debt Restructuring Agreement.

C. 17 bis – Foreign exchange gains and losses

The item "Exchange gains and losses" has a negative balance of 5 thousand euro (loss of 4 thousand euro in the previous year) and includes exchange gains and losses realised at the reporting date. These items include the differences recognised on translation of the amounts held in current accounts in dollars and cash in foreign currency at the exchange rate as of December 31.

D – ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS AND LIABILITIES

D. 18 – Revaluations

EUR/000

Revaluations	31/12/2020	31/12/2019	CHANGE
Revaluation of equity investments	62,414	99,757	(37,343)
Revaluation of financial fixed assets	-	-	-
Revaluation of securities included in current assets	-	-	-
Revaluation of derivatives	940	-	940
TOTAL	**63,354**	**99,757**	**(36,403)**

D. 18.a – of equity investments

The item, amounting to 62,414 thousand euro, includes the revaluation of the equity investment of the subsidiary Energia Italiana SpA, carried out in order to align the value of the equity investment with the portion of shareholders' equity pertaining to the jointly controlled subsidiary Tirreno Power SpA. As of December 31, 2019, the equity investment of the subsidiary Energia Italiana SpA had been revalued for 28,826 thousand euro.

In the previous year, this item included:

- the revaluation of the equity investment of the subsidiary Sorgenia Solar Srl in liquidation for an amount of 1,415 thousand euro, carried out in order to align the value of the provision for risks with the distribution plan which will be recognised to the Company at the close of the liquidation of the subsidiary, which took place in the first few months of 2020;
- the write-back of the value of the equity investment of the subsidiary Sorgenia Power SpA for the amount of 68,846 thousand euro, as better described in the paragraph "Financial fixed assets" in the Balance Sheet;
- the capital gain of 670 thousand euro, generated by the recognition of a receivable for the financial compensation on the *earn-out* recognised in 2017 to the company Renvico Holding Srl, following the fulfilment of the conditions envisaged in the sale contract of Sorgenia Green Srl in March 2015.

For further details, please refer to the paragraph “Financial fixed assets” in the Balance Sheet.

D. 18.d - Revaluations of derivatives

The item includes the *fair value* change of derivatives, in particular the income deriving from the valuation of instruments hedging against the risk of volatility of the consideration for transfer capacity assignment (CCC) to market operators who are holders of dispatching points for generation and import units amounting to 940 thousand euro. As of December 31, 2019, the Company recorded financial expenses.

D. 19 – Write-downs

EUR/000

WRITE-DOWN OF EQUITY INVESTMENTS	31/12/2020	31/12/2019	CHANGE
Write-down of equity investments to cover losses of previous year	4,186	9,303	(5,117)
Write-down of financial fixed assets	-	-	-
Write-down of securities included in current assets	-	-	-
Write-down of derivatives	-	3,700	(3,700)
TOTAL	**4,186**	**13,003**	**(8,817)**

D. 19.a – of equity investments

The item, amounting to 4,186 thousand euro, includes the write-down of the equity investment in Sorgenia Sviluppo Srl and the allocation to cover the losses reported in the year by Sorgenia Green Solutions Srl and Sorgenia Fiber Srl, as detailed below, in order to adjust the amount of the equity investment to the year-end shareholders' equity of the subsidiaries:

EUR/000

WRITE-DOWN OF EQUITY INVESTMENTS	31/12/2020	31/12/2019	CHANGE
Sorgenia Sviluppo Srl	2,122	8,502	(6,380)
Sorgenia Green Solutions Srl	410	801	(391)
Sorgenia Fiber Srl	1,646	-	1,646
TOTAL	**4,178**	**9,303**	**(5,125)**

For further details, please refer to the paragraph “Financial fixed assets” in the Balance Sheet.

D. 19.d - of derivatives

The item included, as of December 31, 2019:

- the *fair value* change of derivatives, in particular the income deriving from the valuation of instruments hedging against the risk of volatility of the consideration for transport capacity assignment (CCC) to the market operators who are holders of dispatching points for generation and import units amounting to 3,476 thousand euro; as of December 31, 2020, the company reported financial income;

- the change in the *fair value* of the *Interest Rate Cap* derivative purchased by the Company, to hedge the risk of interest rate fluctuations on the extinguished loan of 2 thousand euro, which as of December 31, 2019 did not meet the conditions to be classified as a hedging instrument as it is related to the flows of the original loan.

22 – INCOME TAXES FOR THE YEAR

EUR/000

INCOME TAXES FOR THE YEAR	31/12/2020	31/12/2019	CHANGE
Current Ires taxes for year	21,532	1,790	19,742
Current Irap taxes for year	-	-	-
Deferred Ires and Irap taxes	299	824	(525)
Deferred Ires and Irap taxes	(120)	(3,065)	2,945
TOTAL	**21,710**	**(451)**	**22,161**

The Company recognises net income for current taxes of 21,532 thousand euro, equivalent to the benefit recognised as a result of participation in the tax consolidation.

The item also includes net income of 299 thousand euro relating to deferred tax assets and liabilities, details of which can be found in the items deferred tax assets and liabilities in the Balance Sheet and in the "Table showing temporary differences and deferred taxes” below.

The Company recognised taxes relating to previous years for a net expense of 120 thousand euro. As of December 31, 2019, the Company recorded expenses of 3,065 thousand euro, relating primarily to the recalculation of the taxable income for 2013 by the subsidiaries Sorgenia Puglia SpA and Sorgenia Power SpA, together with the tax consolidating company at the time, CIR S.p.A., following the receipt of a positive opinion by the Tax Authorities on the 'interpello' (request for a tax ruling) presented on the criteria for deductibility of the write-down of the plants carried out in 2013.

As a result of the above, taxable income was also restated in the previous year for the 2015, 2016 and 2017 tax periods, which had a negative impact on Sorgenia S.p.A., tax consolidating company since 2015, due to a different remuneration from tax consolidation.

TABLE SHOWING TEMPORARY DIFFERENCES AND DEFERRED TAXES

The table below shows the breakdown of deferred tax assets and deferred tax liabilities at the reporting date and at the end of the previous year, with indications of the temporary differences between the values of assets and liabilities recorded in the financial statements and the corresponding values recognised for tax purposes. Please refer to the notes on deferred tax assets and deferred tax liabilities of the Balance Sheet for the relevant analysis.

EUR/000	Year 2019			Year 2020		
ADVANCE AND DEFERRED TAXES FOR PERIOD	**Amount of temporary difference**	**Tax rate**	**Amount of tax**	**Amount of termporary difference**	**Tax rate**	**Amount of tax**
Directors' fees	1,344	24.00%	323	1,344	24.00%	323
Supplementary Customer Indemnity and Merit Provision - IRES	251	24.00%	60	251	24.00%	60
Supplementary Customer Indemnity and Merit Provision - IRAP	1,914	3.90%	75	1,914	3.90%	75
Provision for sundry risks	36,537	27.90%	10,194	17,497	27.90%	4,882
Write-down fund Credits to other (agents)	305	24.00%	73	305	24.00%	73
Provision to taxed reserve for write-down receivables	29,165	24.00%	7,000	32,225	24.00%	7,734
Provision for electricity premiums	359	27.90%	100	396	27.90%	110
Previous years fiscal losses	2,869	24.00%	689	2,869	24.00%	689
Losses tax group	66,275	24.00%	15,906	98,970	24.00%	23,753
ACE	18,137	24.00%	4,353	1,477	24.00%	354
Derivatives	8,144	24.00%	1,954	-	24.00%	-
DEFERRED TAX ASSETS FOR THE YEAR	**165,301**		**40,726**	**157,248**		**38,053**
Amortized cost Term loan	(867)	24.00%	(208)	-	24.00%	-
Amortized cost term convertendo	(3,375)	24.00%	(810)	-	24.00%	-
Derivatives	-	24.00%	-	(2,960)	24.00%	(710)
DEFERRED TAX PAYABLE FOR THE YEAR	**(4,241)**		**(1,018)**	**(2,960)**		**(710)**
TOTAL DEFERRED TAXES FOR THE YEAR			**39,708**			**37,342**
NET EFFECT ON INCOME STATEMENT						**(299)**
NET EFFECT ON BALANCE SHEET						**2,665**

DISCLOSURE ON DERIVATIVES

OPERATIONS OF THE COMPANY

Commodity price risk

As better described in the paragraph above "Derivative contracts", which thoroughly describes the measurement and accounting criteria adopted, the Company - in order to pursue the objective of optimising the management of the Group's assets, with particular reference to the aim of maximising the opportunities for the use of the production capacity of the thermoelectric plants held by the subsidiaries Sorgenia Power SpA and Sorgenia Puglia SpA, and the sale to end customers of electricity and gas - enters into trading derivative contracts with regard to the purchase and sale of energy and natural gas with different product and time profiles (i) both directly with financial counterparties operating on OTC ("*Over the counter*") markets, (ii) and through the subsidiary Sorgenia Trading SpA, through the institution of the mandate without representation, according to which the subsidiary, Sorgenia Trading SpA, executes transactions with leading financial counterparties on regulated and OTC markets.

Interest rate risk

The Company, in the ordinary performance of its operating activities, is exposed to interest rate risk. Exposure to interest rate risk in terms of variability of the interest flows is essentially tied to the existence of loans negotiated at floating rates. This risk is manifested in the possibility that a rise of the market rates leads to a higher outlay in terms of interest expense.

The goal of these hedges is to minimise the change in interest flows generated by loans payable at floating rates. Exposure to interest rate risk is calculated on the basis of the amortisation plan of the loan payable and of the benchmark used to determine the interest.

Derivatives, designated by the Company for hedging purposes, are accounted for on the basis of *hedge accounting* requirements, if demonstrated.

Within this context, the scope of this disclosure is exclusively derivatives subscribed directly by Sorgenia SpA.

INFORMATION ON THE *FAIR VALUE* OF DERIVATIVES

Appendix B of OIC 32 requires a classification of derivatives at *fair value*, maximising the use of significant observable parameters and minimising the use of non-observable parameters according to the *fair value* hierarchy described in Article 2426, paragraph 4 of the Italian Civil Code.

The above-mentioned "*fair value* hierarchy" is divided into three levels that give priority, as part of the *fair value* measurement, to the use of objective market information with respect to specific information and establish three levels for the measurement of *fair value*, based on the nature of the inputs used in the measurement of an asset or liability at the measurement date.

The *fair value* measurement hierarchy is defined as follows:

level 1: determination of *fair value* based on market value, for derivatives for which it is possible to easily identify an active market. This category includes the instruments with which the company operates directly in active markets or *Over-the-Counter* markets that represent identical *assets* compared to the corresponding organised markets (e.g., *futures* traded on the stock exchange).

level 2: if the market value cannot be easily identified for an instrument, but can be identified for its components or for a similar instrument, the market value may be derived from that of the components or the similar instrument.

This category includes the instruments with which the company operates in *Over-the-Counter* markets, not characterised by a sufficient level of liquidity or which do not continuously express a market price (e.g. derivatives with physical delivery subscribed on OTC markets);

level 3: determination of *fair value* based on generally accepted valuation models and techniques, whose inputs are not based on observable market data either directly or indirectly (*unobservable inputs*) in any active market.

Based on the above considerations, it should be noted that inclusion in level 1 of the *fair value* hierarchy is only possible for *fair value* measurements deriving from the market price of an identical instrument; it is not possible to include in this level a *fair value* measurement based on a valuation technique, although the only inputs used are derived directly from indices or market rates. For this reason, if the measurement techniques do not respect the conditions stated above, the derivatives must be classified in Level 2 even though they are measured on the basis of variables directly observable in the market.

On the basis of the above-mentioned transactions carried out directly by Sorgenia SpA, which are settled solely with physical delivery of energy commodities, they can be classified as Level 2. In particular, in relation to the above-mentioned transactions, the *fair value* was calculated using the *forward* curve of the prices of energy *commodities* as of December 31, 2020. Also classifiable as Level 2 is the *Interest Rate CAP* derivative negotiated by Sorgenia SpA to hedge the interest rate risk on the loan.

As regards hedging instruments against the risk of volatility in the transportation capacity allocation price (CCC), considering that the relative *fair value* is determined on the basis of valuation models and techniques whose inputs are not based on observable market data, either directly or indirectly in any active market, they can be classified as Level 3. In particular, the *fair value* was calculated using the PUN curve inferred from the market and the zone price curve determined using internal estimation models.

Based on the above, the portfolio of financial instruments of the Company is classified as follows:

TYPE OF INSTRUMENT	FAIR VALUE HIERARCHY
Interest Rate Derivatives (IRS, Collar, Cap, Basis Swap)	Level 2
CCC Hedges	Level 3

The following schedules provide information required by Article 2427-bis of the Italian Civil Code in table format.

The tables refer to derivative contracts acquired for hedging purposes but not designated in *hedge accounting* and derivative contracts managed for hedging purposes designated in *hedge accounting*.

EUR/000	2020			2019		
	Notional Value	Positive Fair Value	Negative Fair Value	Notional Value	Positive Fair Value	Negative Fair Value
Cash Flow Hedge						
Commodity price risk						
IB Formulas						
Interest rate risk						
Interest rate CAP	2,282,218	150				
Total Cash Flow Hedge	**2,282,218**	**150**		**-**	**-**	**-**
Trading Derivatives						
Commodity price risk						
IB Formulas						
CCC	397		(2,342)	1,109		(3,274)
Interest rate CAP				88,022	2	
Interest rate risk						
IRS ISPMI Power 2 (SorgeniaPower)						
IRS ISPMI Power 2 (Banca IMI)						
Total Trading Derivatives	**397**	**-**	**(2,342)**	**89,130**	**2**	**(3,274)**
Total Financial Instrument - Asset (Liability)	**2,282,615**	**150**	**(2,342)**	**89,130**	**2**	**(3,274)**

The fair value of the derivative contracts is positive by 150 thousand euro and negative by 2,342 thousand euro and correspond to fixed financial assets of 150 thousand euro and to provisions for derivative liabilities of 2,342 thousand euro.

Hedge accounting derivatives

The *fair value* of the derivative contracts is composed of a positive component of 150 thousand euro relating to the *Interest Rate Cap*, which corresponds to financial fixed assets;

Derivatives for trading (or for hedging purposes but not designated in *hedge accounting*)

This includes commodity derivatives – "CCC" – entered into with Terna SpA to mitigate the risk of fluctuations in the transportation capacity consideration (CCT).

It should be noted that the *Interest Rate Cap* derivative entered into on October 19, 2017 with Intesa San Paolo to hedge the volatility of the interest rate applied to financial payables for the 2018-2022 period, whose notional value was 88,022 thousand euro, was classified, as of December 31, 2019, under "Short-term investments". As of December 31, 2019, this derivative did not meet the conditions to be classified as a hedging instrument as it is related to the flows of the original loan. Specifically, the Company verified the effectiveness of the hedge by verifying the existence of a close and documented correlation between the characteristics of the hedged instrument and those of the hedging instrument, which was ineffective, following the expected repayment of the loan in 2020 as part of the Group's purchase and sale and refinancing transaction.

Changes in the *fair value* of derivatives with separate indication of the changes booked directly to the income statement, as well as those recognised to shareholders' equity reserves:

EUR/000	Financial Instruments in Cash flow Hedge asset side (Interest rate risk)	Financial Instruments in Cash flow Hedge asset side (Interest rate risk)	Financial Instruments in Cash flow Hedge asset side (Interest rate risk)	Trading Financial Instruments asset side	Trading Financial Instruments liability side
Start Balance	**-**	**-**	**-**	**2**	**(3,274)**
Variation during the period					
Premium paid					
Increase for Fair Value variation recording in an Equity Reserve					
Decrease for Fair Value variation recording in an Equity Reserve					
Increase for Fair Value variation recording in Income Statement					
Decrease for Fair Value variation recording in Income Statements					932
Ineffectiveness of hedge accounting recording in Income Statements					
Time value variation recording in Income Statements				(2)	
Valuation of Mirror Sorgenia Power Derivatives					
Final Balance	**-**	**-**	**-**	**-**	**(2,342)**

Therefore, the item 18 d) "Revaluations of derivatives" comprises the following elements:

EUR/000	**2020**	**2019**
Positive Fair Value variation of derivatives not in hedging accounting	932	
Positive effect of ineffectiveness of cash flow hedge recording in Income Statement		
Positive effect of option/forward contract time value in hedge accounting recording in Income Statement		
Release in Income Statement of "Cash Flow Hedge Reserve" if the future transactionss are not considered still highly probable	7	
Other impact		
Balance as of December 31, 2020	**939**	**-**

The item 19 d) "Write-downs of derivatives" comprises the following elements:

EUR/000	**2020**	**2019**
Negative Fair Value variation of derivatives not in hedging accounting		(3,274)
Negative effect of ineffectiveness of cash flow hedge recording in Income Statement		
Negative effect of option/forward contract time value in hedge accounting recording in Income Statement		
Release in Income Statement of "Cash Flow Hedge Reserve" if the future transactionss are not considered still highly probable		
Release in Income Statement of "Cash Flow Hedge Reserve" if the future transactionss are not considered recoverableR		
Other impact		(427)
Balance as of December 31, 2020	**-**	**(3,700)**

OTHER INFORMATION

INFORMATION PURSUANT TO ITALIAN LAW NO. 124 OF AUGUST 4, 2017

For further information regarding the obligations deriving from Italian Law no. 124 of August 4, 2017, on "Transparency in the public disbursement system", please refer to the website of the State Aid Register, which can be accessed through the following link https://www.rna.gov.it/sites/PortaleRNA/it_IT/home.

INDEPENDENT AUDITORS

As regards the requirements of paragraph 16-bis of Article 2427 of the Italian Civil Code, information is hereby provided on fees for services supplied by the Company holding the audit mandate:

Description	Fees
Audit services	157
Other attestation services	82

Audit services include, for 3 thousand euro, the fees due to the previous independent auditors for audit activities relating to this year.

ITEMS OF EXCEPTIONAL SIZE OR IMPACT

There are no elements of exceptional size or impact to report.

FEES TO AUDITORS

For details on fees paid to Auditors, refer to the detail contained in Table B.7 of the Income Statement.

RELATED PARTY TRANSACTIONS

An analysis of credit and debit balances, and costs and revenues deriving from transactions with related parties is provided under the corresponding items listed in these Explanatory Notes.

All of the transactions were carried out in the interest of the Company as part of ordinary operations and were regulated under market conditions, i.e. under the conditions and terms that would be applied to transactions between two independent parties.

EMPLOYMENT FIGURES

As of December 31, 2020, the company had employees as shown under liabilities in the Balance Sheet under item "C - EMPLOYEE LEAVING INDEMNITY (TFR)".

ALLOCATION OF PROFIT FOR THE YEAR

As illustrated to you, the financial statements for the year ended December 31, 2020 that we submit for your approval, post a profit of 73,046,716 euro.

Pursuant to Article 2427, paragraph 1, number 22-septies of the Italian Civil Code, we propose that you:

- allocate the amount of 3,652,336 euro to the Legal Reserve;
- carry forward 69,394,380 euro to the next year.

These Financial Statements, comprising the Balance Sheet, Income Statement, Statement of Cash Flows, and the Explanatory Notes, give a true and fair view of the financial and equity position of the Company and of its results for the year.

Milan, March 22, 2021

for the Board of Directors