Annual Report 2019

cdp CDP Reti

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CORPORATE BODIES

BOARD OF DIRECTORS (*)

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

BOARD OF STATUTORY AUDITORS (*)

Guglielmo Marengo	*Chairman*
Benedetta Navarra	*Standing Auditor*
Paolo Sebastiani	*Standing Auditor*

Independent auditors (*****) PriceWaterhouseCoopers S.p.A.

(*) Appointed by the Shareholders' Meeting of 4 May 2017 and in office up to the date of the Shareholders' Meeting called for the approval of the financial statements for the year ended 31 December 2019.
(**) Appointed by co-optation by the Board of Directors on 28 November 2019 to replace the previous Chairman Massimo Tononi, who submitted his resignation. The latter, in turn, was appointed by co-optation by the Board of Directors on 20 February 2019 (and confirmed by the Shareholders' Meeting of 6 March 2019) to replace Carlo Baldocci.
(***) Appointed by co-optation by the Board of Directors on 20 February 2019 to replace Leone Pattofatto, the previous Chief Executive Officer, who submitted his resignation. The Shareholders' Meeting held on 6 March 2019 renewed the appointment of Mr. Palermo as a member of the Board of Directors with term of office aligned with that of the other Directors in office.
(****) Appointed by co-optation by the Board of Directors on 4 March 2020 to replace Cristiana Procopio, who submitted her resignation.
(*****) Engagement granted by the Shareholders' Meeting of 24 June 2015 for the period 2015 - 2023. The Shareholders' Meeting, which met in ordinary session on 10 May 2019, then approved the mutually agreed termination of the auditing agreement between CDP RETI and PwC, in accordance with the agreement for the mutually agreed termination signed by the parties and with effect from the date of approving the financial statements at 31 December 2019. In the same session on 10 May 2019, the Meeting also awarded the audit engagement for the period 2020-2028 to Deloitte & Touche Spa.

01

Report on Group Operations

1. PRESENTATION OF THE GROUP

1.1 ROLE AND MISSION OF THE GROUP

PARENT COMPANY

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

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

The corporate purpose of CDP RETI is the holding and ordinary and extraordinary management, directly and/or indirectly, of equity investments in SNAM (31.04%), ITALGAS (26.04%) and TERNA (29.85%), with the Company acting as a long-term investor with the objective of supporting the development of transport, dispatching, regasification, storage and distribution infrastructures for natural gas, as well as electricity transmission.

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

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

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

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

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[1] Separation between the owner of the natural gas production and/or supply activities and the owner and/or operator of the natural gas transport activities.

[2] Company incorporated on 1 June 2016 specifically to implement the Spin-off, at first as ITG Holding S.p.A. and then as ITALGAS S.p.A. on submission of the application for admission to listing of ordinary shares on the MTA. On the same date, the operating company ITALGAS S.p.A. took the name of Italgas Reti S.p.A..

DIRECT SUBSIDIARIES AND RELATED AREA OF CONSOLIDATION

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

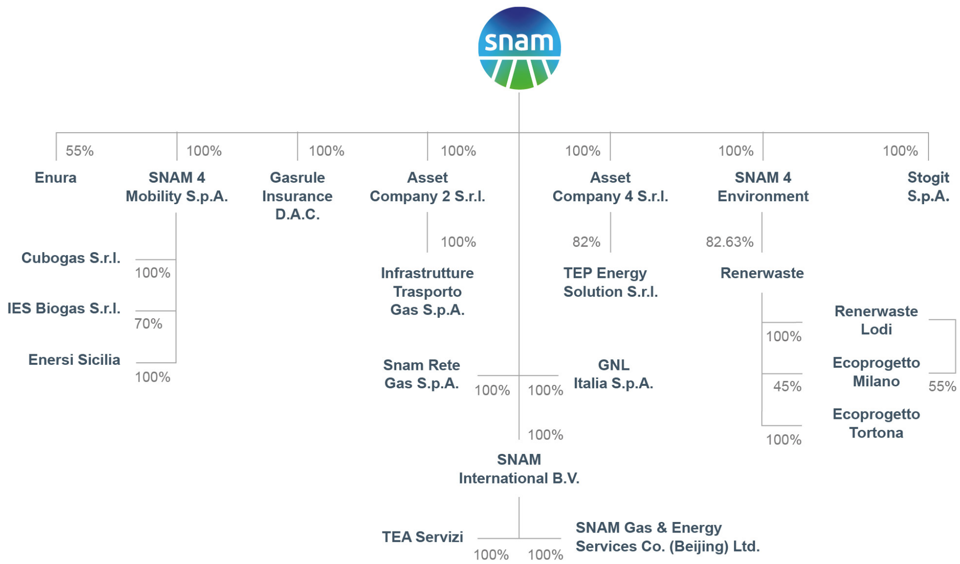
As at 31 December 2019, the group is engaged in the transport and dispatching of natural gas, the regasification of liquefied natural gas (LNG) and the storage of natural gas. SNAM operates throughout Italy mainly through three operating subsidiaries wholly owned by Snam S.p.A.: respectively Snam Rete Gas and Infrastrutture Trasporto Gas (transport and dispatching), GNL Italia (LNG regasification) and Stogit (storage). SNAM is also leader in the construction and integrated management of natural gas infrastructures in Europe, where it is present through its subsidiaries in Austria (TAG and GCA), France (TEREGA), United Kingdom (Interconnector UK), Albania (AGSCo) and Greece (Desfa), in addition to being one of the main shareholders of TAP (Trans Adriatic Pipeline).

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

Below is a description of the main operating companies:

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

The area of consolidation of the SNAM group as at 31 December 2019 is as follows.



The change in the Snam Group's area of consolidation as at 31 December 2019, vs. 31 December 2018, is due to the inclusion of the following companies1: (i) Enura S.p.A. (formerly Asset company 5 S.r.l.), 55% owned by Snam S.p.A., active in the construction of transport infrastructure in Sardinia2; (ii) Snam Gas & Energy Services (Beijing) Co. Ltd., headquartered in China, incorporated in April 2019, wholly owned by Snam International B.V., to support the development of the gas market in China, through Snam's core competence in the sector; (iii) Snam 4 Environment (formerly Asset company 6 S.r.l.), wholly owned by Snam S.p.A., resulting from the acquisition in November 2019, from Ladurner Ambiente and AB Invest, of 82.63% of Renerwaste S.r.l., one of the largest companies in Italy operating in biogas and biomethane infrastructure, consequently acquiring the control of the companies Renerwaste Lodi S.r.l., Ecoprogetto Milano S.r.l., and Ecoprogetto Tortona S.r.l.; (iv) TEA Servizi S.r.l., given the acquisition, in December 2019, through the wholly-owned company Asset Company 4 S.r.l., of 100% of the company's share capital, active in the design, construction and operation of thermo-hydraulic and electrical systems for industrial customers, with particular focus on small and medium enterprises.

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

The shareholder structure of SNAM S.p.A. as at 31 December 2019 is shown below (share capital consisting of 3,394,840,916 shares without par value):

CONSOLIDATING COMPANY	SHAREHOLDERS	%OWNERSHIP
SNAM S.p.A.	CDP Reti S.p.A.	31.04
	SNAM S.p.A. (treasury shares)	3.02
	other shareholders	65.94

More information can be found in the section "Significant events taking place in the year" below, broken down by sector/company.

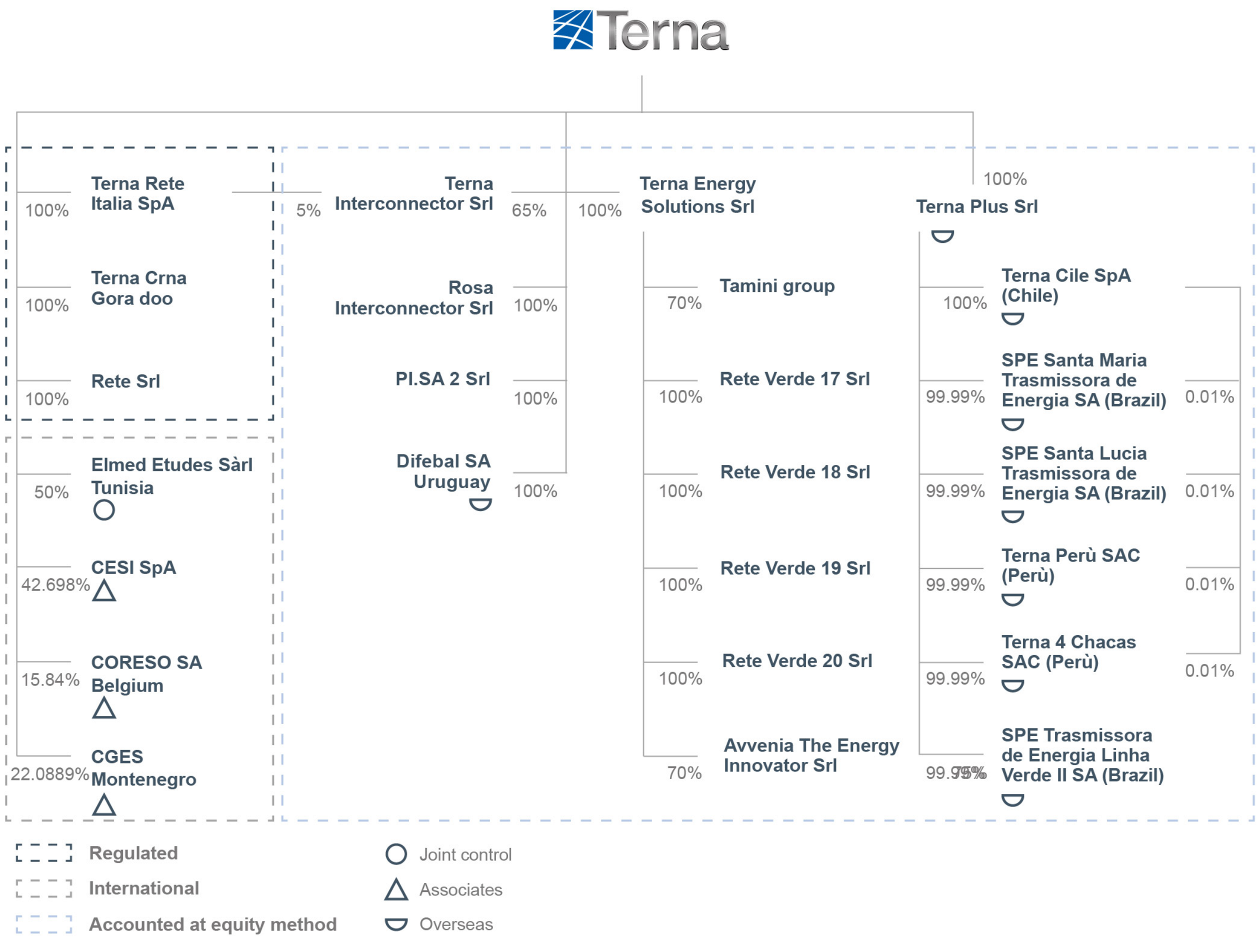
The TERNA Group ("TERNA" – "Trasmissione Elettrica Rete Nazionale" [National Electricity Transmission Grid]) is the largest independent electricity transmission operator in Europe and one of the leading operators in the world by km of managed line (more than 74,000 km). It is responsible for the transmission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

The electrical system is composed of:

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

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

The area of consolidation of the TERNA group as at 31 December 2019 is as follows.



Changes in the group structure as at 31 December 2018 are as follows:

- PI.SA.2 S.r.l., wholly owned by Terna S.p.A., was incorporated on 15 February 2019 following the modification of the scope governed by the Italy-France interconnection;
- on 6 August 2019, the company Terna 4 Chacas S.A.C. was established, 99.99999% of its capital held by Terna Plus S.r.l. and the remaining part by Terna Chile S.p.A., following an agreement signed in 2016 to start work on the construction of a new 16 km power line;
- on 11 November 2019, through its subsidiary Terna Plus, Terna completed the transaction with Construtora Quebec for the acquisition of a 75% stake in the Brazilian joint-stock company SPE Transmissora de Energia Linha Verde II S.A., the first of the two companies involved in the transaction, which holds one of the two concessions for the construction of a 500 kV electrical infrastructure about 190 km long.
- on 17 December 2019, the sale of Monita Interconnector s.r.l. to Interconnector Energy Italia s.c.p.a. was completed, with which agreements had been signed for the construction and operation of the private part of the direct current electricity interconnection project between Italy and Montenegro.

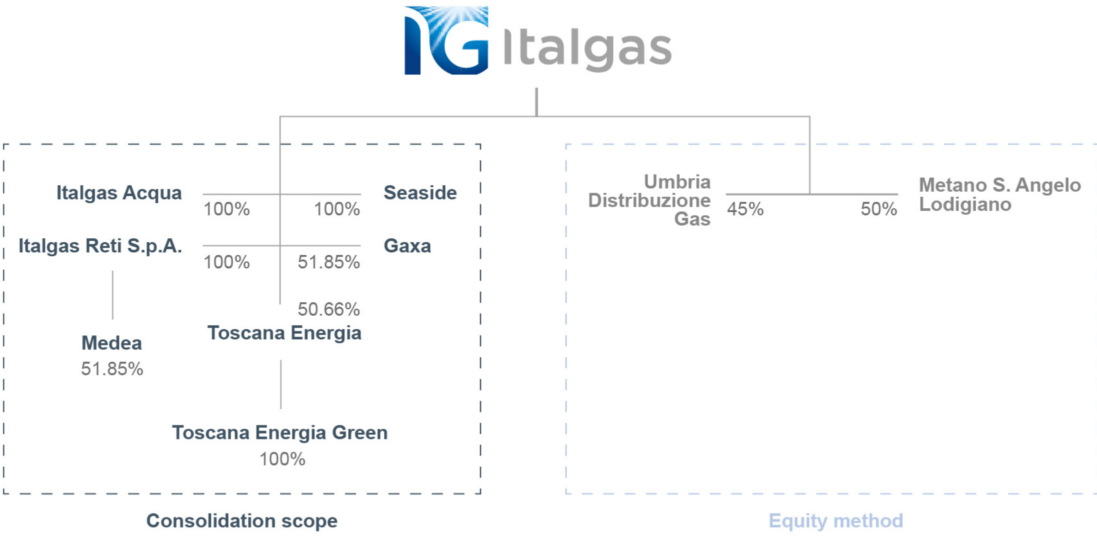
The shareholder structure of TERNA S.p.A. as at 31 December 2019 is shown below (share capital consisting of 2,009,992,000 shares with a par value of 0.22 euro per share):

CONSOLIDATING COMPANY	SHAREHOLDERS	%OWNERSHIP
TERNA S.p.A.	CDP Reti S.p.A.	29,85
	other shareholders	70,15

More information can be found in the section “Significant events taking place in the year” below, broken down by sector/company.

The **Italgas Group**, previously part of the Snam group as a result of the sale by ENI - on 1 July 2009 - of Italgas Reti, is the leading Italian company in the natural gas distribution sector and the third largest operator in Europe in terms of end users served. In particular, Italgas and its investee companies, with over 4,100 staff, manage a network which extends for over 70,000 kilometres and serves more than 7.5 million end users. Its current market share exceeds 35%. The distribution service consists in the transportation of gas, through the local gas transportation networks, from delivery to the pressure reduction and metering stations connected to the city-gates up to the end-user delivery points (families, businesses, etc.). Italgas also conducts metering activities, consisting in the measurement, detection, reporting and filing of measurement data on natural gas drawn from the distribution networks. Italgas is subject to regulation by the Italian Energy Networks and Environment Regulator (ARERA), which defines how the service is supplied and the applicable distribution and metering rates. The gas distribution service is traditionally supplied under concession arrangements, with granting of the service on a municipal basis. Four ministerial decrees were adopted in 2011 to reform the regulations governing the sector. Under one of the decrees, 177 "minimum territorial areas" (ambiti territoriali minimi - ATEM) were created as a basis for the granting of new concessions. The gas distribution service involves transporting gas on behalf of the companies that are authorised to sell gas to end customers. The relationship between the distribution companies and the sales companies is governed by a specific document named "Network Code", which defines the services supplied by the distributor broken down by key services (gas distribution, technical management of the distribution system) and ancillary services (construction of new plants, the activation, deactivation, suspension and re-activation of the supply to the end customer, meter verification on request of end customers, etc.).

ITALGAS has been listed on the Italian Stock Exchange since November 2016[3].



Compared to 31 December 2018, the change in the area of consolidation at the end of 2019 is the result of: (i) the merger by incorporation, on 12 March 2019, effective for statutory purposes from 1 April 2019, of the companies Fontenergia S.r.l., Fontenergia 4 S.r.l., Fontenergia 6 S.r.l., Fontenergia 7 S.r.l., Fontenergia 9 S.r.l., Fontenergia 10 S.r.l., Fontenergia 11 S.r.l., Fontenergia 15 S.r.l., Fontenergia 19 S.r.l., Fontenergia 26 S.r.l., Fontenergia 27 S.r.l., Fontenergia 35 S.r.l. and Fontenergia 37 S.r.l. into Medea S.p.A. and the merger by incorporation of the companies Naturgas S.r.l., Grecanica Gas S.r.l., Progas Metano S.r.l., Baranogas Reti S.r.l., Favaragas Reti S.r.l., Siculianagas Reti S.r.l. and Ischia Reti Gas S.r.l. into Italgas Reti, (ii) the acquisition, from CPL Concordia Soc. Coop., of the remaining 40% stake in the company EGN S.r.l., finalised on 17 April 2019, (iii) Italgas Reti S.p.A.'s acquisition, from Conscoop Soc. Coop., of the entire (100%) capital of the company Mediterranea S.r.l., finalised on 30 April 2019, and the acquisition of the business units of Aquamet and Isgas Energit Multiutilies, by Italgas Reti S.p.A. and Medea S.p.A. respectively and of 10% of the capital of Isgastrentatrè S.p.A. by Medea S.p.A., (iv) the establishment, on 7 May 2019, of Medea NewCo S.r.l., active in the sale of natural gas, LPG and propane air (the company subsequently adopted the corporate name Gaxa and was converted into a joint-stock company), (v) the merger by incorporation, on 29 July 2019, effective for statutory purposes from 1 August 2019, of EGN and its subsidiaries into Italgas Reti S.p.A., (vi) the acquisition, on 25 September, of the natural gas distribution business unit of Sienergas Distribuzione S.r.l. by Italgas Reti S.p.A., (vii) acquisition of control of Toscana Energia S.p.A., following the purchase of 0.58% of its capital from Banca Monte Paschi Siena S.p.A. and 1.98% from five municipalities in Tuscany which exercised their right to withdraw, completed on 20 May 2019 and 1 October 2019, respectively. Toscana Energia S.p.A., in turn, owns 100% of Toscana Energia Green S.p.A., (viii) the merger by incorporation, on 1 November 2019, of Mediterranea S.r.l. into Italgas Reti S.p.A., (ix) the acquisition, on 12 December 2019, of 10% of the capital of Enerpaper by Seaside S.r.l. and (x) the completion of the transfer, on 18 December, to the Marguerite II Fund (specifically to the companies Marguerite Gas III S.à.r.l. and Marguerite Gas IV S.à.r.l.) of a minority stake of 48.15% of the capital of Medea S.p.A. and Gaxa S.r.l., respectively.

[3] The shares of Italgas Reti were listed on the MTA of the Italian Stock Exchange from 1900 to 2003.

Based on the information available, the table below lists the holders of significant equity investments (more than 3%) as at 31 December 2019.

CONSOLIDATING COMPANY	SHAREHOLDERS	%OWNERSHIP
ITALGAS S.p.A.	CDP Reti S.p.A. (*)(**)	26.04
	Snam S.p.A.	13.50
	Lazard Asset Management Llc	8.40
	Romano Minozzi	4.29
	Other shareholders	47.77

(*) On 1 August 2019, the Board of Directors of CDP S.p.A., including for the purposes of taking into account the guidance on control contained in Consob Communication no. 0106341 of 13 September 2017, reclassified its equity investment in Italgas as de facto control pursuant to article 2359, paragraph 1, no. 2) of the Italian Civil Code and article 93 of the Consolidated Law on Finance, with control exercised through CDP Reti, with an equity investment of 26.50%, and through Snam, with an equity investment of 13.05%. CDP does not exercise management and coordination activities with respect to Italgas, pursuant to articles 2497 et seq. of the Italian Civil Code.
(**) On 20 October 2016, a shareholders' agreement was signed between Snam, CDP Reti and CDP Gas, effective from the date of spin-off of Italgas S.p.A., which took place on 16 November 2016. With effect from 1 May 2017, CDP Gas was merged into CDP. Subsequently, on 19 May 2017, CDP completed the sale to CDP Reti, which included the equity investment held in Italgas S.p.A., representing 0.969% of Italgas S.p.A.'s share capital. CDP Reti is 59.1% owned by CDP, 35% by State Grid Europe Limited - SGEL, a company of the State Grid Corporation of China group, and 5.9% by a number of Italian institutional investors. On 1 August 2019, the shareholders' agreement was updated to take account of the aforementioned reclassification of the equity investment.

More information can be found in the section by sector/company "Significant events taking place in the year" below.

1.2 REFERENCE SCENARIO

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

- transport of natural gas: in 2019, the gas introduced into the network totalled 75.37 billion cubic metres, up 2.55 billion cubic metres compared to 2018 (+3.5%). Flows into the network from the national production fields or from their collection and treatment centres are equal to 4.51 billion cubic metres, down 0.61 billion cubic metres compared to 2018 (-11.9%). The volumes introduced by entry points interconnected with foreign countries and with the regasification terminals, totalling 70.86 billion cubic metres, are up 3.16 billion cubic metres (+4.7% compared to 2018). The greater volumes introduced by the LNG regasification terminals (+5.29 billion cubic metres; + 61.1%), also thanks to the new auction-based capacity allocation mechanisms as well as the entry points of Passo Gries (+3.37 billion cubic metres; +43.4%) and Gela (+1.23 billion cubic metres; +27.5%), were mostly offset by lower volumes introduced by the Mazara del Vallo entry points (-6.88 billion cubic metres; -40.3%). In 2019 the **demand for gas in Italy** equalled **74.34 billion cubic metres**, up 1.67 billion cubic metres (2.3%) against 2018. The increase is mainly due to higher consumption levels recorded in the thermoelectric sector (+2.45 billion cubic metres; +10.1%), which benefits from the higher use of natural gas in electricity generation, the decrease in flows of electricity imports and the decline in renewable energy production, attributable to the drop in hydroelectric production despite the growth experienced by the wind and photovoltaic segments. The higher use of natural gas in electricity generation is attributable to the more competitive price of natural gas at the virtual exchange point, down by about 37% compared to 2018, and to a rise in CO_2 emission costs (+50% compared to 2018), which penalises the coal-driven generation. The increase in consumption recorded in the thermoelectric sector was partly offset by the lower consumption in the residential and service sector (-0.61 billion cubic metres, -2.1%) attributable to the weather and, to a lower extent, to the performance of the industrial sector (-0.25 billion cubic metres, -0.4%).
- regasification of liquefied natural gas (LNG): During 2019, the LNG terminal in Panigaglia (SP) re-gasified 2.45 billion cubic metres of LNG (vs. 0.91 billion cubic metres in 2018; +1.54 billion cubic metres) and 57 methane tankers were unloaded (+36 on 2018), also thanks to the new auction-based capacity allocation mechanisms. With reference to the number of staff, there are 65 current employees, essentially in line with the previous financial year. As part of integrating Snam's Italian assets, the process of intensifying the organisational control dedicated to Operations continued in 2019, in order to strengthen the control over core regasification activities, compared to the Staff processes whose activities were centralised in Snam.
- storage: the gas handled in the Storage system in 2019 amounted to 19.33 billion cubic metres, down by 1.74 billion cubic metres (-8.3%) compared to 2018. The decrease is essentially due to lower flows from storage (-1.26 billion cubic metres; -12.1%) mainly owing to the weather conditions.

With respect to the tariff framework, pursuant to resolution 474/2019/R/gas, published on 21 November 2019, the Authority has defined the criteria to determine the revenues recognised and the tariffs for the regasification service for the fifth regulatory period (1 January 2020-31 December 2023). The duration of the regulatory period is confirmed to be 4 years. The valuation of the net invested capital (RAB) is carried out based on the revalued historical cost methodology.

Finally, pursuant to resolution 474/2019/R/gas, published on 21 November 2019, the Authority has defined the criteria to determine the revenues recognised and the tariffs for the regasification service for the fifth regulatory period (1 January 2020-31 December 2023). The duration of the regulatory period is confirmed to be 4 years. The valuation of the net invested capital (RAB) is carried out based on the revalued historical cost methodology.

Regarding **TERNA,** the demand for electricity in Italy was equivalent to 319,597 GWh in 2019 (the figure does not include the demand for electricity related to services ancillary to the production of electricity, with a change of -0.6% compared to 2018). Compared with last year, the monthly trend in Italy's demand for electric power in 2019 showed an increase only in the months that were heavily affected by outside temperatures (January, June, July and August).

With regard to electricity production by source, 35% of total electricity demand was met by renewable sources in 2019, in line with 2018. With regard to the trend of individual renewable sources, production from wind (+14%) and photovoltaic (+9%) sources increased, offsetting the sharp reduction in water (-6%).

At 31 December 2019, **ITALGAS**, including its investee companies, was the holder of gas distribution concessions in 1,830 Municipalities (1,808 at 31 December 2018), of which 1,744 were in operation (1,722 at 31 December 2018). Excluding the investee companies, the number of Municipalities with Italgas Group concessions in operation amounted to 1,730 (1,614 at 31 December 2018) of a total of 1,816 municipal concessions (1,700 at 31 December 2018).

- Gas distributed: at 31 December 2019, Italgas, including its investee companies, had distributed 8,897 million cubic metres of gas (9,098 million cubic metres of gas in 2018), of which 1,122 related to Toscana Energia. Excluding the investee companies, the gas distributed in 2019 amounted to 8,001 million cubic metres (7,873 million cubic metres in 2018), on behalf of 424 marketing companies;
- Distribution network: the gas distribution network at 31 December 2019, including the investee companies, extended for 71,761 kilometres (69,782 kilometres at 31 December 2018), of which 7,925 kilometres related to Toscana Energia. Excluding the investee companies, the distribution network extended for 70,502 kilometres (61,361 at 31 December 2018);
- Meters: at 31 December 2019, the meters in service at the re-delivery points (PdR, punti di riconsegna), including the investee companies, amounted to 7.694 million (7.562 million at 31 December 2018), of which 796.6 thousand related to Toscana Energia. Excluding investee companies, meters in service totalled 7.573 million (6.708 million at 31 December 2018).

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

CDP RETI

Regarding the **dividends received** from subsidiaries, totalling **431 million (406 million in 2018)**, during the reporting period about 238 million were collected from SNAM (2018 interim dividend equal to 95 million[4] and 2018 final dividend equal to 143 million), about 143 million from TERNA (2018 final dividend equal to 93 million and 2019 interim dividend equal to 51 million[5]) and about 49 million from ITALGAS (2018 dividend).

The increase (+25 million) compared to 2018 is due to the higher collections deriving from the modified dividend policies (in terms of dividend per share) of SNAM (+11.4 million), TERNA (+8.6 million) and ITALGAS (+5.5 million).

Furthermore, on 13 November 2019 the Board of Directors of SNAM approved the distribution of interim dividend on the 2019 net income, of which 100 million was paid to CDP RETI (in January 2019).

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

With regard to **dividends paid** to shareholders, **amounting to 399 million euro (396 million euro in 2018)**, the following amounts were distributed during the year:

- the balance of the 2018 net income (i.e. 132 million euro[6]), of which about 78 million to Cdp and 46 million to State Grid Europe Limited, was down slightly compared to the final dividend distributed in the first half of 2018 (i.e. 140 million euro).
  Moreover, it bears recalling that a part (256 million) of the 2018 net income was distributed in November 2018 as interim dividend[7].
- interim dividend on the 2019 net income[8] equal to 267 million, of which about 158 million to Cdp and 93 million to State Grid Europe Limited.

More generally, on 20 February 2019, the Board of Directors of CDP RETI, acknowledging the resignations of Directors Carlo Baldocci and Leone Pattofatto, resolved to appoint by co-optation Massimo Tononi as Chairman of the Board of Directors of the Company and Fabrizio Palermo as Chief Executive Officer (assigning him, with the power of sub-delegation, all ordinary and extraordinary management powers[9]). The Shareholders' Meeting held on 6 March 2019 then renewed the appointment of Mr. Tononi and Mr. Palermo as members of the Board of Directors with term of office aligned with that of the other Directors in office (i.e. the date of the Shareholders' Meeting called to approve the financial statements at 31 December 2019).

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[4] Interim dividend (equal to 0.0905 euro per share, with payment starting from 23 January 2019, with coupon due on 21 January and record date 22 January) approved by the Board of Directors of Snam S.p.A. on 06/11/2018 and recognised in the financial statements of CDP RETI S.p.A. as at 31 December 2018.

[5] Interim dividend (equal to 0.0842 euro per share, with payment starting from 20 November 2019, with coupon due on 18 November and record date 19 November) approved by the Board of Directors of Snam S.p.A. on 13/11/2019.

[6] 814.92 euro distributed for each of the 161,514 shares.

[7] The interim dividend of 1,584.62 per each of the 161,514 shares was approved on the basis of the Company's accounting situation at 30 June 2018, prepared in accordance with IFRS. The Company ended the period with a net income of approximately 256 million and available reserves of approximately 3,369 million.

[8] The interim dividend of 1,653.13 per each of the 161,514 shares was approved by the Board of Directors on 28 November 2019 on the basis of the Company's accounting situation at 30 June 2019, prepared in accordance with IFRS. The Company ended the period with a net income of approximately 267 million and available reserves of approximately 3,369 million.

[9] Except for the powers that cannot be assigned to individual directors by law and pursuant to Article 19.4 of the Articles of Association.

On 14 March 2019, the Company's Board of Directors, in line with the resolutions of the Board of Directors on 20 February 2019, renewed the appointment of Mr. Palermo as the Chief Executive Officer, assigning him the same powers conferred on him by the Board of Directors on 20 February 2019.

Finally, on 28 November 2019, acknowledging the resignation of Director Massimo Tononi, CDP RETI's Board of Directors resolved to appoint by co-optation Giovanni Gorno Tempini as Chairman of the Board of Directors.

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

- on 6 March 2019 CDP RETI's Shareholders' Meeting, pursuant to the Articles of Association, authorised the resolutions taken on the same date by the Board of Directors, regarding: (i) the designation of the lists of candidates for the office of director and statutory auditor of SNAM and (ii) the designation, together with SNAM, of the lists of candidates for the office of director and statutory auditor of ITALGAS. On this point, please note that the instructions are given by CDP RETI and SNAM to the members of the Consultation Committee[10] under the *Italgas Shareholders' Agreement*[11];
- on 8 March 2019 CDP RETI submitted lists of candidates for the offices of director and statutory auditor of SNAM in view of the latter's Shareholders' Meeting;
- on 11 March 2019, together with SNAM, CDP RETI sent ITALGAS the names of the candidates for the offices of director and statutory auditor of ITALGAS S.p.A.;
- on 27 March 2019 the Board of Directors of CDP RETI assigned a mandate to the Chief Executive Officer, with power of sub-delegation, to cast the vote at the extraordinary Shareholders' Meeting of SNAM on 2 April 2019 concerning the cancellation of 74,197,663 treasury shares without reducing the share capital[12]. Due to this cancellation, CDP RETI's equity investment in SNAM's share capital increased from 30.37% to 31.04%;
- on 24 September 2019, CDP RETI's Board of Directors acknowledged the reclassification of the parent company CDP's ownership interest in SNAM and ITALGAS. More specifically, at its meeting of 1 August 2019 CDP's Board of Directors, based on (i) the new guidelines issued by Consob with regard to control and the specific discussions that had taken place with Consob, and (ii) the outcome of the recent shareholders' meetings called to approve the financial statements of SNAM and ITALGAS, after which the majority of the directors appointed to the Boards of Directors of both companies continue to be designated by CDP and CDP RETI, reclassified CDP's ownership interest in SNAM and ITALGAS as "de facto control" within the meaning of art. 2359, paragraph 1, no. 2) of the Italian Civil Code and article 93 of Italian Legislative Decree no. 58 of 24 February 1998.

SNAM (GAS TRANSPORT, REGASIFICATION AND STORAGE SECTOR)

Agreements to develop the core business

- *Snam and Iren*: on 29 September 2019, Snam and the Iren Group signed an agreement regarding Snam's acquisition of a 49.07% stake in the share capital of OLT (Offshore LNG Toscana), the company which has built and operates the offshore regasification terminal (FSIRU – Floating Storage and Regassification Unit) located off the coast of Tuscany;

Biomethane

- *Renerwaste S.r.l.:* In October 2019, Snam, through the subsidiary Snam 4 Environment, completed the acquisition from Ladurner Ambiente and AB Invest of an 82.63% stake of Renerwaste S.r.l., one of the largest companies engaged in biogas and biomethane infrastructure in Italy.
- *Snam and Infore Environmental Group - Memorandum of Understanding (MoU):* At the end of 2019, Snam signed a Memorandum of Understanding with the Infore Environmental Group, an environmental service company listed on the Shanghai Stock Exchange and the controlling shareholder of Ladurner Ambiente, on possible joint initiatives to develop biogas and biomethane infrastructure in China.
- *Iniziative Biometano:* in November 2019, Snam and Femogas signed a binding letter of intent to negotiate and define agreements to establish a strategic partnership in infrastructure for agricultural biomethane, through Snam's entry, with a 50% stake, in Iniziative Biometano, a company operating in Italy with five biogas plants;

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[10] This committee has five members, four of whom represent CDP RETI (three appointed by CDP and one by SGEL) and one SNAM. The committee is responsible for deciding how the parties to the Shareholders' Agreement are to exercise their voting rights in the ITALGAS Shareholders' Meeting.

[11] The parties to the Shareholders' Agreement, with regard to which reference should be made to the following section "*Report on Corporate Governance and Ownership Structure of CDP RETI*", cast the votes conferred by their shares in ITALGAS as decided by the Consultation Committee, without prejudice to SNAM's rights in respect of Reserved Matters.

[12] After the cancellation of the treasury shares, SNAM's share capital remained unchanged, given that SNAM's shares are without indication of nominal value.

Sustainable mobility

- *Tamoil and Snam*: on 20 March 2019, the companies signed a contract to build an initial lot of 5 natural gas filling stations in Italy, thus promoting the development of sustainable mobility for cars and lorries in Italy;
- *FS Italiane, Snam and Hitachi Rail – Memorandum of Understanding (MoU) on methane-powered trains*: on 28 March 2019, FS Italiane, Snam and Hitachi Rail signed a MoU aimed at converting part of the current fleet of trains of Fondazione FS Italiane from diesel to methane. The initiative falls within the scope of the plan to promote sustainable mobility in the Italian public transport system;
- *EIB loan for sustainable mobility projects*: on 6 June 2019, Snam entered into an initial loan agreement with the EIB, for an amount of 25 million euro, to fund investments projects promoted by the subsidiary Snam4Mobility. The investments covered by the loan agreement concern the construction of 101 CNG (compressed natural gas) filling stations and 9 L-CNG (liquefied and compressed natural gas) filling stations in Italy, for a total of around 50 million euro;
- *Snam and IP:* on 26 July 2019, Snam and IP signed an agreement for the construction of a first batch of 26 new natural gas pumps;
- *Snam, OMV and TAG – Memorandum of Understanding (MoU)*: on 24 September 2019, Snam, the investee TAG and OMV signed a MoU to promote sustainable mobility (liquefied natural gas) in Austria;

Energy efficiency

- *Energy upgrading agreements for multi-occupancy buildings*: on 10 April Snam, through the subsidiary TEP Energy Solution, a company active in the energy efficiency sector, signed an agreement with Unicredit to support the energy upgrading of residential buildings in Italy, aimed at making them safer and more sustainable;
- **Tea Servizi**: On 11 November 2019, Snam completed, through the wholly owned subsidiary Asset Company 4 S.r.l., the acquisition of 100% of the capital of TEA Servizi S.r.l., an Energy Service Company (ESCo) engaged in the design, construction and operation of thermo-hydraulic and electrical systems for industrial customers, with particular focus on small and medium enterprises.

Financing:

- *Bond issues*: on 28 February 2019 Snam S.p.A. completed the issue of its first Climate Action Bond for a total of 500 million euro, with an annual coupon of 1.25% and maturity date on 28 August 2025. On 12 September 2019, Snam S.p.A. also completed an issue of bonds in two tranches for a nominal amount of 500 and 600 million euro, respectively, for a total of 1.1 billion euro, at fixed rate and with maturity dates on 12 May 2024and 12 September 2034, respectively. The above-mentioned bonds were issued as part of the EMTN (Euro Medium Term Notes) programme approved by the Board of Directors;
- *Euro Commercial Paper Programme:* On 19 March 2019, Snam's Board of Directors resolved to increase the amount of the Euro Commercial Paper programme ("ECP Programme"), as approved on 2 October 2018, from 1 billion euro to 2 billion euro. One or more Euro Commercial Papers may be issued within 2 years from 2 October 2018, for a total maximum value of 2 billion euro, increased by the corresponding amount of the Euro Commercial Papers repaid from time to time during the same period, to be placed with the institutional investors according to the terms and the methods of the ECP Programme. The total nominal value of the Euro Commercial Papers issued on the ECP Programme may not in any case exceed the maximum limit of 2 billion euro. The Euro Commercial Papers amounted to 2 billion euro at 31 December 2019.
- *EIB loan for infrastructural projects in the transport sector*: On 28 January 2019, SNAM signed a loan agreement for 135 million euro with the European Investment Bank (EIB) for the implementation of infrastructure projects in the natural gas transport and storage sector, with a fixed rate of 1.372%, to be repaid through a repayment plan and maturing in 2038. On 31 July 2019, Snam also signed a loan agreement for 105 million euro with the EIB for the implementation of infrastructure projects in the natural gas transport sector, with a duration of 20 years (maturity 30 June 2039) and a fixed rate of around 0.64%.
- *Annual renewal of the EMTN programme:* on 2 October 2019, the Board of Directors of Snam S.p.A. resolved on the annual renewal of the EMTN programme launched in 2012, increasing the maximum overall value from 10 to 11 billion euro, also with a view to ensuring an adequate degree of flexibility in favourable market times;
- *Bond buyback:* on 2 December 2019, Snam was successful in repurchasing bonds on the market for an overall nominal value of about 597 million euro.

Other

- New share buyback and treasury share cancellation plan without reducing the share capital;
- Statutory audit engagement*:* on 23 October 2019, the Ordinary Shareholders' Meeting of Snam S.p.A., having heard the opinion of the Board of Statutory Auditors, approved the termination of the statutory audit engagement awarded to the independent auditors PricewaterhouseCoopers and the simultaneous appointment, upon proposal of the Board of Statutory Auditors, of the independent auditors Deloitte & Touche S.p.A. for the statutory audit of Snam's financial statements for the period relating to the financial years ended 31 December 2020 to 2018.

TERNA (DISPATCH AND TRANSMISSION OF ELECTRICITY)

Management and development of the NTG:

- Italy - France Interconnection: laid 75 km of cables corresponding to 78% of the total.
- Sorrentine Peninsula Interconnection: on 28 December 2019 the new 19 km-long Capri - Sorrento connection was made available for operation;
- Interconnection Italy - Montenegro: the entire connection came into operation on 28 December 2019 and finalising work is in progress in the building sites. The project runs for 445 km from Italy to Montenegro;
- Grid reinforcements in the Foggia - Benevento area;
- Brenner Station: in December 2019 the 132kV section went online. The 110kV section is being completed and the machinery (transformer and PST) is being delivered;
- Development of metropolitan areas: major works on cable infrastructures in the Rome and Naples areas;
- Work on stations: the temporary set-up of the Belcastro station, aimed at the integration of renewables, was completed, and one of the two sections of the Brenner station is in operation;

Non-Regulated and International Activities:

- Open Fiber Project: 17,000 km of optical fibre were delivered in the first half of the year;
- Smart Tower Project: the experimental project for the development of High Voltage supports for environmental monitoring was completed with the installation of 11 Smart Towers in Sicily and the acquisition of the computational systems set up at two electrical stations. Two more Smart Towers were set up in the province of Belluno and in Abruzzo. Scouting for new customers is underway;
- Initiatives underway in Uruguay: work was completed on the construction of the 500 kV “Melo-Tacuarembò” transmission line, 213 km long and operational since 24 October 2019;
- Initiatives underway in Brazil: in 2019 the construction work by Santa Maria Trasmissora de Energia in the state of Mato Grosso was completed and the operating activities relating to the Santa Lucia Trasmissora de Energia concession in the state of Rio Grande do Sul continued. During the year, a preliminary agreement was also signed for the acquisition of two new concessions for the construction and operation of power lines. On 11 November 2019, the closing was signed, which resulted in the acquisition of 75% of SPE Transmissora de energia Linha Verde II S.A.;
- Initiatives underway in Peru: work continued on the construction of 132 km of new 138kV lines between Aguatìa and Pucallpa.

Finance:

- Between January and April 2019: two new green bond issues were launched for 250 and 500 million euro respectively. On 23 April, a back-up ESG linked Revolving Credit Facility was subscribed in the form of a "committed" line for a total amount of 1.5 billion euros with a pool of banks;
- July: 500 million euro bond issue for institutional investors with a coupon of 0.125%, the lowest ever for a corporate bond with a duration of more than 5 years;
- November: an agreement signed between Terna and the European Investment Bank (EIB) for a 490 million euro loan to support investments to improve the reliability and quality of the electricity grid.

ITALGAS (GAS DISTRIBUTION SECTOR)

- **Exercised**, on 17 April 2019, the option to acquire, from CPL Concordia Soc. Coop., the residual 40% stake in EGN for 20.9 million euro, net of 21.0 million euro in repayment of the shareholders’ loan to CPL Concordia.
- Completed, on 30 April 2019, the acquisition, from Conscoop Soc. Coop., of:
  - the business unit of Aquamet S.p.A., including, among other things, 9 natural gas distribution concessions in municipalities in the Lazio, Campania, Basilicata and Calabria regions, serving a total of 23,800 users;
  - the **entire capital of Mediterranea S.r.l.**, which holds 6 natural gas distribution concessions in the Salerno province, serving approximately 3,600 users;
  - the **business unit of Isgas Energit Multiutilities S.p.A.**, which holds propane air distribution concessions in the Cagliari, Nuoro and Oristano municipalities (Sardinia), currently serving a total of approximately 22,300 users with LPG.

The entire enterprise value of these acquisitions was set at 68.6 million euro.

In addition, within the scope of the same agreement with the CONSCOOP Group, Italgas, through its subsidiary Medea, completed the acquisition of a 10% stake in Isgastrentatrè S.p.A., owner of the Basin 33 propane air distribution concession in Sardinia. The agreements governing the acquisition of Isgastrentatrè provide for the commitment to acquire the remaining 90% of the capital upon meeting certain conditions, which include the conversion of the current propane air network into a natural gas network. If such conditions are not met, Italgas has the right to resell the 10% stake at a price equal to the purchase price to Conscoop, which will have the obligation to repurchase the stake.

- Completed, on 25 September 2019, the purchase from Sienergas Distribuzione S.r.l. of the natural gas distribution business unit in the municipality of Cannara (Perugia), with infrastructure extending over 35 kilometres and serving some 1,500 users.

- Completed, on 1 October 2019, the transfer to Italgas S.p.A. of 2,897,778 shares, representing 1.98% of the capital of Toscana Energia, from five municipalities in Tuscany which exercised their right to withdraw, for an amount of 10.7 million euro. Following the acquisition of control over Toscana Energia by Italgas, the new articles of association came into force, drawn up following the agreement between Italgas and the public shareholders and already approved by the extraordinary shareholders' meeting on 28 June 2018.
- **Signed**, on 7 October 2019, **between Italgas and A2A**, an **agreement for the mutual transfer of certain non-core industrial activities** in order to reinforce the respective core businesses. In particular, Italgas Reti has undertaken to transfer to A2A Calore & Servizi the set of district heating activities currently managed in the municipality of Cologno Monzese; at the same time, Unareti (A2A Group) shall transfer to Italgas the natural gas distribution activities managed in seven Municipalities belonging to the Alessandria 4 ATEM.
- **Signed**, on 15 November 2019, the **deed of spin-off** of the sale business unit of **Medea S.p.A.** by Medea NewCo S.r.l., established on 7 May 2019 with the aim of operating in the methane, LPG and propane air sales sector and, in the future, also in the sale of methane gas, and the change in the corporate name of the latter to **Gaxa S.r.l.** was decided, effective from 1 December 2019.
- **Completed**, on 12 December 2019, by the subsidiary Seaside, the **purchase of 10%** of the capital of **Enerpaper**, an innovative start-up which is the owner of building thermal insulation technology. On 18 December 2019, the Luxembourg Marguerite II Fund, through the companies **Marguerite Gas III S.à.r.l.** and **Marguerite Gas IV S.à.r.l.**, **acquired 48.15% of the capital of Medea S.p.A. and Gaxa S.r.l., respectively** (the transformation of Gaxa into a joint-stock company was effective from 15 January 2020). This sale followed on from the **signing of the agreement** on 1 August 2018 with the **Marguerite II Fund**, which provided for the acquisition of 48.15% of the capital of Medea and Gaxa, through an initial investment of around 25 million euro and subsequent capital increases totalling around 44 million euro intended chiefly for financing, on a pro rata basis, the investments in Sardinia envisaged in the 2019-2025 Italgas Business Plan. The value assigned to 100% of the assets at 1 January 2019 was 91.2 million euro.

Moreover, with the objective of streamlining the organisational structure of the Group, the following transactions were completed:

- **Signed**, on 12 March 2019, effective for statutory purposes from 1 April 2019, the **deed of merger by incorporation** (i) of the 13 **Fontenergia** companies based in Sardinia into Medea, and (ii) of the companies **Naturgas, Grecanica Gas, Progas Metano, Baranogas Reti, Favaragas Reti, Siculianagas Reti** and **Ischia Reti Gas** into Italgas Reti.
- Signed, on 29 July 2019, effective for statutory purposes from 1 August 2019 and for tax and accounting purposes from 1 January 2019, the deed of merger by incorporation of EGN S.r.l., EGN Distribuzione S.r.l., Ischia Gas S.r.l. and Marigliano Gas S.r.l. into Italgas Reti S.p.A..
- **Signed**, on 21 October 2019, effective for statutory purposes from 1 November 2019 and for tax and accounting purposes from 1 January 2019, the **deed of merger by incorporation** of **Mediterranea S.r.l.** into **Italgas Reti S.p.A**.

KEY CONSOLIDATED MANAGEMENT FIGURES

The accounting situation of the companies of the CDP Reti Group as at 31 December 2019 is presented below from a management accounting standpoint. For detailed information concerning balance sheet and income statement performance, refer to the financial statements of the Group's companies, which contain full accounting information and analyses of the companies' operating performances.

Key financial figures

Items		31/12/2019	31/12/2018
Total revenue	(million of euro)	6,216	5,940
EBITDA	(millions of euro)	4,845	4,521
EBITDA margin	(%)	78%	76%
Operating profit (EBIT)	(millions of euro)	2,844	2,676
EBIT margin	(%)	46%	45%
Net income	(millions of euro)	1,912	1,733
Profit margin	(%)	31%	29%

Key balance sheet and cash flow figures

Items		31/12/2019	31/12/2018
Property, plant and equipment	(millions of euro)	35,547	34,735
Intangible assets	(millions of euro)	9,927	8,597
Long-term financial liabilities	(millions of euro)	28,159	26,409
Equity	(millions of euro)	15,412	14,825
- attributable to the parent company CDP RETI	(millions of euro)	*4,262*	4,134
- attributable to minority interests	(millions of euro)	*11,149*	10,692
Net financial debt	(millions of euro)	(26,276)	(24,893)

Other key figures

Items		31/12/2019	31/12/2018
Technical investments	(millions of euro)	2,967	2,496
Net cash flow for the period	(millions of euro)	841	651
Average workforce	(numbers)	11,455	10,672
Dividends distributed to shareholders during the period			
- *from SNAM S.p.A.*	(millions of euro)	*(761)*	*(731)*
- *from TERNA S.p.A.*	(millions of euro)	*(480)*	*(451)*
- *from ITALGAS S.p.A.*	(millions of euro)	*(189)*	*(168)*
- *from CDP RETI S.p.A.*	(millions of euro)	*(399)*	*(396)*

Ratios

Items		31/12/2019	31/12/2018
ROE	(%)	13%	12%
Net financial debt/EBIT	(numbers)	9.2	9.3
Net financial debt/Equity	(numbers)	1.7	1.7

With regard to key management figures, 2019 results were as follows:

Total revenues amounted to 6,216 million euro (5,940 million euro in 2018), marking an increase of 4.5% on the previous period.

EBITDA amounted to 4,845 million euro (4,521 million euro in 2018), with an EBITDA margin of 78% (substantially in line with 2018) and an increase of around 324 million euro (+7.2%) on 2018. The contribution to the EBITDA margin was 35% for SNAM, 28% for TERNA and 15% for ITALGAS.

EBIT amounted to 2,844 million euro (2,676 million euro in 2018), with an EBIT margin of 46% (substantially in line with 2018). These figures also reflect the amortisation/depreciation and impairment resulting from the purchase price allocation (PPA)[13] of the assets and liabilities of SNAM, TERNA and ITALGAS.

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[13] This allocation, required by IFRS 3 (*International Financial Reporting Standard* 3 – Business Combinations), must be made by the acquiring company, as part of its consolidated financial statements, in order to justify the purchase cost incurred in this extraordinary transaction.

Net income amounted to 1,912 million euro (1,733 million euro in 2018), with a percentage impact on revenues of 31% (29% in 2018). The portion pertaining to the Parent Company is 568 million euro (517 million euro in 2018).

Net financial debt was equal to 26,276 million euro, increasing by 1,383 million (+5.6%) on 31 December 2018. The total amount of about 26 billion euro refers to SNAM (46%), TERNA (31%) and ITALGAS (17%), and the remaining portion (6%) to the Parent Company CDP RETI.

Technical investments amounted to 2,967 million euro at 31 December 2019 and referred to SNAM (32%), TERNA (43%) and ITALGAS (25%).

Net cash flow in the year was positive by around 841 million euro (with cash and cash equivalents increasing from 3,405 million euro to 4,246 million euro), largely attributable to the Parent Company CDP RETI (+10 million euro), SNAM (+979 million euro) and ITALGAS (+124 million euro), offset by the performance of TERNA (-272 million euro). Operating activities generated resources of 3,321 million euro, which were partly offset by the resources used by financing activities of 393 million euro and investing activities (net of disinvestments) of 2,873 million euro.

ALTERNATIVE PERFORMANCE MEASURES (APMS)[14]

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

Non-GAAP[15] financial reporting must be considered as supplementary and does not replace the information drafted in accordance with IFRS. In fact, the APMS presented in this Annual Report are considered significant for assessing operating performance with reference to the results of the CDP RETI Group as a whole. Furthermore, it is believed that they ensure better comparability over time of the same results even though they are not substitutes or alternatives to the results determined by applying IFRS.

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

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

The calculation of these measures, unchanged with respect to those used at 31 December 2018, is consistent with that recorded in the comparison period.

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[14] A financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. Alternative performance measures are usually derived from (or based on) the financial statements prepared in accordance with the applicable financial reporting framework, most of the time by adding or subtracting amounts from the figures presented in financial statements (Guidelines ESMA/2015/1415 – articles 17 and 18).

[15] Generally accepted accounting principles (GAAP) that the companies must follow in the preparation of their financial statements.

3. ORGANISATIONAL STRUCTURE

3.1 THE ORGANISATIONAL STRUCTURE

At 31 December 2019, CDP RETI employed 3 people (plus 2 under part-time secondment), all on permanent contracts.

More generally speaking, it should be noted how the Company uses the operating support of the Parent Company CDP based on service agreements that provide the Company with all the skills and services that are key for the correct performance of its business. In this context, in 2019, in consideration of the broader scope of the activities carried out by CDP RETI, two service agreements were updated in the administrative/accounting and finance/treasury areas.

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

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

SNAM

(average numbers)

Professional category	31/12/2019	31/12/2018
Senior Managers	116	104
Middle Managers	494	464
Office staff	1,699	1,650
Manual workers	733	731
Total	**3,042**	**2,949**

TERNA

(average numbers)

Professional category	31/12/2019	31/12/2018
Senior Managers	77	72
Middle Managers	638	619
Office staff	2,373	2,144
Manual workers	1,256	1,253
Total	**4,344**	**4,088**

ITALGAS

(average numbers)

Professional category	31/12/2019	31/12/2018
Senior Managers	62	60
Middle Managers	296	267
Office staff	2,247	1,975
Manual workers	1,464	1,329
Total	**4,069**	**3,631**

3.2 RISK FACTORS

INTRODUCTION

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

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

The main risks identified are listed below.

SNAM GROUP

STRATEGIC RISKS

Regulatory and legislative risk

Snam's regulatory and legislative risk concerns the rules applicable to the gas industry. The resolutions of the Regulatory Authority for Energy, Networks and the Environment (ARERA) and National Regulatory Authority of the countries where the foreign affiliates operate, the European and Italian legislation and, more generally, changes to the reference regulatory framework may have a significant impact on Company operations, earnings and financial stability.

It is impossible to envisage the effect that future changes in legislative and tax policies might have on the business of Snam and on the industrial sector in which it operates.

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

Macroeconomic and geopolitical risk

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

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

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

Commodity risk connected with gas price changes

As concerns the **risk of changes in the price of natural gas**, under the current regulatory framework, the fluctuation in the price of natural gas to hedge gas for self-consumption and network leaks does not represent a significant risk factor for Snam because all the gas for technical activities is supplied in kind by the Shippers. Similar risk hedging is ensured by the regulations of the countries where the foreign affiliates operate or by the related transport contracts. However, as concerns transport, starting from the third regulatory period 2010-2013, the Regulatory Authority for Energy, Networks and the Environment (ARERA) laid down the methods for payment in kind by service users to the major transmission operators of gas quantities to cover unaccounted-for gas (UFG) due as a percentage of the inputs and outputs from the gas transmission network. Specifically, in the Resolution (514/2013/R/gas), the ARERA established the allowed level of UFG taking into account the mean value recorded over the past two years, and has decided to keep such value fixed for the entire regulatory period in order to encourage the main gas transmission system operator to achieve further efficiency gains. Indeed, no extra tariffs would be paid for amounts of UFG in excess of the level allowed for the reference regulatory period. This criterion was subsequently confirmed also for the years 2018 and 2019 of the transitional tariff period.

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

In view of the above-mentioned mechanisms for the payment of UFG, uncertainty persists, with reference to the transitional period ended 31 December 2019, about possible quantities of UFG recorded in excess of the quantities recognised. In this regard, please note that, as part of the dialogue established with ARERA, in 2019 ARERA recognised the increased costs incurred in 2018. In general, the changes in the current regulatory framework on the recognition of quantities of natural gas covering self-consumption, network leaks and UFG might have an adverse impact on the Snam group’s business, financial position and results.

Market risk

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

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

Finally, with reference to the tariff regulatory criteria for the LNG regasification service for the fifth regulatory period (2020-2023), resolution 474/2019/R/gas confirmed the mechanism to cover reference revenue at a guaranteed minimum level of 64%.

In general, the changes in the current regulatory framework might have adverse impacts on the Snam group’s business, financial position and results.

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

Climate change risk

In the future, to maintain compliance with the rules on greenhouse gases and the new European and international medium/long-term energy-climate policies , Snam might be required to upgrade its plants and to control or restrict its greenhouse gas emissions or take other steps which might increase its regulatory compliance costs and hence affect negatively the Snam group’s business, financial position and results.

The **risks associated with the emissions market** fall within the scope of the European Union directives on trading carbon dioxide emission permits and the rules for controlling emissions of certain atmospheric pollutants. With the start of the third regulatory period (2013-2020) of the European Emissions Trading System (EU - ETS), the main objective of updating the sector’s legislation concerned the authorisations to emit greenhouse gas and a steady reduction in free emission allowances. The allowances are allocated to each plant with progressively decreasing, and no longer constant grants, and also depend on the actual operation of the plants. The allowances granted free of charge to the Group's plants are no longer sufficient to comply with regulatory compliance obligations relating to ETS mechanisms and, as a result, Snam obtains the missing allowances from the market. The ongoing further development of European legislation could lead to identifying new ways of managing the necessary allowances.

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

Climate change scenarios could also lead to a change in the choice of the energy mixes of the various European countries and in consumer behaviour, with resulting impacts on the demand for natural gas and on volumes transported, as well as effects on the development of alternative uses for gas, encouraging a greater penetration of renewable gas (biomethane, synthetic methane and hydrogen) and on the promotion of new business.

Climate change could also increase the severity of extreme weather conditions (flooding, drought, extreme temperature fluctuations), thus deteriorating the natural and hydro-geological conditions of the territory, with possible impacts on both the quality and continuity of the service supplied by Snam and on the demand for gas at national and European level. With reference to the effects of the change in gas demand on the financial position and results of the Snam Group, see the previous paragraph "Market risk".

In relation to the new climate agreements in force at global level (including the "Paris Agreement" adopted as part of the 2015 Climate Conference (COP21) whereby Governments agreed to maintain the average increase in global temperature well below 2°C compared to preindustrial levels as a long-term objective) aimed to encourage the transition to a more sustainable economy that favours zero-emission energy sources, there may be a regulatory and legislative risk related to the possible implementation of increasingly stringent regulations at European and national level, which may also have an impact on the development and related financing of energy infrastructure worldwide.

LEGAL AND COMPLIANCE RISK

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

Specific cases, including infringements of workers' health and safety, environmental protection or anti-corruption rules may also entail substantial fines for the Company based on the administrative liability of entities (Legislative Decree no. 231 of 8 June 2001). With regard to the **Risk of Fraud and Corruption**, it is a top priority for Snam to conduct its business fairly and transparently and to reject all forms of corruption as part of its commitment to the respect of ethical principles. Snam's management is fully engaged in implementing an anti-corruption policy: they strive to identify potential weaknesses and to eliminate them, strengthening their control and working constantly to raise all workers' awareness of how to identify and prevent corruption in all business contexts.

Reputational Check, as well as acceptance and signing of the Ethical Integrity Agreement are the pillars of the set of controls designed to prevent the risks associated with illegal conduct and criminal infiltration of our suppliers and subcontractors, with the aim of ensuring transparent relationships and professional morality requirements in the entire chain of companies and for the duration of the relationship.

Since 2014, Snam has collaborated with Transparency International Italia and has joined the Business Integrity Forum (BIF). In addition, in 2016, it was the first Italian company to become a member of the "Global Corporate Supporter Partnership".

As part of this cooperation, in October 2018 Snam renewed its partnership with Transparency International, Secretariat General of Berlin, during the 18th International Anti-Corruption Conference of Transparency International held in Copenhagen. In this occasion Snam participated in a reserved round table which included, for the first time, the participation of 4 companies of the private sector, including Snam as the only Italian company.

During 2019, Snam further strengthened its cooperation with other leading organisations active in fighting against corruption. In particular, in October Snam also joined the Partnering Against Corruption Initiative (PACI) of the World Economic Forum, which aims to bring together the main Compliance & Anticorruption Officers of some of the most important companies in the world at least twice a year, to share and strengthen best practices and preventive controls; in November, it was included in the "Integrity & Compliance Taskforce" of the B20 Saudi Presidency, whose works began in January 2020 with an "inception event" and will continue for the entire year, until the Summit in October, where the results of the work and proposals to be brought to the G20 will be presented.

In addition to the new collaborations, during 2019 Snam also participated in a series of events dedicated to the subjects of transparency, integrity, business ethics, best practices and sound governance to prevent corruption. Among the most significant events Snam participated in during 2019, worth mentioning are those held at the OECD, i.e. the Global Anti-Corruption & Integrity Forum in March on "Tech for Trust: risks and opportunities of new technologies for anti-corruption & integrity", the Trust in Business Forum and the Working Party on State Ownership and Privatisation Practices in October. Finally, Snam also took part in the Working Group on Bribery in December 2019, an annual consultation that was preceded by a restricted meeting of the members of the Permanent representation of business at the OECD (BIAC). Furthermore, in October, Snam's General Counsel was also appointed as Vice-president of BIAC's Anti-corruption Committee, a tremendous recognition, which will see Snam - the only Italian company in the BIAC's Leadership - even more committed and involved in the OECD's activities on integrity and anti-corruption issues.

Finally, in December Snam took part in the Italian Business Integrity Day – an initiative sponsored by the Anti-Corruption Coordination of the Ministry of Foreign Affairs - held at the 8th Conference of the States Parties to the United Nations Convention against Corruption in Abu Dhabi. On that occasion, Snam intervened to describe the challenges it faces daily in the anti-corruption field and the best practices implemented to manage the different complexities. In this context, Snam also participated in the round table "Private sector as a Partner in Anti-Corruption Education" organised by the United Nations Office on Drugs and Crime, where it illustrated its experience and commitment also in the field of training, aimed not only at its own people but also at the outside world.

OPERATIONAL RISKS

Ownership of gas storage concessions

For Snam, the risk connected **with keeping storage concessions** stems from the business operated by its subsidiary Stogit, on the basis of concessions awarded by the Ministry of Economic Development. Eight of the ten concessions (Alfonsine, Brugherio, Cortemaggiore, Minerbio, Ripalta, Sabbioncello, Sergnano and Settala) expired on 31 December 2016 and may be extended no more than twice for ten years each time. With regard to those concessions, Stogit submitted, within the legal time limits, application for their renewal to the Ministry of Economic Development; the procedure is currently pending at the Ministry. Pending this procedure, the Company, as provided for by the reference standards, will continue to operate under the old concessions, whose expiry is automatically extended for the purpose until completion of the renewal process. A concession (Fiume Treste) will expire in June 2022 and has already been subject to a ten-year extension in 2011 and, finally, a concession (Bordolano) will expire in November 2031 and may be extended for another ten years[16]. As a result of the 2011 appeals filed by Municipalities of Azzanello, Verolavecchia and another seven entities also representing environmental associations, the Council of State, with an opinion incorporated into the Presidential Decree of 16 September 2019, cancelled the environmental impact assessment for the Bordolano storage facility. With regard to the risk of continuing to operate storage activities in Bordolano, it should be noted that: (i) the decision of the Council of State is without prejudice to the provisions contained in the VIA (Environmental Impact Assessment) Decree of 2009 and, with reference to the subsequent measures taken on the basis of illegitimacy, it confirmed the ongoing validity of the provisions contained therein, in order to protect public safety and security; (ii) according to art. 29 paragraph 3 of the consolidated environment act, in case of cancelling VIA measures in a court of law relating a project already carried out, the competent authority may allow the works or activities to continue. The Ministry of Economic Development, with note U.0025890 of 22 November 2019, issued an order pursuant to art. 29, paragraph 3 of Legislative Decree 152/2006 concerning the continuation of activities for the Bordolano storage facility. With note of the Ministry of the Environment DVA - U.28389 of 29 October 2019, the VIA procedure was reopened with the participation of the Municipalities of Azzanello and Verolavecchia; the procedure is in progress and is followed by Stogit.

If Snam is unable to retain ownership of one or more of its concessions or if, at the time of renewal, concessions are awarded under terms less favourable than current ones, the Company may experience negative effects on its business, financial position and results.

Failures and unforeseen interruption of the service

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

Delays in infrastructure work progress

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

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

Environmental risks

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

Snam cannot predict whether and how environmental regulations and laws may become more binding over time, nor can it provide assurance that future costs of ensuring compliance with environmental legislation will not increase or that these costs may be recoverable within the applicable tariff mechanisms or regulation. Substantial increases in costs related to

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16 Stogit's concessions issued prior to the entry into force of Legislative Decree 164/2000 can be extended by the Ministry of Economic Development no more than twice for a period of ten years each, pursuant to art. 1, paragraph 61, of Law no. 239/2004. Pursuant to art. 34, paragraph 18, of Decree Law no. 179/2012, converted by law 221/2012, the duration of Stogit's only concession issued after the entry into force of Legislative Decree 164/2000 (Bordolano) is thirty years with the possibility of extension for a further ten years.

environmental compliance and other associated aspects and the costs of possible sanctions could negatively impact the business, operating results and financial and reputational aspects.

Employees and personnel in key roles

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

Risks linked to foreign equity investments

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

Risks linked to future acquisitions/equity investments

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

Cyber security

Snam adopts a complex technological structure to conduct its business, relying on an integrated model of processes and solutions able to ensure the efficient management of the gas system nationwide. However, the development of the business and the use of innovative solutions to achieve continual improvement do require an increasing level of focus on cyber security. Snam has therefore developed its own cyber security strategy based on a framework defined in accordance with the prevailing cyber security standards and with constant focus on regulatory developments at national and EU level, especially with regard to critical infrastructure and essential services. This strategy primarily requires that processes be adjusted to the provisions of ISO/IEC 27001 (Information Security Management Systems) and ISO22301 (Business Continuity Management Systems) and the formal certification of compliance of part of them with the listed standards. At the same time and according to technological evolution, solutions are assessed and, where appropriate, implemented to protect the company from the most widespread cyber threats and modern threatening agents.

Specifically, Snam has defined a cyber security incident management model aimed at preventing events capable of damaging the confidentiality, integrity and availability of the information processed and the IT systems used, as well as implementing timely remediation actions, where required. Based on activity, there is a Security Incident Response Team that, by adopting technology that collects and correlates all the security events recorded on the entire perimeter of the company's IT infrastructure, has the task of monitoring all anomalous situations from which negative impacts for the company may arise, and to activating, where necessary, escalation plans that are suitable to ensure the involvement of the various operating structures.

With reference to managing information supporting business processes, it should be noted that the company owns the asset (fibre) used for data transmission to and from the territory; this results in greater intrinsic security thanks to its non-dependence on the service provided by third parties and the possibility of exclusively using the communication channel. Finally, within the context of cyber incident management activities (preventive and reactive), info-sharing logic is also used with national and European institutions and peers in order to improve the response time and capacity in respect of various possible negative events. Considerable attention is also paid to raising awareness and training specialist staff, to make it easier to identify weak signs and make everyone as aware as possible of the cyber risks that can occur during normal work activities.

TERNA GROUP

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

The regulatory risk derives from the possible changes in the parameters used to determine regulated revenue, especially on the occasion of the multi-year review of the regulatory framework. The legislative risk is linked to possible changes in

Italian and European rules governing environmental, energy, tax and social matters (especially concerning work and contracts).

LITIGATION

Outstanding legal disputes at 31 December 2019 related to the parent company Terna S.p.A. and its subsidiary Terna Rete Italia S.p.A.:

- *Environmental and town planning disputes:* the disputes involving environmental issues linked to the construction and operation of power plants under Terna's responsibility refer, in part, to legal actions brought against the alleged adverse effects of exposure to electric and magnetic fields generated by the power lines;
- *Disputes concerning the validity of authorisations to build and operate plants*: these disputes are linked to owned plants and arise out of legal actions brought before the administrative courts to render null and void authorisations granted to build and operate plants;
- *Disputes* concerning activities *granted under concession arrangements:* as the holder of a transmission and dispatching concession as of 1 November 2005, Terna S.p.A. is a party to a number of legal proceedings involving such activities - mostly appeals against measures of the energy networks and environment Regulator ARERA and/or the Ministry of Economic Development and/or of Terna itself. Where the appellants have alleged not only the flawed nature of the measures challenged, but also a violation by Terna of the rules set by the aforementioned Authorities, that is, in the cases in which the proceedings may have an impact on Terna, the Company has appeared in court. In the context of these disputes, even though some proceedings have ended, in first and/or in second instance, with the cancellation of the ARERA resolutions and, if applicable, of the resulting measures issued by Terna, we believe a negative outcome for the Company to be unlikely, as these usually are pass-through items.

ITALGAS GROUP

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

OPERATIONAL RISKS

The Italgas group uses specific, certified management systems to oversee corporate processes and activities so as to ensure the health and safety of workers, environmental protection, and quality and energy saving in the services offered. Its main operational risks are listed below.

Risks associated with failures and unforeseen interruption of distribution service

Managing regulated gas activities involves a number of risks of malfunctioning and unforeseeable distribution service disruptions from accidental events, such as accidents, breakdowns or malfunctioning of equipment or control systems, the under-performance of plants and non-recurring events such as explosions, fires, earthquakes, landslides or other similar events beyond Italgas' control. These events could cause a decrease in revenue and involve damage, even substantial, to persons, property or the environment. Although Italgas has taken out specific insurance policies in line with best practices to cover some of these risks, the related insurance coverage could be insufficient to meet all the losses incurred, the compensation obligations or cost increases. In addition to the existing insurance policies, Italgas manages and monitors risk through organisational and operational countermeasures. Procedures and systems are in place to manage emergencies, emergency plans with measures defined for securing plants and guaranteeing continuity of service, safety systems for plants and assets and for monitoring the network, qualification procedures for third-party construction, engineering and works management companies and for monitoring the risk of execution of contractors. Scheduled searches for leaks are conducted using innovative systems and technologies and measures are adopted to ensure the continuous modernisation of the network. Measures are also in place to prevent any damage to pipes caused by third parties. In addition, network digitisation activities will continue to ensure the gradual improvement of real-time monitoring systems and preventive maintenance.

Risks to the environment and to health and safety

Italgas' activities are subject to Italian and European Union legislation on environmental protection. Italgas conducts its business in compliance with laws and regulations on environmental protection and occupational health and safety. Nevertheless, it cannot be ruled out with certainty that the group may incur costs or liabilities, even significant ones. It is, in fact, difficult to foresee the economic-financial consequences of any prior environmental damage, also given the possible effects of new environmental protection laws and regulations, the impact of technological innovations for environmental rehabilitation, the possibility of litigation and difficulties in determining its possible consequences, including with regard to the liability of other parties. Italgas is engaged in the remediation of contaminated sites, mainly old manufactured gas plants; it also performs waste removal and disposal (mainly from the demolition of obsolete plants) and the disposal of asbestos-containing materials. To cover the estimated costs of compliance with current legislation, a dedicated provision has been set up.

Risk associated with the installation of smart meters

At the end of 2010, Italgas started a plan to replace traditional meters with smart meters. Until the first half of 2014, this has involved the meters of class G6 and higher; later it was expanded to meters of a lower class (mass market). The technology embodied by the new meters used in the first stage of the replacement project was still evolving. The design requirements set by the Authority have forced the manufacturers to design and create a product addressed to the Italian market alone, on a schedule in line with the obligations set by ARERA. Only since 2015, however, all reference technical regulations have been made available by CIG (Comitato Italiano Gas, a regulating body affiliated to UNI). Italgas installs these devices according to the schedule set by ARERA; it cannot be excluded that the malfunction rate for smart meters might be above the historic performance recorded for traditional meters, resulting in higher maintenance costs. To cover the costs generated by the above maintenance costs, a dedicated provision has been set up.

Risks related to Energy Efficiency Certificates

The objective of improving energy efficiency in end uses, in Italy, has chiefly been implemented through Energy Efficiency Certificates (or White Certificates). These certify the generating of energy savings in the end uses of energy through the implementation of energy efficiency projects and measures, assessed and approved by the Gestore dei Servizi Energetici (Energy Services Operator - GSE). The Energy Efficiency Certificate scheme was established by the Italian Ministry for Productive Activities, in conjunction with the Ministry of Environment and Protection of the Land and See through the Ministerial Decree of 20 July 2004, subsequently amended and supplemented by the Ministerial Decree of 21 December 2007, the Ministerial Decree of 28 December 2012, the Ministerial Decree of 11 January 2017 and finally the Ministerial Decree of 10 May 2018, published in the Official Gazette of the Italian Republic on 10 July 2018. Based on the national annual energy savings targets to be pursued through the white certificate scheme, the Authority sets the associated energy saving targets for electricity and natural gas distributors, with over 50,000 end customers connected to the network. At the end of each year of the obligation, each distributor – in response to the cancellation of the certificates – shall receive a refund from Cassa per i Servizi Energetici e Ambientali (Energy and Environmental Services Fund) based on funds established through the RE and UC7 component of the distribution tariffs. With regard to the Energy Efficiency Certificates, there is a potential risk of economic loss due both to the possible negative difference between the average purchase value of the energy efficiency certificates and the tariff contribution granted at the end of each year of the obligation and to the possible failure to achieve the targets set annually. This situation - until December 2019 - was amplified by the fact that there was a cap on the tariff contribution granted to the parties subject to the obligation, i.e. 250 euro/Energy Efficiency Certificate. In addition, since the white certificates generated by E.E. projects are currently not sufficient for ensuring the minimum obligations are achieved, at the end of each year of the obligation, the missing certificates are made available by the GSE, under a short sale arrangement, at a price of 260 euro/Energy Efficiency Certificate, subject to acquisition by the parties subject to the obligation of a fixed share of their obligation directly from the market.

In its Resolution of 10 December 2019 – 529/R/EFR, ARERA launched a procedure to reform the tariff contribution in implementation of Lombardy Regional Court ruling 2538/2019, which removed both the cap on the tariff contribution and the associated calculation procedures. As things stand, by April 2020, the Authority will publish a new regulatory document amending the rules for calculating the tariff contribution, with retroactive effect for previous years until 2018. However, even with the recent publication of Consultation Document (DCO) 47/2020/R/EFR, no improvement to the regulatory framework has yet been observed for the parties subject to the obligation.

Risks associated with the expiry and renewal of gas distribution concessions

The Italgas Group’s gas distribution activity is performed under concessions granted by individual municipalities. As at 31 December 2019, Italgas managed natural gas distribution concessions in 1,816 Municipalities throughout Italy. Interministerial Decree no. 226/11 provided that the gas distribution service can only be operated on the basis of tendering procedures covering gas distribution districts (ATEM), most of which coincide with provincial boundaries. With regard to the tendering procedures launched, there is a possibility that Italgas may not be awarded the new gas distribution concessions, or may be awarded concessions at less favourable conditions than the previous ones, with possible negative impact on its business, financial position and results. However, should Italgas fail to obtain renewal of previous concessions, it would be entitled to the reimbursement due to the outgoing operator, for the networks it owns. Moreover, under the current tendering procedures, Italgas might also be awarded concessions for districts (ATEM) previously managed entirely or partially by other operators. Such awards could generate, at least initially, higher operating costs for the group than its standard operations. Given the complexity of the regulations governing expiry of the concessions held by Italgas, judicial and/or arbitration disputes might occur, with possible negative effects on the business activities and on the balance sheet, income and cash flow situation of the Italgas Group.

Risks associated with the reimbursement amount paid by the new operator

With regard to the gas distribution concessions for which Italgas also owns the networks and facilities, Legislative Decree no. 164/00, as amended and supplemented, provides that the reimbursement amount payable to the outgoing service operators owning the existing contracts and concessions shall be calculated in accordance with the provisions in the agreements, provided that these were concluded before the entry into force of Ministerial Decree no. 226 of 12 November 2011 (i.e. prior to 11 February 2012). Any aspects not specified by the parties, or not governed by those agreements, shall be governed by the Guidelines on criteria and procedures for assessing the reimbursement value prepared by the Ministry of Economic Development on 7 April 2014 and approved by the Ministerial Decree of 22 May 2014. Where there is a disagreement between the Local Authority and the outgoing operator with regard to the reimbursement amount, the tender notice indicates a reference amount to be used for the purpose of the tender, determined as the greater amount between the estimate of the contracting Local Authority and the regulatory asset base (RAB). Ministerial Decree no. 226/11, on tender process criteria and bid evaluation, states that the incoming operator shall acquire ownership of the plant by paying the reimbursement to the outgoing operator, with the exception of any portions of the plant that are already owned by the municipality. Eventually, i.e. in subsequent periods, the reimbursement to the outgoing operator shall be the value of local net fixed assets, net of government grants for capital expenditure and private contributions relating to local assets, calculated on the basis of criteria used by the Authority to determine distribution tariffs (RAB). In light of the new legal framework introduced, it cannot be ruled out that the reimbursement value of the concessions, which might be awarded to a third party following the concession tendering procedure, might be less than the value of the RAB. In that case, it may have negative effects on Italgas' financial position, results and cash flows.

RISK ASSOCIATED WITH THE EXECUTION OF THE INVESTMENT PLAN SPECIFIED FOR THE CONCESSIONS

The concessions specify commitments for the concession holder, including investment commitments. It cannot be excluded that, also because of delays in obtaining authorisations and permits, these investments might not be made in the periods specified, resulting in additional costs.

REGULATORY RISK

Italgas carries out its activities in a sector subject to regulation. The relevant directives and other legislation issued by the European Union and the Italian government, and the resolutions of ARERA and, more generally, changes to the reference regulatory framework, may have an impact on the Group's operations, earnings and financial stability. Considering the specific nature of its business and the context in which Italgas operates, developments in the regulatory context with regard to criteria for determining reference tariffs are particularly significant. Future changes to European Union policies or at the national level, which may have unforeseeable effects on the relevant legislative framework and, therefore, on Italgas' operating activities and results, cannot be ruled out.

LEGAL AND COMPLIANCE RISK

Legal and compliance risk concerns the failure to comply, in full or in part, with rules and regulations at European, national, regional and local level with which Italgas must comply in relation to the activities it performs. The violation of such rules and regulations may result in criminal, civil and/or administrative penalties, as well as damage to its financial position, economic results and/ or reputation. Specific cases, including infringement of anti-corruption rules, among other things, may entail substantial fines for the Company based on the legislation on the administrative liability of entities (Legislative Decree no. 231/01).

LITIGATION AND OTHER PROCEEDINGS

Italgas is a party to civil, administrative and criminal proceedings and is involved in lawsuits linked to the normal conduct of its operations. On the basis of the information presently available and in light of the existing risks, Italgas believes that those proceedings and lawsuits will not produce significant adverse impacts on its consolidated financial statements.

4. GROUP BALANCE SHEET AND INCOME STATEMENT FIGURES

An analysis of the accounting situation as at 31 December 2019 is provided below, based on the statements reclassified according to operational criteria to provide a clearer understanding of the results.

For the purposes of preparing the reclassified financial statements for the year 2019, the international financial reporting standards (IFRS) endorsed by the European Commission and in force at 31 December 2019 were applied. Compared to the accounting standards used for the preparation of the separate financial statements as at 31 December 2018, we note the adoption of IFRS 16 "Leases" as of 1 January 2019 which provides for the recognition by the lessee of two balance sheet items of opposite sign at the time of initial recognition:

- among assets the right to use any asset under finance lease;
- among liabilities the payable to the lessor, calculated using the financial method.

For the impacts deriving from the implementation of IFRS 16 "*Leases*", see the section below "*The transition to IFRS 16*".

4.1 RECLASSIFIED CONSOLIDATED BALANCE SHEET

4.1.1 CONSOLIDATED BALANCE SHEET - ASSETS

As at 31 December 2019, the **assets section of the reclassified consolidated balance sheet** of the CDP RETI Group included the following aggregates:

Assets

(million of euro)

tems	31/12/2019	31/12/2018
Property, plants and equipment	35,547	34,735
Intangible assets	9,927	8,597
Trade receivables (*)	3,071	2,927
Other assets (1) (*)	4,710	4,375
Cash and cash equivalents	4,246	3,405
Total assets	**57,501**	**54,039**

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

(*) Reclassified of 2018 data to improve comparability. No impact at equity level.

At 31 December 2019, the balance sheet assets of the CDP RETI Group amounted to 57,501 million euro, increasing by 6% on 31 December 2018, and consisted mainly of "property, plant and equipment" (around 62% of the assets), which mainly related to SNAM (16.4 billion euro) and TERNA (13.9 billion euro), as well as the impact on this item from consolidation (around 5 billion euro)[17].

The increase in "property, plant and equipment" (+812 million euro; +2.3% vs. 31 December 2018) is due mainly to changes relating to TERNA (+620 million euro), SNAM (+286 million euro), only partly offset by the effects of the PPA.

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

- SNAM (861 million euro, mainly relating to the transport and storage segments, amounting to 723 million euro and 103 million euro, respectively);

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

- TERNA (1,183 million euro, of which 1,090 million euro relating to Regulated Activities);

net of related depreciation and impairment for the period.

The item "intangible assets", largely attributable to the ITALGAS service concession agreements (6.5 billion euro), analysed in greater detail in the notes to the financial statements, increased by 1,330 million euro, mainly thanks to the contribution of ITALGAS (+1,244 million euro).

This item also includes goodwill (867 million euro), representing (i) the amount (781 million euro) recognised as a result of the process of allocating the differences between the prices paid for the purchase of the equity investments and the related equity, and (ii) the amount attributable to the CDP RETI Group of the goodwill recognised in the consolidated financial statements of TERNA, SNAM and ITALGAS.

"Trade receivables", up by 5% (+144 million euro) compared to the end of 2018, mainly relate to (i) SNAM (1,217 million euro, net of the bad debt provision of 102 million euro), mainly referring to the natural gas transport (993 million euro) and storage sectors (152 million euro) and (ii) TERNA (1,291 million euro, of which 758 million euro relating to receivables for "pass-through items"[18] pertaining to the activities carried out by Terna S.p.A.).

"Other assets", up by +7.6% compared to 31 December 2018, mainly relate to (i) equity investments (1,706 million euro), accounted for using the equity method, mainly relating to SNAM's equity investments, (ii) deferred tax assets (843 million euro, of which 443 million euro attributable to SNAM, 254 million euro to ITALGAS, 146 million euro to TERNA and 2 million euro to the Parent Company CDP RETI) recognised at 31 December 2019, (iii) non-current financial assets (503 million euro, mainly referring to TERNA), (iv) inventories - compulsory stock[19] (363 million euro) of SNAM and (v) current financial assets (524 million euro), mainly referring to TERNA (515 million euro).

Lastly, "cash and cash equivalents" are up compared to 31 December 2018 (+24.7%) and refer to:

- SNAM for 2,851 million euro. In particular, this figure relates to current accounts and promptly collectable bank deposits (2,054 million euro), short-term investment of liquidity with banks of high credit standing, repayable in less than 90 days (750 million euro), and the cash equivalents at Snam International BV (20 million euro) and Gasrule Insurance DAC (19 million euro);
- Terna for 1,057 million euro, of which 647 million euro invested in short-term, highly-liquid deposits and 410 million euro relating to bank current accounts and cash;
- Italgas for 262 million euro, relating to current account deposits held with banks;
- CDP RETI for 76 million euro.

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

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

4.1.2 CONSOLIDATED BALANCE SHEET - LIABILITIES

As at 31 December 2019, the **liabilities section of the reclassified consolidated balance sheet** of the CDP RETI Group included the following aggregates:

Net Equity and Liabilities

(million of euro)

tems	31/12/2019	31/12/2018
Long-term financial liabilities	28,159	26,409
- non-current (1)	*25,314*	*23,367*
- current (2)	*2,845*	*3,042*
Current financial liabilities	2,790	2,260
Trade payables (*)	3,456	3,394
Other liabilities (3)	7,684	7,150
Equity	15,412	14,826
- attributable to the parent company CDP RETI	*4,263*	*4,134*
- attributable to minority interests	*11,149*	*10,692*
TOTAL LIABILITIES	**57,501**	**54,039**

(1) In consolidated financial statements: Loans

(2) In consolidated financial statements: Current portion of long-term loans

(3) The figures of the consolidated financial statements that are not represented in the riclassified Equity and Liabilities are included in Other liabilities

(*) Reclassified of 2018 data to improve comparability. No impact at equity level.

Long-term loans" of the group (28,159 million euro at 31 December 2019) increased by 1.8 billion on 31 December 2018 (+6.6%) and include around 12.2 billion euro for SNAM (approx. 43%), around 9.8 billion euro for TERNA (approx. 35%), around 4.4 billion euro for ITALGAS (approx. 16%) and around 1.7 billion euro for CDP RETI.

"Current financial liabilities" refer mainly to: (i) SNAM (2,463 million euro), mainly for drawdowns on floating-rate bank credit facilities (450 million euro) and Euro Commercial Paper (2,001 million euro); and (ii) ITALGAS (319 million euro) mainly for drawdowns on bank credit facilities. The increase of 530 million euro (+23%) compared to 31 December 2018 is attributable to SNAM (+482 million euro), largely due to the greater amount of Euro Commercial Paper (+1,775 million euro), in part offset by the lower use of credit facilities (-1,301 million euro).

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

"Trade payables", up by 62 million euro (from 3,394 million euro at the end of 2018 to 3,456 million euro; +2%), mainly relate to TERNA (2,445 million euro vs. 2,514 million euro at the end of 2018), largely for energy-related payables (1,359 million euro, including payables for energy-related pass-through items; -158 million euro compared to the end of 2018) and non-energy-related payables (1,055 million euro; +76 million euro, mostly due to greater investments in the final period of the previous financial year).

"Other liabilities", up by 523 million euro (from 7,151 million euro at the end of 2018 to 7,683 million euro; +7%), mainly relate to: (i) deferred tax liabilities (2,699 million euro vs. 2,740 million euro at the end of 2018), recognised at 31 December 2019; (ii) other current liabilities (1,845 million euro vs. 1,718 million euro for 2018), mainly relating to SNAM (1,413 million euro); and (iii) provisions for risks and charges (1,092 million euro vs. 1,094 million euro for 2018), of which 647 million euro (607 million euro at the end of 2018) in provisions for the decommissioning and remediation of sites recognised by SNAM for charges that it is presumed will be incurred to remove the facilities and remediate the natural gas storage sites (518 million euro) and transport infrastructure[20] (124 million euro).

"Equity", up by approximately 585 million euro (+4%), benefited from the net income for the period of 1,912 million euro (of which 568 million euro pertaining to the parent company) and mainly takes into account (i) the amount of the 2019 final dividends paid during the period by SNAM, TERNA and ITALGAS to the minority shareholders (total of approximately 986 million euro) and by the parent company CDP RETI to its shareholders (approximately 399 million euro), (ii) the repurchase of 8,612,920 shares in execution of the share buyback programme launched on 16 December 2019.; (iii) the decrease in the valuation reserve (-157 million euro).

Of the total equity, 4.3 billion euro is pertaining to the Parent Company (substantially in line with 31 December 2018) and 11.1 billion euro to minority interests.

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[20] The costs refer to estimated charges to remove the structures connecting the LNG regasification terminal in Livorno to the OLT Offshore LNG in Tuscany.

4.1.3 RECONCILIATION OF CONSOLIDATED EQUITY AND NET INCOME FOR THE PERIOD

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

(million of euro)	31/12/2019		
Items	Net income	Capital and reserves	Total
PARENT COMPANY FINANCIAL STATEMENTS	**410**	**3,099**	**3,509**
Balance from financial statements of fully consolidated companies	2,278	10,008	12,286
Consolidation adjustments:			
- *Carrying amount of fully consolidated equity investments*	-	(5,267)	(5,267)
- *Dividends from fully consolidated companies*	(436)	436	-
- *Purchase price allocation*	(281)	5,148	4,867
- *Other adjustments*	(59)	76	17
CONSOLIDATED FINANCIAL STATEMENTS	**1,912**	**13,500**	**15,412**
- *attributable to the parent company CDP RETI*	569	3,694	4,263
- *attributable to minority interests*	1,343	9,806	11,149

4.2 RECLASSIFIED CONSOLIDATED INCOME STATEMENT

The data below represents the CDP RETI group with specific evidence of the contributions - in terms of operating margins[21] - deriving from SNAM, TERNA and ITALGAS. Please note that the consolidation eliminations and adjustments were shown separately.

As at 31 December 2019, the CDP RETI Group's **reclassified consolidated income statement** was as follows:

[21] The parent company, CDP RETI, given its nature of holding company, has basically zero incidence on the operating margins of the group.

(million of euro)

Items	31/12/2019	31/12/2018
Revenues from financial statement	6.901	6.524
- *Revenues recognised following application of "IFRIC 12 Service Concession Arrangements" (*)*	*681*	*566*
- *Other Reclassifications (**)*	*3*	*18*
Total revenues	**6.216**	**5.940**
Costs from financial statement (not included Depreciation and Amortization)	(2.038)	(1.988)
- *Costs recognised following application of "IFRIC 12 Service Concession Arrangements" (*)*	*(659)*	*(566)*
- *Other Reclassifications*	*(8)*	*(3)*
Operating costs (not included Depreciation and Amortization)	**(1.371)**	**(1.419)**
EBITDA	**4.845**	**4.521**
EBITDA margin	78%	76%
- *of which SNAM*	*35%*	*35%*
- *of which TERNA*	*28%*	*28%*
- *of which ITALGAS*	*15%*	*14%*
Depreciation and Amortization	(2.018)	(1.861)
- *Other Reclassifications (***)*	17	15
Operating profit (EBIT)	**2.844**	**2.676**
EBIT margin	46%	45%
- *of which SNAM*	*23%*	*23%*
- *of which TERNA*	*19%*	*18%*
- *of which ITALGAS*	*8%*	*8%*
- *of which consolidation*	*-4%*	*-4%*
Financial income/expense (including effects by equity method)	(198)	(270)
- *Other Reclassifications (****)*	*(4)*	
Taxes	(731)	(673)
Profit from continuing operations	**1.912**	**1.733**
Net income from discontinued operation	(4)	-
- *Other Reclassifications (****)*	*4*	
NET INCOME	**1.912**	**1.733**
- *for parent company*	*568*	*517*
- *for minority interests*	*1.343*	*1.216*

(*) In Riclassified Income Statement, pursuant to IFRIC 12 "Service Concession Arrangements" are not included:
(i) revenues for the construction and upgrading of natural gas distribution infrastructures (621 million in 2019 and 447 million in 2018);
(ii) in relation to TERNA, revenues from construction of assets in concession activities (60 million as 31 December 2019 and 119 million as 31 December 2018);
these revenues are recognised in an amount equal to the costs incurred and are shown as direct reduction of the respective cost items
(**) Other revenues recognised in an amount equal to the costs incurred and deducted directly from the latter mainly relating to the release of connection contributions pertaining to the year of ITALGAS
(***) Relating essentiallyto the issue of connection contributions for the financial year;
(****) Relating to Snam's equity investments reclassified as assets available for sale

In 2019, in line with the previous year, the CDP RETI Group reported a profit of 1,912 million euro (568 million euro pertaining to the parent company), marking an increase on 2018 (net income of 1,733 million euro). The increase (+179 million euro, of which 51 million euro pertaining to the parent company) is the result of improved operating margins (EBITDA +324 million euro; EBIT +168 million euro) and the lower impact of net financial charges (-69 million euro), in part offset by higher taxes in the period (+58 million euro).

In terms of sectors, the results of the CDP RETI Group were driven by higher contributions from all the subsidiaries.

A more detailed description of the changes that occurred at the level of individual sectors between the two financial years is provided in the section of this Report entitled “Sector Performance”.

“Revenues” for the period consist of 2.7 billion euro for SNAM, 2.3 billion euro for TERNA and 1.3 billion euro for ITALGAS. The increase of 276 million euro (+5% compared to 2018) is largely attributable to: (i) TERNA, mainly due to higher revenues (+65 million euro) from Regulated activities in Italy, also due to the impact on tariff revenue of the adjustment to the net rate of return on invested capital (WACC); (ii) SNAM, mainly consisting of revenues from regulated activities (2,489 million euro, +62 million euro), thanks to the contribution of the transport sector, which benefits, in particular, from the increase in the WACC; and (ii) ITALGAS, mainly due to higher transportation revenues, also thanks to the change in the scope of consolidation following the new acquisitions.

"Operating costs", largely attributable to TERNA (554 million euro), SNAM (461 million euro) and ITALGAS (350 million euro), relate mainly to service costs and staff costs, which decreased compared to 2018, mainly for SNAM, thanks to the increased efficiency of work and procurement processes.

"EBITDA", amounting to 4,845 million euro (4,521 million euro in 2018; +324 million euro), benefited from the performance of all the subsidiaries, with an EBITDA margin of 78% (76% in 2018). SNAM contributed 35%, TERNA 28% and ITALGAS the rest.

EBITDA, despite higher amortisation/depreciation and impairment (+157 million euro), referring mainly to:

- SNAM (around 62 million euro; +9%) and, in particular, due to the entry into operation of new infrastructure in the transport and dispatching segment;
- TERNA (around 32 million euro) for the entry into operation of new infrastructures;
- a review of the estimated residual useful life of the PPA allocated to Terna's assets, with a consequent reduction in the expected economic-technical life

resulted in an EBIT of 2,844 million euro, up by 168 million euro (+6%) compared to 2,676 million euro in 2018; the EBIT margin at 31 December 2019 was 46% (45% in 2018).

"Financial income (expense)"[22], negative by 198 million euro (negative by 270 million euro in 2018), marks an improvement of around 72 million euro on the previous period and mainly refers to (i) SNAM, owing to lower net financial expenses, which benefited from the higher share of the net income for the period of the companies accounted for using the equity method, the reduction in the average cost of debt and the positive market conditions, and (ii) TERNA, mainly due to the seasonality of inflation, the higher return on liquidity, short term financial assets and the reduction in short-term interest rates.

"Income taxes", which show an expense of 731 million euro (673 million euro in 2018; +9%), mainly refer to the tax expense of SNAM, TERNA and ITALGAS, partially offset by the effects of deferred taxation connected with Purchase Price Allocation. The higher taxes compared to the first half of 2018 are mainly due to the higher pre-tax profit.

The above income items made it possible to close 2019 with a consolidated "net income" of approximately 1,912 million euro (of which 568 million euro pertaining to CDP RETI; 517 million euro in the comparison period), compared to a net income of 1,733 million euro in 2018.

The 2019 net income pertaining to CDP RETI shareholders (net income of 568 million euro) comes from the net income of the parent company CDP RETI S.p.A. (410 million euro) and from the share of the profits of SNAM (net income of 349 million euro), TERNA (net income of 226 million euro) and ITALGAS (net income of 127 million euro), less dividends for the period (436 million euro) attributable to CDP RETI S.p.A. and net of other consolidation effects (including the Purchase Price Allocation).

4.3 SECTOR PERFORMANCE

Income statement, balance sheet and statement of cash flows figures are provided below using the management schedules adopted by SNAM, TERNA and ITALGAS in their financial statements. Reference should be made to the documents of the aforesaid companies for a reconciliation between the reclassified statements used and the mandatory statements. The figures for 2018 do not include the effects of the adoption of the new IFRS 16.

4.3.1 SNAM (GAS TRANSPORT, REGASIFICATION AND STORAGE SECTOR)

INTRODUCTION

In order to allow a better assessment of group performance and greater comparability of data, Snam's management has developed alternative performance measures not included in the IFRS (non-gaap measures), mainly represented by the results in the adjusted and pro-forma adjusted configuration.

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[22] Including the effects of equity investments accounted for using the equity method.

Items (million of euro; %)	31/12/2019 Reported (*)	31/12/2019 Adjusted (**)	31/12/2018 Reported (*)	31/12/2018 Adjusted (**)
Regulated Revenue	2,550	2,550	2,485	2,485
Non Regulated Revenue	115	115	101	101
Total Revenue	**2,665**	**2,665**	**2,586**	**2,586**
- *of which regulated*	*2,550*	*2,550*	*2,485*	*2,485*
Total Revenue - net of pass through items	*2,604*	*2,604*	*2,528*	*2,528*
Operating cost	(461)	(496)	(512)	(491)
Operating cost - net of pass through items	(400)	(435)	(454)	(433)
EBITDA	**2,204**	**2,169**	**2,074**	**2,095**
EBITDA margin	83%	81%	80%	81%
Depreciation and Amortization	(752)	(752)	(690)	(690)
EBIT	**1,452**	**1,417**	**1,384**	**1,405**
EBIT margin	54%	53%	54%	54%
Net financial expense	(203)	(165)	(242)	(195)
Income from equity investments	216	216	159	159
Earning before taxes	**1,465**	**1,468**	**1,301**	**1,369**
Taxes	(375)	(375)	(341)	(359)
Net income (***)	**1,090**	**1,093**	**960**	**1,010**
Net Income - discontinued operations (***)	NA	NA	N/A	N/A
Net Income of the Group	**1,090**	**1,093**	**960**	**1,010**

(*) From the income statement in the legally required format

(**) Special itam not included

(***) Entirely attributable to Snam shareholders

Items (million of euro)	31/12/2019	31/12/2018
Shareholders' Equity attributable to the parent company	6,255	5,985
Shareholders' equity including minority interests	6,258	5,985
Net financial debt	11,923	11,548
Net cash flow for the period	979	1,153
Technical investments	963	882

TOTAL REVENUES

As at 31 December 2019, **total revenues** were equal to 2,665 million euro, up by 79 million euro compared to 2018 (+3.1%).

Regulated revenues (2,550 million euro) recorded an increase of 65 million euro (2.6%) compared to 2018. Net of the components that are offset by costs, regulated revenues amounted to 2,489 million euro, with an increase of 62 million euro (2.6%), due to the contribution from the transport sector, which benefits from tariff updating mechanisms and, in particular, from the increase in the WACC from 5.4% in 2018 to 5.7% in 2019.

Non-regulated revenues (115 million euro) recorded an increase of 14 million euro (13.9%) compared to 2018. The highest revenues from the contribution of the companies included in the scope of consolidation (+28 million euro) and for services rendered by the Global Solution Business Unit (+7 million euro) were largely absorbed by lower revenues from services supplied to the Italgas Group, regulated via a few agreements concluded as at 31 December 2018[23] (-14 million euro).

Non-regulated revenues refer mainly to: (i) the consideration for the construction of biogas and biomethane plants (27 million euro); (ii) technical-specialist services to unconsolidated foreign companies (23 million euro); (iii) services for energy efficiency projects (24 million euro); (iv) proceeds from the rent and maintenance of optical fibre telecommunications cables (13 million euro); (v) the sale of compressors for CNG vehicle fuel (11 million euro).

[23] These revenues are offset by the costs incurred for the provision of the related services.

ADJUSTED EBIT

The adjusted EBIT for 2019 amounts to 1,417 million euro, up 12 million euro (0.9%) compared to the adjusted EBIT in 2018. The higher revenues (+79 million euro; equal to 3.1%), mainly attributable to the natural gas transport sector and the contribution for the whole of 2019 from the companies included in the scope of consolidation during 2018, were partially offset by the increase in amortisation, depreciation and impairment of the period (-62 million euro; equal to 9.0%). Operating costs are broadly in line with the corresponding adjusted value for 2018 (-2 million euro, or 0.5%). The lower charges related to the use of Unaccounted-for Gas (UFG) (+20 million euro), together with the effects of the actions of the Efficiency Plan implemented since 2016, have been absorbed by the higher costs coming from companies included in the scope of consolidation during 2018 and from new business initiatives.

ADJUSTED NET INCOME

The adjusted net income for 2019 amounts to 1,093 million euro, up 83 million euro (8.2%) compared to the adjusted net income in 2018. The increase, in addition to the higher EBIT (+12 million euro; +0.9%), is due: (i) to lower net financial charges (+30 million euro; equal to 15.4%) that benefit from a decrease in the average cost of debt, also as a result of the benefits from the optimisation actions implemented in 2016, 2017 and 2018 and the positive market conditions; (ii) higher net income from equity investments (+57 million euro; +35.8%), mainly from the contribution of Senfluga and Teréga. These effects were partly absorbed by higher income taxes (-16 million euro; equal to 4.5%) mainly due to the higher pre-tax profit.

RECONCILIATION OF ADJUSTED NET INCOME WITH THE REPORTED NET INCOME

Income statement items classified under “special items” in 2019 were represented by: (i) financial expenses arising from bonds repurchased as part of the Liability management transaction implemented by Snam in December 2019 (38 million euro; 29 million euro net of the related tax effect; 47 million euro in 2018; 35 million euro net of the related tax effect). These expenses are mainly attributable to the difference between the outlay from the repurchase of the bonds on the market and the measurement at amortised cost of the bonds themselves; (ii) the release through profit or loss of the bad debt provision (35 million euro) following the ruling of the Council of State, which, on 5 March 2020, confirming the first-instance judgement of the Regional Administrative Court in Milan from 2017, ratified the recognition to the company of part of the uncollected receivables related to the balancing activity for the period 1 December 2011-23 October 2012.

EQUITY

The increase in Group interest in shareholders' equity, amounting to 270 million euros compared with December 31, 2018, reflects primarily an increase in comprehensive income (1,042 million euros), offset in part by a decrease in (i) the balance of the 2018 dividend and the 2019 interim dividend (761 million euros) and (ii) the purchase in 2019 of 8,412,920 SNAM shares for a total value of 39 million euros. In 2019, the cancellation of 74,197,663 treasury shares held in treasury stock without share capital reduction, which was approved by the Extraordinary Shareholders' Meeting of April 2, 2019 and completed on April 17, 2019, was also recorded.

NET FINANCIAL DEBT

Net financial debt stood at 11,923 million euro at 31 December 2019 (11,548 million euro as at 31 December 2018) and, following the payment of the 2018 dividend to the shareholders (746 million euro, of which 298 million euro as an interim dividend and 448 million euro as a final dividend) and the purchase of treasury shares (39 million euro), recorded an increase of 375 million euro compared to 31 December 2018, including the non-monetary items linked to financial debt (75 million euro), principally referring to the change in the scope of consolidation and financial liabilities recognised in application of IFRS 16 “Leases”. In particular, the flow of net financial debt compared to 31 December 2018 relates to the following main items:

- bonds (9,048 million euro) recorded an increase of 602 million euro compared to 31 December 2018 as a result of the issue: (i) of the Climate Action Bond, with a nominal amount of 500 million euro, at fixed rate and with maturity on 28 August 2025; (ii) of a Private Placement with a nominal amount of 250 million euro, at fixed rate and with maturity on 7 January 2030; (iii) of a dual tranche bond with a nominal amount of 700 and 600 million euro, respectively, for a total of 1.3 billion euro, at fixed rate with maturity on 12 May 2024 and 12 September 2034, respectively. These changes have been offset by: (i) the repayment of a fixed-rate bond due on 18 January 2019, of a nominal amount equal to 519 million euro; (ii) the repayment of a fixed-rate bond due on 24 April 2019, of a nominal amount equal to 225 million euro; (iii) the repayment of a 10 billion Japanese yen bond due on 25 October 2019, of a nominal amount equal to 83 million euro on maturity; (iv) the repurchase on the market of fixed-rate bonds for a nominal value totalling 597 million euro with an average coupon rate of 1.3% and residual maturity of around 3.9 years; (v) the trends in accrued interest;
- loans from banks (3,704 million euro) recorded a reduction of 1,045 million euro, mainly due to lower net drawdowns on uncommitted credit lines (1,301 million euro). This effect was partially offset by signing loan agreements with the European Investment Bank – EIB, including: (i) a loan signed on 28 January 2019, for projects promoted by Snam Rete Gas and Stogit, with a nominal amount of 135 million euro, at fixed rate, to be repaid through a repayment plan

expiring in 2038; (ii) a loan signed on 6 June 2019, to support investments promoted by the subsidiary Snam4Mobility for the construction of CNG and L-CNG refuelling stations, with a nominal amount of 25 million euro, at fixed rate, to be repaid through a repayment plan expiring in 2031; (iii) a loan signed on 31 July 2019, for Snam Rete Gas projects, with a nominal amount of 105 million euro, at fixed rate, to be repaid through a repayment plan expiring in 2039;

- the Euro Commercial Papers (2,001 million euro) concern unsecured short-term securities issued on the money market and placed with institutional investors.

The net cash flow from operating activities (1,486 million euro) covered all net investment needs (1,004 million euro) and resulted in a positive Free cash flow[24] of 482 million euro.

At 31 December 2019, the cash and cash equivalents (2,851 million euro) relate mainly to current accounts and promptly collectable bank deposits (2,054 million euro), short-term investment of liquidity with banks of high credit standing, repayable in less than 3 months (750 million euro), and the cash equivalents at Snam International BV (20 million euro) and Gasrule Insurance DAC (19 million euro).

As at 31 December 2019, Snam had unused long-term committed credit facilities totalling 3.2 billion euro.

TECHNICAL INVESTMENTS IN THE PERIOD

Technical investments amounted to 963 million euro in 2019 (882 million euro in 2018) and mainly refer to the natural gas transport and storage sectors (813 million euro and 112 million euro, respectively).

DIVIDEND PROPOSED

The net income of the parent company SNAM S.p.A. was 817 million euro, up 96 million euro compared to 2018. The Board of Directors will propose to the Shareholders' Meeting the distribution of a total 2019 dividend equal to 23.76 euro cents per share (22.63 euro cents in 2018; +5%), of which 9.05 euro cents per share already distributed as interim dividend in January 2020 and the balance to be paid from 24 June 2020.

4.3.2 TERNA (DISPATCH AND TRANSMISSION OF ELECTRICITY)

TERNA

Items	31/12/2019	31/12/2018
Total revenue	2,295	2,197
- *of which regulated*	*2,055*	*1,990*
EBITDA	1,741	1,651
EBITDA margin	76%	75%
Operating profit (EBIT)	1,155	1,097
EBIT margin	50%	50%
Net income	764	712
Net income of the Group	757	707

Items (million of euro)	31/12/2019	31/12/2018
Shareholders' Equity attributable to the parent company	4,190	4,019
Shareholders' equity including minority interests	4,232	4,054
Net financial debt	8,259	7,899
Net cash flow for the period	(272)	(660)
Technical investments	1,264	1,091

TOTAL REVENUES

TERNA's total revenues in 2019 amounted to €2,295 million, an increase of 98 million euro (+4.5%) compared to the same period of 2018. In particular, revenues from Regulated Activities increased by 65.4 million euros, primarily due to the impact on tariff revenues of the adjustment of the rate of return on invested capital (WACC) and the increase in the scope of regulated assets (RAB) and the higher revenues deriving from the service quality incentive mechanism - ENSR (essentially for the definition of 2018 performance and the enhancement of 2019 performance, given the estimated overall expected

[24] The cash surplus or deficit remaining after the financing of the investments.

results in the 2016-2020 regulatory period). The increase in revenues from Non Regulated Activities, amounting to 16.8 million euros, mainly reflects revenues from the Italy - Montenegro private Interconnector project (11.1 million euros) and the improved results of the Tamini group (+6.8 million euros). In the foreign business area, revenues show an increase of euros 15.9 million, reflecting the results of concession activities in Brazil, which have fully entered into service (up euros 12.7 million), and the contract for the construction of the line in Uruguay (up euros 4.6 million), which entered into service.

EBIT

The higher revenues (+98 million euro on 2018), in part offset by the increase in operating costs (553.9 million euro, +7.5 million euros compared to 2018) and the higher levels of depreciation, amortisation and impairment (586.1 million euros, +32 million euro compared to 2018, mainly due to the entry into service of new plants and the amortisation/depreciation associated with contracts in the scope of application of IFRS 16) resulted in an EBIT of 1,155.1 million euro, +58.6 million euros in absolute terms compared to 2018 (1,096.5 million euro) and an EBIT margin of 50% (in line with 2018).

NET INCOME

Net profit amounted to 763,9 million euros (almost entirely attributable to the parent company), up by 53,3 million euros (+7,3%) compared to 711,6 million euros in 2018, benefiting from the performance of Operating profit (+58,6 million euros) and lower net financial expenses (-11,1 million euros), only partly absorbed by the higher tax burden (+17,4 million euros).

EQUITY

The increase in the Parent Company's shareholders' equity during the year (+171 million euros) is mainly due to the positive result for the year of 757.3 million euros, only partially offset by the negative change in the cash flow hedge valuation reserve (-93.7 million euros[25]) and the distribution of the balance of the dividend relating to the 2018 result (310.5 million euros) and the 2019 interim dividend approved by the Board of Directors on 13 November 2019 (169.2 million euros) .

NET FINANCIAL DEBT

At 31 December 2019, the group’s net financial debt stood at 8,258.6 million euro, up by 359.2 million euro on 31 December 2018, with the following changes:

- an increase in bond issues (+577.4 million euro) due to three fixed-rate bond issues in euro and the redemption in October of the 600 million euro bond issue launched on 3 July 2009. This change is also due to the adjustment of all bond issues to amortised cost;
- decrease in loans (-428.4 million euro), mainly due to the effects of:
  - the repayment, on 2 February 2019, of the loan granted by CDP for 500 million euro, drawn on EIB funds;
  - amounts being repaid for outstanding EIB loans (-112.0 million euro);
  - the new EIB loans drawn down in June for a total amount of 46.6 million euro;
  - the last tranche of the Uruguayan subsidiary's loan of 13.1 million euro;
  - new loans granted to the Brazilian subsidiaries for a total of 101.8 million euro;
  - the lease liability recognised on first-time adoption of IFRS 16 (24.5 million euro);
- decrease in other net financial liabilities (-8 million euro), mainly due to the changes in interest rates on existing loans and hedges;
- increase in derivative financial instruments (+57.4 million euro) mainly due to the shift in the yield curve and the change in the notional amount of the derivatives portfolio;
- increase in financial assets (+110.7 million euro) mainly resulting from the redemption in December of government securities with a notional value of 400 million euro and the acquisition of government securities with maturity in April and October 2021 for an amount of 500 million euro;
- reduction in cash and cash equivalents (-271.5 million euro). Cash and cash equivalents at 31 December 2019 amounted to 1,057.4 million euro, of which 647.4 million euro invested in short-term, highly-liquid deposits and 410.0 million euro relating to bank current accounts and cash.

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

TECHNICAL INVESTMENTS IN THE PERIOD

Technical investments in the period amounted to 1,264.1 million euros, up 15.9% from 1,091.1 million euros in 2018. The main projects during the period included: (i) progress on construction sites for the Italy-France and Italy-Montenegro electricity interconnections; (ii) development of the optical fibre network with Open Fiber; (iii) work on the electricity interconnection between Capri and Sorrento and rationalization of the electricity network in the Rome and Naples metropolitan areas..

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[25] Adjustments at fair value of the hedging derivatives on Terna S.p.A. and its subisidary Difebal variable rate financings.

DIVIDEND PROPOSED

The parent company TERNA S.p.A. achieved a profit for the period of 714 million, up by approximately 53 million compared to 2018. The Board of Directors will propose to the Shareholders' Meeting (i) the approval of a total dividend for 2019 equal to 24.95 euro cents (23.32 euro cents in 2018;+7%) per share (ii) the distribution - net of the interim dividend for 2019, equal to 8.42 euro cents per share already paid from 20 November 2019 - of the remaining 16.53 euro cents per share, gross of any withholding taxes, to be paid from 24 June 2020.

4.3.3 ITALGAS (GAS DISTRIBUTION SECTOR)

Items	31/12/2019	31/12/2018
Total revenue (*)	1,258	1,178
- *of which regulated*	*1,198*	*1,145*
EBITDA	908	840
EBITDA margin	72%	71%
Operating profit (EBIT)	516	454
EBIT margin	41%	39%
Net income	424	314
Net income of the Group	417	314

(*) Revenue from the construction and upgrading of distribution infrastructure entered in accordance with IFRIC 12 and recognised in an amount equal to the costs incurred (€621,1 and €447 milion di euro respectively in 2019 and 2018) is shown as a direct reduction of the respective cost items.
In addition, in order to make the comparison with the financial statements as at 31 December 2019 consistent, the penalties for dispersions, amounting to 1,9 million euro as at 31 December 2019 and shown net of incentives, have been reclassified within operating costs.

(million of euro)	31/12/2019	31/12/2018
Shareholders' Equity attributable to the parent company	1,560	1,329
Shareholders’ equity including minority interests	1,795	1,329
Net financial debt (*)	4,485	3,814
Net cash flow for the period	124	135
Technical investments	740	523

(*) At December 31, 2018, the net financial debt reported in the Report on Operations does not include liabilities of 21.0 million euros to CPL Concordia, consisting of shareholder loans granted by CPL Concordia to EGN, which were extinguished by Italgas at the same time as the exercise of the put&call option, as they were considered as part of the purchase price adjustment, and financial liabilities for leases pursuant to IFRS 16 for 49.9 million euros (74.7 million euros at December 31, 2019).

TOTAL REVENUES

Total revenues amounted to 1,257.9 million euro in 2019, up 79.8 million euro on 2018 (+6.8%), and referred to regulated revenues from natural gas distribution (1,198.0 million euro) and miscellaneous revenues (59.9 million euro).

Gas distribution regulated revenues were up by 53.0 million euro on the previous period due to the increase in transportation revenues (+92.9 million euro), in part offset by the decrease in other gas distribution regulated revenues (-39.9 million euro). The higher transportation revenues (+92.9 million euro) mainly arise from tariff components for +18.9 million euro (of which 12.0 million euro resulting from the review of the WACC pursuant to Resolution No. 639/2018), for +25.1 million euro from tariff adjustments arising from the reimbursement of costs relating to remote meter reading for the years 2011-2016 (+18.3 million euro) and relating to the previous years (+6.8 million euro), as well as lower default penalties amounting to 0.7 million euro. The effect arising from the change in the scope of consolidation due to new acquisitions at 31 December 2019 amounted to 47.5 million euro (of which 31.1 million euro relating to Toscana Energia).The decrease in other gas distribution regulated revenues (39.9 million euro) is mainly linked to the lower contribution received, pursuant to art. 57 of ARERA Resolution No. 367/14, for replacing traditional meters with smart meters, as provided for in the remote meter reading plan set out in ARERA Resolutions No. 631/13 and No. 554/15, since the company has almost completed the smart meter replacement programme. This contribution at 31 December 2019 amounted to 22.9 million euro, of which 0.3 million euro relating to Toscana Energia (71.5 million euro at 31 December 2018). Compared with 31 December 2018, the company also recorded an increase in revenues of 1.9 million euro for

ARERA incentives, related to safety gas recovery operations during natural gas distribution services, and 6.9 million euro for services supplied to end customers. With reference to Resolution no. 570/2019/R/Gas on the new provisions regarding the recognition of the residual costs of traditional meters belonging to the G6 or lower classes replaced with smart meters, the company did not show the effects in the financial statements of the impacts on the previous years resulting from the change of methodology as it is not felt that the necessary requirements for their recognition are satisfied, while waiting for the Director of the Head of the Energy Infrastructure and Unbundling Department to issue a decision to identify suitable operating solutions to manage the reconciliation between regulatory disposals and accounting disposals as required by Art. 11 of Resolution no. 570/2019/R/gas.

Miscellaneous revenues amounted to 59.9 million euro at the end of 2019 (up by 26.8 million euro on 2018). The increase is mainly due to higher i) capital gains on disposals (10.3 million euro, of which 7.7 million euro linked to the sale of the property in Turin, Via XX Settembre and 2.8 million euro linked to the sale of vehicles), ii) miscellaneous operating refunds (2.0 million euro) mainly linked to tube trailers, and iii) the sale of LPG and propane air to users, due to the change in the scope of consolidation and related to the acquisition of assets in Sardinia (14.0 million euro).

EBIT

The EBIT achieved in 2019 amounted to 516.0 million euro, of which 17.6 million euro relating to Toscana Energia, as an effect of consolidation. Compared to the EBIT for 2018 (453.5 million euro), an increase of 62.5 million euro (+13.8%) was recorded. The increase is mainly due to higher revenues (+79.8 million euro; +6.8%), in part offset by: (i) higher operating costs (+11.8 million euro; equal to 3.5%) and (ii) higher amortisation, depreciation and impairment (+5.5 million euro; equal to 1.4%).

The increase in operating costs was mainly due to the increase in concession-related charges (+8.0 million euro) and net costs related to Energy Efficiency Certificates (+5.5 million). Amortisation, depreciation and impairment increased as a result of investments in the period amounting to 35.4 million euro, as well as higher depreciation and amortisation under IFRS 16 of 15.2 million euro.

NET INCOME

Net income for 2019 was equal to 423.6 million euro, recording an increase of 109.9 million euro (+35.0%) with respect to 2018, as a result of the afore-mentioned increase in EBIT of 62.5 million euro, higher net income on equity investments (+80.8 million euro) arising mainly from the redetermination of the value of the equity investment in Toscana Energia following the acquisition of control according to the “Step Acquisition” under IFRS 3 – “Business Combinations”, in part offset by higher net financial expenses of 22.3 million euro mainly associated with the bond buyback transaction that took place on 11 December 2019. Net income pertaining to the Group, net of non-controlling interests mainly relating to Toscana Energia, amounted to 417.2 million euro.

EQUITY

Group equity at 31 December 2019 (1,560 million euro) is composed of the share capital (1,001 million euro), legal reserve (200 million euro), share premium account (620 million euro) and net income for the year (417 million euro), partly offset by the consolidation reserve (-324 million euro), the reserve for business combination under common control (-350 million euro), and other reserves.

The change in group **equity** over the period (231 million euro) is mostly due to the distribution of the 2018 ordinary dividend (189 million euro), as resolved by the ordinary Shareholders’ Meeting of Italgas S.p.A. on 4 April 2018, more than offset by net income for the year (417 million euro).

NET FINANCIAL DEBT

Net financial debt amounted to 4,485 million euro at 31 December 2019, up by 671 million euro (against 3,814.3 million euro at 31 December 2018), of which 436.6 million euro derive from the consolidation of Toscana Energia.

Financial and bond payables, amounting to 4,671.5 million euro at 31 December 2019 (3,822.4 million euro at 31 December 2018), are denominated in euro and refer mainly to bonds (3,354.3 million euro), loan agreements drawn on European Investment Bank (EIB) funds (873.2 million euro) and due to banks (444.0 million euro). The increase in financial and bond payables, amounting to 849.1 million euro, is related principally (i) to two new bonds, issued in July 2019 and in December 2019, with a nominal amount of 600 million euro and 500 million euro, respectively, partially offset by a reduction related to the bond buyback transaction of two previous bonds for a total nominal amount of 650 million euro; (ii) to the increase in EIB loans as a result of the consolidation of Toscana Energia for an amount of 89.8 million euro, (iii) and to the increase in bank loans of 318.4 million euro.

Cash and cash equivalents at 31 December 2019 amounted to 255.8 million euro, an increase of 247.8 million euro (8.0 million euro at 31 December 2018) and relate to temporary balances resulting from available cash at the end of the year (98.3 million euro), as part of the refinancing of Toscana Energia, used in January 2020 to complete the repayment of payables to third parties and, as regards the rest, cash obtained as a result of the funding carried out during 2019 by Italgas.

Fixed-rate financial liabilities were equal to 4,103.6 million euro and included bond issues (3,354.3 million euro) and three EIB loans: the first with 2037 maturity (359.8 million euro), converted to a fixed-rate loan in January 2018 through an interest rate swap, with 2024 maturity; the second with 2032 maturity (299.8 million euro) converted to a fixed-rate loan in July 2019 through an interest rate swap, with 2029 maturity; and the third (89.8 million euro) relating to the EIB loan of Toscana Energia.

Fixed-rate financial liabilities were up by 831.0 million euro with respect to 31 December 2018, mainly as a result of the issue of the afore-mentioned bonds, the new hedging derivative entered into in July 2019 and the EIB loan of Toscana Energia.

Floating-rate liabilities amounted to 567.9 million euro, up by 18.1 million euro due to the greater use of bank credit lines, partly offset by the EIB loan converted into floating rate through an Interest Rate Swap transaction that took place in July 2019.

As at 31 December 2019, with the expiry of the revolving credit facility of 600 million euro opened in 2016, Italgas had unused committed credit facilities totalling 500 million euro, with maturity in October 2021.

TECHNICAL INVESTMENTS IN THE PERIOD

Technical investments in the period, mostly attributable to concession service agreements, amounted to 740 million euro (522.7 million euro in 2018; +41.6%) and refer to the following types:

- distribution investments (463.0 million euro, +66.2% compared to 2018) and referred mainly to: i) the development and renewal of existing pipeline sections (321.3 million euro, including the replacement of cast iron pipes with hemp and lead couplings totalling 22.5 million euro for 18.2 km) and the digitisation project (39.3 million euro) for a total of 360.6 million euro, ii) the development of new networks (102.4 million euro), mainly relating to investments in Sardinia (82.8 million euro). The distribution investments carried out by Toscana Energia in 2019 amounted to 26.9 million euro, of which 13.2 million euro during the fourth quarter of 2019;
- metering investments (179.5 million euro, +0.7% compared to 2018) referred mainly to the replacement of traditional meters with “smart” meters within the scope of the remote meter reading project. In 2019, the Company installed 2,057.4 thousand new meters, of which 1,780.1 thousand to replace traditional meters and 277.3 thousand to restore smart meters with malfunctions. The metering investments carried out by Toscana Energia in 2019 amounted to 19.5 million euro, of which 5.9 million euro during the fourth quarter of 2019;
- other investments (97.5 million euro, +49.1 million euro compared to 2018) mainly referred to investments in ICT, property and vehicles and included the effects of the adoption of IFRS 16 (39.4 million euro). The other investments carried out by Toscana Energia in 2019 amounted to 11.6 million euro, of which 3.1 million euro during the fourth quarter of 2019.

DIVIDEND PROPOSED

The parent company ITALGAS S.p.A. achieved a profit for the period of 224 million euro (an increase of 30 million euro compared to 2018) mainly due to the dividends (246 million euro) distributed by the subsidiary Italgas Reti S.p.A. and the extraordinary dividend of the associated company Toscana Energia S.p.A.. The Board of Directors will propose to the Shareholders' Meeting the distribution of a total dividend for the financial year 2019 equal to 25.6 cents (23.4 cents in 2018; +9.4%) of euro per share, to be paid from May 20, 2020.

4.4 CONSOLIDATED NET FINANCIAL DEBT

The **consolidated net financial position**, calculated in compliance with ESMA[26]/2015/1415, the guidelines on alternative performance measures that have been applicable since 3 July 2016, for comparison with the position at the end of 2018, was as follows:

[26] European Securities and Markets Authority.

(million of euro)

Items	31/12/2019	31/12/2018
A. Cash (1)	1	1
B. Cash equivalent (1)	4,245	3,404
C. Trading securities	-	-
D. Liquidity (A)+(B)+(C)	**4,246**	**3,405**
E. Current Financial Receivable (2)	**527**	**422**
F. Current Bank debt (5)	768	1,876
G. Current portion of non current debt (3)	2,737	2,931
H. Other current financial debt (2) (5) (6)	2,115	489
I. Current Financial Debt (F)+(G)+(H)	**5,620**	**5,296**
J. Net Current Financial Indebtedness (I)-(E)-(D)	**847**	**1,469**
K. Non current Bank loans (4)	5,722	5,219
L. Bond Issued (4)	19,438	17,399
M. Other non current loans (4) (6) (7)	270	807
N. Non current Financial Indebtedness (K)+(L)+(M)	**25,429**	**23,425**
O. Net Financial Indebtedness (J)+(N)	**26,276**	**24,894**

In the consolidated balance sheet :

(1) Cash and cash equivalents

(2) Current financial assets

(3) Current portion of long-term loans

(4) Loans

(5) Current financial liabilities

(6) Non-current financial assets

(7) Other financial liabilities

Consolidated net debt amounted to €26,676 million (€24,894 million at 31 December 2018[27]), of which 11,923 million euro was attributable to SNAM, 8,259 million euro to TERNA, 4,485 million euro to ITALGAS and approximately €1,612 million to the parent company CDP RETI. It should be noted that the item "Non-current bank borrowings" includes 85.7 million euros relating to a loan granted by the EIB to Toscana Energia, a company consolidated on a line-by-line basis by Italgas. This loan is classified under current liabilities in the financial statements.

Reference should be made to the section "Performance by sector" (of the subsidiaries SNAM, TERNA and ITALGAS) and to the Parent Company's Report on Operations for a more detailed analysis of this item.

[27] At 31 December 2018, the NFI does not consider, with regard to ITALGAS, (i) liabilities of EUR 21.0 million to CPL Concordia, consisting of shareholder loans granted by CPL Concordia to EGN, as already commented in the performance by sector of ITALGAS and (ii) financial payables for leasing pursuant to IFRS 16 of EUR 49.9 million (EUR 74.7 million at 31 December 2019).

5. BUSINESS OUTLOOK FOR 2020

The constant monitoring of the most effective financial structure of the **Parent Company CDP RETI** has been confirmed in 2020, with a view to optimising said structure in terms of duration and exposure to interest rates.

In this regard, in view of the approaching maturity of a 750 million euro term loan in May 2020, in coordination with the relevant CDP structures, CDP Reti has already taken steps to identify the best strategy for refinancing this debt. In this context, in order to benefit from current market conditions, the opportunity emerged of assessing a broader refinancing strategy to define more advantageous financial terms. More specifically, the Company is currently assessing a strategy to refinance its indebtedness, which will involve both the refinancing (i) of the Term Loan undertaken in September 2014, expiring on 20 May 2020, for an amount, as stated, equal to 750 million euro and (ii) the Term Loan undertaken in May 2017, expiring in 2023, for an amount equal to 187.6 million euro. This strategy would mean CDP RETI would assume one single loan for a total amount equalling about 940 million euro. By virtue of the foregoing, the Company could therefore achieve benefits in terms of:

- reduction of financial costs;
- extension of the average duration of outstanding debt;
- management, as the Company has only one loan.

The economic terms and conditions of any new Term Loan and the timing of the operation, which once known will be subject to approval by the Company's Board of Directors, can only be defined once the refinancing operation has been approved in advance by the lending banks and, if necessary, by CDP as the lending institution.

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

From an operational standpoint, in the first half of 2020 the subsidiaries are expected to distribute the balance of the 2019 profit, which will among other things offset the payment of the 2019 balance to the shareholders of CDP RETI, as well as the financial charges associated with the bond issue and existing loans.

With regard to the impacts of Covid-19, the Parent Company CDP RETI believes that in a scenario where the virus does not stop spreading in the short term, this pandemic development could also significantly affect the global outlook for future growth, influencing the general macroeconomic framework and financial markets.

On this point, CDP RETI's Directors deemed that the trend of the emergency along with uncertainties surrounding further developments in terms of impact on the productive, economic and social fabric of the country does not allow - at present - any approximation of a reasonable quantification of the Company's 2020 performance. It is not excluded that the possible continuation of the current health emergency may result in short-term losses in margins, which at present cannot be reliably estimated with the elements available.

In accordance with IAS 10, this circumstance is not deemed to lead to any adjustment to the balances in the financial statements at 31 December 2019, since the fact itself and its consequences occurred after the reporting date, nor a factor of uncertainty as to the Company's ability to continue to operate as a going concern.

Finally, with reference to the Parent Company CDP RETI S.p.A., it should be noted that after 31 December 2019 there was a reduction in stock market values for the subsidiaries SNAM, TERNA and ITALGAS as a consequence of the above-mentioned emergency situation exacerbating (the Covid-19 virus spreading in Italy and worldwide).

As far as **SNAM** is concerned, natural gas is establishing itself globally as an increasingly abundant and competitive energy source and as an immediate and economic solution to decarbonisation, with a forecast of significant growth in gas demand in the coming years, particularly in the Americas and China.

This central role will be strengthened thanks to the rapid development of renewable gases, in particular the biomethane supply chain, which will be able to grow at a fast pace in Italy also thanks to Snam's investments and the numerous initiatives underway around the world to produce hydrogen from renewable sources at increasingly competitive costs.

In Europe and Italy there has been a recovery in demand in recent years associated with a growing need for imports from diversified routes in light of the decline in domestic production and in view of the gradual withdrawal of several countries from coal-based thermoelectric production. In Europe, import requirements grew by 30% from 2014 and are expected to increase further in the medium term, while according to the joint Snam-Terna scenarios published on 30 September 2019 in Italy gas consumption by 2040 is expected to be substantially in line with current levels, with an increasing role for renewable gas.

Snam has planned an increase in investments for the period 2019-2023, bringing them to 6.5 billion euro, about 14% more than the 2018-2022 plan, thanks both to the greater contribution of the new energy transition businesses and to the increase in investments in replacements (1,000 km of grid are planned to be replaced over the period) in order to continue to ensure maximum resilience, flexibility and efficiency of existing infrastructure.

Investments in the SnamTec (Tomorrow's Energy Company) project are expected to amount to 1.4 billion euro, with the aim of accelerating the innovative capacity of Snam and its assets to seize the opportunities offered by the evolution of the energy system.

With the new plan to 2023 Snam intends to strengthen its role in the energy transition by increasing its presence in the biomethane sector, which will play a strategic role in the decarbonisation process and confirming its commitment to sustainable mobility and energy efficiency. Moreover, it wants to be among the pioneers in the use of hydrogen as the clean energy carrier of the future on the energy transition, establishing a business unit with the task of assessing possible pilot projects and contributing to the development of the supply chain.

Environmental, social and governance (ESG) factors are increasingly integrated into company strategies and management. From an environmental point of view, methane emissions are expected to decrease by 40% by 2025 (based on 2016) compared to the 25% target of the previous plan. A 40% reduction in CO2 emissions by 2030 is expected thanks to the start of the conversion of the first six power plants into gas-electric hybrids, which will also contribute to the flexibility of the electricity system and energy efficiency actions on buildings. A 40% reduction in CO2 from electricity consumption is also expected by 2030 thanks to the increased use of photovoltaics.

Snam plans to strengthen the efficiency plan launched in the second half of 2016, with over 65 million euro in savings expected in 2023 based on 2016, compared to 60 million euro in the previous plan. At the cumulative level for the period 2016-2019, 51 million euro have already been allocated, a target previously planned for 2021.

In addition, with the objective of aligning its financing strategy with its sustainability targets and broadening its investor base, in February it issued its first Climate Action Bond setting out the rules for issuing bonds to finance investments in environmental sustainability and in April 2019 it obtained a 3.2 billion euro reduction in the margin of its sustainable loan.

With regard to the impact of the coronavirus on costs, including potential costs, and on expected cash flows, SNAM is currently unable to reliably determine any repercussions on the 2020 results or any implications for subsequent years. Based on the current and most up-to-date information available, and also in view of the nature of SNAM's activities, the company expects the impacts from the above-mentioned circumstances to be limited. SNAM has immediately taken all the necessary steps to ensure the Company's normal operations and Italy's energy security. At present, it is still not possible to assess the possible effects on the development initiatives and on suppliers or customers resulting from the slowdown in activities and from the current macroeconomic situation due to the evolution of the pandemic at international level. This also applies to the SNAM Group's operations outside Italy, particularly in France, Austria, Greece, Albania and the United Kingdom.

As regards **TERNA**, the group will be engaged in carrying out the 2020-2024 Strategic Plan. Having specific regard to the investments of 7.8 billion euro overall to be implemented over the next 5 years, the investments scheduled for 2020 amount to around 1.3 billion euro.

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

With regard to the Regulated Activities, in line with previous years, the Group will focus on supporting the energy transition through innovative services. Specifically, Terna will consolidate its competence-based role, developing high-added-value services for enterprises, and taking advantage of market opportunities for traditional and renewable customers, including in the asset-based area, where opportunities will be pursued in the connectivity and computing area based on the enhancement of its infrastructure. In this context, Brugg Cables will be fully integrated into the Group's activities in 2020.

With regard to the Activities abroad, during 2020 the activities will focus on the management and maintenance of the lines that entered into operation in Brazil and Uruguay and on the implementation of existing projects in Peru and Brazil (Quebec). Scouting will also continue in order to identify further opportunities abroad that can be developed in partnership and that will be selected through assessment processes that guarantee a low risk profile and limited capital absorption.

The initial months of 2020 were characterised by the global COVID-19 health emergency, with a significant impact on markets and the national and worldwide economy. In the current situation, which is constantly evolving and is characterised by increased uncertainty about the possible development of the infection, the global economic outlook remains weak.

The economic impact of the COVID-19 emergency on the Terna Group's operations is currently being determined. However, no significant direct impacts are expected given the strictly regulated nature of the business, whose regulated revenues are determined by specific resolutions of the ARERA, based on the level of investments and the implementation of projects in previous years. Specifically, assuming a gradual recovery of activities in Italy starting from the second quarter of 2020, the Group's results are expected to be in line with the guidance communicated to the markets.

With regard to the financial statement items measured at fair value, all the loans and related hedges subject to hedge accounting do not, due to their nature, have a significant impact on the income statement. On the other hand, with regard to Current Financial Assets, represented by Government Securities recorded at fair value, their value decreased by around 2.5% with respect to 31 December 2019. However, since these securities are recognised as "assets measured at fair value through OCI", this change does not have an immediate impact on the income statement.

The Terna Group has also taken all necessary steps to reduce the contagion, in accordance with the applicable regulations, in order to protect the health and safety of its workers and to safely manage the national electricity system.

ITALGAS continues to pursue its strategic objectives with a focus on the execution of investments, the rationalisation of processes and operating costs and the optimization of the financial structure, paying constant attention to development opportunities.

With reference to technical investments in tangible and intangible assets, in 2020, Italgas will continue to implement its investment plan, with significant investment for the digitization of the network, installation of smart meters and creation of a natural gas infrastructure in the Sardinia region, while carrying out the usual activities to maintain and develop the networks operated.

In line with the strategic priorities of the 2019-2025 Plan, Italgas will take part in local tenders for the concession of the natural gas distribution service, continuing to pursue the objectives of business development and consolidation of the sector, still very fragmented.

In addition, in line with the objectives of the Strategic Plan, after the acquisitions completed in 2019, completion of additional mergers and acquisitions is expected in 2020: these will enable Italgas to strengthen its presence at the local level and the growth of the scope of activity.

Following the spread of the so-called "Coronavirus" or "Covid-19" pandemic, the Company set up a Crisis Committee which, in the light of the measures and indications of the competent Authorities, constantly monitors the evolution of the emergency and adopts the appropriate measures while guaranteeing the continuity and efficiency of the essential and necessary services, with particular regard to emergency services.

In compliance with the emergency measures issued by the Authorities, only activities considered essential are assured and site activities are suspended. The technical personnel assigned to carry out interventions outside the company's premises, where provided for by the provisions in force, have been equipped with the necessary individual protection tools provided to deal with the emergency.

With reference to the impact on revenues, costs, including potential costs, and expected cash flows deriving from the limitations imposed by the Coronavirus Emergency, the Company, to date, is unable to estimate any effects on 2020 and subsequent results.

At present, the impact on development and investment initiatives resulting from the slowdown and suspension of activities, as well as the deterioration of the macroeconomic environment resulting from the spread of the pandemic globally, cannot yet be identified.

With regard to the pool of customers/sales companies and their solvency, the rules for user access to the gas distribution service are established by the ARERA and are regulated in the Network Code. This Code sets out the rules, for each type of service, that govern the duties and responsibilities of the parties providing the services and the instruments for mitigating the risk of non-compliance by customers. In addition, the emergency regulatory measures put in place by the government authorities do not envisage any form of reduction of the contractual responsibilities of the sales companies. In this context, the Company believes that the Coronavirus Emergency will not currently adversely affect the regularity of payments by the gas sales companies.

As regards Italgas' indebtedness and access to credit, the following is represented: (i) the Company has liquidity deposited with primary credit institutions for an amount as at 31.12. 2019 amounting to approximately 256 million euros, (ii) there are limited debt refinancing requirements (the first repayment of a bond is scheduled for 2022), (iii) the bonds issued by Italgas at December 31, 2019 under the Euro Medium Term Notes program do not provide for compliance with covenants relating to financial statement data, (iv) any downgrading of Italgas' rating or of any guarantors beyond predetermined thresholds could result in the issuance of guarantees in favor of certain lenders or an increase in the spreads applied.

To date, the Company does not see factors of uncertainty such that it cannot consider the company capable of continuing to operate as a going concern. These circumstances do not entail any adjustment to the balances in the financial statements at 31 December 2019 in accordance with IAS 10.

6. SIGNIFICANT EVENTS AFTER 31 DECEMBER 2019

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

Below are other events regarding each company.

CDP RETI

With regard to the Parent Company, as mentioned earlier the main events that occurred after the end of the financial year included the collection on 22 January 2020 of SNAM's 2019 interim dividend of about 100 million. See the section “Events subsequent to the reporting date” and the section “IV - Information on risks and the related hedging policies” of the separate financial statements for information on the impact on the Parent Company of Covid-19.

SNAM

As regards the impact on costs, including potential and forecast cash flows, of COVID-19, to date SNAM is unable to reliably determine any repercussions on the 2020 results or any implications for subsequent years. Based on the current and latest information available, also due to the nature of the business carried out by Snam, the company expects limited impact linked to the above circumstances. Snam immediately implemented all the necessary measures to ensure the continuity of normal business operations and the energy security of the country. At present, SNAM is unable to fully assess and quantify any effects on development initiatives and suppliers or customers resulting from the pandemic and the uncertain macroeconomic context. This also applies t assets held by the Snam Group outside Italy, specifically in France, Austria, Greece, Albania and the United Kingdom.

TERNA

As part of the strategy for the development of Non-Regulated Activities, through the subsidiary Terna Energy Solutions S.r.l., 29 February saw the closing of the acquisition of 90% of Brugg Kabel AG (Brugg Group), one of the main European operators in the terrestrial cable sector, active in the design, development, construction, installation and maintenance of electrical cables of all voltages and accessories for high voltage cables. The agreement follows the transaction announced on 20 December by Terna. The acquisition of Brugg Kabel will enable the Terna Group to equip itself with a centre of excellence for research, development and testing in one of the core technologies for the TSO, i.e. terrestrial cables.
The initial months of 2020 were characterised by the global COVID-19 health emergency, with a significant impact on markets and the national and worldwide economy. In the current situation, which is constantly evolving and is characterised by increased uncertainty about the possible development of the infection, the global economic outlook remains weak.

The economic impact of the COVID-19 emergency on the Terna Group’s operations is currently being determined. However, no significant direct impacts are expected given the strictly regulated nature of the business, whose regulated revenues are determined by specific resolutions of the ARERA, based on the level of investments and the implementation of projects in previous years. Specifically, assuming a gradual recovery of activities in Italy starting from the second quarter of 2020, the Group’s results are expected to be in line with the guidance communicated to the markets.

With regard to the financial statement items measured at fair value, all the loans and related hedges subject to hedge accounting do not, due to their nature, have a significant impact on the income statement. On the other hand, with regard to Current Financial Assets, represented by Government Securities recorded at fair value, their value decreased by around 2.5% with respect to 31 December 2019. However, since these securities are recognised as “assets measured at fair value through OCI”, this change does not have an immediate impact on the income statement.

The Terna Group has also taken all necessary steps to reduce the contagion, in accordance with the applicable regulations, in order to protect the health and safety of its workers and to safely manage the national electricity system.

ITALGAS

Legal and Regulatory Framework

On 20 January 2020, Italgas Reti filed a petition before the Veneto Regional Administrative Court for the annulment of the decisions taken by the Assembly of Municipalities within the Belluno Territorial Area, i.e. to revoke Belluno's role of Contracting Entity in the tender for the award of the gas distribution service.[28]

With Resolution no. 9/2020/R/gas of 21 January 2020, the Authority approved transitional provisions regarding the management of commercial relations within the natural gas sector.

With regard to the check started by the Gestore dei Servizi Energetici (Energy Services Operator - GSE) on 55 energy efficiency projects related to the subsidiary Seaside, at the end of 2019 a notice of cancellation of 2 cases was received. Subsequently, with notice dated 17 February 2020 the GSE communicated the outcome of the checks on the remaining 53 projects, highlighting the lack of requirements for the granting of incentives on all the cases under examination. The GSE also made it clear that it will have to recover what was already disbursed. Other events

The tender for the concession of the natural gas distribution service in the "Valle d'Aosta" Territorial Area was officially awarded on 2 January 2020. The Area consists of 74 municipalities, 24 of which are currently methane powered (served by about 350 km of networks), for a total of 20,000 end users and a RAB of over 40 million euro. In the bid presented, Italgas planned investments of approximately 100 million euro.

With petitions having docket no. 6/2020 and 10/2020 respectively Energie Des Alpes S.r.l. and Megareti S.p.A. sought the annulment of the final award to Italgas Reti.

With decision dated 21 January 2020, the Italian Competition Authority concluded the investigation, making the commitments presented by Italgas Reti, Ireti and 2i Rete Gas mandatory, without ascertaining any unlawful conduct on their part and consequently without applying any sanctions. The commitment proposal submitted by Italgas establishes that each time a specific request is received from a contracting entity/granting entity, within 60 days of the request Italgas Reti must provide all the documents relating to the municipalities to which it distributes natural gas under the concession, including the maps as well as the information it has about the networks and plants pertaining to the natural gas distribution service.

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

By Order no. 173/2020 of 17 December 2019, the Campania Regional Administrative Court issued an initial ruling on the petition brought by AQUAMET for the annulment of the call for tenders in the Municipality of Castel San Giorgio, ordering:

- the acquisition of the deed of transfer of the business unit[29];
- the scheduling of a public hearing on 25 March 2020 to continue the proceedings.

Following the spread of the so-called "Coronavirus" or "Covid-19" pandemic, the Company set up a Crisis Committee which, in the light of the measures and indications of the competent Authorities, constantly monitors the evolution of the emergency and adopts the appropriate measures while guaranteeing the continuity and efficiency of the essential and necessary services, with particular regard to emergency services.

In compliance with the emergency measures issued by the Authorities, only activities considered essential are assured and site activities are suspended. The technical personnel assigned to carry out interventions outside the company's premises, where provided for by the provisions in force, have been equipped with the necessary individual protection tools provided to deal with the emergency.

With reference to the impact on revenues, costs, including potential costs, and expected cash flows deriving from the limitations imposed by the Coronavirus Emergency, the Company, to date, is unable to estimate any effects on 2020 and subsequent results.

At present, the impact on development and investment initiatives resulting from the slowdown and suspension of activities, as well as the deterioration of the macroeconomic environment resulting from the spread of the pandemic globally, cannot yet be identified.

With regard to the pool of customers/sales companies and their solvency, the rules for user access to the gas distribution service are established by the ARERA and are regulated in the Network Code. This Code sets out the rules, for each type of service, that govern the duties and responsibilities of the parties providing the services and the instruments for mitigating the risk of non-compliance by customers. In addition, the emergency regulatory measures put in place by the government

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[28] In December 2019, the Municipalities in the Area had asked the Municipality of Belluno, as the Contracting Entity, to suspend the tender in order to make further investigations. Faced with the Contracting Entity's decision to continue with the tender award procedure, won by Italgas Reti, the Municipalities in the Area had therefore decided to revoke Belluno's role of Contracting Entity.

[29] AQUAMET disposed of its business in the sector by selling to Italgas Reti all its concessions, the related networks and plants, the personnel employed, the buildings, vehicles, contracts, assets and liabilities resulting from the balance sheet.

authorities do not envisage any form of reduction of the contractual responsibilities of the sales companies. In this context, the Company believes that the Coronavirus Emergency will not currently adversely affect the regularity of payments by the gas sales companies.

As regards Italgas' indebtedness and access to credit, the following is represented: (i) the Company has liquidity deposited with primary credit institutions for an amount as at 31.12. 2019 amounting to approximately 256 million euros, (ii) there are limited debt refinancing requirements (the first repayment of a bond is scheduled for 2022), (iii) the bonds issued by Italgas at December 31, 2019 under the Euro Medium Term Notes program do not provide for compliance with covenants relating to financial statement data, (iv) any downgrading of Italgas' rating or of any guarantors beyond predetermined thresholds could result in the issuance of guarantees in favor of certain lenders or an increase in the spreads applied.

To date, the Company does not see factors of uncertainty such that it cannot consider the company capable of continuing to operate as a going concern. These circumstances do not entail any adjustment to the balances in the financial statements at 31 December 2019 in accordance with IAS 10.

Corporate transactions

The agreement for the sale of certain non-core industrial activities between Italgas and A2A signed on 7 October 2019 was finalised on 31 January 2020. The transaction was finalised as the relevant conditions precedent were met. In particular, Italgas Reti transferred to A2A Calore & Servizi (A2A Group) the set of district heating activities managed in the municipality of Cologno Monzese; at the same time, Unareti (A2A Group) transferred to Italgas Reti the natural gas distribution activities managed in seven Municipalities belonging to the Alessandria 4 ATEM. As part of the privatisation process initiated by the Greek government, on 20 February 2020 Italgas submitted an expression of interest in the purchase of 100% of the capital of DEPA Infrastructure, a company 65% owned by the HRADF privatisation fund and 35% owned by the Hellenic Petroleum group.

The assets to be sold include over 420,000 re-delivery points and approximately 5,000 km of low pressure networks.

7. OTHER INFORMATION

APPROVAL OF THE FINANCIAL STATEMENTS

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

The use of this term compared to the ordinary 120 days from the end of the financial year, allowed by art. 2364, paragraph 2 of the Italian Civil Code, is justified by the fact that the Company is required to prepare consolidated financial statements.[30]

TRANSACTIONS WITH RELATED PARTIES

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

With regard to CDP RETI in particular, it is worth noting that the transactions carried out during the year cannot be classified either as atypical or as unusual[31], as they are part of the normal business. These transactions are conducted at arm’s length, taking into account the characteristics of the services provided.

During 2019, these transactions mainly concerned relationships with the parent company Cassa Depositi e Prestiti with reference to:

a) an interest-bearing deposit account;
b) an agreement for the custody and administration of securities;
c) service agreements for support activities;
d) derivatives;
e) loans;
f) receivables from fiscal consolidation.

Also, dividends - related to the 2018 net income - were collected from SNAM, TERNA and ITALGAS, the receivable from SNAM for the 2018 interim dividend was collected, as well as (i) the receivable from SNAM for the 2019 interim dividend was recognised and (ii) CDP RETI’s shareholders were paid both the 2018 final dividend and the 2019 interim dividend.

TREASURY SHARES

The **Parent Company** does not hold and has not purchased and/or sold during 2019, shares or stakes of holding companies, either directly or via trust companies or intermediaries.

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

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

Relating to **SNAM**, as at 31 December 2019 the number of treasury shares amounts to 102,412,920 treasury shares, equal to 3.02% of the share capital (168,197,663 shares as at 31 December 2018), for an amount equal to 389 million euro (625 million euro as at 31 December 2018). The decrease of 236 million euro is mainly due to the cancellation of 74,197,663 treasury shares in portfolio, approved by the Snam Shareholders' Meeting on 2 April 2019, partly offset by the repurchase of 8,412,920 shares, in execution of the new buyback programme launched on 16 December 2019. The market value of the treasury shares as at 31 December 2019, calculated by multiplying the number of treasury shares by the official price at the end of the period of 4.686 euro per share, amounts to about 480 million euro.

TERNA does not hold or has not purchased or sold during 2019, not even indirectly, treasury shares of CDP RETI S.p.A. or Cassa depositi e prestiti S.p.A.

ITALGAS does not hold or has not purchased or sold during 2019, not even indirectly, treasury shares of CDP RETI S.p.A. or Cassa depositi e prestiti S.p.A.

PERFORMANCE OF SNAM, TERNA AND ITALGAS SHARES

Key share price data		SNAM		TERNA		ITALGAS	
Items		31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Number of outstanding shares at the end of the period	(million of euro)	3.295	3.301	2.010	2.010	809	809
Official period-end price	(euro)	4,68	3,82	5,97	4,95	5,47	4,99
Market capitalization (1)	(million of euro)	15.432	12.609	11.993	9.959	4.429	4.036
CDP RETI Number of shares	**(million of euro)**	**1.054**	**1.054**	**600**	**600**	**211**	**211**
Book Value for CDP RETI	**(million of euro)**	**3.087**	**3.087**	**1.315**	**1.315**	**621**	**621**
Market capitalization for CDP RETI (2)	**(million of euro)**	**4.935**	**4.025**	**3.580**	**2.973**	**1.154**	**1.051**
Maximum official price per share	(euro)	4,82	4,14	6,01	5,15	6,23	5,35
Minimum official price per share	(euro)	3,89	3,46	5,03	4,44	5,01	4,30
Average official price per share	(euro)	4,47	3,75	5,61	4,73	5,64	4,80
Official price at period end (3)	(euro)	4,68	3,82	5,97	4,95	5,47	4,99
Closing price at period end (4)	(euro)	4,69	3,82	5,95	4,95	5,44	5,00

(1) Product of the number of outstanding shares (price number) for the official price per share at period end.

(2) Product of CDP RETI number of shares for the average official price per share.

(3) Average price, weighted for the relevant quantities, of all contracts concluded during the day.

(4) Price at which contracts are concluded at the closing auction.

SNAM shares closed at an official price of 4.68 euro at the end of 2019, up 23% on the end of the previous year (3.82 euro) and hitting an all time high of 4.82 euro on 19 June 2019 and an historical low of 3.89 euro on 2 January 2019. The closing price was 4.69 euro.

In 2019, a total of around 2.4 billion shares were traded on the equities market of Borsa Italiana, with a daily average of 9.7 million shares traded.

Market capitalisation stood at 15,432 million at 31 December 2019.

TERNA shares closed at an official price of 5.97 euro at the end of 2019, up 20% on the end of the previous year (4.95 euro) and hitting an all time high of 6.01 euro on 21 June 2019 and an historical low of 5.03 euro on 2 January 2019. The closing price was 5.95 euro.

In 2019, a total of around 1.6 billion shares were traded on the equities market of Borsa Italiana, with a daily average of 6.3 million shares traded.

Market capitalisation stood at 11,993 million at 31 December 2019.

ITALGAS shares closed at an official price of 5.47 euro at the end of 2019, up 10% on the end of the previous year (4.99 euro) and hitting an all time high of 6.23 euro on 15 July 2019 and an historical low of 5.01 euro on 2 January 2019. The closing price was 5.44 euro.

In 2019, a total of around 0.5 billion shares were traded on the equities market of Borsa Italiana, with a daily average of 2.1 million shares traded.

Market capitalisation stood at 4,429 million at 31 December 2019.

RESEARCH AND DEVELOPMENT ACTIVITIES

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

CONSOLIDATED NON FINANCIAL DISCLOSURE FOR 2019

Italian Legislative Decree no. 254 of 30 December 2016, implementing Directive 2014/95/EU, introduced in Italian legislation the obligation for certain entities[32] to draw up a non-financial statement (NFS) each financial year. The NFS contains key data and information regarding the environment, social issues, staff, human rights and the fight against active and passive corruption.

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

SECONDARY OFFICES

Pursuant to art. 2428, paragraph four of the Italian Civil Code, it is confirmed that, since 1 July 2015, the Parent Company CDP RETI has a secondary office in Via Versilia, 2 (00187 Rome).

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

HUMAN RESOURCES

During 2019, the Company finalised the set of Corporate Policies, drawing up new internal procedures defined for specific areas of responsibility, and formalising new Service Agreements with the Parent Company.

With regard to health and safety, together with other companies in the CDP Group with employees at the building located in Via Versilia 2, CDP RETI adhered to the Integrated Emergency and Evacuation Plan (a safety and workplace fire risk assessment plan) for that building.

There were no workplace injuries in 2019.

With regard to headcount, CDP Reti had 3 resources at 31 December 2019. The Company has adopted National Collective Bargaining Agreements applicable to credit, financial and operating companies both for middle managers and personnel in professional areas and for executives.

The average age of the personnel is 46 years, and they are predominantly male.

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

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

ORGANISATIONAL MODEL PURSUANT TO LEGISLATIVE DECREE NO. 231/01

CDP RETI has adopted an "Organisation, Management and Control Model" pursuant to Legislative Decree no. 231/2001, which identifies the company areas and operations that are most exposed to the risk of criminal activity as defined in the legislative decree, along with the principles, rules and regulations for the control system introduced to supervise significant operating activities. This document is the result of an assessment of CDP RETI's corporate structure and operations and is primarily intended to provide the Company with a Model that exempts it from administrative liability should top management, employees or persons acting on behalf of CDP RETI and in its name commit predicate offences.

CDP RETI's organisational model consists of a:

General Section which, after referring to the principles of Legislative Decree no. 231, describes the essential components of the Model, with particular regard to: i) CDP RETI 's Governance Model and Organisational Structure; ii) the Supervisory Body; iii) measures to be taken in the event of non-compliance with the provisions of the Model (disciplinary system); and iv) staff training and dissemination of the Model within and outside the company. The General Section also consists of the Annex "List of the administrative crimes and offences envisaged by Legislative Decree no. 231/2001", which provides brief details of the administrative crimes and offences whose commission results, when the conditions envisaged by the Decree apply, in the administrative liability of the Entity pursuant to and for the purposes of the aforementioned regulations.

Special Section, which i) identifies the relevant activities, for the different types of crimes, during whose performance there is a theoretically potential risk of the commission of crimes; ii) describes, purely for educational purposes and by way of example, the methods of commission of the crimes; and iii) indicates the principles of the Internal Control System aimed at preventing the commission of crimes.

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

These documents were revised in order to:

implement the new whistleblowing regulations, introduced in Law no. 179/2017, including the operation of the IT platform for the management of whistleblowing reports;

incorporate the updated regulatory framework on the prevention of risk of crime of the collective entity.

A review of the entire 231 Model will be carried out in 2020 in order to incorporate: (i) recent organisational and process changes affecting CDP RETI; (ii) the latest regulatory changes regarding the administrative liability of entities; (iii) the results of the follow-up to the action plan.

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

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

The Supervisory Body is tasked with overseeing the functioning and observance of the Model and with updating its content and assisting the competent corporate bodies in correctly and effectively implementing the Model. The functioning of the SB is established in the specific Rules that it has drawn up for itself.

For its secretarial and operational activities, the SB is supported by the Internal Audit Function outsourced to the Parent Company based on a specific service agreement.

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

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

The CDP RETI Group is aware that financial reporting plays a central role in establishing and maintaining positive relationships between the Company and its stakeholders. The internal control system, which oversees the company’s reporting processes, is set up in such a way as to ensure that reporting is reliable[33], accurate[34], dependable[35] and timely regarding Financial Reporting and the ability of relevant company processes on this point to produce this information in compliance with the applicable accounting standards.

The company’s control system is structured to comply with the model adopted in the CoSO Report[36], an international reference model for the establishment, update, analysis and assessment of the internal control system. This model requires the achievement of the business objectives as a result of the integrated presence and correct operation of the following elements that, based on their characteristics, operate at organisational unit level and/or operating/administrative process level:

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

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

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

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

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

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

The process level analysis is structured as follows:

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

33 Reliability (of reporting): correct reporting drafted in compliance with the generally accepted accounting standards, which meets the requirements of applicable laws and regulations.

34 Accuracy (of reporting): reporting with no errors.

35 Dependability (of reporting): correct and complete reporting based on which investors may make informed investment decisions.

36 Committee of Sponsoring Organizations of the Treadway Commission.

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

The monitoring phase in CDP RETI is structured as follows:

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

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

The residual risk is measured based on the following formula:

RI – OA = RR

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

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

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

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

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

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

INDEPENDENT AUDITORS

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

The independent auditors issue an opinion on the Parent company and consolidated financial statements, and on the half-yearly financial report. The independent auditors are appointed by the Shareholders' Meeting in ordinary session, acting on a reasoned proposal put forward by the control body.

The current independent auditors were appointed in execution of a resolution of the June 2015 Shareholders' Meeting, which engaged that firm for the audit and the accounting review of the financial statements for the 2015-2023 period. The Shareholders' Meeting, which met in ordinary session on 10 May 2019, then approved the mutually agreed termination of the auditing agreement between CDP RETI and PwC, in accordance with the agreement for the mutually agreed termination signed by the parties and with effect from the date of approving the financial statements at 31 December 2019. In the same session on 10 May 2019, the Meeting also awarded the audit engagement for the period 2020-2028 to Deloitte & Touche Spa.

The award took place following a selection procedure pursuant to Legislative Decree no. 50 of 18 April 2016 (Procurement Code) and with reference to the entire CDP Group (Single Independent Auditor Tender). In this regard, in fact, it should be noted that, as the expiry of its engagement approaches, already during 2018, the Parent Company CDP launched preparatory activities to proceed with the selection procedures to identify the new independent auditor. In this context, CDP assessed the potential need for structuring, with the involvement of the audit committees (i.e. Board of Statutory Auditors) of CDP and the subsidiaries included in the "CDP Group" (for the limited purposes of granting the audit assignment, this means all the subsidiaries included in CDP's scope of consolidation), a single tender procedure (the "Single Procedure") aiming, where possible and considering the interest of each of the subsidiaries, to identify a single auditor for the CDP Group.

FINANCIAL REPORTING MANAGER

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

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

Article 19.13 CDP RETI Articles of Association:

Subject to the prior opinion of the Board of Statutory Auditors, the Board of Directors appoints the Financial Reporting Manager for a period of time not shorter than the term of office of the Board and not longer than six financial years, to perform the duties assigned to such manager under Article 154-bis of Legislative Decree no. 58 of 24 February 1998. The Financial Reporting Manager must meet the integrity requirements established for the directors and cannot hold the offices indicated in Article 15.11 of the Articles of Association37. The Financial Reporting Manager shall be chosen in accordance with criteria of professional experience and competence from among the persons who have global experience of at least three years in the administrative area at consulting firms or companies or professional firms. The Financial Reporting Manager can be replaced by the Board of Directors only for due cause, having obtained the prior opinion of the Board of Statutory Auditors. The appointment of the Financial Reporting Manager shall lapse if such manager does not continue to meet the requirements for the office. The Board of Directors shall declare such lapse within thirty days from the date on which they become aware of the supervening failure to meet the requirements.

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

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

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

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

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

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

INSIDER REGISTER

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

The Register - which has been established by CDP RETI as an issuer of debt securities traded on regulated markets - is divided into separate sections, one for each piece of inside information, and a new section is added to the Register each time a new piece of inside information is identified. Each section of the Register only reports the details of the people with access to the inside information contemplated in the section. There is also an additional section in the Register which contains the details of people who always have access to all Inside Information (“Permanent Access Holders”). The

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

Register is computerised and password protected, and the notes pertaining to each section are in chronological order. Each note is tracked and cannot be changed.

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

CODE OF ETHICS

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

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

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

INTERNAL CONTROL SYSTEM

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

More specifically, third level controls are implemented by the Internal Audit function. Internal Audit is a permanent, independent and objective function that pursues the continuous improvement of the effectiveness and efficiency of CDP RETI's governance, risk management and control processes, by means of professional and systematic supervision.

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

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

The Company's Board of Directors, as part of the outsourcing to the Parent Company of some auxiliary services (service agreements), including Internal Auditing, starting from 20 March 2017 appointed a Chief Audit Officer of CDP RETI, a resource belonging to the Chief Audit Officer Department of the Parent Company CDP S.p.A. ("CDP"). The Chief Audit Officer, which is part of the organisational structure of CDP RETI S.p.A. and is not responsible for any operational area, has direct access to all the company information, documents and systems required to perform the task, including those held by the outsourcer, and carries out the audit activities in complete independence according to the instructions of the Board of Directors.

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

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

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

The Internal Audit function reports on a half-yearly basis to the Board of Directors and the Board of Statutory Auditors on the work carried out by CDP RETI. On an annual basis, the Internal Audit function also presents its assessment of the overall internal control system.

This function also supports the Supervisory Body in the updating of the Organisational Model pursuant to Legislative Decree no. 231/01, performing the required controls requested by the Body as well as the technical and administrative clerical activities.

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

SHAREHOLDERS' AGREEMENT IN RESPECT OF ITALGAS SHARES

On 20 October 2016, CDP RETI S.p.A. ("CDP RETI"), CDP Gas S.r.l. ("CDP GAS") and SNAM S.p.A. ("SNAM") signed a shareholders' agreement ("Italgas Shareholders' Agreement") in respect of all the shares which each of them would hold in Italgas S.p.A. ("ITALGAS") subsequent to and starting from the effective date of the partial and proportional spin-off of SNAM into ITALGAS and the concurrent listing of ITALGAS shares on the stock exchange, i.e. from 7 November 2016 (Effective Date of the Spin-off). The Italgas Shareholders' Agreement, which came into effect on the Effective Date of the Spin-off, governs, inter alia: the exercise of voting rights conferred by shares tied to the shareholders' agreement; (ii) the set-up of an advisory committee; (iii) the obligations and the methods of presentation of joint lists for the appointment of the Company's Board of Directors; and (iv) restrictions on the sale and purchase of ITALGAS shares.

The merger by incorporation of CDP GAS into CDP became effective on 1 May 2017. As of that date, CDP became the owner of the ITALGAS shares[38] previously owned by CDP GAS and replaced CDP GAS in the Italgas Shareholders' Agreement for all intents and purposes.

On 19 May 2017, CDP transferred to CDP RETI, amongst others, the entire equity investment held by CDP in ITALGAS[39] as a result of the aforesaid merger, equal to 7,840,127 ordinary shares, representing 0.969% of the Italgas share capital with voting rights. As a result of the foregoing transfer: (i) the total number of ITALGAS shares held by CDP RETI - and locked into the Italgas Shareholders' Agreement by CDP RETI - increased to 210,738,424 ordinary shares, representing 26.045% of the Italgas share capital with voting rights, and (ii) CDP ceased to be a party to the Italgas Shareholders' Agreement, which continues in full force and effect only between CDP RETI and SNAM.

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

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

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

i) establishment of a Consultation Committee composed of five members, four of whom represent CDP RETI (three appointed by CDP and one by State Grid Europe Ltd, in short "SGEL") and one representing SNAM. The Consultation Committee will decide by simple majority on the exercise of voting rights relating to ITALGAS shares owned by the parties to the Italgas Shareholders' Agreement. The parties to the Italgas Shareholders' Agreement will cast the votes conferred by their shares in ITALGAS as decided by the Consultation Committee, without prejudice to SNAM's rights in respect of Reserved Matters (as defined below);
ii) in connection with certain extraordinary resolutions of ITALGAS (the "Reserved Matters")[40], if the Consultation Committee passes resolutions that have been voted against by the representative designated by SNAM and the shareholders' meeting of ITALGAS approves the related Reserved Matter, SNAM will be able: (i) to sell its entire equity investment in ITALGAS to potential third-party buyers (in this case, CDP RETI will have the right of first refusal on the purchase of the equity investment and the right of non-discretionary approval of the third-party buyer, it being understood that the third-party buyer[41] will be required to replace SNAM in the Italgas Shareholders' Agreement) and (ii) if the equity investment is not sold within 12 months, to withdraw from the Italgas Shareholders' Agreement due to its dissolution;

[38] As described in more detail in the following paragraph, the effects of said transaction apply also to the SNAM shares owned by CDP GAS.
[39] As described in more detail in the following paragraph, the effects of said transaction apply also to the SNAM shares owned by CDP.
[40] The above-mentioned Reserved Matters will be: (i) capital increases with exclusion or limitation of the option right of shareholders for a total amount exceeding 20% of the shareholders' equity of ITALGAS; (ii) mergers or demergers for a total amount exceeding 20% of the shareholders' equity of ITALGAS; and (iii) wind-up or liquidation of ITALGAS.
[41] CDP RETI will be able to deny its approval solely for one of the following reasons:
a) the third-party buyer is a direct competitor of ITALGAS and/or Italgas Reti S.p.A. in Italy; and/or
b) the third-party buyer fails to provide adequate documentation and evidence of compliance with the unbundling laws in force from time to time; and/or
c) the third-party buyer comes from a country against which there are restrictions on free exchange adopted by the competent international organizations; and/or
d) the purchase of the SNAM equity investment by the third-party buyer is in violation of the applicable laws; and/or
e) the third-party buyer does not meet certain size requirements; and/or
f) the conclusion of the potential transaction with the third-party buyer or the third-party buyer's joining of the Shareholders' Agreement generates an obligation for the third-party buyer, singly or jointly with CDP RETI, to make a mandatory initial public offering on the remaining ITALGAS shares.

iii) SNAM shall not be able to increase or dispose of its equity investment in ITALGAS (the “SNAM Equity Investment”), except for the transfer, under certain conditions, of the entire equity investment to entities controlled by SNAM. SNAM may, at any time, sell its equity investment only in its entirety and in compliance with the following rules: (i) CDP RETI shall have the right of first refusal on the purchase of equity investment and the right of non-discretionary approval on the third-party buyer[42], and (ii) the third-party buyer must replace SNAM in the Italgas Shareholders’ Agreement on the same terms and conditions as SNAM; and

iv) CDP RETI and other parties associated with it shall only be able to purchase additional shares or other financial instruments of ITALGAS if: (i) these shares are added to the Italgas Shareholders’ Agreement, and (ii) these purchases do not result in the exceeding of the thresholds set by the rules on mandatory public tender offers. In addition, CDP RETI shall not be able to sell the ITALGAS shares that it holds, if the total equity investment attributable to the Italgas Shareholders’ Agreement falls below 30%.

The Italgas Shareholders’ Agreement also establishes that CDP RETI and SNAM are required to submit a joint list for the appointment of ITALGAS’ Board of Directors in order to ensure that SNAM nominates one candidate and CDP RETI nominates the remaining candidates (one of whom will be nominated by SGEL), including the CEO and the Chairman, if that list comes first in terms of number of votes obtained in the ITALGAS Shareholders’ Meeting.

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

The governance of ITALGAS envisages that: (i) the Board of Directors, which will hold office for a period of three years from the appointment (including the year of the appointment) is composed of nine members, of whom eight, including the Chairman and CEO, are nominated by CDP RETI (one of which nominated by SGEL) and one director nominated by SNAM. The Board of Directors is composed of four independent directors, whereas (ii) after its first renewal, the Board of Directors shall be composed of nine members, of whom seven drawn from the first list by number of votes and two drawn from the minority lists, using a proportional mechanism (quotients).

The Italgas Shareholders’ Agreement has a term of three years, renewable on expiry for an additional three years if SNAM or CDP RETI do not provide notification 12 months in advance of their intention not to renew the agreement. If SNAM provides notification of its intention not to renew, CDP RETI may exercise a purchase option on the SNAM Equity Investment at fair market value within 9 (nine) months from notification of withdrawal from the Italgas Shareholders’ Agreement.

For further details, see the key information published on the ITALGAS website in relation to the Italgas Shareholders’ Agreement.

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

CDP, SGEL and State Grid International Development Limited[43] (below, “SGID”) were parties to a shareholders’ agreement entered into when a stake of 35% in CDP RETI was transferred to SGEL on 27 November 2014 (“SGEL Shareholders’ Agreement”). CDP and SGEL transferred their stakes in the share capital of CDP RETI to the SGEL Shareholders’ Agreement, representing a total of 94.10% of the share capital. CDP RETI is a holding company that, at the signing date of the SGEL Shareholders’ Agreement, owned equity investments in SNAM and Terna S.p.A. (“TERNA”).

The SGEL Shareholders’ Agreement provides SGEL with governance rights in order to protect its investment in CDP RETI. In detail, it contains provisions on the exercise of voting rights and clauses restricting the transfer of shares pursuant to article 122, paragraph 1 and paragraph 5, letter b) of the Consolidated Law on Finance, as well as provisions relating to the governance of CDP RETI, SNAM, TERNA and ITALGAS.

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

A) On 19 December 2014, CDP completed the transfer to SNAM of the equity investment in TRANS AUSTRIA GASLEITUNG GmbH (“TAG”), which it held via CDP GAS (“CDP GAS”). The transaction was linked to an increase in the share capital of SNAM reserved to CDP GAS, which was paid for by means of the transfer of the aforementioned equity investment by CDP GAS (which consequently became the holder of 119,000,000.00 ordinary shares of SNAM, equal to a stake of 3.4% in SNAM’s share capital). As a result, CDP RETI’s stake in SNAM, albeit consisting of

[42] See previous note.
[43] State Grid International Development Limited owns the entire capital of SGEL.

1,014,491,489 shares, was no longer equivalent to 30% of SNAM's share capital but represented around 28.98% as of 19 December 2014.

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

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

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

- pursuant to and with effect from the date of transfer to CDP RETI of CDP's equity investment in ITALGAS, equal to 7,840,127 ordinary shares (representing 0.969% of the ITALGAS share capital with voting rights), the total number of ITALGAS shares owned by CDP RETI and locked into the SGEL Shareholders' Agreement by it - and, hence, the total number of ITALGAS shares tied to the SGEL Shareholders' Agreement - has increased to a total of 210,738,424 ordinary shares of ITALGAS, representing 26.045% of the ITALGAS share capital with voting rights; and
- pursuant to and with effect from the date of transfer to CDP RETI of CDP's equity investment in SNAM, equal to 39,200,638 ordinary shares (representing 1.120% of the Italgas share capital with voting rights), the total number of SNAM shares owned by CDP RETI and locked into the SGEL Shareholders' Agreement by it - and, hence, the total number of SNAM shares tied to the SGEL Shareholders' Agreement - has increased to a total of 1,053,692,127 ordinary shares of SNAM, representing 30.100% of the SNAM share capital with voting rights.
- The number of TERNA shares tied to the SGEL Shareholders' Agreement has not changed and is equal to 599,999,999 ordinary shares, held by CDP RETI, representing 29.851% of the TERNA share capital with voting rights.

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

For further details, see the key information published in relation to the SGEL Shareholders' Agreement on the websites of the investees SNAM, TERNA and ITALGAS.

02

2019 Consolidated Financial Statements

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements at 31 December 2019 have been prepared in compliance with the International Financial Reporting Standards (IFRS) and consist of:

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

The Notes to the consolidated financial statements consist of:

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

The following are also included:

- Annexes
- Certification pursuant to Article 154-bis of Legislative Decree no. 58/98
- Independent Auditor's Report

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

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CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

CONSOLIDATED BALANCE SHEET

ASSETS

(thousands of euro)

Assets items	Notes	31/12/2019	*of wich from related parties*	31/12/2018	*of wich from related parties*
NON-CURRENT ASSETS					
Property, plant and equipment	1	35,547,271		34,734,713	
Inventories - compulsory stock	2	362,713		362,713	
Intangible assets	3	9,927,040		8,596,622	
Equity investments	4	1,705,720		1,878,287	
Non-current financial assets	5	503,012		269,846	9,659
Deferred tax assets	6	843,149		739,822	
Other non-current assets	7	171,265		183,553	
Total non-current assets		**49,060,170**		**46,765,556**	**9,659**
Non-current assets held for sale	8	**12,007**		**11,583**	
CURRENT ASSETS					
Current financial assets	9	524,473	6,887	426,697	8,388
Income tax receivables	10	40,666		37,557	
Trade receivables	11	3,070,871	939,672	2,927,094	1,013,946
Inventories	12	214,809		198,514	
Other current assets	13	331,188	49,955	266,504	32,598
Cash and cash equivalents	14	4,246,420	10,114	3,405,001	24
Total current assets		**8,428,427**	**1,006,628**	**7,261,367**	**1,054,956**
TOTAL ASSETS		**57,500,604**	**1,006,628**	**54,038,506**	**1,064,615**

The figures as at 31 December 2018 have been restated in accordance with paragraph "I.1.2 General preparation principles - Restatement of comparative figures as at 31 December 2018".

LIABILITIES AND EQUITY

(thousands of euro)

Liabilities and equity items	Notes	31/12/2019	*of wich from related parties*	31/12/2018	*of wich from related parties*
EQUITY	15				
Share capital		162		162	
Issue premium		1,315,158		1,315,158	
Retained earnings		703,315		568,249	
Other reserves		2,029,921		2,029,921	
Valuation reserves		(87,602)		(40,590)	
Interim dividend		(267,004)		(255,938)	
Net income for the year (+/-)		568,405		516,741	
Group equity	15 a	**4,262,355**		**4,133,703**	
Non-controlling interests	15 b	11,149,351		10,691,730	
Total Equity		**15,411,706**		**14,825,433**	
NON-CURRENT LIABILITIES					
Provisions for risks and charges	16	1,092,603		1,093,676	
Provisions for employee benefits	17	223,580		241,670	
Loans	18	25,228,253	421,271	23,366,616	758,445
Other non-current financial liabilities	19	231,936	2,651	100,490	8,720
Deferred tax liabilities	20	2,699,395		2,739,583	
Other non-current liabilities	21	1,550,926		1,235,249	
Total non-current liabilities		**31,026,693**	**423,922**	**28,777,284**	**767,165**
Liabilities directly associated with non-current assets held for sale	22				
CURRENT LIABILITIES					
Short-term loans and current portion of long-term loans	23	2,841,065	341,608	3,041,910	504,158
Trade payables	24	3,456,269	256,336	3,393,085	282,234
Income tax liabilities	25	39,710		22,785	
Current financial liabilities	26	2,880,190	3,787	2,260,152	497
Other current liabilities	27	1,844,971	21,420	1,717,857	14,286
Total current liabilities		**11,062,205**	**623,151**	**10,435,789**	**801,175**
TOTAL LIABILITIES AND EQUITY		**57,500,604**	**1,047,073**	**54,038,506**	**1,568,340**

The figures as at 31 December 2018 have been restated in accordance with paragraph "I.1.2 General preparation principles - Restatement of comparative figures as at 31 December 2018".

CONSOLIDATED INCOME STATEMENT

(thousands of euro)

Consolidated income statement items	Notes	31/12/2019	*of wich from related parties*	31/12/2018	*of wich from related parties*
Revenues					
Revenues from sales and services	28	6,743,389	4,015,457	6,394,879	3,955,816
Other revenues and income	29	157,137	16,547	129,598	44,470
Total revenues		**6,900,526**	**4,032,004**	**6,524,477**	**4,000,286**
Operating Costs					
Raw materials and consumables used	30	(347,953)	(39,452)	(386,400)	(53,128)
Services	31	(919,894)	(68,859)	(761,300)	(52,581)
Staff costs	32	(691,086)	(2,979)	(694,435)	(2,927)
Amortisation, depreciation and impairment of property, plant and equipment and intangible assets	33	(2,017,862)		(1,860,535)	
Net write-downs (write-backs) of trade receivables and other receivables	33 a	35,645		4,875	
Other operating costs	34	(114,897)	(3,085)	(150,730)	(21,236)
Total costs		**(4,056,047)**	**(114,375)**	**(3,848,525)**	**(129,872)**
Operating profit		**2,844,479**	**3,917,629**	**2,675,952**	**3,870,414**
Financial income (expense)					
Financial income	35	31,410		22,788	8,062
Borrowing expenses	36	(411,355)	(15,685)	(429,272)	(16,254)
Portion of income (expenses) from equity investments valued with the equity method	37	182,436		136,768	
Other income (expenses) from equity investments	37 a				
Total financial income (expense)		**(197,509)**	**(15,685)**	**(269,716)**	**(8,192)**
Income before taxes		**2,646,970**	**3,901,944**	**2,406,236**	**3,862,222**
Taxes for the year	38	(731,403)		(673,344)	
Net income (loss) from continuous operations		**1,915,567**	**3,901,944**	**1,732,892**	**3,862,222**
Net income (loss) from discontinued operations	39	(3,876)			
Net income (loss) for the year		**1,911,691**	**3,901,944**	**1,732,892**	**3,862,222**
- pertaining to Shareholders of the Parent Company		*568,405*		*516,741*	
- pertaining to non-controlling interests		*1,343,286*		*1,216,151*	

The figures as at 30 June 2018 have been restated in accordance with paragraph "I.1.2 General preparation principles - Restatement of comparative figures as at 31 December 2018 and 30 June 2018".

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Items/Figures	Notes	31/12/2019	31/12/2018
1 - Net income (loss) for the year		**1,911,691**	**1,732,892**
Other comprehensive income net of taxes not transferred to income statement			
2 - Financial assets (equity securities) measured at fair value through other comprehensive income		3,973	1,311
3 - Hedging of equity securities designated at fair value through other comprehensive income			
4 - Financial liabilities designated at fair value through profit or loss (change in the entity's own credit risk)			
5 - Property, plant and equipment			
6 - Intangible assets			
7 - Defined benefit plans		(4,845)	4,080
8 - Non-current assets held for sale			
9 - Share of valuation reserves of equity investments accounted for using equity method		(756)	609
10 - Revaluation Laws			
Other comprehensive income net of taxes transferred to income statement			
11 - Financial assets (other than equity securities) measured at fair value through other comprehensive income		624	1,168
12 - Hedging instruments (elemented not designated)			
13 - Hedging of foreign investments			
14 - Exchange rate differences		5,990	(5,700)
15 - Cash flow hedges		(140,371)	(59,203)
16 - Non-current assets held for sale			
17 - Share of valuation reserves of equity investments accounted for using equity method		(21,986)	
18 - Revaluation Laws			
19 - Total other comprehensive income net of taxes		**(157,371)**	**(57,735)**
20 - Comprehensive income (item 1+19)		**1,754,320**	**1,675,157**
21 - Consolidated comprehensive income pertaining to non-controlling interests		1,232,740	1,176,192
22 - Consolidated comprehensive income pertaining to Shareholders of the Parent Company		**521,580**	**498,965**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME: INCOME PERTAINING TO THE PARENT COMPANY AND NON-CONTROLLING INTERESTS

(thousands of euro) Items/Figures	Notes	31/12/2019 Pertaining to shareholders of the parent company	31/12/2019 Pertaining to non-controlling interests	31/12/2019 Total	31/12/2018 Pertaining to shareholders of the parent company	31/12/2018 Pertaining to non-controlling interests	31/12/2018 Total
1 - Net income (loss) for the year		**568,405**	**1,343,286**	**1,911,691**	**516,741**	**1,216,151**	**1,732,892**
Other comprehensive income net of taxes not transferred to income statement							
2 - Financial assets (equity securities) measured at fair value through other comprehensive income		1,272	2,701	3,973	418	893	1,311
3 - Hedging of equity securities designated at fair value through other comprehensive income							
4 - Financial liabilities designated at fair value through profit or loss (change in the entity's own credit risk)							
5 - Property, plant and equipment							
6 - Intangible assets							
7 - Defined benefit plans		(1,466)	(3,379)	(4,845)	1,244	2,836	4,080
8 - Non-current assets held for sale							
9 - Share of valuation reserves of equity investments accounted for using equity method		(242)	(514)	(756)	194	415	609
10 - Revaluation Laws							
Other comprehensive income net of taxes transferred to income statement							
11 - Financial assets (other than equity securities) measured at fair value through other comprehensive income		186	438	624	349	819	1,168
12 - Hedging instruments (elemented not designated)							
13 - Hedging of foreign investments							
14 - Exchange rate differences		1,930	4,060	5,990	(1,720)	(3,980)	(5,700)
15 - Cash flow hedges		(41,469)	(98,902)	(140,371)	(18,261)	(40,942)	(59,203)
16 - Non-current assets held for sale							
17 - Share of valuation reserves of equity investments accounted for using equity method		(7,036)	(14,950)	(21,986)			
18 - Revaluation Laws							
19 - Total other comprehensive income net of taxes		**(46,825)**	**(110,546)**	**(157,371)**	**(17,776)**	**(39,959)**	**(57,735)**
20 - Consolidated comprehensive income (item 1+19)		**521,580**	**1,232,740**	**1,754,320**	**498,965**	**1,176,192**	**1,675,157**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AT 31 DECEMBER 2019

(thousands of euro) Items/Figures	Notes	Balance at 31/12/2018	Change in re-opening balances	Balance at 01/01/2019	Allocation of net income for previous year		Changes for the period										Shareholders' Equity at 31/12/2019	Group's Equity at 31/12/2019	Equity non-controlling interests at 31/12/2019
							Equity transactions												
					Reserves	Dividends and other allocations	Changes in reserves	Issues of new shares	Purchase of own shares	Advances on dividends	Special dividend distribution	Changes in equity instruments	Derivatives on own shares	Stock options	Change in equity interests	Comprehensive income for 2019			
Share capital		2,870,066		2,870,066				3,015							(2,343)		2,870,738	162	2,870,576
Share premium reserve		2,456,608		2,456,608			(187,643)								(678)		2,268,287	1,315,158	953,129
Reserves		8,881,739		8,881,739	376,513		4,927							707	237,262		9,501,148	2,733,236	6,767,912
Valuation reserves		(119,762)		(119,762)			(328)								(154)	(157,371)	(277,615)	(87,602)	(190,013)
Equity instruments																			
Advances on dividends		(570,271)		(570,271)	570,271					(598,404)							(598,404)	(267,004)	(331,400)
Treasury shares		(425,839)		(425,839)					161,700								(264,139)		(264,139)
Net income (loss) for the year		1,732,892		1,732,892	(946,784)	(786,108)										1,911,691	1,911,691	568,405	1,343,286
Total Equity	**15**	**14,825,433**		**14,825,433**		**(786,108)**	**(183,044)**	**3,015**	**161,700**	**(598,404)**				**707**	**234,087**	**1,754,320**	**15,411,706**	**4,262,355**	**11,149,351**
Group equity	**15a**	**4,133,703**		**4,133,703**		**(131,622)**	**(3,757)**			**(267,004)**					**9,455**	**521,580**	**4,262,355**	**4,262,355**	
Equity non-controlling interests	**15b**	**10,691,730**		**10,691,730**		**(654,486)**	**(179,287)**	**3,015**	**161,700**	**(331,400)**				**707**	**224,632**	**1,232,740**	**11,149,351**		**11,149,351**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AT 31 DECEMBER 2018

(thousands of euro) Items/Figures	Balance at 31/12/2017	Change in re-opening balances	Balance at 01/01/2018	Allocation of net income for previous year		Changes for the period										Shareholders' Equity at 31/12/2018	Group's Equity at 31/12/2018	Equity non-controlling interests at 31/12/2018
						Equity transactions												
				Reserves	Dividends and other allocations	Changes in reserves	Issues of new shares	Purchase of own shares	Advances on dividends	Special dividend distribution	Changes in equity instruments	Derivatives on own shares	Stock options	Change in equity interests	Comprehensive income for 2018			
Share capital	2,900,628		2,900,628											(30,562)		2,870,066	162	2,869,904
Share premium reserve	2,550,579		2,550,579			(82,204)								(11,767)		2,456,608	1,315,158	1,141,450
Reserves	8,704,615	4,358	8,708,973	269,569		(135,450)								38,647		8,881,739	2,598,170	6,283,569
Valuation reserves	(62,027)		(62,027)												(57,735)	(119,762)	(40,590)	(79,172)
Equity instruments																		
Advances on dividends	(632,230)		(632,230)	632,230					(570,271)							(570,271)	(255,938)	(314,333)
Treasury shares	(219,754)		(219,754)					(206,085)								(425,839)		(425,839)
Net income (loss) for the year	1,661,322		1,661,322	(901,799)	(759,523)										1,732,892	1,732,892	516,741	1,216,151
Total Equity	**14,903,133**	**4,358**	**14,907,491**		**(759,523)**	**(217,654)**		**(206,085)**	**(570,271)**					**(3,682)**	**1,675,157**	**14,825,433**	**4,133,703**	**10,691,730**
Group equity	**4,068,563**	**1,648**	**4,070,211**		**(140,033)**	**(130,614)**			**(255,938)**					**91,112**	**498,965**	**4,133,703**	**4,133,703**	
Equity non-controlling interests	**10,834,570**	**2,710**	**10,837,280**		**(619,490)**	**(87,040)**		**(206,085)**	**(314,333)**					**(94,794)**	**1,176,192**	**10,691,730**		**10,691,730**

CONSOLIDATED STATEMENT OF CASH FLOWS

(thousands of euro)

Items/Figures	Notes	31/12/2019	31/12/2018
Net income for the year		**1,911,691**	**1,732,892**
Adjustments to net income to reflect cash flow from operating activities:			
Amortisation and depreciation	33	1,976,527	1,851,351
Net writedowns (revaluations) of property, plant and equipment and intangible assets		31,940	9,184
Effect of accounting using the equity method	37	(178,563)	(135,662)
Net losses (gains) on disposals, cancellations and eliminations of assets		(3,516)	43,116
Dividends		(2,310)	(2,124)
Interest income	35	(29,100)	(20,664)
Interest expense	36	411,355	429,272
Income taxes	38	729,809	673,344
Other adjustements		700	(498)
Changes in working capital:			
- Inventories		(51,419)	(36,709)
- Trade receivables		(93,995)	193,108
- Trade payables		4,795	164,230
- Provisions for risks and charges		4,131	28,844
- Other assets and liabilities		(95,306)	139,490
Cash flow from working capital		**(231,794)**	**488,963**
Change in provisions for employee benefits		(92,618)	(53,150)
Dividends received		122,828	137,200
Interest received		36,636	10,106
Interest paid		(508,927)	(536,005)
Income taxes paid net of tax credits reimbursed		(853,426)	(749,044)
Cash flow from operating activities		**3,321,232**	**3,878,281**
- with related parties		*2,058,051*	*2,501,397*
Investing activities:			
- Property, plant and equipment		(2,009,006)	(1,764,603)
- Intangible assets		(847,329)	(617,301)
- Companies in the scope of consolidation and business units		(100,066)	(203,183)
- Equity investments		(64,613)	(192,390)
- Change in payables and receivables relative to investing activities		73,336	365,112
Cash flow from investing activities		**(2,947,678)**	**(2,412,365)**
Divestments:			
- Property, plant and equipment		37,701	14,418
- Intangible assets		344	2,470
- Equity investments		36,486	23,258
- Change in payables and receivables relative to divestments		80	-
Cash flow from divestments		**74,611**	**40,146**
Net cash flow from investing activities		**(2,873,067)**	**(2,372,219)**
- with related parties		*100,171*	*330,393*
Assumption of long-term financial debt	18	3,418,679	1,984,290
Repayments of long-term financial debt	18	(2,077,875)	(1,814,037)
Increase (decrease) in short-term financial debt	23-26	292,695	779,890
(Increase) decrease of financial receivables for not operating purposes		(4,597)	(50,600)
Net equity capital injections		968	(425,178)
Dividends distributed to shareholders	15	(1,236,616)	(1,329,794)
Net cash flow from financing activities		**393,254**	**(855,429)**
- with related parties		*(358,008)*	*(37,379)*
Net cash flow for the year		**841,419**	**650,633**
Cash and cash equivalents at start of the year	14	3,405,001	2,754,368
Cash and cash equivalents at end of the period	14	4,246,420	3,405,001

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

Form and content of the consolidated financial statements

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

CDP RETI is required to draft its annual consolidated financial statements in compliance with international accounting standard IFRS 10. The conditions for exemption arising from being a sub-holding controlled by a holding company (Cassa Depositi e Prestiti S.p.A.) which drafts its own consolidated financial statements do not apply for entities which have issued listed securities on a regulated market. With reference to the half-yearly condensed consolidated financial statements, CDP RETI, despite benefiting from the exemption provided for in Article 83 of CONSOB Regulation no. 11971 of 14 May 1999 implementing Legislative Decree no. 58 of 24 February 1998 regarding the obligations to prepare and publish the financial reports provided for in article 154-ter of the Consolidated Law, has prepared these statements in compliance with the provisions of the Articles of Association and the Shareholders' Agreements with the minority shareholder State Grid.

The consolidated financial statements at 31 December 2019 give a clear, true and fair view of the Group's financial position and results for the period. The figures shown in these statements correspond with the company accounting records and fully reflect the transactions conducted during the year.

Basis of presentation

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

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

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

Comparison and disclosure

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

As noted in paragraph "I.1.2 General preparation principles", the figures at 31 December 2018 have been restated due to some reclassifications made following the entry into force of the new international financial reporting standards. See the above-mentioned paragraph for a more detailed analysis.

Audit of the consolidated financial statements

The consolidated financial statements of the CDP RETI Group at 31 December 2019 have been audited by PricewaterhouseCoopers S.p.A. as per the engagement assigned by the shareholders in their meeting of 24 June 2015 to carry out the audit for the 2015-2023 period.

The Shareholders' Meeting, which met in ordinary session on 10 May 2019, and having heard the opinion of the Board of Statutory Auditors, then approved the mutually agreed termination of the auditing agreement between CDP RETI and PwC, in accordance with the agreement for the mutually agreed termination signed by the parties and with effect from the date of approving the financial statements at 31 December 2019. In the same session on 10 May 2019, having heard the opinion of the Board of Statutory Auditors the Meeting also awarded the audit engagement for the period 2020-2028 to Deloitte & Touche Spa.

Annexes

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

I - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

I.1. GENERAL INFORMATION

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

These consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretations, in force at 31 December 2019, endorsed by the European Commission, as provided by Regulation (EC) 1606 of 19 July 2002, published in the Official Journal L 243 on 11 September 2002.

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

I.1.2. General preparation principles

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

In particular:

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

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

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

- Conceptual framework for financial reporting;
- Implementation Guidance and Basis for Conclusions;
- SIC/IFRIC interpretations;
- interpretation documents concerning the application of the IFRS in Italy, prepared by the Organismo Italiano di Contabilità (Italian Accounting Board, OIC);
- documents issued by Consob concerning the application of specific IFRS rules.

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

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

- Going concern basis: the CDP RETI Group has conducted an assessment of its ability to continue to operate as a single going concern, considering all available information over a medium-term time horizon. Based on an analysis of the information and the results achieved in previous years, the Group feels that it is appropriate to prepare its

consolidated financial statements on a going concern basis. Reference is made to section "5. Business outlook for 2020" of the Group's Report on Operations and section "I.1.4. Events subsequent to the reporting date" in the Notes to the consolidated financial statements regarding the spread of the contagion caused by Covid-19 and the uncertainties regarding the possible evolution of its effects on the CDP RETI Group;
- Accruals basis: operations are recognised in the accounting records and in the consolidated financial statements of the CDP RETI Group (except for the disclosure about cash flows) when they accrue, regardless of the payment or collection date. Costs and revenues are taken to profit or loss in accordance with the matching principle;
- Materiality and aggregation: all items containing assets, liabilities, revenues and expense of a similar nature and with similar characteristics are presented separately in the consolidated financial statements, unless they are immaterial;
- Offsetting: no assets have been offset with liabilities, nor income with expenses, unless expressly required by an accounting standard or a related interpretation;
- Frequency of reporting: the CDP RETI Group prepares the consolidated financial statements, and makes the related disclosures, on an annual basis. The Group also prepares an interim disclosure, the half-yearly condensed consolidated financial statements ending 30 June of each year, as mentioned above. No changes occurred with respect to the reporting date, which remains at 31 December of each year;
- Comparative information: comparative information is disclosed in respect of the previous financial year. This comparative information, which for the balance sheet refers to the reporting date of the previous financial year and for the income statement refers to the previous half of the year, is provided for each document comprising the financial statements, including the notes thereto. The comparative information does not take into account the effects of IFRS 16, adopted as of 1 January 2019, using the "Modified Retrospective Approach" as set out in paragraphs C5 b and C8 b (ii).

IFRSs endorsed at 31 December 2019 and in force since 2019

As required by IAS 8 - "Accounting policies, changes in accounting estimates and errors", details of the new international financial reporting standards, or amendments to standards already in force, whose application became mandatory from 1 January 2019, are provided below.

- Commission Regulation (EU) 2019/412 of 14 March 2019, published in Official Journal L 73 of 15 March 2019, amending Commission Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards International Accounting Standards (IAS) 12 and 23 and International Financial Reporting Standards (IFRS) 3 and 11. Companies should apply such changes, at the latest, from the start of the first financial year that begins on or after 1 January 2019. The main amendments concerned:
- IAS 12 "Income taxes"
  - Accounting for income taxes consequences of dividend payments;
- IAS 23 "Borrowing costs"
  - The company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale;
- IFRS 3 "Business combinations"
  - The company remeasures its previously held interest in a joint operation when it obtains control of the business;
- IFRS 11 "Joint arrangements"
  - The company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- Commission Regulation (EU) 2019/402 of 13 March 2019, published in Official Journal L 72 of 14 March 2019, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council with regard to the international accounting standard IAS 19. The objective of the amendments is to clarify that, after a defined-benefit plan amendment, curtailment or settlement occurs, an entity should apply the updated assumptions from the remeasurement of its net defined benefit liability (asset) for the remainder of the reporting period. Entities should apply such changes, at the latest, from the start of the first financial year that begins on or after 1 January 2019.
- Commission Regulation (EU) 2019/237 of 8 February 2019, published in Official Journal L 39 of 11 February 2019, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council with regard to the international accounting standard IAS 28. The amendments clarify that any entity that does not apply the equity method to financial instruments in associate companies or joint ventures should apply IFRS 9 to long-term equity interests without taking into account any adjustments made to their carrying value. Entities apply these amendments retroactively, starting from financial periods that start on or after 1 January 2019. Early application is permitted.
- Commission Regulation (EU) 2018/1595 of 23 October 2018, published in the Official Journal L 265 of 24 October 2018, adopting IFRIC 23, which explains how to reflect uncertainty in accounting for income taxes.
- Commission Regulation (EU) 2017/1986 of 31 October 2017, published in the Official Journal L 291 of 9 November 2017, adopting IFRS 16 – Leases, which aims to improve financial reporting on lease contracts. Companies shall apply IFRS 16, at the latest, as from the commencement date of their first financial year starting on or after 1 January 2019. CDP has not adopted IFRS 16 in advance in its consolidated financial statements.

New accounting standards and interpretations issued and endorsed by the European Union, but not yet in force (date of entry into effect for financial years beginning from 1 January 2020)

Listed below are the new standards and interpretations already issued and endorsed, but not yet in force and therefore not applicable to the preparation of the financial statements at 31 December 2019:

- Commission Regulation (EU) 2020/34 of 15 January 2020, published in Official Journal L 12 of 16 January 2020, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council with regard to the international accounting standard IAS 39 and the international financial reporting standards IFRS 7 and 9. Entities should apply such changes, at the latest, from the start of the first financial year that begins on or after 1 January 2020.
- Commission Regulation (EU) 2019/2014 of 29 November 2019, published in Official Journal L 318 of 10 December 2019, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council with regard to the international accounting standards IAS 1 and 8. Entities should apply such changes, at the latest, from the start of the first financial year that begins on or after 1 January 2020.
- Commission Regulation (EU) 2019/2075 of 29 November 2019, published in Official Journal L 316 of 6 December 2019, amending regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council with regard to the international accounting standard IAS 1, 8, 34, 37 and 38, the international financial reporting standards IFRS 2, 3 and 6 and the Interpretation of Standing Interpretations Committee (SIC) 31. Entities should apply such changes, at the latest, from the start of the first financial year that begins on or after 1 January 2020.

Accounting standards, amendments and interpretations not yet endorsed by the European Union at 31 December 2019

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

- IFRS 17 Insurance Contracts (issued on 18 May 2017);
- Amendment to IFRS 3: Business Combinations (issued on 22 October 2018).

Restatement of the comparative figures at 31 December 2018

The restatement of the comparative figures at 31 December 2018 was carried out following the reclassifications made by the Terna group, which became necessary as a result of the entry into force of the new financial reporting standards. The quantitative impact on the financial statement items is illustrated in the following tables:

ASSETS

(thousands of euro) Assets items	31/12/2018	31/12/2018 Adjusted	Differences
NON-CURRENT ASSETS			
Property, plant and equipment	34,734,713	34,734,713	
Inventories - compulsory stock	362,713	362,713	
Intangible assets	8,596,622	8,596,622	
Equity investments	1,878,287	1,878,287	
Non-current financial assets	269,846	269,846	
Deferred tax assets	739,822	739,822	
Other non-current assets	183,553	183,553	
Total non-current assets	**46,765,556**	**46,765,556**	
Non-current assets held for sale	**11,583**	**11,583**	
CURRENT ASSETS			
Current financial assets	426,697	426,697	
Income tax receivables	37,557	37,557	
Trade receivables	2,949,794	2,927,094	(22,700)
Inventories	150,314	198,514	48,200
Other current assets	266,504	266,504	
Cash and cash equivalents	3,405,001	3,405,001	
Total current assets	**7,235,867**	**7,261,367**	**25,500**
TOTAL ASSETS	**54,013,006**	**54,038,506**	**25,500**

LIABILITIES AND EQUITY

(thousands of euro)

Liabilities and equity items	31/12/2018	31/12/2018 Adjusted	Differences
EQUITY			
Share capital	162	162	
Issue premium	1,315,158	1,315,158	
Retained earnings	568,249	568,249	
Other reserves	2,029,921	2,029,921	
Valuation reserves	(40,590)	(40,590)	
Interim dividend	(255,938)	(255,938)	
Net income for the period (+/-)	516,741	516,741	
Group equity	**4,133,703**	**4,133,703**	**-**
Non-controlling interests	10,691,730	10,691,730	
Total Equity	**14,825,433**	**14,825,433**	**-**
NON-CURRENT LIABILITIES			
Provisions	1,093,676	1,093,676	
Provisions for employee benefits	241,670	241,670	
Loans	23,366,616	23,366,616	
Other financial liabilities	100,490	100,490	
Deferred tax liabilities	2,739,583	2,739,583	
Other non-current liabilities	1,235,249	1,235,249	
Total non-current liabilities	**28,777,284**	**28,777,284**	**-**
Liabilities directly associated with non-current assets held for sale			
CURRENT LIABILITIES			
Short-term loans and current portion of long-term ,	3,041,910	3,041,910	
Trade payables	3,367,585	3,393,085	25,500
Income tax liabilities	22,785	22,785	
Current financial liabilities	2,260,152	2,260,152	
Other current liabilities	1,717,857	1,717,857	
Total current liabilities	**10,410,289**	**10,435,789**	**25,500**
TOTAL LIABILITIES AND EQUITY	**54,013,006**	**54,038,506**	**25,500**

Transition to IFRS 16

Regulatory provisions

Starting from 1 January 2019, the new IFRS 16, issued by the IASB in January 2016 and endorsed by the European Commission through Regulation No. 1986/2017, replaces IAS 17 “Leases”, IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, SIC 15 “Operating Leases — Incentives” and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”, and at the same time has regulated new requirements for the accounting of leases.

IFRS 16 applies to all leases except for the following which are already covered by other standards:

- leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (IFRS 6 - Exploration for and Evaluation of Mineral Resources);
- leases of biological assets held by lessees (IAS 41 - Agriculture);
- service concession agreements (IFRIC 12 - Service Concession Arrangements);
- intellectual property licences granted by the lessor (IFRS 15 - Revenue from Contracts with Customers);
- rights held by the lessee under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights (IAS 38 - Intangible Assets).

The most important aspect of this new standard is the introduction of a single model for the recognition of lease agreements by the *lessee* that is based on the right-of-use model, with the consequent elimination of the distinction between operating and finance leases[44] provided for by IAS 17: all lease agreements must, therefore, be accounted for in the same way by recognising an asset and a liability. The right of use of the leased asset is recognised in the asset side of the balance sheet (right-of-use asset) while the liability relating to the lease payments still due to the lessor is recognised in the liability side of the balance sheet (lease liability)[45]. Charges relating to the depreciation of the right-of-use asset, and interest expense on the lease liability in place of the lease payments previously shown under administrative expenses, are recognised in the income statement.

Under the new standard, a lease is defined as a contract that conveys the right to use an asset for a period of time in exchange for consideration. What is now of fundamental importance is the right to control the use of the asset, which must be assessed for each individual contract.

Furthermore, to determine whether the right of use of an asset is conveyed, the following specific conditions must be met or be present:

- there is an identified asset;
- the right to substantially obtain all the economic benefits arising from the use of the identified asset;
- the right to decide how the asset is to be used.
- The assessment of whether a contract is, or contains, a lease is made at the start of the contract and must be reassessed when there is a change in the terms and conditions of the contract.

Choices of the CDP Reti Group

Upon first-time adoption, the CDP RETI Group applied the new standard under the “Modified Retrospective Approach” as set out in paragraphs C5 b and C8 b (ii). This approach allows recognition of the cumulative effect of the application of the standard on the first-time adoption date without restating the comparative information.

Specifically, this approach provides for recognition of the following measurements:

- the lease liability calculated as the present value of the remaining payments due on the lease, discounted at the lessee’s incremental borrowing rate at the date of initial application (IFRS 16.C8. a);
- the right-of-use asset equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application (IFRS 16.C8. b.ii).

The Group has decided to adopt some of the practical expedients and recognition exemptions provided by the standard. In particular:

- exclusion of leases with a total or remaining lease term of 12 months or less;
- exclusion of leases with an underlying asset value of 5,000 euro or less at the date of purchase;
- exclusion of the initial direct costs incurred to measure the right-of-use asset at the date of initial application;
- exclusion of leases of intangible assets (IFRS 16.4).

With regard to the discount rate, the CDP RETI Group decided to adopt an incremental borrowing rate which represents the rate of interest that a lessee “would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment”.

Impact of first-time adoption (FTA) of IFRS 16

As a result of the CDP RETI Group's decision to adopt the “Modified Retrospective Approach” upon first-time adoption, no impact on the book equity was recognised at 1 January 2019.

Property, plant and equipment includes 81 million euro in right-of-use assets against Operating lease liabilities of 73.4 million euro. Total lease liabilities recognised upon FTA amounted to 73.9 million euro.

Reconciliation statements are provided below:

Reconciliation of IAS 17 operating lease commitments at 31 December 2018 and IFRS 16 lease liabilities at 1 January 2019

[44] This distinction still applies for leases from the lessor's perspective.
[45] Sub-item “Financial payables for leased assets (IFRS 16)”, posted under “Loans (current portion)” and “Loans (non-current portion)” in the liability side of the consolidated balance sheet.

(thousands of euro)	01/01/2019
RECONCILIATION OF LEASE LIABILITIES	
Commitments for undiscounted operating leases applying IAS 17 at 31 December 2018	**67,806**
Exeptions to recognition pursuant to IFRS 16	**(1,757)**
- short-term leases	*(1,757)*
- leases low value	-
Other changes	**14,169**
Undiscounted operating lease liabilities	**80,218**
Discounting effect	(6,818)
Discounted lease liabilities for operating leases applying IFRS 16 at 1 January 2019	**73,400**
Lease liabilities for finance leases applying IAS 17 as at 01.01.2019	479
Total Lease Liabilities applying IFRS 16 as at 01.01.2019	**73,879**

Reconciliation of IFRS 16 discounted operating lease liabilities and IFRS 16 right-of-use assets at 1 January 2019

(thousands of euro)	01/01/2019
Property, plant and equipment used in opeations:	**80,962**
a) land	10,237
b) buildings	61,249
c) movables	5,807
d) other	3,669
Rights of use acquired through the lease (Right-of-use Assets)	**80,962**
Prepayed expenses (at 31/12/2018) reconciled to Right - of- use	(7,562)
Rights of use acquired through the lease not adjusted for prepayments and subleasing at 1 January 2019	**73,400**
Discounted Lease liabilities for operating leases applying IFRS 16 at 1 January 2019	**(73,400)**
Impacts on Equity at 1 January 2019	**-**

The recognition of right-of-use assets acquired through leases upon FTA mainly concerned Terna and Italgas, for around 21.8 million euro and 32.9 million euro respectively. As regards Snam, the effect of the first-time adoption of the new standard resulted in an increase in financial liabilities of 18.7 million euro and an increase in property, plant and equipment for the same amount.

The CDP RETI Group companies carried out their conversion projects by estimating the weighted average incremental borrowing rate as at 1 January 2019 and taking account of their unique characteristics.

Recognition criteria

The accounting policies for right-of-use assets recognised under property, plant and equipment are illustrated below. Under IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (underlying asset) for a period of time in exchange for consideration.

When the lease commences, the lessee recognises:

- an asset which consists of the right to use the asset underlying the lease, which is the sum of the financial liability resulting from the lease, the payments made on or before the commencement date of the lease (net of any lease incentives received), the initial direct costs, and any (estimated) costs of dismantling and/or removing the asset underlying the lease;
- a financial liability resulting from the lease that corresponds to the present value of the payments due under the lease. The discount rate to be used is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used.

If a lease agreement contains non-lease components (e.g. the provision of services, such as ordinary maintenance, which is to be recognised in accordance with IFRS 15), the lessee shall account for the lease components separately from the non-lease components and allocate the consideration under the agreement to the different components based on their stand-alone prices.

The lease term is determined taking into account:

- any period covered by an option to extend the lease, if it is reasonably certain that the option will be exercised;
- any period covered by an option to terminate the lease, if it is reasonably certain that the option will not be exercised.

For short-term leases (with a term of 12 months or less) that do not include an option to purchase the underlying asset from the lessee and leases where the underlying asset is of low value, the charge is recognised in the income statement on a straight-line basis over the lease term.

During the lease term, the lessee must:

- measure the right-of-use asset at cost, less accumulated depreciation and accumulated impairment determined and accounted for in accordance with the provisions of IAS 36 "Impairment of Assets", adjusted to take account of any restatement of the lease liability;
- increase the liability resulting from the lease transaction following the accrual of interest expense calculated at the interest rate implicit in the lease, or, alternatively, at the incremental borrowing rate, and reduce it by the amount of payments of principal and interest.

The right-of-use asset under a lease is derecognised at the end of the lease term.

OTHER INFORMATION

The Board of Directors meeting of 1 April 2020 approved the consolidated financial statements at 31 December 2019 of the CDP RETI Group, authorising their publication and distribution, which will take place within the timeframe and according to the procedures provided for by current legislation applicable to CDP RETI.

I.1.3. Scope and methods of consolidation

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

The figures of the subsidiaries used for line-by-line consolidation are those at 31 December 2019, as approved by competent corporate bodies of the consolidated companies, adjusted as necessary to harmonise them with Group accounting policies.

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

Equity investments in subsidiaries

	Name	Operating office	Registered office	Type of relationship (1)	Equity investment: Investor	Equity investment: % holding	% of votes (2)
1	ASSET COMPANY 2 S.r.L.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	SNAM S.p.A.	100.00%	100.00%
2	Asset Company 4 S.r.l.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	SNAM S.p.A.	100.00%	100.00%
3	AVVENIA THE ENERGYINNOVATOR S.R.L.	Rome	Rome	1	Terna Energy Solutions S.r.l.	70.00%	70.00%
4	Cubogas s.r.l.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	Snam 4 Mobility S.p.A.	100.00%	100.00%
5	Difebal S.A.	Montevideo (Uruguay)	Montevideo (Uruguay)	1	Terna SpA	100.00%	100.00%
6	Ecoprogetto Milano S.r.l.	Bolzano	Bolzano	1	Renerwaste Lodi S.r.l.	55.00%	55.00%
					Renerwaste S.r.l.	45.00%	45.00%
7	Ecoprogetto Tortona S.r.l.	Bolzano	Bolzano	1	Renerwaste S.r.l.	100.00%	100.00%
8	Enersi Sicilia	Caltanissetta	San Donato Milanese (MI)	1	Snam 4 Mobility S.p.A.	100.00%	100.00%
9	Enura S.p.A. (ASSET COMPANY 5 S.r.l.)	San Donato Milanese (MI)	San Donato Milanese (MI)	1	SNAM S.p.A.	55.00%	55.00%
10	Gasrule Insurance D.A.C.	Dublin	Dublin	1	SNAM S.p.A.	100.00%	100.00%
11	Gaxa S.p.A.	Milan	Milan	1	Italgas S.p.A.	51.85%	51.85%
12	GNL Italia SpA	San Donato Milanese (MI)	San Donato Milanese (MI)	1	SNAM S.p.A.	100.00%	100.00%
13	IES Biogas S.r.l.	Pordenone	Pordenone	1	Snam 4 Mobility S.p.A.	70.00%	70.00%
14	Infrastrutture Trasporto Gas S.p.A.	Milan	San Donato Milanese (MI)	1	ASSET COMPANY 2 S.r.L.	100.00%	100.00%
					Snam International B.V.	25.00%	25.00%
15	Italgas Acqua S.p.A.	Caserta	Milan	1	Italgas S.p.A.	100.00%	100.00%
16	Italgas Reti S.p.A.	Turin	Turin	1	Italgas S.p.A.	100.00%	100.00%
17	Italgas S.p.A.	Milan	Milan	4	CDP Reti S.p.A.	26.04%	26.04%
					SNAM S.p.A.	13.50%	13.50%
18	Medea S.p.A.	Sassari	Sassari	1	Italgas Reti S.p.A.	51.85%	51.85%
19	PI.SA. 2 S.r.l.	Rome	Rome	1	Terna SpA	100.00%	100.00%
20	Renerwaste Lodi S.r.l.	Bolzano	Bolzano	1	Renerwaste S.r.l.	100.00%	100.00%
21							
	Renerwaste S.r.l.	Bolzano	Bolzano	1	Snam 4 Environment S.r.l. (ex As	82.63%	82.63%
22	Resia Interconnector S.r.l.	Rome	Rome	1	Terna SpA	100.00%	100.00%
23	Rete S.r.l.	Rome	Rome	1	Terna SpA	100.00%	100.00%
24	Rete Verde 17 S.r.l.	Rome	Rome	1	Terna Energy Solutions S.r.l.	100.00%	100.00%
25	Rete Verde 18 S.r.l.	Rome	Rome	1	Terna Energy Solutions S.r.l.	100.00%	100.00%
26	Rete Verde 19 S.r.l.	Rome	Rome	1	Terna Energy Solutions S.r.l.	100.00%	100.00%
27	Rete Verde 20 S.r.l.	Rome	Rome	1	Terna Energy Solutions S.r.l.	100.00%	100.00%
28	Seaside S.r.l.	Bologna	Bologna	1	Italgas S.p.A.	100.00%	100.00%
29	Snam 4 Environment S.r.l. (ex Asset Company 6 S.r.l.)	San Donato Milanese (MI)	San Donato Milanese (MI)	1	SNAM S.p.A.	100.00%	100.00%
30	Snam 4 Mobility S.p.A.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	SNAM S.p.A.	100.00%	100.00%
31	Snam Gas & Energy Services (Beijing) Co. Ltd.	Beijing (China)	Beijing (China)	1	Snam International B.V.	100.00%	100.00%
32	Snam International B.V.	Rotterdam (NL)	Rotterdam (NL)	1	SNAM S.p.A.	100.00%	100.00%
33	SNAM RETE GAS S.p.A.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	SNAM S.p.A.	100.00%	100.00%
34	SNAM S.p.A.	San Donato Milanese (MI)	San Donato Milanese (MI)	4	CDP Reti S.p.A.	31.04%	31.04%
35	SPE Santa Lucia Transmissora de Energia S.A.	Rio de Janeiro	Rio de Janeiro	1	TERNA PLUS S.r.l.	99.99%	99.99%
					Terna Chile S.p.A.	0.01%	0.01%
36	SPE Santa Maria Transmissora de Energia S.A.	Rio de Janeiro	Rio de Janeiro	1	Terna Chile S.p.A.	0.01%	0.01%
37					TERNA PLUS S.r.l.	99.99%	99.99%
38	SPE TRANSMISSORA DE ENERGIA LINHA VERDE II S.A.	Belo Horizonte	Belo Horizonte	1	TERNA PLUS S.r.l.	75.00%	75.00%
39	Stogit S.p.A.	San Donato Milanese (MI)	San Donato Milanese (MI)	1	SNAM S.p.A.	100.00%	100.00%
40							
	Tamini Transformatori India Private Limited (Tes Transformer	Maharashtra (India)	Maharashtra (India)	1	Tamini Trasformatori S.r.l.	100.00%	100.00%
41	Tamini Transformers USA L.L.C.	Sewickley (USA)	Sewickley (USA)	1	Tamini Trasformatori S.r.l.	100.00%	100.00%
42	Tamini Trasformatori S.r.l.	Legnano (MI)	Legnano (MI)	1	Terna Energy Solutions S.r.l.	70.00%	70.00%
43	Tea Servizi S.r.l.	Brescia	Brescia	1	Asset Company 4 S.r.l.	100.00%	100.00%
					Tep Energy Solution S.r.l.	50.00%	50.00%
44	Tep Energy Solution S.r.l.	Milan	Rome	1	Asset Company 4 S.r.l.	82.00%	82.00%
45	Terna 4 Chacas S.A.C.	Lima	Lima	1	Terna Chile S.p.A.	0.01%	0.01%
					TERNA PLUS S.r.l.	99.99%	99.99%
46	Terna Chile S.p.A.	Santiago del Cile (RCH)	Santiago del Cile (RCH)	1	TERNA PLUS S.r.l.	100.00%	100.00%
47	TERNA Crna Gora d.o.o.	Podgorica (Montenegro)	Podgorica (Montenegro)	1	Terna SpA	100.00%	100.00%
48	Terna Energy Solutions S.r.l.	Rome	Rome	1	Terna SpA	100.00%	100.00%
49	Terna Interconnector S.r.l.	Rome	Rome	1	Terna SpA	65.00%	65.00%
					TERNA RETE ITALIA S.p.A.	5.00%	5.00%
50	Terna Peru S.A.C.	Lima	Lima	1	Terna Chile S.p.A.	0.01%	0.01%
					TERNA PLUS S.r.l.	99.99%	99.99%
51	TERNA PLUS S.r.l.	Rome	Rome	1	Terna SpA	100.00%	100.00%
52	TERNA RETE ITALIA S.p.A.	Rome	Rome	1	Terna SpA	100.00%	100.00%
53	Terna SpA	Rome	Rome	4	CDP Reti S.p.A.	29.85%	29.85%
54	Toscana Energia Green S.p.A.	Pistoia	Pistoia	1	Toscana Energia S.p.A.	100.00%	100.00%
55	Toscana Energia S.p.A.	Florence	Florence	1	Italgas S.p.A.	50.66%	50.66%

Key

(1) Type of relationship:

1 = Majority of voting rights in ordinary shareholders' meeting

2 = Dominant influence in ordinary shareholders' meeting

3 = Agreements with other shareholders

4 = Other form of control

5 = Unitary management pursuant to Article 26.1 of Legislative Decree 87/92

6 = Unitary management pursuant to Article 26.2 of Legislative Decree 87/92

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

The changes which occurred in the scope of consolidation compared with those in effect at 31 December 2018 are attributable to the following:

- with reference to the TERNA group:
  - PI.SA 2 S.r.l., wholly owned by Terna S.p.A., was incorporated on 15 February 2019 following the modification of the scope governed by the Italy-France interconnection;
  - on 6 August 2019, the company Terna 4 Chacas S.A.C. was established, 99.99999% of its capital held by Terna Plus S.r.l. and the remaining part by Terna Chile S.p.A., following an agreement signed in 2016 to start work on the construction of a new 16 km power line;
  - on 11 November 2019, through its subsidiary Terna Plus, Terna closed the transaction with Construtora Quebec, which resulted in the acquisition of a 75% stake in the Brazilian joint-stock company SPE Transmissora de Energia Linha Verde II S.A.;

  - on 17 December 2019, the sale of Monita Interconnector S.r.l. to Interconnector Energy Italia S.c.p.a. was completed;
- with reference to the SNAM group:
  - Enura S.p.A. (formerly Asset company 5), 55% owned by Snam S.p.A., for the construction of transport infrastructure in Sardinia;
  - Snam Gas & Energy Services (Beijing) Co. Ltd., headquartered in China, wholly owned by Snam International B.V., incorporated in April 2019 to supply technological development, training and consultancy services in the gas and energy sector;
  - Snam 4 Environment (formerly Asset Company 6 S.r.l.), wholly owned by Snam S.p.A., incorporated as a result of the acquisition in November 2019 from Ladurner Ambiente and AB Invest of 82.63% of Renerwaste S.r.l., one of the largest companies engaged in biogas and biomethane infrastructure in Italy, with consequent acquisition of control of the companies Renerwaste Lodi S.r.l., Ecoprogetto Milano S.r.l. and Ecoprogetto Tortona S.r.l.;
  - TEA Servizi;
- with reference to the ITALGAS group:
  - merger by incorporation, on 1 April 2019, of the companies Fontenergia S.r.l, Fontenergia 4 S.r.l., Fontenergia 6 S.r.l., Fontenergia 7 S.r.l., Fontenergia 9 S.r.l., Fontenergia 10 S.r.l., Fontenergia 11 S.r.l., Fontenergia 15 S.r.l., Fontenergia 19 S.r.l., Fontenergia 26 S.r.l., Fontenergia 27 S.r.l., Fontenergia 35 S.r.l. and Fontenergia 37 S.r.l into Medea S.p.A. and merger by incorporation of the companies Naturgas S.r.l., Grecanica Gas S.r.l., Progas Metano S.r.l., Baranogas Reti S.r.l., Favaragas Reti S.r.l., Siculianagas Reti S.r.l. and Ischia Reti Gas S.r.l. into Italgas Reti;
  - acquisition from CPL Concordia of the remaining 40% stake in the capital of EGN S.r.l. on 17 April 2019;
  - acquisition, from CONSCOOP, of 100% of the capital of Mediterranea S.r.l., finalised by Italgas Reti S.p.A. on 30 April 2019, and the acquisition of the business units of Aquamet and Isgas Energit Multiutilies, by Italgas Reti S.p.A. and Medea S.p.A. respectively;
  - incorporation, on 7 May 2019, of the company Medea NewCo S.r.l., which sells methane, LPG and propane air;
  - on 1 August 2019, merger of EGN and its subsidiaries into Italgas Reti S.p.A.;
  - acquisition, on 25 September, of the natural gas distribution business unit of Sienergas Distribuzione S.r.l. by Italgas Reti S.p.A.;
  - acquisition of control of Toscana Energia S.p.A., following the purchase of 0.58% of its capital from Banca Monte Paschi Siena S.p.A. and 1.98% from five municipalities in Tuscany, on 20 May 2019 and 1 October 2019, respectively. Toscana Energia in turn owns 100% of Toscana Energia Green S.p.A.;
  - on 1 November 2019, merger of the company Mediterranea S.r.l. into Italgas Reti S.p.A.;
  - on 12 December 2019, acquisition of 10% of Enerpaper's capital owned by Seaside S.r.l.;
  - completion of the transfer, on 18 December 2019, to the Marguerite II Fund (specifically to the companies Marguerite Gas III S.à.r.l. and Marguerite Gas IV S.à.r.l.) of a minority stake of 48.15% of the capital of Medea S.p.A. and Gaxa S.r.l., respectively.

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

Line-by-line consolidation

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

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

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

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

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

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

For newly acquired companies, the difference between the acquisition price and equity is provisionally recognised as goodwill, if positive, or under liabilities if negative, under "Other non-current liabilities", net of goodwill, if any, recognised in the financial statements of the acquirees. In accordance with IFRS 3.45 et seq., the difference resulting from the transaction is allocated within twelve months of the acquisition date. If positive, the difference is recognised – after any allocation to the assets and liabilities of the subsidiary – as goodwill or other intangible assets under intangible assets. If negative, it is recognised through profit or loss.

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

Accounting for companies using the equity method

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

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

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

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

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

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

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

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

Subsidiaries

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

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

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

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

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

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

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

Structured entities are considered as subsidiaries where:

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

Joint arrangements

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

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

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

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

Equity investments in jointly controlled companies are valued at equity.

Associate companies

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

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

Equity investments in associates are measured at equity.

Equity investments in subsidiaries with significant non-controlling interests

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

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

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

(thousands of euro) Company name	Registered office	% of non - controlling interests	Availability of votes of non - controlling votes (1)	Dividends paid to non-controlling interests (2)
1. Italgas S.p.A.	Milan	69.64%	69.64%	131,845
2. SNAM S.p.A.	San Donato Milanese (MI)	68.00%	68.00%	517,476
3. Terna S.p.A.	Rome	70.15%	70.15%	336,565

(1) Available voting rights at Ordinary Shareholders' Meeting.

(2) including interim dividend

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

(thousands of euro) Company name	Non-current assets	Non-current assets held for sale	Current assets	Non-current liabilities	Current liabilities	Equity	Revenues	Net income (loss)	Comprehensive income
1. Italgas S.p.A.	7,503,926	2,076	980,114	5,457,601	1,233,576	1,794,939	1,892,835	423,699	411,790
2. SNAM S.p.A.	20,091,875	9,931	4,384,084	12,163,037	6,064,083	6,258,770	2,665,005	1,090,350	1,043,841
3. Terna S.p.A.	15,103,698	-	2,981,987	10,832,183	3,021,611	4,231,891	2,344,770	763,941	649,870

I.1.4. Events subsequent to the reporting date

After the end of the financial year, during March 2020, the new Covid-19 virus, originating in China, spread to many countries around the world, with the World Health Organization consequently defining the epidemic as a “pandemic situation” on 11 March 2020.

In Europe, at the date of preparing this Report, Italy represents one of the worst hit countries. This has led to considerable pressure on the country’s health system and the consequent enactment of a series of measures by the Government (adoption by the Prime Minister of the Decrees of 4, 8, 9 March 2020 and of the “Cura Italia” Decree Law on 17 March 2020), which have introduced restrictive and unprecedented measures to the activities of the Public Administration, the economy in general and the daily life of Italian citizens, as well as substantial economic measures to support families, workers and businesses.

In a scenario where the virus does not stop spreading in the short term, this pandemic development could also significantly affect the global outlook for future growth, influencing the general macroeconomic framework and financial markets.

On this point, CDP RETI’s Directors deemed that the trend of the emergency along with uncertainties surrounding further developments in terms of impact on the productive, economic and social fabric of the country does not allow - at present - any approximation of a reasonable quantification of the Company’s 2020 performance. It is not excluded that the possible continuation of the current health emergency may result in short-term losses in margins, which at present cannot be reliably estimated with the elements available.

In accordance with IAS 10, this circumstance is not deemed to lead to any adjustment to the balances in the financial statements at 31 December 2019, since the fact itself and its consequences occurred after the reporting date, nor a factor of uncertainty as to the Company’s ability to continue to operate as a going concern.

Finally, with reference to the Parent Company CDP RETI S.p.A., it should be noted that after 31 December 2019 there was a reduction in stock market values for the subsidiaries SNAM, TERNA and ITALGAS as a consequence of the above-mentioned emergency situation exacerbating (the Covid-19 virus spreading in Italy and worldwide).

With regard to the impact of the coronavirus on costs, including potential costs, and on expected cash flows, SNAM is currently unable to reliably determine any repercussions on the 2020 results or any implications for subsequent years. Based on the current and most up-to-date information available, and also in view of the nature of SNAM’s activities, the company does not expect significant impacts or repercussions related to, or resulting from, the above circumstances. At present, it is still not possible to assess the possible effects on the development initiatives and on suppliers or customers resulting from the slowdown in activities and from the current macroeconomic situation due to the evolution of the epidemic at international level. This also applies to the SNAM Group’s operations outside Italy, particularly in France, Austria, Greece, Albania and the UK. SNAM, also through the SNAM Foundation, has allocated 20 million euro to carry out initiatives in favour of the Italian healthcare system and the non-profit sector to combat the coronavirus emergency. SNAM’s funds and expertise will be allocated to hospitals, healthcare facilities and other entities for the purchase of necessary equipment and goods, for healthcare and for support to non-profit entities dealing with the protection of young people and the elderly. The Company, which works closely with the authorities, has been active in the search for lung ventilator suppliers in other countries around the world. Through this initiative, SNAM intends to provide its solidarity to health workers and support the institutions, the non-profit sector and the Italian regions involved in dealing with the emergency.

With regard to TERNA, the initial months of 2020 were characterised by the global COVID-19 health emergency, with a significant impact on markets and the national and worldwide economy. In the current situation, which is constantly evolving and is characterised by increased uncertainty about the possible development of the infection, the global economic outlook remains weak.

The economic impact of the COVID-19 emergency on the Terna Group’s operations is currently being determined. However, no significant direct impacts are expected given the strictly regulated nature of the business, whose regulated revenues are determined by specific resolutions of the ARERA, based on the level of investments and the implementation of projects in previous years. Specifically, assuming a gradual recovery of activities in Italy starting from the second quarter of 2020, the Group’s results are expected to be in line with the guidance communicated to the markets.

With regard to the financial statement items measured at fair value, all the loans and related hedges subject to hedge accounting do not, due to their nature, have a significant impact on the income statement. On the other hand, with regard to Current Financial Assets, represented by Government Securities recorded at fair value, their value decreased by around

2.5% with respect to 31 December 2019. However, since these securities are recognised as “assets measured at fair value through OCI”, this change does not have an immediate impact on the income statement.

The Terna Group has also taken all necessary steps to reduce the contagion, in accordance with the applicable regulations, in order to protect the health and safety of its workers and to safely manage the national electricity system.

With regard to ITALGAS, following the spread of the so-called "Coronavirus" or "Covid-19" pandemic, the Company set up a Crisis Committee which, in the light of the measures and indications of the competent Authorities, constantly monitors the evolution of the emergency and adopts the appropriate measures while guaranteeing the continuity and efficiency of the essential and necessary services, with particular regard to emergency services.

In compliance with the emergency measures issued by the Authorities, only activities considered essential are assured and site activities are suspended. The technical personnel assigned to carry out interventions outside the company's premises, where provided for by the provisions in force, have been equipped with the necessary individual protection tools provided to deal with the emergency.

With reference to the impact on revenues, costs, including potential costs, and expected cash flows deriving from the limitations imposed by the Coronavirus Emergency, the Company, to date, is unable to estimate any effects on 2020 and subsequent results.

At present, the impact on development and investment initiatives resulting from the slowdown and suspension of activities, as well as the deterioration of the macroeconomic environment resulting from the spread of the pandemic globally, cannot yet be identified.

With regard to the pool of customers/sales companies and their solvency, the rules for user access to the gas distribution service are established by the ARERA and are regulated in the Network Code. This Code sets out the rules, for each type of service, that govern the duties and responsibilities of the parties providing the services and the instruments for mitigating the risk of non-compliance by customers. In addition, the emergency regulatory measures put in place by the government authorities do not envisage any form of reduction of the contractual responsibilities of the sales companies. In this context, the Company believes that the Coronavirus Emergency will not currently adversely affect the regularity of payments by the gas sales companies.

As regards Italgas' indebtedness and access to credit, the following is represented: (i) the Company has liquidity deposited with primary credit institutions for an amount as at 31.12. 2019 amounting to approximately 256 million euros, (ii) there are limited debt refinancing requirements (the first repayment of a bond is scheduled for 2022), (iii) the bonds issued by Italgas at December 31, 2019 under the Euro Medium Term Notes program do not provide for compliance with covenants relating to financial statement data, (iv) any downgrading of Italgas' rating or of any guarantors beyond predetermined thresholds could result in the issuance of guarantees in favor of certain lenders or an increase in the spreads applied.

To date, the Company does not see factors of uncertainty such that it cannot consider the company capable of continuing to operate as a going concern. These circumstances do not entail any adjustment to the balances in the financial statements at 31 December 2019 in accordance with IAS 10.

For an analysis of the additional significant events occurring after the reporting date, refer to the relevant paragraph “Significant events after 31 December 2019” in the Report on Operations.

I.1.5. Other issues

Use of estimates

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

Estimates and assumptions are reviewed periodically and the effects of changes are reflected in the income statement.

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

- recoverable value of property, plant and equipment, intangible assets and goodwill: the assets recognised are periodically analysed to identify signs of impairment. As a result of events or changes in circumstances, the value of the assets recognised in the financial statements may be considered no longer recoverable. The estimated recoverable value of assets is the result of complex assessments based on elements which are often uncertain. Impairment is determined by comparing the carrying value with the recoverable value, which is the greater of the fair value, less disposal costs, and the value in use determined by discounting expected future cash flows generated by the use of the asset. For assets that do not generate cash flows irrespective of the existence of other assets, the recoverable value is determined by calculating the recoverable value of the cash generating unit to which the said asset belongs;

- recoverable value of equity investments: objective evidence that the carrying value of the equity investments might not be fully recoverable is verified at every annual or interim reporting date. An impairment test is performed when the aforementioned evidence exists, aimed at estimating the recoverable value of the equity investments and comparing it with their carrying value, to determine the recognition of any impairment losses;
- quantification of employee benefits: the actuarial valuations performed to determine the value of provisions for employee benefits are based on economic and demographic-type assumptions and on assumptions that are considered to be reasonable at the date of valuation but which may change over time. Changes in actuarial assumptions will result in changes in the value of net liabilities recognised through other comprehensive income or profit or loss, depending on the case;
- quantification of provisions for risks and charges: the estimate of provisions for risks and charges is the result of complex assessments and subjective judgements by the management. The assessments are based on many elements, including: the probability and expected timing of disbursements, the discount rates and the interpretation of provisions, regulations and contractual clauses;
- quantification of the bad debt provision, which is estimated on the basis of the present value of expected future cash flows.

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

Intercompany transactions

In the absence of specific indications provided by the IFRS and in accordance with the assumptions of IAS 8, which requires that, in the absence of a specific standard, the company must use its judgement in applying an accounting standard that provides relevant, reliable and prudent information that reflects the economic substance of the transaction, intercompany transactions are recognised in continuity with the amounts of the purchased company in the financial statements of the purchaser.

Consequently, the contribution of the controlling interest by CDP in TERNA has been recognised in the consolidated financial statements of CDP RETI since 2014, maintaining the same amounts recognised in the consolidated financial statements of the transferor.

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

I.2. MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The IFRS classification and measurement standards to be adopted in preparing the Reporting Package as at 31 December 2019, in preparation for drawing up the Annual Report of the CDP RETI Group, are shown below.

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

Property, plant and equipment

Property, plant and equipment refers to non-current assets which are consistently used in the course of the Company's business.

Property, plant and equipment and other operating property, plant and equipment are governed by IAS 16. Investment property (land and buildings) is governed by IAS 40.

Property, plant and equipment includes: (i) with regard to the natural gas transport segment, the value referring to the quantity of natural gas fed into gas pipelines to make them operational and (ii) with regard to the natural gas storage segment, the portion of gas injected into the storage wells as cushion gas.

Also included are rights of use acquired under a lease and relating to the use of property, plant and equipment (for the lessees)[46]. Property, plant and equipment are initially recognised at purchase cost and stated at the purchase or transfer price or production cost, inclusive of any directly attributable costs incurred to make the asset ready for use. This cost is increased by the present value of costs likely to be incurred to dismantle and remove the asset, should legal or implicit obligations so require. The corresponding liability is recognised under provisions for risks and charges.

The purchase/transfer price or the production cost also includes financial expenses directly linked to the acquisition, construction or production of the asset.

Repair and maintenance costs incurred after the acquisition date are recognised as an increase in the carrying value of the item they refer to if it is probable that future economic benefits associated with that item will flow to the entity and the cost of the item can be reliably measured. All other costs are recognised through profit or loss when incurred.

Costs for improvements, modernisation and transformation that increase the value of property, plant and equipment are recognised in the asset side of the balance sheet when it is probable that they will increase the expected future economic benefits. Items purchased for security or environmental purposes that, while not directly increasing the future economic benefits expected from existing assets, are necessary to obtain benefits from other property, plant and equipment, are also recognised under balance sheet assets.

The subsequent valuation of property, plant and equipment is carried out at cost, net of accumulated depreciation and any impairment losses (the latter being governed by IAS 36).

Assets are depreciated systematically on a straight-line basis over their useful life from the moment they are available and ready for use in the production process. The depreciation rates for each year charged to the income statement are therefore calculated by the CDP RETI Group on the basis of the rates shown below, which are deemed adequate to represent the residual useful life of each asset:

Items/Figures %	Min.	Max
Buildings	2.0%	3.0%
Movables	0.0%	6.0%
Electrical plant	0.0%	20.0%
Plant and machinery:		
Power lines	2.2%	4.0%
Transformation stations	2.4%	6.7%
Gas pipelines	2.0%	2.0%
Power stations	5.0%	10.0%
Gas reduction and regulation	5.0%	5.0%
Pipelines	2.0%	2.0%
Processing stations	4.0%	20.0%
Compression stations	5.0%	5.0%
Storage wells	1.7%	20.0%
Regasification	4.0%	4.0%
Industrial and commercial equipment	10.0%	33.3%
Other assets	5.0%	33.0%
Other plant and equipment	2.0%	33.3%

At every annual or interim reporting date, the recognised carrying amount of the asset is tested for impairment. If signs of impairment are present, the carrying amount of the asset is compared with its recoverable amount, with the latter being the greater of fair value less the costs of disposal, and the associated value in use of the asset (construed as the discounted value of the future cash flows originated by the asset). If the carrying amount is higher than the recoverable amount, the difference is recognised in the income statement. If the reasons for which impairment was recognised cease to exist, the impairment loss is reversed. The adjusted value may not exceed the value that the asset would have had, net of the depreciation calculated in the absence of previous impairment.

[46] For the treatment relating to leased assets, reference should be made to the specific paragraph “Leases” in the “Other information” section.

When an item of property, plant and equipment consists of one or more significant components that have different useful lives, each component is depreciated separately (component approach). The useful life of the assets is reviewed annually and if expectations differ from previous estimates, changes in the depreciation schedule are accounted for prospectively.

Land and buildings are considered to be separable assets; therefore, they are treated as separate assets for accounting purposes, even if purchased together. Land is considered to have an indefinite life and, as such, is not depreciated.

Assets under construction and advances are composed of advances or expenses incurred in respect of items of property, plant and equipment that have not been completed or are undergoing testing before entering service. Since they have not yet entered the company's production cycle, depreciation is suspended.

Property, plant and equipment items are derecognised on disposal or when no future economic benefits are expected from their use or disposal; any gain (loss) on disposal is recognised through profit or loss.

Intangible assets

According to IAS 38, intangible assets are identifiable assets without physical substance that are controlled by an entity and whose cost can be measured reliably and from which future economic benefits are expected to flow to the entity. Intangible assets, as defined above, are held to be used for a multi-year period or an indefinite period.

Intangible assets are initially recognised at cost including incidental expenses and are amortised over their estimated useful life (period over which an asset is expected to be available for use by an entity), which, at the end of each financial year, is assessed to check the adequacy of the estimate. The amortised value is the carrying amount, minus the expected net realisable value at the end of its useful life, if significant and reasonably measurable. Borrowing costs directly attributable to the acquisition, construction or production of an intangible asset that qualifies for capitalisation pursuant to IAS 23 are capitalised on the asset as part of its cost.

Development costs are capitalised only if: (i) they can be reliably measured, (ii) there is the technical possibility and intention to complete the intangible asset so that it can be available for use, (iii) there is the capacity to use the intangible asset, (iv) it is possible to demonstrate that it will generate probable future economic benefits.

All other development costs and all the research expenditure are recognised through profit or loss when incurred.

Subsequent measurement of intangible assets is at cost, net of accumulated amortisation and any impairment (the latter in accordance with IAS 36).

Intangible assets are amortised over a period representing the residual useful life, considering the high level of obsolescence of these assets.

If there is objective evidence that the intangible asset is impaired, a test is performed to determine the adequacy of the carrying amount of the asset. Consequently, the carrying amount of the asset is compared with its recoverable amount, with the latter being the greater of fair value less the costs of disposal, and the associated value in use of the asset (construed as the discounted value of the future cash flows originated by the asset). If the carrying amount is higher than the recoverable amount, the difference is recognised in the income statement. If the reasons for which impairment was recognised cease to exist, the value of the asset is written back. The adjusted value may not exceed the value that the asset would have had, net of the amortisation calculated in the absence of previous impairment.

Intangible assets include assets associated with public-private service concession agreements relating to the development, financing, management and maintenance of infrastructure under concession arrangements, under which the granting entity:

- controls or regulates the services provided through the infrastructure by the operator, and the prices charged;
- controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the concession.

This category of assets includes agreements under which the Italgas group undertakes to supply the public service of natural gas distribution at the tariff set by the Italian Energy Networks and Environment Regulator (ARERA, formerly AEEGSI), being the holder of the right to use the infrastructure controlled by the granting entity to provide such public service. It also includes the property, plant and equipment and intangible assets used by the Terna Group to dispatch electricity under concession arrangements.

Intangible assets include goodwill, regulated by IFRS 3 and defined as the difference between the price paid for a transaction related to a business combination and the fair value of identifiable net assets acquired. If this difference is negative (badwill) or if the goodwill is not justified by the future earnings capacity of the investee, the difference is recognised in the income statement.

Goodwill generated from the acquisition of subsidiaries is allocated to each identified cash generating unit (CGU). Within the CDP RETI Group, CGUs correspond to the individual legal entities. Goodwill is tested for the adequacy of its carrying amount. An impairment test is performed annually on goodwill, or whenever there is evidence of impairment. This involves comparing the carrying amount of goodwill and the recoverable amount of the CGUs to which the goodwill is attributed. If the carrying amount of goodwill is higher than the recoverable value of the CGU, the difference is recognised in the income statement. Any reversals of impairment of goodwill may not be recognised.

Goodwill related to investments in associated companies and joint ventures is included in the carrying amount of such companies. Negative goodwill is recognised in the income statement at the time of the acquisition.

Intangible assets also include industrial patent and intellectual property rights, concessions, licenses, trademarks and similar rights and development costs.

The value of storage concessions, consisting of natural gas reserves in the fields (“Cushion Gas”), is determined in accordance with the Decree of 3 November 2005 of the Ministry for Productive Activities and recognised under “Concessions, licenses, trademarks and similar rights”. This item is not amortised as the volume of gas is not modified by the storage activity and its economic value is not below the carrying amount.

Intangible assets are derecognised when future benefits are no longer expected from their use or when sold; any gain (loss) on disposal is recognised through profit or loss.

Equity investments

“Equity investments” includes investments in associates (according to IAS 28) and in joint arrangements (IFRS 11).

Equity investments are initially recognised at purchase cost at the settlement date and subsequently measured according to the equity method, where the original cost of the equity investment is adjusted (up or down) according to the change in the interest held by the investor in the equity of the investee.

The same provisions governing business combinations apply to acquisitions. Consequently, the positive difference between the acquisition price and the portion of acquired equity is allocated based on the fair value of the identifiable net assets of the associate. Any unallocated excess amount is considered as goodwill. The higher allocated price is not presented separately, but is included in the carrying value of the equity investment (“equity method”). Any positive difference between the value of the portion of equity of the investee and the cost of the equity investment (Badwill) is recognised as income. Application of the equity method also considers the treasury shares held by the investee.

The equity investments are tested for impairment at every annual or interim reporting date.

Evidence of impairment, based on the existence of qualitative and quantitative indicators, as illustrated hereunder, and in accordance with the internal policies, differs where these involve investments in companies whose shares are or are not listed on active markets.

An impairment test is performed when the aforementioned indicators exist, in accordance with the provisions of IAS 36. This test is aimed at estimating the recoverable amount of the equity investment and comparing it with its carrying value to determine the recognition of any impairment losses.

In particular, the impairment process for the consolidated financial statements is performed in line with what is done for the separate financial statements of the Group companies. With reference to listed equity investments, it should be noted that assessment of objective evidence of impairment for the purposes of the separate financial statements is supplemented by verifying the existence of a market price of at least 40% lower than the carrying amount of the investment in the consolidated financial statements.

In terms of separate financial statements, the presence of specific qualitative and quantitative indicators is assessed.

In this case, and in particular for CDP RETI, taking into account the characteristics of its investment portfolio, as well as its role of long-term investor, at least the following are considered indicators of impairment:

- the recognition of losses or significantly lower results than budgeted (or forecast in multi-year plans), if, after specific analyses, they are relevant due to their effects on the estimate of expected future cash flows in any impairment test preparation;
- significant financial difficulty of the investee;
- probability that the investee will declare bankruptcy or enter into other financial reorganisation procedures;
- a carrying value of the investment in the separate financial statements that exceeds the carrying value, in the consolidated financial statements, of the net assets of the investment (including any goodwill);
- the distribution of a higher dividend than the income for the period and the existing income reserves;

- the distribution of a higher dividend by the investee than the income in the comprehensive income (or statement of comprehensive income for financial companies)[47] in the year when it is declared.

With reference to listed equity investments, the following are also considered indicators of impairment:

- a reduction in the market price exceeding the carrying value by over 40% or for more than 24 months;
- a downgrade of the rating of at least four notches from the time when the investment was made, if assessed as relevant together with other available information.

If the recoverable value is lower than the carrying amount, the difference is recognised in the income statement as an impairment loss. If the reasons causing the impairment cease to exist, the impairment losses are reversed. These reversals have to be recognised in the income statement up to the amount of the previous impairment. Consequently, the reduction in the previously recognised impairment loss upon write-back of the value of the equity investment may not exceed the carrying value that would have existed if no impairment had been previously recognised. Both the impairment and the reversals of impairment are recognised in the income statement.

The recoverable value determined when running the impairment tests in the separate financial statements for equity investments in subsidiaries is used to assess the existence of possible impairments of the net assets pertaining to the cash flow generating units (CGUs) corresponding to those equity investments. This assessment is carried out in compliance with the provisions of IAS 36.104 and 36.105.

The investor's interest in any losses of the investee that exceed the carrying value of the equity investment is recognised in a specific provision, to the extent that the investor is committed to meeting the legal or constructive obligations of the investee, or otherwise cover its losses, in compliance with the provisions of IAS 28[48].

Equity investments are derecognised when the contractual rights to the cash flows deriving from ownership of the equity investments expire or when they are sold, substantially transferring all risks and rewards connected with them.

Financial assets

The following financial assets are recognised under current and non-current financial assets:

1. financial assets measured at fair value through profit or loss (FVTPL);
2. financial assets measured at fair value through other comprehensive income (FVOCI);
3. financial assets measured at amortised cost;
4. hedging derivatives.

1. Financial assets measured at fair value through profit or loss (FVTPL)

This item includes the following financial assets measured at fair value through profit or loss:

- "Financial assets held for trading" represented by debt securities, equities, loans, units of UCIs included in an Other/Trading business model, and also derivatives not designated under hedge accounting;
- "Assets designated at fair value" represented by debt securities and loans, with measurement results entered through profit or loss on the basis of the right accorded to companies by IFRS 9 (i.e. the fair value option), which allows a financial asset to be irrevocably measured through profit or loss if, and only if, this will eliminate or significantly reduce a recognition inconsistency;
- "Other financial assets mandatorily measured at fair value" represented by debt securities, equity securities, units of UCIs and loans, i.e. those assets other than those measured at fair value through profit or loss, which do not meet the requirements for classification at amortised cost, at fair value through other comprehensive income or which are not held for trading. They are substantially represented by those financial assets whose contractual terms provide for periodic flows that are not represented only by principal repayments and interest payments on the principal to be returned (thus characterised by the failure to pass the SPPI test), or those assets that do not comply with the business model terms of the portfolio measured at amortised cost or at fair value through other comprehensive income.

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[47] The indicator takes into consideration the distribution of a higher dividend than the income in the comprehensive income (or statement of comprehensive income for financial companies) for the year when the dividend is declared (i.e. dividends declared in 2017, representing the distribution of the net income for 2016, larger than the total comprehensive income for 2017). In order to conduct the impairment test for the reporting date of the half-yearly financial statements, in the absence of homogeneous comparison data, the indicator is verified by referring to the data relating to the previous year.

[48] See Commission Regulation (EU) 2019/237 of 8 February 2019, published in Official Journal L 39 of 11 February 2019, amending Regulation (EC) no. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council with regard to the international accounting standard IAS 28.

Financial assets held for trading, as indicated, include financial derivatives not designated under hedge accounting, operational hedging derivatives, as well as derivatives embedded in complex financial contracts, the host contract of which is a financial liability, which were recognised separately because:

- the financial characteristics and risks are not strictly correlated to the characteristics of the underlying contract;
- the embedded instruments, even when separated, meet the definition of derivative;
- the hybrid instruments that they belong to are not measured at fair value with their related values recognised through profit or loss;
- operational hedging derivatives are those derivatives which are not part of effective hedge accounting but are held to meet operational hedging requirements where the company wishes to standardise the measurement criterion with respect to the assets and/or liabilities associated with them.

As with all financial assets held for trading, the fair value of which can assume both positive and negative values, derivatives are classified among FVTPL financial assets if their fair value is positive and among FVTPL financial liabilities if their fair value is negative.

Financial assets measured at fair value through profit or loss are initially recognised on the execution date for derivative contracts, at the settlement date for debt securities, equities, and units of UCIs, and at the disbursement date for loans. An exception is represented by those securities whose delivery is not governed by conventions on the market concerned, for which initial recognition is at the subscription date.

Upon initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, which generally equals the transaction price, net of transaction costs or income that are immediately recognised through profit or loss.

Subsequent measurement is at fair value, with recognition of the measurement results in the item “Financial income (expense)” in the income statement. The fair value is determined based on the official prices as of the reporting date if the financial instruments are listed on active markets. For financial instruments, including equity securities, not listed on active markets, fair value is determined by using measurement techniques and information available on the market, such as the price of similar instruments on an active market, discounted cash flows, option pricing models and values registered in recent similar transactions. For equity securities and related derivative instruments not listed in an active market, the cost method is used as an estimate of fair value only in a residual manner and limited to a few circumstances, i.e. in case of non-applicability of all the afore-mentioned measurement methods, or in the presence of a wide range of possible measurements of fair value, within which the cost is the most significant estimate.

Reclassifications to other categories of financial assets are not permitted, unless, as regards financial assets held for trading, the business model is changed. In this case, all affected financial assets will be reclassified, according to the rules provided for in IFRS 9.

Financial assets measured at fair value through profit or loss are derecognised when payment is received, when the contractual rights to the cash flows expire, or a sale transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with the transferred financial assets is retained, the asset remains on the financial statements, even if legal title has been effectively transferred.

In cases where it is not possible to verify the substantial transfer of risks and rewards, financial assets are derecognised from the balance sheet if no type of control over the assets has been maintained. Conversely, the preservation of such control, even if it is only partial, involves keeping the assets on the balance sheet to an extent equal to the residual involvement.

Transferred financial assets are derecognised even if the contractual rights to receive the related cash flows are retained, in the presence of a simultaneous obligation to transfer such flows, and only those, without material delay to other third parties.

2. Financial assets measured at fair value through other comprehensive income (FVTOCI)

The item “Financial assets measured at fair value through other comprehensive income” includes financial assets represented by debt securities and loans that meet both of the following conditions:

- the financial asset is held within a Business Model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition under this item is also extended to equity instruments, considered as such in compliance with the provisions of IAS 32, which are not held for trading and for which the option, granted by the standard, of classifying the subsequent changes in the fair value of the instrument within the valuation reserves has been irrevocably exercised, with recognition through other comprehensive income (FVTOCI option[49]).

Initial recognition of the item under examination occurs on the settlement date for debt securities and equities and on the disbursement date for loans.

Financial assets measured at fair value through other comprehensive income are initially recognised at fair value, which generally corresponds to the transaction price, including any expenses and income attributable to the transaction.

Subsequent to the initial recognition, financial instruments traded in active markets are measured at their fair value determined on the basis of official prices on the reporting date. For financial instruments, including equity securities, not listed on active markets, fair value is determined by using measurement techniques and information available on the market, such as the price of similar instruments on an active market, discounted cash flows, and values recorded in recent similar transactions. For equity securities not listed in an active market, the cost method is used as an estimate of fair value only in a residual manner and limited to a few circumstances, i.e. in case of non-applicability of all the afore-mentioned measurement methods, or in the presence of a wide range of possible measurements of fair value, within which the cost is the most significant estimate.

The profits and losses resulting from changes in fair value of debt instruments and loans are recognised in the statement of comprehensive income and recorded in the item Valuation reserves, in equity, until the financial asset is derecognised.

If the financial assets in question are derecognised, the cumulative gains or losses, previously recognised in the comprehensive income, are transferred from equity to the income statement.

Interest on the debt instruments and on receivables is recognised in the income statement according to the amortised cost method, which is based on the effective interest rate, i.e. the rate that exactly discounts the estimated future receipts (and any payments) during the expected life of the financial instrument at the gross carrying value of the financial asset.

These instruments are also subject to tests on the significant increase in credit risk (impairment) under IFRS 9, with consequent recognition in profit or loss of an impairment loss to cover the expected losses. In particular, an expected loss for the 12 months following the reporting date is recognised on initial recognition and at each subsequent reporting date, on instruments classified in stage 1 (i.e. on non credit-impaired financial assets at the time of their origination, and on instruments which do not show a significant increase in credit risk compared to initial recognition). Conversely, an expected loss is recorded throughout the residual maturity of the financial instrument on those instruments classified in stage 2 (performing financial assets for which there has been a significant increase in credit risk compared to initial recognition) and in stage 3 (impaired exposures).

For financial assets that are performing (stages 1 and 2) impairment is calculated as a function of the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD). If, in addition to a significant increase in the credit risk, there is also objective evidence of impairment (events that have a negative impact on estimated cash flows), the financial asset is impaired (stage 3) and the amount of the related impairment is measured as the difference between the gross carrying value of the asset and the current value of the expected cash flows, discounted at the original effective interest rate.

Losses and recoveries arising from the impairment process are included in the income statement.

No reclassifications to other categories of financial assets are allowed, unless the business model is changed. In this case, all affected financial assets will be reclassified, according to the rules provided for in IFRS 9.

With reference to equity instruments, their inclusion in the item Financial assets measured at fair value through other comprehensive income is linked to the irrevocable option adopted by the company holding the instrument.

The exercise of this option entails using different recognition rules from those described above for debt securities, because:

- the amounts recognised in the Valuation reserve are never reclassified through profit or loss, even when they are derecognised;
- all exchange rate differences are recognised in the equity reserve and are therefore charged to comprehensive income;
- IFRS 9 does not envisage impairment rules for these equity instruments.

Only dividends from these equity instruments are recognised in the income statement.

Financial assets measured at fair value through other comprehensive income are derecognised when payment is received, when the contractual rights to the cash flows expire, or a sale transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with the transferred financial assets is retained, the asset remains on the financial statements, even if legal title has been effectively transferred.

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[49] Fair Value Through Other comprehensive Income option

In cases where it is not possible to verify the substantial transfer of risks and rewards, financial assets are derecognised from the balance sheet if no type of control over the assets has been maintained. Conversely, the preservation of such control, even if it is only partial, involves keeping the assets on the balance sheet to an extent equal to the residual involvement.

Transferred financial assets are derecognised even if the contractual rights to receive the related cash flows are retained, in the presence of a simultaneous obligation to transfer such flows, and only those, without material delay to other third parties.

3. Financial assets measured at amortised cost

The item “Financial assets measured at amortised cost” includes debt securities and loans that meet both of the following conditions:

- the financial asset is held within a Business Model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Specifically, this item includes receivables from banks, or other parties, deriving from loans, leases[50], factoring transactions, debt securities, etc.

“Financial assets measured at amortised cost” are initially recognised on the settlement date as regards debt securities or on the disbursement date as regards loans.

Initial recognition is at fair value, which generally equals the transaction price, including any expenses and income attributable to the transaction.

After initial recognition, these assets are measured at amortised cost, equal to the value that the financial asset was measured at on initial recognition minus any principal repayments, plus or minus the accumulated amortisation, according to the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The effective interest rate is the rate that discounts the estimated future receipts (and any payments) for the expected lifetime of the financial asset at its gross carrying value, which includes the directly attributable transaction costs and the fees paid or received by the contracting parties.

In some cases, the financial asset is considered impaired at initial recognition as the credit risk is very high and, if it is purchased, this may be done with significant discounts (assets considered as POCI i.e. “Purchased or Originated Credit Impaired”). In that case, for purchased or originated financial assets that are credit-impaired at initial recognition, a credit-adjusted effective interest rate is calculated for the credit risk, including the expected losses on initial loans within the financial flow estimates.

The amortised cost method is not used for loans whose short-term duration means that discounting is considered to have a negligible effect. This measurement rule is also used for loans without a specific expiration date or demand loans.

Financial assets measured at amortised cost are subject to the calculation of an expected credit loss allowance under IFRS 9 rules and the amount of such losses is recognised through profit or loss. In particular, an expected loss at one year is recognised on initial recognition and at each subsequent reporting date, on instruments classified in stage 1 (i.e. on non credit-impaired financial assets at the time of their origination, and on instruments which do not show a significant increase in credit risk compared to initial recognition). Conversely, an expected loss measured throughout the residual maturity of the financial instrument is recorded on those instruments classified in stage 2 (performing financial assets for which there has been a significant increase in credit risk compared to initial recognition) and in stage 3 (impaired exposures).

For financial assets that are performing (stages 1 and 2) impairment is calculated as a function of the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD). If, in addition to a significant increase in the credit risk, there is also objective evidence of impairment (events that have a negative impact on estimated cash flows), the financial asset is impaired (stage 3) and the amount of the related impairment is measured as the difference between the gross carrying value of the asset and the current value of the expected cash flows, discounted at the original effective interest rate.

The expected cash flows take account of estimated recovery times and the expected realisable value of any guarantees.

[50] For the treatment relating to leases, reference should be made to the specific paragraph “Leases” in the “Other information” section.

The amount of the loss to be recognised through profit or loss is calculated based on an analytical assessment process or for categories of the same kind and thus attributed analytically to each position and takes account of forward-looking information and possible alternative recovery scenarios.

If the reasons for the impairment no longer apply following an event after initial recognition, then impairment reversals are charged through profit or loss.

Financial assets measured at amortised cost are derecognised when payment is received, when the contractual rights to the cash flows expire, or a sale transfers to a third party all the risks and rewards connected with ownership of the transferred asset. Conversely, when a prevalent share of the risks and rewards associated with the transferred financial assets is retained, the asset remains on the financial statements, even if legal title has been effectively transferred.

In cases where it is not possible to verify the substantial transfer of risks and rewards, financial assets are derecognised from the balance sheet if no type of control over the assets has been maintained. Conversely, the preservation of such control, even if it is only partial, involves keeping the assets on the balance sheet to an extent equal to the residual involvement.

Transferred financial assets are derecognised even if the contractual rights to receive the related cash flows are retained, in the presence of a simultaneous obligation to transfer such flows, and only those, without material delay to other third parties.

It is also possible, over the maturity of financial assets, and specifically for financial assets measured at amortised cost, that they are subject to renegotiation of the contract terms. In that case, one needs to check whether or not the intervening contractual changes give rise to derecognition of the original instrument and the recognition of a new financial instrument.

The analysis required to assess which changes give rise to derecognition rather than modification may sometimes entail significant elements of valuation. In general, changes to a financial asset lead to its derecognition and the recognition of a new asset when they are of a substantial nature.

In the event of changes not deemed significant, the gross value is re-determined through the calculation of the current value of the cash flows resulting from the renegotiation, at the original exposure rate (modification).

The difference between the gross value of the financial instrument before and after the renegotiation of contract terms (modification), is recognised through profit or loss as a gain or loss from contractual changes without derecognition.

4. Hedging derivatives

Financial assets include derivatives which have a positive fair value at the reporting date. Derivatives with negative fair value are recognised in the balance sheet under other financial liabilities.

Hedging transactions

Hedging transactions are executed to neutralise contingent losses that are attributable to a specific risk and which can be found in a specific element or group of elements, should that particular risk effectively materialise.

As permitted by paragraph 7.2.21 of IFRS 9, CDP RETI has decided to apply the provisions on hedging from IAS 39 rather than those from Chapter 6 of IFRS 9, to be used for its separate financial statements, the consolidated financial statements of the CDP RETI Group, as well as its own half-yearly financial statements.

In accordance with IAS 39, hedging instruments are derivatives or, limited to the hedging of foreign currency risk, non-derivative financial assets or liabilities whose fair value or cash flows are expected to offset the changes in fair value or cash flows of a designated hedged position (IAS 39, paragraphs 72-77 and Appendix A, paragraph AG94). A hedged item is an asset, liability, firm commitment, a highly probable forecast transaction, or a net investment in a foreign operation that:

- exposes the company to the risk of a change in fair value or future cash flows;
- is designated as being hedged (IAS 39, paragraphs 78-84 and Appendix A, paragraphs AG98-AG101).

The effectiveness of the hedge is the extent to which the changes in fair value or cash flows of the hedged position that are attributable to a hedged risk are offset by the changes in fair value or cash flows of the hedging instrument (IAS 39, Appendix A, paragraphs AG105 - AG113).

When a financial instrument is classified as a hedging instrument, the following are to be formally documented:

- the relationship between the hedging instrument and the hedged item, including the risk management objectives;
- the hedging strategy;
- the methods to be used in order to verify the hedge effectiveness.

Accordingly, both at the inception of the hedge and throughout its life, the change in the fair value of the derivative is analysed in order to determine whether it is highly effective in offsetting the changes in fair value of the hedged item.

A hedge is deemed to be highly effective if the changes in fair value of the hedged item or in the expected cash flows attributable to the risk being hedged are almost entirely offset by the changes in fair value of the hedging derivative, with the relationship of these changes falling within a range of between 80% and 125%.

At each annual or interim reporting date, the effectiveness is assessed through specific prospective and retrospective tests capable, respectively, of demonstrating the expected effectiveness and the level of effectiveness achieved.

If the hedge is not effective as described above, the hedging instrument is reclassified under financial instruments held for trading, while the hedged item continues to be measured in accordance with the criteria defined for its category. Hedge accounting also ceases when the hedging instrument expires, is sold or exercised or when the hedged item expires, is sold or is repaid.

Hedging derivatives are initially recognised at their fair value on the contract date. In particular:

- for fair value hedge, the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument. This offsetting is accounted for by recognising the changes in value through profit or loss, relating both to the hedged item (for the changes generated by the underlying risk factor) and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, consequently represents the net profit or loss effect. The recognition through profit or loss of the change in fair value of the hedged item, attributable to the risk hedged, is also applied if the hedged item is a financial asset measured at fair value through other comprehensive income; if there were no hedging, this change would be recognised in equity;
- for cash flow hedge, the changes in fair value of the derivative are recognised, net of the tax effect, in specific "Valuation reserves" of equity, for the effective portion of the hedge, and are only recognised through profit or loss when there is a change in the cash flows to be offset for the hedged item. The amount of the gain or loss of the hedging instrument considered ineffective is recognised through profit or loss. This amount is equal to any excess of the accumulated fair value of the hedging instrument with respect to the related fair value of the instrument hedged; in any event, the fluctuation of the hedged item and the related hedge must be kept within the range of 80%-125%;
- hedges of a net investment in a foreign operation are accounted for in the same way as cash flow hedges.

In case of highly likely future transaction hedges, if, during the life of a derivative, the expected hedged cash flows are no longer considered as highly probable, the portion of that instrument recognised in the "Valuation reserves" of equity is immediately recycled through profit or loss. Conversely, if the hedging instrument is transferred or no longer qualifies as an effective hedge, the portion of the item "Valuation reserves" representing the changes in the fair value of the instrument recognised up to that point are retained in equity and reversed to profit or loss in accordance with the classification criterion described above, in conjunction with the manifestation of the financial effects of the transaction originally hedged. In case of cash flow hedge, if the hedging relationship ends, for reasons other than the sale of the hedged items, the accumulated revaluation/write-down recognised in the consolidated balance sheet (under financial assets or liabilities) is recognised through profit or loss under interest income or expense, over the residual maturity of the hedged financial asset or liability.

If these assets and liabilities are sold or redeemed, the amount of fair value not amortised is recognised immediately in the income statement.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method, net of any impairment losses recognised in specific bad debt provisions.

Impairment losses are calculated by applying the simplified approach under IFRS 9, based on which trade receivables, separated into specific clusters according to the regulatory framework, are applied an impairment model based on expected losses for collective assessment. For the trade receivables deemed individually significant and with reference to which accurate information is available on the considerable increase in the credit risk, in the context of the simplified model, an analytical approach was applied. Impairment losses related to the impairment of trade receivables (and the related recoveries) are recognised through profit or loss in the item “Net impairment (recoveries) of trade receivables and other receivables”.

Receivables due within normal commercial terms are not discounted.

Trade receivables are derecognised when the contractual rights to the associated cash flows have been realised, have expired or been sold.

Inventories

Inventories, including compulsory stock, are stated at the lower of their purchase or production cost and their net realisable value, represented by the amount that the business expects to obtain from their sale in the normal course of its activities.

Cost is measured as the weighted average cost.

The net realisable value is the selling price in the ordinary course of business less the estimated completion costs and those necessary to sell the good.

Work in progress and semi-finished goods are valued at production cost, excluding financial charges and overheads. Sales and purchases of strategic gas do not generate an actual transfer of the risks and rewards associated with ownership and, therefore, do not result in changes in inventory.

Cash and cash equivalents

Cash and cash equivalents are recognised at their nominal amount.

This item mainly includes cash in hand, cash at banks and other current financial assets due within three months from purchase, readily convertible into cash with no cashing expenses and subject to an insignificant risk of changes in value.

Cash and cash equivalents take account of the interest accrued on the amounts, albeit not yet paid.

Non-current assets held for sale

The balance sheet items “Non-current assets held for sale” and “Liabilities directly attributable to assets held for sale” include the assets or groups of assets/liabilities whose carrying value will be recovered mainly through sale rather than through their continuous use. Disposal processes have been initiated for these assets, whose sale is deemed highly likely.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is an investment exclusively acquired with a view to resale.

These non-current assets (or disposal groups) are presented on the balance sheet separately from other assets and other liabilities. Initial recognition is done in compliance with the specific IFRS as applicable to each associated asset and liability while, subsequently, they are recognised at the lower of their carrying value and fair value (the latter net of costs to sell), without any depreciation/amortisation being envisaged. The corresponding balance sheet values for the previous financial year are not reclassified.

The individual assets of the companies classified as held for sale are not amortised, whereas financial expense and other expenses attributable to liabilities held for sale continue to be recognised.

Any subsequent impairment losses are recognised directly as an adjustment to the carrying amount of the non-current assets classified as held for sale through profit or loss.

The profits and losses net of tax that can be related to disposal groups of assets and liabilities are shown in the specific income statement item “Net income on discontinued operations”.

Current and deferred taxes

Tax assets and liabilities are recognised in the balance sheet respectively under consolidated assets items "Deferred tax assets" and "Income tax receivables", and under consolidated liabilities items "Deferred tax liabilities" and "Income tax liabilities".

The accounting entries related to current and deferred taxes include: i) current tax assets, consisting of tax paid in advance and receivables for withholding taxes incurred; ii) current tax liabilities, consisting of tax payables to be settled according to applicable tax regulations; iii) deferred tax assets, consisting of the amounts of tax recoverable in future years in view of deductible temporary differences; and iv) deferred tax liabilities, consisting of payables for tax to be paid in future periods as a result of taxable temporary differences.

Current taxes, consisting of corporate income tax (IRES) and regional tax on business activities (IRAP), are recognised on an accruals basis using a realistic estimate of the negative and positive tax components for the year. They are calculated on the basis of applicable tax rates.

Deferred tax assets and liabilities are recognised according to the tax rate that, under the legislation in force at the reporting date, is expected to apply in the year when the asset is realised or the liability is settled, and are periodically reviewed to take account of any changes in legislation.

The term "deferred" tax refers, in particular, to the recognition, in terms of tax, of the temporary differences between the value assigned to an asset or liability for statutory accounting purposes and the corresponding value for tax purposes.

Deferred taxes are recognised:

- under the item "Deferred tax assets", if they relate to "deductible temporary differences", which means the differences between statutory and tax values that will give rise to deductible amounts in future periods, to the extent that they are likely to be recovered;
- under the item "Deferred tax liabilities", if they relate to "taxable temporary differences" representing liabilities because they are related to accounting entries that will become taxable in future tax periods.

If the deferred tax items regard transactions that directly affected equity, they are recognised in equity.

Provisions for risks and charges

This item consists of the allowances set aside to cover specific types of liabilities whose existence is certain or probable, but whose amount or accrual date were uncertain at the reporting date. Therefore, the allowances are recognised only when:

- there is a present (legal or constructive) obligation resulting from a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

When the financial effect related to the time factor is significant and the payment dates of the bonds can be estimated reliably, the provision is made by discounting, at a rate that reflects the market valuations of the current value of money, the expected cash flows calculated considering the risks associated to the bond. Any increase in the provision relating to the passage of time is recognised in the income statement under "Financial income (expense)".

If the liability refers to items of property, plant and equipment (e.g. dismantling and restoration of sites), the provision is recognised as a balancing entry to the asset it refers to and is recognised in the income statement via the depreciation process. The costs which the entity expects to incur to implement a restructuring plan are recognised in the year in which the plan is formally approved and there is a settled expectation among the affected parties that the restructuring plan will be implemented.

Contingent – not probable – liabilities are not provided for. However, they are disclosed in the notes, unless the probability of an outflow of resources is remote or the event is deemed insignificant.

The allowances are used only to cover the costs for which they were originally recognised, and they are reversed in the income statement when the obligation is settled or when it is no longer probable that an outflow of resources will be required to settle the present obligation.

This item also includes provisions for credit risk for commitments to disburse funds and on financial guarantees that are subject to the rules of impairment in IFRS 9.

This item also includes the company pension plans and other post-retirement benefit obligations, i.e. the provisions for long-term employment and post-employment benefits.

Provisions for employee benefits

This item includes the staff severance pay (TFR) and other long-term benefits such as loyalty bonus, supplementary funds, other benefits, etc.

Staff severance pay (TFR) covers the entire entitlement accrued by employees at the end of the financial year, as provided by law (Article 2120 of the Italian Civil Code) and applicable employment agreements.

In accordance with IAS 19, staff severance pay is treated as a “Post-employment benefit” and is classified as:

- a “Defined benefit plan” for the portion of staff severance pay accrued by employees until 31 December 2006;
- a “Defined contribution plan” for the portion of staff severance pay accrued by employees beginning 1 January 2007.

The accounting standard envisages that the portions of staff severance pay be recognised at their actuarial value. The accruing and accrued obligations are considered for discounting purposes (these obligations are, respectively, the discounted value of the expected future payments related to benefits accrued during the current financial year and the discounted value of future payments resulting from amounts accrued in previous financial years).

Financial liabilities

Financial liabilities are included in the items “Loans”, “Other financial liabilities”, “Current portions of long-term loans” and “Current financial liabilities”.

Non-current and current financial liabilities, represented by loans raised and securities issued, are recognised initially at cost, i.e. the fair value of the liabilities, less any directly attributable transaction costs. Subsequently, these financial liabilities are measured at amortised cost, using the effective interest rate method.

Financial liabilities also include hedging derivatives which have a negative fair value at the reporting date. Please refer to the previous paragraph “Hedging transactions” in section “4. Hedging derivatives” for a description of the standards adopted for the recognition of hedging derivatives.

Financial liabilities are derecognised when settled or when the obligation specified in the contract has been satisfied, cancelled or has expired.

Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method. Trade payables are not discounted if the due dates are line with normal commercial terms.

Revenue

The revenue is recognised in such a way as to accurately represent the process of transfer of goods and services to customers in an amount that reflects the consideration that one expects to receive in exchange for supplied goods and services, using a model consisting of five basic steps:

- step 1: identify the contract with the customer;
- step 2: identify the contractual obligations, noting the separable goods or services as separate obligations;
- step 3: determine the price of the transaction, i.e. the amount of the consideration that one expects to receive;
- step 4: allocate the transaction price to each obligation identified in the contract based on the sale price of each individual separable item of goods or services;
- step 5: recognise the revenue when (or if) each contractual obligation is fulfilled through the transfer of the good or service to the customer, i.e. when the customer obtains control of the good or service.

According to the type of transaction, revenue is recognised based on the specific criteria reported below:

- revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer and its amount can be measured reliably and collected;
- revenue from services is recognised with reference to the stage of completion of the activities. In case it is not possible to reliably measure the value of revenue, this is measured up to the amount of the costs incurred that is believed will be recovered;
- revenue accrued in the year for contract work in progress is recognised on the basis of the amounts agreed proportionate to the progress of the work, which is calculated using the cost-to-cost method. In addition to the amount of revenue agreed in the contract, contract revenue includes variations in contract work, reviewed prices and incentive payments, to the extent that it is probable that they will result in revenue and can be reliably measured. Revenue may decrease also as a result of penalties arising from delays caused by group companies.

Revenue from regulated activities is governed by the regulations issued by the Italian Energy Networks and Environment Regulator (ARERA). Consequently, the financial terms and conditions relating to the services provided are not defined by negotiation but in accordance with the relevant regulatory frameworks and the tariffs are set periodically by ARERA and used as a basis to define the tariff criteria for the reference period.

In particular, the tariff system requires that the reference revenue to calculate the tariffs be recognised in order to cover the costs incurred by the operator and provide an equitable return on the capital invested.

There are three cost categories recognised:

- the cost of the net invested capital for RAB (Regulatory Asset Base) purposes through applying a rate of return on that invested capital;
- the economic - technical amortisation covering the investment costs;
- the operating costs covering the running costs.

Payments collected on behalf of third parties, such as fees for other non-Group grid owners, as well as fees recognised for the balancing of the national electrical energy system, which do not increase equity, are shown net of the related costs.

Financial income (expense)

Financial income (expense) includes:

- interest income and expense;
- income and expense associated with hedging activities;
- gains (losses) on disposal or repurchase;
- income and expense associated with trading activities;
- the net gain (loss) on financial assets and liabilities measured at FVTPL;
- the net adjustments and recoveries for credit risk relating to financial assets measured at amortised cost or at FVTOCI;
- exchange rate differences.

Interest income and expense is recognised in the income statement for all instruments based on amortised cost using the effective interest rate method. The interest also includes the net balance, either positive or negative, of the differentials and margins relating to derivatives.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset. The qualifying assets (property, plant and equipment and intangible assets) involved are those that require at least one year before being ready for use. The directly attributable financial expenses are those that would not have been incurred if the expense for that asset had not been incurred.

Where funds are borrowed specifically, costs eligible for capitalisation are the actual financial expense incurred for that financing, less any income earned on the temporary investment of such borrowings. In regard to the general pool of assumed debt, the amount of financial expenses that can be capitalised is determined by applying a capitalisation rate to the expenses incurred for that asset which corresponds to the weighted average of the borrowing costs applicable to the general pool, excluding any specifically borrowed funds. The amount of borrowing costs capitalised during a financial year shall in any case not exceed the amount of borrowing costs incurred during that year.

The starting date of capitalisation is the date on which all of the following conditions were met for the first time: (a) the costs for the asset were incurred; (b) the financial expenses were incurred; and (c) the activities necessary to prepare the asset for its intended use or for sale were undertaken.

Capitalisation of the financial expenses ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete.

Other information

Leases

Leases are recognised on the basis of the rules in IFRS 16, the standard that has replaced IAS 17 “Leases”, IFRIC 4 “Determining whether an arrangement contains a lease”, SIC 15 “Operating Leases — Incentives” and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”, and at the same time has regulated new requirements for the accounting of leases.

The standard provides a new definition of lease and introduces a method whereby the control of right of use of an asset discriminates in the identification of contracts that are or contain a lease from those for the supply of services. The key features of this distinction are: the identification of the asset, the absence of substitution rights, the right to obtain substantially all economic benefits resulting from use of the asset and the right to direct the use of the leased asset. Thus it follows that even rental and hire contracts and leases payable, that were previously excluded from the lease accounting scope, could now be included.

Further changes relate to accounting records; in particular a single accounting and valuation model for leases was introduced for the lessee, who shall recognise a right-of-use asset underlying the lease and a lease liability consisting in the present value of outstanding lease payments. So the main change, for the lessee, consists in overcoming the distinction, provided under IAS 17, between operating and finance leases: in fact the lessee must recognise all leases in the same way, recognising an asset and a liability, which must then be depreciated over the life of the lease (this period includes any renewal or early termination options, if the exercising of these options is reasonably certain).

Essentially, the balance sheet liabilities show the Lease Liability, which consists of the present value of the payments which, at the valuation date, have yet to be paid to the lessor; the balance sheet assets, on the other hand, show the Right-of-Use Asset, calculated as the sum of the lease still payable, the initial direct costs, the payments made on or before the inception date of the contract (net of any lease incentives received) and the costs of dismantling and/or restoration.

Consequently, the method of recognition of the income statement items is amended: while under IAS 17 lease payments are recognised in "Administrative expenses", under IFRS 16 the expense accrued on the lease liability will be recognised in "Interest expense and similar expense", and the depreciation/amortisation of the Right-of-Use Asset in “Net adjustments to/recoveries on property, plant and equipment and intangible assets”.

For leases involving low value assets and leases with a duration of 12 months or less (i.e. short-term leases), the introduction of IFRS 16 does not entail the recognition of financial liabilities and the relevant right of use, but lease payments shall continue to be recognised in the income statement on a straight line basis for the duration of the respective leases.

On first-time adoption the Group shall apply the new standard according to the “Modified Retrospective Approach”, which allows recognition of the cumulative effect of the initial application of the Standard on the first-time adoption date without restating the comparative information (IFRS 16 C5 b), in the option envisaged in paragraph C.8 b (ii).

More specifically, this approach provides for recognition of the following measurements:

- the lease liability calculated as the present value of the remaining payments due on the lease, discounted at the incremental borrowing rate at the date of initial application (IFRS 16.C8.a);
- the right-of-use asset equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application (IFRS 16.C8.b.ii).

In addition, some of the practical expedients and recognition exemptions provided by the standard are adopted upon initial application. In particular:

- use of the incremental borrowing rate as the discount rate to calculate the lease liability;
- exclusion of leases with a total or remaining lease term[51] of 12 months or less;
- exclusion of leases with an underlying asset value of 5,000 euro or less at the date of purchase;
- exclusion of the initial direct costs incurred to measure the right-of-use asset at the date of initial application.

Uncertainty on the treatment for the purpose of income tax

An entity shall consider whether it is probable that the relevant taxation authority will accept every tax treatment, or group of tax treatments, it has used or plans to use in its tax return. If the entity concludes that it is probable that a particular tax treatment will be accepted, the entity shall determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its tax documentation. If the entity concludes that it is not probable that a particular tax treatment will be accepted, the entity shall use the most probable amount or the expected value of the tax treatment in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The judgement should be based on which method provides the best forecast of how to resolve the uncertainty.

Share-based payments

These are payments to employees as consideration for their work services performed. When specific conditions are met, the cost of employee service is remunerated through stock option plans, whose value is measured according to the fair value of the options granted to employees at the grant date.

The fair value of options granted is recognised in the income statement, under the item “Staff costs” over the vesting period, with a corresponding increase in equity, considering the best possible estimate of the number of options that employees will be able to exercise. That estimate is revised where subsequent information indicates that the expected number of equity instruments that will vest differs from the estimate previously carried out, independently of market conditions.

The measurement method used to calculate fair value considers all the characteristics of the options (term, price and conditions for exercise, etc.), as well as the value of the underlying security at the grant date, volatility and the yield curve at the grant date, in line with the duration of the plan.

[51] For the purpose of determining the lease term, it was assumed that the contractual renewal is reasonably certain if:
- there is a clause that grants the lessee the right to renew the contract and there is a clause through which the lessor is obliged to not refuse the renewal request;
- there is a clause that grants the lessee the right to renew the contract and the lessor has not notified his/her desire to exercise the right of refusing the renewal within the contractually set terms.

At maturity, the estimate is revised and recognised in the income statement to register the amount corresponding to the number of equity instruments that have effectively vested, independently of whether market conditions have been met.

Grants

Capital grants provided by public entities are recognised when there is reasonable certainty that the conditions established by the granting authorities for obtaining the grant will be met. Their recognition reduces the purchase or transfer price or the production cost of the asset they refer to. Similarly, capital grants received from private parties are accounted for in accordance with the same accounting policies.

Grants for operating expenses can be recognised through profit or loss on an accruals basis when the related costs are incurred or, alternatively, in full when the conditions for their recognition have been met.

With particular reference to connection fees for private users, the remuneration component for the initial installation investment amount is recognised as revenue to be deferred over the useful life of the asset to which it refers, with a balancing entry among other liabilities.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not a forced liquidation or distress sale) at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. Underlying the definition of fair value is the assumption that the entity is operating its business normally without any intention to liquidate its own assets, significantly reduce the level of its own assets, or settle transactions at unfavourable conditions. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

As envisaged in IFRS 13, to measure the fair value, the effect of non-performance risk is also considered. This risk includes both the changes in the counterparty's credit risk and the changes in the issuer's own credit risk.

The fair value of financial instruments is calculated according to a hierarchy of criteria based on the origin, type, and quality of information used. In detail, this hierarchy assigns the highest priority to the prices quoted (and not changed) on active markets and lower importance to unobservable inputs. Three different input levels are identified:

- in the case of instruments quoted on active markets, prices on financial markets are used (Level 1);
- in the case of instruments not quoted on active markets, recourse is made, where possible, to valuation techniques that use observable market inputs other than quoted prices for the financial instrument but connected with its fair value by non-arbitrage relationships (Level 2);
- in other cases, recourse is made to internal valuation techniques that also use unobservable market inputs that are therefore inevitably subjective to some degree (Level 3).

Since Level 1 inputs are available for numerous financial assets and liabilities, some of which are traded on more than one active market, the entity has to take special care when defining both of the following aspects:

- the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability;
- whether the entity can conclude a transaction involving the asset or liability at that price and on that market at the measurement date.

The CDP RETI Group believes that the principal market of a financial asset or liability can be identified as the market on which the Group normally operates.

A market is considered active if the quoted prices, representing effective and regular market transactions executed during an appropriate reference period, are readily and regularly available through stock exchanges, brokers, intermediaries, specialised firms, quotation services or authorised entities.

In the event of a significant reduction in the volume or level of ordinary activity for the asset or liability (or for similar assets or liabilities) flagged by certain indicators (number of transactions, insignificance of the prices given by the market, significant increase in the implicit premiums for liquidity risk, widening or increase in the bid-ask spread, reduction or total absence of a market for new issues, scanty information in the public domain), the transactions or quoted prices are analysed.

In the case of financial instruments that are not quoted on active markets, valuation using Level 2 inputs requires the use of valuation techniques that process market inputs at different levels of complexity. For example, valuation techniques may involve, in addition to interpolations and extrapolations, the specification of stochastic processes that represent market dynamics and the use of simulations or other numerical techniques to determine the fair value of the instruments being measured.

The Group takes the following into consideration when selecting the valuation techniques to be used in Level 2 measurements:

- simpler valuation techniques are preferred to more complex techniques, all other conditions being equal and as long as they represent all of the relevant characteristics of the product, ensuring that they are reasonably in line with the practices and results of other sector operators;
- valuation techniques are applied consistently over time to consistent categories of instruments, unless objective grounds for replacement emerge;
- all other conditions being equal, preference is given to standard models whose mathematical structure and implementing procedures are familiar to practitioners and implemented in the Group's systems.

The market parameters used as inputs for Level 2 valuations are selected on the basis of non-arbitrage relationships or comparative relationships that define the fair value of the financial instrument being measured as the relative fair value compared with that of financial instruments listed on active markets.

In some cases, in determining the fair value it is necessary to have recourse to valuation techniques that call for inputs that cannot be drawn directly from observable market variables, statistical or “expert-based” estimates by those carrying out the valuation (Level 3).

Level 3 valuation techniques are also applied consistently over time to consistent categories of instruments, unless objective grounds for replacement emerge. Similarly, parameters that cannot be drawn directly from observable market variables are applied consistently over time.

Business combinations

A business combination involves the transfer of control over a business activity or, more generally, a company.

Business combinations are recognised in accordance with the acquisition method, by which the assets transferred and liabilities assumed by the CDP RETI Group at the business combination acquisition date are recognised at fair value. Transaction costs are generally recognised in the income statement in the years when those costs are incurred or the services are rendered.

For newly acquired companies, if the initial values for a business combination are incomplete by the end of the reporting period in which the combination occurs, the CDP RETI Group reports in its consolidated financial statements provisional amounts for the item for which the accounting is incomplete. In accordance with IFRS 3, § 45 ff., within twelve months of the acquisition date, the differences resulting from the business combination are allocated by recognising the fair value at the acquisition date of the identifiable assets acquired and liabilities assumed. The following items are an exception and are measured in accordance with their applicable standard:

- deferred tax assets and liabilities;
- assets and liabilities for employee benefits;
- liabilities or equity instruments related to share-based payment transactions involving shares of the acquiree or share-based payment transactions involving shares of the Group issued in replacement of contracts of the acquiree;
- assets held for sale and discontinued operations.

Goodwill is determined as the excess of the aggregate of the consideration transferred in the business combination, the amount of any non-controlling interest in the acquiree, and the fair value of any equity interest previously held by the acquirer in the acquiree over the fair value at the acquisition date of the net assets acquired and the liabilities assumed. If the fair value at the acquisition date of the net assets acquired and the liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of any equity interest previously held by the acquirer in the acquiree, the excess is recognised in the income statement as a gain from the transaction.

After initial recognition, the goodwill acquired for consideration in a business combination is tested for impairment once annually or whenever there is evidence of impairment. For newly acquired companies, the difference between the acquisition price and equity is provisionally recognised as goodwill, if positive, or under liabilities if negative, net of goodwill, if any, recognised in the financial statements of the acquirees.

At the acquisition date, non-controlling interests are measured at fair value or as a proportionate share of the recognised amounts of the acquiree's identifiable net assets. The measurement method is selected on a transaction basis.

Any contingent consideration provided in the business combination is measured at the acquisition-date fair value and included in the amount of the consideration transferred in the business combination for the purposes of calculating goodwill. Any subsequent changes in that fair value, which qualify as adjustments occurring during the measurement period, are included in goodwill retrospectively. Changes in fair value that can be considered as measurement-period adjustments are those prompted by new information about facts and circumstances that existed at the acquisition date, that has been obtained during the measurement period (which shall not exceed one year from the business combination).

In the case of business combinations achieved in stages, the equity interest previously held by the Group in the acquiree is revalued at the fair value at the date control was acquired and any resulting gain or loss is recognised through profit or loss. Any changes in the value of the previously held equity investment that had been recognised in other comprehensive income are reclassified to the income statement as if the equity investment had been sold. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the CDP RETI Group shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group shall adjust the provisional amounts to reflect new information obtained about facts and circumstances that existed at the acquisition date and that, if known, would have affected the measurement of the amounts recognised at that date.

Business combinations do not include those transactions aimed at obtaining control of one or more companies that do not constitute a business activity or if the business combination is carried out with reorganisation purposes, and thus between two or more entities already belonging to the same Group, and which do not cause changes in the control structure independently of the percentage of non-controlling interests before and after the transaction (referred to as “business combination under common control”). These transactions are in fact considered to have no economic substance.

II - INFORMATION ON THE CONSOLIDATED BALANCE SHEET

I. ASSETS

Non-current assets

1. Property, plant and equipment

Below is a breakdown of the CDP RETI Group's property, plant and equipment, which show a net value of 35,547 million euro at 31 December 2019 (34,735 million euro at 31 December 2018).

Property, plant and equipment: breakdown

(thousands of euro)	31/12/2019			31/12/2018		
Items/Figures	Gross amount	Provision for amortisation, depreciation and impairment	Net value	Gross amount	Provision for amortisation, depreciation and impairment	Net value
Owned						
Land	390,243	(866)	389,377	386,576	(1,196)	385,380
Buildings	3,097,436	(1,062,630)	2,034,806	2,929,150	(986,102)	1,943,048
Plant and equipment	48,763,242	(19,783,041)	28,980,201	47,175,928	(18,580,869)	28,595,059
Other plant and equipments	2,422,261	(977,252)	1,445,009	1,989,457	(936,004)	1,053,453
Industrial and commercial equipment	368,454	(262,298)	106,156	337,967	(239,814)	98,153
Other assets	99,874	(77,070)	22,804	86,095	(58,795)	27,300
Assets under development and advances	2,507,500	(65,747)	2,441,753	2,671,610	(39,290)	2,632,320
Right of use acquired under leases ex IAS 17						
Buildings	720	(118)	602			
Plant and equipment	6,810	(1,588)	5,222			
Other assets	2,074	(1,849)	225			
Right of use acquired under leases ex IFRS 16						
Land	11,853	(1,930)	9,923			
Buildings	77,779	(13,690)	64,089			
Industrial and commercial equipment	40,160	(8,767)	31,393			
Other assets	19,668	(3,957)	15,711			
Total	**57,808,074**	**(22,260,803)**	**35,547,271**	**55,576,783**	**(20,842,070)**	**34,734,713**

The item mainly includes investments made by the TERNA group in energy transport lines and transformation stations, investments made by the SNAM group in transport infrastructure, gas storage and regasification, and the investments made by the ITALGAS group in the gas distribution segment, limited to land and buildings that are not subject to IFRIC12. Also included are rights of use acquired under a lease and relating to the use of property, plant and equipment (for the lessees), equal to approximately 127 million euro at 31 December 2019.

During the year, the SNAM group made investments for 861 million euro, mainly in the transport (723 million euro) and storage (103 million euro) sectors.

As regards the TERNA group, investments during the period amounted to 1,183 million euro (including 34.6 million euro referring to rights of use recognised pursuant to the new IFRS 16), of which 1,090 million euro were for the group's regulated segment and 93 million euro for the unregulated segment, mainly related to the construction of the "Italy-France" and "Italy-Montenegro" private interconnection line.

During the period, investments of the ITALGAS group amounted to approximately 76 million euro and mainly referred to equipment and other assets associated with rights of use.

During the period, technical financial depreciation was recorded, determined on the basis of the useful life of the assets, i.e. on their residual useful lives, for a total of 1,440 million euro, substantially attributable to the SNAM group for 650 million euro, to the TERNA group for 527 million euro and for the residual part to the ITALGAS group.

Commitments to purchase property, plant and equipment are listed in paragraph "IX. Guarantees and commitments".

Property, plant and equipment: changes for the year

(thousands of euro) Items/Figures	Land	Buildings	Plant and equipments	Other plant and equipments	Industrial and commercial equipment	Other assets	Assets under development and advances	Total
Gross opening balance	386,576	2,929,150	47,175,928	1,989,457	337,967	86,095	2,671,610	55,576,783
of which Right of use ex IAS 17	*-*	*720*	*6,810*	*-*	*115*	*2,233*	*-*	*9,878*
Provision for amortisation, depreciation and impairment - opening balance	(1,196)	(986,102)	(18,580,869)	(936,004)	(239,814)	(58,795)	(39,290)	(20,842,070)
of which Right of use ex IAS 17	*-*	*(96)*	*(1,298)*	*-*	*(24)*	*(1,581)*	*-*	*(2,999)*
Net opening balance	**385,380**	**1,943,048**	**28,595,059**	**1,053,453**	**98,153**	**27,300**	**2,632,320**	**34,734,713**
of which Right of use ex IAS 17	**-**	**624**	**5,512**	**-**	**91**	**652**	**-**	**6,879**
of which Right of use IFRS 16	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Gross amount: change for the period								
Change in opening balances	10,237	61,249	-	-	-	9,476	-	80,962
of which Right of use ex IAS 17	*-*	*-*	*-*	*-*	*-*	*-*	*-*	
of which Right of use IFRS 16	*10,237*	*61,249*	*-*	*-*	*-*	*9,476*	*-*	*80,962*
Investments	775	33,884	1,965	5,213	43,777	16,253	1,994,811	2,096,678
of which Right of use ex IAS 17	*-*	*-*	*-*	*-*	*-*	*-*	*-*	
of which Right of use IFRS 16	*3*	*4,061*	*-*	*-*	*23,737*	*14,394*	*-*	*42,195*
Contributions from business combinations	1,085	31,306	241,987	74,271	9,582	16,140	(198,207)	176,164
of which Right of use ex IAS 17	*-*	*-*	*-*	*-*	*-*	*-*	*-*	
of which Right of use IFRS 16	*-*	*5,715*	*-*	*-*	*1,707*	*206*	*-*	*7,628*
Transfers	2,700	119,078	1,690,290	109,884	10,445	11,320	(1,944,680)	(963)
Disposals	(424)	(21,442)	(100,200)	(12,847)	(11,139)	(3,467)	(4,056)	(153,575)
of which Right of use IFRS 16	*-*	*(5,879)*	*-*	*-*	*(4,010)*	*(24)*	*-*	*(9,913)*
Other changes	1,147	22,710	(239,918)	256,283	17,982	(14,201)	(11,978)	32,025
of which Right of use ex IAS 17	*-*	*-*	*-*	*-*	*(115)*	*(159)*	*-*	*(274)*
of which Right of use IFRS 16	*1,613*	*12,633*	*-*	*-*	*18,726*	*(4,384)*	*-*	*28,588*
Provision for amoirtsation, depreciation and impairment: change for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Change in opening balances	-	-	-	-	-	-	-	
Depreciation for the period	(2,120)	(86,394)	(1,252,283)	(55,850)	(31,805)	(11,880)	-	(1,440,332)
of which Right of use ex IAS 17	*-*	*(22)*	*(290)*	*-*	*-*	*(331)*	*-*	*(643)*
of which Right of use IFRS 16	*(2,120)*	*(12,858)*	*-*	*-*	*(8,292)*	*(3,846)*	*-*	*(27,116)*
Contributions from business combinations	-	(9,845)	(16,904)	(18,035)	(7,465)	(16,814)	-	(69,063)
of which Right of use IFRS 16	*-*	*(1,044)*	*-*	*-*	*(445)*	*(26)*	*-*	*(1,515)*
Disposals	343	5,591	92,025	1,955	12,734	3,326	-	115,974
of which Right of use IFRS 16	*-*	*3,747*	*-*	*-*	*3,286*	*-*	*-*	*7,033*
(Writedowns)/Writebacks	-	-	-	(2,829)	-	(2,359)	(27,203)	(32,391)
Other changes	177	312	(26,598)	33,511	(4,715)	3,646	746	7,079
of which Right of use ex IAS 17	*-*	*-*	*-*	*-*	*24*	*63*	*-*	*87*
of which Right of use IFRS 16	*190*	*(3,535)*	*-*	*-*	*(3,316)*	*(85)*	*-*	*(6,746)*
Gross closing balance	**402,096**	**3,175,935**	**48,770,052**	**2,422,261**	**408,614**	**121,616**	**2,507,500**	**57,808,074**
of which Right of use ex IAS 17	**-**	***720***	***6,810***	**-**	**-**	***2,074***	**-**	***9,604***
of which Right of use IFRS 16	***11,853***	***77,779***	**-**	**-**	***40,160***	***19,668***	**-**	***149,460***
Provision for amortisation, depreciation and impairment - closing balance	**(2,796)**	**(1,076,438)**	**(19,784,629)**	**(977,252)**	**(271,065)**	**(82,876)**	**(65,747)**	**(22,260,803)**
of which Right of use ex IAS 17	**-**	***(118)***	***(1,588)***	**-**	**-**	***(1,849)***	**-**	***(3,555)***
of which Right of use IFRS 16	***(1,930)***	***(13,690)***	**-**	**-**	***(8,767)***	***(3,957)***	**-**	***(28,344)***
Net closing balance	**399,300**	**2,099,497**	**28,985,423**	**1,445,009**	**137,549**	**38,740**	**2,441,753**	**35,547,271**
of which Right of use ex IAS 17	**-**	***602***	***5,222***	**-**	**-**	***225***	**-**	***6,049***
of which Right of use IFRS 16	***9,923***	***64,089***	**-**	**-**	***31,393***	***15,711***	**-**	***121,116***

2. Inventories – compulsory stock

Compulsory stock: breakdown

(thousands of euro)/(billions of cu.m.)	31/12/2019		31/12/2018	
Items/Figures	Carrying amount	Volumes (billions of cu.m.)	Carrying amount	Volumes (billions of cu.m.)
Compulsory stock	362,713	4.5	362,713	4.5
Total	**362,713**	**4.5**	**362,713**	**4.5**

Inventories - compulsory stock, equal to 363 million euro, includes the minimum natural gas quantities that the storage companies are required to hold under Presidential Decree no. 22 of 31 January 2001. The stock of gas, equivalent to approximately 4.5 billion standard cubic metres of natural gas, is determined by the Ministry of Economic Development on an annual basis.

3. Intangible assets

The following table shows the breakdown of "Intangible assets", which at 31 December 2019 amounted to 9,927 million euro (8,597 million euro at 31 December 2018).

Intangible assets: breakdown

(thousands of euro)	31/12/2019			31/12/2018		
Items/Figures	Gross amount	Provision for amortisation, depreciation and impairment	Net value	Gross amount	Provision for amortisation, depreciation and impairment	Net value
Goodwill	886,263		886,263	873,657		873,657
Service concession agreements	13,786,930	(6,260,083)	7,526,847	11,636,381	(5,316,494)	6,319,887
Industrial patent and intellectual property rights	1,285,037	(1,030,934)	254,103	1,128,646	(918,836)	209,810
Concessions, licenses, trademarks and similar rights	1,336,630	(333,844)	1,002,786	1,302,019	(323,872)	978,147
Other intangible assets	562,086	(366,260)	195,826	453,471	(304,939)	148,532
Assets under development and advances	61,215		61,215	66,589		66,589
Total	**17,918,161**	**(7,991,121)**	**9,927,040**	**15,460,763**	**(6,864,141)**	**8,596,622**

The main component of intangible assets consists of ITALGAS' service concession agreements, which concern public-private agreements relating to the development, financing, maintenance and operation of infrastructures under concession arrangements from the granting authority. The provisions on service concession agreements are applicable to ITALGAS in relation to the public service of natural gas distribution, i.e. agreements whereby the operator undertakes to provide the public service of natural gas distribution at the tariff set by the Italian Energy Networks and Environment Regulator (ARERA), with the right to use the infrastructure controlled by the granting authority in order to provide the public service.

In implementation of the "partial goodwill method" for the recognition of goodwill envisaged by IFRS 3, the item "Goodwill" represents the only share belonging to CDP RETI Group for the goodwill recorded in the consolidated financial statements of TERNA, SNAM, and ITALGAS, as well as the share recorded as a result of allocating the differences between the prices paid for the purchase of equity investments and the relevant equity.

Goodwill recognised in the financial statements as at 31 December 2019 in the amount of 867 million euro, consists of:

- 364 million euro for the TERNA group;
- 398 million euro for the SNAM group;
- 105 million euro for the ITALGAS group.

In relation to TERNA, SNAM and ITALGAS, the CGUs to which goodwill was allocated coincide with the individual legal entities and the recoverable value is equivalent to the market value of the companies, determined on the basis of the weighted average prices of the volumes traded in December. The fair value for each of these three companies was higher than the value of their respective net assets, inclusive of the effects of purchase price allocation.

Intangible assets: changes for the year

(thousands of euro) Items/Figures	Goodwill	Service concession agreements	Industrial patent and intellectual property rights	Concessions, licenses, trademarks and similar rights	Other intangible assets	Assets under development and advances	Total
Gross opening balance	873,657	11,636,381	1,128,646	1,302,019	453,471	66,589	15,460,763
Provision for amortisation, depreciation and impairment - opening balance	-	(5,316,494)	(918,836)	(323,872)	(304,939)	-	(6,864,141)
Net opening balance	**873,657**	**6,319,887**	**209,810**	**978,147**	**148,532**	**66,589**	**8,596,622**
Gross amount: change for the period							
Investments	-	626,322	24,646	4	83,084	112,531	846,587
Contributions from business combinations	34,949	1,505,880	410	31,149	43,785	3	1,616,176
Transfers	-	27,543	90,715	3,362	(27,322)	-	94,298
Disposals	-	(143,482)	(20)	-	(685)	(305)	(144,492)
(Writedowns)/Writebacks	-	-	-	-	-	-	-
Other changes	(22,343)	134,286	40,640	96	9,753	(117,603)	44,829
Reclassifications	-	-	-	-	-	-	-
Provision for amortisation, depreciation and impairment - change for the period							
Depreciation for the period		(398,562)	(94,118)	(10,015)	(40,536)	-	(543,231)
Contributions from business combinations		(563,854)	(298)	-	(22,694)	-	(586,846)
Disposals		141,943	105	24	693	-	142,765
(Writedowns)/Writebacks		(1,856)	-	-	(52)	-	(1,908)
Other changes		(121,260)	(17,787)	19	1,268	-	(137,760)
Reclassifications		-	-	-	-	-	-
Gross closing balance	**886,263**	**13,786,930**	**1,285,037**	**1,336,630**	**562,086**	**61,215**	**17,918,161**
Provision for amortisation, depreciation and impairment - closing balance	**-**	**(6,260,083)**	**(1,030,934)**	**(333,844)**	**(366,260)**	**-**	**(7,991,121)**
Net closing balance	**886,263**	**7,526,847**	**254,103**	**1,002,786**	**195,826**	**61,215**	**9,927,040**

Investments for the period mainly refer to service concession agreements (626 million euro) of the ITALGAS group. During the year, capital grants from public entities and other parties, recognised as a reduction of the net value of service concession agreements, amounted to 389 million euro.
The contractual commitments for the acquisition of intangible assets, as well as for the provision of services connected with their implementation, are reported in paragraph "IX - Guarantees and commitments".

4. Equity investments

SNAM, TERNA, and ITALGAS' equity investments are listed below, together with information on the investment relationships.

Equity investments in joint operations, associates and other companies: information on investments

(thousands of euro)

Items/Figures		Equity investment				
Name	Registered office	Investor	% holding	Voting rights %	Carrying amount	Valuation method
A. Companies subject to joint control						
Trans Austria Gasleitung GmbH	Wien	SNAM S.p.A.	84.47%	84.,47%	519,913	Equity method
ELMED Etudes S.a.r.l.	Tunisi	Terna S.p.A.	50.00%	50.00%	-	Equity method
TEREGA HOLDING S.A.S. (già TIGF Holding S.A.S.)	Pau	SNAM S.p.A.	40.50%	40.50%	481,703	Equity method
Metano S.Angelo Lodigiano S.p.A.	Sant'Angelo Lodigiano	Italgas Reti SpA	50.00%	50.00%	2,128	Equity method
Umbria Distribuzione GAS S.p.A.	Terni	Italgas Reti SpA	45.00%	45.00%	13,326	Equity method
Enerpaper S.r.l.	Turin	Seaside S.r.l.	10.00%	10.00%	399	Equity method
AS Gasinfrastruktur Beteiligung GmbH	Wien	SNAM S.p.A.	40.00%	40.00%	125,463	Equity method
B. Companies subject to significant influence						
CGES A.D.	Podgorica	Terna S.p.A.	22.09%	22.09%	26,694	Equity method
CESI S.p.A.	Milan	Terna S.p.A.	42.70%	42.70%	52,261	Equity method
CORESO S.A.	Bruxelles	Terna S.p.A.	15.84%	15.84%	507	Equity method
Gesam Reti S.p.A.	Lucca	Lucca	42.96%	42.96%	25,078	Equity method
Trans Adriatic Pipeline AG	Baar	SNAM S.p.A.	20.00%	20.00%	264,199	Equity method
Interconnector (UK) Ltd	London	Snam International B.V.	23.68%	23.68%	61,412	Equity method
Interconnector Zeebrugge Terminal S.C./C.V. Scrl	Bruxelles	Snam International B.V.	25.00%	25.00%	566	Equity method
Senfluga Energy Infrastructure Holding S.A.	Athen	SNAM S.p.A.	60.00%	60.00%	124,263	Equity method
Valdarno S.r.l.	Pisa	Toscana Energia	30.04%	30.04%	5,443	Equity method
C. Unconsolidated subsidiaries (1)						
ASSET COMPANY 7 B.V.	Amsterdam (NL)	SNAM S.p.A.	100.00%	100.00%	1	At Cost
SNAM4EFFICIENCY S.R.L.	San Donato Milanese (MI)	SNAM S.p.A.	100.00%	100.00%	1,010	At Cost
Tea Innovazione Due S.r.l.	Brescia	Tea Servizi S.r.l.	100.00%	100.00%	20	At Cost
TEP Energy Solution Nordest S.r.l.	Udine	TEP Energy Solution S.r.l.	50.00%	50.00%	528	At Cost
IES Biogas S.r.l. (Argentina)	Argentina	IES Biogas S.r.l.	95.00%	5.00%	10	At Cost
Copower S.r.l.	Rome	TEP Energy Solution S.r.l.	51.00%	51.00%	46	At Cost
D. Unconsolidated associates (1)						
Energy Investment Solution S.r.l.	Brescia	Tea Servizi S.r.l.	40.00%	40.00%	743	At Cost
Latina Biometano S.r.l.	Rome	IES Biogas S.r.l.	32.50%	32.50%		At Cost
Albanian Gas Service Company Sh.a.	Tirana	SNAM S.p.A.	25.00%	25.00%	7	At Cost

(1) Companies in liquidation or subsidiaries in the start-up phase without assets and liabilities

During the period, the value of the equity investments changed as follows:

Equity investments: changes for the period

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
A. Opening balance	**1,878,287**	**1,745,916**
B. Increases	**286,816**	**416,550**
B.1 Purchases	3,403	97,318
B.2 Writebacks		
B.3 Revaluations	190,513	143,879
B.4 Other increases	92,900	175,353
C. Decreases	**(459,383)**	**(284,179)**
C.1 Sales		(32,830)
C.2 Writedowns	(8,077)	(8,217)
C.3 Other decreases	(451,306)	(243,132)
D. Closing balance	**1,705,720**	**1,878,287**

Revaluations made during the period mainly concern the equity investments in Trans Austria Gasleitung GmbH (74 million euro), Teréga Holding S.A.S. (44 million euro), Senfluga Energy Infrastructure Holdings S.A. (33 million euro) and AS Gasinfrastruktur Beteiligung GmbH (10 million euro).

Adjustments for the year mainly concern the non-controlling interests in the net income (loss) of the associate TAP (7 million euro).

The other negative changes are mainly attributable to decreases for dividends distributed by the investee companies and the line-by-line consolidation of Toscana Energia S.p.A.

Other information on equity investments

Consistent with the provisions set out in IFRS 12 “Disclosure of interests in other entities”, the financial performance of joint operations and associates is summarised below.

Significant equity investments: carrying amount and dividends received

(thousands of euro) Names	Carrying amount	Total Net equity	Pro quota Net Equity	Goodwill	Other changes	Dividend paid
A.1 Joint ventures						
Trans Austria Gasleitung GmbH	519,912	582,730	519,913	-	-	63,069
Terega Holding S.A.S. (già TIGF Holding S.A.S.)	481,705	1,189,394	481,703	-	-	35,206
AS Gasinfrastruktur Beteiligung GmbH	125,464	313,178	125,271	-	193	-
A.2 Associates						
Trans Adriatic Pipeline AG	264,199	638,319	127,664	91,050	45,485	-
Senfluga Energy Infrastructure Holding S.A.	124,262	588,361	353,017	-	(218,823)	-

Significant equity investments: accounting data

(thousands of euro) Names	Cash and cash equivalent	Current assets	Non current asstes	Current financial liabilities	Non current financial liabilities	Current liabilities	Non current liabilities	Revenues	Interest income	Interesnt expenses	Depreciation	Income (loss) before taxes on continuing operations	Income (loss) after taxes on continuing operations	Taxes	Net income (loss) for the period (1)	Other comprehensive income net of taxes (2)	Comprehensive income (3)= (1)+(2)
A.1 Joint ventures																	
Trans Austria Gasleitung GmbH	4,704	46,508	1,103,685	12,346	336,875	91,973	475,489	321,300	3	(11,395)	(60,780)	-	-	29,660	83,290	-	83,290
TIGF Holding S.A.S.	39,754	133,399	2,930,264	74,149	1,425,565	173,926	1,700,343	501,970	-	(52,231)	(102,839)	-	-	44,895	94,244	(1,826)	92,418
AS Gasinfrastruktur Beteiligung GmbH	1,892	1,892	604,909	3,191	39,879	3,325	291,458	-	1,529	(6,892)	-	-	-	-	17,969	(1,595)	16,374
A.2 Associates																	
Trans Adriatic Pipeline AG	29,250	78,890	7,279,031	-	2,891,251	209,801	3,102,641	1,589	2,673	(1,313)	(984)	-	-	(880)	(39,579)	(92,927)	(132,505)
Senfluga Energy Infrastructure Holding S.A.	139,468	220,253	838,547	42,160	417,553	104,638	466,407	257,124	-	(19,583)	-	-	-	(33,640)	87,542	(1,826)	82,549

Non-significant equity investments: accounting data

(thousands of euro) Type of investments	Carryng amount of the investments	Total assets	Total liabilities	Total revenues	Income (loss) before taxes on continuing operations	Income (loss) after taxes on continuing operations	Net income (loss) for the period (1)	Other comprehensive income net of taxes (2)	Comprehensive income (3) = (1)+(2)
Joint ventures	2,853	93,372	8,206	10,772	437	-	437	-	437
Associates	172,711	827,457	133,778	248,007	16,836	-	61,307	27,707	88,645

Obligations relating to equity investments

The main obligations relating to equity investments are set out below.

Trans Adriatic Pipeline AG

SNAM S.p.A. has made commitments to Trans Adriatic Pipeline AG in its capacity as owner responsible for financing the project and for the percentage of investment it possesses. The commitment relates to the overall costs of the project, including the financial expenses accounted for in the work creation phase and deriving from the loan agreement, completed by TAP in December 2018.

5. Non-current financial assets

Below is a breakdown of the CDP RETI Group's non-current financial assets, which had a net value of 503 million euro at 31 December 2019 (270 million euro at 31 December 2018).

Non-current financial assets: financial assets at fair value - breakdown and fair value levels

(thousands of euro)	31/12/2019				31/12/2018			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
A. Financial assets at FVTPL								
A.1 Held for trading								
Debt securities								
Total								
A.2 Other financial assets at FVTPL								
Total								
B. Financial assets at FVTOCI								
Debt securities								
Equity securities	38,943	97		38,846	39,802	97		39,705
Loans								
Total	**38,943**	**97**		**38,846**	**39,802**	**97**		**39,705**
Total	**38,943**	**97**		**38,846**	**39,802**	**97**		**39,705**

Non-current financial assets: financial assets measured at amortised cost - breakdown and fair value levels

(thousands of euro)	31/12/2019				31/12/2018			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
Financial assets at amortized cost								
Debt securities	155	155			156	156		
Loans and receivables	414,607			414,607	229,888			229,888
of which finance lease								
Total	**414,762**	**155**		**414,607**	**230,044**	**156**		**229,888**

Non-current financial assets: hedging derivatives - breakdown and fair value levels

(thousands of euro)	31/12/2019				31/12/2018			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
Hedging derivatives								
Hedging derivatives	49,307		49,307					
Total	**49,307**		**49,307**					

The main components of the item are as follows:

- the financial assets measured at amortised cost, which increased (184 million euro), essentially due to the following:
- the increase over the period in investments in infrastructure under concession in Brazil (+12.6 million euro), recognised in application of IFRIC 12;
- the increase in the Interconnector Guarantee Fund (+22.1 million euro) established for the carrying out of interconnection work, pursuant to art. 32 of Law 99/09, and in the security deposits received from the operators participating in the capacity market pursuant to Resolution 98/2011/R/eel (+142.6 million euro), recognised in the consolidated financial statements of the TERNA group;
- hedging derivates, mainly including the fair value hedge derivatives entered into by the terna Group to hedge two bond issues;
- the financial assets at fair value essentially regarding the minority shareholding equal to 7.3% held by Snam S.p.A. in the capital of Terminale Adriatico S.r.l. (Adriatic LNG).

6. Deferred tax assets

Deferred tax assets recorded in the financial statements at 31 December 2019 amount to 843 million euro (740 million euro at 31 December 2018), of which 756 million euro were recorded in the income statement.

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Deferred tax assets		
- recognised in income statement	755,816	703,312
- recognised in equity	87,333	36,510
Total	**843,149**	**739,822**

Below is the breakdown of deferred tax assets:

Deferred tax assets: breakdown

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Deferred tax assets recognised in income statement	**755,816**	**703,312**
- losses carried forward	1,145	
- non-repayable grants	66,623	68,205
- misc. impairment	10,280	10,287
- site decommissioning and reinstatement	181,600	168,911
- provisions	92,503	102,423
- write-downs on receivables	26,876	34,356
- property, plant and equipment/intangible assets	312,372	253,220
- employee benefits	32,030	26,477
- other temporary differences	32,387	39,433
Deferred tax assets recognised in equity	**87,333**	**36,510**
- financial assets at FVTOCI		8,815
- cash flow hedge	67,297	14,600
- other	20,036	13,095
Total	**843,149**	**739,822**

The changes in deferred tax assets during the year, with the balancing entry in the income statement, are shown below:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
1. Opening balance	**703,312**	**684,148**
Change in opening balance	**-**	**1,556**
2. Increases	**112,736**	**72,987**
2.1 Deferred tax assets recognised during the year	59,284	61,616
a) in respect of previous periods		
b) due to change in accounting policies		
c) writebacks		
d) other	59,284	61,616
2.2 New taxes or increases in tax rates		
2.3 Other increases	12,303	
2.4 Business combinations	41,149	11,371
3. Decreases	**(60,232)**	**(55,379)**
3.1 Deferred tax assets derecognised during the year	(56,274)	(45,416)
a) reversals	(55,841)	(36,371)
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
d) other	(433)	(9,045)
3.2 Reduction in tax rates		
3.3 Other decreases	(3,958)	(9,963)
3.4 Business combination transactions		
4. Closing balance	**755,816**	**703,312**

The changes in deferred tax assets during the year, with the balancing entry in equity, are shown below:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
1. Opening balance	**36,510**	**18,826**
Change in opening balance	-	-
2. Increases	**52,026**	**19,099**
2.1 Deferred tax assets recognised during the year	8,843	1,334
a) in respect of previous periods		
b) due to change in accounting policies		
c) writebacks	502	65
d) other	8,341	1,269
2.2 New taxes or increases in tax rates		
2.3 Other increases	43,183	17,765
2.4 Business combinations		
3. Decreases	**(1,203)**	**(1,415)**
3.1 Deferred tax assets derecognised during the year	(1,203)	(1,026)
a) reversals	(1,203)	(1,026)
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		(389)
3.4 Business combination transactions		
4. Closing balance	**87,333**	**36,510**

7. Other non-current assets

Other non-current assets at 31 December 2019 amounted to 171 million euro (184 million euro at 31 December 2018).

The following table shows the breakdown:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Accrued income and prepaid expenses from regulated activities	127,987	132,651
Accrued income and prepaid expenses	11,123	13,018
Guarantee deposits	21,443	19,072
Loans and advances to employees	9,815	9,435
Receivables for tax withholdings and direct taxes		
Advances to suppliers		
Other assets	897	9,377
Total	**171,265**	**183,553**

Accrued income and prepaid expenses from regulated activities of 128 million euro at 31 December 2019, which represent the majority of Other non-current assets, relate to the tariff adjustment recognised by the Authority as a consequence of the plan to replace traditional meters with electronic meters entered in the financial statements of the ITALGAS group.

8. Non-current assets held for sale

Held-for-sale assets amounted to 12 million euro (11.6 million euro at 31 December 2018), down on the previous year as a result of planned sales, already contractually agreed, of motor vehicles and buildings of the ITALGAS group, and increased by 10 million euro, related to a 6% equity investment in Senfluga, a Snam group associate, reclassified under held-for-sale assets in accordance with agreements signed by Senfluga shareholders for the sale of 10% of it, in proportion to the investment held by each shareholder.

(thousands of euro)		
Items/Figures	31/12/2019	31/12/2018
A. Individual assets		
A.1 Financial assets		
A.2 Equity investments	9,931	
A.3 Tangible assets		11,583
A.4 Intangible assets		
A.5 Other assets		
Total A	**9,931**	**11,583**
B. Asset groups (discontinued operating units)		
B.1 Property, plant and equipment	2,076	
B.2 Inventories		
B.3 Intangible assets		
B.4 Equity investments		
B.5 Financial assets		
B.6 Other assets		
Total B	**2,076**	
Total	**12,007**	**11,583**

Current assets

9. Current financial assets

Below is a breakdown of the CDP RETI Group's current financial assets, which had a net value of 524 million euro at 31 December 2019 (427 million euro at 31 December 2018).

Current financial assets: financial assets at fair value: breakdown and fair value levels

(thousands of euro)	31/12/2019				31/12/2018			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
A. Financial assets at FVTPL								
A.1 Held for trading								
Total								
A.2 Other financial assets at FVTPL								
Total								
B. Financial assets at FVTOCI								
Debt securities	514,595	514,595			402,927	402,927		
Equity securities	119			119	119			119
Loans								
Total	**514,714**	**514,595**		**119**	**403,046**	**402,927**		**119**
Total	**514,714**	**514,595**		**119**	**403,046**	**402,927**		**119**

Current financial assets: financial assets measured at amortised cost - breakdown and fair value levels

(thousands of euro)	31/12/2019				31/12/2018			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
Financial assets at amortized cost								
Debt securities								
Loans and receivables	7,287			7,287	18,546			18,546
Total	**7,287**			**7,287**	**18,546**			**18,546**

Current financial assets: hedging derivatives - fair value levels

(thousands of euro)	31/12/2019				31/12/2018			
Items/Figures	Carrying amount	L1	L2	L3	Carrying amount	L1	L2	L3
Hedging derivatives								
Hedging derivatives	2,472	2,398	74		5,105		5,105	
Total	**2,472**	**2,398**	**74**		**5,105**		**5,105**	

The increase in financial assets at fair value (112 million euro) refers essentially to the Government securities purchased by the TERNA group.

The decrease in financial assets measured at amortised cost (-11.3 million euro) is essentially due to the conversion into equity, in February 2019, of the residual share of the Shareholder Loan to TAP.

10. Income tax receivables

Income tax receivables recorded in the consolidated financial statements at 31 December 2019 amounted to 41 million euro (38 million euro at 31 December 2018) and were broken down as follows:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Income tax receivables		
- Ires receivables	37,832	30,231
- Irap receivables	2,834	7,313
- other tax receivables		13
Total	**40,666**	**37,557**

11. Trade receivables

Trade receivables recorded in the consolidated financial statements at 31 December 2019 amounted to 3,071 million euro (2,927 million euro at 31 December 2018) and were broken down as follows:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Energy-related receivables	788,778	743,711
Grid transport consideration receivables	314,638	310,770
Gas sector trade receivables	1,607,860	1,644,841
Other trade receivables	225,398	143,193
Construction contracts	134,197	84,579
Total	**3,070,871**	**2,927,094**

Trade receivables are calculated net of amounts deemed unrecoverable which, therefore, are recorded as an adjustment to the bad debt provision.

The Gas sector trade receivables mainly relate to:

- SNAM group receivables, mainly concerning the natural gas transport (993 million euro) and storage sectors;
- trade receivables amounting to 474 million euro, recorded in the financial statements of the ITALGAS Group, mainly relating to gas distribution and related services and including amounts due from Eni S.p.A. (189.4 million euro) and third parties for the remaining part.

TERNA's trade receivables amount to 1,290.7 million euro in total, and include:

- energy-related receivables refer to the so-called "pass-through" items related to the activities performed by TERNA S.p.A. pursuant to Resolution 111/06 (758.3 million euro) and receivables due from dispatching customers for user fees (18.2 million euro). This item includes the receivable due from Cassa per i Servizi Energetici e Ambientali (CSEA) related to service quality for the ENSR performance assessment (12.3 million euro);
- receivables in respect of the grid transmission fees amounting to 314.6 million euro, consisting of the consideration paid for use of the National Transmission Grid by electric power distributors;

- contract work in progress, amounting to 134.2 million euro, refers to work to be carried out by the Group over several years for third party customers.

12. Inventories

Inventories: breakdown

(thousands of euro)	31/12/2019			31/12/2018		
Items/Figures	Gross amount	Provision for impairment	Net value	Gross amount	Provision for impairment	Net value
Raw materials, supplies and consumables	210,649	(14,764)	195,885	193,237	(14,814)	178,423
Finished products and goods	51,117	(32,193)	18,924	52,284	(32,193)	20,091
Total	**261,766**	**(46,957)**	**214,809**	**245,521**	**(47,007)**	**198,514**

Inventories at 31 December 2019 were recorded in the financial statements for 215 million euro (199 million euro at 31 December 2018) and are recognised net of the provision for impairment of 47 million euro (same amount at 31 December 2018).

Inventories of raw materials, supplies and consumables mainly consist of natural gas of the SNAM group (68 million euro). The item also includes 19.6 million euro for gas meters to be used in the ITALGAS group's replacement programme, plus approximately 50.9 million euro related to assets to be used in the operation, maintenance and construction of plants of the TERNA group.

Finished products inventories, equal to 19 million euro in total, net of the relevant provision (20 million euro at 31 December 2018), consist instead of natural gas in the storage network.

13. Other current assets

The breakdown of Other current assets, which at 31 December 2019 amounted to 331 million euro (267 million euro at 31 December 2018), is shown below.

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Accrued income and prepaid expenses from regulated activities	1,301	19,498
Accrued income and prepaid expenses	24,416	28,535
Guarantee deposits	73	47
Loans and advances to employees	155	176
Receivables for tax withholdings and direct taxes	87,642	76,406
Advances to suppliers	16,559	17,726
Other assets	201,042	124,116
Total	**331,188**	**266,504**

The increase (+64 million euro) compared with December 2018 included around 61 million euro attributable to higher receivables due from Cassa per i Servizi Energetici e Ambientali (CSEA) of the SNAM group.

14. Cash and cash equivalents

Cash and cash equivalents, which amounted to 4,246 million euro at 31 December 2019 (3,405 million euro at 31 December 2018) can be broken down as shown in the following table and refer mainly to:

- SNAM group (2,851 million euro): short-term investment of liquidity with a bank of high credit standing, repayable in less than three months (750 million euro), promptly collectable bank deposits (2,054 million euro) and the cash equivalents at Gasrule Insurance DAC (19 million euro) and Snam International B.V. (20 million euro).
- TERNA group (1,057 million euro): short-term, highly-liquid deposits (647.4 million euro) and current accounts and cash in hand (410 million euro).

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Current accounts and demand deposits	3,598,027	2,652,674
Short-term financial investments	647,419	751,512
Cash	974	815
Total	**4,246,420**	**3,405,001**

II. LIABILITIES

15. Equity

15 a. Group equity

Equity pertaining to the Group, amounting to 4,262 million euro (4,134 million euro at 31 December 2018) consisted of the following:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Share capital	**162**	**162**
Issue premium	**1,315,158**	**1,315,158**
Reserves	**2,733,236**	**2,598,170**
- Legal reserve	32	32
- Reserve for shareholder payments for investments	2,029,920	2,029,921
- Other reserves	-	-
- Retained earnings	703,284	568,217
Valuation reserves	**(87,602)**	**(40,590)**
- Cash flow hedges	(71,476)	(29,984)
- Exchange rate differences	(4,695)	(6,615)
- Actuarial Profit (Loss) on defined-benefit pension plans	(8,001)	(6,481)
- Share of valuation reserves of equity investments accounted for using equity method	(5,656)	1,723
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	535	349
- Financial assets (equity securities) measured at fair value through other comprehensive income	1,691	418
Advances on dividends	**(267,004)**	**(255,938)**
Net income for the period (+/-)	**568,405**	**516,741**
Total	**4,262,355**	**4,133,703**

During the period, there were no changes to the shareholding structure and the number of shares, which remained the same compared to the prior year:

Member / Number of shares / %	Share category A	Share category B	Share category C	%
CDP	95,458			59.10%
State Grid		56,530		35.00%
Cassa Forense			4,253	2.63%
Foundations and Savings Banks			5,273	3.27%
Total	**95,458**	**56,530**	**9,526**	**100.00%**

Shares outstanding at the reporting date consisted of 161,514 shares without nominal value, fully paid-up.

15 b. Non-controlling interests

A breakdown of the item Non-controlling interests is provided below:

(thousands of euro)

Names	31/12/2019	31/12/2018
1. Italgas S.p.A.	1,746,916	1,456,957
2. SNAM S.p.A.	5,814,005	5,727,766
3. Terna S.p.A.	3,588,430	3,507,007
Total	**11,149,351**	**10,691,730**

Non-current liabilities

16. Provisions for risks and charges

The provisions for risks and charges recorded in the consolidated financial statements at 31 December 2019 amounted to 1,093 million euro (1,094 million at 31 December 2018) and were broken down as follows:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
1. Provision for risks of legal disputes	50,592	51,110
2. Provision for early retirement incentives	59,162	71,655
3. Provision for site decommissioning and reinstatement	647,263	607,095
4. Provision for tax risks	22,532	32,331
5. Provision for environmental risks and charges	119,099	126,653
6. Provisions for credit risk on guarantees provided		185
7. Other provisions	193,955	204,647
Total	**1,092,603**	**1,093,676**

The provisions for site decommissioning and remediation, which represent the majority of this item, were recorded by the SNAM group companies to cover the costs they will presumably incur to remove and reinstate natural gas storage and transport facilities.

The changes to the provisions for risks and charges recorded during the year are detailed below:

(thousands of euro) Items/Figures	Provision for risks of legal disputes	Provision for early retirement incentives	Provision for site decommissioning and reinstatement	Provision for tax risks	Provision for environmental risks and charges	Provisions for credit risk on guarantees provided	Other provisions	Total
Opening balance	**51,110**	**71,655**	**607,095**	**32,331**	**126,653**	**185**	**204,647**	**1,093,676**
Change in opening balance								
Changes for business combinations (+/-)	**1,671**			**648**	**1,891**		**9,976**	**14,186**
Increases:								
Allocation in the year	9,684	3,445		2,641	273		26,467	42,510
Changes due to the passing of time			7,075		978			8,053
Changes due to changes to the discount rate								
Other changes	469	301	42,013				32,804	75,587
Decreases:								
Use in the financial year	(12,246)	(16,125)	(8,920)	(12,447)	(10,695)		(26,081)	(86,514)
- to charges	*(3,587)*	*(16,125)*	*(8,920)*	*(10,407)*	*(10,361)*		*(21,651)*	*(71,051)*
- due to surplus	*(8,659)*			*(2,040)*	*(334)*		*(4,430)*	*(15,463)*
Changes due to changes to the discount rate								
Other changes	(96)	(114)		(641)	(1)	(185)	(53,858)	(54,895)
Closing balance	**50,592**	**59,162**	**647,263**	**22,532**	**119,099**		**193,955**	**1,092,603**

17. Provisions for employee benefits

Below is the breakdown of the provisions for employee benefits:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Severance pay	136,978	136,538
Long-term service award	4,247	4,627
Supplementary health funds	21,237	18,756
Energy discount	3,673	5,209
Other employee benefits	57,445	76,540
Total	**223,580**	**241,670**

The balance of Provisions for employee benefits contracted by 18 million euro from 31 December 2018.

The changes to the Provisions for employee benefits are shown below:

(thousands of euro)

Items/Figures	Severance pay	Long-term service award	Supplementary health funds	Energy discount	Other employee benefits	Totale
Opening balance	**136,538**	**4,627**	**18,756**	**5,209**	**76,540**	**241,670**
Changes for business combinations	6,869				1,611	8,480
Current cost	231	586	750		(4,326)	(2,759)
Interest expense	1,878	71	289	58	580	2,876
Revaluations:						
- actuarial profit and loss due to changes in financial assumptions	4,552		2,011	(445)	1,544	7,662
- actuarial profit and loss due to changes in demographic assumptions	(213)		59		(388)	(542)
- effect of past experience	(65)		(62)		(19)	(146)
Other changes	(4,772)	(1,037)	(266)	(1,149)	(1,027)	(8,251)
Paid benefits	(8,040)		(300)		(17,070)	(25,410)
Closing balance	**136,978**	**4,247**	**21,237**	**3,673**	**57,445**	**223,580**

18. Long-term loans

Long-term loans recorded by the Group at 31 December 2019 amounted to 25,228 million euro (23,367 million euro at 31 December 2018) and were broken down as follows:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Bonds		
- EMTN programme	18,688,596	16,977,250
- other issues	749,169	748,848
Bank loans	5,614,296	5,218,827
Lease liabilities	91,955	
Other lenders	84,237	421,691
Total	**25,228,253**	**23,366,616**

The item “EMTN programme” in the long-term loans relates to bond issues in the period by SNAM (9.1 billion euro), TERNA (7.8 billion euro) and ITALGAS (3.4 billion euro).

The increase in the item compared to 31 December 2018 (+1,947 million euro) was due mainly to bond issues by the TERNA group and the SNAM group.

The item “other issues”, instead, refers to the placement, concluded in May 2015 by CDP RETI, of an unsubordinated and unsecured fixed-rate bond, for a nominal value of 750 million euro.

An analysis of bond issues, with an indication of the issuing company, the currency, the interest rate and maturity, is provided below:

(thousands of euro)					Carrying amount at 31/12/2019	
Loans/Bonds	year of issue	Maturity	Currency	Rate	Current	Non current
CDP RETI	2015	2022	euro	1,875%	8,299	749,169
SNAM S.p.A.	2012	2022	euro	5.25	8,891	598,917
SNAM S.p.A.	2012	2020	euro	3.5	541,810	-
SNAM S.p.A.	2013	2021	euro	3.375	8,038	258,238
SNAM S.p.A.	2014	2024	euro	3.25	11,907	386,930
SNAM S.p.A.	2014	2023	euro	1.5	2,564	248,249
SNAM S.p.A.	2015	2023	euro	1.375	298	178,490
SNAM S.p.A.	2016	2026	euro	0.875	2,002	1,243,107
SNAM S.p.A.	2016	2020	euro	0	499,440	-
SNAM S.p.A.	2017	2025	euro	1.25	4,570	390,493
SNAM S.p.A.	2017	2022	euro	0.641	65	299,526
SNAM S.p.A.	2017	2024	euro	0.836	-	349,569
SNAM S.p.A.	2017	2027	euro	1.375	1,636	646,127
SNAM S.p.A.	2018	2020	euro	0.212	350,078	-
SNAM S.p.A.	2018	2023	euro	1	1,692	590,495
SNAM S.p.A.	2019	2025	euro	1.25	2,135	496,211
SNAM S.p.A.	2019	2030	euro	1.625	2,304	247,441
SNAM S.p.A.	2019	2024	euro	0	-	694,930
SNAM S.p.A.	2019	2034	euro	1	1,803	587,428
SNAM S.p.A.	2017	2022	euro	0	-	392,137
Terna Spa		2019	euro	0.049	83,618	-
Terna Spa		2021	euro	0.048	-	1,302,700
Terna Spa		2022	euro	0.009	-	998,300
Terna Spa		2023	euro	0.024	-	659,100
Terna Spa		2023	euro	0.01	-	995,000
Terna Spa		2024	euro	0.049	-	952,100
Terna Spa		2025	euro	0.001	-	494,700
Terna Spa		2026	euro	0.016	-	79,100
Terna Spa		2026	euro	0.01	-	497,800
Terna Spa		2027	euro	0.014	-	1,013,600
Terna Spa		2028	euro	0.01	-	764,900
ITALGAS S.p.A.	2017	2022	euro	0.005	1,272	267,086
ITALGAS S.p.A.	2017	2027	euro	0.01625	11,553	743,631
ITALGAS S.p.A.	2017	2024	euro	0.01125	4,317	479,083
ITALGAS S.p.A.	2018	2029	euro	0.01625	11,587	746,112
ITALGAS S.p.A.	2019	2030	euro	0.00875	2,295	591,982
ITALGAS S.p.A.	2019	2031	euro	0.01	273	495,114

Other financial payables can be broken down as follows:

(thousands of euro)					Carrying amount at 31/12/2019	
Loans/Bonds	year of issue	Maturity	Currency	Rate	Current	Non current
Loan 2014	2014	2020	euro	Euribor 6m + spread	750,829	-
Loan 2017	2017	2023	euro	Euribor 6m + spread	-	186,989
INTESA Term Loan	2014	2019	euro	0,25	61	200,000
BNL Term Loan	2016	2020	euro	0,2	149,645	-
Intesa SanPaolo S.p.a (TL)	2019	2021	euro	-0.0005	-	500,000
UNICREDIT BANK AUSTRIA AG Term Loan	2018	2021	euro	0,45%.+Euribor 3 m	70	500,000
BNL Term Loan	2018	2023	euro	0,58% +Euribor 3 m	53	150,000
Bayerische Landesbank Term Loan	2018	2023	euro	o Fisso per i primi 4 anni: 0,8392% (0,56%	203	50,000
BEI 300MLN SRG	2009	2029	euro	0,237	20,014	180,000
BEI 283MLN STG	2013	2033	euro	0,669	19,486	245,191
BEI 65MLN SRG	2013	2032	euro	0,556	4,333	52,047
BEI 200MLN SRG	2015	2035	euro	0,268	6,714	193,286
BEI 373MLN SRG	2015	2035	euro	0	-	373,000
BEI 135MLN SRG	2020	2038	euro	0	-	135,000
BEI 310MLN SRG	2017	2037	euro	1,498	-	310,000
BEI 25 MLN S4M	2019	2031	euro	0,54700	-	25,000
BEI 105 MLN SRG	2019	2039	euro	0.00642	-	105,000
POPOLARE SONDRIO RINVENUTO CON CONSOLIDAMENTO TEA	ND	ND	euro	ND	200	177
MUTUO CHIR. ICCREA BANCA IMPRESA	ND	ND	euro	ND	246	-
POPOLARE SONDRIO RINVENUTO CON CONSOLIDAMENTO TEA	ND	ND	euro	ND	116	-
COFINANZIAMENTO POP. DI SONDRIO CON CONSOLIDAMENTO TEA	ND	ND	euro	ND	126	-
POPOLARE SONDRIO CON CONSOLIDAMENTO TEA	ND	ND	euro	ND	274	-
MUTUO MTL RINVENUTO CON CONSOLIDAMENTO RENERWASTE MILANO	ND	ND	euro	ND	17,575	-
MUTUO LANDES 187852 RINVENUTO CON CONSOLIDAMENTO RENERWASTE LODI	ND	ND	euro	ND	8,309	-
MUTUO POPOLARE SONDRIO RINVENUTO CON CONSOLIDAMENTO RENERWASTE LODI	ND	ND	euro	ND	86	-
MUTUO POPOLARE SONDRIO RINVENUTO CON CONSOLIDAMENTO RENERWASTE LODI	ND	ND	euro	ND	2,429	-
IFRS16 verso Altri	2019	2040	euro	ND	5,587	15,083
BEI			euro	0.015	-	368,600
Finanziamento bancario			euro	0.049	1,500	36,700
BEI		2030	euro	0.002	116,090	1,175,000
CDP		2019	euro	0.006	-	-
Finanziamento bancario		2042	euro	0.0758	4,500	97,500
Finanziamento bancario		2034	euro	0.049	1,500	23,632
Leasing			euro		2,573	21,929
finanziamento bancario			euro		25,323	-
ITALGAS S.p.A.-Bei	2017	2037	euro	0.00015	-	359,789
ITALGAS S.p.A.-Bei	2016	2032	euro	0.00128	-	299,774
ITALGAS S.p.A.-Bei	2015	3035	euro	0.00225	-	124,001
ALTRO*			euro		123,650	7,847
IFRS16			euro		17,126	54,943

With reference to the analysis of the maturities of payables for loans, please refer to the following table:

(thousands of euro)					Carrying amount at 31/12/2019		Maturity analysis (years)				
Loans/Bonds	year of issu	Maturity	Currency	Rate	Current	Non current	2021	2022	2023	2024	beyond
CDP RETI	2015	2022	euro	1,875%	8,299	749,169		749,169			
Loan 2014	2014	2020	euro	Euribor 6m + spread	750,829	-					
Loan 2017	2017	2023	euro	Euribor 6m + spread	-	186,989			186,989		
SNAM S.p.A.	2012	2022	euro	5.25	8,891	598,917		598,917			
SNAM S.p.A.	2012	2020	euro	3.5	541,810	-					
SNAM S.p.A.	2013	2021	euro	3.375	8,038	258,238	258,238				
SNAM S.p.A.	2014	2024	euro	3.25	11,907	386,930				386,930	
SNAM S.p.A.	2014	2023	euro	1.5	2,564	248,249			248,249		
SNAM S.p.A.	2015	2023	euro	1.375	298	178,490			178,490		
SNAM S.p.A.	2016	2026	euro	0.875	2,002	1,243,107					1,243,107
SNAM S.p.A.	2016	2020	euro	0	499,440	-					
SNAM S.p.A.	2017	2025	euro	1.25	4,570	390,493					390,493
SNAM S.p.A.	2017	2022	euro	0.641	65	299,526		299,526			
SNAM S.p.A.	2017	2024	euro	0.836	-	349,569				349,569	
SNAM S.p.A.	2017	2027	euro	1.375	1,636	646,127					646,127
SNAM S.p.A.	2018	2020	euro	0.212	350,078	-					
SNAM S.p.A.	2018	2023	euro	1	1,692	590,495			590,495		
SNAM S.p.A.	2019	2025	euro	1.25	2,135	496,211					496,211
SNAM S.p.A.	2019	2030	euro	1.625	2,304	247,441					247,441
SNAM S.p.A.	2019	2024	euro	0	-	694,930				694,930	
SNAM S.p.A.	2019	2034	euro	1	1,803	587,428					587,428
SNAM S.p.A.	2017	2022	euro	0	-	392,137		392,137			
INTESA Term Loan	2014	2019	euro	0,25	61	200,000	200,000				
BNL Term Loan	2016	2020	euro	0,2	149,645	-					
Intesa SanPaolo S.p.a (TL)	2019	2021	euro	-0.0005	-	500,000	500,000				
UNICREDIT BANK AUSTRIA AG Term Loan	2018	2021	euro	0,45%.+Euribor 3 m	70	500,000	500,000				
BNL Term Loan	2018	2023	euro	0,58% +Euribor 3 m	53	150,000			150,000		
Bayerische Landesbank Term Loan	2018	2023	euro	o Fisso per i primi 4 anni: 0,8392% (0,56% Margine + 0.2792% Mid Swap 4Y) p.a. o Variabile l'ultimo anno: (0,56% Margine + Euribor 6 m) p.a.	203	50,000			50,000		
BEI 300MLN SRG	2009	2029	euro	0,237	20,014	180,000					180,000
BEI 283MLN STG	2013	2033	euro	0,669	19,486	245,191					245,191
BEI 65MLN SRG	2013	2032	euro	0,556	4,333	52,047					52,047
BEI 200MLN SRG	2015	2035	euro	0,268	6,714	193,286					193,286
BEI 373MLN SRG	2015	2035	euro	0	-	373,000					373,000
BEI 135MLN SRG	2020	2038	euro	0	-	135,000					135,000
BEI 310MLN SRG	2017	2037	euro	1,498	-	310,000					310,000
BEI 25 MLN S4M	2019	2031	euro	0,54700	-	25,000					25,000
BEI 105 MLN SRG	2019	2039	euro	0.00642	-	105,000					105,000
POPOLARE SONDRIO RINVENUTO CON CONSOLIDAMENTO TEA	ND	ND	euro	ND	200	177		177			
MUTUO CHIR. ICCREA BANCA IMPRESA	ND	ND	euro	ND	246	-					
POPOLARE SONDRIO RINVENUTO CON CONSOLIDAMENTO TEA	ND	ND	euro	ND	116	-					
COFINANZIAMENTO POP. DI SONDRIO CON CONSOLIDAMENTO TEA	ND	ND	euro	ND	126	-					
POPOLARE SONDRIO CON CONSOLIDAMENTO TEA	ND	ND	euro	ND	274	-					
MUTUO MTL RINVENUTO CON CONSOLIDAMENTO RENERWASTE MILANO	ND	ND	euro	ND	17,575	-					
MUTUO LANDES 187852 RINVENUTO CON CONSOLIDAMENTO RENERWASTE LODI	ND	ND	euro	ND	8,309	-					
MUTUO POPOLARE SONDRIO RINVENUTO CON CONSOLIDAMENTO RENERWASTE LODI	ND	ND	euro	ND	86	-					
MUTUO POPOLARE SONDRIO RINVENUTO CON CONSOLIDAMENTO RENERWASTE LODI	ND	ND	euro	ND	2,429	-					
IFRS16 verso Altri	2019	2040	euro	ND	5,587	15,083	4,385	3,305	2,007	1,471	3,915
Terna Spa		2019	euro	0.049	83,618	-					
Terna Spa		2021	euro	0.048	-	1,302,700	1,302,700				
Terna Spa		2022	euro	0.009	-	998,300		998,300			
Terna Spa		2023	euro	0.024	-	659,100			659,100		
Terna Spa		2023	euro	0.01	-	995,000			995,000		
Terna Spa		2024	euro	0.049	-	952,100				952,100	
Terna Spa		2025	euro	0.001	-	494,700					494,700
Terna Spa		2026	euro	0.016	-	79,100					79,100
Terna Spa		2026	euro	0.01	-	497,800					497,800
Terna Spa		2027	euro	0.014	-	1,013,600					1,013,600
Terna Spa		2028	euro	0.01	-	764,900					764,900
BEI			euro	0.015	-	368,600	4,600	20,500	20,500	20,500	302,500
Finanziamento bancario			euro	0.049	1,500	36,700	1,500	1,500	1,800	1,900	30,000
BEI		2030	euro	0.002	116,090	1,175,000	112,200	112,800	114,000	115,300	720,700
CDP		2019	euro	0.006	-	-					
Finanziamento bancario		2042	euro	0.0758	4,500	97,500	3,300	3,500	3,500	3,600	83,600
Finanziamento bancario		2034	euro	0.049	1,500	23,632	1,900	1,900	2,200	2,400	15,232
Leasing			euro		2,573	21,929	21,929				
finanziamento bancario			euro		25,323	-					
ITALGAS S.p.A.	2017	2022	euro	0.005	1,272	267,086		267,086			
ITALGAS S.p.A.	2017	2027	euro	0.01625	11,553	743,631					743,631
ITALGAS S.p.A.	2017	2024	euro	0.01125	4,317	479,083				479,083	
ITALGAS S.p.A.	2018	2029	euro	0.01625	11,587	746,112					746,112
ITALGAS S.p.A.	2019	2030	euro	0.00875	2,295	591,982					591,982
ITALGAS S.p.A.	2019	2031	euro	0.01	273	495,114					495,114
ITALGAS S.p.A.-Bei	2017	2037	euro	0.00015	-	359,789			24,000	24,000	311,789
ITALGAS S.p.A.-Bei	2016	2032	euro	0.00128	-	299,774	25,000	25,000	25,000	25,000	199,774
ITALGAS S.p.A.-Bei	2015	3035	euro	0.00225	-	124,001	8,267	8,267	8,267	8,267	90,933
ALTRO*			euro		123,650	7,847	2,837	738	225	225	3,822
IFRS16			euro		17,126	54,943	12,968	14,220	11,771	5,289	10,695

The table below shows the reconciliation of the liabilities arising from the loans, as required by IAS 7:

(thousands of euro) Items/Figures	31/12/2018	Changes from financing cash flows	Effect of changes in foreign exchange rates	Changes in fair value	Changes arising from obtaining or losing control of subsidiaries or other businesses	Other changes	31/12/2019
Non current financial assets - Financing and loans to banks	(403,362)	(4,597)				(114,042)	(522,001)
Loans payable - non-current portion	23,366,616	1,997,315	3,496	21,929	118,205	(279,308)	25,228,253
Loans payable - current portion	3,041,910	(570,827)		(66,129)	47,354	388,757	2,841,065
Short-term financial liabilities	2,251,426	207,011			329,962	91,791	2,880,190
Total	**28,256,590**	**1,628,902**	**3,496**	**(44,200)**	**495,521**	**87,198**	**30,427,507**

19. Other non-current financial liabilities

Other non-current financial liabilities, recognised in the financial statements at 232 million euro (100 million euro at 31 December 2018), refer to the fair value measurement of cash flow hedge derivative contracts signed by the TERNA group for 160.4 million euro and by the ITALGAS group for 13 million euro, and contracts to hedge interest rate risk signed by CDP RETI for 3 million euro and by the SNAM group for 56 million euro. The following table shows the breakdown of the item and the respective fair value levels.

(thousands of euro)	31/12/2019			31/12/2018		
Items/Figures	L1	L2	L3	L1	L2	L3
Fair value-related hedging derivatives						
Cash flow hedge-related derivatives		**231,936**			**100,490**	
a) interest rate risk		231,936			100,490	
b) exchange rate risk						
c) other						
Derivati di copertura degli investimenti esteri						
Non-hedging derivatives						
Totale		**231,936**			**100,490**	

20. Deferred tax liabilities

Deferred tax liabilities recorded at 31 December 2019 amounted to 2,699 million euro (2,740 million euro at 31 December 2018), and consist almost entirely of deferred tax liabilities entered as the balancing entry recognised in the income statement as detailed in the following table:

(thousands of euro) Items/Figures	31/12/2019	31/12/2018
Deferred tax liabilities		
- recognised in income statement	2,690,702	2,737,128
- recognised in equity	8,693	2,455
Total	**2,699,395**	**2,739,583**

Below is the breakdown of deferred tax liabilities:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Deferred tax liabilities recognised in income statement	**2,690,702**	**2,737,128**
- surplus paid in instalments	1,994	660
- staff severance pay	12,651	3,875
- leasing	1,286	1,304
- property, plant and equipment	2,469,387	2,529,958
- equity investments	15,152	11,601
- exchange rate differences	-	40
- other temporary differences	190,232	189,690
Deferred tax liabilities recognised in equity	**8,693**	**2,455**
- other reserves	8,693	2,455
Total	**2,699,395**	**2,739,583**

The changes in deferred tax liabilities during the year, with the balancing entry in the income statement, are shown below:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
1. Opening balance	**2,737,128**	**2,837,408**
Change in opening balance		
2. Increases	**98,986**	**44,108**
2.1 Deferred tax liabilities recognised during the year	13,564	16,453
a) in respect of previous periods		
b) due to change in accounting policies		
c) others	13,564	16,453
2.2 New taxes or increases in tax rates		
2.3 Other increases	16,131	22,061
2.4 Business combination transactions	69,291	5,594
3. Decreases	**(145,412)**	**(144,388)**
3.1 Deferred tax liabilities derecognised during the year	(145,412)	(138,456)
a) reversals	(116,073)	(111,892)
b) due to change in accounting policies		
c) others	(29,339)	(26,564)
3.2 Reduction in tax rates		
3.3 Other decreases		
3.4 Business combination transactions		(5,932)
4. Closing balance	**2,690,702**	**2,737,128**

The changes in deferred tax liabilities during the year, with the balancing entry in equity, are shown below:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
1. Opening balance	**2,455**	**23**
Change in opening balance		**2,223**
2. Increases	**6,238**	**232**
2.1 Deferred tax liabilities recognised during the year	6,238	232
a) in respect of previous periods		
b) due to change in accounting policies		
c) others	6,238	232
2.2 New taxes or increases in tax rates		
2.3 Other increases		
2.4 Business combination transactions		
3. Decreases		**(23)**
3.1 Deferred tax liabilities derecognised during the year		(23)
a) reversals		(23)
b) due to change in accounting policies		
c) others		
3.2 Reduction in tax rates		
3.3 Other decreases		
3.4 Business combination transactions		
4. Closing balance	**8,693**	**2,455**

21. Other non-current liabilities

The table below provides a breakdown of Other non-current liabilities recognised at 31 December 2019 for a total amount of 1,551 million euro (1,235 million euro at 31 December 2018).

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Accrued liabilities and deferred income	12,043	11,881
Accrued liabilities and deferred income from regulated activities	1,259,374	1,108,324
Other liabilities	279,509	115,044
Total	**1,550,926**	**1,235,249**

Other non-current liabilities mainly consist of the following:

- Accrued expenses and deferred income consisting of deferred income for grants related to plants of Terna S.p.A. (84.8 million euro), and the liability towards lenders financing the Italy-France and Italy-Montenegro private Interconnector (totalling 520.4 million euro).The item also includes accrued expenses and deferred income related to connection fees of the ITALGAS group (558.6 million euro).
- Other liabilities, mainly relating to the security deposits received in favour of the Terna group from the operators participating in the capacity market pursuant to Resolution 98/2011/R/eel (142.6 million euro), and the Interconnector Guarantee Fund established for Terna S.p.A. pursuant to the 2016 Stability Law (87.1 million euro) for the carrying out of interconnection work, pursuant to art. 32 of Law 99/09.

22. Liabilities directly attributable to assets held for sale

At 31 December 2019 this item did not have an entry.

Current liabilities

23. Current portion of long-term loans

This item, which at 31 December 2019 amounted to 2,841 million euro (3,042 million euro at 31 December 2018) includes the current portion of long-term loans. The following table shows its composition:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Bonds		
- EMTN programme	1,554,148	1,647,561
- other issues	8,299	8,322
Bank loans	915,421	884,848
Lease liabilities	25,286	
Other lenders	337,911	501,179
Total	**2,841,065**	**3,041,910**

A breakdown of this item is detailed in the tables set out in note 18.

24. Trade payables

Trade payables recorded at 31 December 2019 amounted to 3,456 million euro (3,393 million euro at 31 December 2018) and were broken down as follows:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Payables due to suppliers	3,433,357	3,358,748
- energy-related payables	*1,358,824*	*1,518,134*
- non-energy-related payables	*1,063,458*	*987,055*
- GAS sector payables	*978,011*	*853,129*
- due to other suppliers	*33,064*	*430*
Payables for construction contracts	22,912	34,337
Total	**3,456,269**	**3,393,085**

Energy-related trade payables (1,358 million euro) recorded in TERNA's financial statements, relating to the financial effects of "pass-through" costs, principally related to TERNA's electricity dispatching operations, as well as to the transport fees due to other owners of portions of the national transmission grid. The decrease on the previous period (-159.3 million euro) is mainly attributable to payables for energy-related pass-through items (-158.4 million euro), mainly resulting from:

- lower payables linked to remuneration for the availability of electrical energy production capacity –capacity payment (-115.3 million euro) following payments made during the year as decided upon by ARERA;
- lower payables linked to remuneration for the essential units for the safety of the electrical system – UESS (-94.9 million euro) resulting from funding-related items which were more than offset by the payments decided upon by ARERA during 2019;
- higher payables linked to items arising from the performance of the dispatching contracts for acquisitions and sales, for the in-put and take-off of electricity, with particular reference to charges in the Mercato dei Servizi di Dispacciamento (Dispatching Services Market, MSD) (41.6 million euro).

Non-energy related trade payables of 1,063 million euro recorded in TERNA group's consolidated financial statements refer to amounts owed to suppliers for invoices both already received and yet to be received for tenders, services and the purchase of materials and equipment. The increase with respect to the previous year is mainly attributable to the increase in investment activity in the last part of the year.

Trade payables from the GAS segment of 978 million euro mainly related to the transport (350 million euro, of which 253 million euro related to balancing services) of the SNAM group, and trade payables (299 million euro) of the ITALGAS group.

25. Income tax liabilities

Current tax liabilities amounted to 40 million euro at 31 December 2019 (23 million euro at 31 December 2018) and were broken down as follows:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Income tax payables		
- Ires payables	32,531	19,312
- Irap payables	7,138	3,473
- other tax payables	41	
Total	**39,710**	**22,785**

26. Current financial liabilities

Other financial liabilities amounted to 2,880 million euro at 31 December 2019 (2,260 million euro at 31 December 2018) and mainly related to uncommitted floating-rate credit facilities (450 million euro) and the issue of unsecured Euro Commercial Papers (2,001 million euro) of the SNAM group. The following table shows the breakdown:

(thousands of euro)	31/12/2019				31/12/2018			
Items/Figures	Carring amount	L1	L2	L3	Carring amount	L1	L2	L3
Fair value-related hedging derivatives	**220**	**220**						
a) interest rate risk	220	220						
b) exchange rate risk								
c) several risks								
Cash flow hedge-related derivatives	**13,440**		**13,440**		**8,726**		**8,726**	
a) interest rate risk	13,440		13,440		8,520		8,520	
b) exchange rate risk					206		206	
c) other								
Hedging derivatives on foreign investment								
Non-hedging derivatives								
Other financial liabilities	**2,866,530**			**2,866,530**	**2,251,426**			**2,251,426**
Total	**2,880,190**	**220**	**13,440**	**2,866,530**	**2,260,152**		**8,726**	**2,251,426**

27. Other current liabilities

Other current liabilities amounted to 1,845 million euro at 31 December 2019 (1,718 million euro at 31 December 2018) and were broken down as shown in the following table:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
VAT payables	11,382	1,377
Irpef withholdings on employees	14,286	22,339
Other duties and taxes	10,807	9,428
Accrued liabilities and deferred income	28,521	42,320
Advances	73,050	85,063
Payables due to pension and social security institutions	51,394	61,484
Payables due to employees	98,913	112,216
Accrued liabilities and deferred income from regulated activities	129,266	38,319
Other liabilities	1,427,352	1,345,311
Total	**1,844,971**	**1,717,857**

“Other liabilities” mainly refer to payables for investing activities (320 million euro, mainly related to natural gas transport, for 253 million euro, and natural gas storage, for 38 million euro) and payables due to CSEA (Cassa Conguaglio Settore Elettrico) by the SNAM group (597 million euro).

III - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

A. REVENUES

28. Revenues from sales and services

Revenues from sales and services: breakdown

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Revenues from electricity dispatching and distribution		
Grid transport consideration receivables	1,859,472	1,799,337
CTR adjustments for previous years	670	(10,190)
Service quality	20,220	7,400
Other energy revenues	172,786	262,257
Other sales and performance	234,748	213,720
Total	**2,287,896**	**2,272,524**
- of which IFRIC 12 revenues	*680,982*	*119,119*
Revenues from storage, transportation, regasification and distribution of natural gas		
Storage	435,835	441,757
Distribution	1,792,253	1,526,882
Transport and dispatching	2,077,560	2,007,064
Regasification	17,050	17,051
Other sales and performance	132,795	129,601
Total	**4,455,493**	**4,122,355**
- of which IFRIC 12 revenues	-	*446,971*
Total	**6,743,389**	**6,394,879**

Revenues for the dispatching and distribution of electricity (2,288 million euro) increased (approximately +15 million euro compared to the previous year) essentially deriving from the following effects:

- the grid transmission fees (+60 million euro compared to the previous year): this item refers to the income for ownership and management of the National Transmission Grid - NTG earned by Terna S.p.A. (1,724.4 million euro) and the subsidiary Rete S.r.l. (135.8 million euro). The increase on the previous year is mainly due to the adjustment to the WACC envisaged in Resolution 639/18 (5.6% in 2019-2021, increasing from 5.3% in 2016-2018), as well as to the increase in invested capital (RAB) and the recognition of extra-remuneration on energy-intensive storage systems (ARERA Resolution 169/19);
- other energy income (-89.5 million euro compared to the previous year): this refers to the consideration granted for the dispatching and metering service (DIS component, amounting to 111 million euro, MIS component, amounting to 0.1 million euro and other energy income amounting to 1.8 million euro) and to income from the construction and development of infrastructure under concession, posted for the application of IFRIC 12 (59.9 million euro), which includes income from activities in South America (in Brazil, for 12.1 million euro and in Peru, for 1.6 million euro). In the comparison with the previous year, the decrease in Other energy income and income from activities under concession is due to lower investments in activities under concession in Brazil (-64.4 million euro) subsequent to the entry into operation, between the end of last year and the first few months of 2019, of the two lines built in the South American country (-69.1 million euro), partly offset by the investments made by Linha Verde II (+4.7 million euro) acquired towards the end of the year. The reduction was also due to the 30.2 million euro decrease in consideration for dispatching, metering and other services, deriving from the recognition by ARERA of several costs incurred in the previous year;
- other sales and services (+21 million euro): they mainly relate to the increase in sales of transformers made by the Tamini group (+6.5 million euro) and higher revenues due to the progress of the contract in Uruguay (+6.4 million euro).

Revenues in the gas sector, which amounted to 4,455 million euro, refer to the following sectors of activities: transport and dispatching (2,078 million euro); distribution (1,792 million euro, of which 1,132 million euro for natural gas transportation on behalf of all commercial operators that request access to the distribution companies' networks based on the Network code, and an additional 621 million euro for the construction and upgrading of the natural gas distribution infrastructure associated with the concession agreements pursuant to IFRIC 12); natural gas storage (436 million euro); LNG regasification (17 million euro); other sales and services (132.8 million euro). These revenues are recorded net of the tariff components, in addition to the tariff, which are meant to cover the general costs of the gas system. The amounts collected are then paid to Cassa per i Servizi Energetici e Ambientali (CSEA), for the same amount.

29. Other revenues and income

The table below shows the breakdown of Other revenues and income, which at 31 December 2019 amounted to 157 million euro (130 million euro at 31 December 2018):

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Other industrial revenues	**57,762**	**23,123**
Revenues from the sale of gas for the balancing service	20,112	18,915
Income from the sale of energy efficiency securities		
Contractual penalties and other income relating to trade transactions	37,650	4,208
Other revenues and incomes	**81,779**	**101,486**
Rental income	3,643	1,844
Lease of business unit		
Other contributions	25,619	8,352
Other income	52,517	91,290
Gains on disposal	**17,596**	**4,989**
Gains on disposal from property, plant and equipment	17,565	4,503
Gains on disposal from intangible assets	31	486
Total	**157,137**	**129,598**

Capital gains from the sale of property, plant and equipment mainly refer to the sale of the property in Turin, via XX Settembre (7.7 million euro) by the ITALGAS group.

Compared to the previous year, “other income” decreased by 38.8 million euro. The latter item includes: (i) income from safety recovery incentives (18 million euro), related to refunds acknowledged by the Authority for meeting quality and technical standards associated with the natural gas distribution service; (ii) income from connection fees (18 million euro), related to the adoption, as of 1 January 2018, of IFRS 15; (iii) insurance compensation for damages (12.5 million euro).

B. OPERATING COSTS

30. Raw materials and consumables used

The breakdown of costs for raw materials is shown in the table below:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Raw materials, supplies, consumables and goods	450,390	455,789
Increases for internal work	(102,437)	(69,389)
Total	**347,953**	**386,400**

The item represents the value of materials and miscellaneous equipment consumed in ordinary plant operation and plant maintenance, as well as the consumption of materials for the fulfilment of orders.

31. Services

Costs for services recognised in the financial statements at 31 December 2019 amounted to 920 million euro (761 million euro at 31 December 2018) and were broken down as follows:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Construction, planning and works management	348,067	183,062
IT services (Information Technology)	81,713	59,668
Purchase of transport capacity (interconnection)	51,914	48,626
Maintenance services	42,930	46,673
Technical, legal, administrative and professional services	154,076	144,302
Personnel-related services	33,961	29,874
Telecommunications services	41,575	40,095
Electricity, thermal energy, water, etc.	27,078	22,844
Insurance	14,492	12,024
Other services	136,203	141,232
Costs for leases and rentals	121,131	127,000
- fees, patents and user licenses	*73,362*	*65,313*
- leases and rentals	*47,769*	*61,687*
Increases for internal work	(135,185)	(95,754)
Commission expenses	1,939	1,654
Total	**919,894**	**761,300**

The increase in costs for services compared to the previous year (+158 million euro) is mainly due to planning, work supervision and facility maintenance costs for the ITALGAS group, essentially regarding the extension and maintenance of gas distribution facilities.

The costs of professional services include the 2019 fees for audit, certification and other services provided to group companies by CDP RETI, PricewaterhouseCoopers S.p.A.'s parent company.

The following information is provided pursuant to Article 149-duodecies of the CONSOB Issuers' Regulations:

(thousands of euro)

Items/Figures	Service Provider	31/12/2019
Auditing		2,454
Certification	PricewaterhouseCoopers S.p.A.	745
Other		5
Total		**3,204**

32. Staff costs

A breakdown of staff costs is provided below:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
1) Employees	**809,184**	**806,027**
a) salaries and wages	575,894	554,180
b) social security charges	5,696	4,740
c) staff severance pay	17,248	16,432
d) pension costs	164,376	157,498
e) provision for staff severance pay	1,936	2,006
f) provision for post-employment benefits:		
- defined contribution		
- defined benefits		
g) payments to external supplementary pension plans:	23,493	19,562
- defined contribution	20,534	16,635
- defined benefits	2,959	2,927
h) costs related to payment agreements based on own equity instruments		
i) other benefits for employees	20,541	51,609
2) Other personnel in service	**3,313**	**3,843**
3) Board of Directors and Board of Auditors	**13,557**	**11,918**
4) Retired personnel		
5) Increases for internal work	**(134,968)**	**(127,353)**
Total	**691,086**	**694,435**

Staff costs, which at 31 December 2019, before their allocation to non-current assets, totalled 826 million euro, are mainly attributable:

- for 235 million euro to SNAM group employees, whose average headcount totalled 3,042 at 31 December 2019;
- for 334 million euro to TERNA group employees, whose average headcount totalled 4,344 in the same period;
- for 242 million euro to ITALGAS group employees, whose average headcount totalled 4,069.

The following table shows the average headcount of group employees by contractual level:

Items/Figures	31/12/2019	31/12/2018
Senior Managers	255	236
Middle Managers	1,431	1,354
Office staff	6,319	5,770
Manual workers	3,453	3,312
Total	**11,458**	**10,672**

33. Amortisation, depreciation and impairment of property, plant and equipment and intangible assets

Amortisation, depreciation and impairment, for 2,018 million euro at 31 December 2019 (1,860.5 million euro at 31 December 2018) are broken down as follows:

(thousands of euro)	31/12/2019				31/12/2018			
Items/Figures	Amortisation and depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b+c)	Amortisation and depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b+c)
Property, plant and equipment	1,440,332	32,391		1,472,723	**1,301,746**	**21,480**		**1,323,226**
- Owned	*1,412,573*	*32,391*		*1,444,964*	*1,301,746*	*21,480*		*1,323,226*
- Right of use acquired under leases ex IAS 17	*643*			*643*				
- Right of use acquired under leases IFRS 16	*27,116*			*27,116*				
Intangible assets	**543,231**	**1,908**		**545,139**	**536,207**	**1,152**	**(50)**	**537,309**
- Owned	*543,231*	*1,908*		*545,139*	*536,207*	*1,152*	*(50)*	*537,309*
- Right of use acquired under leases IFRS 16								
Total	**1,983,563**	**34,299**		**2,017,862**	**1,837,953**	**22,632**	**(50)**	**1,860,535**

The increase in this item was also affected by the revised estimate of the residual useful life of the PPA allocated to Terna's assets, with a consequent reduction in the expected economic-technical life.

33 a. Net impairment (recoveries) of trade receivables and other receivables

This item, introduced following the adoption of IFRS 9, is equal to 35.6 million euro (4.9 million euro at 31 December 2018) and essentially refers to the SNAM group.

34. Other operating costs

Other operating costs, which at 31 December 2019 amounted to 115 million euro (151 million euro at 31 December 2018), are shown in the table below:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Indirect duties and taxes	19,740	28,076
Losses from cancellation of property, plant and machine and intangible assets	21,813	48,067
Service quality charges	3,897	10,163
Net provision for risks and charges	22,002	15,976
Net accruals to the provisions for credit risk on commitments and guarantees issued		57
Other costs	47,445	48,391
Total	**114,897**	**150,730**

The change compared to the previous year (-36 million euro) is due to:

- lower capital losses (-26 million euro) for cancellation and sale of property, plant and equipment and intangible assets;
- the decrease in service quality charges (-6 million euro) of the TERNA and ITALGAS groups;
- the increase in net accruals to provisions for risks and charges (+6 million euro), mainly referring to the SNAM group.

C. FINANCIAL INCOME (EXPENSE)

35. Financial income

Financial income, amounting to 31 million euro (23 million euro at 31 December 2018) was broken down as follows:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Interest income and other financial income	23,776	19,478
Interest income on hedging derivatives	370	
Income on hedging transactions	4,791	250
Recoveries for credit risk relating to financial assets at fair value	111	938
Other financial income	2,362	2,122
Total	**31,410**	**22,788**

36. Financial expenses

The financial expenses recognised in the financial statements at 31 December 2019 amounted to 411 million euro (429 million euro at 31 December 2018) and were broken down as follows:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Interest expenses and other charges	359,615	353,176
- of which: interest expenses on bonds	*281,786*	*265,890*
Interest expense on finance lease	*1,257*	
Interest expenses on hedging derivatives	5,811	13,209
Exchange rate differences	5,783	7,526
Financial expenses from hedging activities	10,674	8,393
Financial expenses on disposal and repurchase	28,834	46,967
Adjustments for credit risk relating to financial assets	638	1
Total	**411,355**	**429,272**

37. Portion of income / (expenses) from equity investments accounted for using the equity method

Income and expenses from equity investments, amounting to 182 million euro at 31 December 2019 (137 million euro at 31 December 2018) consisted of the following:

(thousands of euro)	31/12/2019				31/12/2018			
Items/Figures	Joint ventures	Associates	Other	Total	Joint ventures	Associates	Other	Total
A. Income	**146,412**	**44,101**		**190,513**	**136,620**	**8,348**	**17**	**144,985**
1. Income	146,412	44,101		190,513	136,620	7,259		143,879
- Net equity valued investments	146,412	44,101		190,513	136,620	7,259		143,879
- Other investments								
2. Gains on disposal								
3. Writebacks								
4. Other						1,089	17	1,106
B. Charges		**(8,077)**		**(8,077)**	**(98)**	**(8,119)**		**(8,217)**
1. Impairment		(8,077)		(8,077)	(98)	(8,119)		(8,217)
- Net equity valued investments		(8,077)		(8,077)	(98)	(8,119)		(8,217)
- Other investments								
2. Impairment adjustments								
3. Losses on disposal								
4. Other								
Total	**146,412**	**36,024**		**182,436**	**136,522**	**229**	**17**	**136,768**

For further information see paragraph “4. Equity investments” of these notes.

37a. Other income (expenses) from equity investments

There were no other income (expenses) from equity investments at 31 December 2019.

D. TAXES FOR THE PERIOD

38. Taxes for the period

Taxes for the year amounted to 731 million euro (673 million euro at 31 December 2019) and are broken down as follows:

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
1. Current taxes (+/-)	868,135	831,608
2. Change in current taxes from previous years (+/-)	(1,874)	(20,061)
3. Reduction of current taxes for the year (+)		
4. Change in deferred tax assets (+/-)	(3,010)	(16,200)
5. Change in deferred tax liabilities (+/-)	(131,848)	(122,003)
Taxes for the period	**731,403**	**673,344**

Reconciliation between theoretical and actual tax liability: IRES

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Income (loss) before taxes	**2,406,236**	**2,283,602**
IRES theoretical tax liability (24.0%)	(839,709)	(577,497)
Increase in taxes	**(62,224)**	**(83,633)**
- non deductible interest expenses 4%	(6,796)	(6,799)
- temporary non deductible differences	(26,265)	(43,785)
- permanent non deductible differences	(5,155)	(3,203)
- effect of different foreign rates (-)	-	(230)
- other changes	(24,008)	(29,616)
Decreases in taxes	**179,935**	**(30,447)**
- dividends 95% exempt	158,180	119,916
- ACE benefit	9,191	14,828
- temporary differences	-	2,710
- effect of different foreign rates (+)	-	67
- other changes	12,564	(167,968)
IRES Actual tax liability	**(721,998)**	**(691,577)**

Reconciliation between theoretical and actual tax liability: IRAP

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
IRAP tax base	**3,011,797**	**2,866,158**
IRAP theoretical tax liability 5.57%	(167,757)	(161,051)
Increases in taxes	**(3,412)**	**(3,375)**
- non deductible interest expenses 4%	(63)	-
- other non deductible expenses	(389)	(725)
- effect of different regional tax rates (-)	(2,960)	(2,650)
Decreases in taxes	**25,032**	**24,395**
- prior period deductible expenses (+)	-	-
- deductible employees costs	-	-
- decreases	738	-
- effect of different regional tax rates (+)	24,294	24,395
- IRAP surcharge	-	-
IRAP Actual tax liability	**(146,137)**	**(140,031)**

E. INCOME (LOSS) ON CONTINUING OPERATIONS

39. Income (loss) on discontinued operations

As at 31 December 2019, the charges of 4 million euro refer to a 6% shareholding held by Snam in the associate company Senfluga, recognised among assets held for sale and valued at whichever is lower between its book value and the associated fair value, net of any sales costs in compliance with the provisions of IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”.

IV – BUSINESS COMBINATIONS

IV.1 BUSINESS COMBINATIONS COMPLETED DURING THE PERIOD

The following business combinations of relevance for the CDP RETI Group were carried out during 2019.

(thousands of euro)

Company name	Date of transaction	(1)	(2)	(3)	(4)
Business Unit Aquamet S.p.A.	30/04/2019	22,606	100%	1	1
Business Unit Isgas Energit Multiutilities	30/04/2019	7,269	100%	1	1
Mediterranea Srl	30/04/2019	2,293	100%	241	51
Isgastrentatrè	30/04/2019	300	10%	1	1
Business Unit Sienergas	25/09/2019	140	100%	217	14
Toscana Energia Group	01/10/2019	480,855	2%	34,700	6,250
Enerpaper	12/12/2019	400	10%	1	1

(1) = Cost of transaction
(2) = Percentage of voting rights in the Ordinary Shareholders' Meeting
(3) = Total group revenues
(4) = Group net Profit (Loss)

Acquisition of the Aquamet S.p.A. business unit

On 30 April 2019, the acquisition was completed from the CONSCOOP group of the Aquamet S.p.A. business unit, which holds, among others, 9 natural gas distribution concessions in several municipalities of Lazio, Campania, Basilicata and Calabria, serving a total of 23,800 users.

The table below shows the consideration paid for the acquisition of the company and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction.

(thousands of euro)

Items/Figures			
Assets	Carring amount	Adjustment	Fair value
Intangible assets	24,364	-	24,364
Financial assets	-	-	-
Ather assets	1	-	1
Total acquired assets	**24,365**	**-**	**24,365**
Liabilities			
Other liabilities	1,417	-	1,417
Severance pay	342	-	342
Total acquired liabilities	**1,759**	**-**	**1,759**
Acquired net assets	**22,606**	**-**	**22,606**
Badwill	-	-	-
Business combination cost	**22,606**	**-**	**22,606**

Acquisition of the Isgas Energit Multiutilities S.p.A. business unit

On 30 April 2019, the acquisition was completed from the CONSCOOP group of the business unit of Isgas Energit Multiutilities S.p.A., which holds the propane air distribution concessions in the Cagliari, Nuoro and Oristano municipalities (Sardinia), currently serving a total of 22,300 users with LPG.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction (amounts in thousands of euro).

(thousands of euro)

Items/Figures			
Assets	Carring amount	Adjustment	Fair value
Property, plant and equipment	83	-	83
Intangible assets	31,478	-	31,478
Ather assets	12,446	-	12,446
Total acquired assets	**44,007**	**-**	**44,007**
Liabilities			
Financial liabilities	19,901	-	19,901
Other liabilities	15,955	-	15,955
Severance pay	882	-	882
Total acquired liabilities	**36,738**	**-**	**36,738**
Acquired net assets	**7,269**	**-**	**7,269**
Goodwill	-	-	-
Business combination cost	**7,269**	**-**	**7,269**

Acquisition of Mediterranea S.r.l.

On 30 April 2019, the acquisition was completed from the CONSCOOP group of the entire capital of Mediterranea S.r.l., which holds 6 natural gas distribution concessions in the Salerno province, serving approximately 3,600 users.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction.

(thousands of euro)

Items/Figures			
Assets	Carring amount	Adjustment	Fair value
Cash and cash equivalents	395	-	395
Property, plant and equipment	118	-	118
Intangible assets	13,166	-	13,166
Tax assets	292	-	292
Ather assets	650	-	650
Total acquired assets	**14,621**	**-**	**14,621**
Liabilities			
Financial liabilities	10,559	-	10,559
Tax liabilities	684	-	684
Other liabilities	974	-	974
Severance pay	1	-	1
Provision for risks and charges	110	-	110
Total acquired liabilities	**12,328**	**-**	**12,328**
Acquired net assets	**2,293**	**-**	**2,293**
Goodwill	-	-	-
Business combination cost	**2,293**	**-**	**2,293**

Acquisition of Isgastrentatrè S.p.A.

Italgas, through its subsidiary Medea, completed the acquisition from CONSCOOP of a 10% stake in Isgastrentatrè S.p.A., owner of the Basin 33 propane air distribution concession in Sardinia. The agreements governing the acquisition of Isgastrentatrè S.p.A. provide for the commitment to acquire the remaining 90% of the capital upon meeting certain conditions, which include the conversion of the current propane air network into a natural gas network. If such conditions are not met, Italgas has the right to resell the 10% stake at a price equal to the purchase price to CONSCOOP, which will have the obligation to repurchase the stake.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction.

(thousands of euro)

Items/Figures			
Assets	Carring amount	Adjustment	Fair value
Equity investments	300	-	300
Total acquired assets	**300**	**-**	**300**
Liabilities			
Total acquired liabilities	**-**	**-**	**-**
Acquired net assets	**300**	**-**	**300**
Goodwill	-	-	-
Business combination cost	**300**	**-**	**300**

Acquisition of the Sienergas business unit

On 25 September 2019, the purchase was completed from Sienergas Distribuzione S.r.l. of the natural gas distribution business unit in the municipality of Cannara (Perugia), with infrastructure extending over 35 kilometres and serving 1,500 users.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction.

(thousands of euro)

Items/Figures			
Assets	Carring amount	Adjustment	Fair value
Property, plant and equipment	210	-	210
Total acquired assets	**210**	**-**	**210**
Liabilities			
Other liabilities	70	-	70
Total acquired liabilities	**70**	**-**	**70**
Acquired net assets	**140**	**-**	**140**
Goodwill	-	-	-
Business combination cost	**140**	**-**	**140**

Acquisition of the Toscana Energia Group

On 1 October 2019, the transfer was completed to Italgas S.p.A. of 2,897,778 shares, representing 1.98% of the capital of Toscana Energia S.p.A.. Following the acquisition of control over Toscana Energia by Italgas, the new articles of association came into force, drawn up following the agreement between Italgas and the public shareholders and already approved by the extraordinary shareholders' meeting on 28 June 2018.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction.

(thousands of euro)

Items/Figures

Assets	Carring amount	Adjustment	Fair value
Property, plant and equipment	44,510	-	44,510
Intangible assets	891,250	-	891,250
Equity investments	25,130	-	25,130
Financial assets	16,715	-	16,715
Tax assets	51,390	-	51,390
Ather assets	49,143	-	49,143
Total acquired assets	**1,078,138**	**-**	**1,078,138**
Liabilities			
Financial liabilities	431,152	-	431,152
Tax liabilities	69,397	-	69,397
Other liabilities	129,512	-	129,512
Severance pay	8,635	-	8,635
Provision for risks and charges	14,077	-	14,077
Total acquired liabilities	**652,773**	**-**	**652,773**
Acquired net assets	**425,365**	**-**	**425,365**
Goodwill	55,490	-	55,490
Business combination cost	**480,855**	**-**	**480,855**

Acquisition of Enerpaper

On 12 December 2019, the purchase was completed of 10% of the capital of Enerpaper, which operates in an eco-friendly manner in the supply of insulation materials for buildings.

The table below shows the consideration paid for the acquisition of the company, and gives a breakdown of the assets acquired and liabilities assumed at the date of the transaction.

(thousands of euro)

Items/Figures

Assets	Carring amount	Adjustment	Fair value
Equity investments	53	-	53
Total acquired assets	**53**	**-**	**53**
Liabilities			
Total acquired liabilities	**-**	**-**	**-**
Acquired net assets	**53**	**-**	**53**
Goodwill	-	347	347
Business combination cost	**53**	**347**	**400**

IV.2 BUSINESS COMBINATIONS CARRIED OUT AFTER THE REPORTING DATE

No business combinations were completed in the period running from the reporting date of the consolidated financial statements to the date of their approval by the Board of Directors.

V – TRANSACTIONS WITH RELATED PARTIES

V.1 INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table provides the remuneration amounts for 2019 paid to members of the management and control bodies, and key management personnel of the Parent Company and of the companies that are consolidated on a line-by-line basis.

Remuneration of key management personnel

(thousands of euro)	31/12/2019			
Items/Figures	Directors	Board of auditors	Key management personnel	Total
a) short-term benefits	7.544	1.601	10.500	19.645
b) post-employment benefits	331		867	1.198
c) other long-term benefits	2.141		692	2.833
d) severance benefits				
e) share-based payments	1.940		3.756	5.696
Total	**11.956**	**1.601**	**15.815**	**29.372**

V.2 INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

This paragraph provides the disclosures required pursuant to IAS 24 concerning transactions concluded in 2019 between the CDP RETI Group and related parties.

The related parties of the CDP RETI Group are:

- the Ministry of the Economy and Finance (MEF) and the Group's direct and indirect subsidiaries and associates;
- the companies of the CDP Group, including companies subject to joint control or under significant influence, and their subsidiaries;
- the companies of the CDP RETI Group subject to joint control or under significant influence, and their subsidiaries;
- the company State Grid Europe Limited, which exercises significant influence over the parent company CDP RETI;
- key management personnel of the CDP RETI Group, their close family members and any companies controlled by them, even jointly;
- post-employment benefit plans for employees of the CDP RETI Group.

The following table shows the assets, liabilities, guarantees and commitments as at 31 December 2019, as well as the financial transactions concluded in the first half of the year, broken down by type of related party

Transactions with related parties

(thousands of euro)							31/12/2019		
Items/values	CDP	CDP RETI Group subsidiaries and associates	CDP Group subsidiaries and associates	MEF and MEF subsidiaries and associates	Key management personnel	Other	Total transactions with related parties	Financial statement item Total	% Impact
Non-current financial assets								503,012	0%
Other non-current assets								171,265	0%
Current financial assets	6,887						6,887	524,473	1%
Trade receivables	22	10,299	400,257	529,094			939,672	3,070,871	31%
Other current assets	4,440	12,804	20,040	12,671			49,955	331,188	15%
Cash and cash equivalents	9,997			117			10,114	4,246,420	0%
Total assets	**21,346**	**23,103**	**420,297**	**541,882**			**1,006,628**	**8,847,229**	**11%**
Loans	421,271						421,271	25,313,937	2%
Other financial liabilities	2,651						2,651	231,936	1%
Short-term loans and current portion of long-term loans	341,608						341,608	2,845,156	12%
Trade payables	100,400	11,052	61,294	83,590			256,336	3,456,269	7%
Current financial liabilities	3,787						3,787	2,790,415	0%
Other current liabilities	438		4,796	14,111		2,075	21,420	1,844,971	1%
Total liabilities	**870,155**	**11,052**	**66,090**	**97,701**		**2,075**	**1,047,073**	**36,482,684**	**3%**
Revenues	7	21,440	1,890,942	2,119,615			4,032,004	6,900,526	58%
Operating costs	(1,181)	(6,332)	(51,551)	(52,474)		(2,837)	(114,375)	(4,056,047)	3%
Financial income (expense)	(15,685)						(15,685)	(379,945)	4%
Income Statement items Total (before tax)	**(16,859)**	**15,108**	**1,839,391**	**2,067,141**		**(2,837)**	**3,901,944**	**2,464,534**	**n/s**
Guarantees issued			**42,779**	**620,022**			**662,801**		
Guarantees received									
Commitments		**234,000**					**234,000**		

Key transactions between the CDP RETI Group and its related parties concern trade relationships with the companies controlled by the MEF, as follows:

- Snam group's trade relationships with ENI and Enel referring, on one hand, to natural gas transportation, regasification and storage services at tariffs set by the Authority, and on the other hand, to electricity purchased from ENI to conduct its business operations;
- Terna group's trade relationships with Enel, concerning NTG remuneration, dispatching fees, services associated with leases, rentals, line maintenance, power line communications on owned power lines and services;
- Italgas group's trade relationships with Eni relating to natural gas distribution, real estate management services and IT-type services and services with Enel Energia relating to natural gas distribution.

A significant item of loans payable is the debt payable by the Parent Company CDP RETI to the direct Parent Company CDP.

VI - FINANCIAL RISK MANAGEMENT

With regard to the financial risks of the Parent Company CDP RETI, please refer to the specific section of the notes to the financial statements.

With regard to enterprise risk, the main risks measured and managed at the level of the subsidiaries SNAM, ITALGAS and TERNA are indicated below.

SNAM GROUP

Financial risks

Market risk

Interest rate risk

Interest rate risk relates to fluctuations in interest rates, which may affect the market value of the company's financial assets and liabilities and the level of net financial charges.

Snam's objective is to optimise interest rate risk whilst pursuing the objectives set out in its Financial Plan.

The Snam group has adopted a centralised organisational model. Under this model, Snam's business units cover their financial requirements through recourse to the financial markets and use funds in line with the approved objectives, ensuring that the risk profile is kept within set limits.

As at 31 December 2019, the Snam group used external financial resources through bond issues and bilateral and syndicated loan agreements with banks and other financial institutions, in the form of medium- and long-term loans and credit facilities at interest rates indexed to benchmark market rates – in particular the Europe Interbank Offered Rate (Euribor) – or at fixed rates.

As at 31 December 2019, exposure to interest rate risk amounted to approximately 24% of total group exposure (22% at 31 December 2018). As at 31 December 2019, Snam had Interest Rate Swaps (IRSs), for an overall value of 1,660 million euro, hedging the entire notional value on three floating-rate bonds totalling 1 billion euro, with maturities in 2020, 2022 and 2024, and on floating-rate bilateral loans totalling 660 million euro, with maturities in 2021, 2023 and 2028.

The IRS derivative contracts are used to convert the floating-rate loans into fixed-rate loans.

In addition, at 31 December 2019, Snam had IRS Forward Starting derivative contracts for an aggregate notional value of 500 million euro, with a medium-/long-term tenor, to cover highly likely prospective financial liabilities that will be assumed until 2021 to cover financial requirements.

Exchange rate risk

Snam's exposure to the exchange rate risk pertains to both transaction risk and translation risk related to exchange rates. Transaction risk arises from the conversion of trade or financial receivables (payables) into currencies other than the functional one and is due to the impact of adverse exchange rate fluctuations in the time interval between entering into and settling the transaction.

Translation risk consists in the fluctuation of the exchange rates of currencies other than the consolidation currency (Euro), which may result in changes in consolidated equity. Snam's Risk Management objective is that of minimising the transaction risk, also through derivative financial instruments. A negative impact on the business, financial position and results of the Snam group caused by significant future changes in exchange rates cannot be ruled out, regardless of the risk hedging policies implemented by Snam to cover exchange rate fluctuations using the financial instruments available on the market.

Snam's equity investment in the associate Interconnector UK is exposed to the EUR/GBP exchange rate risk. However, Snam believes that such risk is limited given the historically low volatility of the EUR/GBP exchange rate, even considering the increased fluctuation following the Brexit referendum. Snam's equity investment in the associate TAP is exposed to a EUR/CHF exchange rate risk on the equity cash calls based on the shareholders' contractual commitments towards the company, but these are limited in amount following the positive conclusion of the Project Financing. Moreover, such risk has been adequately hedged with derivatives (e.g. forward contracts).

Credit risk

Credit risk is the company's exposure to potential losses arising from a counterparty defaulting on its obligations. The non-payment or delayed payment of any amounts due may negatively impact Snam's performance and financial balance. With respect to the risk of counterparty default in commercial agreements, credit management is the responsibility of Snam's business units and of its centralised functions in charge of debt collection and dispute management. Snam provides its business services to approximately 200 gas sector operators. The top 10 operators account for about 70% of the whole market (Eni, Edison and Enel Global Trading hold the top three positions in the ranking). The rules governing the customers' access to the services offered are established by the Authority and are provided for in the Network Codes, which set out, for each type of service, the duties and responsibilities of the parties selling and providing the services, as well as the contractual clauses that significantly reduce the risk of non-compliance by customers. The Codes provide for the issue of guarantees covering the obligations undertaken. In specific cases, the issue of said guarantees can be mitigated when the customer has a credit rating issued by a major international rating agency. The regulatory framework also provides for specific clauses to guarantee the neutrality of the Balancing activity operator, a role held by Snam Rete Gas as a major transmission service operator since 1 December 2011. More specifically, the current balancing rules require that, on a cost-effective basis, Snam focuses primarily on purchases and sales on the GME balancing platform to guarantee the resources needed for safe and efficient transport of gas from the feed points to the draw points, to ensure the constant balance of the network. These rules also call for Snam to meet its residual needs by drawing on Users' stocking resources to cover system imbalances and their economic settlement.

The maximum exposure to credit risk for Snam at 31 December 2019 is the carrying amount of the financial assets shown in the Snam group's consolidated financial statements at 31 December 2019.

As shown in note no. 9 "Trade receivables and other receivables", the receivables past-due and not written down at 31 December 2019 amount to 132 million euro (117 million euro at 31 December 2018) and mainly refer to the storage sector (77 million euro), primarily linked to VAT invoiced to users for the use of strategic gas unduly drawn during 2010 and 2011.

About 39% of trade receivables (55% at 31 December 2018) refers to highly reliable customers, such as Eni, which represents 16% of the total trade receivables (22% at 31 December 2018).

However, it cannot be ruled out that Snam may incur liabilities and/or losses due to the non-fulfilment of payment obligations on the part of its customers, also taking into account the current economic and financial environment, which makes credit collection activity more complex and critical. The maximum exposure to credit risk for Snam at 31 December 2019 is the carrying amount of the financial assets shown in the financial statements.

Liquidity risk

Liquidity risk is the risk that, due to the inability to raise new funds (funding liquidity risk) or to liquidate assets on the market (asset liquidity risk), the company may be unable to fulfil its payment commitments, resulting in an impact on income if the company is forced to sustain additional costs to meet such commitments or, as an extreme consequence, in a condition of insolvency that puts the continuation of company business at risk.

Snam's Risk Management goal is to implement, in its financial plan, a financial structure that, in line with business objectives, guarantees an adequate level of liquidity for the group, minimising opportunity cost and maintaining an optimal profile in terms of debt maturity and composition.

As highlighted in the paragraph "Interest rate risk", the Company has accessed a large range of funding sources through the credit system and the capital markets (bilateral contracts, syndicated loans by major national and international banks, loan agreements funded by the European Investment Bank - EIB, bonds and Commercial Papers).

Snam's objective is to maintain a balanced debt structure, in terms of subdivision into bonds and bank loans and in terms of availability of committed bank loan facilities, in line with Snam's business profile and regulatory framework.

As at 31 December 2019, Snam had unused long-term committed credit facilities totalling approximately 3.2 billion euro. Moreover, at the same date Snam had a Euro Medium Term Notes (EMTN) programme for an overall maximum nominal value of 11 billion euro, used for approximately euro 8.7 billion euro, as well as a Euro Commercial Paper (ECP) Programme for an overall maximum nominal value of 2 billion euro, fully used at 31 December 2019.

Cash and cash equivalents of Snam mainly refer to short-term investment of liquidity with a bank of high credit standing, repayable in less than three months, and bank deposits.

Although the Snam Group enters into transactions with diversified counterparties of high credit standing based on a risk management policy and the constant monitoring of their credit risk, the default by any counterparty or the difficulty of liquidating assets on the market may have adverse impacts on the Snam group's business, financial position and results.

Default risk and debt covenants

The risk of default consists in the possibility that under certain conditions the lender might invoke contractual clauses allowing it to demand early loan repayment, thereby generating a potential liquidity risk.

As at 31 December 2019, Snam had unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions, except for some bank borrowings (amounting to 25.9 million euro) relating to two subsidiaries entering the scope of consolidation in November 2019.

Some of these agreements include, inter alia, certain commitments commonly applied in international practice, some of which are subject to specific threshold values, such as, for instance (i) negative pledge commitments under which Snam and its subsidiaries are subject to limitations on pledging as collateral or placing other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change of control clauses; (iii) limitations on certain non-recurring transactions that the Company and its subsidiaries may carry out; and (iv) limitations on subsidiary debt.

As at 31 December 2019, the bonds issued by Snam are subject to covenants typically used in international practice including, inter alia, negative pledge and pari passu clauses.

Failure to comply with these covenants or the occurrence of other events, e.g. cross-default events, may result in Snam's failure to comply and could trigger the early repayment of the relevant loan.

For EIB loans only, the lender is entitled to request further guarantees if Snam's rating falls below BBB (Standard & Poor's / Fitch) or Baa2 (Moody's) with at least two of the three rating agencies.

Occurrence of one or more of the above scenarios might have adverse impacts on the Snam group's business, financial position and results, generating additional costs and/or liquidity problems. These commitments do not include covenants requiring compliance with economic and/or financial ratios.

Rating risk

As regards the rating risk, Snam's long-term rating is: (i) Baa2 with stable outlook, confirmed on 27 September 2019 by Moody's Investors Services; (ii) BBB+ with negative outlook, confirmed on 17 January 2020 by Standard & Poor's Global Rating ("S&P"); (iii) BBB+ with stable outlook, confirmed on 19 December 2019 by Fitch Ratings ("Fitch"). Snam's long-term rating by Moody's, S&P's and Fitch is one notch above that of the Italian Republic. Based on the methodology adopted by Moody's and S&P, the downgrade by one notch of the Italian Republic's current rating would trigger a likely equivalent downgrade of Snam's current rating.

Snam's short-term rating - used in the context of its Commercial Paper programme - is P-2 for Moody's, A-2 for S&P and F2 for Fitch.

A downgrade in the Snam group's rating might limit its access to the capital market and raise the cost of funding and/or refinancing of current debt, hence negatively affecting the Snam group's business, financial position and results.

ITALGAS GROUP

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

Financial risks

Interest rate risk

Interest rate fluctuations affect the market value of the company's financial assets and liabilities and the level of net financial charges. The Italgas group has adopted a centralised organisational model. In accordance with this model, Italgas' various departments access the financial markets and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile is contained within set limits. Any increase in interest rates not included wholly or partly in the regulatory WACC could have negative effects on the business, financial position and results of the Italgas group for the variable component of the outstanding debt and for future loans. Italgas' aim is to maintain a fixed-to-floating rate debt ratio that minimises the risk of a rise in interest rates. At 31 December 2019, 12.2% of the financial debt was carried at a floating rate and 87.8% was carried at a fixed rate.

At the same date, the Italgas group was using external financial resources in the following forms: bond issues subscribed by institutional investors, syndicated loans with banks and other financial institutions, in the form of medium- to long-term loans, and, lastly, bank credit lines indexed to benchmark market rates, in particular the Europe Interbank Offered Rate (Euribor).Fixed-rate financial liabilities were equal to 4,103.6 million euro and included bond issues (3,354.3 million euro) and three EIB loans: the first with 2037 maturity (359.8 million euro), converted to a fixed-rate loan in January 2018 through an interest rate swap, with 2024 maturity; the second with 2032 maturity (299.8 million euro) converted to a fixed-rate loan in July 2019 through an interest rate swap, with 2029 maturity; and the third (89.8 million euro) relating to the EIB loan of Toscana Energia, with a fixed rate of 1.049% and 2031 maturity. Floating-rate liabilities amounted to 567.9 million euro, up by 18.1 million euro due to the greater use of bank credit lines, partly offset by the new derivative on the EIB loan. As at 31 December 2019, Italgas had unused committed credit facilities totalling 500 million euro.

At 31 December 2019 there were no loan agreements containing financial covenants and/or secured by collateral, except for the EIB loan taken out by Toscana Energia which requires compliance with particular financial covenants. Some of these contracts provide, inter alia, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations on pledging as collateral or placing other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain non-recurring transactions that the company and its subsidiaries may carry out.

Credit risk

Credit risk is the exposure to potential losses arising from a counterparty defaulting on its obligations. Default or delayed payment of receivables may have a negative impact on the revenue and financial situation of Italgas. The rules governing customers' access to the services offered are established by ARERA and are provided for in Network Codes, i.e. in documents that set out, for each type of service, the rules that govern the rights and obligations of the parties providing the services and specify the contractual clauses that reduce the risk of non-compliance by customers, such as the issue of demand bank or insurance guarantees. As at 31 December 2019, no significant credit risks had been identified. On average, 95% of trade receivables related to gas distribution are paid on time, and over 99% within the following 4 days, confirming the absolute reliability of its customers. The portion of receivables from other activities is not deemed significant for the Company. It cannot be ruled out, however, that Italgas could incur liabilities and/or losses due to its customers' failure to discharge their payment obligations.

Liquidity risk

Liquidity risk is the risk that, due to the inability to raise new funds (funding liquidity risk) or to liquidate assets on the market (asset liquidity risk), the company may be unable to fulfil its payment commitments, resulting in an impact on income if the company is forced to sustain additional costs to meet such commitments or, as an extreme consequence, in a condition of insolvency that puts the continuation of company business at risk.

Italgas had signed credit facility agreements in excess of its financing needs at 31 December 2019. These credit facilities (500 million euro) may be used to meet any potential liquidity needs, where required, if the actual financial requirement is higher than estimated. Moreover, at the same date, in addition to and complementing the use of bank credit, the Euro Medium Term Notes (EMTN) programme approved by the Italgas Board of Directors on 23 September 2019 allows the issue of another 1,650 million euro to be placed with institutional investors.

The financial objective of Italgas is to set up a financial structure that, consistently with its business goals, will guarantee an adequate level for the group in terms of duration and composition of the debt. That financial structure will be realised by monitoring certain key indicators, such as the ratio between debt and RAB, the ratio between short-term and medium-/long-term debt, the ratio between fixed-rate and floating-rate debt, and the ratio between firm commitment bank credit and used bank credit.

Rating risk

On 2 August 2019 and 26 September 2019, the rating agencies Fitch and Moody’s confirmed their rating assigned to Italgas S.p.A. respectively at BBB+ with stable outlook and Baa2 with stable outlook, for the long-term debt of the company. Based on the methodologies adopted by the rating agencies, a downgrade by one notch of the Italian Republic’s current rating could trigger a downgrade in Italgas’ current rating.

Default risk and debt covenants

At 31 December 2019 there were no loan agreements containing financial covenants and/or secured by collateral, except for the EIB loan taken out by Toscana Energia which requires compliance with particular financial covenants. Some of these contracts provide, inter alia, for the following: (i) negative pledge commitments pursuant to which Italgas and its subsidiaries are subject to limitations on pledging as collateral or placing other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain non-recurring transactions that the company and its subsidiaries may carry out. At 31 December 2019, these commitments had been met.

The bonds issued by Italgas as at 31 December 2019 as part of the Euro Medium Term Notes programme provided for compliance with covenants that reflect international market practices regarding, inter alia, negative pledge and pari passu clauses.

The failure to meet the commitments accompanying these loans, and in certain cases only when that default is not remedied by the stipulated deadlines, and the occurrence of other events such as, for example, cross-default events, some of which are subject to specific materiality thresholds, result in defaults by Italgas and could cause the related loan to become immediately due.

As concerns EIB financing, the contracts contain a clause whereby, in the event of a significant reduction in EBITDA resulting from the loss of concessions, this must be notified to the EIB, leading to a consultation period after which the EIB may demand early repayment of the loans.

TERNA GROUP

In the course of its operations, the Terna group is exposed to a variety of financial risks: market risk, liquidity risk and credit risk.

In this section information is provided on the TERNA group’s exposure to risks, as well as the aims, policies and processes for managing those risks and the methods used to measure them.

The group’s risk management policies seek to identify and analyse the risks to which the group companies are exposed, establish their limits and create a system to monitor them. These policies and the related systems are reviewed on a regular basis in order to take account of any changes in market conditions or in the operations of group companies.

The exposure of the TERNA group is largely represented by the exposure of the parent company. As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically with respect to the instruments to be used and the precise operating limits in managing them.

	31/12/2019			31/12/2018		
(millions of euro)	Loans carried at amortized cost	Hedging derivatives	Total	Loans carried at amortized cost	Hedging derivatives	Total
Assets						
Derivative financial instruments	-	45.1	45.1		1.3	1.3
Cash and equivalent	1,057.4	513.3	1,570.7	1,328.9	402.6	1,731.5
Trade receivables	1,290.7	-	1,290.7	1,167.0		1,167.0
Total	**2,348.1**	**558.4**	**2,906.5**	**2,495.9**	**403.9**	**2,899.8**

	31/12/2019				31/12/2018		
(millions of euro)	Payables carried ad amortised cost	Loans at fair value	Hedging derivatives	Total	Payables carried ad amortised cost	Hedging derivatives	Total
Liabilities							
Long-term debt	9,607.2	-	-	9,607.2	9,458.2		9,458.2
Derivative financial instruments	-	-	160.4	160.4		59.2	59.2
Trade payables	2,445.2	-	-	2,445.2	2,539.6		2,539.6
Total	**12,052.4**	-	**160.4**	**12,212.8**	**11,997.8**	**59.2**	**12,057.0**

Financial risks

Market and financial risks of the group

In the course of its operations, the Terna group is exposed to a variety of financial risks: market risk, liquidity risk and credit risk.

The group's risk management policies seek to identify and analyse the risks to which the group companies are exposed, establish their limits and create a system to monitor them. These policies and the related systems are reviewed on a regular basis in order to take account of any changes in market conditions or in the operations of group companies.

The exposure of the Terna Group to the aforementioned risks is largely represented by the exposure of the Parent Company.

As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically with respect to the instruments to be used and the precise operating limits in managing them.

The fair value of the financial instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (level 2) by means of appropriate valuation models for each category of financial instrument, using market data as at the period end date and discounting projected cash flows on the basis of the market yield curve and inflation at the reporting date.

Interest Rate Risk

Interest rate risk is represented by the uncertainty associated with changes in interest rates. It is the risk that a change in market interest rates could have an impact on the fair value or future cash flows of financial instruments.

In conducting its operations, the Group is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk derives from items of net financial debt and the associated hedging positions in derivatives, which generate financial expenses. Terna's borrowing strategy focused on debt instruments with long-term maturities reflecting the useful life of the company's assets. It also pursued an interest rate risk hedging policy that aimed to cover at least 40% of fixed-rate debt, as established in the company's policies. At the end of 2019 the fixed-rate group debt was 81%.

As at 31 December 2019, interest rate derivatives are fair value hedge derivatives and cash flow hedge derivatives, used to hedge the risk of changes in the cash flows associated with long-term loans.

The following table shows the notional amounts and fair value of the derivatives entered into by the Terna group:

	31/12/2019		31/12/2018		Change (+ / -)	
(millions of euro)	Notional	Fair value	Notional	Fair value	Notional	Fair value
FVH derivatives	1,600.0	45.0			1,600.0	45.0
CFH derivatives	3,794.0	(160.4)	3,246.3	(59.2)	547.7	(101.2)

The notional amounts of CFH derivatives as at 31 December 2019, amounting to 3,773.5 million euro, are broken down as follows:

- 1,223.5 million euro (fair value equal to -12.8 million euro) maturing in 2021;
- 1,250.0 million euro (fair value equal to -71.0 million euro) maturing in 2027;
- 1,300.0 million euro (fair value equal to -75.2 million euro) maturing in 2028;
- 21.0 million euro (fair value equal to -1.4 million euro) relative to the subsidiary Difebal, maturing in 2032.

The notional amounts of FVH derivatives as at 31 December 2019, amounting to 1,600.0 million euro, are broken down as follows:

- 850.0 million euro (fair value equal to +20.3 million euro) maturing in 2027;
- 750.0 million euro (fair value equal to +24.7 million euro) maturing in 2028.

Sensitivity to interest rate risk

To manage its interest rate risk, after restructuring its derivatives portfolio, Terna has implemented a floating-to-fixed interest rate swap (CFH) to neutralise the risk inherent in expected future cash flows.

Since the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, initially and periodically verified, is high, Terna chose to apply hedge accounting in order to ensure perfect time matching between the hedge and the hedged item. The purpose of hedge accounting is to recognise simultaneously the income statement effects of the hedges and the hedged item. As a result, for CFH derivatives, the fair value changes of the derivative must be recognised in “Other comprehensive income” (immediately recognising any ineffective portion in profit or loss) and then derecognised from Equity and recognised in profit or loss in the same period in which the cash flows relating to the hedged item have an impact on income. The characteristics of the CFH derivative contracts in place mirror those of the underlying hedged items; therefore, the related cash flows shall occur at the same maturities as the interest on debt, with no impact of fair value changes on the income statement.

The following table shows: the amounts recognised in the income statement and in “Other comprehensive income” in respect of positions sensitive to changes in interest rates; the theoretical value of those positions following a positive or negative shift in the market yield curve; and the differential impact of those changes recognisable in the income statement and in “Other comprehensive income”. A hypothetical 10% variation (increases and decreases) in the yield curve with respect to market interest rates at the reporting date has been assumed.

	Net income or loss			Equity		
(millions of euro)	Current rates +10%	Current values	Current rates - 10%	Current rates +10%	Current values	Current rates - 10%
31 December 2019						
Positions sensitive to changes in interest rates (FVH, bonds, CFH)	2.4	5.4	8.4	(98.8)	(101.2)	(103.7)
Hypothetical change	*(3.0)*	*0.0*	*3.0*	*2.4*		*(2.4)*
31 December 2018						
Positions sensitive to changes in interest rates (FVH, bonds, CFH)	-	-	-	(48.5)	(59.2)	(69.9)
Hypothetical change	-	-	-	*10.7*		*(10.7)*

Inflation risk

As regards inflation rate risk, the rates established by the Regulator to remunerate Terna S.p.A.’s activities are determined so as to allow coverage of the sector’s recognised costs. These cost components are updated each year to reflect the accrued impact of inflation. In 2007, the Company used an inflation-linked bond issue, thereby obtaining a partial hedge on net income for the year: any decrease in expected revenues due to a decrease in the inflation rate is partially offset by lower financial expense.

Exchange rate risk

Exchange rate risk management must be carried out with the aim of defending the company's profitability from the risks of exchange rate fluctuations through continuous market control and constant monitoring of existing exposure. To manage this risk, each time, Terna selects the financial hedging instruments with structural and duration characteristics consistent with the group's exposure to foreign currencies. The instruments used by Terna are those with limited complexity, high liquidity and ease of pricing, e.g. forward contracts and options. The group's existing contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from an appreciation or depreciation of the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.

As at 31 December 2019, the group's Income Statement exposure to exchange rate risk was residual and due to the Tamini subsidiary. At 31 December 2019, this exposure is managed through foreign exchange derivatives with a notional value of 10.0 million dollars and a positive fair value of 0.1 million euro.

Liquidity Risk

Liquidity risk is the risk that the Terna group might experience difficulties in discharging its obligations in respect of its financial liabilities and operational cycle. Liquidity risk management seeks to ensure adequate coverage of cash needs by obtaining adequate lines of credit and appropriately managing any surplus liquidity. As at 31 December 2019, the group had approximately 825 million euro available in short-term credit lines and 2,650 million euro in revolving credit lines.

Credit risk

Credit risk is the risk that a customer or one of the counterparties to a transaction in financial instruments could cause a financial loss by failing to discharge an obligation. It is mainly generated by the group's trade receivables and financial investments.

The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since, in compliance with financial risk management policies, the counterparties are leading international credit institutions with high ratings.
Terna essentially renders its services to counterparties considered solvent by the market and hence with a high credit standing, and avoids concentrations of credit risk.

Credit risk management is also compliant with Resolution no. 111/06 of the Italian Regulatory Authority for Energy, Networks and the Environment (Autorità di Regolazione per Energia Reti e Ambiente, ARERA), which, at Article 49, introduced instruments to limit the risks linked to the insolvency of dispatching customers, both on a preventive basis and in the event of actual insolvency. In particular, the Resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their turnover), the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee to be defined by ARERA where necessary.

At the end of the year, this exposure was as follows:

(millions of euro)	31/12/2019	31/12/2018	Change (+ / -)
FVH derivatives	45.0		45.0
Cash and cash equivalents and other financial assets	1,057.4	1,328.9	(271.5)
Trade receivables	1,290.7	1,167.0	123.7
Total	**2,393.1**	**2,495.9**	**(102.8)**

Default risk and debt covenants

Credit risk is the risk that a customer or one of the counterparties to a transaction in financial instruments could cause a financial loss by failing to discharge an obligation. It is mainly generated by the group's trade receivables and financial investments.

The credit risk originated by open positions on transactions in financial derivatives is considered to be marginal since, in compliance with financial risk management policies, the counterparties are leading international credit institutions with high ratings.
Terna essentially renders its services to counterparties considered solvent by the market and hence with a high credit standing, and avoids concentrations of credit risk.

Credit risk management is also compliant with Resolution no. 111/06 of the Italian Regulatory Authority for Energy, Networks and the Environment (Autorità di Regolazione per Energia Reti e Ambiente, ARERA), which, at Article 49, introduced instruments to limit the risks linked to the insolvency of dispatching customers, both on a preventive basis and in the event of actual insolvency. In particular, the Resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their turnover), the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees) and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee to be defined by ARERA where necessary.

At the end of the year, this exposure was as follows:

The overall credit risk exposure as at 31 December 2018 is represented by the carrying amount of trade receivables and cash and cash equivalents.

The following tables provide qualitative disclosures on loans to customers in terms of geographical distribution and type of customer.

VII – SHARE-BASED PAYMENTS

2017-2019 LONG-TERM PERFORMANCE SHARE PLAN OF SNAM S.P.A.

On 11 April 2017, the Shareholders' Meeting approved the 2017-2019 long-term performance share plan, giving the powers necessary to implement the Plan to the Board of Directors.
The Plan applies to the Chief Executive Officer and to Snam executives who hold offices that have the greatest impact on the company's financial performance or who are strategically important in terms of achieving Snam's multi-year objectives.
The Plan provides for three cycles of annual assignment of three-yearly targets (so-called Rolling Plan) for the years 2017, 2018 and 2019.
At the end of the three-year performance period, beneficiaries will be entitled to the free assignment of company shares if the conditions underlying the Plan are satisfied.
The maximum number of shares backing the plan is 3,500,000 shares for each year of the Plan. The Plan will end in 2022, that is, on expiry of the three-year vesting period linked to the last assignment of shares (2019).
The number of shares vested is subject to meeting the performance targets, which are measured as the average yearly performance against the parameters established for the three-year vesting period, with impact on EBITDA, adjusted net income and sustainability.

2017 dward	Vesting period and performance			2020 free share award
	2017	2018	2019	

2018 award	Vesting period and performance			2021 free share award
	2018	2019	2020	

2019 award	Vesting period and performance			2022 free share award
	2019	2020	2021	

At the end of the Plan's vesting period, the beneficiaries will also receive a Dividend Equivalent, consisting in a number of additional shares equivalent to the ordinary and extraordinary dividends distributed by Snam in the vesting period, which would have accrued on the number of shares effectively assigned to the beneficiaries on the basis of their performance and in accordance with the terms and conditions set out in the Plan.

The Chief Executive Officer and the other eligible executives will be subject to a lock-up period of two years on 20% of the shares assigned, as recommended in the Corporate Governance Code.

5,385,372 shares have been assigned under the Plan, of which 1,368,397 shares in relation to 2017, 2,324,413 shares in relation to 2018 and 1,692,562 shares in relation to 2019. The unit fair value of the shares, which equates to the price of the Snam shares at the grant date, was 3.8548, 3.5463 and 4.3522 euro for the shares granted respectively in 2017, 2018 and 2019. The cost of the Long-Term Incentive Plan, amounting to 7 million euro (3 million euro in 2018), is recognised as a labour cost with a balancing entry in equity reserves.

VIII – OPERATING SEGMENTS

This section of the Notes to the consolidated financial statements has been prepared in compliance with IFRS 8 “Operating Segments”, which came into force on 1 January 2009 and replaces IAS 14 "Segment Reporting".

The corporate purpose of CDP RETI is the holding and management, both ordinary and extraordinary, of equity investments in SNAM, TERNA and ITALGAS, monitoring the appropriate development/maintenance of the managed infrastructures, and developing specific skills in the sectors of transport, dispatching, distribution, regasification, gas storage and electricity transmission, in order to better control its investments.

The segments that CDP RETI and its subsidiaries operate in essentially consist of:

- gas transport, regasification and storage by the companies of the SNAM group;
- gas distribution by the companies of the ITALGAS group;
- dispatch and transmission of electricity by the companies of the TERNA group.

The table below shows the results of the CDP RETI Group’s operating segments at 31 December 2019, together with a reconciliation with the Group’s results.

(million of euro)	31/12/2019							31/12/2018
Items	CDP RETI	SNAM	TERNA	ITALGAS	Intercompany adj.	Other adj.	Group	Group
Revenues from sales and services	-	2.635	2.288	1.820	0	-	6.743	6.395
Other revenues and income	0	30	57	73	(2)	(1)	157	130
Revenues from financial statement	**0**	**2.665**	**2.345**	**1.893**	**(1)**	**(1)**	**6.901**	**6.524**
Reclassifications	-	-	50	635	(2)	1	684	(584)
Revenues from sectors	**0**	**2.665**	**2.295**	**1.258**	**0**	**(2)**	**6.216**	**5.940**
Costs from financial statement (not included Depreciation and Amortization)	**(2)**	**(461)**	**(603)**	**(969)**	**2**	**(6)**	**(2.038)**	**(1.988)**
Reclassifications	-	-	49	619	(1)	-	667	569
Costs from sectors (not included Depreciation and Amortization)	**(2)**	**(461)**	**(554)**	**(350)**	**1**	**(6)**	**(1.371)**	**(1.419)**
EBITDA	**(2)**	**2.204**	**1.741**	**908**	**2**	**(8)**	**4.845**	**4.521**
EBITDA margin		*83%*	*76%*	*72%*			*78%*	*76%*
Ammortisation, depreciation and impairment	-	(752)	(587)	(408)	1	(272)	(2.018)	(1.861)
Reclassifications	-	-	1	16	(1)	-	17	15
Operating profit (EBIT)	**(2)**	**1.452**	**1.155**	**516**	**2**	**(280)**	**2.844**	**2.676**
EBIT margin		*54%*	*50%*	*41%*			*46%*	*45%*
Financial income	436	17	13	1	0	(436)	31	23
Borrowing expenses	(28)	(219)	(94)	(71)	(0)	(1)	(412)	(430)
Portion of income (expenses) from equity investments valued with the equity method	-	217	3	101	-	(136)	185	137
Reclassifications	-	(4)	-	-	-	-	-	-
Taxes for the period	4	(374)	(313)	(124)	-	75	(731)	(673)
Profit from discontinued operations	-	(4)	-	-	-	-	(4)	-
Reclassifications	-	4	-	-	-	-	-	-
Net income from sectros	**410**	**1.090**	**764**	**424**	**2**	**(777)**	**1.912**	**1.733**

The balance sheet information analysed by Top Management does not refer directly to the individual segment operations, but rather to the overall valuation and representation of Equity, Net Financial Debt and Technical Investments.

IX - GUARANTEES AND COMMITMENTS

Guarantees and commitments, amounting in total to 7.9 billion euro at 31 December 2019 (10.8 billion euro at 31 December 2018) are broken down as follows:

Guarantees and commitments: breakdown

(thousands of euro)

Items/Figures	31/12/2019	31/12/2018
Guarantees pledged	**1,522,662**	**1,718,906**
Trade guarantees	366,519	285,235
Financial guarantees	1,154,500	1,401,300
Assets held as guarantee for third-party services	1,643	32,371
Commitments	**3,959,290**	**6,386,373**
Commitments for the purchase of goods and services	3,712,062	5,988,214
Commitments for associates	234,000	324,000
Other	13,228	74,159
Risks	**2,370,845**	**2,709,497**
For third-party assets held for safekeeping	2,072,640	2,609,293
For damages and claims	298,205	100,204
Total	**7,852,797**	**10,814,776**

IX.1 GUARANTEES

Guarantees given, for a total amount of 1,523 million euro, refer to indemnities issued to third parties against sureties and other guarantees issued in the interest of subsidiaries or associates to guarantee the performance of works and in relation to tenders and credit facilities associated with the distribution of natural gas.

IX.2 COMMITMENTS

Commitments undertaken towards suppliers to purchase property, plant and equipment and for the supply of services relating to investments in property, plant and equipment and intangible assets under construction/development totalled 3,712 million euro.

Commitments in associates, amounting to 234 million euro, refer to residual commitments of Snam S.p.A. towards Trans Adriatic Pipeline (TAP), in its capacity as a shareholder and in connection with the financing of the gas pipeline construction project based on the equity investment held (20%). The commitment relates to the overall costs of the project, including the financial expenses accounted for in the work creation phase and deriving from the loan agreement, completed by TAP in December 2018.

IX.3 RISKS

Risks for third-party assets held, amounting to 2,073 million euro, refer mainly to approximately 9 billion cubic metres of natural gas held at storage facilities by the beneficiaries of the service. This amount is determined by measuring the quantities of stored gas at the presumed unitary repurchase cost[52], amounting to around 0.23 euro per normal cubic metre (0.32 euro per normal cubic metre at 31 December 2018).

Risks associated with compensation and claims, totalling 298 million euro, refer to compensation potentially payable but not probable in relation to ongoing disputes with low probability of occurrence of the related business risk.

[52] Value calculated on the basis of the CCI price, i.e. the wholesale price, set quarterly by the ARERA.

X – LEASING

X.1 LESSEE

Qualitative information

Please refer to the information provided in the section of the Notes to the consolidated financial statements entitled "Basis of preparation and accounting principles".

Quantitative information

Classification by time bands of the payments to be made and reconciliation with lease payables recorded under liabilities

(thousands of euro)	Total 31/12/2019
Time bands	Lease payables
Up to 1 year	25,865
Between 1 and 2 years	42,020
Between 2 and 3 years	17,512
Between 3 and 4 years	13,721
Between 4 and 5 years	6,610
Over 5 years	14,133
Total lease payments to be made	**119,861**
Reconciliation with lease liabilities	**(2,620)**
Unearned finance income (+)	(2,620)
Unguaranteed residual value (+)	
Lease liabilities	**117,241**

Exceptions to IFRS16 (short term, low value, etc.) - Classification by time bands of payments to be made.

(thousands of euro)	31/12/2019
Time bands	Lease payments to be made
Up to 1 year	8,398
Between 1 and 2 years	26,486
Between 2 and 3 years	3,663
Between 3 and 4 years	2,131
Between 4 and 5 years	1,557
Over 5 years	3,815
Total	**46,050**

X.2 LESSOR

At 31 December 2019, the case is not reported in the financial statements of the CDP RETI Group.

ANNEXES

Annex 1 – Scope of consolidation

Annex 2 - Information provided pursuant to Law 124 of 4 august 2017, art. 1, paragraphs 125-129

ANNEX 1 - SCOPE OF CONSOLIDATION

Company name	Registered office	Share capital (euro)		Investor	% holding	Consolidation method
Parent company						
CDP Reti S.p.A.	Rome	161,514		Cassa depositi e prestiti S.p.A.	59.10%	
				State Grid Europe Limited	35.00%	
				Cassa Nazionale di Previdenza e Assistenza Forense	2.63%	
				Soci terzi	3.27%	
Consolidated companies	0					
Albanian Gas Service Company Sh.a.	Tirana (Albania)	875,000	(j)	SNAM S.p.A.	25.00%	Unconsolidated subsidiary
AS Gasinfrastruktur Beteiligung GmbH	Wien	35,000		SNAM S.p.A.	40.00%	Equity
ASSET COMPANY 2 S.r.L.	San Donato Milanese (MI)	10,000,000		SNAM S.p.A.	100.00%	Line-by-line
Asset Company 4 S.r.l.	San Donato Milanese (MI)	2,000,000		SNAM S.p.A.	100.00%	Line-by-line
ASSET COMPANY 7 B.V.	Amsterdam (NL)	1		SNAM S.p.A.	100.00%	Unconsolidated subsidiary
AVVENIA THE ENERGYINNOVATOR S.R.L.	Rome	10,000		Terna Energy Solutions S.r.l.	70.00%	Line-by-line
CESI S.p.A.	Milan	8,550,000		Terna SpA	42.70%	Equity
CGES A.D.	Podgorica (Montenegro)	155,108,283		Terna SpA	22.09%	Equity
Copower S.r.l.	Rome	80,000		Tep Energy Solution S.r.l.	51.00%	Unconsolidated subsidiary
CORESO S.A.	Bruxelles	1,000,000		Terna SpA	15.84%	Equity
Cubogas s.r.l.	San Donato Milanese (MI)	1,000,000		Snam 4 Mobility S.p.A.	100.00%	Line-by-line
Difebal S.A.	Montevideo (Uruguay)	140,000	(c)	Terna SpA	100.00%	Line-by-line
Ecoprogetto Milano S.r.l.	Bolzano	1,000,000		Renerwaste Lodi S.r.l.	55.00%	Line-by-line
				Renerwaste S.r.l.	45.00%	Line-by-line
Ecoprogetto Tortona S.r.l.	Bolzano	1,000,000		Renerwaste S.r.l.	100.00%	Line-by-line
ELMED Etudes S.a.r.l.	Tunisi	2,700,000	(i)	Terna SpA	50.00%	Equity
Energy Investment Solution S.r.l.	Milan	100,000		Tea Servizi S.r.l.	40.00%	Unconsolidated subsidiary
Enerpaper S.r.l.	Turin	10,000		Seaside S.r.l.	10.00%	Equity
Enersi Sicilia	San Donato Milanese (MI)	400,000		Snam 4 Mobility S.p.A.	100.00%	Line-by-line
Enura S.p.A. (ASSET COMPANY 5 S.r.l.)	San Donato Milanese (MI)	3,700,000		SNAM S.p.A.	55.00%	Line-by-line
Gasrule Insurance D.A.C.	Dublin	20,000,000		SNAM S.p.A.	100.00%	Line-by-line
Gaxa S.p.A.	Milan	10,000		Italgas S.p.A.	51.85%	Line-by-line
Gesam Reti S.p.A.	Lucca	28,546,672		Toscana Energia S.p.A.	42.96%	Equity
GNL Italia SpA	San Donato Milanese (MI)	17,300,000		SNAM S.p.A.	100.00%	Line-by-line
IES Biogas S.r.l.	Pordenone	100,000		Snam 4 Mobility S.p.A.	70.00%	Line-by-line
IES Biogas S.r.l. (Argentina)	Buenos Aires	100,000	(k)	IES Biogas S.r.l.	95.00%	Unconsolidated subsidiary
Infrastrutture Trasporto Gas S.p.A.	San Donato Milanese (MI)	10,000,000		ASSET COMPANY 2 S.r.L.	100.00%	Line-by-line
Interconnector (UK) Ltd	London (UK)	12,754,680	(a)	Snam International B.V.	23.68%	Equity
Interconnector Zeebrugge Terminal S.C./C.V. Scrl	Bruxelles (B)	123,946		Interconnector (UK) Ltd	48.00%	Equity
				Snam International B.V.	25.00%	
Italgas Acqua S.p.A.	Milan	50,000		Italgas S.p.A.	100.00%	Line-by-line
Italgas Reti S.p.A.	Turin	252,263,314		Italgas S.p.A.	100.00%	Line-by-line
Italgas S.p.A.	Milan	1,001,231,518		CDP Reti S.p.A.	26.04%	Line-by-line
				SNAM S.p.A.	13.50%	
Latina Biometano S.r.l.	Rome	10,000		IES Biogas S.r.l.	32.50%	Unconsolidated subsidiary
Medea S.p.A.	Sassari	95,500,000		Italgas Reti S.p.A.	51.85%	Line-by-line
Metano S.Angelo Lodigiano S.p.A.	Sant'Angelo Lodigiano	200,000		Italgas S.p.A.	50.00%	Equity
PI.SA. 2 S.r.l.	Rome	10,000		Terna SpA	100.00%	Line-by-line
Renerwaste Lodi S.r.l.	Bolzano	10,000		Renerwaste S.r.l.	100.00%	Line-by-line
Renerwaste S.r.l.	Bolzano	1,151,391		Snam 4 Environment S.r.l. (ex Asset Company 6 S.r.l.)	82.63%	Line-by-line
Resia Interconnector S.r.l.	Rome	10,000		Terna SpA	100.00%	Line-by-line
Rete S.r.l.	Rome	387,267,082		Terna SpA	100.00%	Line-by-line
Rete Verde 17 S.r.l.	Rome	10,000		Terna Energy Solutions S.r.l.	100.00%	Line-by-line
Rete Verde 18 S.r.l.	Rome	10,000		Terna Energy Solutions S.r.l.	100.00%	Line-by-line
Rete Verde 19 S.r.l.	Rome	10,000		Terna Energy Solutions S.r.l.	100.00%	Line-by-line
Rete Verde 20 S.r.l.	Rome	10,000		Terna Energy Solutions S.r.l.	100.00%	Line-by-line

Company name	Registered office	Share capital (euro)		Investor	% holding	Consolidation method
Seaside S.r.l.	Bologna	60,000		Italgas S.p.A.	100.00%	Line-by-line
Senfluga energy infrastructure holdings S.A.	Athen	20,125,050		SNAM S.p.A.	60.00%	Equity
Snam 4 Environment S.r.l. (ex Asset Company 6 S.r.l.)	San Donato Milanese (MI)	5,000,000		SNAM S.p.A.	100.00%	Line-by-line
Snam 4 Mobility S.p.A.	San Donato Milanese (MI)	2,320,000		SNAM S.p.A.	100.00%	Line-by-line
Snam Gas & Energy Services (Beijing) Co. Ltd.	Beijing (China)	15,493,800	(l) (m)	Snam International B.V.	100.00%	Line-by-line
Snam International B.V.	Rotterdam (NL)	6,626,800		SNAM S.p.A.	100.00%	Line-by-line
SNAM RETE GAS S.p.A.	San Donato Milanese (MI)	1,200,000,000		SNAM S.p.A.	100.00%	Line-by-line
SNAM S.p.A.	San Donato Milanese (MI)	2,735,670,476		CDP Reti S.p.A.	31.04%	Line-by-line
SNAM4EFFICIENCY S.R.L.	San Donato Milanese (MI)	100,000		SNAM S.p.A.	100.00%	Unconsolidated subsidiary
SPE Santa Lucia Transmissora de Energia S.A.	Rio de Janeiro	153,714,431	(e)	TERNA PLUS S.r.l.	99.99%	Line-by-line
				Terna Chile S.p.A.	0.01%	
SPE Santa Maria Transmissora de Energia S.A.	Rio de Janeiro	42,474,716	(e)	Terna Chile S.p.A.	0.01%	Line-by-line
				TERNA PLUS S.r.l.	99.99%	
SPE TRANSMISSORA DE ENERGIA LINHA VERDE II S.A.	Belo Horizonte	33,729,548	(e)	TERNA PLUS S.r.l.	75.00%	Line-by-line
Stogit S.p.A.	San Donato Milanese (MI)	152,205,500		SNAM S.p.A.	100.00%	Line-by-line
Tamini Transformatori India Private Limited (Tes Transformer Electro Service Asia Private Limited)	Maharashtra (India)	13,175,000	(h)	Tamini Trasformatori S.r.l.	100.00%	Line-by-line
Tamini Transformers USA L.L.C.	Sewickley (USA)	52,089	(g)	Tamini Trasformatori S.r.l.	100.00%	Line-by-line
Tamini Trasformatori S.r.l.	Legnano (MI)	4,285,714		Terna Energy Solutions S.r.l.	70.00%	Line-by-line
Tea Innovazione Due S.r.l.	Brescia	20,000		Tea Servizi S.r.l.	100.00%	Al costo
Tea Servizi S.r.l.	Brescia	300,000		Asset Company 4 S.r.l.	100.00%	Line-by-line
TEP Energy Solution Nordest S.r.l.	Udine	100,000		Asset Company 4 S.r.l.	50.00%	Unconsolidated subsidiary
		-		Tep Energy Solution S.r.l.	50.00%	
Tep Energy Solution S.r.l.	Rome	1,000,000		Asset Company 4 S.r.l.	82.00%	Line-by-line
Terega Holding S.A.S. (TIGF Holding S.A.S.)	Pau (F)	505,869,374		SNAM S.p.A.	40.50%	Equity
Terna 4 Chacas S.A.C.	Lima	1,000	(f)	Terna Chile S.p.A.	0.01%	Line-by-line
				TERNA PLUS S.r.l.	99.99%	
Terna Chile S.p.A.	Santiago del Cile (RCH)	2,030,800	(d)	TERNA PLUS S.r.l.	100.00%	Line-by-line
TERNA Crna Gora d.o.o.	Podgorica (Montenegro)	173,000,000		Terna SpA	100.00%	Line-by-line
Terna Energy Solutions S.r.l.	Rome	2,000,000		Terna SpA	100.00%	Line-by-line
Terna Interconnector S.r.l.	Rome	10,000		Terna SpA	65.00%	Line-by-line
				TERNA RETE ITALIA S.p.A.	5.00%	
Terna Peru S.A.C.	Lima	77,043	(f)	Terna Chile S.p.A.	0.01%	Line-by-line
				TERNA PLUS S.r.l.	99.99%	
TERNA PLUS S.r.l.	Rome	16,050,000		Terna SpA	100.00%	Line-by-line
TERNA RETE ITALIA S.p.A.	Rome	300,000		Terna SpA	100.00%	Line-by-line
Terna SpA	Rome	442,198,240		CDP Reti S.p.A.	29.85%	Line-by-line
Toscana Energia Green S.p.A.	Pistoia	6,330,804		Toscana Energia S.p.A.	100.00%	Line-by-line
Toscana Energia S.p.A.	Florence	146,214,387		Italgas S.p.A.	50.66%	Line-by-line
Trans Adriatic Pipeline AG	Baar	1,325,587,850		SNAM S.p.A.	20.00%	Equity
Trans Austria Gasleitung GmbH	Wien	76,566		SNAM S.p.A.	84.47%	Equity
Umbria Distribuzione GAS S.p.A.	Terni	2,120,000		Italgas S.p.A.	45.00%	Equity
Valdarno S.r.l.	Pisa	5,720,000		Toscana Energia S.p.A.	30.05%	Equity

(a) values in GBP
(b) of which paid-up share capital 22,061.69 euro
(c) values in Uruguayan Pesos
(d) values in Chilean Pesos
(e) values in Real
(f) values in Nuovo Sol
(g) values in Dollar
(h) values in Indian Rupees
(i) values in Tunisian Dinar
(j) values in Albanian Lek
(k) values in Argentine Pesos
(l) values in Renminbi Chinese
(m) of which the paid-up share capital amounts to 7,676,800 Chinese Renminbi

ANNEX 2 - INFORMATION PROVIDED PURSUANT TO LAW 124 OF 4 AUGUST 2017, ART. 1, PARAGRAPHS 125-129

This section is dedicated to the fulfilment of the disclosure obligations introduced, as from 2018, by Law no. 124 of 4 August 2017, the rules of which were reformulated by Article 35 of Decree Law no. 34 of 30 April 2019, relating to disclosure obligations connected with public disbursements.

The reformulation of the original regulatory provisions has clarified some significant interpretative issues raised by the previous formulation, confirming the interpretative orientation shared at the time of the first application of the disclosure obligations, and contained in the Assonime Circular No. 5 of 22 February 2019 on "Transparency in the system of public disbursements: analysis of the rules and interpretative guidelines".

In accordance with the provisions of Article 35 of Decree no. 34/2019:

- companies publish in the notes to the financial statements and to the consolidated financial statements, if any, the amounts and information relating to grants, subsidies, advantages, contributions or aid, in cash or in kind, not of a general nature and not of a reciprocal, remunerative or compensatory nature, to the same actually paid out by public administrations and companies controlled directly or indirectly by public administrations, including listed companies and their investee companies;
- the publication obligations provided for public administrations by Article 26 of Legislative Decree 33 of 2013 also apply to entities and companies controlled, de jure or de facto, directly or indirectly, by the State administrations, through publication in their annual accounts, in the notes to the financial statements.

The disclosure obligations provided by Law no. 124 of 2017, in continuity with what was represented in the first application, are therefore limited to those transactions that attribute to the beneficiary a direct or indirect economic advantage through, the disbursement of incentives or facilitations that have the effect of involving relief, savings or acquisition of resources, and that are characterized by a spirit of gratuity or donation.

Unless otherwise indicated, disbursements are recognised on a cash basis. With reference to any disbursements not in cash, the cash criterion is understood in a substantial sense, referring the economic advantage to the year in which it is received.

Following the indications provided by the Assonime Circular no. 5/2019, the information provided in application of Law no. 124/2017 is given in tabular form, indicating:

- the identities of the granting party and the beneficiary;
- the amount of economic advantage paid or received;
- a brief description of the type of advantage (causal).

The tables below show the public disbursements received and disbursed during 2019 by the fully consolidated subsidiaries of the CDP RETI Group that fall within the subjective scope of application of the law in question, as shown in their separate or sub-consolidated financial statements.

Public grants pursuant to art.1 c.126 Law no.124/2017

	Beneficiary				
Beneficiary	Name/Company name	Fiscal code	VAT number	Causal	Amount €
TERNA SpA	IRCCS - Istituto Giannina Gaslini	577500101	577500101	sostegno alla ristrutturazione del Laboratorio di Processazione/Congelamento in azoto liquido C Emopoietiche	20,000
TERNA SpA	Consorzio Irriguo di Chiomonte	96028800017	96082200017	Sostegno per la realizzazione di interventi per il sistema idrico di irrigazione nel Comune di Chiomonte	20,000
TERNA SpA	Fondazione Costruiamo il Futuro	3194700138	3194700138	sostegno per il progetto "Premio Costruiamo il Futuro"	20,000
TERNA SpA	Fondazione Cortile dei Gentili	8542180966	8542180966	sostegno per l'Iniziativa "La Scala. Tra Cielo e Terra"	24,200
TERNA SpA	Fondazione Palazzo Strozzi	4963330487	4963330487	liberalità per adesione al Comitato Partner di Palazzo Strozzi	30,000
Terna Rete Italia SpA	VIVERE CON DIGNITA onlus	93195410233	93195410233	restauro dell'ANTICA PIEVE DI SAN SALVAR	10,000

Public payments received pursuant to art.1 c.125 Law no.124/2017

	Licensor				
Beneficiary	Name/Company name	Fiscal code	VAT number	Causal	Amount €
Snam SpA	REGIONE LOMBARDIA	80050050154	-	CONTRIBUTO IN CONTO ESERCIZIO	25,379
TERNA S.p.A.	Ministero dello Sviluppo Economico	80230390587	80230390587	Aiuti di Stato	7,342,518
ITALGAS RETI S.P.A.	MORRO D'ORO	81000370676	516370673	Contributi conto impianti Legge 784/80	14,000
ITALGAS RETI S.P.A.	BUCCHIANICO	251860598	251860598	Contributi conto impianti - L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84	29,000
ITALGAS RETI S.P.A.	AVEZZANO	81002910669	159380666	Contributi conto impianti - L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84	10,000
ITALGAS RETI S.P.A.	TURRIVALIGNANI	224700682	224700682	Contributi conto impianti - L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84	1,000
ITALGAS RETI S.P.A.	ELICE	221990682	221990682	Contributi conto impianti - L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84	13,000
ITALGAS RETI S.P.A.	CATIGNANO	80001570680	221020688	Contributi conto impianti - L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84	22,000
ITALGAS RETI S.P.A.	POPOLI	123600686	123600686	Contributi conto impianti - L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84	1,000
ITALGAS RETI S.P.A.	PINETO	159200674	159200674	Contributi conto impianti - L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84	2,000
ITALGAS RETI S.P.A.	SCAFA	81000070680	208610683	Contributi conto impianti - L.R. 3 APRILE 1995, N. 25 e - LEGGE REGIONALE 27.12.2001, N. 84	3,000
ITALGAS RETI S.P.A.	SELLIA	311650790	311650790	Contributi conto impianti Legge 784/80	9,000
ITALGAS RETI S.P.A.	SERRASTRETTA	00379460793.	00379460793.	Contributi conto impianti Legge 784/80	268,000
ITALGAS RETI S.P.A.	TAVERNA	108070798	108070798	Contributi conto impianti Legge 784/80	180,000
ITALGAS RETI S.P.A.	CATANZARO	129520797	129520797	Contributi conto impianti Legge 784/80	134,000
MEDEA S.P.A.	COMUNE DI LANUSEI	139020911	139020911	Contributi conto impianti Deliberazione 54/28 del 22.11.2005 della Regione Autonoma Sardegna Articolo 5	566,000

REPORT OF THE INDEPENDENT AUDITORS

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
CDP Reti SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of CDP Reti Group (the "Group"), which comprise the balance sheet as of 31 December 2019, the income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of ABC SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Investments for the management of infrastructures and for services under concession *Note 1 “Property, plant and equipment” and Note 3 “Intangible assets” of the Notes to the consolidated financial statements as of 31 December 2019* The Group makes significant investments for the development and maintenance of its electricity transmission and gas transport and distribution infrastructures. "Property, plant and equipment" and "Intangible assets" amount to Euro 45,474 million as of 31 December 2019 and represent 93% of total non-current assets. The Group’s core business is mainly the pre-set returns on investments, amortisation/depreciation and certain operating expenses, in accordance with the regulatory framework set down by the Italian Regulatory Authority for Energy, Networks and Environment (*Autorità di Regolazione per Energia Reti ed Ambiente “ARERA”*). Considering the significant amounts of the investments made, we have identified an area of attention relating to the correctness of the accounting of the same based on the provisions of the international accounting standards IFRIC 12 – “Service Concession Arrangements", IAS 16 – “Property, plant and equipment" and IAS 38 "Intangible assets".	In performing our auditing procedures we carried out an analysis, understanding and evaluation of the Group companies’ corporate processes regarding the management of investment, identifying the related relevant controls. We therefore performed procedures to validate the operation and efficacy of the above-mentioned relevant controls. We verified the reconciliation of the asset book with the accounting data and we carried out the recalculation on a sample basis of the depreciation for the year, also checking the decreases of the period on a sample basis. With regard to the investments for the period, we selected a sample of transactions and verified that the capitalisation criteria under the applicable accounting standards were properly satisfied. In relation to the Group companies which showed significant ongoing investments, we analysed the ageing and nature of investments in order to identify the existence of impairment indicators, if any. Finally, we verified the adequacy and completeness of the disclosures provided in the notes to the consolidated financial statements.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate CDP Reti SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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

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

- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

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

- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 24 June 2015, the shareholders of CDP Reti SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2015 to 31 December 2023.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of CDP Reti SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the CDP Reti Group as of 31 December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the CDP Reti Group as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of CDP Reti Group as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Exemption from the preparation of the non-financial statement

As illustrated in the report on operations, the directors of CDP Reti SpA have opted to use the exemption from the preparation of the non-financial statement allowed by article 6, paragraph 2 of Legislative Decree No. 254 of 30 December 2016.

Rome, 20 April 2020

PricewaterhouseCoopers SpA

Signed by

Luigi Necci
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS OF LEGISLATIVE DECREE 58/1998

1. The undersigned Fabrizio Palermo, in his capacity as Chief Executive Officer, and Alessandro Uggias, in his capacity as the manager responsible for the preparation of the financial reports of CDP RETI S.p.A., hereby certify, taking account of the provisions of Article 154-bis.3 and 4, of Legislative Decree 58 of 24 February 1998:

• the appropriateness with respect to the characteristics of the company and

• the effective adoption

of the administrative and accounting procedures for the preparation of the consolidated financial statements in 2019.

2. The assessment of the appropriateness of the administrative and accounting procedures followed in preparing the consolidated financial statements at 31 December 2019 was based on a process developed by CDP RETI S.p.A. in line with the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission, which is a generally accepted framework at the international level;

3. In addition, we certify that:

3.1 the consolidated financial statements at 31 December 2019:

a) have been prepared in compliance with the international accounting standards adopted in the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) correspond to the information in the books and other accounting records;

c) provide a true and fair representation of the performance and financial position of the issuer and the companies included in the scope of consolidation.

3.2 The report on operations contains a reliable analysis of operations and performance, as well as the situation of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 20 April 2020

Chief Executive Officer	Financial Reporting Manager
Fabrizio Palermo	Alessandro Uggias
/signature/Fabrizio Palermo	/signature/Alessandro Uggias

03

Report on operations of CDP RETI S.p.A.

1. OPERATING PERFORMANCE OF CDP RETI S.P.A.

1.1 KEY MANAGEMENT FIGURES

Key financial figures

Items		31/12/2019	31/12/2018
Dividends	(thousand of euros)	435,725	410,097
- of which SNAM	*(thousand of euros)*	*243,192*	*231,602*
- of which TERNA	*(thousand of euros)*	*143,220*	*134,662*
- of which ITALGAS (1)	*(thousand of euros)*	*49,313*	*43,834*
Pofit (loss) on operations (2)	(thousand of euros)	(30,097)	(30,061)
Net income (loss)	(thousand of euros)	410,032	387,560
Comprehensive income	(thousand of euros)	411,700	387,351

Key balance sheet and cash flow figures

Items		31/12/2019	31/12/2018
Equity investments carrying amount	(thousand of euros)	5,023,065	5,023,065
- of which SNAM	*(thousand of euros)*	*3,086,833*	*3,086,833*
- of which TERNA	*(thousand of euros)*	*1,315,200*	*1,315,200*
- of which ITALGAS	*(thousand of euros)*	*621,032*	*621,032*
Receivables for dividends not yet collected	(thousand of euros)	100,101	*95,359*
Equity	(thousand of euros)	3,508,624	3,495,548
Net financial debt (2)	(thousand of euros)	(1,612,472)	(1,620,582)

Other key figures and ratios

Items		31/12/2019	31/12/2018
Equity investments market value (2) (3)	(thousand of euros)	9,669,117	8,049,373
Dividends collected	(thousand of euros)	430,983	405,566
Dividends distributed	(thousand of euros)	398,625	395,971
Dividend per share	euros	2,538.67	2,399.54
Interim	euros	*1,653.13*	*1,584.62*
Final	euros	*885.54*	*814.92*
Net cash flow for the period	(thousand of euros)	10,007	22,319
ROE (2)	(%)	12%	11%
Dividends/Borrowing expenses (2)	(numbers)	15.38	14.47
Net financial debt/Equity investments carrying amount (2)	(%)	32%	0.32
Net financial debt/Equity (2)	(numbers)	0.46	0.46
Net financial debt/Dividends (2)	(numbers)	3.70	3.95

(1) Company established on 1 June 2016 and previously called ITG Holding S.p.A. (as of 7 November 2016 renamed Italgas S.p.A.)

(2) NON GAAP ratios

(3) Product of the number of CDP RETI shares for the official price per share at the end of the period by Snam, Terna and Italgas

1.2 FINANCIAL PERFORMANCE

To facilitate the reading of the Income statement, in view of the fact that CDP RETI S.p.A. is an investment vehicle, the following reclassified income statement has been prepared, which "inverts the order of the income statement items pursuant to Italian Legislative Decree 127/1991, presenting first those which relate to the financial operations, as this is the most significant component of income for those companies" (see Consob Communication 94001437 of 23 February 1994).

The income statement results of CDP RETI S.p.A. for 2019, compared with the previous year, are summarised in the management Income statement reported below.

Reclassified Income Statement CDP RETI S.p.A.

(thousand of euros)

Items	31/12/2019	31/12/2018
Dividends	435,725	410,097
Pofit (loss) on core business	**435,725**	**410,097**
Financial income and expenses	(28,319)	(28,332)
Administrative expenses	(1,779)	(1,728)
Pofit (loss) on operations	**(30,098)**	**(30,061)**
Other revenues and income	22	21
Operating income	**405,649**	**380,058**
Income taxes	4,383	7,502
NET INCOME (LOSS)	**410,032**	**387,560**

The main positive components of CDP RETI's income are determined by the **dividends accruing** from SNAM, TERNA and ITALGAS, totalling 436 million euro, up from 2018 (+26 million euro, +6%) due to changes in the dividend policy (in terms of dividend per share) of SNAM (+12 million euro), TERNA (+9 million euro) and ITALGAS (+5 million euro).

More in detail, this item consists of dividends received from:

- **SNAM:** equal to 243 million euro (56% of total dividends) - 232 million euro in 2018 - of which (i) 143 million euro (collected in June 2019) and relating to the 2018 final dividend and (ii) 100 million euro (collected on 22 January 2020) as 2019 interim dividend (resolved by the Board of Directors of Snam S.p.A. on 13 November 2019[53]);
- **TERNA:** equal to 143 million euro (33% of total dividends) - 135 million euro in 2018 -, of which (i) 93 million euro (collected in June 2019) and relating to the 2018 final dividend and (ii) around 50 million euro (collected on 20 November 2019) as 2019 interim dividend (resolved by the Board of Directors of Terna S.p.A. on 13 November 2019[54]).
- **ITALGAS:** equal to 49 million euro (11% of total dividends) - 44 million euro in 2018 - collected in May 2019 and relating to the 2018 dividend.

Among the negative income statement items instead, **borrowing expenses** are worth noting, totalling 28 million euro and mainly referring to the interest expense on Term Loans (14 million euro also considering the settlement of the interest connected to the Swap Transactions) and the Bond (14 million euro).

Administrative expenses are mainly affected by staff costs (including the remuneration of directors and statutory auditors) and the fees paid to the parent company/third party suppliers for the services received in the period.

Income taxes, positive for about 4 million euro (8 million euro as at 31 December 2018), primarily refer to the estimated tax consolidation income deriving from the surplus compensation of the ACE benefit (1 million euro) and the surplus compensation (3 million euro) of the interest expense non-deductible on an individual basis and transferable to tax consolidation[55].

In comparative terms, there was a decrease (around 3 million euro) in tax consolidation income with respect to the previous period, due (*i*) to the absence, in 2019, of contingent assets, which had been generated in 2018 from the difference (around

[53] Based on the results of the first nine months and the forecasts for the entire 2019, the Board of Directors of SNAM resolved on the distribution to the shareholders of an interim dividend, equal to 0.095 euro per share, with payment starting from 22 January 2020, with coupon due on 20 January and record date 21 January.

[54] Based on the results of the first six months and the forecasts for the entire 2019, the Board of Directors of TERNA resolved on the distribution to the shareholders of an interim dividend, equal to 8.42 euro cents per share, with payment starting from 20 November 2019, with coupon due on 18 November 2019 and record date 19 November 2019.

[55] The final amount will be calculated and settled, when preparing the consolidated income tax return.

2 million euro) between the income to the tax consolidation relating to the excess ACE benefit and the interest expense estimated when preparing the financial statements as at 31 December 2017 based on the information available on that date and the amount actually transferred to the tax consolidation in the tax returns filed in light of the revised Group tax base, and *(ii)* to the reduction (1 million euro) in the ACE benefit for the year that may be transferred to the tax consolidation as a result of the new regulations introduced.

In this regard, it should be noted that the 2020 Budget Law (art. 1, paragraph 287) reintroduced the ACE benefit[56] from the 2019 tax year and with no interruptions from 2018, albeit with a ratio of return of net increases in equity set, when the scheme is fully implemented, at 1.3% (1.5% as at 31/12/2018).

The income items above determine a **Net income** equal to 410 million euro, up (22 million euro; +6%) compared to 2018 (388 million euro), mainly due to the higher dividends (+26 million euro), only partly absorbed by the reduction (-3 million euro) in tax management.

1.3 STATEMENT OF FINANCIAL POSITION

CDP RETI S.p.A.'s statement of financial position as at 31 December 2019 and 31 December 2018 is summarised in the following tables.

Reclassified Assets CDP RETI S.p.A.

(thousand of euros)

Items	31/12/2019	31/12/2018
Equity investment in Snam	3,086,833	3,086,833
Equity investment in Terna	1,315,200	1,315,200
Equity investment in Italgas	621,032	621,032
Other assets	113,272	111,943
Cash and cash equivalents	75,927	65,921
TOTAL ASSETS	**5,212,264**	**5,200,928**

As at 31 December 2019, total assets stood at 5,212 million euro and mainly consisted of balance sheet items relating to **equity investments** (about 96% of total assets) in SNAM, TERNA and ITALGAS (for an overall amount of 5,023 million euro and unchanged compared to 2018).

The slight increase in total assets of around 11 million euro is due mainly to the greater cash and cash equivalents (around 10 million euro) resulting from the higher dividends collected during the year.

With specific reference to the value of the **equity investments** held, please note that, also in light of the latest stock market values recorded:

- SNAM: closing price as at 30 December 2019 equal to 4.7 euro, weighted average with price volumes of the last month before 31 December 2019 equal to 4.5 euro;
- TERNA: closing price as at 30 December 2019 equal to 6.0 euro, weighted average with price volumes of the last month before 31 December 2019 equal to 5.8 euro;
- ITALGAS: closing price as at 30 December 2019 equal to 5.4 euro, weighted average with price volumes of the last month before 31 December 2019 equal to 5.5 euro;

above the carrying amount (equal to 2.93 euro for **SNAM**, 2.19 euro for **TERNA** and 2.95 euro for **ITALGAS**), as well as the information currently available, no impairment indicators are highlighted that are such to compromise the maintenance of the carrying amount of the equity investments held.

Other assets, totalling 113 million and essentially in line with the comparison period, refer mainly to:

- the receivable from SNAM (100 million euro) for the 2019 interim dividend resolved in November 2019 by its Board of Directors and collected by CDP RETI in January 2020;
- the receivable (about 4 million euro) from the parent company CDP by way of compensation of the ACE benefit and the interest expense transferred to the tax consolidation. In this regard, it should be noted that the receivable at 31 December 2018 from the parent company CDP (around 6 million euro) was collected by the Company in December 2019, following filing of the tax consolidation return, as envisaged in the National Tax Consolidation Agreement for the three-year period 2016-2018[57];
- the receivable from the parent company CDP (7 million euro) for the margin paid to it under the guarantee agreements (Credit Support Agreements) entered into when the cash flow hedge derivatives were taken out. This amount, slightly

[56] The 2019 Budget Law had suppressed the ACE benefit, effective from the tax period following that in effect as at 31 December 2018.
[57] The consolidation agreement was tacitly extended for the three-year period 2019-2021.

down (-1 million euro) on 31 December 2018, is affected by the mark to market trends of the derivative signed in May 2015 and those of the derivative signed in May 2017;

- the deferred tax assets, equal to about 2 million euro, connected to the two hedging derivatives.

The breakdown of **cash and cash equivalents** refers mainly to bank current accounts (66 million euro) and, to a lesser extent, to the irregular deposit (around 10 million euro) with the parent company CDP[58]. On this point, it is worth remembering that, in terms of allocating the liquidity held in bank current accounts, the Company opened (July 2017) a new current account with a leading credit institution, also with a view to diversifying the counterparty risk.

To better understand the changes in cash and cash equivalents, please refer to the subsequent section "Net Financial Debt".

Reclassified Equity abd Liabilities CDP RETI S.p.A.

(thousand of euros)

Items	31/12/2019	31/12/2018
Equity	3,508,624	3,495,548
- Share capital and reserves	*3,098,592*	*3,107,989*
- Net income for the period	*410,032*	*387,560*
Loans	1,695,286	1,694,891
- of which owed to Cdp	*762,879*	*762,701*
Other liabilities	8,354	10,489
- of which owed to Cdp	*6,846*	*9,020*
TOTAL LIABILITIES	**5,212,264**	**5,200,928**

As at 31 December 2019, **equity** (equal to 3,509 million euro), in addition to the *net income for the period*, mainly includes: i) the item *Shareholders' payment reserve for investments*, representing the value of the payment of about 3.5 billion euro made in 2012 by CDP and intended to finance the purchase of the equity investment in SNAM, net of the portion of this reserve distributed to CDP in 2014 (about 1.5 billion euro), ii) the item *Share premium account* deriving from the transfer in 2014 of TERNA (about 1.3 billion euro), iii) the item *Valuation reserve* (negative for 4 million euro) representing the measurement at fair value of the Interest Rate Swap (IRS) derivatives, net of the connected deferred taxes, and iv) the 2019 interim dividend equal to 267 million euro distributed in December 2019.

Compared to the end of 2018 (when it amounted to 3,496 million euro), the item in question benefited from the net income for the period (410 million euro) and the improvement (around 2 million euro) in the Valuation Reserve, partly absorbed by dividends distributed during the period to the shareholders (totalling 399 million euro) as 2018 final dividend [59] and 2019 interim dividend[60].

The **Loans** at 31 December 2019, considering the current portion and the non-current portion, consist of the following:

Loan

(thousand of euros)	31/12/2019		31/12/2018	
Items	Non current	current	Non current	current
Bond	749,169	8,299	748,848	8,322
Term Loan Facility	186,989	750,830	936,803	917
Total	**936,157**	**759,129**	**1,685,652**	**9,239**

Total debt as at 31 December 2019, totalling 1,695 million euro (also considering accrued interest to be paid after 31 December 2019) and substantially in line with the comparison period, refers to:

[58] Compared to the deposit agreement "under which a party (depositary) receives from the other (depositor) a movable asset with the obligation to safeguard and return it in kind" (art. 1766 of the Italian Civil Code), in the irregular deposit (concerning cash or other interchangeable assets), the depositary is not obliged to return exactly the same assets but must return just as many of them of the same kind and quality. Therefore, the depositary becomes, at the time of delivery, the owner of the assets delivered to it (art. 1782 of the Italian Civil Code).

[59] 132 million euro distributed in the form of 814.92 euro for each of the 161,514 shares.

[60] 267 million euro distributed in the form of 1,653.13 euro for each of the 161,514 shares. This interim dividend was approved (by the Board of Directors on 28 November 2019) on the basis of the Company's accounting situation at 30 June 2019, prepared in accordance with IFRS. The Company ended the period with a net income of approximately 267 million euro and available reserves of approximately 3,369 million euro.

- Term Loans (for a total amount of 938 million euro) granted by a pool of banks (about 516 million euro) and by the parent company CDP (about 422 million euro);
- the bond (for a total nominal value of 750 million euro), listed on the Irish Stock Exchange, subscribed by institutional investors (about 412 million euro, equal to 55%) and the Parent Company (about 338 million euro, equal to 45%).

To better understand the Overall financial debt, please refer to the subsequent section “Net Financial Debt”.

Other liabilities, totalling 8 million euro, a reduction of 2 million euro compared with 2018, mostly due to the lower liability connected with the measurement of the two existing derivatives, refer, inter alia, to (i) the overall measurement (6 million euro) of the two Interest Rate Swaps (IRS) entered into by the company in May 2015 and May 2017 respectively; during 2019, an improvement in the overall mark to market was recognised, along with the consequent decrease in the liability (from 9 million to 6 million euro), (ii) the recognition of the deferred tax liabilities (1 million euro) arising from the 2019 interim dividend resolved by SNAM in November 2019 and collected in January 2020, and (iii) trade payables and payables to the Parent Company CDP, primarily in relation to the current service agreements. In terms of variances, this item is also affected by the release of the deferred tax liability recognised as at 31 December 2018 (amounting to 1 million euro) in relation to the receipt of the 2018 interim dividend from SNAM in January 2019.

1.4 NET FINANCIAL DEBT AND CASH FLOWS

As at 31 December 2019, CDP RETI S.p.A.’s net financial position, calculated in compliance with ESMA[61]/2015/1415, the guidelines on alternative performance measures that have been applicable since 3 July 2016, for comparison with the position at the end of 2018, was as follows:

Net Financial Debt

(thousand of euros)

	Items	31/12/2019	31/12/2018
A	Irregular deposit with CdP (1)	9,997	1
B	Other cash with banks (1)	65,930	65,920
C	**Liquidity (A) + (B)**	**75,927**	**65,921**
D	**Current Financial Receivable (2)**	**6,887**	**8,388**
E	Current banks portion debt of non current debt (3)	(412,956)	(505)
F	Current CdP portion debt of non current debt (3)	(337,873)	(413)
G	Current Bond issued portion (3)	(8,299)	(8,322)
H	**Current Financial Debt (E) + (F) + (G)**	**(759,128)**	**(9,240)**
I	**Net Current Financial Indebtedness (C) + (D) + (H)**	**(676,314)**	**65,069**
L	Non current banks loans (4)	(102,844)	(515,242)
M	Non current CdP loans (4)	(84,145)	(421,561)
N	Bond issued (4)	(749,169)	(748,848)
O	**Non-current Financial Debt (L) + (M) + (N)**	**(936,158)**	**(1,685,651)**
P	**Net Financial Debt (I) + (O)**	**(1,612,472)**	**(1,620,582)**

In the balance sheet of CDP RETI S.p.A.:

(1) The balance is included in the item “Cash and cash equivalents”

(2) The balance is included in the item “Current financial assets”

(3) The balance is included in the item “Current portion of loans”

(4) The balance is included in the item “Loans”

The **net financial debt** at 31 December 2019, totalling 1,612 million euro (including accrued interest to be paid after 31 December 2019), was slightly down compared to 31 December 2018 (1,621 million euro, including the current portion of loans), mainly due to the higher liquidity resulting from the dividends received during the year.

[61] European Securities and Markets Authority.

At 31 December 2019, the net financial debt towards the parent company CDP amounted to 746 million euro and was down slightly (8 million euro) on 31 December 2018 (754 million euro), mainly due to the higher liquidity held in the irregular deposit with CDP.

With regard to the detailed items, the following is noted.

Liquidity as at 31 December 2019 (76 million euro) consists mainly of the sums of deposits held at leading credit institutions (66 million euro) and, to a residual extent, the irregular deposit (10 million euro) with the parent company CDP.

In comparative terms, the increase (+10 million euro) compared to the end of 2018 was mainly due to dividends received in the period from subsidiaries (431 million euro) and the collection (6 million euro) of the receivable from CDP for the participation in the tax consolidation scheme, only partially absorbed by:

- the 2018 final dividend (132 million euro) and the 2019 interim dividend (267 million euro) distributed to the shareholders in the period;
- the payment of the bond coupon (14 million euro) and the interest expense (also taking into account the settlement of interest related to the Swap Transactions) referred to the 750 million euro Term Loan (10 million euro) and the 188 million euro Term Loan (4 million euro);
- the settlement of the margins paid to the parent company CDP in accordance with the guarantee agreement signed at the same time as the hedging derivative (with a negative cash flow of about 1 million euro in the period);
- additional outflows connected to ordinary operations.

The **current financial receivables** (7 million euro) refer to the balance of the cash collaterals [62] paid to counterparties (net of those collected) for transactions on over-the-counter interest rate contracts. Overall, please note that the receivable from SNAM for the 2019 interim dividend (about 100 million euro, collected in January 2020), in line with the approach adopted in previous years, is considered by CDP RETI as cash flow generated by its operating activity and consequently excluded from calculation of the Net Financial Debt.

The **current financial debt** (759 million euro) mainly relates to the loan (nominal value of 750 million euro) - granted by a pool of banks (55%) and by the parent company CDP (45%) - maturing in May 2020, as well as the value of the interest on the bond and on the term loans (due in May 2020). The significant increase (around 750 million euro) compared with 2018 is due to the reclassifications to the current portion of the term loan due in the following 12 months (i.e. May 2020). In this regard, there are no uncertainties about the Company’s ability to successfully complete the refinancing of the Term Loan, and reference is made

- to section “IV – INFORMATION ON RISKS AND THE RELATED HEDGING POLICIES” (paragraph “Liquidity and credit risk”) of the notes to the separate financial statements for a more detailed description of the risk profiles;
- to section “5. BUSINESS OUTLOOK FOR 2020” of the Report on Operations of the Group for a description of the refinancing strategy.

The **non-current financial debt** (936 million euro), down compared to 2018 due to the abovementioned reclassifications to current financial debt, does not consider the merely accounting effects deriving from the measurement at fair value of the derivatives and refers to:

- the Term Loan (187 million euro, equal to the nominal value of 188 million euro, less the costs associated to it, which are amortised along its duration), granted in May 2017 by a pool of banks (55%) and the parent company CDP (45%) and maturing in 2023;
- the Bond (749 million euro, equal to the nominal value of 750 million euro, less the costs associated to it, which are amortised along its duration), subscribed by institutional investors (about 412 million euro, equal to 55%) and the parent company CDP (about 338 million euro, equal to 45.

The main economic terms of the new loan agreements entered into in 2014 (totalling 750 million) and in 2017 (totalling 188 million) may be summarised as follows:

- total amount financed of:
  - 750,000,000.00 euro (of which 412,500,000.00 euro provided by a pool of banks and 337,500,000.00 euro by the parent company CDP);
  - 187,634,699.63 euro (of which 103,199,084.82 euro provided by a pool of banks and 84,435,614.81 euro by the parent company CDP);
- floating interest rates, equal to the 6-month Euribor increased by a spread of:
  - 100 bps[63] relating to the Term Loan of 750 million;
  - 145 bps relating to the Term Loan of 188 million;
- application - for both the loans - of a zero floor to the entire interest rate (Euribor + spread) and not just to the benchmark rate;
- interest periods of six months (in May and November).

[62] Sums deposited at the parent company CDP to guarantee the current Interest Rate Swap derivatives (with negative fair values as at 31 December and shown in the other liabilities).
[63] 150 bps if the credit rating assigned to CDP RETI reaches BB+ (or equivalent) or lower for the rating agencies (Moody’s, Fitch or S&P).

Furthermore, in order to mitigate the variability of the 6-month Euribor rate and the related cash flows and their impact on net income for the period, for these loans the rate was converted from floating to fixed[64] by contracting two derivatives - at market conditions[65], to hedge the future cash flows associated with the Term Loans (i.e. Interest Rate Swaps with the parent company CDP hedging against the interest rate risk associated with the Term Loans, in other words minimising the changes in the cash outflows generated by the loans and associated with the floating rates).

The characteristics of the derivatives are entirely similar to those of the hedged item, and in particular:

- its notional amount is equal to the nominal value of the debt;
- the maturities (May 2020 and May 2023) and the settlement date of the differentials of the derivative (on a half-yearly basis and in arrears[66]) are aligned with the two loan agreements;
- the underlying floating rate and the spread coincide:
  - 6-month Euribor + 100 bps relating to the 750 million euro derivative;
  - 6-month Euribor + 145 bps relating to the 188 million euro derivative.

The total fair value of the IRS derivatives, which are not listed on an active market, as calculated weekly by the parent company CDP[67], amounted to a negative value for CDP RETI of approximately 6 million euro at 31 December 2019. This amount has been classified among financial liabilities, whereas changes in the value of the effective component of the derivatives have been classified to a specific equity reserve (the "Cash Flow Hedge valuation reserve"), net of deferred tax effects, since the conditions for the application of hedge accounting have been satisfied[68].

As at 31 December 2019, the Net Financial Debt/Equity ratio (leverage) stood at 0.46 and was in line with 2018.

When compared to 2018, the Net Financial Debt/Dividends ratio (representing the profit or loss on the company's core business) is lower instead (from 3.95 to 3.70) due mainly to the higher dividends due.

Cash flows

(thousand of euros)

Items	31/12/2019	31/12/2018
Cash and cash equivalents at the start of the year	**65,921**	**43,602**
Cash flows from operating activities	408,631	418,290
Cash flows from investing/disinvesting activities	-	-
Cash flows from financing activities	(398,625)	(395,971)
Cash and cash equivalents at year end	**75,927**	**65,921**

The cash flow from operating activities in 2019 was positive (409 million euro) and, although benefiting from the higher dividends collected, fell by 9 million euro compared with the previous year, mainly following the lower tax consolidation income collected during the period (6 million euro compared with 42 million euro in 2018)[69].

As in the previous year, no cash flow was recorded in 2019 from investing/disinvesting activities.

The cash flow from financing activities absorbed a total of 399 million euro in liquidity, essentially equal to that absorbed in 2018. The cash flow for 2019 refers exclusively to the payment of dividends to shareholders.

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[64] 1.375% and 1.827% are the annual fixed rates resulting, respectively, from the hedging derivative contracted in May 2015 for the Term Loan of 750 million and from the hedging derivative contracted in May 2017 for the Term Loan of 188 million.

[65] That is to say, with a fair value upon the signing of the contract of near zero or else of an insignificant amount in terms of negative fair value as a percentage of the nominal value of the transaction.

[66] The differentials are settled in arrears on 20 May and 20 November of each year and calculated by comparing the following elements:

- the receive leg for CDP RETI: 6-month Euribor (fixed on the second business day prior to the beginning of the period) + a spread of 1% (IRS of 750 million) and 1.45% (IRS of 188 million);
- the pay leg for CDP RETI: a fixed rate of 1.375% (IRS of 750 million) and 1.827% (IRS of 188 million).

[67] On the basis of generally accepted valuation models and techniques, which refer to inputs (the Euribor interest rate curve for the entire period of reference of the contract) observable on the market.

[68] On 1 January 2018, CDP RETI adopted IFRS 9 as for the rules for classification, measurement and impairment. With regard to the rules on hedge accounting, the Company has exercised the option of maintaining the rules set out under IAS 39, applying the regulatory/accounting choices made the Parent Company CDP.

[69] The year 2018 benefited from the collection - in November - of the tax consolidation scheme credit attributable to the estimated income deriving from the surplus of the ACE benefit (34 million euro) and the surplus of the interest expense transferable to tax consolidation (6 million euro) and unused in the previous years.

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

With regard to the “Report on corporate governance and ownership structure: key characteristics of the risk and internal control management systems with regard to the financial reporting process, also consolidated, pursuant to Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Finance”, it is possible to refer to the contents of paragraph 8 of the Report on Operations of the consolidated financial statements, also applicable to the separate financial statements of CDP RETI S.p.A.

04

2019 Separate Financial Statements

FORM AND CONTENT OF THE SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2019

The separate financial statements at 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and consist of:

- Balance Sheet;
- Income Statement;
- Statement of comprehensive income;
- Statement of Changes in Equity;
- Statement of Cash Flows;
- the Notes to the financial statements;

The Notes consist of the following:

- Introduction
- I - Basis of presentation and accounting policies
- II - Information on the balance sheet
- III - Information on the income statement
- IV - Information on risks and related hedging policies
- V - Transactions with related parties
- VI – Non-recurring events and significant transactions
- VII – Operating segments

The section “Annexes”, which is an integral part of the financial statements, also includes the analytical list of equity investments owned by CDP RETI and the separate financial statements at 31 December 2018 of the parent company Cassa depositi e prestiti S.p.A.

With reference to the report to be made regarding the obligations introduced by Law no. 124 of 4 August 2017, concerning the transparency of public funds, we can state there is nothing that needs reporting.

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SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2019

BALANCE SHEET - ASSETS

(euros) Assets	Notes	31/12/2019	*of wich from related parties*	31/12/2018	*of wich from related parties*
Non-current assets					
Property, plant and equipment					
Intangible assets					
Equity investments	1	5,023,064,811		5,023,064,811	
Non-current financial assets					
Deferred tax assets	2	1,701,323		2,400,922	
Other non-current assets					
Total non-current assets		**5,024,766,134**		**5,025,465,733**	
Current assets					
Current financial assets	3	6,887,203	6,887,203	8,387,583	8,387,583
Income tax receivables	4	109,566		109,566	
Other current assets	5	104,573,950	104,540,807	101,044,633	101,040,874
Cash and cash equivalents	6	75,927,386	9,997,193	65,920,717	867
Total current assets		**187,498,105**	**121,425,203**	**175,462,499**	**109,429,324**
Total assets		**5,212,264,239**	**121,425,203**	**5,200,928,232**	**109,429,324**

The data as at 31 December 2018 have been reconciled to the new schemes as described in the Basis of presentation and accounting policies, "General preparation principles" Section.

BALANCE SHEET - LIABILITIES

(euros)

Liabilities and equity	Notes	31/12/2019	*of wich from related parties*	31/12/2018	*of wich from related parties*
Equity					
Share capital	7	161,514		161,514	
Reserves:	8	3,369,429,223		3,369,428,812	
Share premium reserve		*1,315,158,486*		*1,315,158,486*	
Income reserves		*24,350,715*		*24,350,304*	
Other reserves		*2,029,920,022*		*2,029,920,022*	
Valuation reserves	9	(3,995,568)		(5,663,317)	
Interim dividends	10	(267,003,639)		(255,938,315)	
Net income for the period (+/-)		410,032,315		387,559,714	
Total Equity		**3,508,623,845**		**3,495,548,408**	
Non-current liabilities					
Provisions					
Provision for employee benefits	11	25,587		17,790	
Loans	12	936,157,441	421,270,849	1,685,651,743	758,543,294
Other financial liabilities	13	2,650,678	2,650,678	8,719,678	8,719,678
Deferred tax liabilities	14	1,201,209		1,144,310	
Other non-current liabilities					
Total non-current liabilities		**940,034,915**	**423,921,527**	**1,695,533,521**	**767,262,972**
Current liabilities					
Current portion of loans	15	759,128,772	341,607,948	9,239,417	4,157,737
Trade payables	16	63,824		90,614	
Income tax liabilities					
Current financial liabilities	13	3,786,872	3,786,872		
Other current liabilities	17	626,011	407,952	516,272	300,349
- Tax payables		*14,513*		*46,927*	
- Payables to parent companies		*406,649*	*406,648*	*299,045*	*299,045*
- Payables due to pension and social security institutions		*15,022*		*15,050*	
- Other payables		*189,827*	*1,304*	*155,250*	*1,304*
Total current liabilities		**763,605,479**	**345,802,772**	**9,846,303**	**4,458,086**
Total liabilities and equity		**5,212,264,239**	**769,724,299**	**5,200,928,232**	**771,721,058**

The data as at 31 December 2018 have been reconciled to the new schemes as described in the Basis of presentation and accounting policies, "General preparation principles" Section.

INCOME STATEMENT

(euros)

Income statement items	Notes	31/12/2019	of wich from related parties	31/12/2018	of wich from related parties
Revenues					
Revenues from sales and services					
Other revenues and income	18	21,777		21,169	
Total revenues		**21,777**		**21,169**	
Costs					
Services	19	(1,155,723)	(649,436)	(1,048,184)	(529,577)
Staff costs	20	(612,055)	(120,782)	(669,209)	(111,465)
Amortisation, depreciation and impairment on property, plant and equipment and intangible assets					
Net impairment (recoveries) of trade receivables and other receivables					
Other operating costs	21	(10,866)		(11,095)	
Total costs		**(1,778,644)**	**(770,218)**	**(1,728,488)**	**(641,042)**
Profit (loss) on operations		**(1,756,867)**	**(770,218)**	**(1,707,319)**	**(641,042)**
Financial income	22	435,727,949	435,724,934	410,108,709	410,097,321
- of which dividends from subsidiaries		*435,724,934*	*435,724,934*	410,097,321	410,097,321
Borrowing expenses	23	(28,321,743)	(15,961,358)	(28,343,816)	(16,061,766)
Total financial income (expenses)		**407,406,206**	**419,763,576**	**381,764,893**	**394,035,555**
Income before taxes		**405,649,339**	**418,993,358**	**380,057,574**	**393,394,513**
Income taxes, current and deferred taxes	24	4,382,976		7,502,140	
NET INCOME FOR THE YEAR		**410,032,315**	**418,993,358**	**387,559,714**	**393,394,513**

The data as at 31 December 2018 have been reconciled to the new schemes as described in the Basis of presentation and accounting policies, "General preparation principles" Section.

STATEMENT OF COMPREHENSIVE INCOME

(euros)

Comprehensive income items	Notes	31/12/2019	31/12/2018
Income (loss) for the year		**410,032,315**	**387,559,714**
Other comprehensive income net of taxes not transferred to income statement			
Property, plant and equipment			
Defined benefit plans			
Other comprehensive income net of taxes transferred to income statement			
Financial assets at FVTOCI			
Cash flow hedges	9-13	1,667,749	(208,394)
Total other comprehensive income net of taxes		**1,667,749**	**(208,394)**
COMPREHENSIVE INCOME		**411,700,064**	**387,351,320**

STATEMENT OF CHANGES IN EQUITY: CURRENT FINANCIAL YEAR

					Allocation of net income for previous year		Changes for the period								
							Equity transactions								
(euros)	Notes	Balance at 31/12/2018	Change in re-opening balances	Balance at 01/01/2019	Reserves	Dividends and other allocations	Changes in reserves	Issues of new shares	Purchase of own shares	Advances on dividends	Special dividend distribution	Changes in equity instruments	Stock options	Comprehensive income for 2019	Equity at 31/12/2019
Share capital:															
shares subscribed	7	161,514		161,514											161,514
Share premium reserve	8	1,315,158,486		1,315,158,486											1,315,158,486
Reserves:	8														-
a) income		24,350,304		24,350,304	411										24,350,715
b) other		2,029,920,022		2,029,920,022											2,029,920,022
Valuation reserves:	9														-
a) financial assets at FVTOCI															-
b) cash flow hedges		(5,663,317)		(5,663,317)										1,667,749	(3,995,568)
c) other reserves															-
Equity instruments															-
Advances on dividends	10	(255,938,315)		(255,938,315)	255,938,315					(267,003,639)					(267,003,639)
Treasury shares															-
Net income (loss) for the year		387,559,714		387,559,714	(255,938,726)	(131,620,988)								410,032,315	410,032,315
Equity		**3,495,548,408**		**3,495,548,408**	**-**	**(131,620,988)**	**-**	**-**	**-**	**(267,003,639)**	**-**	**-**	**-**	**411,700,064**	**3,508,623,845**

STATEMENT OF CHANGES IN EQUITY: PREVIOUS FINANCIAL YEAR

(euros)	Balance at 31/12/2017	Change in re-opening balances	Balance at 01/01/2018	Allocation of net income for previous year		Changes for the period								Equity at 31/12/2018
						Equity transactions							Comprehensive income for 2018	
				Reserves	Dividends and other allocations	Changes in reserves	Issues of new shares	Purchase of own shares	Advances on dividends	Special dividend distribution	Changes in equity instruments	Stock options		
Share capital:														
shares subscribed	161,514		161,514											161,514
Share premium reserve	1,315,158,486		1,315,158,486											1,315,158,486
Reserves:														
a) income	33,461		33,461	24,316,843										24,350,304
b) other	2,029,920,022		2,029,920,022											2,029,920,022
Valuation reserves:														
a) financial assets at FVTOCI														
b) cash flow hedges	(5,454,923)		(5,454,923)										(208,394)	(5,663,317)
c) other reserves														
Equity instruments														
Advances on dividends	(324,000,314)		(324,000,314)	324,000,314					(255,938,315)					(255,938,315)
Treasury shares														
Net income (loss) for the year	488,349,795		488,349,795	(348,317,157)	(140,032,638)								387,559,714	387,559,714
Equity	**3,504,168,041**		**3,504,168,041**		**(140,032,638)**				**(255,938,315)**				**387,351,320**	**3,495,548,408**

STATEMENT OF CASH FLOWS

(euros)	Notes	31/12/2019	31/12/2018
Net income		**410,032,315**	**387,559,714**
Adjustments to net income to reflect cash flow from operating activities:			
Recoveries (impairment) on financial assets	23	490	1,414
Provisions for staff severance pay	11	7,851	7,661
Dividends	22	(435,724,934)	(410,097,321)
Interest income	22	(3,015)	(11,388)
Interest expense	23	28,321,253	28,342,402
Income taxes	24	(4,382,976)	(7,502,140)
Changes in working capital:			
- Trade payables		80,815	25,537
- Current financial assets		1,500,002	90,000
- Other assets and liabilities		(156)	89,602
Cash flow from working capital		**1,580,662**	**205,140**
Change in provisions for employee benefits	11	0	(683)
Dividends received	22	430,983,319	405,566,445
Interest received	22	3,015	11,388
Interest paid	23	(27,839,999)	(27,804,126)
Income taxes paid net of tax credits reimbursed / income from participation in the tax consolidation mechanism	5	5,653,314	42,011,017
Cash flow from operating activities		**408,631,296**	**418,289,523**
- with related parties		*421,851,545*	*431,260,397*
Investing activities:			
- Companies in the scope of consolidation and business units		-	-
- Equity investments		-	-
- Change in payables and receivables relative to investing activities		-	-
Cash flow from investing activities		**-**	**-**
Divestments:			
- Equity investments		-	-
- Change in payables and receivables relative to divestments		-	-
Cash flow from divestments		**-**	**-**
Net cash flow from investing activities		**-**	**-**
- with related parties		-	-
Assumption of long-term financial debt		-	-
Repayments of long-term financial debt		-	-
Increase (decrease) in short-term financial debt		-	-
Net equity capital injections		-	-
Dividends distributed to shareholders	8-10	(398,624,627)	(395,970,953)
Net cash flow from financing activities		**(398,624,627)**	**(395,970,953)**
- with related parties		*(375,113,983)*	*(372,616,821)*
Net cash flow for the year		**10,006,669**	**22,318,570**
Cash and cash equivalents at start of year	6	**65,920,717**	**43,602,147**
Cash and cash equivalents at end of year	6	**75,927,386**	**65,920,717**

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

Form and content of the financial statements

The financial statements of CDP RETI have been prepared in accordance with the IFRS and comprise the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and these notes to the financial statements, as well as the Directors' report on operations.

The financial statements clearly present, and give a true and fair view of, the Company's financial performance and results of operations for the year.

The financial statements correspond with the company's accounting records and fully reflect the transactions conducted during the financial year.

All figures in the financial statements and in the tables in the notes are in euros. In the income statement, revenues are indicated without a sign, while costs are shown in brackets. The rounded amounts for the various items are the sum of the rounded balances of sub-items.

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

Auditing of the financial statements

The financial statements of CDP RETI are audited by the independent auditors PricewaterhouseCoopers S.p.A., in compliance with the audit engagement assigned to this firm with shareholders' resolution of 24 June 2015 with respect to the financial statements and accounts for the period 2015-2023.

The Ordinary Shareholders' Meeting of CDP RETI, held on 10 May 2019, awarded the audit engagement for the period 2020-2028 to the independent auditors Deloitte&Touche, having joined the procedure for the selection of a single auditor for the Group, initiated by the Parent Company CDP, in view of the upcoming expiry of the audit engagement awarded to PricewaterhouseCoopers S.p.A. for the period 2011-2019.

Management and coordination by CDP S.p.A.

CDP RETI is 59.10% owned by CDP. The Company is subject to management and coordination by CDP. Management and coordination is performed in such a way as to avoid infringing European regulations on state aid.

I - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

I. GENERAL INFORMATION

Declaration of compliance with the International Financial Reporting Standards

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Commission and in force at 31 December 2019, taking into account also the minimum reporting requirements established by the Italian Civil Code, where compatible with the standards adopted.

The international accounting standards include the IFRS issued by the IASB, the IAS still in force issued by the IASC and the interpretations issued by the IFRS Interpretation Committee (IFRS IC), including those previously issued by the International Financial Reporting Interpretations Committee (IFRIC) and, even earlier, by the Standing Interpretations Committee (SIC).

General preparation principles

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

In particular:

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

Please note that, in order to facilitate the comparability of the information contained in the separate financial statements of CDP RETI S.p.A. with the information shown on a consolidated level, as well as to provide information that is reliable and more relevant, the separate financial statements, and in particular the balance sheet assets and liabilities and the income statement, have been restated with respect to their presentation at 31 December 2018, adapting them to those of the consolidated financial statements. The restatement has produced some reclassifications, changes to some terms and a different presentation of the income statement, as described below:

- the balance sheet item, in the current part, relating to “Tax receivables”, was renamed “Income tax receivables”. At 31 December 2018, this item only included receivables for advances related to current taxes, and in particular to IRAP, and therefore it was not necessary to make any reclassification of the amounts;
- the equity reserves have been presented in greater detail, compared to their presentation in the balance sheet liabilities at 31 December 2018, and the detail is now aligned with the information shown in the statement of changes in equity;
- the entry for Staff severance pay has been renamed Provisions for employee benefits;
- the following changes were made in the current part of balance sheet liabilities:
  - the entry relating to “Current financial liabilities”, not recognised at 31 December 2018, was added and, at 31 December 2019, included the amount of the Cash Flow Hedge relating to the Term Loan financing contract due in May 2020;
  - “Trade payables”, relating to payables to suppliers, have been presented in a specific item, and the related amount has been reclassified from the entry “Other current liabilities - Trade payables”;
  - the entry for “Tax liabilities” has been renamed “Income tax liabilities” and the amount that at 31 December 2018 only included the liabilities for withholding taxes and indirect taxes, was reclassified to “Other current liabilities - Other payables”;
- the structure of the income statement has been revised to align it to the consolidated income statement, in order to make it comparable to the latter. In this context, the dividends relating to the investee companies of CDP RETI S.p.A. have been included in financial income, while net impairment on financial assets is included in financial expenses. The entry for administrative expenses for staff has been renamed “Staff costs”, whereas other administrative expenses have been renamed “Services” and “Other operating costs”.

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

Reference is made to the section “Transactions with related parties” for information about the net amounts of receivables and payables and transactions with related parties.

The financial statements have been prepared in accordance with the IFRS issued by the IASB (including the SIC and IFRIC interpretations) and endorsed by the European Commission pursuant to Regulation (EC) 1606 of 19 July 2002, published in Official Journal L. 243 of 11 September 2002.

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

- the Framework for the Preparation and Presentation of Financial Statements, issued by the International Accounting Standards Board (IASB) in 2001;
- Implementation Guidance, Basis for Conclusions, IFRIC interpretations, and any other documentation prepared by the IASB or IFRIC to supplement the IFRS issued;
- interpretation documents concerning the application of the IFRS in Italy, prepared by the Organismo Italiano di Contabilità (Italian Accounting Board, OIC).

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

The financial statements have been duly prepared on an accrual and going-concern basis. The general principles of the materiality and significance of information and the prevalence of substance over form have also been taken into account.

In compliance with IAS 1 Revised, CDP RETI has conducted an assessment of the Company's ability to continue to operate as a going concern, considering all available information over the medium term.

Based on analysis of this information, CDP RETI feels that it is appropriate to prepare its financial statements on a going concern basis. See the section below “Events subsequent to the reporting date” regarding the spread of the contagion caused by Covid-19 and the uncertainties regarding the possible evolution of its effects.

No assets have been offset against liabilities, nor income against expenses, unless expressly required or allowed by an accounting standard or a related interpretation.

Use of estimates

The application of International Financial Reporting Standards in preparing the financial statements requires the company to make accounting estimates for certain balance sheet items that are considered reasonable and realistic according to the information available at the time the estimate is made. Such estimates impact the carrying amount of the assets and liabilities, and the disclosures on contingent assets and liabilities at the reporting date, as well as the amounts reported for revenues and costs for the reporting period. Changes in the conditions underlying the judgements, assumptions and estimates used could also have an impact on future results.

The main areas in which management is required to make subjective assessments are:

- the recoverable amount of equity investments;
- quantification of impairments/recoveries of financial assets;
- the fair value of Interest Rate Swap hedging derivatives;
- the value of current and deferred tax.

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

Events subsequent to the reporting date

During the period between the reporting date for these financial statements and the date of their approval by the Board of Directors (01 April 2020), no events occurred that would require an adjustment to the figures approved.

However, after the end of the financial year, during March 2020, the new Covid-19 virus, originating in China, spread to many countries around the world, with the World Health Organization consequently defining the epidemic as a “pandemic situation” on 11 March 2020.

In Europe, at the date of preparing this Report, Italy represents one of the worst hit countries. This has led to considerable pressure on the country’s health system and the consequent enactment of a series of measures by the Government (adoption by the Prime Minister of the Decrees of 4, 8, 9 March 2020 and of the “Cura Italia” Decree Law on 17 March 2020), which have introduced restrictive and unprecedented measures to the activities of the Public Administration, the economy in general and the daily life of Italian citizens, as well as substantial economic measures to support families, workers and businesses.

In a scenario where the virus does not stop spreading in the short term, this pandemic development could also significantly affect the global outlook for future growth, influencing the general macroeconomic framework and financial markets.

On this point, CDP RETI's Directors deemed that the trend of the emergency along with uncertainties surrounding further developments in terms of impact on the productive, economic and social fabric of the country does not allow - at present - any approximation of a reasonable quantification of the Company's 2020 performance. It is not excluded that the possible continuation of the current health emergency may result in short-term losses in margins, which at present cannot be reliably estimated with the elements available.

In accordance with IAS 10, this circumstance is not deemed to lead to any adjustment to the balances in the financial statements at 31 December 2019, since the fact itself and its consequences occurred after the reporting date, nor a factor of uncertainty as to the Company's ability to continue to operate as a going concern.

Finally, with reference to the Parent Company CDP RETI S.p.A., it should be noted that after 31 December 2019 there was a reduction in stock market values for the subsidiaries SNAM, TERNA and ITALGAS as a consequence of the above-mentioned emergency situation exacerbating (the Covid-19 virus spreading in Italy and worldwide). The impacts on the Company's equity investment portfolio resulting from the current emergency situation are being constantly monitored. For your information, the most recent stock market values monitored are summarised below:

- **SNAM**: closing price as at 25 March 2020 equal to 3.95 euro, weighted average with price volumes of the last month before 25 March 2020 equal to 3.98 euro;
- **TERNA**: closing price as at 25 March 2020 equal to 5.53 euro, weighted average with price volumes of the last month before 25 March 2020 equal to 5.52 euro;
- **ITALGAS**: closing price as at 25 March 2020 equal to 4.61 euro, weighted average with price volumes of the last month before 25 March 2020 equal to 4.86 euro;

in any case, all higher than their respective carrying values.

Other issues

New international financial reporting standards endorsed and in force from 2019, and new financial reporting standards and interpretations issued and endorsed by the European Union, but not yet in force (entry into force for financial years beginning from 1 January 2020)

As regards the new international financial reporting standards endorsed and in force from 2019, and the new standards and interpretations already issued and endorsed by the European Union, but not yet in force (date of entry into force for financial years beginning from 1 January 2020), reference is made to the Notes to the consolidated financial statements.

Transition to IFRS 16

With reference to the examination of the regulations introduced by the new IFRS 16 in the field of leases, the criteria for recognition provided by the standard and the choices made by the CDP Reti Group on first application of the new standard according to the "Modified Retrospective" approach, as a result of which no impacts on shareholders' equity were recognised as at 1 January 2019, reference should be made to the description in the paragraph relating to the transition to IFRS 16 contained in the Notes to the consolidated financial statements.

More specifically, as regards CDP RETI S.p.A., due to the decision to use the "recognition exemptions" provided by IFRS 16, and in particular making use of the possibility to exclude lease contracts with a total or remaining lease term of less than or equal to 12 months, and contracts with the value of the underlying asset being lower or equal to 5,000 euro on the purchase date, the operating lease types recognised in accordance with IAS 17 and falling within the cases indicated were not subjected to application of IFRS 16. As a result, it was not necessary to recognise in the financial statements any rights of use relating to the assets underlying existing lease contracts, nor their related financial liabilities, corresponding to the current value of the payments due under the lease.

The following table contains the reconciliation of IAS 17 operating lease commitments at 31 December 2018 of CDP RETI S.p.A and IFRS 16 Lease liabilities at 1 January 2019

(thousands of euro)	01/01/2019
RECONCILIATION OF LEASE LIABILITIES	
IAS 17 operating lease commitments undiscounted at 31 December 2018	**81**
Recognition exceptions pursuant to IFRS 16	**(66)**
- for short-term leases (-)	(66)
- for low value leases (-)	
Other changes:	**(15)**
- Non-deductible VAT	(15)
- Increase for different duration under IFRS 16	
Operating lease liabilities before discounting	**-**
Discounting effect	
IFRS 16 discounted operating lease liabilities at 1 January 2019	**-**
Finance lease liabilities under IAS 17 at 1 January 2019	
Total lease liabilities under IFRS 16 at 1 January 2019	**-**

II. THE MAIN FINANCIAL STATEMENT ITEMS

The accounting policies used to prepare the separate financial statements of CDP RETI S.p.A., with reference to the main financial statement items, are described in the Notes to the consolidated financial statements, to which reference should be made, except for the accounting policies relating to the treatment of equity investments in subsidiaries, described below.

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

Equity investments

The equity investments held at 31 December 2019 are listed individually in Annex 1 “Analytical list of equity investments”, which is an integral part of these Notes to the financial statements.

Equity investments are initially recognised at cost at the settlement date.

The existence of objective evidence that the carrying amount of the equity investments might not be fully recoverable is verified at every reporting date.

Evidence of impairment, based on the existence of qualitative and quantitative indicators, as illustrated hereunder, and in accordance with the internal policies of the Parent company CDP, differs where these involve investments in companies whose shares are or are not listed on active markets.

An impairment test is performed when the aforementioned indicators exist, in accordance with the provisions of IAS 36. This test is aimed at estimating the recoverable amount of the equity investment and comparing it with its carrying value to determine the recognition of any impairment losses.

The following are possible indicators of impairment:

- the recognition of losses or significantly lower results than budgeted (or forecast in multi-year plans), if, after specific analyses, they are relevant due to their effects on the estimate of expected future cash flows in any impairment test preparation;
- significant financial difficulty of the investee;
- probability that the investee will declare bankruptcy or enter into other financial reorganisation procedures;
- a carrying value of the investment in the separate financial statements that exceeds the carrying value, in the consolidated financial statements, of the net assets of the investment (including any goodwill);
- the distribution of a higher dividend than the income for the period and the existing income reserves;
- the distribution of a higher dividend by the investee than the income in the comprehensive income (or statement of comprehensive income for financial companies) in the year when it is declared.

With reference to listed equity investments, the following are also considered indicators of impairment:

- a reduction in the market price exceeding the carrying value by over 40% or for more than 24 months;
- a downgrade of the rating of at least four notches from the time when the investment was made, if assessed as relevant together with other available information.

The recoverable amount is the higher of the fair value of the unit, less costs of disposal and its value in use, being the present value of the future cash flows that the equity investment may generate, including the final disposal value of the investment. If this value is lower than the carrying value and if there is persistent or significant impairment, any identified adjustments are recognised in the income statement as impairment losses. When the reasons for these impairments cease to exist, the carrying value of the equity investments carried at cost is restored for the amount of the recognised impairment, while recognising the effect of this adjustment in the income statement under “Income (expenses) from equity investments”.

The investor’s interest in any losses of the investee that exceed the carrying value of the equity investment is recognised in a specific provision, to the extent that the investor is committed to meeting the legal or constructive obligations of the investee, or otherwise cover its losses.

The dividends are recognised when the investor's right to receive payment for it (resolution to distribute dividends passed by the shareholders' meeting of the investee or the board of directors, if an advance on the dividend is received). The dividends resolved by the subsidiaries are recognised in the income statement when they are resolved and recognised as financial income regardless of the nature of the distributed reserves (equity or profit reserves and, in this latter case, even when these profits derive from the distribution of profit reserves that were established before the acquisition of the equity investment). In any event, considering that the distribution of those reserves represents an event implying a reduction in the value of the equity investment, the Company verifies the recoverability of the carrying value of the equity investment and, if appropriate, recognises an impairment.

Equity investments are derecognised when the contractual rights to the cash flows of the business terminate or when the financial asset is sold, transferring substantially all risks and rewards connected with it.

II - INFORMATION ON THE BALANCE SHEET

I. ASSETS

Non-current assets

1. Equity investments

The net amount of this item refers to the value of controlling investments that CDP RETI owns in SNAM S.p.A., Terna S.p.A., and Italgas S.p.A. There were no changes in the value of equity investments in the period and the breakdown of the item is as follows:

Equity investments: breakdown

(euros)

Names	31/12/2019	31/12/2018
Italgas SpA	621,032,150	621,032,150
SNAM SpA	3,086,832,661	3,086,832,661
Terna SpA	1,315,200,000	1,315,200,000
Total	**5,023,064,811**	**5,023,064,811**

Equity investments in subsidiaries, joint ventures and companies subject to significant influence: information on investments

Names	Registered office	% holding
1. Italgas S.p.A.	Milan	26.04%
2. SNAM S.p.A.	San Donato Milanese	31.04%
3. Terna S.p.A.	Rome	29.85%

Equity investments in subsidiaries, joint ventures and companies subject to significant influence: accounting information

(millions of euro)

Names	Total assets (1)	Total revenues (1)	Net income (loss) (1)	Equity (1)	Carrying amount	Type of transaction
Italgas SpA	8,486	1,892	424	1,795	621	Control
SNAM SpA	24,486	2,665	1,090	6,256	3,087	Control
Terna SpA	18,086	2,345	764	4,232	1,315	Control

(1) Data from the 2019 Annual Report - Consolidated Financial Statements

The table below shows the changes in equity investments:

Equity investments: changes for the year

(euros)

Items/Figures	31/12/2019	31/12/2018
A. Opening balance	**5,023,064,811**	**5,023,064,811**
B. Increases	**-**	**-**
B.1 Purchases		
B.2 Writebacks		
B.3 Revaluations		
B.4 Other increases		
C. Decreases	**-**	**-**
C.1 Sales		
C.2 Writedowns		
C.3 Other decreases	-	
D. Closing balance	**5,023,064,811**	**5,023,064,811**

2. Deferred tax assets

Following below is a breakdown of “Deferred tax assets” recognised at 31 December 2019 for a total amount of 1,701 thousand euro (2,401 thousand euro at 31 December 2018).

Deferred tax assets: breakdown

(euros)

Items/Figures	31/12/2019	31/12/2018
Deferred IRES	23,786	23,182
Deferred tax assets recognized in equity	1,677,537	2,377,740
Total	**1,701,323**	**2,400,922**

Deferred IRES is calculated on temporary differences in the values reported for tax purposes and those used for financial reporting that will become deductible in periods following the period in which they are recognised.

Deferred tax assets with an impact on equity are instead related to deferred tax recorded in relation to the derivative contracts entered into in 2015 and 2017 to hedge cash flows.

The following tables indicate the change in deferred tax assets during the financial year:

Change in deferred tax assets (recognised in the income statement)

(euros)

Items/Figures	31/12/2019	31/12/2018
1. Opening balance	**23,182**	**22,396**
2. Increases	**23,786**	**23,182**
2.1 Deferred tax assets recognised during the year	23,786	23,182
a) in respect of previous periods		
b) due to change in accounting policies		
c) writebacks		
d) other	23,786	23,182
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**23,182**	**22,396**
3.1 Deferred tax assets derecognised during the year	23,182	22,396
a) reversals	23,182	22,396
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**23,786**	**23,182**

Change in deferred tax assets (recognised in equity)

(euros)

Items/Figures	31/12/2019	31/12/2018
1. Opening balance	**2,377,740**	**2,313,237**
2. Increases	**502,082**	**571,737**
2.1 Deferred tax assets recognised during the year	502,082	571,737
a) in respect of previous periods		
b) due to change in accounting policies		
c) others	502,082	571,737
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**1,202,285**	**507,234**
3.1 Deferred tax assets derecognised during the year	1,202,285	507,234
a) reversals	1,202,285	507,234
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**1,677,537**	**2,377,740**

Current assets

3. Current financial assets

“Current financial assets” at 31 December 2019 amounted to 6,887 thousand euro (8,388 thousand euro at 31 December 2018) and refer to the receivable with the parent company CDP for the margin paid to it under the guarantee agreement (Credit Support Agreement) entered into when the cash flow hedge derivative contracts were taken out.

Current financial assets: breakdown

(euro)

Items/Figures	31/12/2019	31/12/2018
Loans to CDP for CSA	6,887,203	8,387,583
Total	**6,887,203**	**8,387,583**

4. Income tax receivables

The balance of “Income tax receivables” includes assets related to current taxes, and in particular the tax receivables for IRAP, whose amount is unchanged from the previous financial year.

Income tax receivables: breakdown

(euros)

Items/Figures	31/12/2019	31/12/2018
IRAP receivables	109,566	109,566
Total	**109,566**	**109,566**

5. Other current assets

The following table shows the breakdown of “Other current assets”, which at 31 December 2019 amounted to 104,574 thousand euro (101,045 thousand euro at 31 December 2018):

Other current assets: breakdown

(euros)

Items/Figures	31/12/2019	31/12/2018
Receivables from CDP for tax consolidation	4,439,271	5,657,024
Receivables from CDP for tax consolidation: withholdings	784	24,713
Receivables from SNAM for interim dividend	100,100,752	95,359,137
Advances for VAT	28,423	
Other current assets	4,720	3,759
Total	**104,573,950**	**101,044,633**

As at 31 December 2019, the amount due from SNAM S.p.A. was recognised under other current assets. The receivable refers to the advance on the 2019 dividend, which was approved by the investee on 14 November 2019 and amounts to 0.095 euro per share. CDP RETI received the advance on 22 January 2020.

Current assets also include the net amount due from the parent company CDP as a result of the tax consolidation mechanism, including:

- receivables of 1,041 thousand euro resulting from the excess 2019 ACE (aid to economic growth tax incentive) transferable to tax consolidation;
- receivables of 3,398 thousand euro resulting from interest expense that cannot be deducted at individual level but can be transferred to tax consolidation.

The other current assets mainly refer, instead, to the deferral of costs arising during the financial year but related to the following financial year.

6. Cash and cash equivalents

"Cash and cash equivalents" of CDP RETI at 31 December 2019 consist of:

- balance of bank current accounts;
- balance of the interest-bearing demand deposit held with the parent company CDP.

The table below summarises cash and cash equivalents at 31 December 2019 including interest accrued and not yet paid.

Cash and cash equivalents: breakdown

(euros)

Items/Figures	31/12/2019	31/12/2018
Deposit with CDP	9,997,063	867
Banks	65,930,323	65,919,850
Total	**75,927,386**	**65,920,717**

The balance of the deposit held with the parent CDP shows an increase during the period on account of a different strategy adopted by the Company in the regulation of margining relating to existing derivatives.

II. LIABILITIES

Equity

7. Share capital

Share capital: breakdown

(euros)

Items/Figures	31/12/2019	31/12/2018
Share capital	161,514	161,514
Total	**161,514**	**161,514**

At 31 December 2019, the share capital consisted of 161,514 shares without par value (likewise at 31 December 2018), fully paid in.

During the year there were no changes to the ownership structure, which is therefore unchanged from the following situation resulting from the introduction, at the shareholders' meeting of 24 November 2014, of three separate categories of shares giving holders different rights concerning corporate governance:

Share capital: categories of shares

Member / Number of shares / %	Share category A	Share category B	Share category C	%
CDP	95,458			59.10%
State Grid		56,530		35.00%
Cassa Forense			4,253	2.63%
Foundations and Savings Banks			5,273	3.27%
Total	**95,458**	**56,530**	**9,526**	**100.00%**

8. Reserves

At the end of the year, "Reserves" were as follows:

Reserves: breakdown

(euros)

Items/Figures	31/12/2019	31/12/2018
Income reserves	24,350,715	24,350,304
Legal reserve	*32,303*	*32,303*
Retained earnings (losses carried forward)	*24,318,412*	*24,318,001*
Share premium reserve	1,315,158,486	1,315,158,486
Reserve for shareholder payments for investments	2,029,920,022	2,029,920,022
Total	**3,369,429,223**	**3,369,428,812**

The item "Reserve for shareholder payments for investments" included the residual value of the payment made by CDP to fund the purchase of the equity investment in SNAM.

At 31 December 2019, the company did not hold treasury shares directly or indirectly through its subsidiaries or intermediaries.

Information required by Article 2427, point 7-bis, of the Italian Civil Code on the individual details of equity items is given, specifying their origin, possible use and possible distribution.

Statement pursuant to Article 2427 of the Italian Civil Code

(euros)

Items/Figures	Balance at 31/12/2019	Possible uses (*)	Amount available
Share capital	161,514		
Reserves			
- Legal reserve	32,303	B	32,303
- Share premium reserve (**)	24,318,412	A, B, C	24,318,412
- Shareholder payment reserve	1,315,158,486	A, B, C	1,315,158,486
Valuation reserves	2,029,920,022	A, B, C	2,029,920,022
- CFH reserve			
Retained Earnings	(3,995,568)		
Advances on dividends	(267,003,639)		
Total	**3,098,591,530**		**3,369,429,223**

(*) A = capital increase; B = loss coverage; C = distribution to shareholders

(**) Share premium reserve is fully available for distribution since Legal reserve reached a fifth of Share capital

9. Valuation reserves

Valuation reserves recorded a change as a result of the measurement of the cash flow hedge derivative contracts entered into by the Company in May 2015 and May 2017, net of deferred tax.

Valuation reserves: breakdown

(euros)

Items/Figures	31/12/2019	31/12/2018
Valuation reserves CFH Swap	(3,995,568)	(5,663,317)
Total	**(3,995,568)**	**(5,663,317)**

10. Advances on dividends

Having satisfied the requirements of Article 2433-bis of the Italian Civil Code, on 28 November 2019 the Company resolved to distribute advances on dividends for 2019, amounting to 1,653.13 euro per share, for a total of 267,003,639 euro to be paid on 6 December 2019.

Advances on dividends: breakdown

(euros)

Items/Figures	31/12/2019	31/12/2018
Interim dividend	(267,003,639)	(255,938,315)
Total	**(267,003,639)**	**(255,938,315)**

Non-current liabilities

11. Provisions for employee benefits

At 31 December 2019, the Company's non-current liabilities in provisions for employee benefits included 25,587 euro (17,790 euro at 31 December 2018) relative to the staff severance pay provision made in accordance with current regulations for employees.

The provision for Staff severance pay (TFR) increased compared to the previous financial year as a result of the amounts set aside in the period.

Staff severance pay: annual changes

(euros)

Items/Figures	31/12/2019	31/12/2018
A. Opening balance	**17,790**	**10,168**
B. Increases	**7,851**	**7,661**
B.1 Allocation in the year	7,851	7,661
B.2 Other increases		
C. Decreases	**54**	**39**
C.1 Payments made		
C.2 Other decreases	54	39
D. Closing balance	**25,587**	**17,790**

12. Loans

The total of "Loans" at 31 December 2019, considering the current portion and the non-current portion, amounted to 1,695 million euro (1,695 million euro at 31 December 2018).

The breakdown of loans is shown in the table below.

Loans: breakdown

(euros)	31/12/2019		31/12/2018	
Items/Figures	Non current	Current	Non current	Current
Bond	749,168,711	8,299,181	748,848,441	8,321,918
Term loan facility 2014		750,579,250	750,000,000	650,125
Term loan facility 2017	186,988,730	250,341	186,803,302	267,374
Total	**936,157,441**	**759,128,772**	**1,685,651,743**	**9,239,417**

At 31 December 2019, the amount of 750,000 thousand euro relating to the Term Loan signed in 2014 and due in May 2020 was reclassified among current financial liabilities.

The breakdown of non-current loans into loans agreed or signed by the parent CDP or by the lending banks or by other institutional investors is provided in the table below:

Non-current loans: breakdown by type of creditor

(euros)	31/12/2019			31/12/2018		
Items/Figures	CDP	Other Istitutional Investors	Pool of Banks	CDP	Other Istitutional Investors	Pool of Banks
Bond	337,125,920	412,042,791		336,981,799	411,866,642	
Term loan facility 2014				337,500,000		412,500,000
Term loan facility 2017	84,144,929		102,843,801	84,061,495		102,741,807
Total	**421,270,849**	**412,042,791**	**102,843,801**	**758,543,294**	**411,866,642**	**515,241,807**

The table below shows the reconciliation between the opening and closing balances of non-current financial liabilities, with the change having no impact on cash flows from financing activities in the statement of cash flows, since it fundamentally refers to the reclassification of the Term Loan 2014 among current financial liabilities. Reference is made to section "1.4 Net financial debt and cash flows" of CDP RETI S.p.A.'s Report on Operations for more details on the Company's financial debt and section "5. Business outlook for 2020" of the Report on Operations of the Group for a description of the refinancing strategy.

Non-current loans: reconciliation between opening and closing balances

			No cash flow changes				
(euros)	31/12/2018	Changes from financing cash flows	Effect of changes in foreign exchange rates	Changes in fair value	Changes arising from obtaining or losing control of subsidiaries or other businesses	Other changes	31/12/2019
Loans (non current)	1,685,651,743	-	-	-	-	(749,494,302)	936,157,441
Total liabilities from financing activities	**1,685,651,743**	**-**	**-**	**-**	**-**	**(749,494,302)**	**936,157,441**

13. Other financial liabilities

Other financial liabilities: breakdown

(euros)	31/12/2019		31/12/2018	
Items/Figures	Non current	Current	Non current	Current
Cash-flow hedge derivative contract	2,650,678	3,786,872	8,719,678	
Total	**2,650,678**	**3,786,872**	**8,719,678**	

Other financial liabilities originate from the fair value measurement (level 2) of the cash flow hedge derivative contracts entered into by the company in May 2015 and May 2017 to hedge the interest-rate risk of the two Term Loans. The overall Mark-to-market of the two derivatives improved during the financial year, thus reducing (current and non-current) financial liabilities by around 2,282 thousand euro on the previous financial year.

At 31 December 2019, the value of the derivative relating to the Term Loan due in May 2020 was reclassified among current financial liabilities.

The features of the derivative contracts are described in the Report on operations, in the Net financial debt section.

14. Deferred tax liabilities

Deferred tax liabilities amounted to 1,201 million euro (1,144 million euro at 31 December 2018) and are broken down as follows:

Deferred tax liabilities: breakdown

Items/Figures	31/12/2019	31/12/2018
Deferred tax liabilities recognized in PL	1,201,209	1,144,310
Total	**1,201,209**	**1,144,310**

Deferred tax liabilities recognised in the income statement originate from the recognition of tax on the 2019 dividend advance approved by SNAM in November 2019 and collected in January 2020.

The table below shows the changes in deferred tax liabilities.

Deferred tax liabilities recognised in the Income Statement: changes

(euros)

Items/Figures	31/12/2019	31/12/2018
1. Opening balance	**1,144,310**	**1,089,939**
2. Increases	**1,201,209**	**1,144,310**
2.1 Deferred tax liabilities recognised during the year	1,201,209	1,144,310
a) in respect of previous periods		
b) due to change in accounting policies		
c) others	1,201,209	1,144,310
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**1,144,310**	**1,089,939**
3.1 Deferred tax liabilities derecognised during the year	1,144,310	1,089,939
a) reversals	1,144,310	1,089,939
b) writedowns for supervening non-recoverability		
c) due to change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**1,201,209**	**1,144,310**

Current liabilities

15. Current loans

This item includes the current portion of the loans described above, as well as coupons maturing and expiring in the following financial year. The table below shows the breakdown of the item at 31 December 2019:

Current loans: breakdown by type of creditor

(euros)	31/12/2019			31/12/2018		
Items/Figures	CDP	Other Istitutional Investors	Pool of Banks	CDP	Other Istitutional Investors	Pool of Banks
Bond	3,734,631	4,564,548		3,744,863	4,577,055	
Term loan facility 2014	337,760,663		412,818,588	292,556		357,569
Term loan facility 2017	112,654		137,688	120,318		147,056
Total	**341,607,948**	**4,564,548**	**412,956,276**	**4,157,737**	**4,577,055**	**504,625**

The increase, which went from 9,239 thousand euro at 31 December 2018, to 759,129 thousand euro at 31 December 2019, is the result of the reclassification to current liabilities (and thus due within 12 months) of the balance amount of the Term Loan signed by CDP RETI in 2014, and which comes due in May 2020.

16. Trade payables

“Trade payables” at 31 December 2019 refer to payables to suppliers and are broken down as follows:

Trade payables: breakdown

(euros)

Items/Figures	31/12/2019	31/12/2018
Trade payables	5,306	8,089
Trade payables for invoices to receive	58,518	82,525
Total	**63,824**	**90,614**

17. Other current liabilities

"Other current liabilities" refer to short-term payables that will be paid within the financial year following the reporting date.

Other current liabilities: breakdown

(euros)

Items/Figures	31/12/2019	31/12/2018
Tax payables	14,513	46,927
Payables to parent companies	406,649	299,045
Payables due to pension and social security institutions	15,022	15,050
Other payables	189,827	155,250
Total	**626,011**	**516,272**

The table below shows the breakdown of tax payables, consisting mainly of the tax withheld by the Company on behalf of its employees and independent contractors, which is paid to the revenue authorities the month after being withheld.

Tax payables: breakdown

(euros)

Items/Figures	31/12/2019	31/12/2018
Irpef withholdings on employees	12,962	12,882
Irpef withholdings on professionals	1,538	58
Other tax payables	13	33,987
Total	**14,513**	**46,927**

The table below provides a breakdown of amounts due to the parent company recognised in the financial statements at 31 December 2019:

Payables to parent companies: breakdown

(euros)

Items/Figures	31/12/2019	31/12/2018
Administrative services	287,232	189,120
Seconded personnel	66,711	36,854
Payables to directors to pay to CDP	40,000	55,178
Other payables	12,706	17,893
Total	**406,649**	**299,045**

Payables to pension and social security institutions as at 31 December 2019 amounted to 15 thousand euro (15 thousand euro at 31 December 2018) and refer to payables to INPS recognised in December 2019 with reference to the fixed and variable remuneration of employees, as shown in the table below.

Payables due to pension and social security institutions: breakdown

(euros)

Items/Figures	31/12/2019	31/12/2018
Payables to INPS	15,022	14,831
Payables to INAIL	-	219
Total	**15,022**	**15,050**

Other payables amounted to 190 thousand euro (155 thousand euro at 31 December 2018) and refer to the following:

Other payables: breakdown

(euros)

Items/Figures	31/12/2019	31/12/2018
Due to company bodies	163,237	133,559
Payables to employees	25,286	20,387
Payables to pension fund	1,304	1,304
Total	**189,827**	**155,250**

Payables to company bodies refer to remuneration accrued by members of the Board of Directors (which do not need to be paid to the parent CDP) and members of the Board of Statutory Auditors during the financial year.

Payables to employees primarily originate from recognition under CDP RETI liabilities of deferred remuneration accrued by employees, and from year-end adjustments of the provision for vacation accrued but not used.

Disclosures on the fair value measurement of financial instruments

Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

(euros)	31/12/2019			31/12/2018		
Items/Figures	L1	L2	L3	L1	L2	L3
Non-current financial assets						
Current financial assets						
Total						
Non-current financial liabilities						
- Other financial liabilities		2,650,678			8,719,678	
Current financial liabilities						
- Current financial liabilities		3,786,872				
Total		**6,437,550**			**8,719,678**	

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level

(euros)	31/12/2019				31/12/2018			
Items/Figures	CA	L1	L2	L3	CA	L1	L2	L3
Non-current assets								
Current assets								
- Current financial assets	*6,887,203*			*6,887,203*	*8,387,583*			*8,387,583*
- Cash and cash equivalents	*75,927,386*			*75,927,386*	*65,920,717*			*65,920,717*
Total	**82,814,589**	**-**	**-**	**82,814,589**	**74,308,300**	**-**	**-**	**74,308,300**
Non-current liabilities								
- Loans	*936,157,441*	*773,302,500*		*186,988,730*	*1,685,651,743*	*723,375,000*		*936,803,302*
Current liabilities								
- Current portion of loans	*759,128,772*	*8,299,181*		*750,829,591*	*9,239,417*	*8,321,918*		*917,499*
Total	**1,695,286,213**	**781,601,681**		**937,818,321**	**1,694,891,160**	**731,696,918**		**937,720,801**

Other information

Guarantees issued and commitments

The Company did not issue any guarantees or make commitments recognised in the memorandum accounts.

Assets pledged as collateral for own debts and commitments

No collateral or guarantees were pledged either directly or indirectly in the interest of third parties.

Own securities portfolio deposited with third parties

The 1,053,692,127 shares of SNAM S.p.A., the 599,999,999 shares of Terna S.p.A., and the 210,738,424 shares of Italgas S.p.A. owned by CDP RETI are held at the parent company CDP.

III - INFORMATION ON THE INCOME STATEMENT

Revenues

18. Other revenues and income

This item, with a balance of 22 thousand euro (21 thousand euro at 31 December 2018), refers to the charge-back to State Grid International Development of the costs incurred by CDP RETI for the audit performed on behalf of State Grid on the reporting package at 31 December 2018.

Other revenues and income: breakdown

(euros)

Items/Figures	2019	2018
Other income	21,777	21,167
Rounding		2
Totale	**21,777**	**21,169**

Operating costs

19. Services

Costs for services incurred in 2019 amounted to 1,156 thousand euro (1,048 thousand euro in 2018) and are broken down as follows:

Services: breakdown

(euros)

Items/Figures	2019	2018
Professional and financial services	522,317	536,623
Outsourcing CDP	541,347	418,966
General and administrative services	9,755	11,106
Utilities and other expenses	82,304	81,489
Total	**1,155,723**	**1,048,184**

The 2019 fees for the independent auditors PricewaterhouseCoopers S.p.A., as provided by Article 149 - duodecies, paragraph 2, of Consob Resolution no. 11971 of 14 May 1999, as amended, are summarised below:

Independent auditors' fees:

(euros)

Type of service/Values	Service Provider	Fees for the year
Auditing	PricewaterhouseCoopers SpA	109,075
Certification		47,397
Other services		
Total		**156,472**

20. Staff costs

Staff costs at 31 December 2019 amounted to 612 thousand euro (669 thousand euro at 31 December 2018) and are broken down as shown below. The reduction over the previous financial year is the result of a lower headcount due to the exit of one staff member at the end of 2018. Conversely, compared to 2018, the headcount has increased by one staff member on partial secondment to the Company from the parent CDP.

Staff costs: breakdown

(euros)

Items/Figures	2019	2018
Employees	380,170	472,817
Board of Directors and Board of Auditors	165,173	159,539
Reimbursement of expenses for third-party employees seconded to the Company	66,712	36,854
Total	**612,055**	**669,209**

Average headcount

The average headcount broken down by job category is illustrated in the following table:

Average headcount

Items/Figures	2019	2018
Senior Managers		
Middle Managers	3	3
Office staff		1
Manual workers		
Total	**3**	**4**

21. Other operating costs

Other operating costs incurred by the company in 2019 amounted to 11 thousand euro (the same as in 2018) and are broken down as follows:

Other operating costs: breakdown

(euros)

Items/Values	2019	2018
AGCM Contribution	7,765	8,010
Taxes	2,253	1,242
Other operating costs	848	1,842
Total	**10,866**	**11,095**

22. Financial income

At 31 December 2019, financial income amounted to 435,728 thousand euro (410,109 thousand euro at 31 December 2018) and is broken down as follows:

Financial income: breakdown

(euros)

Items/Figures	2019	2018
Interest income on current bank account	3,015	11,388
Dividends	435,724,934	410,097,321
Total	**435,727,949**	**410,108,709**

The breakdown of dividends to be distributed, as approved during the financial year by the investee companies, is shown in the following table:

Dividends: breakdown

(euros)

Items/Figures	2019	2018
Italgas S.p.A. dividend	49,312,791	43,833,592
SNAM S.p.A. dividend	243,192,143	231,601,529
Terna S.p.A. dividend	143,220,000	134,662,200
Total	**435,724,934**	**410,097,321**

All dividends were collected in the period, except for the advance on the 2019 dividend approved by SNAM S.p.A. in November 2019, equal to 100,101 thousand euro, which was collected in January 2020.

23. Financial expenses

Financial expenses relate mainly to interest expense for the period, as detailed in the table below.

Financial expenses: breakdown

(euros)

Items/Figures	2019	2018
Interest on Term facility 2014	5,655,688	5,546,875
Interest on Term facility 2017	2,457,044	2,427,045
Interest on Bond	14,360,031	14,354,667
Other interest expense	5,848,490	6,013,815
Impairment losses on financial assets	490	1,414
Total	**28,321,743**	**28,343,816**

Other interest expense amounting to 5,848 thousand euro was recognised in relation to cash flow hedge derivative contracts (5,811 thousand euro) and, for the remaining part, mainly for interest expense accrued in fulfilment of the guarantee agreement (CSA) entered into with the signing of derivative contracts.

The calculation of impairment losses on financial assets takes into account their rating, recovery rate and probability of default and is broken down as follows:

Impairment losses on financial assets

(euros)

Items/Figures	2019	2018
Adjustments to financial assets:		
- recognised under cash and cash equivalents	403	1,327
- recognised under other current financial assets	87	87
Total	**490**	**1,414**

Income taxes, current and deferred taxes

24. Income taxes, current and deferred taxes

Taxes for 2019 are detailed below:

Income taxes: breakdown

(euros)

Items/Figures	2019	2018
1. Current taxes (-)	4,439,271	5,657,024
- of which income from participation in the tax consolidation mechanism	*4,439,271*	*5,657,024*
2. Change in current taxes from previous years (+/-)	-	1,898,701
3. Reduction of current taxes for the year (+)		
4. Change in deferred tax assets (+/-)	604	786
5. Change in deferred tax liabilities (+/-)	(56,899)	(54,371)
6. Taxes for the year (-) (-1+/-2+3+/-4+/-5)	**4,382,976**	**7,502,140**

Current income taxes reflect the "income from participation in the tax consolidation mechanism" arising from payment of the excess ACE incentive (1,041 thousand euro) and the excess payment of interest expenses (3,398 thousand euro) that cannot be deducted on an individual basis but can be transferred to the tax consolidation mechanism in accordance with the provisions of the tax consolidation agreement[70]. As a balancing entry for this income, the Company recognised a receivable for the same amount from the parent company CDP.

The "change in deferred tax liabilities" refers to the recognition of deferred tax liabilities on the 2019 dividend approved by SNAM in November 2019 and yet to be collected at the end of the year.

The reconciliation between the theoretical and actual tax liability is shown below:

Reconciliation between theoretical and actual tax liability: IRES

(euros)

Items/Figures	31/12/2019	Tax rate
Income (loss) before taxes	**405,649,339**	
IRES theoretical tax liability (rate 27.5%)	**(97,355,841)**	**-24.00%**
Increases in taxes		
- non-deductible temporary differences	(23,447)	-0.01%
- non-deductible permanent differences on interest expenses	(6,796,377)	-1.68%
- non-deductible permanent differences	(1,145,673)	-0.28%
Decreases in taxes		
- dividends 95% exempt	100,546,494	24.79%
- ACE benefit	5,793,084	1.43%
- excess financial expenses	3,398,189	0.84%
- other	22,843	0.01%
IRES Actual tax liability	**4,439,271**	**1.09%**

[70] In consequence of its participation since 2013 in the national tax consolidation mechanism of the CDP Group, which allows calculation of IRES on a consolidated basis for the companies that exercised the option for group taxation, CDP RETI may transfer to the tax consolidation mechanism the excess ACE incentive not used on an individual basis (i.e. deducting it from its own taxable income), consequently obtaining a gain compared to the tax rate in force at that time (24% beginning from 2017). Moreover, again in consequence of its participation in the tax consolidation mechanism, CDP RETI may transfer any excess interest expenses not deductible on an individual basis if and to the extent to which other entities (participating in the tax consolidation mechanism) report excess GOP (Gross Operating Profit) for the same tax period transferable to the Group. In exchange for the transfer of these interest expenses, CDP RETI obtains a gain resulting from lower IRES at the Group level and equal to 50% of the applicable tax year. The agreement relating to the tax consolidation mechanism was tacitly renewed for the period 2019-2021.

Reconciliation between theoretical and actual tax liability: IRAP

(euros)

Items/Figures	31/12/2019	Tax rate
Difference between revenues and production costs	**(1,395,663)**	
IRAP Theoretical tax liability (5.57% rate)	**77,738**	**-5.57%**
Increases in taxes	(72,934)	n/s
Decreases in taxes	15,226	n/s
IRAP Actual tax liability	**0**	**n/s**

IV – INFORMATION ON RISKS AND THE RELATED HEDGING POLICIES

Concerning risk exposure and the related hedging policies, it should be highlighted that, as a holder of significant equity investments, CDP RETI is exposed to the risks typically associated with investee companies. Such risks are monitored through a rigorous risk measurement and control process, which is carried out in first instance by the Directors as part of their assessment of the recoverability of the investments made. Their assessment is then reflected in the carrying amount shown in the financial statements for the related equity investments. Moreover, risk profiles are measured constantly on the basis of market price volatility of the related shares.

With regard to the spread of Covid-19, it is difficult, at this juncture, to make a reliable estimate of the extent and duration of the phenomenon, both in general terms and on CDP RETI's assets, as well as the related impacts. Nevertheless, although the situation is still unfolding, it is already clear that the epidemic has led to significant volatility on financial and commodity markets worldwide in the first quarter of 2020. The Company is currently taking into account a wide range of factors, including the expected impact on liquidity and future earnings, also by studying the measures adopted by governments and banks to provide assistance to the companies concerned. However, based on the current equity investment portfolio, the Company does not have concentrations of activities in sectors most affected by the epidemic (e.g. airlines, hospitality, tourism) and is less vulnerable to the risk of a significant impact in the short term. There is a reasonable expectation that there will be no increases in operating costs or higher borrowing costs, at least in the short term: (i) due to the current debt refinancing strategy and (ii) because the Company has entered into interest rate swaps with CDP on the two floating-rate loans. In addition, the Company is not expected to request an extension of the deadline for the payment of future interest expense (May 2020 for the current Term Loans/IRS and the bond issue, November 2020 for the planned new Term Loan/IRS) nor, at this point in time – and subject to the proposal made by the Boards of Directors of the subsidiaries SNAM/TERNA/ITALGAS at their respective upcoming Shareholders' Meetings – does it expect changes in the cash inflow from dividends from the 2019 income.

Notwithstanding the above, however, it cannot be ruled out that the possible continuation of the emergency could have adverse effects on CDP Reti, which at present cannot be estimated based on the information available.

The Company is also supported by the parent company CDP, pursuant to the service agreements entered into. In particular, risk management is coordinated at group-level in synergy with the competent structures of CDP.

The main risks identified are listed below.

Market risk

In conducting its business, CDP RETI is exposed to the market risk and, in particular, to the interest rate risk, which is the risk that the fair value or the cash flows of financial instruments may fluctuate due to changes in market interest rates or may lead to unexpected changes in net financial charges in relation to the portion of debt with floating rate.

The Company's policy in the management of interest rate risk is achieved essentially through the definition of an optimal financial structure with the dual objective of stabilisation of expenses and containment of the cost of funding. The Company aims, in particular, to contain financial expenses and their volatility by entering into OTC derivatives ("floating to fixed" Interest Rate Swaps with the parent CDP) with reference maturity and notional principal[71] aligned with those of the underlying financial liability.

The table below shows the breakdown of financial debt by fixed-rate and floating rate type, as at 31 December 2019 and as at 31 December 2018:

(euros)	31/12/2019		31/12/2018	
Items/Figures	Total	%	Total	%
Fixed interest	757,467,892	44.7%	757,170,359	44.7%
Variable interest	937,818,321	55.3%	937,720,801	55.3%
Total	**1,695,286,213**	**100.0%**	**1,694,891,160**	**100.0%**

The Company has two interest rate swap contracts linked to the overall Term Loan and uses these to convert floating-rate loans into fixed-rate loans. The overall notional value of existing derivative contracts is 938 million euro (750 million euro on the Term Loans entered into in 2014 and 2017) and their overall fair value at 31 December 2019 was negative at 6,438 thousand euro (8,720 thousand euro at 31 December 2018). Reference is made to the "Net Financial Debt" section of the Report on Operations for a detailed description of the item.

Risk related to the financial performance and the profit or loss of SNAM, Terna and Italgas

Given its nature as a financial holding company, the performance and liquidity of the Company are conditioned not only by the market values of its investee companies, but also by the ability of subsidiaries to pay dividends (and by their dividend policies), which is in turn influenced by the financial performance and the profit or loss of the SNAM Group, the TERNA

[71] Amount according to which the cash flows are exchanged.

Group and the ITALGAS Group. Consequently, any material change in the two parameters above could have negative effects on the financial performance and profit or loss of CDP RETI.

Through its subsidiaries, CDP RETI is active in the gas transport, regasification and storage sector (SNAM), the electricity dispatching and transmission sector (TERNA) and the gas distribution sector (ITALGAS). Therefore, CDP RETI is exposed to the risks typical of those markets and sectors in which its investees operate.

Risk related to restrictions on the transfer of financial resources from SNAM, Terna and Italgas

As said, the financial position and operating results of CDP RETI are dependent on the flow of funds received, in the form of dividends, from SNAM, TERNA and ITALGAS. This availability depends not only on the ability of SNAM, TERNA and ITALGAS to generate sufficient cash flow, but also on the ability of the three groups to overcome any legal and contractual restrictions on the distribution of dividends. By way of an example, such restrictions might include: i) regulatory restrictions on increasing tariffs, ii) requests for significant investments on the infrastructure managed by the three groups, iii) the requirement to comply with the covenants of loan agreements. Another restriction, generally speaking, could be the extent of future taxation.

These restrictions, and the resulting fall in inflows, could have significant negative effects on the parent company's ability to make the required payments on the bond and the existing loan agreements.

The dividend policies of the investee companies, which are based on the provisions of the respective strategic plans, are outlined below.

- TERNA: new five-year dividend policy. From 2020 to 2022 the policy provides for a dividend per share, with an average annual growth of 8% on the 2019 dividend. From 2023 to 2024 the policy provides for a 75% payout, with a minimum guaranteed dividend equal to the dividend paid in 2022;
- SNAM: the policy provides for a 5% annual increase over a five-year term (2019-2023). Snam expects that a total dividend of € 0.2376 per share for the year 2019 will be distributed in 2020 (of which 40% as an advance payment in January 2020 as approved by the Board of Directors on 13 November 2019, and the remaining balance of 60% paid in June 2020, which will be submitted for approval by the Shareholders' Meeting when called to approve the 2019 separate financial statements);
- ITALGAS: based on the Strategic Plan of the Italgas Group for the period 2019-2025, a dividend will be distributed up to the 2020 financial year equal to the higher between (i) the amount resulting from the 2017 DPS (0.208 euro) increased by 4% per year, and (ii) the DPS equivalent to 60% of consolidated net income per share.

Liquidity and credit risk

In relation to its own business activity, the parent company is exposed to the liquidity risk, which is the risk that, due to the inability to raise new funds or liquidate assets on the market, it is not able to fulfil its own payment commitments or can only fulfil them at unfavourable economic conditions also due to situations of tension or systemic crisis (e.g. crisis in sovereign debt), resulting in an impact on income if the company is forced to sustain additional costs to meet such commitments or, as an extreme consequence, in a condition of insolvency that puts the continuation of company business at risk. Notwithstanding the Company's goal to implement a financial structure that guarantees an adequate level of liquidity and an optimal profile in terms of debt maturity and composition, the effects of external factors cannot be excluded, including, for example, the effects of a negative market or a considerable tightening of bank credit access conditions. In such a scenario, the Company might find it difficult to make the required payments on the bond and on the existing loan agreements.

Access to the capital market and to other forms of financing, and the associated costs are also dependent on the Company's credit rating. A downgrade by the rating agencies could limit the Company's access to the capital market and increase the cost of funding. This would negatively affect the Company's financial position and performance. During 2019, the assessment of the CDP RETI profile risk assigned by rating agencies did not incur any changes, since the Company maintained an "investment grade" long-term credit rating. More specifically, on 18 November 2019, Fitch confirmed CDP RETI's long-term credit rating at BBB and confirmed the negative Outlook[72]. It is worth adding that, on 24 October 2018, Moody's confirmed CDP RETI's long-term credit rating at Baa3 and the Outlook was confirmed to be stable[73].

The Company's current policy is to maintain available liquidity invested in demand or very short-term bank deposits or other readily liquid instruments, with investments allocated over a reasonable number of counterparties. The management of the CDP RETI liquidity risk is also aimed at maintaining cash and cash equivalents sufficient to meet expected commitments over a given time horizon (especially in light of the financial covenants under the existing loan agreements), as well as maintaining prudent liquidity reserves, sufficient to cope with any unexpected commitments. Debt management

[72] The decision in 2018 to revise the Outlook from stable to negative follows the same direction taken in the same year by the rating agency for the Parent Company Cassa depositi e prestiti S.p.A. which, in turn, reflects the revised Outlook for Italy.
[73] The confirmation of the rating follows the same direction taken recently by the rating agency for the Parent Company Cassa depositi e prestiti S.p.A. which, in turn, reflects the revised rating for Italy.

also provides for a diversified structure of funding sources (Term Loan and bond issue) and a balanced calendar of due dates (2020 and 2023 for the Term Loans and 2022 for the bond).

In view of its current business, CDP RETI is not significantly exposed to credit risk, i.e. the possibility of a deterioration in creditworthiness of counterparties that might lead to adverse effects on the expected value of the credit position and/or an increase in collection times. For the Company, the exposure to credit risk is mainly a question of the collection of dividends, approved by the subsidiaries, and the trading of derivatives (for which there is an exchange of cash collateral), bank deposits and irregular deposits with the parent CDP.

CDP RETI's entire debt is in the form of bullet loans, which means that there is no risk of having to resort to refinancing transactions, at least until May 2020, when the term loan of 750 million euro taken out on 29 September 2014 falls due. With specific reference to the latter, the Company's current liquidity profile presumes external support from banks and the major shareholder CDP. In this regard, the Company believes that the current refinancing risk for the current financial year can, in any case, be managed, thanks to the solid financial profile of the company (expected to improve in the coming years), consolidated relationships with the current banking pool - consisting primarily of national and international banks - and the significant percentage (45% of total debt) held by the Shareholder CDP, given the strategic importance of CDP RETI and the sectors in which the subsidiaries SNAM, TERNA and ITALGAS operate. One should refer to the business outlook for the strategy of refinancing current debt.

The table below shows the undiscounted contractual cash flows of gross financial debt at the nominal repayment amounts, and the related interest flows. Interest flows are calculated in accordance with the following terms and interest rates:

- as regards the bond[74], the annual coupon is equal to 1.875% (payment in May);
- as regards the two Term Loans, the floating interest rates (payment in May and November) are indexed to the 6-month Euribor (value as at 31 December 2019) and increased by the contractually-agreed margins.

Financial liabilities - Analysis by due date of the contractually agreed payments.

(thousands of euro)

Items/Figures		2020	2021	2022	2023
Bond	Principal			(750,000)	
	Interests	(14,063)	(14,063)	(14,063)	
Total Loans (*)	Principal	(750,000)			(187,635)
	Interests	(4,658)	(2,255)	(2,501)	(1,338)

(*) Financial flows from hedging derivatives are not included

The cash flows related to the Term Loans do not take into account receipts and payments linked to the derivative hedging instruments, which are analysed in the table hereunder.

Derivative instruments hedging the Term Loans - contractually-agreed interest flows.

(thousands of euro)

Items/Figures		2020	2021	2022	2023
Total IRS	Payments	(8,584)	(3,428)	(3,428)	(1,714)
	Collections	4,658	2,255	2,501	1,338
	Net	**(3,927)**	**(1,173)**	**(928)**	**(376)**

[74] on 21 May 2015, CDP RETI concluded the placement of an unsubordinated and unsecured fixed-rate bond, 45% of which is currently held by the parent CDP S.p.A.. The bonds - listed at the Irish stock exchange and reserved for institutional investors - have a term of 7 years, annual coupon of 1.875% and an issue price equal to 99.909%. The transaction, structured by Banca Imi, BNP Paribas, HSBC, Mediobanca, Société Générale and UniCredit, was concluded with 150 institutional investors who submitted requests worth over 2 billion.

Default risk and debt covenants

Default risk and debt covenants relate to the possibility that loan agreements or bond rules to which CDP RETI is a party may contain provisions that entitle the counterparty to call in such loans immediately upon the occurrence of certain events, thereby generating a liquidity risk.

CDP RETI's long term loans include covenants that are common in international practice. Such covenants refer to:

- the Company's bond debt, entered into in May 2015 for a nominal amount of 750 million, falling due in 2022;
- the bank loans taken out pursuant to the Term Loans entered into with a pool of banks:
  - on 29 September 2014, for an initial amount of 275 million, currently standing at 412.5 million following the re-financing of the debt in May 2015;
  - on 16 May 2017, for an amount of 103 million.
- the loan agreements entered into - again in the context of the Term Loans - with the parent CDP:
  - on 29 September 2014, for an initial amount of 225 million, currently standing at 337.5 million (re-financed in May 2015);
  - on 16 May 2017, for an amount of 85 million.

The main covenants associated with the bond issue can be summarised as follows:

- "negative pledge" clauses, under which the issuing entity is subject to limitations on the creation or maintenance of restrictions on all or part of its assets or on its revenues in order to guarantee current or future borrowing, except for specifically permitted circumstances;
- "change of control" clauses, under which bondholders have the option of requiring the issuing entity to redeem their securities in the event that Cassa depositi e prestiti no longer has control over the company;
- "event of default" clauses, under which, on the occurrence of certain predetermined events (such as, for example, failure to pay, failure to fulfil contractual obligations, etc.), an event of default occurs and the loan in question becomes immediately due; in addition, under the "cross default" clauses, if an "event of default" occurs on any financial borrowing (above certain amounts) issued by the issuer, an event of default also occurs on the loan in question, which becomes immediately due.

As for the loan agreement entered into by CDP RETI in 2014 with the parent CDP and a pool of banks, the main covenants were subject to a number of amendments in July 2017, primarily in relation to the inclusion of the market value of Italgas in the Loan to Value ratio, as outlined below:

- an increase (from the current 1% to the potential 1.5%) in the spread applied to the interest rate, if the highest credit rating assigned to CDP RETI by rating agencies (Moody's, Fitch or S&P) is BB+ (or equivalent) or lower;
- "pari passu" clauses, under which the Company, for the entire duration of the loans, will ensure that the payment obligations rank pari passu with those of all other unsubordinated unsecured creditors, subject to any privileges assigned by law;
- disclosure obligations, on both a periodic and an occasional basis, upon the occurrence of certain predetermined events;
- observance of the following financial covenants to avoid an event of default:
  - Loan to Value: ratio, expressed as a percentage, between (i) Financial Debt (net of Cash and cash equivalents) and (ii) the market value (in the 180 days prior to the measurement date) of SNAM, TERNA and ITALGAS shares. This ratio must not exceed 50%;
  - Dividend Interest Coverage Ratio (DICR): ratio, with reference to the 12 months prior to the measurement date, between (i) the cash deriving from dividends received and (ii) interest paid on the Financial Debt. This ratio must not be less than 1.25;
  - Total Debt Service Amount (TDSA): at all times, CDP RETI must have cash or cash equivalents in an amount not less than interest, fees, commissions and other loan-related costs to be paid in the following 6 months.

The same clauses described with reference to the 2014 Term Loan also substantially apply to the loan agreement for a nominal amount of 188 million (entered into in May 2017), with the only difference that the spread applied to the interest rate is set as a fixed amount (+1.45%) regardless of the credit rating assigned to the Company.

CDP RETI mitigates the foregoing risks by monitoring any aspects that might have negative effects on its financial position and performance, also with a view to ensuring compliance with the covenants envisaged in the existing loans. With regard to the subsidiaries TERNA, SNAM and ITALGAS, CDP RETI closely monitors their market value, with particular attention to all aspects that might have an impact on their dividend distribution policies.

With regard to liquidity, discussions are held periodically with the parent CDP to assess the need to apply for credit lines. There are no liquidity difficulties to be reported as at 31 December 2019; CDP RETI collected around 431 million in dividends from its subsidiaries in 2019 and the balance of its cash and cash equivalents was approximately 76 million at 31 December 2019.

One should refer to the business outlook for the strategy of refinancing current debt.

V – TRANSACTIONS WITH RELATED PARTIES

Information on the remuneration of key management personnel

Remuneration of key management personnel

(euros) Items/Figures	Board of Directors	Board of Auditors	Key management personnel
a) short-term benefits	97,205	101,948	420,094
b) post-employment benefits			
c) other long-term benefits			
d) severance benefits			
e) share-based payments			
Total	**97,205**	**101,948**	**420,094**

Remuneration of directors and statutory auditors

(euros) Name	Position	Period in office	Expiry of office (1)	Compensation and bonuses	
Directors in office as at 31 December 2019					
Giovanni Gorno Tempini	Chairman	28/11/2019-31/12/2019	2019	1,808	
Fabrizio Palermo	Chief Executive Officer	20/02/2019-31/12/2019	2019	17,205	(2)
Cristiana Procopio	Director	01/01/2019-31/12/2019	01/03/2020	20,000	(2)
Yanli Liu	Director	01/01/2019-31/12/2019	2019	20,000	(3)
Yunpeng He	Director	01/01/2019-31/12/2019	2019	20,000	(3)
Outgoing Directors in 2019					
Carlo Baldocci	Chief Executive Officer	01/01/2019-20/02/2019		2,795	(2)
Massimo Tononi	Chief Executive Officer	20/02/2019-28/11/2019		15,397	
Statutory Auditors in office as at 31 December 2019					
Guglielmo Marengo	Chairman	01/01/2019-31/12/2019	2019	38,508	(4)
Benedetta Navarra	Auditor	01/01/2019-31/12/2019	2019	31,720	(4)
Paolo Sebastiani	Auditor	01/01/2019-31/12/2019	2019	31,720	(4)

(1) Date of Shareholders' Meeting called to approve the financial statements for the year, save as otherwise stated.

(2) Compensation paid to Cassa depositi e prestiti S.p.A.

(3) Compensation is paid to State Grid International Development Limited

(4) The amounts include remuneration accrued by members of the Board of Statutory Auditors and the Supervisory Body

Information on transactions with related parties

The Company is subject to management and coordination by CDP, the majority shareholder.

It should be noted that the Company did not carry out any atypical or unusual transactions with related parties whose size could have an impact on the financial position or results of the Company. All transactions with related parties were carried out on an arm's length basis (i.e. at the conditions that would be applied between two independent parties) and form part of the ordinary operations of CDP RETI.

Transactions with the parent company

(euros)

Items/Figures	31/12/2019	31/12/2018
Assets		
- Deposit balance	9,997,193	867
- Receivable for tax consolidation (withholding tax)	784	24,713
- Receivable for tax consolidation	4,439,271	5,657,024
- Receivable for CSA financial transactions	6,887,203	8,387,583
Liabilities		
- Payables for seconded personnel	(66,711)	(36,854)
- Payables for directors' compensation to pay to CDP	(40,000)	(55,178)
- Payables for outsourced services	(287,232)	(189,120)
- Other payables	(12,706)	(17,893)
- CFH derivative agreement	(6,437,550)	(8,719,678)
- Loans:		
included in current liabilities	*(341,607,948)*	*(4,157,737)*
included in non-current liabilities	*(421,270,849)*	*(758,543,294)*
Costs		
- Interest expense on loan	(10,112,734)	(10,047,864)
- Interest expense on CFH	(5,811,200)	(5,982,996)
- Interest expense on CSA	(37,291)	(30,820)
- Impairment of financial assets	(132)	(87)
- Outsourced services rendered to CDP RETI	(541,347)	(418,966)
- Costs for personnel seconded to CDP RETI	(66,712)	(36,854)
- Costs for directors' compensation to pay	(40,000)	(55,178)
- Other personnel costs	(6,940)	(9,143)
- Other costs	(25,786)	(29,123)
Cash flows		
Cash flow from operating activities	(9,064,117)	25,752,024
Net cash flow from investing activities		
Net cash flow from financing activities	(235,595,117)	(234,026,742)

Transactions with CDP in 2019, which are summarised in the preceding table, concerned the following:

- the deposit agreement with the parent company CDP;
- the cash flow hedge derivative contracts with regard to which, at 31 December 2019, the related liability and interest expense were recognised at fair value;
- the receivable deriving from the CSA financial transactions related to the derivative contracts;
- the receivables and payables arising from the participation of CDP RETI in the tax consolidation mechanism;
- the payables related to the amounts subscribed by CDP with reference to the two Term Loans, the bond issue and the interest accrued thereon;
- outsourcing services provided by CDP to CDP RETI;
- the remuneration of directors paid to the Parent Company;
- the contracts of two CDP employees partially seconded to CDP RETI.

Transactions with other related entities

(euros)

Items/Figures	31/12/2019	31/12/2018
Assets		
- Receivables from SNAM for interim dividend	100,100,752	95,359,137
- Receivables from SGEL for cost recharge		
Liabilities		
- Payables for pension fund	(1,304)	(1,304)
Revenues		
- Dividends from subsidiaries	435,724,934	410,097,321
Costs		
- Rental costs from FINTECNA	(82,304)	(81,489)
- Costs related ti pension fund	(7,131)	(10,290)
Cash flows		
Cash flow from operating activities	430,915,662	405,508,461
Net cash flow from investing activities		
Net cash flow from financing activities	(139,518,867)	(138,590,079)

The net cash flows from operating activities are substantially attributable to the collection of dividends from subsidiaries. Conversely, the net cash flows from financing activities relate to the distribution of dividends to SGEL approved during the year.

Financial highlights of the company performing management and coordination

In compliance with Article 2497-bis, paragraph 4, of the Italian Civil Code, the financial highlights from last year's financial statements of the parent company Cassa depositi e prestiti S.p.A. are shown in Annex 2.

VI – NON-RECURRING EVENTS AND SIGNIFICANT TRANSACTIONS

Pursuant to Consob memorandum no. DEM/6064293 of 28 July 2006, there were no non-recurring events and significant transactions during the year, that is transactions whose occurrence is not recurrent or transactions or events that are not frequently repeated in the course of ordinary operations.

VII – OPERATING SEGMENTS

In accordance with the guidelines provided in IFRS 8 – Operating Segments, for those companies that publish the group consolidated financial statements and the separate financial statements of the parent company in a single document, segment reporting is given only in reference to the consolidated financial statements. Therefore, reference is made to the analogous part of the Notes to the financial statements of the CDP RETI Group.

CERTIFICATION OF THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154 BIS OF LEGISLATIVE DECREE NO. 58/1998

1. The undersigned Fabrizio Palermo, in his capacity as Chief Executive Officer, and Alessandro Uggias, in his capacity as Financial Reporting Manager of CDP RETI S.p.A., hereby certify, taking into account the provisions of article 154-bis, paragraphs 3 and 4, of legislative decree no. 58 of 24 February 1998:

- the appropriateness with respect to the characteristics of the company; and
- the actual application of the administrative and accounting procedures for the preparation of the separate financial statements during 2019.

2. The assessment of the appropriateness of the administrative and accounting procedures adopted in preparing the separate financial statements at 31 December 2019 was based on a process developed by CDP RETI S.p.A. in line with the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which is a generally accepted framework at international level.

3. In addition, it is hereby certified that:

3.1 the separate financial statements at 31 December 2019:

a) have been prepared in compliance with the applicable International Financial Reporting Standards endorsed by the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) correspond to the information in the books and other accounting records;

c) give a true and fair view of the performance and financial position of the issuer.

3.2 The report on operations contains a reliable analysis of operations and performance, as well as the situation of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Rome, 20 April 2020

Chief Executive Officer	Financial Reporting Manager
/signature/Fabrizio Palermo	/signature/Alessandro Uggias

PROPOSAL ON THE ALLOCATION OF NET INCOME FOR THE YEAR

For 2019, the Board of Directors is proposing to distribute a total dividend of 410,030,746.38 euro, of which 267,003,638.82 euro to cover the advance approved on 28 November 2019.

The Board of Directors therefore proposes to allocate the 2019 net profit of CDP RETI S.p.A., equal to 410,032,315.19 euro, as follows:

- 267,003,638.82 euro, to cover the advance on the dividend, with payment no later than 6 December 2019;
- 143,027,107.56 euro, to pay the balance of the dividend, equal to 885.54 euro, before tax, for each of the 161,514 shares;
- 1,568.81 euro, as retained earnings.

The ordinary Shareholders' Meeting has been called to approve the financial statements of CDP RETI S.p.A. as at 31 December 2019 and to resolve on the proposed allocation of net profit.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

To the Shareholders,

It should be noted that the Shareholders' Meeting of 4 May 2017 resolved, for the three-year period 2017, 2018 and 2019 and, specifically, until the date of the shareholders' meeting called to approve the financial statements for the year ended 31 December 2019, to appoint the Board of Statutory Auditors in the persons of the undersigned statutory auditors.

The Board of Statutory Auditors prepares this report in accordance with Article 2429 of the Italian Civil Code, as the Company - in accordance with the Articles of Association – has appointed, originally, the independent auditors PricewaterhouseCoopers S.p.A. for the period 2015-2023, pursuant to Article 13 of Legislative Decree No. 39 of 27 January 2010.

This report was approved by the Board of Directors in due time for its filing at the Company's registered office, 15 days prior to the date of the first call of the shareholders' meeting summoned to approve the financial statements in question.

The Board of Directors has made available the following documents approved on 1 April 2020, relating to the year ended 31 December 2019:

- draft financial statements and consolidated financial statements, including the explanatory notes;
- management report.

The layout of this report is inspired by the provisions of the law and by the Principles of conduct recommended by the National Council of Chartered Accountants and Accounting Experts, as well as by the recommendations provided by Consob in its communications and by the indications contained in the Code of Conduct.

Knowledge of the company and risk assessment

Given the well-established knowledge that the Board of Statutory Auditors declares to have about the Company and with regard to:

- the type of business carried out;
- its organizational and accounting structure;

also taking into account the size and criticalities of the company, it should be noted that the "planning" phase of the supervisory activity - in which it is necessary to assess the inherent risks and critical issues with respect to the above-mentioned two parameters - was implemented by means of positive feedback on what was already known on the basis of information acquired over time.

This report, therefore, summarizes the activities relating to the information required by Article 2429, paragraph 2, of the Italian Civil Code, and more specifically:

- on the results of the financial year;
- the activity carried out in the fulfilment of the duties provided for by the law;
- on the observations and proposals regarding the financial statements, with particular reference to the possible use by the Board of Directors of the exception referred to in Article 2423, paragraph 4, of the Italian Civil Code;
- the possible receipt of complaints from shareholders pursuant to art. 2408 of the Italian Civil Code.

The activities carried out by the Board of Statutory Auditors concerned, from a temporal point of view, the entire financial year and during the financial year itself the meetings referred to in Article 2404 of the Italian Civil Code were regularly held and special minutes of these meetings were drawn up, duly signed for unanimous approval.

Activity carried out

During the FY2019 the Board of Statutory Auditors held seven regular meetings, during which it has been informed about the development of the Company's business, paying particular attention to contingent and/or extraordinary issues in order to identify their economic and financial impact on the result for the year, as well as asset-wise, together with any risks. The Board of Statutory Auditors also attended the Shareholders' Meetings and the Board of Directors' meetings called during the year under review.

The Board of Statutory Auditors has therefore periodically assessed the adequacy of the organizational and functional structure of the company and any changes in it with respect to the minimum business requirements.

Relations with the people working in the above structure were inspired by cooperation in respect of the roles assigned to each one, having clarified those of the Board of Statutory Auditors.

It should also be noted that during the Board meeting held on 27 March 2018, it was resolved to assign the functions of the Supervisory Body to the Board of Statutory Auditors, similarly to the choice made by the Parent Company. The Supervisory Body reported on its activities to the Board of Directors, illustrating the half-yearly reports on its activities during the first and second half of 2019.

With regard to the Organisational, Management and Control Model pursuant to Legislative Decree no. 231/2001, it should be noted that the Board of Directors' meeting of 6 March 2019 approved the update of the Model in question in order to implement the regulatory interventions regarding "Whistleblowing" and the prevention of the collective entity's crime risk. As a result of the regulatory changes that have occurred since the Board of Directors' resolution of 6 March 2019, in addition to the organisational changes affecting CDP Reti, the Company will revise the Organisational Model in 2020.

Since the beginning of March 2020, the Board of Statutory Auditors has received adequate information on the measures and initiatives taken by the Company to combat and contain the spread of the Covid-19 virus in the workplace.

The information required by art. 2381, par. 5, of the Italian Civil Code, was provided by the Board of Directors even more frequently than the required 6-month minimum, both at scheduled meetings and during the audits of the Board of Statutory Auditors at the Company's registered office; consequently, the Directors have, in substance and form, complied with the requirements of the aforementioned law.

In particular, with regard to the main significant events affecting the Company, it should be noted that these are the subject of specific disclosure in the document "Annual Financial Report 2019", for the aspects for which the Board of Statutory Auditors is responsible, the following significant events occurred during 2019 as well as in the first months of 2020:

- the Board of Directors' meeting of 20 February 2019, following the resignation of Carlo Baldocci and Leone Pattofatto, Chairman of the Board of Directors and Chief Executive Officer respectively, resolved to appoint Massimo Tononi as Chairman and Fabrizio Palermo as Chief Executive Officer, pursuant to Article 2386, paragraph 1, of the Italian Civil Code; the above appointments were confirmed by the Shareholders' Meeting of 6 March 2019;
- on 6 March 2019, the Board of Directors designated the lists of candidates for the office of director and statutory auditor of Snam S.p.A. and Italgas S.p.A;
- on 27 March 2019, the Board of Directors granted a mandate to the Chief Executive Officer, with the power to sub-delegate, to vote at SNAM's Extraordinary Shareholders' Meeting of 2 April 2019 on the cancellation of treasury shares in the portfolio without reduction of share capital (as a result, CDP Reti's shareholding in SNAM increased from 30.37% to 31.04%);
- the shareholders' meeting of 10 May 2019, following the definition of a single tender procedure to identify a single statutory auditor for the Group, resolved to 1) to approve the proposed consensual termination of the existing audit contract between CDP RETI and PricewaterhouseCoopers S.p.A., based on the consensual termination agreement signed by the parties, which will take effect from the date of approval of the financial statements at 31 December 2019; 2) to appoint Deloitte & Touche S.p.A. as the independent auditors of CDP RETI for the period from 2020 to 2028, on the basis of the " Motivated proposal of the Internal Control and Audit Committee for the assignment of the statutory audit of the Company's accounts for the period 2020-2028" issued by the Board of Statutory Auditors on 8 April 2019;
- On November 28, 2019, the Board of Directors approved the distribution of an interim dividend for 2019 (€267 million), in addition to the appointment by co-optation, pursuant to Article 2386 of the Italian Civil Code, of Giovanni Gorno Tempini as Director and Chairman of the Board of Directors, following the resignation of Massimo Tononi on 22 October 2019.

In conclusion, as far as it has been possible to verify during the activity carried out during the financial year, the Board of Statutory Auditors can state that:

- the decisions taken by the Shareholders and the Board of Directors were in compliance with the law and the Articles of Association and were not manifestly imprudent or such as to compromise the integrity of the company's assets;
- sufficient information has been acquired regarding the general business performance and its foreseeable evolution, as well as information on the most important operations, in terms of size or characteristics, carried out by the Company;
- the operations carried out were also in compliance with the law and the Articles of Association and not in potential conflict with the resolutions passed by the Shareholders' Meeting or such as to compromise the integrity of the company's assets;

- no specific comments are made on the adequacy of the administrative and accounting system and on its reliability in correctly representing business events. With particular reference to the organizational structure, the Company continued to use, through contractual agreements with its parent company, CDP, all the skills and services essential for the proper performance of its business, provided by the same;
- during the course of the supervisory activity, as described above, no further significant events emerged as to require disclosure in this report;
- there was no need to intervene due to omissions on the part of the Board of Directors pursuant to Article 2406 of the Italian Civil Code;
- no complaints were received pursuant to Article 2408 of the Italian Civil Code;
- no reports have been made pursuant to Article 2409, paragraph 7, of the Italian Civil Code;
- during the financial year, the Board of Statutory Auditors issued the " Motivated Proposal of the Internal Control and Audit Committee for the purpose of conferring the statutory audit of the Company's accounts for the period 2020-2028" issued on 8 April 2019.

Comments and proposals concerning the financial statements and their approval

With regard to the draft financial statements for the year ended 31 December 2019, the following should be noted:

a) the financial statements in question were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), approved by the European Commission and in force as at 31 December2019;
b) the correct registration of business events in the accounting records and their presentation in the financial statements, in accordance with IFRS (which include IAS), have been subject to verification by the Independent Auditors, in charge of the statutory audit of accounts;
c) the financial statements for the FY2019 show a profit of € 410,032,315 and shareholders' equity of € 3,508,623,845 The main positive income component is represented by the dividends for the period (approximately Euro 435 million), which are offset, amongst the negative income components, mainly by financial charges (approximately Euro 28 million).

The draft financial statements were then examined and the following additional information provided:

- the financial statement formats adopted in the preparation of the financial statements are consistent with the provisions of IAS 1 - "Presentation of Financial Statements". It should be noted that in order to facilitate the comparability of the information reported in the Company's separate financial statements with the information reported at consolidated level, the financial statements, and in particular the balance sheet, assets and liabilities and the income statement, have been restated with respect to the information reported as of 31 December 2018, aligning them with those of the consolidated financial statements. More specifically, certain reclassifications, terminological adjustments and a different presentation of the income statement have been carried out;
- attention has been paid to the approach taken to the draft financial statements, to their general compliance with the law as regards their formation and structure and, in this respect, there are no observations that should be highlighted in this report;
- compliance with the provisions of law relating to the preparation of the report on operations has been verified and, in this regard, there are no observations that need to be highlighted in this report;
- the Board of Directors, in preparing the financial statements, did not derogate from the provisions of the law pursuant to Article 2423, paragraph 4, of the Italian Civil Code;
- In accordance with the requirements of IAS 1 revised, CDP Reti carried out an assessment of the Company's ability to continue to operate as a going concern, taking into account available information on a medium-term scenario. In particular, as a result of this information, the Company believes that it is appropriate to carry out its financial statements on a going concern basis, also in light of the current economic environment characterised by a certain variability in future scenarios following the spread of the Covid-19 virus, which has been adequately disclosed in the "Events after the balance sheet date" section of the 2019 Annual Report;
- the financial statements were checked to ensure that they corresponded to the facts and information known to the Board of Statutory Auditors following the performance of its typical duties and, in this regard, no further observations were mad.

Pursuant to Article 19 of Legislative Decree 39/2010, during 2019 and until the date of this Report, the Board of Statutory Auditors has carried out a process of monitoring the activities carried out by the Audit Firm.

The Audit Firm, periodically met to exchange information, did not report to the Board of Statutory Auditors any actions or facts deemed reprehensible, nor any irregularities that required the formulation of specific reports pursuant to Article 155, Section 2, of Legislative Decree No. 58/1998 (Unified Financial Law). Specifically:

- the Audit Firm, pursuant to art. 14 of Legislative Decree no. 39/2010 and art. 10 of Regulation (EU) no. 537/2014, issued its report on the financial statements for the year ended 31 December 2018, from which a positive opinion emerges given the absence of findings for significant deviations or requests for information;

- the audit report on the financial statements contains an illustration of any key aspects which, according to the Audit Firm's professional judgement, were most significant in the audit of the individual and consolidated financial statements for the year in question (ISA Italia).
- on the same date, the Board of Statutory Auditors received from the Audit Firm the report required by art. 11 of Regulation (EU) no. 537/2014, in relation to which it should be noted that: *i)* it is consistent with the opinion expressed in the audit report referred to in the previous point; *ii)* it does not contain any reports on any significant deficiencies in the internal control system and/or the accounting system; *iii)* it includes the statement relating to the annual confirmation of independence pursuant to art. 6 (paragraph 2) of said European Regulation.

In compliance with the provisions of Articles 2497 and following of the Italian Civil Code, the Company has provided in the explanatory notes to the financial statements information regarding its subjection to the management and coordination of others. Namely, the shareholder Cassa Depositi e Prestiti S.p.A. has been confirmed as the entity that carries out such management and coordination activity.

Conclusion

On the basis of the above and as far as the Board of Statutory Auditors is aware and has been verified by the periodic checks carried out, it is unanimously considered that there are no reasons to prevent your approval of the draft financial statements for the year ended 31 December 2019, as prepared by the Board of Directors, sharing the Board's indication as to the allocation of the profit for the year.

Lastly, it should be reminded that with the approval of the financial statements in question, the term of office conferred on the Board of Statutory Auditors comes to a natural end; while thanking for the trust, it should be resolved on the matter in accordance with the law and the articles of association.

Rome, 20 April 2020

For the Board of Statutory Auditors
The Chairman

Dott. Guglielmo Marengo

REPORT OF THE INDEPENDENT AUDITORS

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the Shareholders of
CDP Reti SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CDP Reti SpA (the "Company"), which comprise the Balance sheet as of 31 December 2019, the income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

There are no key audit matters to communicate in this report.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union,

PricewaterhouseCoopers SpA

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as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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

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

- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

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

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- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 24 June 2015, the shareholders of CDP Reti SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2015 to 31 December 2023.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of CDP Reti SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of CDP Reti SpA as of 31 December 2019, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of CDP Reti SpA as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of CDP Reti SpA as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Rome, 20 April 2020

PricewaterhouseCoopers SpA

Signed by

Luigi Necci
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

ANNEXES

ANNEX 1

Analytical list of equity investments

ANNEX 2

Separate financial statements at 31 December 2018 of Cassa depositi e prestiti S.p.A.

ANNEX 1

Analytical list of equity investments

(euros)

A. Listed entities	Names	Registered office	% holding	Carryng amount	Type
	Italgas S.p.A.	Milano	26.04%	621,032,150	Control
	SNAM SpA	San Donato Milanese (MI)	31.04%	3,086,832,661	Control
	TERNA S.p.A.	Roma	29.85%	1,315,200,000	Control

ANNEX 2

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito no. 4, Tax Code 80199230584

BALANCE SHEET

(euro)

Assets	31/12/2018	31/12/2017
10. Cash and cash equivalents	4,968	6,741
20. Financial assets measured at fair value through profit or loss	2,764,648,580	2,301,185,709
a) Financial assets held for trading	71,025,547	93,568,293
b) Financial assets designated at fair value		
c) Other financial assets mandatorily measured at fair value	2,693,623,033	2,207,617,416
30. Financial assets measured at fair value through other comprehensive income	11,463,816,657	9,828,836,888
40. Financial assets measured at amortised cost	323,523,877,889	322,763,078,281
a) Loans to banks	20,179,064,614	38,599,568,670
b) Loans to customers	303,344,813,275	284,163,509,611
50. Hedging derivatives	679,154,031	842,595,854
60. Fair value change of financial assets in hedged portfolios (+/-)	131,580,898	(41,503,409)
70. Equity investments	30,316,282,467	30,411,137,574
80. Property, plant and equipment	322,660,563	305,538,163
90. Intangible assets	20,946,199	11,882,566
- of which goodwill		
100. Tax assets	480,439,453	630,739,071
a) current tax assets	1,044,283	331,378,247
b) deferred tax assets	479,395,170	299,360,824
110. Non-current assets and disposal groups held for sale		
120. Other assets	312,075,968	211,771,045
Total assets	**370,015,487,673**	**367,265,268,483**

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito no. 4, Tax Code 80199230584

(euro)

Liabilities and equity	31/12/2018	31/12/2017
10. Financial liabilities measured at amortised cost	342,568,459,670	340,490,853,327
a) due to banks	30,429,338,747	16,626,997,896
b) due to customers	293,196,243,128	306,499,360,318
c) securities issued	18,942,877,795	17,364,495,113
20. Financial liabilities held for trading	70,980,902	127,596,066
30. Financial liabilities designated at fair value	500,023,869	501,551,155
40. Hedging derivatives	656,432,622	586,743,149
50. Adjustment of financial liabilities in hedged portfolios (+/-)	26,033,402	32,400,026
60. Tax liabilities	394,012,110	213,992,947
a) current tax liabilties	284,550,223	56,735,458
b) deferred tax liabilties	109,461,887	157,257,489
70. Liabilities associated with non-current assets and disposal groups held for sale		
80. Other liabilities	753,397,724	736,892,593
90. Staff severance pay	1,035,773	1,019,223
100. Provisions for risks and charges	250,773,280	139,147,235
a) guarantees issued and commitments	120,441,569	97,783,581
b) pensions and other post-retirement benefit obligations		
c) other provisions	130,331,711	41,363,654
110. Valuation reserves	539,854,697	950,928,999
120. Redeemable shares		
130. Equity instruments		
140. Reserves	15,341,579,796	14,908,258,103
150. Share premium reserve	2,378,517,244	2,378,517,244
160. Share capital	4,051,143,264	4,051,143,264
170. Treasury shares (-)	(57,220,116)	(57,220,116)
180. Net income (loss) for the year (+/-)	2,540,463,436	2,203,445,268
Total liabilities and equity	**370,015,487,673**	**367,265,268,483**

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito no. 4, Tax Code 80199230584

INCOME STATEMENT

(euro)

Items	31/12/2018	31/12/2017
10. Interest income and similar income	7,849,429,210	7,275,809,784
of which: interest income calculated using the effective interest rate method	*8,074,651,562*	*7,463,708,043*
20. Interest expense and similar expense	(4,266,256,100)	(4,311,124,029)
30. Net interest income	**3,583,173,110**	**2,964,685,755**
40. Commission income	396,384,656	108,116,186
50. Commission expense	(1,537,340,203)	(1,579,499,602)
60. Net commission income (expense)	**(1,140,955,547)**	**(1,471,383,416)**
70. Dividends and similar revenues	1,362,386,971	1,354,720,829
80. Profits (losses) on trading activities	2,852,174	(8,803,370)
90. Fair value adjustments in hedge accounting	(16,694,547)	13,170,610
100. Gains (losses) on disposal or repurchase of:	16,977,220	18,994,713
a) financial assets measured at amortised cost	53,948,941	21,035,155
b) financial assets measured at fair value through other comprehensive income	(36,952,465)	(2,040,442)
c) financial liabilities	(19,256)	
110. Profits (losses) on financial assets and liabilities measured at fair value through profit or loss	(30,007,376)	(161,972,799)
a) financial assets and liabilities designated at fair value	1,527,286	(1,551,155)
b) other financial asstes mandatorily measured at fair value	(31,534,662)	(160,421,644)
120. Gross income	**3,777,732,005**	**2,709,412,322**
130. Net adjustments/recoveries for credit risk relating to:	(65,137,062)	(5,715,973)
a) financial assets measured at amortised cost	(64,114,115)	(5,715,973)
b) financial assets at fair value through other comprehensive income	(1,022,947)	
140. Gains/losses from changes in contrats without derecognition	(2,199,115)	
150. Financial income (expense), net	**3,710,395,828**	**2,703,696,349**
160. Administrative expenses	(216,233,304)	(144,969,654)
a) staff costs	(153,068,946)	(85,135,767)
b) other administrative expenses	(63,164,358)	(59,833,887)
170. Net accruals to the provisions for risks and charges	(42,286,102)	80,228,853
a) guarantees issued and commitments	(8,505,950)	80,145,632
b) other net accruals	(33,780,152)	83,221
180. Net adjustments to/recoveries on property, plant and equipment	(4,352,487)	(4,374,801)
190. Net adjustments to/recoveries on intangible assets	(3,198,155)	(2,526,902)
200. Other operating income (costs)	6,303,373	5,515,436
210. Operating costs	**(259,766,675)**	**(66,127,068)**
220. Gains (losses) on equity investments	(172,032,794)	28,631,108
230. Gains (losses) on tangible and intangibile assets measured at fair value		
240. Gains (losses) on equity investments		
250. Gains (losses) on disposal of investments	(4,042)	(5,181)
260. Income (loss) before tax from continuing operations	**3,278,592,317**	**2,666,195,208**
270. Income tax for the year on continuing operations	(738,128,881)	(462,749,940)
280. Income (loss) after tax on continuing operations	**2,540,463,436**	**2,203,445,268**
290. Income (loss) after tax on discontinued operations		
300. Net income (loss) for the year	**2,540,463,436**	**2,203,445,268**

Cassa depositi e prestiti società per azioni

Registered office in Rome, Via Goito no. 4, Tax Code 80199230584

(euro)

Items		31/12/2018	31/12/2017
10.	**Net income (loss) for the year**	**2,540,463,436**	**2,203,445,268**
	Other comprehensive income net of tax not transferred to income statement	**(270,092,787)**	**(411,225)**
20.	Equity securities designated at fair value through other comprehensive income	(270,092,787)	(411,225)
	Other comprehensive income net of taxes transferred to income statement	**(243,914,971)**	**4,803,232**
120.	Cash flow hedges	(11,922,482)	(3,708,169)
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(231,992,489)	8,511,401
170.	**Total other comprehensive income net of tax**	**(514,007,758)**	**4,392,007**
180.	**Comprehensive income (items 10+170)**	**2,026,455,678**	**2,207,837,275**

05

Resolution of the Shareholders' Meeting

RESOLUTION OF THE SHAREHOLDERS’ MEETING

The Ordinary Shareholders’ Meeting of CDP RETI, held on 7 May 2020 and chaired by Giovanni Gorno Tempini, approved the separate financial statements for 2019. In particular, the shareholders’ meeting resolved:

“(...) to approve the following allocation of profit for the period, amounting to 410,032,315.19 euro:

• 267,003,638.82 euro, to cover the advance on the 2019 dividend, paid on 6 December 2019;

• 143,027,107.56 euro, to pay the balance of the 2019 dividend, equal to 885.54 euro, before tax, for each of the 161,514 shares, to be paid no later than 28 May 2020;

• 1,568.81 euro, as retained earnings.”

Summary table of the allocation of net income for the year

Below is the summary table of the allocation of net income for the year:

(euro)	
Net Income	410,032,315.19
Total Dividend	410,030,746.38
Advance on the dividend	*267,003,638.82*
Balance of the dividend	*143,027,107.56*
Retained earnings	1,568.81
Dividend per share	2,538.67
Advance on the dividend	*1,653.13*
Balance of the dividend	*885.54*

CDP RETI S.p.A.

Registered office

Via Goito 4

I - 00185 Rome

Share capital euro 161.514,00 fully paid-in

Rome Chamber of Commerce REA 1349016

Fiscal Code, Company Registrar and VAT no.12084871008

The company is managed and coordinated by Cassa depositi e prestiti società per azioni, Via Goito n. 4, 00185 Rome – Share capital euro 4.051.143.264,00 fully paid-in – Rome Chamber of Commerce REA 1053767, Fiscal code and Company Registrar 80199230584 – VAT no. 07756511007

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