Tirreno Power S.p.A.

Financial statements as at December 31, 2020

Independent auditor’s report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
Tirreno Power S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Tirreno Power S.p.A. (the Company), which comprise the balance sheet as at December 31,2020, the income statement, the statement of comprehensive income /(loss), the statement of cash flows and the statement of changes in shareholders' equity for the year then ended, and the explanatory 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 at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.
We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matters

We draw the attention to the paragraph "Information regarding the criminal proceedings of the Vado Ligure site" of the Management Report and to the explanatory note "Contingent assets and liabilities" which describe the events and the Directors' assessments on the criminal proceeding started by the Prosecutor's Office of Savona, concerning the plant of Vado Ligure, in which, during 2018, the Company was cited as the civil liable party.

Our opinion is not modified in respect of this matter.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms provided by the 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.

EY S.p.A.
Sede Legale: Via Lombardia, 31 - 00187 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
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The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and 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 have 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 have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of 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 consider this matter in forming 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;
- we have 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 have 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 identify during our audit.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Tirreno Power S.p.A. are responsible for the preparation of the Management Report of Tirreno Power S.p.A. as at December 31, 2020, including its consistency with the related financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Management Report, with the financial statements of Tirreno Power S.p.A. as at December 31, 2020 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Management Report is consistent with the financial statements of Tirreno Power S.p.A. as at December 31, 2020 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Rome, March 29, 2021

EY S.p.A.
Signed by: Beatrice Amaturo, Auditor

This report has been translated into the English language solely for the convenience of international readers.

TIRRENO POWER

FINANCIAL STATEMENTS AS AT DECEMBER 31, 2020

TIRRENO POWER SPA

Registered office: Via Barberini 47, Rome
Share Capital Euro 60,516,142.00 fully paid
VAT no., Fiscal Code and Business Register of Rome no. 07242841000
Administrative Business Registry no. 1019536
Administrative office and Naples facility: Stradone Vigliena 39, Naples
Torrevaldaliga facility: Via Aurelia 2, Civitavecchia (Rome)
Vado Ligure facility: Via A. Diaz 128, Valleggia di Quiliano (Savona)
Renewable Sources Sector: Corso Torino 1, Genoa

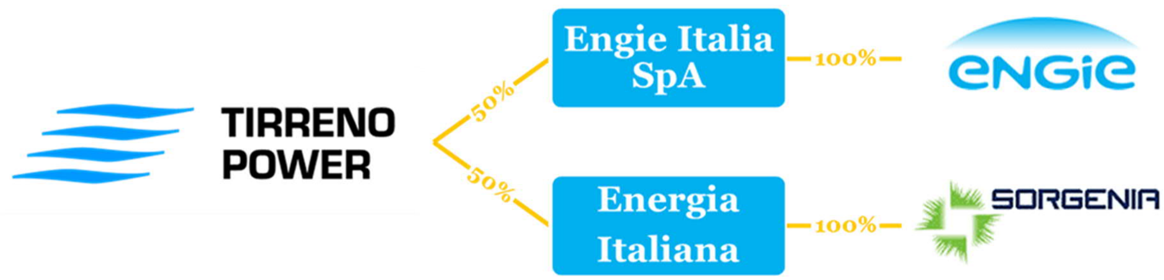
INDEX

MANAGEMENT REPORT

INTRODUCTION

Ownership structure

The Company, as at December 31, 2020, is jointly owned by Energia Italiana S.p.A. and Engie Italia S.p.A.



Corporate bodies

Board of Directors	
Chairman	Giuseppe Gatti
Directors	Alberto Bigi Giovanni Chiura Aldo Chiarini Angelica Orlando Jurgen Fryges Antonio Cardani* Roberto Garbati*

* *Independent directors, as set forth in the Company's Articles of Association*

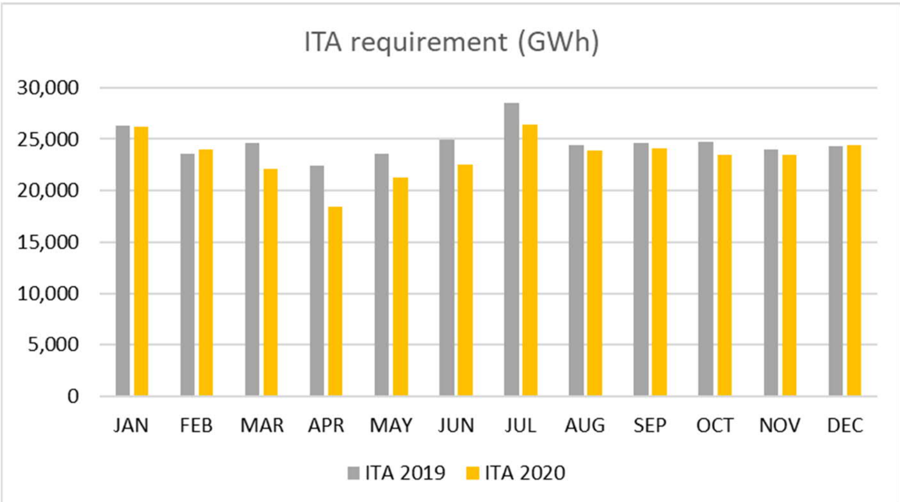
Board of Statutory Auditors	
Chairman	Gianluca Marini
Statutory Auditors	Riccardo Zingales Maurizio Lauri
Alternate Auditors	Goffredo Hinna Danesi Giuseppe Panagia

Independent Auditors
EY S.p.A.

FOCUS ON RESULTS

As regards the result for 2020, Tirreno Power recorded a significant improvement with respect to the previous year. The Company achieved a net income of Euro 125,513 thousand and a Gross Operating Profit of Euro 255,601 thousand, compared to Euro 213,180 thousand achieved in 2019. The Operating Profit achieved, equal to Euro 169,951 thousand, also shows an increase compared to the amount of Euro 155,641 thousand achieved in the previous year.

The current health crisis, as is well-known, has led to a dramatic reduction in production activities and a subsequent significant drop in the demand for electricity, especially in the months of March, April and May. During the COVID-19 emergency, the combination of the two factors (low demand with consequent higher share of needs covered by renewable sources, and low price of gas that powers the combined cycle plants) generated a sharp drop in prices on the Day-Ahead Market.
The graph shows the trend in electricity demand in 2020 compared with that of the previous year. In the 12 months of 2020, Italian electricity demand contracted by around 7% compared to the previous year, with peaks of 16% in April. The gradual easing of the restrictions sustained consumption, which returned to growth during the summer period. The last quarter of 2020 was almost in line with that of the previous year



(source GME)

This scenario had significant effects on the Dispatching Services Market (MSD). The ancillary services requirements rose considerably also as a result of the need to balance the contributions of intermittent sources and to integrate production resources in real time. This is also based on the context of general difficulty in forecasting the load generated by the extremely reduced electricity demand.

In this context, the Company's production units have contributed to providing reserve and frequency regulation services most in demand in the presence of reduced energy demand. Therefore, in the face of a drastic general decrease in production, the healthy results achieved are mainly attributable to the higher volumes of sales made on the Dispatching Services Market.

The growth in EBITDA made it possible to increase the available cash flows, thus allowing Tranche B of the loan of Euro 183 million to be repaid in advance.

Following the results in 2020, Tirreno Power received confirmation of the public rating B1.2 from Cerved Rating Agency, which reflects the improvement in economic performance and the further reduction in the Net Financial Position, which, as at December 31, stood at Euro 84.1 million, compared to Euro 304.5 million in 2019.

COVID-19 EMERGENCY

On January 31, 2020, the Council of Ministers declared a state of health emergency, while on March 11, 2020, the World Health Organization declared COVID-19 a Pandemic following the spread of the SARS-CoV-2 coronavirus infection on a global scale. Following this declaration, the Italian Government, through specific Decrees of the President of the Council of Ministers, issues a series of measures, which, up until May 3 last year, entailed particular limits on production activities (so-called "phase 1"). The suspension of activities imposed by the provisions did not include the services deemed essential, including the production of electricity.

From the onset of the health emergency, the Company immediately took action, consistent with government and health authority guidelines, in some cases anticipating their implementation. The first communication to all staff was issued as early as February 22, 2020.

Following the issuance of the first government measure, Tirreno Power established the Crisis Committee for the coordination of the management of the health emergency and an operational Task Force, coordinated by the General Manager, dedicated to overseeing emergency management.

The Company has implemented all the necessary measures to guarantee the health of its employees on the one hand and the continuity of the operation of its plants in safe conditions on the other. This was achieved through the adoption of specific procedures that identified appropriate guarantee and prevention measures in compliance with the provisions of current legislation and, in particular, by the "Shared protocol for regulating measures to combat and contain the spread of the COVID-19 virus in the workplace" signed on April 24, 2020 between the Government and the social partners and included as an Annex within the Italian Decrees of the President of the Council of Ministers gradually issued as from April 26, 2020. As a consequence of the launch at national level of the so-called Phase 3 of the emergency, made official with the Italian Decree of the President of the Council of Ministers of June 11, 2020, Tirreno Power has updated its procedures with the aim of gradually restoring normal operations, while respecting the necessary safety and prevention measure. In November, as a result of the worsening of the pandemic situation in Italy, the Italian Government issued a new Decree of the President of the Council of Ministers, inserting the subdivision of the various regions into scenarios with different severity and risk levels. The Italian Decree of the President of the Council of Ministers of December 3, 2020 confirmed the subdivision of the various regions into 3 scenarios, which are then defined by Orders of the Italian Ministry of Health. Lastly, the Italian Decree of the President of the Council of Ministers of January 14, 2021, confirming the subdivision of the various regions, added the “white” scenario. The company has therefore monitored the performance of the three regions in which its production sites fall, although these measures do not impact our industrial activities, except for the possible need for self-declarations for travel.

As part of welfare initiatives, the Company has started the provision of rapid tests specific for employees and their cohabitants. It also carried out periodic screening for all operating personnel of TP and contracted companies.

Operationally, in light of the pandemic scenario in the first few months of the year, the planned shutdown programmed of section 5 of the Vado Ligure plant in March/April has been postponed to November and the planned shutdown of section 5 of the Torrevaldaliga plant, already in progress at the beginning of the emergency, was limited solely to the activities that cannot be postponed and to the minimum necessary to complete what is already underway. Operating shifts and ordinary maintenance activities have been restructured at the plants.

At the warehouse management level (supply chain) all the actions were implemented to ensure the operational continuity of the production plants, also thanks to the definition of supply plans and the identification of back-up suppliers for all the main components.

To date, there have been no interruptions to the business activity and there have only been about ten cases of infection, confirming the effectiveness of the measures taken.

Tirreno Power has taken out specific supplementary insurance for all employees, active from March 12, to cover healthcare costs connected to the COVID-19 disease. The policy taken out consists of insurance coverage of an economic nature and a package of post-hospital assistance services. The policy was also renewed for the entire year 2021.

In addition, Tirreno Power has taken out an insurance policy for smart working accidents in order to protect the company population from domestic and/or occupational accidents, which occur during remote working days.

During these months, the procedures for monthly accounting closings were guaranteed, and the administrative-accounting closure process, for the drafting of these financial statements and those of the first half of 2020, was managed entirely by staff in *smart working* mode.

The Finance department has ensured the maintenance of an adequate level of liquidity through constant planning and monitoring of the financial structure; in the context in which the Company operates, the liquidity risk deriving from trade receivables is considered to be low since the Company's customer base is mainly composed of public service concessionaires.

The sound financial position has allowed the Company to make a concrete and immediate contribution to Small and Medium-sized Enterprises and professionals in its reference communities through an advance payment initiative aimed at promoting the restart of the local economy hard hit by the health emergency. As at December 31, the company arranged for the early payment of invoices for an amount equal to approximately Euro 7.4 million, with advances averaging 2 months.

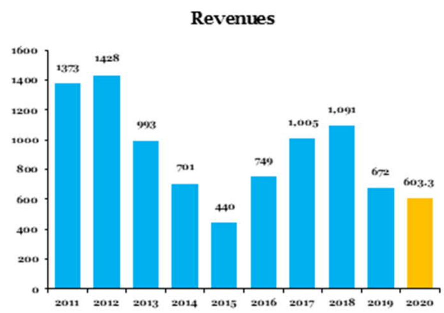
Tirreno Power and its employees have also allocated more than Euro 240,000 to the main hospitals involved in the fight against COVID-19 in the cities of Civitavecchia, Naples, Rome and Savona and to "Save the Children Italy" to finance projects aimed at reducing the negative impact in psychological, training and material terms of the ongoing emergency for children in socially fragile conditions.

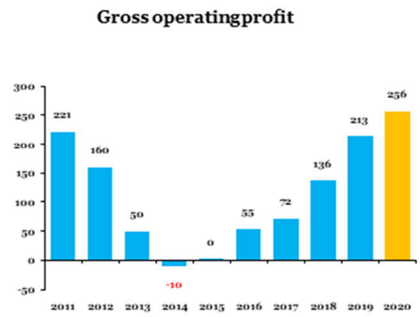
Highlights of the Company

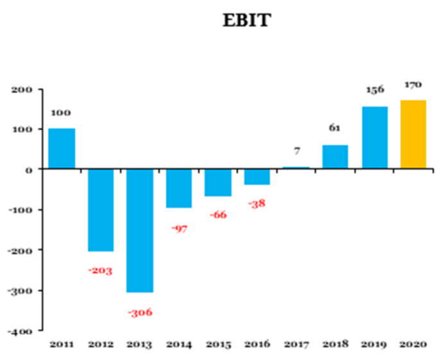
With the objective of presenting the results and analysing the financial structure, the tables below contain some "alternative performance indicators", which management feels are most representative of the economic and financial results that are contained in the reclassified statements that differ from those set forth in the international accounting standards adopted. The section "Operating performance during the year" outlines the criteria used to calculate these indicators. The data, unless otherwise specified, may be directly deduced from the financial statements.

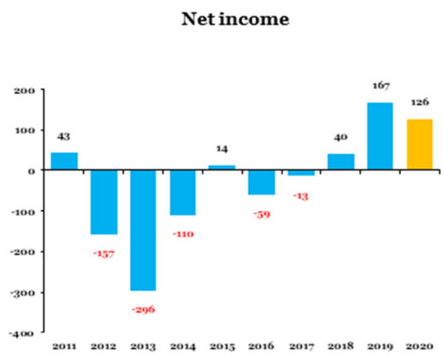
	12.31.2020	12.31.2019	% Change
Income statement data (millions of Euro)			
Total revenues	603.3	672.0	-10.2%
-of which revenues from energy sales	*599.3*	*665.2*	*-9.9%*
Gross operating profit	255.6	213.4	*19.8%*
EBITDA (include commodity derivatives)	228.1	210.3	8.4%
EBIT	170.0	155.8	9.1%
Net income for the period	125.5	167.3	-25.0%
Equity and financial data (millions of Euro)			
Investments in fixed assets	43.2	24.5	76.6%
Cash flow from operating activities	263.6	164.7	60.1%
Shareholders' equity	518.6	393.6	31.7%
Net capital employed	602.7	698.1	-13.7%
Net financial debt	84.1	304.5	-72.4%
Debt/Equity	0.2	0.8	-79.0%
Operating data			
Energy sold (GWh)	7,000	8,240	-15.0%
Energy Injected (GWh)	4,313	5,197	-17.0%
Average amount (units)	233.5	231.9	0.7%
Economic/financial indicators			
Unit revenue from energy sale (€/MWh)	85.6	80.7	6.1%
ROS (Return on Sales)	28.2%	23.2%	21.5%
ROI (Return on Investment)	26.1%	22.8%	14.8%
Market indicators (annual averages)			
Price of Brent crude oil ($/barrel) (source "Platt's")	41.67	64.30	-35.2%
US Dollar/Euro exchange rate *(source UIC)*	1.141	1.120	1.9%
1-month Euribor @ 365 average*(source Il Sole 24 Ore)*	-0.495%	-0.401%	23.7%

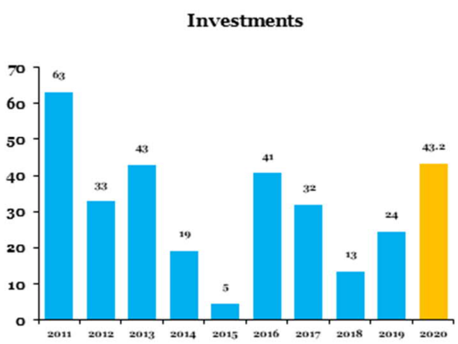
The trend in the main profit indicators of the last 10 years is indicated below:

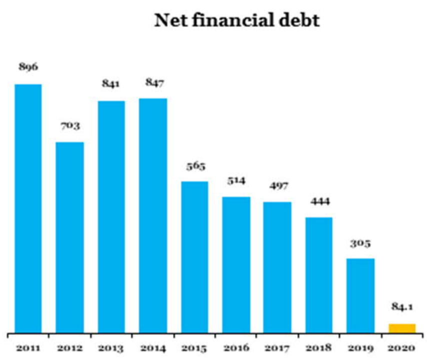












Operating structure

The Company is active in the production and sale of electricity through the management, in Italy, of some thermoelectric and renewable plants along the Tyrrhenian Sea area.

The following table summarises the main characteristics of such facilities:

Gross reference capacity - commercial operation (MW)		
Production Units	as at 12/31/2020	Region
Vado Ligure plant	793	Liguria
Torrevaldaliga plant	1,176	Lazio
Naples plant	401	Campania
Thermoelectric total	2,370	
Total - Renewable Sources	75	Primarily in Liguria
Total	2,445	

With its diversified production plants, the Company is able to generate electricity with high flexibility and competitiveness:

- the thermoelectric production units consist of 4 gas-fuelled combined-cycle plants;
- the renewable sources include 18 hydroelectric plants (divided equally between “run-of-river” and “power regulation” stations) located along the entire Ligurian Apennines.

As already reported in the previous financial statements, on June 6, 2016, the Company’s Board of Directors held that the conditions did not exist to allow a future return to service of coal-fired units 3 and 4 of the Vado Ligure plant, for a total capacity of 660 MW, that were already discontinued since they were subject to a seizure order from the Court of Savona starting from March 2014.

Tirreno Power - fully aware that the definitive cessation of activities in the coal-fired plants in Vado Ligure deprives the area of one of the most important industrial companies and employers - has launched an initiative for the re-industrialisation of the site, aimed at encouraging the installation of new companies with the objective of contributing to the search for solutions that may provide future jobs for workers and growth prospects for the area.

After having segmented the functional areas for operation of the gas-fuelled plant, the initiative made an area of approximately 30 hectares available, initially divided into five lots.

In August 2018, the company Vernazza Autogru had formalised an interest in purchasing - in a lump sum - an area of roughly 27 hectares for a full payment of around Euro 3 million based on the ‘as is’ proviso, according to which Vernazza Autogru then acquired such areas, also assuming the responsibility for all the necessary demolitions based on a timetable agreed between the parties. In the absence of said obligation, the Company will carry out said demolitions at the expense of Vernazza Autogru.

The parties then agreed on a process for transfer of the areas, whose main stages were: the signing of the binding purchase proposal in Rome on August 8, 2018 and, subsequently, the signing of the preliminary sale agreement, on October 12, 2018, with the simultaneous collection of the agreed down payments.

On March 6, 2020, the final deed of sale was signed. The Parties, amending the obligations assumed in the aforementioned preliminary contract, agreed that Tirreno Power was exonerated from the obligation regarding the rectification of the two streams called Rio Tovi and Rio Tana, which cross through the area subject to sale, a work that will therefore be carried out under the responsibility and at the expense of the Purchaser. Due to the above, the parties agreed to reduce the sale price by approximately Euro 2.7 million.

Also as part of the reindustrialisation project, on December 2, 2019 the company Autoliguria had presented to Tirreno Power an irrevocable purchase proposal for a lot outside the perimeter of the Vado Ligure plant regarding an area covering approximately 18,300 square meters, composed of 12,739 square metres free and ready for sale and 5,560 square meters available for free loan for use. In relation to this proposal, equal to Euro 712,000 based on the 'as is' proviso, the purchaser made a down payment of Euro 100,000, with the agreement to sign the Definitive Sale Contract within 90 days of December 16, 2019, the Company's date of acceptance of the irrevocable proposal.

Due to the COVID-19 epidemic, on March 13, 2020 the company Autoliguria requested Tirreno Power to defer the stipulation of the definitive contract to May 13, 2020. The continuation of the coronavirus emergency has prompted Autoliguria to request another deferral to June 30, 2020 and, lastly, a further extension of the terms foreseen for the signing of the notarial deed to September 30, 2020, supplementing the guarantee deposit with the additional sum of Euro 400,000, collected on July 7, 2020.

On June 26, 2020, Autoliguria informed TP that, in accordance with the provisions of the Purchase Proposal, it would make the purchase through another company, called QInvest, 100% owned by Autoliguria.

On September 9, 2020, the deed of sale of the areas covered by the Purchase Proposal was signed by the Parties.

Information regarding the criminal proceedings of the Vado Ligure site

It should be noted that criminal proceedings were opened in 2013 by the Office of Public Prosecutor of Savona due to an environmental disaster, which saw some senior management and employees of Tirreno Power as suspects, for the offences set out in article 434, paragraph 2 and article 449 of the Italian Criminal Code. Tirreno Power was served notice, on November 15, 2018, of the court summons as the civilly liable party in the criminal proceedings. Some of the main phases of said proceedings are reported hereunder.

- On March 11, 2014 the G.I.P. (Preliminary Judge) of the Court of Savona had ordered the preventive seizure of the VL3 and VL4 coal-powered units.
- On June 18, 2015 Tirreno Power was informed of the notice of conclusion of preliminary investigations, pursuant to article 415 bis of the Italian Code of Criminal Procedure. In fact, on October 26, 2016, the Public Prosecutors filed a request to the Office of the Preliminary Judge to postpone the proceedings for 26 defendants charged with culpable disaster pursuant to article 434, paragraph 2 and article 449 of the Italian Criminal Code. With respect to the previous notice of conclusion of the preliminary investigations, notified on June 17, 2015, inter alia, the charge of multiple manslaughter was removed, with the formation of new proceedings no. 1753/16- 21 R.G.N.R. (General Criminal Records Registry). For the latter proceedings, on October 27, 2018, the Preliminary Judge ordered the dismissal of the case pursuant to article 409 of the Italian Code of Criminal Procedure.
- On January 28, 2017, the Preliminary Judge of the Court of Rome issued a judgment of dismissal pursuant to articles 409 and 410 of the Italian Code of Criminal Procedure, upholding the request from the Public Prosecutor at the Court of Rome, in relation to the offence of abuse of office contested in the notice of closing of the preliminary investigations of July 20, 2016 vis-a-vis institutional and technical top management of the Liguria Region, the Province of Savona and the Municipalities concerned, as well as against an executive of Tirreno Power, abuse allegedly committed in order to obtain the AIA for the VL3 and VL4 coal-powered plants.
- At the preliminary hearing on January 25, 2018, the Preliminary Judge admitted as civil parties in the proceedings the Environmental Associations (Medicina Democratica-Movimento per la Salute, Greenpeace Onlus, Associazione Uniti per la Salute, Legambiente Associazione Onlus, Associazione WWF-O.N.G. Onlus, ANPANA Association), who had filed an appearance on October 26, 2017 and the Italian Ministry of Environment and Land and Sea Protection (later also MATTM), established on November 30, 2017, while it excluded the appearance of three private citizens whose deed of appearance was filed on January 25, 2018.
- Tirreno Power was served notice, on November 15, 2018, of the court summons as the civilly liable party in criminal proceedings no. 5917/13. This provision of the Preliminary Judge upholds the request of the MATTM (Italian Ministry of Environment and Land and Sea Protection) for the summons of the civilly liable party of July 2, 2018. By means of said summons, Tirreno Power was therefore called, independent of its appearance in the proceedings, in the case of sentencing with a definitive judgment, to be jointly and severally liable with the defendants for the damages caused to the civil parties as a result of the culpable disaster (environmental and health) they are charged with. Subsequently, by means of deed of November 21, 2018, filed at the Court on December 18, 2018, Tirreno Power appeared at the proceedings as the civilly liable party in order to present its defence in the criminal proceedings and oppose the effects that any sentencing would have in the separate civil proceedings pursuant to articles 651 et seq.. It should be noted that the Public Prosecutor has not challenged

any of the predicate offences set forth in Italian Legislative Decree 231/2001, therefore, no pecuniary sanction or ban can be imposed on Tirreno Power, based on the current charge.

- At the hearing on December 11, 2018, the Judge, having ascertained the completion of the notification of a decree of committal for trial, therefore ordered a renewal of the summons, adjourning the proceedings to January 31, 2019. At the same hearing, some defence lawyers present in the courtroom pre-announced and subsequently formalised the appearance of the new civil parties, namely the ADOC (consumer protection association) associations, Art. 32, Codacons, the Italian Ministry of Health, and 48 natural persons. As things stand, they have submitted a claim for compensation: Associazione Uniti per la Salute for a sum of no less than Euro 120 thousand, Cittadinanza Attiva for a sum of no less than Euro 50 thousand, Medicina Democratica for a sum of no less than Euro 250 thousand and 48 natural persons for a total sum of no less than Euro 1,160 thousand. It should be noted that the summons received from the MATTM and the Italian Ministry of Health do not contain an indication of a specific request for compensation, but a reserve for quantification of the damages to be defined following the discussion by the civil parties.

The proceedings are currently at the preliminary phase. In particular, during the course of the hearings held in 2020, the witness evidence of the texts indicated in the associated list presented by the Public Persecutor was examined, with the exception of the technical consultants, and the examination of the texts of the civil parties are in progress. The hearings scheduled from February to June 2020 have been postponed due to the health emergency following the spread of COVID-19. During the hearing held on July 7, 2020, the Judge postponed the same to September 29, 2020 and, on said date, scheduled seven hearings until December 2020. During the hearing of November 26, 2020, the Judge scheduled 10 hearings from February to July 2021.

To date, also taking into account the opinion of the legal consultants who assist the Company, since the investigation was slowed due to the protracted health emergency, has not yet addressed the technical issues relevant to the charge and there has still been no outcome to the discussion of the civil parties, the risk of losing must be considered possible and the compensation consequences for the Company deriving from the pending criminal proceedings are not foreseeable.

MARKET SCENARIO

The energy product markets

In 2020, almost all energy commodities, with the exception of the Euro-Dollar exchange rate, recorded significant decreases in value, recording an average below that of 2019.

The price of Brent crude oil (ARA Spot Average) decreased compared to 2019, going from 64.30 $/barrel in 2019 to 41.67 $/barrel in 2020, with a maximum of 63.50 $/barrel reached in January *(source: "Platt's Crude Oil Marketwire").*

The average price of coal decreased compared to 2019, going from 60.99 $/ton to 50.28 $/ton in 2020 *(source: "Argus" index API#2 Northwest Europe Cif ARA).*

The average price of natural gas fell significantly compared to 2019, down from 16.04 €/MWh to 10.35 €/MWh in 2020 *(source: PSV "Heren" index).*

The average price of CO_2 fell slightly compared to 2019, down from 24.89 €/ton to 24.78 €/ton in 2020 *(source: EUA Futures "ICE" index).*

The average US dollar/Euro exchange rate in 2020 was 1.14112 €/$, an increase of +1.9% compared to that of 2019, when it stood at 1.11957 €/$ *(source: Italian Exchange Office).*

Production and demand for electricity in Italy

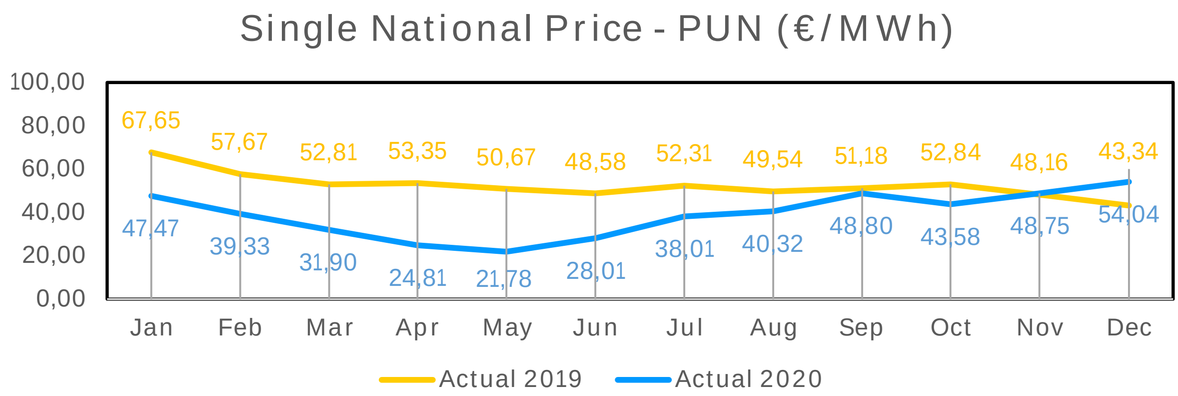
In 2020, the aggregate value of net production (273.1 TWh) fell (-3.8%) compared to 2019, while the value of electricity supply (302.8 TWh) recorded a decrease of 5.3% over 2019.

Worthy of note is the increase in hydroelectric production (+0.4 TWh equal to +0.8%), and the increase in pumping (+0.06 TWh equal to +3.6%); the foreign balance fell by 5.9 TWh (-15.6%), wind power (-1.5 TWh equal to -7.4%) and thermoelectric production (-11.9 TWh equal to -6.4%) recorded decreases, while photovoltaic production (+2.2 TWh equal to +9.6%) recorded an increase.

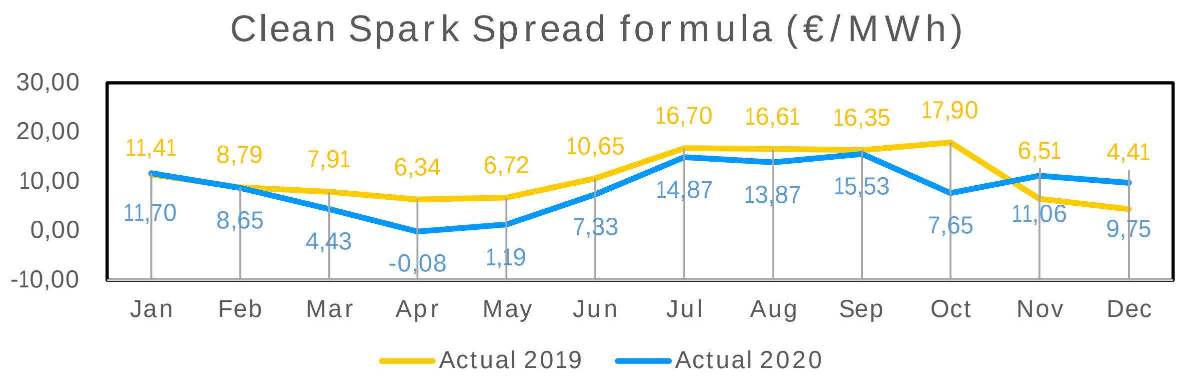
(source: Terna - Monthly Report on the Electricity System - Final balance December 2020).

Trend in energy sales prices

In 2020, the arithmetic mean price of energy on the Power Exchange (PUN) amounted to Euro 38.90 €/MWh, down by 26% compared to the 52.34 €/MWh recorded in 2019 (source: GME).



The lower cost of gas, together with the decrease in the price of CO_2, resulted in a monthly Clean Spark Spread lower than 2019 (-2.03 €/MWh on average).



The Clean Spark Spread represents the electricity sale margin including variable costs (gas and CO_2).

The presence of a large installed photovoltaic capacity, totalling 21.5 GW (source: GSE-ATLASOLE), helps to create a price squeeze in the central hours; the time profile of the price recorded an average trend that has a first peak between the hours of 8 and 11 and a second more marked peak between the hours of 18 and 22.

LEGISLATIVE AND REGULATORY FRAMEWORK

The following notes report the main legislative and regulatory events in 2020, which affect Tirreno Power's reference markets.

National Integrated Energy and Climate Plan

In January 2020, the Italian Ministry of Economic Development (MiSE) published the text for the National Integrated Energy and Climate Plan (PNIEC) of Italy prepared with the MATTM (Italian Ministry of Environment and Land and Sea Protection) and the Italian Ministry of Infrastructures and Transport. In implementation of the relevant European regulations, the PNIEC was sent to the EU Commission. The PNIEC establishes the national objectives for 2030 regarding the reduction of CO2 emissions, the development of energy efficiency and renewable sources (RES) as well as the objectives relating to energy security and the single energy market, defining the measures necessary to achieve each objective. As regards the electricity sector, the PNIEC envisages a target of 55% of consumption covered by RES by 2030, the phase out of coal production by 2025 and the use of the capacity market as a tool for defining long-term price signals on the electricity market. In October, the EU Commission published the final assessment on the Italian PNIEC, defining a series of actions for its improvement and more effective implementation.

In September 2020, the EU Commission proposed raising the greenhouse gas reduction target to at least 55% compared to 1990 levels (previous target 40%). In December, the European Council confirmed this proposal.

Launch of the capacity market

In 2017, the new mechanism for the remuneration of electricity production capacity (already set forth in ARERA resolution ARG/elt 98/11) was formally notified by the Italian Ministry of Economic Development (MiSE), with the involvement of the Authority, at the Directorate-General for Competition of the European Commission. In February 2018, the Commission approved the Italian mechanism (and that of the other 5 countries) for 10 years, deeming it necessary for the adequacy and safety of the system. The decision (published in the middle of April 2018), among the many guidelines, required our country to make provision for participation in the foreign capacity and demand mechanism. It also provided guidelines for the price cap ranges for the auction offers (expressed in MW/year): Euro 25k-45k for existing plants and Euro 75k-95k for new entrant plants.

Following the approval, in March 2018, Terna put a new regulation framework up for consultation, which supplements the modifications requested by the Commission and provides a new regulation for scheduled plant maintenance, for guarantees and for the calculation of the unforced capacity (UCAP), as well as the new regulations for the participation of consumption units and foreign resources.

Subsequently, in adjustment and acknowledgement of the European Commission's decision, ARERA published resolution 261/2018/R/eel, which updates the resolution that established the capacity market

(ARG/elt 98/2011). The resolution acknowledges both the guidelines of the Commission, and those of the Italian Ministry and also supplements the regulation based on the consultations that took place during 2017 (713/2016/R/eel and 592/2017/R/eel). More specifically, the resolution makes provision for: the start of the phase of first implementation with the possibility of also establishing planning periods of less than one year, the abolition of the minimum premium that can be recognised on existing capacity, the introduction of the minimum investment threshold requested by the Commission for new entrant plants, the opening of the capacity market to active participation of demand, of non-programmable renewable generation and foreign resources.

In March 2019, as set out in the National Integrated Energy and Climate Plan, the MiSE notified the Directorate-General for Competition of the European Commission of some changes to the capacity market scheme, with reference to the environmental and authorisation requirements for the participation in auctions. On June 14, 2019, the Commission authorised the aforementioned changes, deeming them to be compatible with EU rules on State aid.

By means of Italian Ministerial Decree of June 28, 2019, the MiSE formally launched the mechanism by approving a new version of the regulation, which acknowledges the emissions limits notified and approved by the Commission. The Italian Decree established the performance of auctions by 2019, with expected delivery in 2022 and 2023.

In September of the same year, by means of resolution 363/2019/R/eel, the ARERA defined the economic parameters of the auctions, setting the maximum value of the premium (cap), which can be recognised on new productive capacity at 75,000 €/MW/year and 33,000 €/MW/year for existing capacity. The minimum investment amounts was also set at Euro 209,000/MW and the method of calculating the strike price was defined.

The auctions, for the delivery years 2022 and 2023 were held in November 2019, and Tirreno Power was awarded all the capacity offered, equal to 1,875 MW for each year, at the price envisaged for existing capacity.

At the end of June 2020, Italy presented to the Directorate-General for Energy of the European Commission the so-called Implementation Plan (IP), document required by the new EU Regulation on the electricity market in 2019: this step is necessary in order to be able to start the new auctions of the mechanism (delivery starting from 2024). The consultation document illustrates the functioning of the capacity market within the overall Italian electricity market. At the end of October, Directorate-General for Energy sent its opinion on the IP, highlighting some necessary changes to be made to the regulatory structure of the market. In February 2021, the update of the Plan was published, which supplements the requests for clarification made by the Commission.

Again with regard to the capacity market, on the basis of the new EU regulations, which require Member States that intend to apply capacity mechanisms to define adequacy standards, ARERA, with Resolution 507/2020/R/eel, informs the MiSE that it requested Terna to develop the necessary adjustments. The new calculation method must be put up for consultation and defined by May 3, 2021.

At the end of January 2021, Terna informed the operators of the new plants and the new plants not yet authorised to be assigned capacity in the auctions held in 2019, of a possible extension of 6 months for the delivery years 2022 and 2023 linked to the delays in obtaining the authorisations resulting from the COVID-19 emergency. It should be noted that this case does not apply to Tirreno Power, which, as mentioned above, participated in the 2019 auctions exclusively with existing plants.

Italian Simplification Decree Law 2018 - Hydroelectric concessions

With reference to the changes introduced by means of Italian Decree Law no. 135 of December 4, 2018, regarding the simplification and support for development ("Italian Simplification Decree Law"), converted to law in February 2019, it should be noted that some amendments were introduced to the regulatory framework of hydroelectric concessions. The main changes concern: (i) the extension against consideration of the concessions already expired until 2023, (ii) the regulation of the reassignment of the concessions upon their expiry; (iii) the system for the compensation of the outgoing concession holder for the transfer of assets connected with the hydroelectric concession. These are regulations, which establish a series of general principles and which will be subject to implementing provisions by the Regions within the term set for March 2020, and the competent authorities for the purpose of detailed regulation of the renewals of concessions in observance of the principles dictated by the Constitution.

The deadline for the adoption of this discipline was recently extended from March 31, 2020 to October 31, 2020 by article 125-bis of Italian Decree Law no. 18/2020 (converted with amendments into Italian Law no. 27/2020), in relation to the state of emergency declared following the epidemiological spread of COVID-19.

It should be pointed out that the hydroelectric concessions currently held by the company, which fall under the scope of application of the provision in question, will reach their natural expiry in 2029. The Company analysed the possible consequences of applying the reform, which, at the current state of play, pending the above implementing decrees, do not appear to have a significant impact.

Currently, only a few Regions have implemented the new legislation. For the Regions affected by the elections last September, including Liguria, a further postponement of the terms of 7 months is expected (publication between April and May 2021). As far as Tirreno Power is concerned, only Piedmont issued the regional law on the matter, introducing, starting from 2021 for large diversion plants, an additional fee of 3% of the normalised revenues quantified by adding, on an annual basis, the product of the hourly quantity of the electricity injected into the network and the corresponding hourly zone price (Northern zone) recorded on the Day-Ahead Market. The future economic impact for the Company, on the portion of the only plant in Piedmont, is negligible (less than Euro 300 per year).

Temporary enhancement of imbalances during the health emergency

In April 2020, ARERA published the resolution 121/2020/R/eel for the temporary enhancement of actual imbalances in the presence of the COVID-19 epidemiological emergency. The Resolution was addressed exclusively to the Consumption Units and to the Units not necessarily authorised to the Dispatching Services Market. With these measures, the Authority introduced elements to limit the variability of the imbalance price valid from March 10 to June 30, 2020, the positive effects of which have already been incorporated in these financial statements for the hydroelectric units of the Company affected by the application of the legislation.

Premiums for adapting plants to the electricity network restoration service

With Resolution 324/2020/R/eel, ARERA introduces a premium mechanism for the adaptation of generation plants included in the restart plan drawn up in accordance with the provisions of Regulation 2017/2196 (Emergency & Restoration Regulation).

As regards Tirreno Power, the only adjustments to be made are envisaged at the Torrevaldaliga Sud site. The premium mechanism provides for a fee modulated on the basis of the completion times of the works up to an amount of Euro 50 thousand.

Evolution of the gas sector legislation

Gas transport service tariffs

In August 2017, the Authority issued a resolution (575/2017/R/gas) in which it confirmed, for the years 2018-2019, what was proposed under consultation in July regarding the distribution of entry and exit fees based on a ratio of 40:60 (with respect to the previous 50:50 model).

Tirreno Power, in filing a complaint about some of its faults, including non-compliance with some primary regulations, challenged the provision before the Regional Administrative Court of Lombardy together with other electricity producers. The substantive hearing was held in December 2019. In March 2020, the Regional Administrative Court of Lombardy ruling no. 440/2020 was filed, which upholds the reasons for the appeal and cancels the 2018-2019 tariff structure for gas transport by introducing the obligation for ARERA to remodel the tariff (with the ordinary *ex tunc* effect, dating back to the moment the tariff provision was launched). By means of Resolution 103/2020/C/gas on April 1, 2020, ARERA stated that it had appealed the ruling.

In May 2018, ARERA, by means of document (182/2018/R/gas) on the reference price methodology and the criteria for the allocation of the costs relating to the natural gas transport service, commenced negotiations for the fifth regulatory period (5 PRT), in which it is necessary to adopt the provisions of Regulation (EU) no. 460/2017 (TAR Code) into national tariff law.

Following a well-structured consultation phase, ARERA sent to ACER the outcomes of the dialogue with operators and, in the first few months of 2019, published a series of resolutions, which define the final regulation of the period. The 5 PRT entered into force on January 1, 2020 resulting in tariff effects for the Company incorporated in these financial statements. In the meantime, Resolution 114/2019/R/gas, which defines the tariffs of natural gas transportation and metering of the 5 PRT, was cancelled following an appeal launched by an electricity operator. Currently, ARERA has filed an appeal against the cancellation decision. The likely effects expected for the company can only be positive, but cannot be calculated until ARERA defines the application methods of the judgment.

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Additional legislative or regulatory events whose impacts for the Company cannot be estimated at present are reported below.

The reform of electricity dispatching and Terna pilot projects

By means of Resolution 393/2015/R/eel, the Authority launched a comprehensive reform of electricity dispatching (so-called RDE project), which incorporates a series of procedures, some of which have already been in place for some time. The project is in place for the long-term, both because the framework of reference European regulations is still not definitive, and because the development times of some measures and their implementation are fairly broad.

In implementation of this reform project, in 2016, ARERA issued a series of consultation documents targeted at defining the entities authorised to supply resources in the Dispatching Services Market (MSD) and updating the rules for the valuation of imbalances.

The year 2017 saw the continuation of the process of definition of the rules through a series of provisions and consultations. More specifically, as regards the regulation of the authorisation on the MSD, in June 2017, by means of resolution 300/2017/R/eel, the Authority defined a project for the first-time opening of the market to electricity demand, to production units not already authorised and to storage systems. Within the domain defined by the new regulation, Terna launched a pilot project, which makes provision for auctions for the forward procurement of resources provided by consumption units (UVAC - consumption enabled virtual units) for a few months in 2017 (auctions relaunched also in 2018) and some market zones. The resolution was subject to further application, with the start of a pilot project, which defines the methods for the authorisation of production units not currently authorised (UVAP - production enabled virtual units - with capacity of less than 10 MW).

As part of the process cited, in March 2018, Terna published the Regulation regarding the pilot project for the authorisation of the relevant production units (UPR-power exceeding 10 MW) not mandatorily authorised for the dispatching services market. By contrast, in May 2018, it put up for consultation the pilot project for the provision of the frequency primary regulation service through production units integrated with storage systems (UPI), in order to promote the development of electricity storage projects. Lastly, in June of the same year, the authorisation for the MSD of the Mixed Aggregate Virtual Units (UVAM) was put up for consultation, which includes in a single aggregate both the consumption enabled virtual units and the production enabled virtual units. The project was approved by ARERA in September 2018 and makes provision for the possibility of aggregation throughout the country. The first auctions were held in December 2018 and the project, which was initially expected to be completed in 2020, will continue at least throughout 2021. On the basis of what has been experimented in these first years of the project, in November 2020 Terna submitted a new proposal for a Regulation that amends certain participation methods. The final document is expected in the first months of 2021. By means of Resolution 153/2020/R/eel, ARERA approved the participation of production units in the UVAM and/or of consumption underlying points not treated on an hourly basis for settlement purposes (points with available input power and/or with a withdrawal of no more than 55 kW for which the processing of the measurement data on an hourly basis has not yet been activated), provided that they are equipped with a measuring device that allows the competent distribution company to detect the hourly measurement data.

Again in December 2018, ARERA approved the pilot project on UPIs (integrated production units) (see above). The initiative provides for the connection of batteries to a productive unit to provide greater flexibility in the release of the Primary Reserve service. The project will last until December 20, 2023 (5 years from publication of the measure for a maximum of 30MW throughout the country).

Lastly, in December 2019, Terna published the consultation document on the Fast Reserve Unit, a project that targets the supply of the ultra-fast reserve, mainly by storage systems (water or electro-chemical). The definitive regulation was published by Terna in early July 2020 and provides for the remuneration of storage capacity (alone or coupled with Production Units) against the availability of the devices to provide balancing services for 1,000 hours per year (for the rest of hours, the storage system will be free to operate on the energy and services markets). The award took place through auctions on December 10, 2020 and allocated capacity for 5 years for a total of 249.9 MW.

Tirreno Power was not awarded capacity.

In November 2020, Terna put two documents up for consultation:

- the first aimed at plants that, after adaptation, may become able to modulate reactive power (not those already suitable and required) and located in critical areas (concentrated in the central-southern and south). Bankruptcy procedures are envisaged, to remunerate the adjustment costs, similar to the model already used for capacity market auctions. The duration of the project will be 36 or 39 months (depending on the time of authorisation, 2021 or 2022);
- the second concerns the authorisation to supply secondary reserves for resources currently not enabled (renewables production units, storage). This project does not envisage forward procurement or other form of remuneration of the capacity and the consideration will be disbursed only on the basis of the energy activated.

For both issues, the definitive regulation is pending.

At the end of July 2019, the consultation on the Integrated Text on Electricity Dispatching (TIDE) was published. The document aims to define a new organic framework of rules for the electricity dispatching service and its main objectives are:

- full integration in the electricity system of renewable sources, of distributed generation, storage systems, aggregators and consumers (the latter also in the role of producers);
- the integration of Italian markets with European ones through a number of cross-border projects (see below).

The regulations consulted also include the potential separation between commercial negotiations and physical programming, the possible introduction of negative prices to the energy markets, the possible implementation of the marginal price on the Dispatching Services Market, the possibility of a nodal system for the management of imbalances, the revision of the segmentation of ancillary services.

Following this first general and framework document, new consultations are expected in the coming months with the aim of enacting a new organic regulation in 2022. The COVID-19 emergency is delaying the continuation of the process for the definition of the Regulation, the publication of which could be delayed by at least 6 months with respect to the objective initially declared by the reform (January 2022).

Dispatching service under suspension of market activities

By means of Resolution 446/2020/R/eel, ARERA established the settlement criteria of the dispatching service in emergency conditions and consequent suspension of market activities. The resolution establishes the methods for evaluation of dispatching resources and imbalances and the settlement times adopted in emergency conditions.

With a view to streamlining administrative acts, the previous provisions were included by Terna in a new version of Annex A75 of the Network Code, already dedicated to settlement in conditions of suspension of market activities.

Data exchange of Production Units connected in medium voltage with Terna

ARERA with Resolution 36/2020/R/eel launched a series of proposals where it is envisaged that all production plants connected to the medium voltage networks and with capacity greater than or equal to 1 MW must comply with the requirements, to be able to exchange some measurements with the Distributor in order to better forecast production data. For the activities that will be carried out within certain time frames, a reward mechanism has been hypothesised that will have to be confirmed by the definitive regulations. To comply with these provisions, Tirreno Power will have to make adjustments to the communications systems of some hydroelectric units.

Projects for coupling with European markets

In acknowledgement of the European regulation known as the Balancing Code, in June 2018, Terna deliberated on modifications, which make provision for the integration of new continuous-trading electricity markets (both intra-day and balancing) and the prospect of adjustment of current auction markets in terms of both hours and products (underpinning the reform is the need to bring the close of the markets closer to the moment of delivery and to standardise the products traded). The modifications also envisage the harmonisation of the national markets with the European balancing markets, which will materialise also thanks to the TERRE project (Trans European Replacement Reserves Exchange), a plan launched in 2013 as part of ENTSO-E for the design, development, implementation and management of a platform for the replacement reserve (RR) exchange between different countries.

In October 2018, by means of resolution 535/2018/R/eel, ARERA partially approved the modifications proposed by Terna, in acknowledgement of the EU Balancing Code (projects X-Bid + TERRE). Initially, Terna declared that the Terre Project was to be launched by the end of 2019, while, for the continuous-trading electricity market (X-bid project), the start date has already been postponed until the middle of 2020, but in reality it will not start before the second half of 2021. Subsequently, by means of a letter, Terna requested an extension to the start of participation in the RR Platform, granted by ARERA by means of resolution 438/2019/R/EEL. The RR Platform was launched on January 13, 2021.

With resolution 350/2019/R/EEL of July 30, 2019, ARERA required GME (Energy Markets Operator) to implement, as far as it is concerned, the functional activities for the launch of the Cross Border Intra-day (XBID) project on Italian borders. To this end, at the end of March 2020, GME placed the document on "Integration of the Italian electricity market with the Single Intra-Day Coupling (SIDC)" in consultation. We are currently awaiting the final adaptation of the Network Code and the approval of the ARERA in preparation for the start of the project. The Company, as already carried out for the start of the Terre Project, constantly monitors the evolution of the X-BID project to anticipate its impacts on the national electricity system and on the necessary adjustments of the Company's operating systems for participation in the markets.

Consultation on changes to Terna's Network Code

At the end of April, Terna put some parts of the Network Code up for consultation. Among the topics covered, the most relevant for Tirreno Power are:

- the coordination between the Dispatching Services Market and the Platform for the exchange of balancing energy from Replacement Reserve referred to in the Terre project (Trans-European Replacement Reserves Exchange);
- the automated methods of sending production limitation orders to production units not authorised for the Dispatching Services Market connected to the national transmission network;

- coordination between the process of programming of the unavailability of the generation plants due to the performance of tests or inspections and the enhancement of the related imbalances;
- the methods for calculating the fee for non-compliance with the ignition order (NMROA) in implementation of the resolution 65/2014.

With Resolution 344/2020/R/eel, ARERA approved all the amendments proposed by Terna during the consultation phase.

Terna incentives to contain electricity dispatching costs

To implement ARERA Resolution 699/2018/R/eel, which provides for an incentive mechanism for Terna for the period 2019-2023 for efficiency in the dispatching service, Terna has launched a consultation to implement this Resolution. The awarding of the bonus is subject to the publication of a cost-benefit analysis study. Some of the proposed activities could have effects on market management.

Gas Emergency Plan

By means of resolution 612/2018/R/GAS, ARERA approved the elimination of the imbalance price, which was applied in the event of activation of the Gas Emergency Plan and the so-called “non-market” measures (demand and supply initiatives to rebalance the market).

The Authority believes that the critical situations of the gas system identified in the previous thermal year - due to adverse weather conditions recorded at the end of the winter in Europe - highlighted potential criticality profiles in relation to the application of the price applied, which could compromise, under given circumstances, the effectiveness of the “non-market” measures and the restoration of the balance of the national transport network.

In addition to eliminating the cap, in order to prevent potential prejudicial effects as regards the safety of the gas system, ARERA established that:

- by means of a subsequent provision, it will define the activation prices for each of the “non-market” measures pursuant to the Emergency Plan, which will also contribute to the definition of the imbalance price applied in the event of activation of “non-market” measures;
- pending the adoption of the aforementioned provision, the prices of each of the “non-market” measures set forth in the Emergency Plan - as well as the imbalance price referred to in the previous point - will be 82.8 €/MW;
- in the same resolution, ARERA introduced additional provisions geared towards the implementation of the Emergency Plan in relation to additional storage capacity provided, under given circumstances, by the leading storage company (gas release price).

The expected provisions have still not been issued.

Acts directly relating to Tirreno Power

Start of proceedings for the evaluation of potential abuse in the wholesale electricity market

As indicated in the previous financial statements, in June 2016, by means of resolution 342/2016/R/eel, the Authority had launched an investigation against a number of electricity operators, including Tirreno Power, relating to alleged abusive behaviour in the wholesale electricity market. The investigation concerns two separate cases: the first refers to the alleged adoption of consumption unit scheduling strategies and plants powered by non-programmable renewable sources not consistent with the standards established by the Authority. The second regards production units authorised to submit offers on the Dispatching Services Market that would not have offered their capacity on energy markets, encouraging Terna to establish units for balancing the system and subsequently increasing its costs.
As regards Tirreno Power, in July 2017, by means of resolution 511/2017/E/eel, the dismissal of the proceedings relating to the adoption of consumption unit scheduling was ordered. The outcome of the proceedings has still not been notified in relation to the other strand of the investigation and, at the current state of play, any negative consequences for the Company are considered unlikely.

Monitoring of the wholesale market

In April 2020, as part of its wholesale market monitoring activity, ARERA sent Tirreno Power a letter requesting information on the offer behaviour on the Dispatching Services Market in the central-southern area. The communication examines the technical minimum offers presented and/or accepted in the Dispatching Services Market ex ante from January 1, 2019 to March 30, 2020 for the Naples and Torrevaldaliga Sud plants. Tirreno Power replied to the letter illustrating its commercial policies for managing its plant portfolio.

In August 2020, ARERA Resolution 282/2020/R/eel was published containing the “Monitoring report on the conduct of dispatching users who own production units suitable for reactive and localised reserve services”. The report concerns the structure of the market and analyses the acceptance of minimum offers in the Dispatching Service Market due to the implicit procurement of resources for voltage regulation.

The analysis was carried out on the years 2011/2019 on the geographical aggregate formed by the union of the regions of Lazio, Abruzzo, Campania, Molise, Apulia, Basilicata and Calabria and, consequently, also concerns the Tirreno Power plants located in these areas.

Moreover, the Resolution requires Terna to review its models and procedures for the transparency and traceability of market transactions.

At present, any negative consequences for the Company are not considered probable.

The Resolution set a deadline in October 31, 2020 for the assessments to be carried out by the Markets Department.

Expected reimbursements for non-allocation of ETS allowances

As is well-known, Tirreno Power's Napoli Levante plant was excluded from the allocation of free emission allowances envisaged in the second period of the Emission Trading System (ETS 2008-12) due to the depletion of the reserves put at the disposal of production plants that entered into service during the period (so-called new entrants reserve). For such systems, the Legislator has made provision for a mechanism for the purchase with consideration of allowances reimbursed through a procedure established in recent years and based on the collections obtained by the GSE from the allocation of the allowances at auction in the next period (2013-20). In this context, Tirreno Power was the holder of a credit of around Euro 28 million to be paid on the basis of the resources that are made available for reimbursements by auctions for the allocation of allowances of the new period started 2013.

In 2016, the first instalment of the credit was collected for an amount of around Euro 10.5 million (principal and interest) and, at the start of 2017, another instalment of roughly Euro 7.7 million was paid. The payment of the residual credit was expected to be subject to the renewal of the Company's anti-mafia disclosure by the Prefecture of Rome: the renewal procedure has been pending from October 2017, when the Italian Ministry of Economic Development inserted all the information provided by Tirreno Power in the database accessible by the Prefecture.

In order to speed up the collection of the credit, the company had filed an appeal to the Lazio Regional Administrative Court against the Italian Ministry of Economic Development's inaction regarding completion of the reimbursement process. By means of a ruling published on February 19, 2020, the appeal was dismissed and Tirreno Power appealed the ruling before the Council of State. This appeal was rejected on July 9, 2020. In March, for the collection of the sums due, Tirreno Power filed an appeal by injunction to the Court of Rome. The decree was granted in May and the Italian Ministry of Economic Development filed its opposition against this decree. In the meantime, the issuance of the anti-mafia disclosure by the Prefecture of Rome has released the payment procedure and the Italian Ministry of Economic Development has fully repaid the amounts due.

Therefore, at December 31, 2020 the Company has no receivables due from the Italian Ministry of Economic Development for ETS.

The dispute over the recalculation of the capacity payment for the years 2010/2011

Following a complex administrative dispute, by means of Resolution 400/2014/R/eel, the Authority ordered the recalculation of the fees to cover the second component for the remuneration of the production capacity for the years 2010 and 2011. In particular, the measure levied costly reimbursements on some operators, including Tirreno Power, which was required to repay a total of around Euro 5.5 million in 2014. Given the seriousness of the situation brought about by the resolution and in consideration of the lack of legitimacy of the measure, Tirreno Power joined other operators penalised by the Lombardy Regional Administrative Court in filing an appeal against the aforementioned resolution before the latter. In 2016, a hearing was held, which led to a ruling that cancelled the measure contested and established the need to renew the procedure for determining the fee.

The Authority filed an appeal against the first instance ruling: the Council Chamber met in May 2017 and, at the end of December, the Council of State upheld the requests presented by the appellant, cancelling the first instance ruling.

In June 2018, Tirreno Power, together with other operators, appealed the matter before the European Court of Human Rights (ECHR), which still needs to issue a ruling on the matter.

The regulation of imbalances for the period 2012-2014

The regulation of the actual imbalances in the electricity market for the period 2012-2014 was the subject of a long dispute, which ended with the second instance cancellation of a number of the Authority's resolutions. In respect of this cancellation, Terna has performed recalculations of imbalances by using the criteria defined by the Authority before the issuing of the acts found to be unlawful. This generated, for Tirreno Power, the billing of negative amounts in relation to the periods covered by the recalculation of approximately Euro 4.5 million, collected in 2015.

Tirreno Power challenged, before the Lombardy Regional Administrative Court, the communication in which Terna acknowledged its desire to perform the recalculations.

Simultaneously, the Authority initiated proceedings for the adoption of a new regulation for the period in which the cancellation judgments determined legislative uncertainty. In that context, following a consultation process, the Regulator issued a new resolution (333/2016/R/eel), which takes account of the confidence generated in operators by the regulation in force at the time of its production planning, although subsequently cancelled. According to the resolution, Terna performed recalculations for the adjustments of the considerations in October 2016.

The aforementioned resolution was challenged at the Lombardy Regional Administrative Court by several operators, but the rulings published by the Court confirmed the resolution. Many of the first instance plaintiffs filed an appeal against the ruling: the appeals are currently pending at the Council of State and, in June 2020, a first ruling confirmed the legitimacy of the regulation defined by ARERA. Tirreno Power objected at both the first and second instance proceedings and, in the 2016 financial statements, the Company had allocated the amount received as adjustment, in respect of the risk of having to repay the amount to Terna. This risk, also based on the opinion of the legal representative appointed, is currently still considered likely.

Appeal against the Italian Ministerial Decree on the regulation of the Capacity Market and related acts

Last September, Tirreno Power filed an appeal for the annulment of the Decree of the Italian Ministry of Economic Development of June 28, 2019 regarding the "Regulation of the system of remuneration of electricity production availability", and the related acts.

The appeal challenges the violation of the objectives set for the instrument by the implementing decree, the opening of the instrument to new authorised capacity, the modification of the essential rules of operation of the mechanism and the non-compliance with the consultation obligations. The first hearing before the Regional Administrative Court was held on February 26, 2020, to discuss the precautionary petition. The substantive hearing was set for March 24, 2021.

In November 2019, Tirreno Power submitted an appeal to the European Court of Justice for the annulment of the EU Commission's decision in which said entity did not raise objections to the document "Modification of the mechanism to remunerate capacity in order to guarantee system adequacy. Introduction of environmental requirements" notified by the Italian State in 2019. In the second half of 2020, Tirreno Power submitted its replies to the briefs submitted by the parties involved in the proceedings.

PRODUCTION SCENARIO

The energy injected in the period amounts to 4.15 TWh, down 0.87 TWh compared to 2019.

The following table provides details of the energy injected, with respect to the same period last year, broken down by unit and plant:

Energy Injected (GWh)	31/12/2020	31/12/2019	Changes
Combined Cycles	4.147	5.019	*(872)*
- TV5	1.070	1.312	*(242)*
- TV6	467	465	*2*
- VL5	1.265	1.913	*(648)*
- NA4	1.344	1.329	*15*
Renewable Sources	166	178	*(12)*
Total	4.313	5.197	*(884)*
By plant			
Vado Ligure	1.265	1.913	*(648)*
Torrevaldaliga	1.537	1.777	*(239)*
Naples	1.344	1.329	*15*
Genoa	166	178	*(12)*
Total	4.313	5.197	*(884)*

(source: Company database)

The drop in production compared to the previous year concerned in particular the VL5 plant mainly as a result of the worsening of market margins. The VL5 plant was also shut down in the last two months of the year for scheduled maintenance. The main activities carried out were the general overhaul of the steam turbine (high and medium pressure) and the HGPI (Hot Gas Path Inspections) of the two gas turbines.

The TV5 plant was also affected by the worsening of market margins, but in this case the drop in production was mitigated by the increased operation in the Dispatching Services Market.

Hydroelectric production recorded a decrease of 12 GWh compared to the previous year due both to the low rainfall in the first part of the year, and to the shutdown of the Bevera, Airole and Argentina plants, severely damaged by the flood events in October.

Plant maintenance

As regards the Vado Ligure plant, during 2020 the planned shutdown was carried out, including, on both gas turbines, the inspections of the hot parts (HGPI) originally scheduled at the beginning of 2021. The annual shutdown, scheduled in the months of March and April, was postponed to November 2020 due to the COVID-19 pandemic. Maintenance work began on November 1 and ended on January 13, 2021. The conclusion of maintenance activities, initially scheduled for December, was postponed in January due to the need to repair a crack found on the high/medium pressure rotor of the steam turbine and to the delays related to the COVID-19 emergency in the supplies of components by third parties.

During the reference period, with regard to the Vado Ligure Plant, no accidental events took place which were significant in terms of duration or technical interest.

At the Torrevaldaliga Sud plant, a scheduled shutdown was carried out on the TV5 unit from February 22 to April 15 on the TGA, while from February 29 to April 1 activities were carried out with the entire unit under maintenance.

The main activities concerned: the upgrade of the rotor on the gas turbine A (Package 5), the extraordinary check and overhaul of the regulating valves and the drains on the GVR A and B, the replacement of the axial oil pump of the steam turbine and the replacement of the tie rods on the discharge pipe of the TGA.

Similarly to what was done on the TV5 unit, the annual scheduled shutdown of the TV6 unit was carried out from July 27 to September 1.

The Napoli Levante plant carried out the scheduled shutdown from February 10 to 21 inclusive.

The main shutdown activities were: the DCS upgrade to the Symphony Plus system, the preventive replacement of the water circulation pump motor (PAC20), the restoration of the thermal insulation of the GVR and the cleaning of the condenser.

From September 14 to 30, the NA4 unit carried out the second part of the annual shutdown initially envisaged in the one go.

As regards hydroelectric plants, the planned adjustment works in respect of the 1000-year flood of the Zolezzi dam continued in the Municipality of Borzonasca, commenced in 2019.

In the second half of 2020, and in particular from October, the Airole, Bevera and Argentina plants were impacted by the flood that affected the Roja and Argentina valleys in the province of Imperia, causing considerable damage to the intake works and the plants.

Damage due to flooding on October 2 - 3, 2020.

In the night between Friday 2 October and Saturday 3 October, a flood event called “Storm Alex”, of catastrophic proportions, struck in the Roja and Argentina valleys (province of Imperia). The resulting flood waves affected and severely damaged most of the Tirreno Power plants along the two waterways and, in particular, the Bevera, Airole and Argentina plants. The three plants affected by the event are run-of-river plants, therefore there are no basins but only intake works upstream of the plants.

The extent of the damage, which, considering the impossibility of going to all the sites damaged by the event due to the failure to restore some of the access routes to the plants, was currently assessed also by means of photographic surveys carried out with the use of drones, appears to be as such as to require more than one year to restore full functionality. At present, the best estimate of the damages suffered has been made, but the assessments made can be better defined only after the complete removal of the debris present and the possibility of accessing parts of the plant that cannot be reached today due to the debris themselves or the blocked roads.

Consequently, at the time of this financial statements i) it was necessary to derecognise from company assets the fixed assets destroyed or damaged, no longer usable in the production process, for a net reported value of Euro 1.9 million and ii) the best estimate of the operating costs the Company will need to incur to restore operations of the plants was recognised in a provision for risks amounting to Euro 8.8 million, net of the amount already spent.

In particular, the extent of the damages to the plants is today estimated at roughly Euro 15.4 million, of which Euro 6 million relating to replacements and/or refurbishments (investments) that, will be capitalised at the moment the relevant costs are incurred, and Euro 9.4 million relating to overhauls/repairs/removals (operating costs). At the moment, it should be noted that, with reference to the latter, roughly Euro 0.6 million has already been spent.

The Company is covered by an “All Risks Property” insurance policy to cover direct and indirect damages and therefore the claim was immediately reported. The insurer initiated the claim and appointed its own expert, also carrying out the first inspections. The preliminary estimate of the damages suffered was communicated to the expert, taking into account the excess, which in this case amounts to 20% of the ascertained damage.

With reference to the insurance reimbursement, since it is an amount that does not possess, at the date of these financial statements, any requirement of objective certainty, is to be considered as a “Contingent asset” that will be recorded in the financial statements in which the related reimbursement will be payable.

ENVIRONMENT AND SAFETY POLICY

Introduction

In 2020, in order to make its activities increasingly sustainable not only from an economic but also an environmental and social point of view, the Company continued to aim at achieving high levels of protection of the local areas in which it operates, the safety of workers, both internal and of third-party companies, and the control of all aspects that have potential social and reputational effects.

The Sustainability Policy sets out the Company's founding values and the guidelines for implementing a process of sustainable development, and is the reference applied by the site's Environmental Policy, present in the Environmental Statements of the EMAS registered thermoelectric plants, or which have obtained the UNI EN ISO 14001:2015 certification. In the latter, the heads of the production units specify the commitments, objectives and actions they intend to put in place to improve the environmental performance of the site, taking due account of both the results of the analysis of the context in which the plant operates, and satisfaction of the Compliance obligations, i.e. the requirements that the Company is required to comply with, or which it has voluntarily chosen to comply with. This document favours a more rational management of the Company's environmental aspects on the basis not only of compliance with legal limits, but also of the continuous improvement of its environmental performances, the active participation of employees and transparency with institutions and the public.

The organisation

In order to effectively achieve the maximum levels of environmental protection, the Company's organisational model provides special powers of attorney with which the General Manager assigns the Heads of the Production units full powers for the fulfilment of the duties related to the protection of the environment, of workplace health safety and of plant safety.

To consolidate its process of sustainable development, in an integrated way with the strategic priorities of the business, the Company has established the Sustainability and Environment operating unit, which, by identifying the most relevant issues through stakeholder mapping (at national and local level) and the materiality analysis, reports the results obtained through the Sustainability Report externally and within the Company.

Environmental management tools

The Company has chosen to acquire the EMAS registration (Eco Management and Audit Scheme), the most prestigious environmental certification in Europe.

In 2020, these registrations were maintained and renewed for the Torrevaldaliga and Naples sites; for the first site, it will be valid until 04/07/2022 and, for the second, until 05/20/2023. The Vado Ligure plant, on the other hand, implements an ISO 14.001:2015 certified Environmental Management System and on July 2, 2020 the Certification Institute arranged for the renewal of the certificate, making provision for its expiry on May 15, 2023.

Training and information

Environmental and sustainability training and information are used to improve employees' skills and to increase their professionalism and strengthen their cohesion and sense of belonging to the Company. During 2020, activities continued aimed at staff training, including distance training, on environmental issues, taking into account the evolution of applicable regulations.

Furthermore, the communication of corporate values: Participation, Ethics, Environment, Well-being and Local Areas took shape and were incorporated in five posters distributed in all company offices and plants.

An Awareness-Raising Plan was launched regarding these corporate values in 2020, aimed at all employees.

Environmental and sustainability reporting

The environment management systems of certified sites provide periodic reports on environmental data and performances that are subject to management review for the analysis of any comments and non-conformities that have emerged during the audits, in order to identify and implement the necessary corrective actions. EMAS certified sites update the public on their environmental performances through the *Environmental Statement*.

During 2020, with the involvement of a sizeable portion of the employees, quantitative and qualitative data was collected, required by the GRI Sustainability Reporting Standards for the corporate reporting of the non-financial aspects of its business that have the most significant impacts on stakeholders (local communities, employees, environment). The contents of the 2019 Sustainability Report are also available on-line in a special section of the new company website.

The main environmental events

The procedures for the overall review of the Integrated Environmental Authorisation for large combustion plants launched in implementation of the provisions of Italian Decree no. 430 of November 22, 2018 of the MATTM (Italian Ministry of Environment and Land and Sea Protection) are in the process of being completed.

For the Napoli Levante Plant did the MATTM send, on June 17, 2020, the final preliminary opinion and the proposal for a monitoring and control plan, giving the operator the right to present any observations within 30 working days. Having obtained the observations, on 12/17/2020 the MATTM called the synchronous Conference of Services (CoS) for the 2/3/2021 for the release of the AIA integrated environmental authorisation) review measure. We are now waiting for the Italian Minister to sign the AIA review decree.

For the Vado Ligure plant, on December 15, the MATTM sent the final preliminary opinion and the proposal for a monitoring and control plan relating to the overall review of the AIA, giving the operator the right to present any observations within by January 25, 2021. We are now waiting for the Conference of Services to be convened by the MATTM and for the Italian Minister to sign the AIA review measure.

From the moment the new AIAs - integrated environmental authorisations - are issued (the issue times are uncertain owing to the many preliminary investigations that the MATTM must carry out) they will have the following duration: AIA Vado Ligure 12 years; AIA Naples and Torrevaldaliga Sud 16 years.

In light of the regulations issued for participation in the auctions for the Capacity Market in November 2019, the Company conducted assessments on the development of new plants to be offered as "unauthorised capacity". While waiting for a new regulation to define the reference context for the complete assessment of these projects, the Company has undertaken some preparatory actions for the possible participation in the new auctions in the coming years, including the presentation on November 9, 2020 of the following requests to the competent Authorities:

- for the Civitavecchia site, an application for an EIA was sent to the MATTM and the Italian Ministry of Cultural Heritage for the construction of the TV7 unit and the demolition of the former TV4 section and, on November 10, 2020, the application for Single Authorisation was submitted to the Italian Ministry of Economic Development pursuant to art. 1 of Italian Law 55/02;
- for the Vado Ligure site, an application for an EIA was sent to the MATTM and the Italian Ministry of Cultural Heritage, for the construction of the VL7 unit and, on November 10, 2020, the application for Single Authorisation was submitted to the Italian Ministry of Economic Development pursuant to art. 1 of Italian Law 55/02.

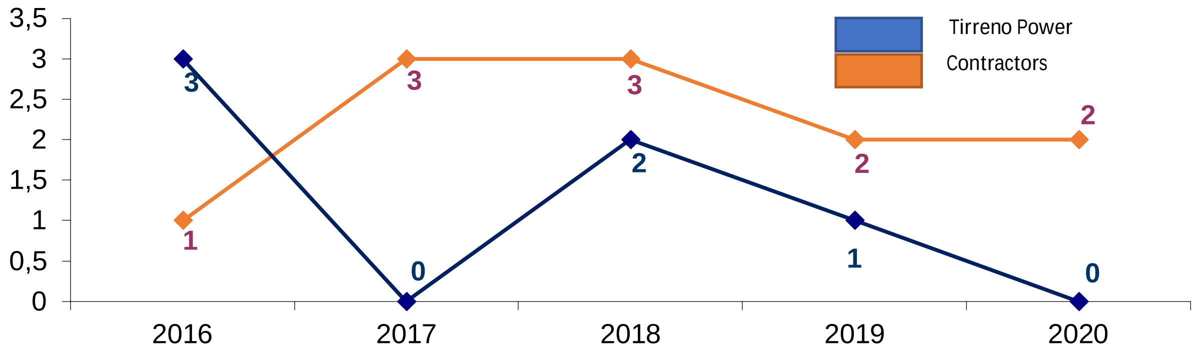
Safety management systems

The Company pays special attention to safety-related problems.

Through the management systems, continuous monitoring of safety aspects is carried out both on Tirreno Power personnel and on the staff of third-party companies.

One of the most closely monitored aspects is the number of accidents.

The following graph shows the number of accidents that have occurred in the past 5 years (2016-2020).



In the reference period (2016-2020), the maximum number of days of absence due to accidents suffered by Tirreno Power personnel was 36 days. As regards contractors, it should be noted that, on July 20, 2020, a serious accident occurred at the Vado Ligure plant, which led to the death of a worker from a contractor company during the reassembly of a refrigerant.

The causes of the event are not currently known, since the investigations of the competent authorities are in progress, but the death could have been the result of the presumed crushing by a machinery component undergoing maintenance. During the works, there were no employees of the company Tirreno Power, as the maintenance activities were carried out completely independently by the contractors.

To date, no party has been included in the register of suspects, so the proceedings are pending against unknown persons. The area affected by the accident, which was immediately placed under seizure, was subsequently released on October 5, 2020, becoming available to the Company again.

During 2020, Tirreno Power staff continued to use the application called "Safety App" from their smartphone, which allows any near miss (i.e. incidents which, through pure chance, did not turn into accidents) to be communicated in real time to the Head of the Prevention and Protection Service (RSPP) of the site. In 2020, 19 near misses were recorded and managed.

Using the same app, it is also possible to report any situations involving a potential hazard, also in the environmental field, as well as flag any company safety issues. This innovation makes it possible to optimise and speed up the communication method, also making the management of reports from the competent staff more habitual and easy to document.

The programme for monitoring work activities during scheduled maintenance shutdowns was reduced as a result of the COVID-19 emergency, with the aim of fully resuming as soon as the epidemic situation makes it possible.

During 2020, a series of initiatives were put in place due to the coronavirus pandemic in order to avoid the spread of the infection, including:

- the use of Personal Protective Equipment;
- the use of agile work mode (smart working) for all non-essential personnel;

- the compilation of a self-declaration upon entry to the sites and the measurement of body temperature upon entry to the site;
- regulation of access to the control rooms, safety procedures and shift lines;
- periodic cleaning and sanitisation;
- the correct management of air conditioning and extraction systems;
- the continuation of health surveillance, including exceptional;
- the regulation of maintenance activities, both accidental and scheduled;
- regulation of in-person meetings, business trips and training.

All Tirreno Power sites are certified according to the UNI ISO 45001 standard (which replaced the BS OHSAS 18001), which defines the requirements of the Worker Health and Safety Management System. During 2020, the process of adaptation to the standard was completed with the certification of the Ligure hub and the Rome office.

Compliance with these requirements is verified by a qualified body, which, in the event of a positive outcome, issues the relevant Certificate.

Training, information and education

During 2020, training activities on occupational health and safety were affected by the COVID-19 pandemic emergency; in fact, the various Italian Decrees of the President of the Council of Ministers (DPCM) issued by the government suspended all in-presence training activities, until the DPCM of June 11, 2020, allowing only remote activities.

During 2020, the provision of mandatory trainings was completed, and partially those on a voluntary basis; some voluntary courses have been rescheduled for 2021.

Risk Assessment Documents (DVR)

During 2020, the various sites continued to update the Risk Assessment Document, where necessary, in compliance with the provisions of Italian Legislative Decree 81/08 and subsequent amendments and additions.

Tirreno Power, similar to the behaviour adopted by other operators in the sector, did not see fit to revise the risk assessment documents of each site for the part relating to the biological risk, since the COVID-19 infection does not represent a specific risk of its productive processes.

However, an addendum to the biological risk has been included containing:

- the classification of "low risk" in accordance with what is defined in the INAIL (National Institute for Insurance against Accidents at Work) Technical Document of April 2020, in which a matrix is applied that takes into account the exposure, proximity and aggregation variables, and also provides some guidelines relating to prevention strategies, which are in line with what has been adopted by our Company;

- the regulatory references, the indications of the health authorities and the corporate documents to be adopted to deal with the spread of the pandemic.

INVESTMENTS AND DEMOLITIONS

During 2020, the Company made investments totalling Euro 43,212 thousand, of which Euro 42,336 relating to tangible fixed assets and Euro 876 thousand to intangible fixed assets.

The Company defined an organic plan of investments for all productive units, in order to improve plant performance, to be completed by 2021, before the entry into force of the Capacity Market.

With regard to tangible fixed assets, the investments mainly concerned:

- for the Napoli Levante plant (Euro 9,443 thousand) the advance of the HGPI (Euro 6,700 thousand) that will be carried out in the next shutdown scheduled for 2021, the installation of the “autotune” system (Euro 700 thousand), the upgrade of the DCS system (Euro 348 thousand), as well as the activities carried out during the planned shutdown carried out from February 10 to 21, 2020;
- for the Vado Ligure plant (Euro 20,763 thousand), the HGPI on both gas turbines (Euro 13,858 thousand), the advance relating to the purchase of the alternator rotor (Euro 3,000 thousand), the installation of the “autotune system” (Euro 1,300 thousand), the installation of the new auxiliary electric boiler (Euro 289 thousand), the upgrade of the DCS system (Euro 369 thousand), the other activities carried out during the planned shutdown, as well as the completion of the safeguard works of VL5;
- for the Torrevaldaliga Sud plant (Euro 10,032 thousand), the upgrade of static starters and exciters (Euro 1,680 thousand), the renewal of the osmosis system (Euro 1,287 thousand), the upgrade of the DCS system (Euro 1,203 thousand), the scheduled maintenance on TV5 and TV6 units, overhaul of rotating machinery and overhaul of valves;
- with regard to the hydroelectric power plants, Euro 1,729 thousand was invested, which mainly concerned civil works on the Ortiglieto dam (Euro 261 thousand), the adaptation of guard houses after seismic checks (Euro 159 thousand), the extraordinary maintenance of the rotary valves of the Ponte Vizzà plant (Euro 177 thousand), various activities at the Cairo plant, renovation of the roof of the plant and replacement of electrical cabinets (Euro 133 thousand), as well as various safety interventions.

Investments in intangible fixed assets are attributable primarily to new licenses and the development of software applications.

With regard to demolitions, note that:

- on July 3, 2020 the contract for the demolition of the Vigliena plant was signed;
- on September 11, 2020, the contract for the removal of insulation of the TV4 plant was signed;
- on January 8, 2021, the contract for the first lot of the demolition and insulation removal works of the VL3 and VL4 units of the Vado Ligure plant was signed.

With regard to the dismantling of the plants no longer in operation of TV4 (limited to removal of insulation) and Vado Ligure 3 and 4, the Company decided to ramp up these activities, in order to take advantage of the availability of the areas in the event that the company wanted to seize the opportunity of new projects for the development of new generation combined cycle plants. Moreover, the progress of these activities will in any case allow a saving in costs that would be incurred in the following years for the safe maintenance of the TV4, VL3 and VL4 plants.

HUMAN RESOURCES AND ORGANISATION

The whole of 2020 was greatly impacted by the COVID-19 health emergency.

The company, as manager of a public utility service, has put in place all the technical-organisational measures to ensure the production of electricity even in this delicate phase for the country. As regards the operational activities to be carried out at the production plants, specific internal procedures have been activated to guarantee the reduction of the risk of contagion, structured on the basis of the specific possible alert levels. A special union agreement was signed in mid-April 2020 to manage the maximum level of alert identified, which fortunately has not yet occurred. At the beginning of February 2021, the agreement was renewed in order to extend it until April 2021, date coinciding with the extension of the state of emergency of the Italian Decree Law no. 2 of January 14.

For all the other activities that can be carried out remotely, the generalised use of continuous smart working has been in place since the beginning of March, in compliance with the government provisions.

In “phase 1 of lock-down”, a critical phase of the emergency, smart working involved, on the whole, approximately 75% of the company population, recording up to 55% of staff simultaneously working in *smart working* mode. Starting from “phase 2”, in May, some activities suspended during the “lock-down” gradually resumed, such as ordinary and scheduled maintenance, while recourse to continuous smart working remained unchanged for activities that were not directly operational.

During the year, two surveys were conducted to measure the degree of appreciation of continuous smart working carried out in the previous months and to identify any critical issues experienced and to gather suggestions for improving their implementation. Overall, the general appreciation was high (4.2 out of 5.0), despite the presence of elements of improvement with regard to work equipment, such as data connection, PC, chair, monitor, which were the subject of the trade union agreement signed at the end of June, which dictates precise rules for the management of activities, and renewed in line with the extension of the state of emergency resolved by the Government.

During the first half of 2020, the company performance-related bonus was finalised for the objectives assigned in the year 2019. Based on the economic results achieved by the company in the reference year, for the profitability quota, the final balance was 120% of the basic calculation portion, while for the productivity quota, the results achieved by the organisational units led to an average company final balance of 92% of the basic calculation amount.

In relation to the new structure of the bonus defined in 2018, which makes it possible for workers to allocate an amount, up to a maximum limit of 60% of the total bonus available, to alternative forms aside from salary payments, each employee had the possibility to choose how to spend the bonus amount which they were the beneficiary of.

The final allocations were as follows:

- 115 out of 222 employees (around 52%, compared to 54% in 2019) elected for the payment of the entire bonus in cash;
- 61 employees (around 27% compared to 37% in 2019) took the option to receive a portion of the bonus in cash and the remainder in the form of welfare and/or supplementary pension;
- 46 employees (around 21% compared to 9% of 2019) allocated the entire bonus to welfare and supplementary pension.

The decision to avail of the company welfare initiatives provided by the company or company supplementary pension and, that is, the institutions that are the recipients of special legislation governing contribution and tax concessions, reduced the tax wedge, allowing employees to maximise the value of the bonus received and, correspondingly, allowing the company to reduce its contribution.

The cost of the performance-related bonus is equal to Euro 0.9 million (including the related contribution charges) and was disbursed from July 2020.

Starting from September 1, 2020, in application of the provisions of the National Collective Labour Agreement for the electricity sector, the increase in the contractual minimums was paid to employees with an increase of approximately Euro 36 per month on average equal to 1.4%, in absolute value, with an impact on the total cost of labour of approximately 0.7%.

In consideration of the average age of the employees on the workforce, which stands at around 50 years old, and the simultaneous lack of millennials, a turnover process was planned, to be implemented from 2020.

For these reasons, on December 23, 2019, all personnel were informed of a determination by the General Manager which made provision for a voluntary redundancy plan, valid for the three-year period 2020-2022, targeted at all employees who had already accrued or who will accrue the pension right before December 31, 2026 and who terminate their employment contract up to a maximum of four years early.

Participation in the plan was on a voluntary basis and could be carried out by November 30, 2020 and had led to the recognition in the previous financial statements of a provision of Euro 5 million.

A trade union agreement was signed on February 17, 2020 that supplemented the company decision by recognising a further contribution to cover the costs for the maintenance of corporate welfare institutes (ARCA, FISDE and FOPEN), as well as an additional bonus linked to timely participation in the plan.

In June 2020, an additional provision of approximately Euro 6.4 million was allocated to cover the higher costs caused by the greater number of requests for participation received than those expected in December 2019.

In addition, by means of a notice to personnel on November 10, 2020, the Company also informed all employees of the possibility of voluntary redundancy also for personnel with pension rights in 2027, maintaining the exit period by 2022.

Overall, the redundancy plan saw the final participation of 44 employees out of the 51 potentially identified people (26 in December 2019 plus another 25 estimated at June 30, 2020 also by virtue of the expected extension of the incentive time perimeter to December 31, 2027).

In particular:

1. of the initial 26 employees took part in 20 with an incentive saving of approximately Euro 1.5 million (including the recalculations of the actual amounts due to the participants defined on the basis of the date of accrual of the right to pension and the date of effective exit from the company);

2. of the subsequent 25 employees, initially not included because they are not included in the scope of possible recipients of the Determination based on the information available to the company, only 24 were found to meet the requirements. Therefore, as a result of the recalculations of the amounts of the incentive defined on the basis of the date of accrual of the right to pension and the date of effective termination of the employment relationship, an additional saving of approximately Euro 0.8 million was determined.

As a result of the increase in the estimate of June 2020, partially offset by the reductions highlighted above, the redundancy plan amounted to a total of approximately Euro 9.1 million.

With regard to the timing relating to terminations of employment relationships, it should be noted that, in 2020, the employment relationship was terminated with 3 employees, while in 2021 and 2022 there will be respectively 19 and 22 exits.

Depending on the professional profiles involved in the redundancy, the replacement rate of terminated personnel will be around 90%, while guaranteeing an adequate number of employees at a cost that will be reduced in line with the considerable reduction in the average age of employees.

In fact, although the exits are expected to take place essentially from the first few months of 2021 until the end of 2022, the Company promptly started, with the support of a company specialised in the field, the selection process for those professional figures who require a significant period of training and coaching.

During 2020, 14 searches were launched throughout the country and over 2,000 CVs were collected. The first screening reduced the number of suitable profiles to around 300, who were involved in logical-aptitude tests and motivational interviews. The results of this first contact returned the 130 best candidates who were involved in group assessments conducted in virtual classrooms, to select the 50 to be subjected to individual technical-motivational interviews.

For entry into the company, flexible contractual forms are envisaged depending on the profiles with the use of internships, fixed-term and open-ended contracts.

As part of the placements in the Plants, an internal training course lasting 6 months was initiated in collaboration with the Department of Industrial Engineering of the University of Naples Federico II.

Due to the health emergency, the theoretical part was largely managed through lessons on digital platforms. From January 2021, the young candidates will be involved in a mentoring and training course with internal personnel in preparation for covering the intended role.

In the first two months of 2020, the project started in October 2019 for the involvement of employees through "outdoor training" continued. Around 100 workers from all locations were involved in 4 territorial experience-based training events, to take part in activities and participate in discussions on the theme of trust and team-building.

The outdoor events also offered the opportunity to reward the staff identified in the Contest "TP Talents", a project launched in 2019 to collect accurate reports from employees on approaches and behaviour that actively contribute to the growth of the company.

The contest supported the classical meritocracy instruments, with the aim of involving all employees in identifying colleagues worthy of recognition for their daily efforts.

Each application was associated with one of Tirreno Power's institutional skills. The contest excludes the possibility of nominating managers, plant managers and managers of organisational units.

In this first edition, 102 applications were collected, which a specific internal committee assessed in terms of significance, identifying 19 deserving employees to whom bonuses were paid.

Also on the training front, COVID-19 has required a review of the delivery methods, to the advantage of distance training, where possible. The possibility of activating e-learning and live streaming courses was agreed with the suppliers of these services, with catalogues which gradually expanded throughout 2020.

The Company has enhanced the internal e-learning platform and has identified new suppliers for distance learning, proposing traditional topics (managerial, technical, environmental and safety training) and courses dedicated to digitalisation, with workshops in live streaming and on-line short clips for optimal use of Microsoft Office collaboration tools (Planner, Teams...).

In quantitative terms, the whole of 2020 saw the delivery of approximately 7,500 hours of training for a total of about 190 employees. More than half of the training hours were provided using on-line platforms and methods, a significantly higher percentage than in previous years.

Information & Communication Technology

Continuing with the approach adopted in the previous year, which saw the release of the application for the management of the offer requests and the contract assignment and approval reports, during 2020, the functionality for management of the Vendor Rating processes was released. In addition, an analysis was carried out for the activation of a simplified method of approval and signature directly from smartphones and the ability to manage and sign any digital document (application) through a controlled process that, nevertheless, makes it possible to vary the processes of approval and the involvement of different actors without the need for pre-established workflows beforehand. The release of these new features is expected in 2021.

In the last quarter of 2020, the application for the management of company assets and the related module for calculating taxes were released; document management and integration with the company ERP will be implemented in 2021 for the automation of the related accounting records.

The project for the migration of the infrastructures and applications used by the Energy Management department was completed in 2020.

To meet the need to have a tool capable of representing, through the use of a special app, the economic, financial, management and functionality situation of the plants in a rapid, effective and timely manner, a solution based on the Microsoft Power BI application was implemented.

For the hydroelectric operations, an app dedicated to the collection of data from the field and the management of the daily diaries drawn up at the individual plants was implemented. In addition, the digital work assignment functionality is being developed and is expected to be released by the first half of 2021.

In the thermoelectric field, an application is being developed for the digitalisation of the shift manager register and field readings. In December 2020, the first functionality was released for testing; the final release of the entire application package is expected next year.

In the infrastructural domain, a system was implemented in 2020 that is able to correlate events from hardware and software systems on the network, with the aim of proactively identifying the spread of cyber threats.

The consolidation of the Single File Server was also completed, which provides users with a centralised folder structure and the possibility of accurately managing access permissions.

In compliance with the remediation plans identified to meet cyber and privacy regulations, multi-factor authentication procedures have been implemented for VPN (Virtual Private Network) access, and the new MDM (Mobile Device Management) system has been released, which ensures the security of the company data managed on mobile devices provided to personnel.

In addition, to allow employees to operate in smart working mode in response to the COVID-19 emergency, the VPN licenses necessary for secure connection to the corporate network have been increased and the tariff plans of the SIMs supplied have been adjusted to offer a larger amount of traffic, to be dedicated to remote connections.

Purchases, Services and Security

As highlighted above, in synergy with the ICT structure, the project for the computerisation of the purchase process was completed with the implementation and start-up of the qualification and vendor rating functionalities and the IT system for the management of real estate assets was implemented.

In December 2020, in line with the company policy and procedures relating to risk management with regard to Cybersecurity, the Company integrated prevention and mitigation strategies with those of optimisation and transfer of risk on the insurance market, stipulating a “Cyber” policy with a leading insurance company.

Obligations regarding Italian Legislative Decree no. 231/01

During 2020, the Model updated in 2018 was implemented and a Mandate was given to Studio Orrick to update the Model with the inclusion of the new predicate offences.

The Model was updated and approved by the Board of Directors with resolution of November 25, 2020. The Model was reviewed as a whole and updated with the inclusion of the so-called “Tax Offences”. Italian Decree Law no. 124 of October 26, 2019 (so-called “Tax Decree”), converted with amendments by Italian Law no. 157 of December 19, 2019, introduced, within Italian Legislative Decree 231/2001 (“231 Decree”), art. 25-quinquiesdecies (entitled “Tax Offences”).

The amendments made to 231 Decree in relation to Tax Offences led to a targeted update of the Model, in order to acknowledge the introduction of these cases from a dedicated perspective and prepare a new Special Part of the Model (“Special Part 10 – Tax Offences”).

At the same time as the update aimed at incorporating the changes regarding tax offences, the opportunity was taken to update the Model as a whole.

A risk analysis was also carried out following the entry into force of Italian Legislative Decree no. 75 of July 14, 2020, implementing Directive 2017/1371/EU “*relating to fight against fraud to the Union's financial interests by means of criminal law*” (the so-called “PIF Directive”), which took place on July 30, 2020. Italian Legislative Decree no. 75/2020 made some changes to the Italian criminal code and intervened directly on 231 Decree, introducing new predicate offences.

The analysis showed that the changes made have no substantial impact on the activities carried out by Tirreno Power. In any case, all the regulatory references introduced by Italian Legislative Decree 75/2020 have been included in the Model and some supplementary principles have been envisaged, from a prudential perspective, as part of the Special Part dedicated to offences in relations with the PA and the Special Part dedicated to Tax Offences. The Supervisory Board reported positively to the Board of Directors on the effectiveness of the Model for the prevention of predicate offences.

Obligations for compliance with Regulation EU 679/16 regarding personal data processing (“GDPR”)

The GDPR - General Data Protection Regulation - i.e. the European privacy regulation approved on April 14, 2016, directly applicable to EU member states, which rolled out a new regulatory framework governing personal data protection, entered into force on May 25, 2018. In Italy, the regulation was completed with Legislative Decree 101/2018, adjusting the Italian legislation into line with the European regulations.

In order to comply with the regulatory obligations governing personal data protection set forth in the GDPR, the company, among other things:

- appointed, pursuant to art. 37 of the GDPR, on May 25, 2018, Ivan Rotunno, from Studio Orrick, Herrington & Sutcliffe, as Data Protection Officer, who was assigned the task of ensuring that the personal data are processed correctly;
- conducted an analysis of the gaps with respect to the GDPR;
- prepared a summary document and a set of disclosures and appointments of entities authorised for data processing and of external managers;
- adopted a privacy manual that summarises the contents of the GDPR;
- prepared a data processing register.

After having fulfilled the regulatory obligations regarding personal data protection (GDPR), in 2020, the Company conducted checks on the data processors, identified the DPO representatives and carried out training activities for its employees.

By means of resolution of the Board of Directors of April 28, 2020, the Company renewed the DPO appointment for one year.

AUDIT Committee

The company also has an Audit Committee which supervises the Internal Audit activities, reporting the results to the Board of Directors every six months.

Risk management

For a detailed analysis of risk management, please refer to the Explanatory Notes in the section “Type of risks and management of hedging activities”.

OPERATING PERFORMANCE DURING THE YEAR

The criteria used for the construction of the reclassified statements that contain alternative performance indicators with respect to those obtained directly from the financial statements are reported below:

Gross operating profit: an operating performance indicator, calculated as "Operating profit" plus “Amortisation, depreciation and write-downs" and "Provisions".

EBITDA: an operating performance indicator, calculated as "Operating profit" plus “Amortisation, depreciation and write-downs."

Net fixed assets: calculated as the difference between the "Non-current assets" and "Non-current liabilities" with the exception of:

"Payables for loans";

"Provisions for risks and charges";

"Post-employment and other employee benefits";

"Deferred tax liabilities".

Net working capital: defined as the difference between "Current assets" and "Current liabilities" with the exception of:

"Payables for loans";

"Cash and cash equivalents";

"Provisions for risks and charges";

the bank current account advances and bank current account debt exposures included in "Other current financial liabilities".

Net capital employed: calculated as the algebraic sum of "Net current assets", "Net working capital" and provisions.

Net financial debt: defined as the sum of “Payables for loans", the bank current account advances and bank current account debt exposures included in "Other current financial liabilities, net of "Cash and cash equivalents" not previously considered in the definition of other balance sheet performance indicators.

Return on Investment (ROI): defined as the ratio between Operating profit and net average capital employed (opening and closing).

Return on Sales (ROS): defined as the ratio of Operating profit to total revenues.

Equity yield: defined as the ratio between the net profit and the share capital plus the share premium reserve.

Unit revenue from energy sales (€/MWh): calculated as the ratio of revenues from energy sales for the period to energy sales in the period.

Incidence of financial expenses on total revenues: defined as the percentage ratio between the financial expenses in the period and the total revenue for the period.

ENERGY BALANCE

Electricity sold in 2020 totalled 6,944 GWh, a decrease of 1,296 GWh compared to the previous year. The lower sales volumes are attributable to the decline in sales in the Day-Ahead Market (MGP). The ongoing health crisis has, in fact, led to a significant contraction in electricity demand, especially in March, April and May.

On the other hand, sales in the Dispatching Services Market (MSD) increased. The low demand, with a consequent higher share of demand covered by renewable sources, in fact has had significant effects on the MSD market. The demand from Terna for ancillary services aimed at guaranteeing the stability and safety of the electricity grid, to prepare adequate reserve capacity with respect to the estimated needs, to maintain adequate voltage profiles on the grid and to manage the congestion of energy flows between market areas, increased significantly.

The energy balance is presented below with a reconciliation of the quantity of energy purchased and unbalanced that makes it possible to reconcile the volumes sold with the actual energy injected to the grid.

nergy balance (GWh)	12.31.2020	12.31.2019	Changes
Energy injected	4.313	5.197	*(884)*
Energy purchased	2.674	3.083	*(409)*
Energy sold	6.944	8.240	*(1.296)*
-on free market	1.940	1.467	*473*
-on Power Exchange - day-ahead market	4.005	5.972	*(1.966)*
-on Power Exchange - dispatching services market	998	802	*197*
Imbalances	(44)	(41)	*(3)*

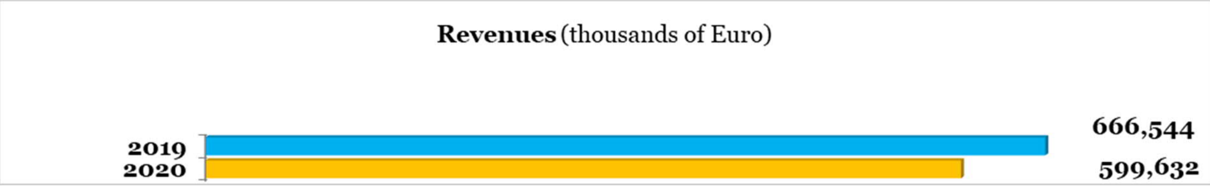
The energy sold "on free market" refers to the bilateral agreements, while that "on Power Exchange" refers to the energy sold on the Day-Ahead Market (MGP), to the dispatching market and to the GSE for the incentivised sales for energy from renewable sources.

RECLASSIFIED INCOME STATEMENT

The values of the reclassified income statement are reported in Euros, without decimals. For a better disclosure, comments on the individual items are expressed in thousands of Euro.

(in Euro)	12/31/2020	12/31/2019	Changes
Revenues	599,631,870	666,543,804	(66,911,935)
Other revenues	3,694,030	5,430,443	(1,736,413)
Total revenues	603,325,900	671,974,247	(68,648,347)
Own work capitalised	953,424	768,777	184,647
Consumption of raw materials	(258,518,231)	(367,935,963)	109,417,732
Personnel costs	(21,683,139)	(20,928,837)	(754,302)
Service costs	(17,310,530)	(15,937,006)	(1,373,524)
Other costs	(51,166,290)	(54,761,504)	3,595,214
Total costs	(347,724,766)	(458,794,533)	111,069,767
Gross operating profit	255,601,134	213,179,714	42,421,420
Provisions	(27,538,563)	(3,048,944)	(24,489,619)
EBITDA	228,062,570	210,130,769	17,931,801
Amortisation, depreciation and write-downs	(58,111,852)	(54,489,777)	(3,622,076)
EBIT	169,950,718	155,640,992	14,309,725
Financial expenses	(8,945,008)	(16,712,270)	7,767,262
Financial income	698,038	442,203	255,835
Pre-tax profit	161,703,748	139,370,925	22,332,823
Taxes	(36,190,920)	27,727,987	(63,918,907)
Net income for the period	125,512,828	167,098,912	(41,586,084)

Revenues amounted to Euro 599,632 thousand, marking a decrease of Euro 66,912 thousand compared to the same period of the previous year.

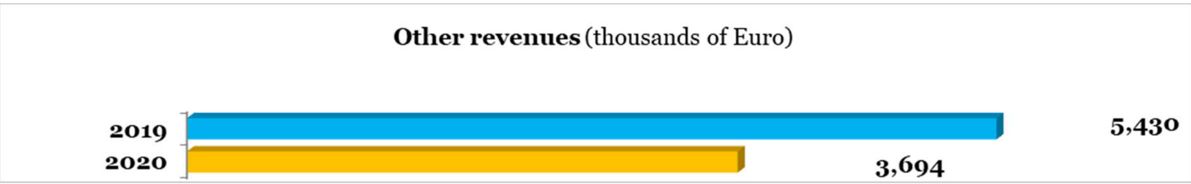


The breakdown of the item is summarised in the table below.

(in Euro)	12/31/2020	12/31/2019	Changes
Free market (other)	88,045,470	73,967,866	*14,077,604*
Power Exchange - day-ahead market	183,567,147	339,595,603	*(156,028,456)*
Power Exchange - dispatching services market	309,255,011	234,667,065	*74,587,946*
Hydro sales to GSE	10,585,211	9,456,437	*1,128,773*
Capacity payment	7,892,840	7,489,469	*403,371*
Other	286,191	1,367,364	*(1,081,173)*
TOTAL	599,631,870	666,543,804	*(66,911,935)*

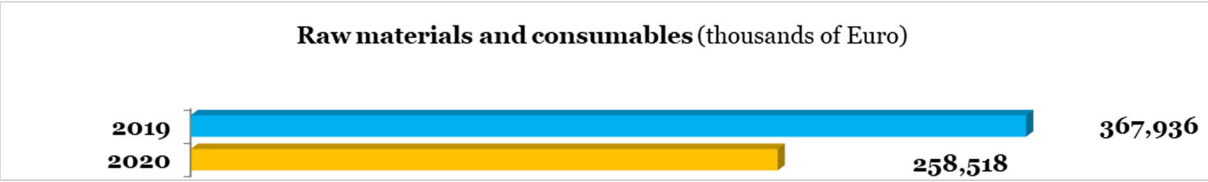
In particular, there was a significant decrease in revenues from sales on the MGP (day-ahead market) market due to lower sales (1,296 GWh) and the lower PUN - single national price - (approximately 13.45 €/MWh, equal to a decrease of 26%), partly offset by higher revenues deriving from ancillary services requested by Terna on the Dispatching Services Market. In this market, note the excellent performance of the Naples and Torrevaldaliga plants.

Other revenues amounted to Euro 3,694 thousand, compared to Euro 5,430 thousand in 2019, and are primarily attributable to the capital gains deriving from the sale of the areas of the Vado Ligure plant to the company Vernazza (Euro 1,864 thousand) and to the company Q-invest (Euro 684 thousand). Note should also be taken of the revenues from the sale of scrap (Euro 162 thousand), from the lease of non-operating assets (Euro 105 thousand), as well as contingent assets (Euro 955 thousand), mainly due to adjustments of revenues relating to previous years.



In 2019, the other revenues were mainly due to the contingent assets deriving from the release of the surplus of the energy discount fund following the agreement signed on July 13, 2018 with the trade unions (Euro 3,379 thousand).

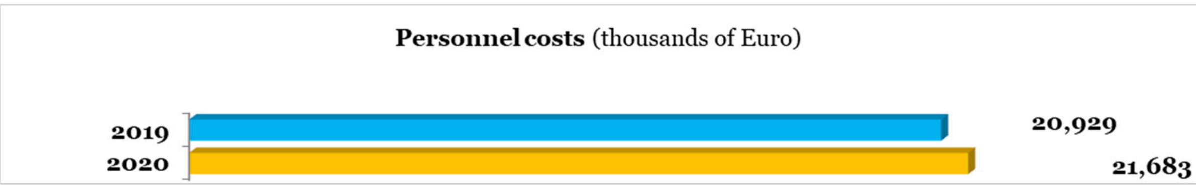
The cost of raw materials consumption amounted to Euro 258,518 thousand, a decrease of Euro 109,418 thousand compared to 2019.



The cost of fuel consumed in the period, equal to Euro 140,466 thousand, decreased by Euro 84,867 thousand compared to the cost incurred in 2019, due to both a volume effect (gas consumption decreased by approximately 15% following lower production), and a price effect (the weighted average price fell by about 26%).

Charges related to the purchase of energy and trading on the power exchange amounted to Euro 115,605 thousand, a decrease of Euro 24,914 thousand compared to 2019. This reduction mainly derives from the lower purchases on the dispatching services market (Euro 30,622 thousand) as a result of reduced operations on this market, especially for the VL5 unit (the energy repurchased in the dispatching services market fell by 59%). Higher purchases of energy from GME and from third parties were recorded (Euro 5,079 thousand), to deal with bilateral sales. Imbalance charges increased by Euro 1,564 thousand compared to 2019.

Personnel costs amounted to Euro 21,683 thousand, marking an increase (Euro +754 thousand) mainly due to the recognition of the costs of the LTI portion for the year (Euro 634 thousand), as it is now certain that, at December 31, all planned objectives will be achieved.

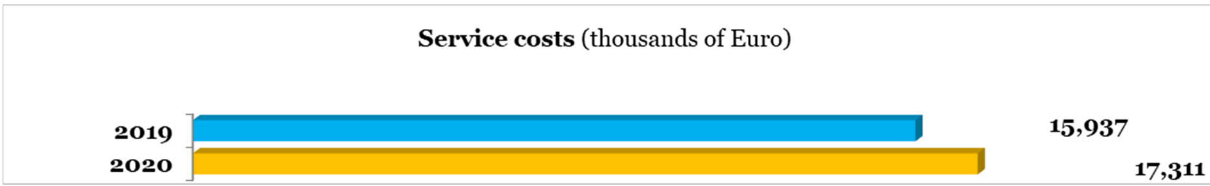


The table below shows the average amount per job classification in 2020, compared with that of the previous year.

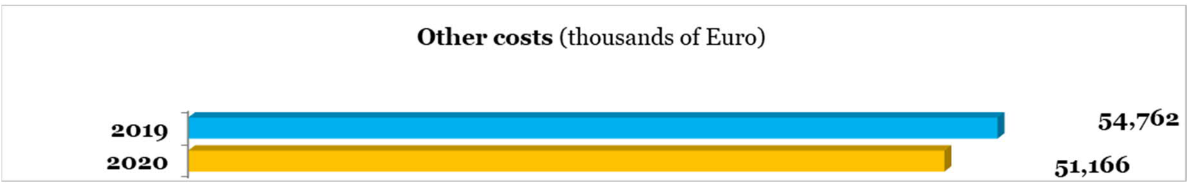
Average amount	12.31.2020	12.31.2019	Changes
Executives and Middle Managers	46.8	43.3	*3.6*
Employees	154.8	156.1	*(1.3)*
Workers	31.8	32.6	*(0.7)*
TOTAL	233.5	231.9	*1.6*

The headcount as at December 31, 2020 amounted to 232 employees, compared to 231 employees as at December 31, 2019.

Service costs in the period amounted to Euro 17,311 thousand, an increase of Euro 1,374 thousand compared to the previous year, mainly due to the costs incurred during the year for the restoration of damages to hydroelectric plants (Euro 560 thousand), to the professional services related preparatory studies for the creation of the new CCGTs (Euro 407 thousand) as well as the increase in insurance costs (Euro 141 thousand).



Other costs amounted to Euro 51,166 thousand, a decrease of Euro 3,595 thousand compared to 2019.

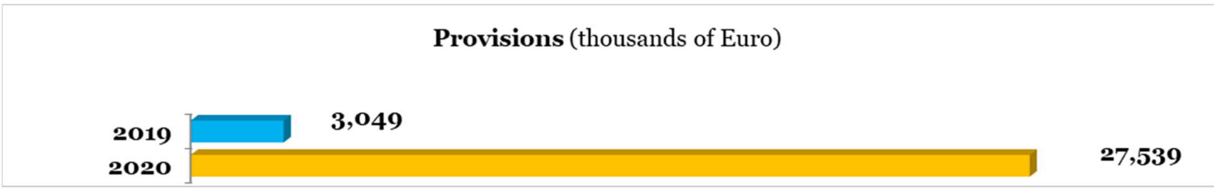


In particular, there were lower charges for emission rights for Euro 6,182 thousand, due to the significant decrease in emissions (-289 Kton) as a result of lower production. The CO2 enhancement weighted average price remained essentially stable (24.05 €/ton in 2020 compared to 23.55 €/ton in 2019). There were also higher capital losses from asset disposal (Euro 1,947 thousand), essentially due to the disposal of hydroelectric assets that were irreparably damaged by the flood in October, and higher costs incurred for the submission of EIA and Single Authorisation requests for the possible development of new combined cycle plants (Euro 1,185 thousand), as better specified in the paragraph "Main environmental events", as well as for the related accessory charges (Euro 214 thousand).

Gross operating profit came to Euro 255,601 thousand, compared to Euro 213,180 thousand realised in 2019.

Provisions amounted to Euro 27,539 thousand, and mainly related to:

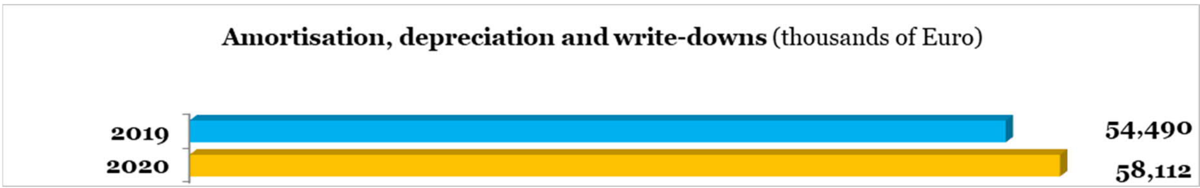
- the adjustment of the provision for dismantling the VL3 and VL4 coal-fired units for Euro 10,644 thousand;
- the adjustment of the TV4 dismantling provision for Euro 2,000 thousand;
- the estimate of the damages suffered by the hydroelectric plants following the flood in October for Euro 8,840 thousand;
- the adjustment of the voluntary redundancy provision for Euro 4,031 thousand;
- asbestos-related disputes for Euro 1,486 thousand.



In 2019, the allocations concerned, for Euro 5,000 thousand, the recognition of the provision for the voluntary redundancy plan, asbestos disputes for Euro 3,718 thousand, the adjustment of the TV4 dismantling provision for Euro 2,438 thousand. These provisions were partially offset by the positive effect deriving from the release of the VL decontamination provision (Euro 8,400 thousand).

EBITDA stood at Euro 228,063 thousand, marking an increase of Euro 17,932 thousand compared to the previous year. The substantial improvement in the year is due mainly to the higher market margins, especially in the Dispatching Services Market, and to a general reduction in all operating costs.

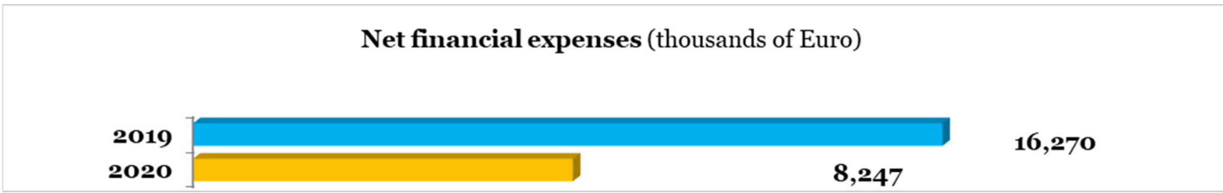
Amortisation, depreciation and write-downs (Euro 58,112 thousand) increased by Euro 3,622 thousand compared to 2019. The increase is mainly due to higher amortisation/depreciation deriving from the advance to December of the HGPI of VL5, expected in April 2021. Therefore, in 2020, the amortisation rates of the last maintenance work were increased according to the shorter duration of the same. There was also a write-down of Euro 1,030 thousand relating to the residual book value of the rotor of the VL5 unit, which was damaged during the inspection carried out at the time of the HGPI in December. The rotor will be replaced at the next scheduled shutdown.



The Operating Profit therefore amounted to Euro 169,951 thousand, compared to an Operating profit of Euro 155,641 thousand in the previous year.

In 2020, financial expenses of Euro 8,945 thousand were recorded, a decrease of Euro 7,767 thousand compared to the previous year, mainly due to the early repayment of the Tranches A and B of Term Loan lines, which occurred as a result of the "Cash sweep" mechanism and the prepayment. In particular, during 2020, a principal amount of Euro 43,642 thousand of Tranche A and Euro 183,324 thousand of Tranche B was repaid (equal to 73% of the total amount of the line).

Financial income amounted to Euro 698 thousand compared to Euro 442 thousand in 2019 and refers mainly to the contingent financial asset arising from the collection of Naples ETS credits (Euro 477 thousand).



Taxes as at December 31, 2020 amounted to Euro 36,191 thousand and essentially refer:

1. for Euro 8,900 thousand to the estimate of current IRES taxes (corporate income taxes) and, for Euro 8,850 thousand, to the estimate of current IRAP taxes (regional business taxes), calculated on taxable income;
2. for Euro 17,933 thousand, to the positive effect of the deferred tax assets recorded during the year and estimated to be recoverable in the period up until 2023, the year in which the current regulated Capacity Market system will expire;
3. for Euro 37,520 thousand, to the negative effect relating to the use of deferred tax assets relating mainly to tax losses;
4. for Euro 1,146 thousand, to the positive effect relating to the use of the deferred tax liabilities generated on previous excess and early tax amortisation.

The net profit for 2020 amounted to Euro 125,513 thousand (Euro 167,099 thousand in 2019). It should be noted that 2019 benefited from the positive effect (equal to Euro 34,822 thousand) deriving from the first recognition of deferred tax assets originating in 2019 and in previous years.

ANALYSIS OF THE CAPITAL STRUCTURE

Reclassified Balance Sheet

The values of the reclassified balance sheet are reported in Euro, without decimals. For a better disclosure, comments on the individual items are expressed in Euro.

(in Euro)	12/31/2020		12/31/2019 restated*		Changes
Net fixed assets					
Tangible and intangible assets	626,083,732		642,704,478		(16,620,746)
Other net non-current assets/(liabilities)	33,919,459		81,122,791		(47,203,332)
Total net fixed assets	660,003,191		723,827,269		(63,824,077)
Net working capital					
Inventories	61,049,580		65,529,266		(4,479,685)
- of which purchased emission rights	*48,354,611*		*52,694,440*		(4,339,829)
Trade receivables	82,492,420		72,582,584		9,909,836
Tax (payables)/receivables	(8,602,479)		(6,120,291)		(2,482,188)
Trade payables	(29,924,477)		(27,172,927)		(2,751,550)
Other net current assets/(liabilities)	(17,089,077)		(8,016,073)		(9,073,004)
Total net working capital	87,925,967		96,802,559		(8,876,591)
Non-current assets held for sale	-		864,755		(864,755)
Gross capital employed	747,929,158		821,494,582		(73,565,424)
Other provisions					
Provisions for risks and charges	(107,017,097)		(83,583,532)		(23,433,565)
Post-employment and other employee benefits	(5,639,103)		(6,127,944)		488,841
Deferred tax liabilities	(32,572,027)		(33,838,665)		1,266,638
Total other provisions	(145,228,227)		(123,550,141)		(21,678,085)
Net capital employed	602,700,932	100%	697,944,441	100%	(95,243,509)
Shareholders' equity	518,564,687	86%	393,426,335	56%	125,138,353
Net financial debt	84,136,244	14%	304,518,106	44%	(220,381,862)

** Some values reported in this column do not correspond with those shown in the financial statements as at December 31, 2019 as they reflect the adjustments made in application of IAS 8.*
For further details on the reclassification carried out, please refer to the "Changes in the accounting policy adopted with reference to CO_2 emission rights" paragraph in the notes.

Tangible and intangible assets show a decrease of Euro 16,621 thousand. The main changes concerned:

- amortisation/depreciation in the period amounting to Euro 58,047 thousand,
- investments in the period of Euro 43,212 thousand.

For details of investments made in the period, please refer to the appropriate section "Investments and Demolitions".

Other net non-current assets/(liabilities) show a decrease of Euro 47,203 thousand. This change is attributable to the decrease in the receivable for deferred tax assets (Euro 19,662 thousand), the collection of the annual 2019 VAT credit (Euro 26,500 thousand), the collection of the Naples ETS credits (Euro 10,211 thousand), partially offset by the increase in financial fixed assets attributable to the escrow deposit account (Euro 5,720 thousand) established for the demolition of the Vigliena plant and the security deposit in favour of SNAM rete gas for the design of changes to the methane gas pipeline in service of the Torrevaldaliga plant (Euro 2,440 thousand).

Inventories, amounting to Euro 61,050 thousand, recorded a decrease of Euro 4,480 thousand compared to December 31, 2019. This change is attributable almost entirely to the return of the CO2 rights (Euro 52,694 thousand) relating to 2019 emissions, net of the rights purchased in 2020 of Euro 48,355 thousand.

Trade receivables are higher than as at December 31, 2019 by Euro 9,909 thousand.

In particular, we note:

- higher receivables from bilateral sales (Euro 6,067 thousand) as a result of higher revenues from bilateral sales in December 2020 compared to December 2019.
- higher receivables from Terna (Euro 4,330 thousand), mainly attributable to the receivable relating to the first component of the capacity payment, which in 2019 had been collected by December 31. The MSD revenues of the last two months of 2020 are actually in line with those of the same period of the previous year;
- higher receivables from GME (Euro 957 thousand);
- lower receivables from GSE (Euro 1,603 thousand) as a result of the lower hydroelectric production in November and December 2020 compared to that of November and December 2019.

Tax payables for Euro 8,602 thousand refer to the estimate of IRES (Euro 8,900 thousand) and IRAP (Euro 8,850 thousand) taxes, net of tax advances paid in 2020.

The balance of Trade payables is Euro 2,752 thousand higher, essentially due to higher payables for energy purchases on the free market.

Other net non-current assets/(liabilities) show a decrease of Euro 9,073 thousand. In particular, we note:

- lower payables for CO_2 rights to be delivered (Euro 6,182 thousand) as a result of lower emissions compared to the previous year;
- lower current VAT credit (Euro 12,748 thousand);
- lower receivables from shareholders subject to tax transparency (Euro 1,081 thousand) following the partial collection of the receivable recorded in the financial statements, which took place in 2020.

The non-current assets held for sale as at December 31, 2019 related to the value attributed to the lands (about 29 hectares) of the Vado Ligure site subject to transfer to the company Vernazza Autogru Srl, a transaction concluded in April 2020.

The Provision for risks and charges increased by Euro 23,434 thousand as a result of the movements better described in note 15.

The Net capital employed therefore amounted to Euro 602,701 thousand (Euro 697,944 thousand as at December 31, 2019).

Shareholders' equity stood at Euro 518,565 thousand, and essentially changed compared to December 31, 2019, due to the net profit in the period, amounting to Euro 125,513 thousand, as well as the net decrease of Euro 374 thousand in the IAS 19 and IFRS 9 reserves.
For more details, please refer to note no. 13.

Net financial debt amounted to Euro 84,136 thousand, down by Euro 220,382 thousand compared to 2019. For more details, please refer to the explanatory notes.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Company did not carry out research and development in 2020 nor are there, as at December 31, 2020, deferred costs related to this type of activity.

OWN SHARES AND SHARES OF THE PARENT

As at the date of the financial statements, the Company does not own treasury shares or shares of parent companies, either direct or indirect.

RELATIONSHIPS WITH SUBSIDIARIES, AFFILIATES, PARENT COMPANIES AND COMPANIES CONTROLLED BY THE LATTER

No significant transactions were carried out in 2020 with related parties. For more details, please refer to the notes to the financial statements.

FINANCIAL RISKS, MARKET RISKS AND OTHER RISKS

Please refer to the explanatory notes to the financial statements.

BUSINESS OUTLOOK

Evolution of the Business Plan

As is well known, in 2015, a Debt Restructuring Agreement was signed with the main creditors (the Lenders) pursuant to art. 182-bis of the Bankruptcy Law, aimed at structurally resolving the existing financial and equity imbalances as at said date. The Debt Restructuring Agreement included a refinancing plan - "Restated Facility Agreement" - negotiated on the basis of a Business Plan (hereinafter the "Plan") which, among the other assumptions, made provision for the introduction of the Capacity Market from 2018 and the recovery of electricity demand which will enable a gradual return to higher profit margins.

The Capacity Market mechanism was formally launched in 2019, in which the economic and technical parameters were established for the delivery years 2022 and 2023. Tirreno Power won all the capacity offered, equal to 1,875 MW.

In light of the introduction of the Capacity Market for the years 2022 and 2023 and the new market scenario, on February 27, 2020 the Board of Directors approved the updated Business Plan. In updating the Plan, the market performance in the years 2020 and 2021, not covered by the Capacity Market mechanism, was not expected to be characterised by substantial technological/industrial changes. Consequently, the market scenarios suggested that, in this two-year period, the results obtainable from the Dispatching Services Market could offset the margins not achieved through the Capacity Market, similar to what happened in the first few years of implementation of the "Plan". In the post Capacity Market years, the market scenarios lead us to believe that the results will continue to allow the fulfilment of the obligations set forth in the debt restructuring agreement, pending a new regulatory mechanism coming into force in 2024.

On February 24, 2021, the Board of Directors approved the update of the Business Plan, which incorporates the market scenario requested of REF-E. The latter is substantially in line with what was approved in the previous year, except for the effect of the contraction of the inflation rate in the 2021-2024 period, linked to the spread of the pandemic.

The results achieved in 2020 were significantly higher than the Budget forecasts, and confirm the growing trend in the last few years, proof that the results obtained in the Dispatching Market offset the margins from the non-entry into force of the Capacity Market mechanism, in line with the assumptions made in the updated Plan.

On the whole, considering that:

• the Company's Shareholders' Equity came to Euro 518,565 thousand, deemed suitable by the Directors to ensure adequate capitalisation of the Company with respect to the future objectives set out in the Plan;

• the economic results achieved in previous years, and in 2018 and 2019 in particular, confirmed the better performances than those forecast in the Business and Financial Plan and subsequent updates;

• the results of 2020 are significantly improved compared to the previous year. The EBITDA amounted to Euro 255,601 thousand, compared to Euro 213,180 thousand realised in 2019 and also the Operating Profit, which in 2019 amounted to Euro 155,641 thousand, shows an increase of Euro 14,310 thousand;

• the realisation and the maintenance, up until the present day, of the actions set out in the aforementioned “Plan” in terms of increasing the efficiency of resources, led to a reduction in structure costs;

• the verification of the capacity to generate cash allowed a faster repayment of the loan as such to extinguish the entire Tranche A three years earlier than the natural expiry of the instalments and to repay in advance, with respect to the contractual expiry of December 2024, a considerable portion of tranche B equal to Euro 183 million;

the reasonableness of the assumptions used by the directors to draft the “Plan” and its updating was confirmed, instilling confidence in them regarding the company’s ability to be able to reach the results expected in the “Plan” also in future years, despite being fully aware that the results envisaged in the aforementioned Plan may only materialise if the assumptions contained therein are satisfied.
These assumptions are primarily related to the market trends and regulatory developments which are subject, owing to their nature, to uncertainties in terms of the methods and timing of their realisation.
In light of what is set out in the COVID-19 Emergency chapter, as well as the indications provided by the main Authorities on the matter, it is confirmed that the Company's management has implemented constant monitoring of the actual and potential impacts of the COVID-19 Emergency on business activities and on the Company's financial and economic position. In consideration of the Company's economic performance during the health emergency period, there were no impacts that could represent an indicator of impairment. However, in consideration of the persisting uncertainties that characterise the reference macroeconomic framework, the directors will continue to closely monitor the evolution of the health emergency.
Based on these assumptions, the directors reasonably expect the company to continue to operate in the foreseeable future as an operating entity, therefore, drafting these financial statements on the basis of the going concern assumption.

Business outlook

After a 2020 characterised, according to the estimates prepared by ISTAT, by a contraction of the Italian GDP of around 9%, the Bank of Italy, in the latest monthly bulletin estimates that, on the basis of the assumptions that the health emergency will gradually be brought under control in the first half of 2021 and be fully resolved by 2022 and that the decisive support of the budget law will continue, the GDP should start to grow significantly again from the spring, with an expansion in GDP currently estimated at 3.5% on average in 2021, at 3.8% in 2022 and 2.3% in 2023, when the levels prior to the pandemic crisis will be recovered.

According to data processed by Terna, the total electricity requested in Italy in 2020 amounted to 302.8 TWh, marking a decrease of 5.3% compared to 2019.

In 2020, renewable energy sources met roughly 42% of Italian electricity demand (an increase compared to 35% in 2019).

Gas consumption will continue to play a central role in the decarbonisation process, in line with the objectives set (2020 Climate-Energy Package) by providing, in particular, a significant contribution to the thermoelectric sector, in view of the gradual exit from coal production and increase in intermittent renewable sources. The use of the latter, insufficiently programmable, will require greater support from natural gas, a source that guarantees production continuity and flexibility.

In 2020, despite operating in an increasingly more competitive market context and marked by a drop in energy demand, as a result of the effects of the pandemic still in progress, the Company bolstered its economic and financial results, with growth of more than 20% in EBITDA compared to 2019, generating cash flows, which enabled it to accelerate the repayment of the financial debt set out in the agreement with banks. In January 2020, Tranche A of the debt was repaid in full, which amounted to Euro 300 million in 2015, and the associated capitalised interest, three years earlier than the natural expiry envisaged at the end of 2022.

During 2020, the Company made further advance payments on a “voluntary” basis in order to repay over Euro 183 million of the debt relating to Tranche B well in advance of the natural due date at the end of 2022.

Lastly, in 2020, the Company extinguished all the endorsement loans present in the Guarantee Facility Agreement, stipulated following the 2015 Restructuring Agreement, replacing them with more flexible and less costly bilateral lines.

Management actions will continue to target protecting profitability through a constant focus on seizing all the opportunities in the electricity market, increasing process efficiency, and personnel training and motivation. In particular, during 2021, the Company will continue its commitment to digitally evolve some of the business processes, with a particular focus on the planning of requirements.

Consistent with the aspects presented in the Business Plan and, already in the year 2019, the company has been committed to achieving an increasingly higher level of plant performance, through a plan of investments in production units targeted at guaranteeing the necessary flexibility to best cater for the volatility of demand on the electricity market and ensure the best plant performances.

Special attention will be focused on maintaining the levels of company costs recorded and monitoring them.

SIGNIFICANT EVENTS AFTER THE CLOSE OF THE PERIOD

On January 26, 2021, the Italian Revenue Agency ordered the payment of the VAT refund in the III quarter of 2020 of Euro 5,900 thousand.

The Company repaid, in January 2021, a portion of debt of Euro 4,022 thousand as a Cash Sweep on the cash and cash equivalents as at December 31, 2020. In addition, in February 2021, it also repaid a portion of Euro 20,000 thousand as an additional voluntary prepayment of Tranche B of the debt.

PROPOSALS OF THE BOARD OF DIRECTORS

Dear Shareholders,

We invite you to approve the financial statements as at December 31, 2020, both as a whole and the individual items.

Taking account of the above in this Management Report, as well as the provisions of Article 2430 of the Italian Civil Code and the provisions of the company Articles of Association, it is proposed to allocate the net profit of Euro 125,512,828 as follows:

1. an amount of Euro 1,043,964 to the legal reserve so that the latter reaches the amount of one fifth of the share capital;
2. the remainder, of Euro 124,468,864 as retained earnings.

Rome, February 24, 2021

For the Board of Directors

(Chairman)

FINANCIAL STATEMENTS SCHEDULES

BALANCE SHEET

(Euro)	Note	Dec-31-20	Dec-31-19 *restated**
Assets			
Property, plant and equipment	1	624,756,903	641,878,963
Intangible assets	2	1,326,829	825,515
Non-current financial assets	3	18,657,632	10,474,461
Deferred tax assets	4	15,885,143	35,547,256
Other non-current assets	5	673,218	37,448,729
Total non-current assets		661,299,726	726,174,924
Inventories	6	61,049,580	65,529,266
Trade receivables	7	82,492,420	72,582,584
Other current assets	8	32,141,422	46,970,664
Derivative financial instruments	9	109,776	611,826
Other current financial assets	10	31,678	72,808
Cash and cash equivalents	11	14,044,174	26,424,275
Total current assets		189,869,051	212,191,422
Non-current assets held for sale	12		864,755
Total assets		851,168,777	939,231,101
Liabilities			
Share capital		60,516,142	60,516,142
Other reserves		134,773,997	126,793,526
Accrued gains (losses)		197,761,720	39,017,754
Profit (losses) for the period		125,512,828	167,098,912
Shareholders' equity	13	518,564,687	393,426,335
Payables for loans	14	74,158,808	284,565,425
Provisions for risks and charges	15	72,654,784	79,852,666
Post-employment and other employee benefits	16	5,639,103	6,127,944
Deferred tax liabilities	17	32,572,027	33,838,665
Other non-current liabilities	18	-	822,096
Other non-current financial liabilities	19	1,296,534	1,525,559
Total non-current liabilities		186,321,257	406,732,355
Payables for loans	14	24,021,610	46,376,957
Provisions for risks and charges	15	34,362,312	3,730,866
Trade payables	20	29,924,477	27,172,927
Payables for income taxes	21	8,602,479	6,120,291
Other current liabilities	22	48,431,336	54,459,740
Derivative financial instruments	23	486,797	624,351
Other short-term financial liabilities	19	453,821	587,279
Total current liabilities		146,282,833	139,072,411
Total shareholders' equity and liabilities		851,168,777	939,231,101

**Some values shown in this column do not correspond to those shown in the financial statements as at December 31, 2019 as they reflect the adjustments made in application of IAS 8. For more details on the reclassification made, please refer to the "Change in the accounting policy adopted with reference to CO2 emission rights" paragraph of the notes.*

INCOME STATEMENT

(Euro)	Note	Dec-31-20	Dec-31-19
Revenues	24	599,631,870	666,543,804
Other revenues	25	3,694,030	5,430,443
Total revenues		603,325,900	671,974,247
Own work capitalised	26	953,424	768,777
Consumption of raw materials	27	(258,518,231)	(367,935,963)
Personnel costs	28	(21,683,139)	(20,928,837)
Service costs	29	(17,310,530)	(15,937,006)
Other operating costs	30	(78,704,854)	(57,810,449)
Amortisation, depreciation and write-downs	31	(58,111,852)	(54,489,777)
EBIT		169,950,718	155,640,992
Financial expenses	32	(8,945,008)	(16,712,270)
Financial income	33	698,038	442,203
Pre-tax profit		161,703,748	139,370,925
Taxes	34	(36,190,920)	27,727,987
Net income		125,512,828	167,098,912

STATEMENT OF COMPREHENSIVE INCOME / (LOSS)

(Euro)	Note	2020	2019
Net income for the period		125,512,828	167,098,912
Other components of comprehensive income:			
Change in fair value of financial instruments on POWER	*24*	557,937	(399,251)
Change in fair value of financial instruments on GAS	*10*	(834,953)	369,909
Change in fair value IAS 19 - Post-employment and other benefits	*17*	(97,459)	(466,361)
Change in fair value of Interest Rate Cap	*6*	0	(3,524)
Change in fair value - IFRS 9 - Time Value	*6*	0	540,543
Total other components of comprehensive income		(374,475)	41,316
Total comprehensive income		125,138,353	167,140,228

STATEMENT OF CASH FLOWS

(Euro)	Note	Dec-31-20	12/31/2019 restated *
OPERATING ACTIVITIES			
Net income for the period	14	125,512,828	167,098,912
Amortisation, depreciation and write-downs	32	58,111,852	54,489,777
Net provisions for deferred taxes and other provisions		21,678,085	(1,002,251)
(Purchase) repayment of GC and CO2 quotas		-	-
Increase (decrease) in IAS 39, IAS 19, Interest Rate CAP reserves		(374,475)	41,316
Other non-monetary changes		2,650,090	(6,789,080)
Change in other non-current assets and liabilities		47,138,703	(33,216,466)
Change in other current assets and liabilities		8,876,591	(15,948,036)
Cash flow from operating activities		263,593,675	164,674,173
of which:			
- Interest income collected		-	-
- Interest expenses paid		*(1,134,680)*	*(3,292,207)*
- Income taxes paid		*(13,987,138)*	*(4,644,913)*
INVESTMENT ACTIVITIES			
Investments in tangible assets		(42,336,135)	(23,990,291)
Investments in intangible assets		(875,678)	(477,693)
Cash flow from investment activities		(43,211,813)	(24,467,984)
FINANCING ACTIVITIES			
Increase in share capital		-	-
Increase (decrease) in payables for non-current loans		(210,406,617)	(131,672,297)
Increase (decrease) in payables for current loans		(22,355,346)	(6,589,184)
Equity instruments		-	-
Changes in other short-term financial liabilities			(446,000)
Cash flow from financing activities		(232,761,963)	(138,707,481)
Increase (decrease) in cash and cash equivalents		(12,380,101)	1,498,708
Opening cash and cash equivalents		26,424,275	24,925,567
Closing cash and cash equivalents		14,044,174	26,424,275

** Some values reported in this column do not correspond with those shown in the financial statements as at December 31, 2019 as they reflect the adjustments made in application of IAS 8.*

For further details on the reclassification carried out, please refer to the "Changes in the accounting policy adopted with reference to CO2 emission rights" paragraph in the notes.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Euro)	Note	Share capital (a)	Other reserves (b)	Accumulated gains (losses) (c)	Profit (loss) for the period (d)	Total (a+b+c+d)=e
Balance as at January 1, 2019		60,516,142	124,742,410	831,557	40,195,996	226,286,105
Allocation of profit for 2018			2,009,800	38,186,196	(40,195,996)	-
Comprehensive profit/loss December 2019			41,316		167,098,912	167,140,228
of which:						
Income/losses booked directly to shareholders' equity	*14*		*41,316*			41,316
Profit/losses December 2019					*167,098,912*	*167,098,912*
Balance as at January 1, 2020		60,516,142	126,793,526	39,017,754	167,098,912	393,426,335
Allocation of profit for 2019			8,354,946	158,743,966	(167,098,912)	-
Comprehensive profit/loss December 2020			(374,475)		125,512,828	125,138,353
of which:						-
Income/losses booked directly to shareholders' equity	*14*		*(374,475)*			(374,475)
Profit/losses December 2020					*125,512,828*	125,512,828
Balance as at December 31, 2020		60,516,142	134,773,997	197,761,721	125,512,828	518,564,687

EXPLANATORY NOTES

DECLARATION OF CONFORMITY

These financial statements are prepared in accordance with IFRS international accounting standards issued by the 'International Accounting Standards Board (IASB) and provide complete information on the basis of IAS 1.

IFRS means all the "International Financial Reporting Standards", all International Accounting Standards ("IAS"), all of the interpretations of the International Financial Reporting Standards Committee ("IFRIC"), all the interpretations of the Standing Interpretations Committee ("SIC"), adopted today by the European Union and contained in the EU Regulations published on G.U.C.E. (Official Journal of the European Union) up to today's date, in which the Board of Directors of Tirreno Power S.p.A. authorised the publication of these financial statements. Lastly, still on the subject of interpretation, account was also taken of the documents on IAS / IFRS in Italy prepared by the Italian Accounting Board (OIC).

STRUCTURE AND CONTENT OF FINANCIAL STATEMENTS

These financial statements consist of the Balance Sheet, Income Statement, Statement of Comprehensive Income/Loss recorded in the period, Statement of Cash Flows, Statement of Changes in Shareholders' Equity, as well as the Explanatory Notes and are drafted on the basis of the going concern assumption, based on the indications of the paragraph "Business outlook".

As for the financial statements that the Company has chosen to adopt it should be noted:

- in the "Balance sheet" assets and liabilities are sorted by due date, separating current and non-current items by expiry, respectively, within or after 12 months;
- the "Income statement" is presented in a scalar form by nature;
- the "Cash flow statement" is prepared using the indirect method, as allowed by IAS 7;
- the "Statement of comprehensive income / loss" is prepared separately in accordance with IAS 1 Revised.
- the "Statement of changes in Shareholders' Equity" is prepared in accordance with IAS 1 Revised.

The functional currency used for the presentation of financial statements is the euro and all amounts are expressed in thousands of Euro unless indicated otherwise. For disclosure purposes, the values are reported without decimals.

This document is subject to auditing by the Independent Auditors *EY S.p.A.*, a company which was also entrusted with the legal auditing of accounts.

ACCOUNTING POLICIES AND VALUATION CRITERIA

The accounting policies and valuation criteria adopted are summarised below. The valuation criteria are adopted on a going concern basis and comply with the principles of accrual accounting, relevance and materiality of accounting information and the prevalence of economic substance over legal form.

The general principle used in preparing these financial statements is the cost method with the exception of any derivatives for which IFRS 9 requires the fair value measurement.

Current/non-current classification

Assets and liabilities are classified in these financial statements according to the current/non-current criterion.

An asset is current when:

- it is expected to be realised, or held for sale or consumption, during the normal course of the operating cycle;
- it is held primarily for trading purposes;
- it is expected to be realised within twelve months of the date of year-end; or
- it is composed of cash or cash equivalents unless it is prohibited to exchange or use it to extinguish a liability for at least twelve months from the date of year-end.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be extinguished during its normal operating cycle;
- it is held primarily for trading purposes;
- it must be extinguished within twelve months of the date of year-end; or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months from the date of year-end.

All other liabilities are classified as non-current.

Discretionary valuations and significant accounting estimates

The application of generally accepted accounting standards for the preparation of the financial statements entails that the Company's management makes accounting estimates based on complex and/or subjective judgements, on past experience and on assumptions considered reasonable and realistic on the basis of the information known at the time of the estimate. The use of these accounting estimates affects the carrying amount of assets and liabilities, as well as the disclosure on contingent assets and liabilities at the reporting date, as well as the amount of revenues and costs in the reference period. The actual results may differ from those estimated, due to the uncertainty that characterises the assumptions and the conditions that generate the estimates. The main accounting estimates included in the process of preparing the financial statements, which involve the use of subjective judgements, assumptions and estimates on issues that are uncertain by their nature, are indicated below.

Recoverability of non-financial assets

Assets such as property, plant and equipment, intangible assets, assets consisting of the right of use of an underlying asset are subject to impairment when their book value exceeds the recoverable value, represented by the higher of the fair value, net of costs of disposal, and the value in use.

These recoverability tests are carried out according to the criteria envisaged by IAS 36 and described in more detail in the following Note “Property, plant and equipment”.

In determining the recoverable amount, the Company generally applies the value in use criterion. Value in use is the present value of future cash flows that are expected to originate from the asset being measured, discounted using a discount rate, gross of taxes, which reflects current market valuations of the time value of cash and the specific risks of the business.

The expected future cash flows are prepared on the basis of the most recent approved business plans and information available at the time of the estimate; therefore, the assumptions used in estimating the cash flows are based on the management’s judgement with particular reference to the performance of future variables indicated in the “Business outlook” section.

Disputes

The Company is a party to some legal disputes relating mainly to labour, the operation of some production plants, environmental damages, and criminal disputes. Given the nature of these disputes, it is not always objectively possible to predict their final outcome, some of which could be concluded with an unfavourable outcome.

Provisions were set up to cover all significant liabilities for cases in which the lawyers have ascertained the probability of an unfavourable outcome and a reasonable estimate of the amount of the loss can be made.

Provisions for risks and charges

Provisions for risks are made on the basis of expectations of specific events, which, on the basis of the information available and the support of the Company’s lawyers and advisors, are reasonably certain.

Translation of foreign currency items

The functional and presentation currency is the Euro.

Foreign currency transactions are recorded at the exchange rate prevailing at the transaction date. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at the balance sheet date. Exchange differences arising from the conversion operations are reflected in the income statement and recorded under financial income and expenses. Non-monetary assets and liabilities denominated in foreign currencies and valued at cost are translated at the exchange rate prevailing at the date of initial transaction.

Tangible assets

Property, plant and equipment are stated at acquisition or production cost, less accumulated depreciation and any accumulated impairment losses. The cost includes expenditure directly incurred to prepare the assets for use, as well as any charges for dismantling and removal (as provided by IAS 37), recorded at the present value of the future expense which is estimated will be incurred. The cost also includes any interest paid on the purchase or construction of property, plant and equipment incurred to bring these into operation.

They also include the costs relating to spare parts considered strategic for guaranteeing plant productive activities.

Depreciation commences when the asset is available for use and is recognised systematically over the remaining useful life of the same, i.e. on the basis of the estimated useful life.

The useful life of property, plant and equipment and their residual value are reviewed and adjusted if appropriate, at least at the end of each year. The presumed realisable value which is deemed recoverable at the end of its useful life, if determined, is not depreciated.

Where the asset subject to depreciation is composed of separately identifiable elements whose useful life differs significantly from that of the other parts that make up the asset, depreciation is calculated separately for each of these parts, in application of the component approach.

Ordinary maintenance costs are fully expensed in the year they are incurred.

The costs incurred for maintenance carried out at regular intervals (*known as* Major Inspections) are recorded as assets in the balance sheet and are amortised on the basis of the intervention cycle, as planned by management.

The depreciation of freely transferable assets outside the scope of IFRIC 12 is calculated on a straight-line basis over the shorter of the remaining life of the concession and the estimated useful life of the same.

Land, whether free of constructions or annexed to civil and industrial buildings is not depreciated as it has an unlimited useful life.

The estimated useful lives of property, plant and equipment is as follows:

Buildings	25/40 years
Equipment; steam generator; mech. mach.; hydraulic works	20 years
Combined cycle plants	30 years
Maintenance	2 to 8 years
Electronic calculators; office machines; IT equipment	5 years
Transport lines	35 years
Long distance transmission systems and industrial equipment	10 years

The book value of an element of property, plant and equipment and each significant component initially recognised is eliminated at the moment of disposal (i.e. at the date on which the purchaser acquires control of it) or when no future economic benefit is expected from its use or disposal. The profit/loss that emerges at the moment of the derecognition of the asset (calculated as the difference between the net book value of the asset and the consideration received) is booked to the income statement when the element is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are revised at the close of the year and, where appropriate, corrected prospectively.

In the event of signs of deterioration, tangible fixed assets are subject to a recoverability test (so-called "impairment test") which is illustrated in the following paragraph "Impairment of Assets". At the same time, the restoration of an asset previously written down as a contra-item in the income statement is also booked to the income statement.

Intangible assets

Intangible assets are composed of non-monetary, identifiable elements without physical substance, controllable and capable of generating future economic benefits. They are carried at cost of purchase and/or production cost, including directly attributable costs of preparing the asset for use, net of accumulated amortisation, in cases where there is an amortisation process, and any impairment. Amortisation commences when the asset is available for use and is recognised systematically over the remaining useful life of the same, i.e. on the basis of the estimated useful life.

Research costs are expensed in the year they accrue. Development costs are capitalised if the cost can be measured reliably and it is shown that the asset is able to generate future economic benefits.

Impairment of assets

At each balance sheet date, property, plant and equipment and intangible assets with indefinite lives are tested in order to establish whether there are indicators of impairment. When the presence of these indicators is identified, the recoverable amount of the assets is estimated and any impairment loss recognised in the income statement. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, where the latter is the present value of estimated future cash flows of the asset. In determining the value in use, expected future cash flows are discounted with a discount rate that reflects the assessment of the cost of money for the company, in relation to the investment period and the specific risks of the asset. An impairment loss is recognised in the income statement when the asset's carrying amount exceeds its recoverable amount.

In the case of goodwill and other intangible assets with indefinite useful life or assets not available for use, this test is performed at least annually.

For tangible and intangible fixed assets (but not for goodwill), should the reasons for a write-down effected previously no longer exist, the carrying value is reinstated by an entry in the income statement, in accordance with the limits of the net book value that the asset would have had if it had not been written down and depreciation had been charged.

Inventories

Raw materials, consumables and supplies are valued at purchase cost determined using the weighted average method and are not written down below cost given held to be used in the production process.

The purchase cost is determined for the reference period, in respect of each inventory item. The weighted average cost includes the relevant accessory charges relating to purchases in the period.

The value of obsolete and slow-moving inventory is written down in relation to the risk of use or sale, through the allocation of risk in a specific provision for the write-down of inventories.

With regard to the so-called emission rights, as better specified below in the paragraph “Change in the accounting policy adopted with reference to CO2 emission rights”, Tirreno Power, as from January 1, 2020, decided to privilege a classification of the rights purchased to meet its own requirements (so-called own use), among the inventories of current assets.

Financial instruments

Financial instruments include financial assets and liabilities whose classification is determined at the time of their initial recognition, depending on the purpose for which they were purchased. Purchases and sales of financial instruments are recognised on the trade date.

The financial instruments include not only investments available for sale, but other non-current financial assets, receivables and non-current loans, trade receivables, other receivables originated by the enterprise as well as other current financial assets such as cash and equivalents or bank deposits and financial receivables due within three months. Financial payables, trade payables, other payables and other financial liabilities and derivative instruments also fall under financial instruments.

All assets and liabilities for which the fair value measured or stated in the financial statements are categorised on the basis of the fair value hierarchy, as described below:

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

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

It should be noted that no changes were verified in the levels of the fair value hierarchy used for the purposes of measuring the financial instruments with respect to the last financial statements.

For assets and liabilities booked to the financial statements at fair value on a recurring basis, the company determines whether transfers between levels of the hierarchy have taken place.

Their initial assessment takes into account the transaction costs directly attributable to the acquisition or the issue costs that are included in the initial measurement of financial instruments. The fair value of instruments listed on public markets is determined with reference to quoted prices (bid price) at the balance sheet date. The fair value of unlisted instruments, including those related to electricity, is instead measured with reference to the financial valuation techniques or using major financial counterparties. In particular, the fair value of interest rate swaps is measured by discounting the expected cash flows, the fair value of foreign exchange forwards is determined on the basis of market exchange rates at the balance sheet date and the rate differentials between the relevant currencies, while the fair values of derivatives related to commodities are calculated using models based on industry best practices.

In general, in applying those models, market data are used rather than internal company data.

Trade receivables

Trade receivables, which accrue within the normal commercial terms, are not discounted and are recognised at cost (identified by their nominal value) net of related impairment losses.

The management verified that the fair value of the trade receivables and trade payables, as well as of the cash and cash equivalents and short-term deposits and other current liabilities approximates the book value as a result of the short-term maturities of these instruments.

Cash and cash equivalents

Cash and cash equivalents include cash, i.e. assets that meet the requirements of availability on demand or at short notice, successful outcome and absence of collection expenses and are measured at fair value. For the purposes of representation in the cash flow statement, the cash and cash equivalents are represented by the liquid funds defined above.

Cancellation (derecognition) of financial assets

Financial assets are derecognised from the balance sheet when the rights to receive cash flows from the instrument expires and the entity has transferred substantially all the risks and rewards relating to the instrument and the relative control.

Non-current assets held for sale

Non-current assets held for sale include any disposed assets if is presumed that their carrying value will be recovered primarily through sale rather than their continuous use.

This classification criterion only applies when the non-current assets are available in the present conditions for immediate sale and said sale is highly likely.

Non-current assets classified as held for sale are presented separately from other assets and liabilities in the balance sheet.

The amounts for non-current assets classified as held for sale are not reclassified or represented for previous years.

Immediately prior to the initial classification of non-current assets as held for sale, the book values of these assets are measured according to the IFRS/IAS applicable to the specific assets. These non-current assets classified as held for sale are measured at the lower of their carrying value and their fair value less costs to sell. Costs to sell are additional costs directly attributable to the sale, excluding financial expenses and taxes.

Non-current assets are not amortised, while they are classified as held for sale.

Trade payables

The trade payables, which accrue within the normal commercial terms, are not discounted and are recognised at cost (identified by their nominal value).

Financial liabilities

Financial liabilities, including borrowings and other payment obligations are initially recognised at cost corresponding to the fair value of the liability net of costs incurred to secure loans (transaction costs). Following initial recognition, financial liabilities are measured at amortised cost using the effective interest rate. Net financial charges are consequently restated on the basis of the effective interest rate method.

If there is a change in expected cash flows and the possibility exists to reliably estimate the value of the loans is recalculated to reflect this change on the basis of the present value of expected future cash flows and the internal rate of return originally determined. Financial liabilities are classified as current liabilities unless the entity has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

A financial liability is derecognised when the obligation underlying the liability is extinguished, cancelled or fulfilled. Where an existing financial liability is replaced by another of the same lender, under substantially different conditions, or the conditions of an existing liability are substantially modified, this exchange or modification is treated as a derecognition of the original liability, accompanied by the recognition of a new liability, with any differences in the book values posted to the income statement.

Derivative financial instruments

The Company uses derivative financial instruments including: interest rate swaps and forward commodity purchase contracts to hedge interest rates and commodity price risks respectively. These derivative financial instruments are initially recognised at fair value on the date in which the derivative contract is signed and, periodically, updated at each reporting date. Derivatives are accounted for as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. For hedge accounting purposes, there are three types of hedge:

- fair value hedge in the event of hedging of the exposure to changes in the fair value of the asset or liability recognised or unrecognised irrevocable commitment;
- cash flow hedge in the case of hedging of exposure to changes in cash flows attributable to a particular risk associated with all assets or liabilities recognised or a highly probable forecast transaction or foreign currency risk on an unrecognised firm commitment;
- hedge of a net investment in a foreign operation.

At the start of a hedging transaction, the company designates and formally documents the hedging relationship, to which it intends to apply hedge accounting, its risk management objectives and the strategy pursued.

The documentation includes the identification of the hedging instrument, the hedged element, the nature of the risk and the methods the company will use to evaluate whether the hedging relationship satisfies the hedge effectiveness requirements (including an analysis of the sources of hedge ineffectiveness and the way in which the hedging relationship is determined).

The hedging relationship satisfies the hedge accounting eligibility criteria if it meets all the following hedge effectiveness requirements:

- there is an economic relationship between the hedged element and the hedging instrument;
- the effect of the credit risk does not dominate the changes in value resulting from the aforementioned economic relationship;

- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

The transactions that satisfy all the criteria to qualify for hedge accounting are accounted for as follows:

(i) Fair value hedges

The fair value change in hedging derivatives is recognised under other costs in the statement of profit/(loss) for the year. The fair value change in the hedged element attributable to the hedged risk is recorded as part of the carrying value of the hedged element and it is also recognised under other costs in the statement of profit/(loss) for the year.
As regards fair value hedges relating to elements accounted for using the amortised cost method, each adjustment of the carrying value is amortised in the statement of profit/(loss) for the year over the residual period of the hedge, using the effective interest rate method. Amortisation determined in this way may start as soon as adjustment exists but cannot extend beyond the date in which the element subject to hedging ceases to be adjusted due to the fair value changes attributable to the risk subject to hedging.
If the hedged element is cancelled, the fair value not amortised is recognised immediately in the statement of profit/(loss) for the year.
When an unrecognised firm commitment is designated as an element subject to hedging, subsequent cumulated changes in its fair value attributable to the hedged risk are accounted for as assets or liabilities and the corresponding profits or losses booked to the statement of profit/(loss) for the year.

(ii) Cash flow hedge

The portion of the profit or loss on the hedged instrument, relating to the effective part of the hedge, is recognised in the statement of comprehensive income, under the “cash flow hedge” reserve, while the ineffective part is booked directly to the statement of profit/(loss) for the year. The cash flow hedge reserve is adjusted to the lower of the cumulated profit or loss on the hedging instrument and the cumulated variation in the fair value of the hedged element.

The Company only designates the spot component (intrinsic) of forward contracts as hedging instrument. The forward component (time) is cumulatively recognised in a separate item of the statement of other comprehensive income.

The amounts accumulated under other comprehensive income are accounted for depending on the nature of the underlying hedged transaction. If the transaction subject to hedging subsequently involves the recognition of a non-financial component, the amount accumulated under shareholders’ equity is removed from the separate component of shareholders’ equity and included in the cost value or other book value of the hedged asset or liability. This is not considered a reclassification of the items recognised in other comprehensive income for the period. This also applies in the event of a planned hedge of a non-financial asset or non-financial liability that subsequently becomes a firm commitment to which the accounting of fair value hedging transactions is applied.

For any other cash flow hedge, the cumulated amount in other comprehensive income is reclassified to the income statement as a reclassification adjustment in the same period or in periods during which the hedged cash flows impact the income statement.

If the accounting of the cash flow hedge is suspended, the cumulated amount in other comprehensive income must remain as such if the future hedged cash flows are expected to materialise. Otherwise, the amount must be reclassified immediately to profit/(loss) for the year as a reclassification adjustment. After the suspension, once the hedged cash flow is verified, any accumulated amount remaining in other comprehensive income must be accounted for depending on the nature of the underlying transaction as described previously.

It should be noted that the company considered that the bilateral contracts stipulated with Terna in order to guarantee the availability of productive capacity for the years 2022 and 2023 (capacity market) fall within the scope of application of the own use exemption.

Embedded derivatives

Embedded derivatives included in other financial instruments or in other contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the latter are not stated at fair value with recognition of gains and losses in the income statement. The Company verifies the existence of any embedded derivatives, analysing the facts and circumstances which could have originated them, including, for example, any contracts regarding the receipt or sale of “non-monetary” assets according to specific company purchase, use or sale requirements.

Employee Benefits

The short-term benefits are recognised in the income statement in the period in which the working activity is performed.

It is noted that, in connection with the pension reform of 2007, the provision for Post-employment benefits was restated, by adopting the new methodological approach, or considering that the amounts accrued as of January 1, 2007 are a defined contribution benefit and, therefore, not included in the calculation of liabilities. Where the provision accrued as at December 31, 2006 is treated as a defined benefit plan, the benefits granted to employees are recognised over the vesting period, as well as other long-term benefits (Additional months' salaries, Tariff Incentives and Loyalty Bonuses).

The cost of providing benefits under the various plans is determined separately for each plan, using actuarial assumptions to estimate the amount of future benefits that employees have accrued at the reporting date.

The valuation of the liabilities in question is determined on the basis of independent actuarial assumptions. Gains and losses resulting from actuarial calculations are recognised in the income statement.

For defined contribution plans, contributions are only recorded when the employees have carried out their activities and therefore those contributions are accrued. In the latter case Tirreno Power pays fixed contributions into a separate entity (e.g. a Fund) and will have no legal or constructive obligation to pay further contributions if the fund is not solvent.

Provisions for risks and charges

Provisions are recorded to cover losses and charges of a specific nature, certain or probable, in respect of which, however, the amount and/or date of occurrence cannot be determined.

Provisions for risks and charges are recognised when, at the reporting date, in the presence of a present obligation (legal or constructive) to third parties arising from a past event, it is likely that, to fulfil the obligation, an outflow of resources whose amount can be estimated reliably will be required.

When the financial effect of time is significant, the provision is discounted using a yield curve that reflects the time value of money expressed by the market and the risks associated with the liability.

If the provision is estimated taking into account the discounting process, the increase in provisions, due to the passage of time is recognised in the income statement as a financial charge. If the liability relates to tangible assets (e.g. dismantling and restoration of sites), the provision is recorded against the asset to which it relates; the expense is recognised in the income statement through the depreciation of the tangible asset to which the expense relates, as well as through the measurement of the financial expenses of the revaluation of the liability.

The estimate of the costs of future dismantling and remediation works is reviewed annually. Changes in the estimates of future costs or the discount rate applied increase or decrease the cost of the asset if they refer to the portion of the asset that will depreciate in subsequent periods.

The allocation of restructuring expenses takes place when the general criteria for allocation of a provision are respected. The Company has an implicit obligation when a detailed and formalised plan identifies the business unit concerned, the location and number of employees forming the object of the restructuring, the detailed estimate of costs and the implementation timescales. In addition, the personnel concerned must be informed of the main characteristics of the restructuring plan.

Revenue recognition

Revenue is recognised to the extent that it is possible to reliably determine its value (fair value) and it is probable that the associated economic benefits will be enjoyed by taking into account any discounts and reductions linked to quantities.

The company recognises revenues in order to faithfully represent the transfer of goods and services promised to customers, for an amount that reflects the consideration the company expects to be entitled to in exchange for the goods and services supplied. The recognition takes place through the application of this key principle and the use of the 5-step model provided by IFRS 15.

Revenues related to the sale of electricity are recognised at the time of delivery of supply, even if not invoiced, based on the actual sales prices on the Power Exchange or the conditions set forth contractually, taking into account the existing legislation.

Other revenues are determined according to the terms and conditions which take account of the risks and benefits transferred.

Recognition of costs

Costs are recognised in the periods in which the related revenues are recorded and, in general, in accordance with the accrual principle. Costs that cannot be associated with revenues are immediately recognised in the income statement. For the criteria for recognition and measurement of specific costs, the Company considers their nature and the reference accounting legislation.

Financial income and expenses

The financial income and expenses are recognised according to the accrual method, based on the interest accrued on the amount of the related financial assets and liabilities using the effective interest rate.

Government grants

Government grants, in the presence of a formal resolution by the disbursing entity, are recognised on an accruals basis in direct correlation with the costs incurred. In particular, the operating grants are classified to the item “Other revenues” in the income statement, while public capital grants that relate to property, plant and equipment are recorded as deferred revenue in balance sheet liabilities. The deferred income is recognised in the income statement as income on a straight-line basis over the useful life of the asset to which it directly relates.

Income taxes

Current income taxes are recognised as tax payables and calculated based on the estimated taxable income determined in accordance with the provisions in force at the reporting date.

Deferred tax assets and liabilities are calculated on temporary differences between the carrying amounts and the corresponding amounts recognised for tax purposes applying tax rates that are expected to apply in the period when the asset is realised or the liability settled.

Deferred tax liabilities are recognised without exception for all taxable temporary differences. Deferred tax assets are only recognised if it is likely that, within a reasonable time frame, taxable income emerges of a sufficient amount to absorb the deductible temporary differences and the underlying IRES losses to such deferred taxes.

Current and deferred taxes are recognised in the income statement, except those relating to items charged or credited directly to shareholders' equity; in which case, the tax effect is recognised as a separate item in shareholders' equity.

New accounting standards, interpretations and amendments adopted by the Company

The following new standards and amendments are effective from January 1, 2020 but have no significant impact on the Company's financial statements:

- *Amendments to IFRS 3 Definition of a Business*

The amendments to IFRS 3 clarify that to be considered a business, an integrated set of activities and assets must include at least one input and an underlying process that together contribute significantly to the ability to create an output. Furthermore, it was clarified that a business can exist without including all the inputs and processes necessary to create an output. These amendments had no impact on the Company's financial statements but could have an impact on future years if the Company should carry out business combinations.

- *Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform*

The amendments to IFRS 9 and IAS 39 provide a number of practical expedients that apply to hedging relationships that are directly impacted by the reform of the reference interest rates. A hedging relationship that is impacted by the reform is subject to uncertainties regarding the timing and amount of cash flows based on the reference rate in relation to the hedged instrument. These amendments have no impact on the Company's financial statements as there are no interest rate hedges.

- *Amendments to IAS 1 and IAS 8 Definition of Material*

The amendments provide a new definition of materiality, which states that information is material if it is reasonable to assume that its omission, misstatement or concealment could influence the decisions that the main users of the financial statements prepared for general purposes take on the basis of these financial statements, which provide financial information about the specific entity preparing the financial statements.

The materiality depends on the nature or extent of the information, or on both. An entity assesses whether the information, individually or in combination with other information, is material in the context of the financial statements, taken as a whole. The information is hidden if it is communicated in such a way as to have, for the main users of the financial statements, an effect similar to that of the omission or incorrect indication of the same information.

These amendments had no impact on the financial statements and no future impact is expected for the Company.

- *Conceptual Framework for Financial Reporting*

The Conceptual Framework does not represent a standard and none of the concepts contained in it takes precedence over the concepts or requirements of a standard. The purpose of the Conceptual Framework is to support the IASB in the development of standards, to help the drafters to develop homogeneous accounting policies where there are no applicable standards in the specific circumstances and to help all parties involved to understand and interpret the standards.

The revised version of the Conceptual Framework includes some new concepts, provides updated definitions and updated recognition criteria for assets and liabilities and clarifies some important concepts. These amendments did not have any impact on the Company's financial statements.

- Amendment to IFRS 16 COVID-19 Related Rent Concessions

On May 28, 2020, the IASB published an amendment to IFRS 16. The amendment allows a lessee not to apply the requirements of IFRS 16 on the accounting effects of the contractual amendments for the reductions of the lease payments granted by the lessors that are a direct consequence of the COVID-19 epidemic. The amendment introduces a practical expedient according to which a lessee may choose not to assess whether the reductions in lease payments represent contractual changes. A lessee who chooses to use this expedient accounts for these reductions as if they were not contractual changes in the scope of IFRS 16.

The amendments are applicable to financial statements whose accounting period begins on or after June 1, 2020. Early adoption is permitted. These amendments did not have any impact on the Company's financial statements.

Change in the accounting policy adopted with reference to CO2 emission rights

With regard to emission rights, following the IASB's non-approval of IFRIC 3 (Emission Rights) and then its subsequent withdrawal, there is currently no specific international accounting standard on the issue. Up to December 31, 2019 Tirreno Power had presented the emission rights among intangible fixed assets for a value equal to the purchase cost (nil in the case of units received free of charge). This item was not subject to amortisation, but to an impairment test and was cancelled when the corresponding rights were sold to fulfil regulatory obligations. Costs incurred for purchase on the market (or, nonetheless, with consideration) of the missing CO2 quotas to fulfil the obligation of the reporting period were recognised in the income statement on an accrual basis, under other operating costs, given that expenses represent the fulfilment of a legal obligation.

Over the past few years, the Company has purchased CO2 quotas increasingly in line with production needs, essentially making the purchase of CO2 quotas similar to the purchase of raw materials necessary for the production process. Therefore, considering the substantial correspondence between the number of quotas present in the financial statements and those subject to delivery in the following twelve months, as well as to align with the prevailing sector practice, the Company deemed it preferable to classify them among the inventories of current assets, measuring them at the lower between cost and presumed realisable value. The quotas purchased are not written down below cost as they are held for use in the production process.

In compliance with IAS 8, the company has identified this change in the criterion as a change in accounting policies and therefore has carried out the restatement of only the balance sheet data, presented, for comparative purposes, in these Financial Statements in application of the retrospective method envisaged by the international standard.

These changes did not have any significant impact on the result for the year 2019 and on shareholders' equity as at January 1, 2020; therefore the comparisons of the balance sheet and statement of cash flows as at December 31, 2020 have been re-adjusted to take account of the aforementioned change, only through the re-statement of the comparative data as at December 31, 2019, called precisely "restated". It should be noted that the value of the CO2 quotas accounted for as at December 31, 2019 among intangible fixed assets and reclassified among inventories is equal to Euro 52,694 thousand.

Standards issued but not yet in force

The standards and interpretations that, at the date of drafting of these financial statements, had been issued but were still not in force, are illustrated hereunder. The Company intends to adopt these standards and interpretations, if applicable, when they enter into force.

No material impacts are expected for the Company with reference to these standards and interpretations.

IFRS 17 Insurance Contracts

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

Reference to the Conceptual Framework – Amendments to IFRS 3

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

IAS 41 Agriculture – Taxation in fair value measurements

TYPE OF RISKS AND MANAGEMENT OF HEDGING ACTIVITIES

Risk management is an integral and fundamental part of the strategies of every organisation and the process through which companies tackle the risks connected with their activities, with the objective of obtaining long-lasting benefits.

The basis of good risk management consists of identifying and dealing with risks in order to allow an understanding of the potential positive and negative aspects of all factors that can influence the organisation. Risk management, a continuous and gradual process that involves the entire organisation strategy and its implementation, must be engrained in the company culture through an effective policy and a project managed by the company's top management, in order to turn the strategy into objectives and assign responsibilities at all levels of the organisation, making every person responsible for risk management.

For Tirreno Power S.p.A., in general, risk-taking is limited, in nature and extent, to those which, according to principles of sound and prudent management, are the risks considered ordinary. The "Risk Management Manual" sets out, on the one hand, the general principles for managing the company's main risks, consistently with the strategic objectives identified and, on the other, the methods of coordination between the entities involved in order to maximise the effectiveness and efficiency of the Internal Control and Risk Management System.

The Manual sets forth that the General Manager, as the company's Risk Owner, has the responsibility and ownership for the management of company risks, with the exclusion of "Environmental risk" and "Health and safety risk" for which the responsibility falls to the "Employer" of the various Organisational Units. The Risk Owner and the Employer are supported by Management in identifying and assessing risks, as well as defining the risk management policies.

The Company distinguishes two risk macro-categories: Financial and Market Risks and Other Risks. Financial and Market Risks mean those deriving from the impact they could have on margins and expected cash flows and, more specifically: future fluctuations in one or more specific interest rate or exchange rates, financial instruments, prices of energy and raw materials, prices of CO_2 emission rights. Other types of risk that are also associable to the category of financial risks, and in particular credit and liquidity risk, are dealt with separately.

Financial and Market Risks include *Market Risk*, *Interest Rate Risk* and *Exchange Rate Risk*. By contrast, Other Risks include the following sub-categories: *Counterparty Risk, Liquidity Risk, Environmental Risk, Legal Risk, Legislative/Regulatory Risk, Image Risk and Health and safety risk.*

The different types of risk are monitored in order to assess early the potential adverse effects and take the appropriate actions to mitigate them. The optimisation and the reduction of the level of risk is pursued through an adequate organisational structure, the adoption of rules and procedures, the implementation of certain trade and procurement policies, the use of insurance coverage and hedging derivative financial instruments.

For the monitoring and management of Financial and Market Risks, the Risk Owner is supported by the Risk Committee, with advisory functions in relation to the risk management process. The Committee, composed not only of the General Manager, but beyond the Head of Energy Management and Production and the Head of Administration, Finance and Control, meets once a month and is responsible for supporting the Risk Owner in analysing and preparing the necessary documentation for implementing the hedging strategies, as well as proposing the “Hedging Policy” and the quarterly updates to be submitted to the BoD for approval.

We focus below on the risks, from those listed, with the biggest impact for the Company.

Market Risk

Market risk is the risk that the value of a financial instrument, as defined by IAS 32, will fluctuate because of changes in market prices or exchange rates.

Owing to the nature of its business, the Company is exposed to changes in the prices of electricity, fuel and environmental costs (CO_2 emission rights) that can significantly influence the financial results.

To mitigate this exposure, it has developed a strategy of stabilising margins by means of the early negotiation of fuel supply. Through formulas or indexing, the company pursues, as far as possible, a policy of standardisation between sources and physical uses.

The Company has also implemented a formal procedure that provides for the measurement of the residual price/commodity risk and the implementation of hedging operations. Hedging transactions may have the objective of stabilising the margin on an individual transaction or a group of similar transactions, or to limit overall exposure to price risk. Tirreno Power does not adopt speculative positions in financial instruments.

As at December 31, 2020, the Mark to Market value of the electricity price hedging instruments was a positive Euro 110 thousand, and a negative Euro 487 thousand in relation to gas price hedging instruments.

Interest rate risk on cash flows

The exposure to the risk of changes in the Company's interest rate is linked primarily to the financial debt, which, even if now to a lesser extent, is at floating rate. The Company, taking into account the contractual obligations, regularly assesses its exposure to the risk of changes in interest rates and manages these risks through the use of non-speculative derivative financial instruments.

The Hedging Policy aims to stabilise cash outflows relating to financial expenses, reducing the effects of increases in interest rates and at the same time retaining some of the benefits associated with a reduction of the same through a combination of debt between fixed and floating rate.

In 2020, the only variable-rate loan is the Revolving Facility of Euro 50,000 thousand, of which Euro 20,000 thousand used as at December 31, 2020.

Counterparty Risk

Counterparty risk, or more commonly known as credit risk, represents the Company's exposure to potential losses arising from the default of a counterparty.

Credit risk is the risk that a counterparty will not fulfil its obligations linked to a financial instrument or a commercial contract, therefore leading to a financial loss. The company is exposed to credit risk deriving from its operating activities (especially for trade receivables) and from its financing activities, including deposits with banks and financial institutions, and other financial instruments.

Credit risk is limited due to the characteristics and the creditworthiness of the customers served. The portfolio of accounts receivable is constantly monitored by the relevant departments. Tirreno Power also pays particular attention to the selection of prime counterparties (both commercial and financial), the evaluation of supplier references in terms of the customers served and respect for supply/service obligations, in the definition of contractual penalties in cases where the non-fulfilment of the obligation by the third party may have economic consequences for the company in the issue and request for guarantees, especially financial, for entering into derivative contracts according to ISDA standards.

As for the payment terms applied by most customers, deadlines are mostly concentrated within thirty or sixty days from billing, normally monthly, and is carried out within the month following the month of the supply.

The monitoring and analysis of counterparty risk is entrusted to the Internal Credit Risk Committee, composed of the Risk Committee (mentioned above), with the addition of the Head of Legal and Corporate Affairs, which evaluates existing exposures on a monthly basis per individual counterparty and deliberates on credit facilities. The main monitoring tool used is the weekly statement of exposure for each individual counterparty, also containing alert mechanisms when given exposure thresholds of attention are reached.

At the date of these financial statements, the credit risk is reduced as the trade receivables relate to counterparties with a high credit standing; in fact, around 90% of current trade receivables are attributable to institutional counterparties like Terna SpA, Gestore dei mercati energetici SpA (GME) and Gestore dei servizi energetici SpA (GSE).

Liquidity Risk

The liquidity risk is related to the possibility that the Company finds itself in a situation of difficulty in meeting the financial obligations arising from contractual commitments and, more generally, from its financial liabilities.

This risk is closely tied to the Restated Facilities Agreement signed with the lenders, as described in note 14 “Payables for loans”. The following table summarises the contractual expiry date for the financial and trade assets and liabilities at the date of these financial statements.

Expiry of financial assets and liabilities(thousands of Euro)	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Cash and cash equivalents	14,044				14,044
Derivative financial instruments	110				110
Trade receivables and other assets	114,666	673	18,658		133,996
Total Financial assets	128,819	673	18,658	-	148,150
Financial payables	24,475	20,000	55,455		99,931
Trade payables and other liabilities	86,958				86,958
Derivative financial instruments	487				487
Total Financial liabilities	111,921	20,000	55,455	-	187,376
Total net exposure	16,899	(19,327)	(36,798)	-	(39,226)

Legal risk

This is the risk of the Company suffering negative repercussions from violations of laws or regulations and contractual and non-contractual liability.

Through the Legal and Corporate Affairs Department, the company monitors the risks identified through:

- verification of compliance with the regulatory provisions;
- an analysis of the legal documents and contracts, by verifying, in particular, the clauses of acceptance of the Code of Ethics and of the Organisational and Management Model pursuant to Italian Legislative Decree 231/01;
- monitoring of the contractual standards in use.

In the event of the signing of international contracts, the Legal and Corporate Affairs Department verifies that they are consistent with the frameworks set forth in international conventions or approved by international trade associations.

Legislative/Regulatory risk

This risk identifies the eventuality that the Company may suffer negative consequences, in economic or capital terms, or which damage its reputation, as a result of the issuing of primary legislation or resolutions of the regulatory authorities. For the analysis of legislative and regulatory risk, and the monitoring of the activities impacted, Tirreno Power has, through the following functions, implemented the following instruments:

- Institutional and Regulatory Affairs Work Group – The work group meets monthly and the General Manager and Heads of the main functions exposed to risk (Energy Management, AFC and Production) take part. In this context, on the basis of a document prepared by the Regulatory, Institutional and Communication Affairs Organisational Unit, all the main regulatory and legislative events, which could have an impact on Tirreno Power are discussed and any actions to be taken are evaluated (if necessary, also through the launch of specific studies, also assigned to specialist advisors). A closer coordination was activated between the Energy Management Department and the Regulatory, Institutional and Communication Affairs Organisational Unit, which periodically meet to discuss matters of reciprocal interest.
- Regulatory Dashboard – Every four months, the Regulatory, Institutional and Communication Affairs Organisational Unit prepares a document that summarises all the regulatory and legislative issues that, during the reference period, have determined potential impacts for the Company. The document is published on the company intranet and made accessible to all employees. In addition, a periodic newsletter, for use by the functions most impacted, contains a specialist press review on the regulatory, institutional and market issues.
- Association activities – Tirreno Power participates in some trade associations (for example, Energia Libera and Unione Industriali di Savona), with the objective of monitoring the legislative-regulatory framework, promoting the relationship and the exchanging of information with the institutions, and promoting and participating in initiatives to protect the company's position.

Image risk

Image risk is the risk of the Company suffering negative repercussions on its reputation, with particular regard to the management of institutional communications.

Control of the activities exposed to risk through the constant monitoring of the perception of the Tirreno Power brand by stakeholders and specific communication and information activities, targeted at maintaining an excellent brand reputation.

The Corporate Affairs Department is responsible for the actions targeted at the correct implementation of the risk management policies, which ensures the development of relational capital and the identity of the company, the definition of the corporate image and brand identity strategies and strengthening of the Company's reputation.

The Company monitors and manages the risk through the following non-exhaustive list of analyses and instruments:

- Press Review – The company is equipped with a press review service, which, through a daily newsletter, reports the news that appears in the press in relation to the Company, its shareholders, the reference areas and some important themes.

- Media relations – The Regulatory, Institutional and Communication Affairs Organisational Unit deals with the press office functions, supported by an advisor who handles relations with the local and national press publications.
- Practice of management of critical events – The Company has defined a communication flow dedicated to the management of emergences, in order to monitor any particularly urgent or relevant cases.

Furthermore, the company implements proactive communication initiatives in the media and takes part in conferences in order to improve the company's reputation, by reducing its image risk.

Environmental risk

This risk identifies the eventuality that the Company may suffer negative consequences, in economic or capital terms, or which damage its reputation, or in terms of the safety of personnel, as a result of environmental pollution resulting from the operation of thermoelectric plants.

The Company's policy consists of the prevention of all forms of environmental pollution or damage connected with the operation of its thermoelectric plants; of the prevention of possible risky events through the development and implementation of plant management and maintenance procedures certified according to ISO 14001 standard, of the development of regular technical-operating training programmes for personnel in the field and in the mapping and analysis of near accidents; as well as of the transfer of risks through the stipulation of adequate insurance policies to cover any damages and civil liability connected with accidents.

The Company monitors and manages the risk through the following non-exhaustive list of analyses and instruments:

- stipulation of adequate insurance policies to cover any damages and civil liability connected with accidents. It should be noted that Tirreno Power has also always been equipped, accompanying its Third-Party Civil Liability Insurance Policy, with a specific Pollution Civil Liability policy to cover the risk of "gradual pollution", where the Third-Party Civil Liability Policy only covers damages stemming from "accidental" pollution;
- implementation of an appropriate Environment Management System for the company and for thermoelectric assets, regulated by the proper Manual, which conforms to the UNI ISO 14001 standard;
- development of regular technical-operating training programmes for personnel in the field and the mapping and analysis of near accidents;
- plants in line with the Best Available Techniques.

NOTES TO THE BALANCE SHEET

ASSETS

Non-current assets

1. PROPERTY, PLANT AND EQUIPMENT

Details of tangible fixed assets are provided below, by individual category, along with the changes in the period:

(thousands of Euro)	FIXED ASSETS IN OPERATION					Fixed assets in progress and advances	BOOK VALUE
	Lands and buildings	Rights of use	Plant and equipment	Industrial and commercial equipment	Other assets		
-historical cost at 12.31.2019	176,011	2,538	2,040,515	8,924	5,431	19,115	2,252,533
-write-downs (-) at 12.31.2019	(2,292)	0	(118,780)				(121,072)
-accumulated depreciation (-) at 12.31.2019	(104,250)	(477)	(1,372,130)	(8,508)	(4,215)		(1,489,581)
Values as at 12.31.2019	69,468	2,061	549,604	415	1,217	19,115	641,879
Opening values at 01.01.2020	69,468	2,061	549,604	415	1,217	19,115	641,879
Changes							
-acquisitions	338	162	9,212	31	109	32,646	42,498
-disposals (-)							
of which:							
historical cost	(1,141)		(22,029)			(161)	(23,331)
accumulated depreciation	707		17,841				18,548
use of write-down provision	234		2,602				2,836
-depreciation	(5,147)	(497)	(50,578)	(104)	(316)		(56,643)
-write-downs (-)			(1,030)				(1,030)
-commissioning	377		14,482		10	(14,869)	0
-other changes							0
Total changes (B)	(4,632)	(335)	(29,500)	(73)	(197)	17,616	(17,121)
Values as at 12.31.2020	64,836	1,726	520,103	342	1,020	36,731	624,757
Of which							
-historical cost	175,585	2,700	2,042,180	8,955	5,550	36,731	2,271,700
-write-downs (-)	(2,058)	0	(117,208)				(119,267)
-accumulated depreciation (-)	(108,690)	(974)	(1,404,867)	(8,612)	(4,531)		(1,527,676)
Net value	64,836	1,726	520,103	342	1,020	36,731	624,757

As at December 31, 2020 the value of property, plant and equipment amounted to Euro 624,757 thousand. During the year, the Company reported investments totalling Euro 42,336 thousand, of which Euro 32,646 thousand related to “fixed assets in progress and advances” and Euro 9,852 thousand relating to the “fixed assets in operation”, augmented by Euro 162 thousand in capitalisations for rights of use.

Investments relating to fixed assets in operation (Euro 24,721 thousand including commissioning) primarily concerned:

- for the Napoli Levante plant the activities carried out during the scheduled shutdown;
- for the Vado Ligure plant, the installation of the new auxiliary electric boiler and the completion of the VL5 safeguard works;

- for the Torrevaldaliga Sud plant, scheduled maintenance activities on the TV5 unit;
- the commissioning of the new rotor and the third set of Package V at the combined cycle plant of Torrevaldaliga Sud;
- overhaul of the TV5 and TV6 valves and rotating machinery;
- development and adaptation of software and IT structures for digitalisation activities in various business functions;
- safety and environmental adaptation measures of the hydroelectric plants.

As regards investments in fixed assets in progress and advances, amounting to Euro 32,485 thousand, note the activities relating to the inspection of the hot parts (HGPI) of the Vado Ligure plant (common parts, steam turbine, TGA and TGB), the installation of the "autotune" system and the supply of the new alternator rotor that will be installed during the next scheduled shutdown in 2021; *Upgrading* of the distributed control system (DCS) installed at the Torrevaldaliga plant, investments relating to the second hot parts inspection (HGPI) and the reconditioning and replenishment of blades at the Naples thermoelectric power station, as well as safety works of thermoelectric plants.

Disposals amounted to Euro 4,783 thousand, and related primarily:

- for Euro 2,836 thousand, to the assets belonging to the area of the common works of the old coal units decommissioned at the Vado Ligure Plant, sold in March 2020 to the company Vernazza Autogru, as better indicated in the paragraph "Operating structure". In this regard, it should be noted that these assets were written down in full;
- for Euro 1,863 thousand to the assets damaged by the flood (Storm Alex) in October 2020, as better specified in the Management Report in the paragraph "Damage due to flooding on October 2 - 3, 2020".

The write-downs concerned, for Euro 1,030 thousand, the book value of the rotor of the VL5 unit, which was damaged during the inspection carried out during the HGPI in December and which will be replaced in the next scheduled shutdown of 2021.

The impairment test as at December 31, 2020 was performed on the sole Cash-Generating Unit (CGU) of Tirreno Power, using the cash flows relating to the 2021-2039 period, the period in which the useful life of the production plants will come to an end, extrapolated from the 2021-2026 Business Plan approved by the Board of Directors, which acknowledges the market scenario requested from REF-E with the forecast curves of the energy markets in December 2020, updated to take account of both the additions and changes in regulatory and industrial terms, and the main actions taken as of today by management whose effects will be felt in future years.

The flows are also updated with the final data reported for 2020 and with the data of the 2021 budget.

The impairment test showed a recoverable amount exceeding the net book value. Therefore, there was no need for write-downs of corporate assets.

Operating cash flows are stated net of taxes and the post-tax discount rate of operating cash flows (WACC) used was 5.98%. This value is the result of the valuation of the rates and prospective returns forming the basis of the calculation of said perimeter in December 2020. The updated WACC is in line with the one used for the impairment test in December 2019 (5.96%), consistent with the trend in market rates and the reference returns.

The sensitivity analyses carried out on the recoverable amount to a change of +/- 100 bps in the WACC and on the Risk scenario, with a 5% reduction in MSD margins from 2024, confirm the recoverability of the corporate assets.

The depreciation of tangible fixed assets charged to the period mainly affected the combined cycle thermoelectric production sites (Euro 37,413 thousand), the relevant Major Inspections (Euro 14,088 thousand) and dismantling costs (Euro 715 thousand), and are calculated using the economic-technical rates representative of the useful life of each component.

As for freely transferable assets, depreciation is proportional to the duration of the associated concession if shorter than the useful life.

Tangible fixed assets as at December 31, 2020, classified according to their use, are divided as follows:

Production plants	Original cost	Accumulated depreciation	Net value	Write-down provision	Net reported value
Thermoelectric plants	2.092.546	(1.447.845)	644.701	(119.267)	525.434
Freely transferable assets	2.132	(2.132)	0		0
Total	2.094.679	(1.449.977)	644.701	(119.267)	525.434
Renewable Sources Plants	85.118	(42.098)	43.020		43.020
Freely transferable assets	31.879	(17.024)	14.855		14.855
Total	116.997	(59.122)	57.875		57.875
Total production plants	2.211.676	(1.509.099)	702.577	(119.267)	583.309
Other plants and machinery, equipment, other assets	23.291	(18.575)	4.716		4.716
Total operating assets	2.234.967	(1.527.676)	707.294	(119.267)	588.026
Fixed assets in progress and advances	36.731		36.731		36.731
Total	2.271.700	(1.527.676)	744.025	(119.267)	624.757

As at December 31, 2020 there are no tangible fixed assets for which any collateral securities have been granted to third parties.

2. INTANGIBLE ASSETS

A table is provided below, which details the original values and changes:

(thousands of Euro)	Industrial patents and software applications	Other assets *(Restated*)*	Fixed assets in progress and advances	BOOK VALUE
-historical cost at 12.31.2019	9,417	44	401	9,862
-accumulated amortisation (-) at 12.31.2019	(9,003)	(34)		(9,037)
Opening values at 01/01/2020(A)	*414*	*10*	*401*	*825*
Changes as at 12.31.2020				
-acquisitions	731		145	876
-reclassifications	401		(401)	0
-amortisation (-)	(373)	(1)		(374)
-other changes				0
Total changes (B)	759	(1)	(256)	502
Values as at 12.31.2020 (A+B)	*1,173*	*9*	*145*	*1,327*
Of which				
-historical cost	10,549	44	145	10,738
-write-downs (-)				
-amortisation (-)	(9,376)	-35		(9,411)
Net value	*1,173*	*9*	*145*	*1,327*

**Some values shown in this column do not correspond to those shown in the financial statements as at December 31, 2019 as they reflect the adjustments made in application of IAS 8. For more details on the reclassification made, please refer to the "Change in the accounting policy adopted with reference to CO2 emission rights" paragraph of the notes.*

Acquisitions in the period, amounting to Euro 876 thousand, mainly relate to new licenses and the development of application software.

3. NON-CURRENT FINANCIAL ASSETS

This item refers to financial receivables due after 12 months.

(thousands of Euro)	12.31.2020	12.31.2019	Changes
- loans to personnel	389	432	(43)
- security deposits	18,269	10,042	8,227
Total non-current financial assets	18,658	10,474	8,184

Security deposits mainly include, for Euro 6,056 thousand, the deposit in favour of Terna SpA for the dispatching contract for the injection and withdrawal points issued in 2015; as well as for Euro 3,711 thousand the deposit for participation in the Capacity Market auctions as per the Italian Ministerial Decree of June 28, 2019, which then formally launched the Capacity Market mechanism in Italy on the basis of which the auctions relating to the delivery of energy for 2022 and 2023 were held; for Euro 5,720 the escrow account set up in favour of the Central Tyrrhenian Sea Port Authority in 2020 to guarantee the demolition works of the Vigliena plant; as well as for Euro 2,440 thousand the security deposit in favour of SNAM rete gas to guarantee the feasibility project activities of the connection to the gas pipeline as an essential requirement for the start of the authorisation process for a new plant at the Torrevaldaliga site.

It should be noted that "loans to employees", remunerated at current market rates and guaranteed by post-employment benefits, were granted for the purchase of a first home or to meet important family needs.

As at December 31, 2020, there were no financial assets carried at a value greater than their fair value.

4. DEFERRED TAX ASSETS

As at December 31, 2019, the Company - in light of the results obtained, as well as the forecasts of future taxable income deriving from the updated plan suited to absorb the active temporary differences in tax - recognised deferred tax assets, which are estimated can be recovered in the period up until 2023, the year in which the current regulated Capacity Market system will expire and owing to the still limited visibility of the subsequent regulatory system.

As at December 31, 2020, the Company - in relation to the uses to offset the taxable income achieved in 2020 - recognised the residual amount of deferred tax assets on the IRES tax losses (Euro 10,229 thousand), which, in the previous year, had not been recognised since they were estimated to be recoverable beyond 2023.

The changes in the period are shown below:

(thousands of Euro)	Situation as at 12/31/2019	Situation as at 12/31/2020		
	Balance	Provisions	Uses	Balance
Deferred tax assets				
Tax losses	22,857	10,229	(33,086)	-
Provisions for risks and write-downs	11,965	7,630	(4,433)	15,162
Fair value IAS 19 and IFRS 9 to shareholders' equity reserve	725		(2)	723
Total deferred tax assets	35,547	17,859	(37,521)	15,885

5. OTHER NON-CURRENT ASSETS

The item, amounting to Euro 673 thousand, included the amount of Euro 37,449 as at December 31, 2019.

The significant reduction in the item relates to:

- for Euro 26,500 thousand, the VAT credit for 2019, collected in November 2020;
- for Euro 10,211 thousand, the residual credit for ETS quotas due, for the years 2010-2012 for the Naples plant, collected in October and November 2020.

It should be noted that the VAT credit for 2020 is accounted for under other current assets, as specified in note 8.

CURRENT ASSETS

6. INVENTORIES

The item, equal to Euro 61,050 thousand, includes the CO_2 quotas purchased to meet their delivery obligations and the materials mainly intended for use during plant maintenance.

As regards the CO_2 quotas, it should be noted that, as better highlighted previously, the Company deemed it appropriate to reclassify under inventories the CO_2 quotas, which were recorded under intangible fixed assets as at December 31, 2019 (Euro 52,694 thousand relating to 2,237,478 quotas).
As regards the movement of these quotas, during the current year, the following steps were taken:

- the purchase of 1,775,000 CO_2 emission certificates for a total of Euro 42,812 thousand;
- the delivery of 2,002,146 emission rights for a total of Euro 47,152 thousand in compliance with the Company's obligations for 2019.

Therefore, as at December 31, 2020, 2,010,332 quotas are entered among the inventories, equal to Euro 48,355 thousand.

Inventories of materials, on the other hand, amounted to Euro 12,652 thousand and are recognised in the financial statements according to the weighted average cost method.

Due to their intrinsic characteristics, these inventories show a slow movement typical of spare parts for these types of plants, as can be seen also from the modest net change in the value of stocks.

These inventories are booked net of a provision for obsolete goods, equal to Euro 1,691 thousand, recognised in previous years, as a result of the events that occurred and the decisions taken in relation to the Vado Ligure plant regarding the coal units.

The overall decrease in the inventory item is mainly attributable to the movement of CO_2 quotas as shown above.

Details of inventories are provided below by type:

(thousands of Euro)	12.31.2020	12.31.2019	Changes
Tangible inventories	12,652	12,802	(150)
Other inventories	42	33	9
CO_2 certificates	48,355	52,694	(4,339)
Total inventories	61,050	65,529	(4,479)

7. TRADE RECEIVABLES

This item, amounting to Euro 82,492 thousand, mainly includes trade receivables for the sale of energy.

(thousands of Euro)	12.31.2020	12.31.2019	Changes
Receivables for sale of energy:			
-GME	2,492	1,535	(1,533)
-Terna S.P.A.	66,200	61,870	(61,804)
- Other operators	13,682	9,157	(9,143)
Total receivables for sale of energy:	82,374	72,562	(72,480)
Other trade receivables	118	21	97
Total trade receivables	82,492	72,583	9,909

It should be noted that almost all of these receivables arose over the last two months of the year and that, at the date of these notes, are essentially fully collected or collectible, given that the relevant expiries are in 30/60 days.

For more details on the changes, please refer to what was indicated previously in the Management Report in the "Analysis of the capital structure" section.

8. OTHER CURRENT ASSETS

The item, amounting to Euro 32,141 thousand, mainly includes tax receivables. The latter amounted to Euro 27,971 thousand at the date of the financial statements and include mainly the receivable from the Tax Authorities for VAT from monthly payments accrued in 2020 (Euro 21,680 thousand) and the third quarter of 2020 requested for refund (Euro 5,900 thousand), collected at the beginning of February 2021.

The item includes also loans to Shareholders, amounting to Euro 925 thousand, relating to IRES (corporate income tax) refund requests for non-IRAP deductions, presented when the Company signed up to the tax transparency regime in accordance with art. 115 of the Consolidated Law on Income Tax. The monitoring and management of the collection of these receivables subject to the tax transparency regime were handled directly by the Shareholders.

Lastly, Euro 771 thousand was recorded for insurance premiums paid early and receivables due from social security institutions were booked for a total of Euro 903 thousand relating essentially to sums paid in advance to employees for social shock absorbers relating to the Cassa Integrazione Guadagni Straordinaria (Extraordinary Wages Guarantee Fund) and previous solidarity contracts.

Lastly, receivables due from social security institutions were booked for a total of Euro 903 thousand relating essentially to sums paid in advance to employees for social shock absorbers relating to the Cassa

Integrazione Guadagni Straordinaria (Extraordinary Wages Guarantee Fund) and previous solidarity contracts.

9. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes, for Euro 110 thousand, the fair value of the financial derivative contracts in place as at December 31, 2020 to hedge fluctuations in the price of natural gas for a notional 16 GWh and expiring in 2021.

10. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets, amounting to Euro 32 thousand, refer essentially to financial commissions paid and not yet accrued.

11. CASH AND CASH EQUIVALENTS

The item, amounting to Euro 14,044 thousand includes, essentially, the credit balances of accounts held with leading banks.

12. NON-CURRENT ASSETS HELD FOR SALE

The item, currently equal to Euro 0, included the book value of the land (Euro 838 thousand) as at December 31, 2019 sold to the company Vernazza Autogru, which was then finalised with a deed of sale dated March 6, 2020, as well as that of the land sold to Q-Invest Srl (Euro 27 thousand), whose deed of sale was formalised on September 9, 2020.
For further details, please refer to the “Operating structure” paragraph.

LIABILITIES AND SHAREHOLDERS' EQUITY

13. SHAREHOLDERS' EQUITY

For information on changes in shareholders' equity, please refer to the Statement of Changes in Shareholders' Equity.

The item "Other reserves", amounting to Euro 134,774 thousand, is composed as follows:

- Reserve from contribution of subscription of Junior PFIs amounting to a nominal Euro 284,386,754, approved at the Extraordinary Shareholders' Meeting on December 16, 2015 and recorded at fair value, amounting to Euro 204,000,000. This reserve was also reduced for the coverage of losses resolved at the same extraordinary shareholders' meeting amounting to Euro 88,735 thousand. The amount of this reserve as at December 31, 2018, is therefore Euro 115,265 thousand;
- Legal reserve for Euro 11,059 thousand;
- Available reserve for coverage of losses for Euro 9,243 thousand;
- IAS 19 Reserve - Post-employment and other benefits, negative for Euro 507 thousand;
- CFH reserve for hedging of gas supplies and energy sale for a negative Euro 287 thousand.

The item "Accumulated gains and losses" includes the carry-forward of profits from 2018 and 2019, amounting to Euro 38,186 thousand and Euro 158,744 thousand, respectively, as well as the IFRS reserve for retained earnings of Euro 831 thousand.

The share capital as at December 31, 2020 is represented by 60,516,142 ordinary shares with a nominal value of Euro 1.00 each, fully paid up and held by ENGIE Italia S.p.A. (50%) and ENERGIA ITALIANA S.p.A. (50%).

Details of items of shareholders' equity and an indication of their possibility of use and distribution, as well as their use in previous years, is provided below:

Nature/description	Amount	Possibility of use	Amount available	Summary of uses made in previous three years	
				To cover losses	For other reasons
Share capital:	60,516				
Capital reserves:					
Reserve from contribution of subscription of Junior PFIs	115,265	B			
Available reserve for coverage of losses	9,243	B		58,957	
Profit reserves:					
Legal reserve	11,059	B			
IFRS 9, CFH and IAS 19 reserves	-793	B			
Retained earnings	197,762	B			
TOTAL RESERVES	332,536				

Key:
A: for share capital increase
B: to cover losses
C: for distribution to shareholders

Based on the provisions of the Company's Articles of Association, the distribution of profits cannot be approved until the credit lines of the Restated Facilities Agreement are repaid in full, and the additional conditions governed in the Restructuring Agreement are satisfied.

The Participating Financial instruments (PFIs), as defined in art. 2346, paragraph 6 of the Italian Civil Code, are financial instruments with equity or administrative rights, excluding voting rights at the shareholders' meeting. The articles of association govern their methods and conditions of issue, the rights of entitlement, sanctions for non-performance of the services and, if permitted, the methods of circulation. The PFIs are therefore included in the so-called hybrid financial instruments. This definition means instruments with similar characteristics, both shares and obligations in relation to the characteristics outlined for the instrument, but with their own identity.

Each financial instrument is measured according to its own characteristics, from which is also derived the valuation method that is better able to define the value. The features of the PFIs can be identified by their own regulation.

The Junior PFIs are fully regulated by the Company's Articles of Association, and more precisely, Annex 1 "Regulations of the participating financial instruments of the Senior and Junior categories of Tirreno Power S.p.A.".

PFIs do not, under any circumstances, entitle holders the right to attend or to vote at the ordinary and extraordinary shareholders' meeting of the Company.

NON-CURRENT LIABILITIES

14. PAYABLES FOR LOANS

“Payables for loans” refer to the Restated Facilities Agreement signed with the financial institutions on December 15, 2015 and modified with the Amendment Agreement on January 31, 2018.

The original composition of the credit lines is as follows:

- “Tranche A” of Euro 300,000 thousand, to be repaid based on a repayment plan starting from a date no earlier than June 30, 2017, remunerated at the Euribor rate +2.07%, maturity in December 2022 (+ optional extension for another 2 years);
- “Revolving Credit Facility” of Euro 50,000 thousand remunerated at the Euribor rate +2% with the possibility of repayment and drawdown up to the maturity date set for December 2022 (+ optional extension for another 2 years);
- "Tranche B" of Euro 250,000 thousand (“Mandatory convertible bond” credit line), remunerated at a rate of 3.42% PIK, maturity in December 2024 (with the possibility of optional extension for another 2 years);
- Hedging credit line of Euro 2,309 thousand repaid with repayment plan comprised of 6 semi-annual instalments starting from June 30, 2017, remunerated at the Euribor rate +2%.

As for the Convertible credit line, the Company will have the right to arrange for its full or partial conversion to Senior PFIs up to a limit of Euro 230 million, to meet capital/financial requirements for operations, or to remedy capital deficiencies or, lastly, address violations of the leverage ratio.

It should be noted, in fact, that from June 30, 2020, the Company is required to respect the following two financial covenants every six months:

- total amount of shareholders’ equity of no lower than Euro 37.5 million;
- a leverage ratio, i.e. ratio of the Net Financial Position to accumulated EBITDA in the previous 12 months which, as at December 31, 2020, must not exceed 5.39 for the purposes of the above conversion and 5.98 for default purposes.

It should be noted that, as at December 31, 2020, the financial covenants are fully respected.

During the 2020, the company fully reimbursed Tranche A and prepayments of Tranche B were made for a total of Euro 183,324 thousand.

As at December 31, 2020, the residual debt relating to the above credit lines, net of repayments made and including capitalised interest, was composed as follows:

- Euro 66,675 thousand Tranche B ("Mandatory convertible bond" credit line);
- Euro 20,000 thousand "Revolving Facility".

The Restated Facilities Agreement requires, at the end of each calendar year, the cash and cash equivalents (including the "Revolving Credit Facility" line) exceeding Euro 40,000 thousand, to be used for the early repayment of the credit lines, together with interest capitalised on the principal portion repaid early.

The Company has therefore reclassified under current liabilities, in addition to a portion of debt of Euro 4,022 thousand as a Cash Sweep on cash and cash equivalents as at December 31, 2020, repaid in January 2021, also a portion of Euro 20,000 thousand relating to a further prepayment of Tranche B, carried out in February 2021, as better described in the paragraph "Significant events after the close of the period".

It should also be noted that in 2020, the Company extinguished all the endorsement credit lines in the Guarantee Facility Agreement, stipulated following the 2015 Restructuring Agreement, replacing them with more flexible and less costly bilateral lines.

15. PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges amounted to Euro 107,017 thousand, an increase of Euro 23,433 thousand compared to December 31, 2019.

The size of the provision and the changes are summarised below:

(thousands of Euro)	12.31.2019	Allocations	Uses	Other changes	12.31.2020	of which current	of which non-current
Dispute provision	4,279	1,486		(4)	5,762		5,762
Provision for redundancy and mobility incentives	5,059	4,031	(176)	188	9,102	3,658	5,444
Provision for sundry risks:	74,246	23,743	(5,700)	(134)	92,153	30,704	61,449
- site dismantling and restoration	*62,053*	*14,260*	*(3,862)*		72,451	19,992	52,459
- other	*12,194*	*9,483*	*(1,838)*	*(134)*	19,705	10,713	8,992
Total provisions for risks and charges	83,584	29,260	(5,876)	50	107,017	34,362	72,655

The provisions in the period, amounting to Euro 30,805 thousand, increased the provisions, mainly owing to the following:

- Euro 10,644 thousand for the adjustment of the estimated dismantling costs of the decommissioned coal units of Vado Ligure plant in view of the insulation removal activities that the Company decided to carry out in the years 2021/2022, as well as the updating of the estimates of subsequent demolition activities in relation to: i) higher costs for waste removal and disposal; ii) lower revenues from the sale of metal scrap and iii) the financial effect deriving from the advancement of the activities with respect to what was assumed in the previous financial statements or starting from the year 2037. For further information, please refer to the "Investments and demolitions" paragraph;

- Euro 2,000 thousand for the adjustment of the estimated future dismantling costs of the disused TV4 plant in relation to the advancement of the activities with respect to what was assumed in the previous financial statements or starting from the year 2035;
- Euro 1,616 thousand for the recognition of financial expenses pertaining to 2020 on provisions for the future expenses of dismantling of plants;
- Euro 8,840 thousand for the estimate of the damage caused to the hydroelectric plants by the flood in October 2020, as better specified in the relevant paragraph of the Management Report;
- Euro 4,031 thousand as the adjustment, on expiry of the term for participation, of the estimate of the expenses connected with the voluntary redundancy plan, valid for the three-year period 2020-2022 targeted at promoting a personnel turnover process, as per the determination of the General Manager communicated to employees on December 23, 2019;
- Euro 1,486 thousand for expenses relating to requests for compensation for asbestos-related damages.

Uses, in particular, included:

- Euro 3,035 thousand for the insulation removal activities of the disused plants in Vado Ligure and Torrevaldaliga;
- Euro 283 thousand as recognition of TARI (waste tax) of previous years of the Torrevaldaliga plant;
- Euro 1,005 thousand for the long-term incentive program for directors (Long Term Incentive) by virtue of the full achievement of all the objectives envisaged and which will be disbursed after the approval of these financial statements;
- Euro 827 thousand for the demolition of the areas pertaining to the old Vigliena facility of the Naples plant.

The provision for sundry risks includes Euro 72,451 thousand for the estimated discounted costs expected to be incurred at the end of production activities of the Torrevaldaliga, Naples and Vado Ligure sites due to abandonment of the area, dismantling, removal of structures and restoration of the site in the presence of current obligations. The non-current portion mainly refers to the dismantling and restoration works that will be carried out over a period of time between 2035 and 2039.

The item “Provisions for sundry risks - Other”, amounting to Euro 19,705 thousand, mainly includes Euro 5,055 thousand for imbalance charges of previous years, Euro 1,221 thousand for the risk of non-recognition of receivables relating to the wages guarantee fund and Euro 1,604 thousand for ICI/IMU disputes and, lastly, Euro 8,840 thousand for the restoration of the hydroelectric plants damaged by Storm Alex at the start of October 2020, as better specified in the relevant paragraph of the Management Report.

As regards the asbestos-related dispute, for which a total of Euro 5,762 thousand was set aside, the following updates should be noted with respect to what is indicated in the previous financial statements as at December 31, 2019:

1. as regards the ongoing disputes as at December 31, 2019, Tirreno Power filed an appeal against ruling no. 3774/2018 issued by the Civil Court of Naples in relation to the proceedings brought by a former employee for compensation for all financial and non-financial damages pursuant to art. 2087, that would have been suffered based on the contraction of lung cancer. The first hearing is set for October 6, 2021;

2. in 2020 and in January 2021, former employees filed an appeal against Tirreno Power and ENEL S.p.A. for the request for compensation for all financial and non-financial damages and for the illness contracted by each of them allegedly attributable to the exposure to asbestos. As things stand, it appears likely that the companies will be the losing party, so a provision of Euro 1,486 thousand was set aside.

For this type of dispute, there are currently no elements to be able to estimate further potential claims for damages.

16. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

They amounted to Euro 5,639 thousand and reflect the severance pay and other benefits accrued at year-end by employees that are valued according to actuarial criteria of IAS 19R laid out for defined benefit plans. In particular, as regards the economic and financial scenario, the parameters used for the evaluation are as follows:

POST-EMPLOYMENT BENEFITS	2020	2019
Annual technical discount rate	-0.02%	0.77%
Annual inflation rate	0.80%	1.20%
Annual rate of increase in post-employment benefits	2.10%	2.40%
Other employee benefits	2020	2019
Annual technical discount rate	-0.02%	0.77%
Annual rate of salary increase	0.50%	0.50%

The following table illustrates the changes:

(thousands of Euro)	Post-employment benefits	Substitute indemnity - Electricity discount	Additional months' pay	Loyalty bonuses	BOOK VALUE
Values as at 12.31.2019 (A+B)	4,524	522	609	472	6,128
Initial balance adjustment	(169)				(169)
Curtailment			(188)		(188)
-Provisions			19	(12)	7
-Financial expenses (+)	32	4	4	3	43
-Gains (losses) from discounting (-/+)	40	40	50	(22)	108
-Uses (-)	(166)	(21)	(20)	(82)	(289)
Total changes (B)	(263)	23	(135)	(113)	(488)
Values as at 12.31.2020 (A+B)	4,260	546	474	359	5,639

The adjustment of the initial balance of the post-employment provision refers to the effects of the restatement of the amounts due to some employees in relation to advances paid in previous years.

The *Curtailment*, on the other hand, refers to the effects of the loss of the additional months' pay benefit as a result of the participation in the voluntary redundancy plan.

Costs for employee benefits were also recognised in the year, amounting to Euro 50 thousand, of which Euro 43 thousand for interest recorded under financial expenses and Euro 7 thousand recorded under personnel costs.

Lastly, gains from discounting amounted to Euro 108 thousand and are recognised in the shareholders' equity reserve (net of taxes), excluding those relating to loyalty bonuses, which are booked directly to the income statement.

As a result of the issuance of the new IAS 19 *revised*, the additional information is summarised in the tables below:

Sensitivity analysis of the main valuation parameters on data as at 12.31.2020

	Post-employment benefits	Additional months' pay	Energy discount indemnity
Inflation rate +0.25%	4,299,427.50	N/A	N/A
Inflation rate -0.25%	4,220,960.50	N/A	N/A
Discount rate +0.25%	4,196,963.89	465,066.55	534,915.87
Discount rate -0.25%	4,324,730.11	483,785.14	556,734.68

	Post-employment benefits	Additional months' pay	Energy discount Indemnity
Pro future service cost	-	14,587.21	-
Duration of the plan	7	7	7

The number of employees by category is shown in the following table:

(units)	12.31.2019	Entries	Exits	Other/ Reclassifications	12.31.2020
Executives and Middle Managers	45			2	47
Employees	155	3	2	-1	155
Workers	31	1	1	-1	30
Total	231	4	3	0	232

17. DEFERRED TAX LIABILITIES

The item includes deferred taxes relating to costs not charged to the income statement, but deducted from taxable income in the tax return, as detailed in the following table:

(thousands of Euro)	Situation as at 12/31/2019	Situation as at 12/31/2020		
	Balance	Provisions	Uses	Balance
Deferred tax liabilities				
Amortisation	33,623		(1,146)	32,476
FV IAS 19 to shareholders' equity reserve	69			69
FV of derivative financial instruments to shareholders' equity	147	340	(460)	26
Total deferred tax liabilities	33,839	340	(1,146)	32,572

The uses of the item "Amortisation" refer to the completion of the time period of tax amortisation for IRES purposes, with respect to the economic-technical one (statutory amortisation).

18. OTHER NON-CURRENT LIABILITIES

The item, currently amounting to zero, included the non-current portion of the payable to the MATTM (Italian Ministry of Environment and Land and Sea Protection) resulting from the settlement act signed in 2011 by means of which Tirreno Power was expressly and definitively freed from any obligation or liability in connection with the design and implementation of measures for the safety, and environmental remediation and restoration of groundwater, surface water and marine sediments overlooking the site of Naples. The last portion, to be paid expiring in June 2021, is recorded in the item "Other current liabilities".

19. OTHER NON-CURRENT FINANCIAL LIABILITIES

The item, amounting to Euro 1,297 thousand, includes the non-current part of the financial payable recognised as a result of the application of new IFRS 16 - Leases. The current portion of the debt, for Euro 454 thousand, was recognised among other current financial liabilities.

CURRENT LIABILITIES

20. TRADE PAYABLES

“Trade payables”, amounting to Euro 29,924 thousand, relate to fuel supplies, materials and equipment, tenders and services, as well as debts to TERNA and GME for supplies and activities carried out by December 31, 2020. The maturities of these payables are generally comprised between 30 and 120 days and duly respected.

The increase of Euro 2,752 thousand is mainly due to higher payables for the purchase of energy on the free market compared to those of 2019.

21. PAYABLES FOR INCOME TAXES

The item, amounting to Euro 8,602 thousand, includes payables for IRES (Euro 8,900 thousand) and IRAP (Euro 8,850 thousand) determined by applying the rate in force to the estimated taxable income of 2020, net of advances paid.

22. OTHER CURRENT LIABILITIES

Other current liabilities, amounting to Euro 48,431 thousand, mainly refer to the payable relating to the expense pertaining to the year for CO_2 emissions rights (Euro 40,985 thousand) valued at weighted average purchase price.

The item also includes payables to employees and payables to social security, welfare and insurance institutions.

The table below provides a breakdown:

(thousands of Euro)	12.31.2020	12.31.2019	Changes
Payables for CO2 emission rights	40,985	47,167	(6,182)
Other taxes	776	748	28
Payables due to social security institutions	1,899	1,677	222
Payables due to personnel	3,575	2,304	1,271
Other	1,196	2,564	(1,368)
Total other current liabilities	48,431	54,460	(6,029)

The decrease in payables for CO_2 emission rights is due to lower emissions compared to the previous year.

The item "Other" mainly includes the current portion of the payable due to the Italian Ministry of the Environment and for Land and Sea Protection, as better specified in note 18, amounting to Euro 893 thousand.

23. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes, for Euro 487 thousand, the fair value of the financial derivative contracts in place as at December 31, 2020 to hedge fluctuations in the price of natural gas for a notional 32 GWh and expiring in 2021.

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COMMITMENTS AND GUARANTEES

Commitments to suppliers are detailed below:

(thousands of Euro)	12.31.2020	12.31.2019	Changes
Tenders and miscellaneous supplies	72,882	66,514	6,368
Purchase of thermal fuel	17,548	19,434	(1,886)
Total commitments to suppliers	90,430	85,948	4,482

Commitments for the purchase of thermal fuel relate exclusively to the term fixed on natural gas purchase contracts.

The sureties requested in favour of third parties, amounting to Euro 23,765 thousand, concern policies issued by banks and insurance companies, at the request of the Company, and relate mainly to the guarantee of gas and energy supply contracts (Euro 17,082 thousand), the participation in the energy markets (Euro 4,370 thousand), as well as the guarantee for state concessions (Euro 2,242 thousand).

NOTES TO THE INCOME STATEMENT

24. REVENUES

The table below provides a breakdown of sales revenues:

(thousands of Euro)	12.31.2020	12.31.2019	Changes	%
Sale of energy:				
-Power Exchange	503,712	584,690	(80,978)	-14%
-Free market	88,046	73,970	14,076	19%
-incentivised contributions - ex Green Certificates	7,588	6,517	1,071	16%
-photovoltaic contributions	28	29	(1)	-3%
Total energy sales:	599,374	665,206	(65,832)	-10%
Other sales and services	258	1,338	(1,080)	-81%
Total revenues from sales	599,632	666,544	(66,912)	-10%

Tirreno Power's commercial portfolio consists of two types of customers, customers that operate in the free market and those, instead, that operate on the Power Exchange. Revenues from Power Exchange sales include the results of trading on the dispatching services market. Sales on the free market instead refer to physical bilateral contracts.

The decrease in revenues from sales on the day-ahead market is attributable to the lower quantities sold and the lower price (PUN down by about 26%), partly offset by the higher revenues deriving from the ancillary services requested by Terna on the Dispatching Services Market.

The item "Other sales and services" mainly refers to the sales of materials deriving from the demolitions (Euro 163 thousand).

For more details, as regards the changes with respect to December 31, 2019, please refer to the Management Report.

25. OTHER REVENUES

"Other revenues" amounting to Euro 3,694 thousand refer primarily:

- the capital gain deriving from the sale of the areas to the company Vernazza Autogru (Euro 1,864 thousand);
- the gain from the sale of the areas to the company Q-Invest (Euro 684 thousand).

As regards the changes with respect to December 31, 2019, please refer to the Management Report.

26. OWN WORK CAPITALISED

The item totalled Euro 953 thousand, relating primarily to the capitalisation of materials taken from the warehouse (Euro 654 thousand) and the capitalisation of internal resources at the time of the multi-year maintenance carried out in 2020 (Euro 299 thousand).

27. CONSUMPTION OF RAW MATERIALS

(thousands of Euro)	12.31.2020	12.31.2019	Changes	%
Energy purchased on the Electricity Market	115,605	140,520	(24,915)	-18%
Purchase of fuel for heat production	140,466	225,334	(84,868)	-38%
Purchase of materials and other equipment	2,493	2,051	442	22%
Change in fuel stocks	(10)	27	(37)	n.s.
Change in other stocks	(36)	5	(41)	n.s.
Total consumption of raw materials	**258,518**	**367,936**	**(109,418)**	**-30%**

The purchase of fuels related exclusively to natural gas supply.

The decrease in procurement costs relates primarily to the lower purchases of fuel and the energy acquired on the Electricity Market, as better detailed in the Management Report.

28. PERSONNEL COSTS

Labour costs amounted to Euro 21,683 thousand, an increase of Euro 754 thousand compared to the figure recorded in 2019.

The increase is attributable to the recognition as part of the costs of the portion of the year (Euro 634 thousand) relating to the long-term incentive program for directors (Long Term Incentive) by virtue of the full achievement of all the objectives set.

The headcount as at December 31, 2020 amounted to 232 employees, compared to 231 employees as at December 31, 2019.

29. SERVICE COSTS

Service costs, amounting to Euro 17,311 thousand, are detailed below:

(thousands of Euro)	12.31.2020	12.31.2019	Changes	%
Costs of services and tenders	8,100	7,329	771	11%
Expenses for transactions on the Electricity Market	1,247	1,195	52	4%
Insurance costs	2,704	2,563	141	6%
Security, cleaning and other building costs	235	228	7	3%
Waste disposal	232	293	(61)	-21%
IT services	1,420	1,392	28	2%
Telephone and data transmission expenses	472	422	50	12%
Other services	2,901	2,516	385	15%
Total service costs	**17,311**	**15,937**	**1,374**	**9%**

The increase is mainly due to the costs incurred during the year for the repair of the damage to the hydroelectric plants (Euro 560 thousand), the professional services relating to the studies for the construction of the new CCGT (Euro 407 thousand) as well as the increase in insurance costs (Euro 141 thousand).

“Other services” mainly relate to costs for studies and consulting (Euro 1,286 thousand) costs for professional and legal services (Euro 553 thousand), expenses for travel and training (Euro 297 thousand), the fees of the Statutory Auditors (Euro 182 thousand), as well as the remuneration to the Independent Auditors (Euro 165 thousand).

30. OTHER OPERATING COSTS

Other operating costs amounted to Euro 78,705 thousand, up by Euro 20,895 thousand compared to December 31, 2019.

The following table shows a breakdown of other operating costs:

(thousands of euro)	12.31.2020	12.31.2019	Changes	%
Contributions and fees	3,291	3,438	(146)	-4%
Provisions for risks and charges	27,539	2,229	25,310	1135%
Adjustment of value of materials and raw materials	0	820	(820)	n.a.
Expenses for CO2 rights	40,985	47,167	(6,182)	-13%
Taxes and duties	2,769	3,035	(266)	-9%
Other expenses	4,120	1,122	2,999	267%
Total operating costs	78,705	57,810	20,895	36%

In particular, there were lower charges for emission rights for Euro 6,182 thousand, due to the significant decrease in emissions (-289 Kton) as a result of lower production. The CO2 enhancement weighted average price remained essentially stable (24.05 €/ton in 2020 compared to 23.55 €/ton in 2019).

The change in Other expenses mainly relates to:

- the costs incurred for the submission of the applications for the Single Authorisation of the new combined cycles (Euro 1,185 thousand), as better specified in the Management Report in the “Main environmental events” paragraph and the related accessory costs (Euro 214 thousand);
- capital losses from asset disposal (Euro 1,945 thousand) essentially due to the disposal of hydroelectric assets irreparably damaged by the flood in October, as described in the relevant paragraph of the Management Report.

As regards provisions for risks and charges, please refer to note 15.

31. AMORTISATION, DEPRECIATION AND WRITE-DOWNS

The item refers to the depreciation/amortisation in the period, calculated on the basis of economic-technical rates.

The table below sets out the depreciation/amortisation by type of asset compared with data for the previous year:

(thousands of Euro)	12.31.2020	12.31.2019	Changes	%
Depreciation of buildings	5,433	5,157	276	5%
Amortisation of rights of use	497	477	20	n.a.
Depreciation of plant and equipment	50,036	48,085	1,950	4%
Depreciation of industrial equipment	104	110	(6)	-6%
Depreciation of other assets	574	221	353	160%
Amortisation of intangible fixed assets	439	327	112	34%
Write-downs of tangible fixed assets	1,030	0	1,030	n.a.
Write-downs of receivables	0	112	(112)	n.a.
Total	58,112	54,490	3,622	6.65%

The write-downs of Euro 1,030 thousand relate to the residual book value of the rotor of the VL5 unit, found damaged during the inspection carried out during the HGPI in December. The rotor will be replaced at the next scheduled shutdown.

For the changes to amortisation/depreciation, which have taken place, please refer to the Management Report.

32. FINANCIAL EXPENSES

Financial expenses amounted to Euro 8,945 thousand, a decrease of Euro 7,767 thousand compared to 2019. The following table shows a breakdown:

(thousands of Euro)	12.31.2020	12.31.2019	Changes	%
Interest expenses and charges on loans	6,502	11,953	(5,451)	-46%
Financial expenses/income on Interest CAP	0	1,061	(1,061)	-100%
Interest expenses for decommissioning, post-employment and other benefits	1,693	2,831	(1,138)	-40%
Other financial expenses	750	867	(116)	-13%
Total financial expenses	8,945	16,712	(7,767)	-46%

The decrease is mainly due to the effect of the accelerated repayment of the Term Loan line Tranches A and B, which took place as a result of the "Cash sweep" mechanism and voluntary prepayment described in note 14.

" Interest expense and charges on loans" relate exclusively to interest and fees accrued on the new loan.

"Interest expense for decommissioning", amounting to Euro 1,687 thousand, was mainly offset by the site dismantling and restoration provisions, while the "interest expenses for post-employment and other benefits" recognised in application of IAS 19R, stood at Euro 6 thousand.

The item “Other financial expenses” refers essentially to the commissions on sureties of Euro 745 thousand, down compared to the previous year based on lower guarantees in place.

33. FINANCIAL INCOME

Financial income amounted to Euro 698 thousand, an increase of Euro 256 thousand compared to December 31, 2019, and refers mainly to interest accrued on credits collected relating to the ETS reimbursement for the Naples Plant for the years 2009-2012 (Euro 477 thousand).

34. INCOME TAXES

Taxes recognised as at December 31, 2020, totalled Euro 36,191 thousand and refer:

1. for Euro 8,900 thousand, to the estimate of current IRES taxes (corporate income taxes) and, for Euro 8,850 thousand, to the estimate of current IRAP taxes (regional business taxes), calculated on taxable income. As regards IRES, taxable income is largely reduced by the recovery of previous tax losses, as better specified in note 4;
2. for Euro 17,933 thousand, to the positive effect of the deferred tax assets originated during the current year (Euro 7,631 thousand) and in previous years (Euro 10,302 thousand) estimated to be recoverable in the period up until 2023, the year in which the current regulated Capacity Market system will expire. For more details, please refer to note 4;
3. for Euro 37,520 thousand, to the negative effect relating to the use of deferred tax assets relating mainly to tax losses;
4. for Euro 1,146 thousand, to the positive effect relating to the use of the deferred tax liabilities generated on previous excess and early tax amortisation.

(thousands of Euro)	12.31.2020	12.31.2019	Changes
IRES	8,900	2,500	6,400
IRAP	8,850	6,300	2,550
Deferred tax assets	29,889	(34,822)	64,711
Deferred tax liabilities	(1,146)	(1,687)	541
Taxes of previous years	(10,302)	(18)	(10,284)
Total	36,191	(27,727)	63,918

The reconciliation between the theoretical and effective tax rates is presented below:

(thousands of Euro)			
IRES	Taxable	Tax	%
Pre-tax result (A)	172,006		
Theoretical rate			24.00%
Theoretical taxation		41,281	
Increases in taxable income	38,946	9,347	
Decreases in taxable income	(30,325)	(7,278)	
10% IRAP (regional business tax) deduction and ACE (aid for economic growth)	(5,684)	(1,364)	
Recovery of tax losses	(137,858)	(33,086)	
Taxable income	37,083		
Actual tax (B)		8,900	
Actual rate (B/A)			5.17%

IRAP	Values	Taxation	%
Pre-tax result (C)	197,494		
Theoretical rate			4.84%
Theoretical taxation		9,559	
Increases in taxable income	4,595	222	
Decreases in taxable income	(19,238)	(930)	
Tax result	182,851		
Actual tax (D)		8,850	
Actual rate (D/C)			4.48%

35. EARNINGS PER SHARE

For the calculation of earnings per share, the net profit attributed to shareholders was considered. The denominator used in the calculation is the number of shares issued, in the calculation of both basic and diluted earnings per share, as there are no dilutive effects as at December 31, 2020 or December 31, 2019.

(values in Euro)	Period ended as at 12.31.2020	Period ended as at 12.31.2019
Net income for the period	125,512,828	167,098,912
Average number ordinary shares (units)	60,516,142	60,516,142
Earnings per share - basic and diluted	2.07	2.76

36. NET FINANCIAL POSITION

The net financial position as at December 31, 2020 is detailed as follows:

	(thousands of Euro)	12/31/2020	12/31/2019	Changes
A	Cash at bank and in hand	23	18	*5*
B	Bank deposits	14,022	26,407	*(12,385)*
C	Securities	-	-	-
D	Total cash and cash equivalents (A+B+C)	14,044	26,424	*(12,380)*
E	Current financial receivables	-	-	-
F	Current bank payables			-
G	Current portion of non-current debt			-
H	Other current financial liabilities	(24,022)	(46,377)	*22,355*
I	Total short-term financial liabilities (F+G+H)	(24,022)	(46,377)	*22,355*
J	Net current financial position (D+E+I)	(9,977)	(19,953)	*9,976*
K	Non-current financial receivables	-	-	-
L	Non-current bank payables	(74,159)	(284,565)	*210,406*
M	Other non-current payables	-	-	-
N	Non-current financial debt (L+M)	(74,159)	(284,565)	*210,406*
O	Net non-current financial position (K+N)	(74,159)	(284,565)	*210,406*
P	OVERALL NET FINANCIAL POSITION (J+O)	(84,136)	(304,518)	*220,382*

37. OTHER INFORMATION

37.0 Cash flows

(thousands of Euro)	12/31/2020	12/31/2019	Changes
Opening cash and cash equivalents	26,424	24,926	1,499
Cash Flow from operating activities	263,594	164,674	98,920
Cash Flow from investment activities	(43,212)	(24,468)	(18,744)
Cash Flow from financing activities	(232,762)	(138,707)	(94,054)
Closing cash and cash equivalents	14,044	26,424	(12,381)

The cash flow from operating activities stood at a positive Euro 263,594 thousand, marking an increase of Euro 98,920 thousand compared to 2019. The significant cash generation is attributable not only to the excellent results of the period, but to the collection of the annual VAT credit for 2018 (Euro 32,000 thousand) and 2019 (Euro 26,500 thousand), the VAT credit of the III quarter 2019 (Euro 8,000 thousand), as well as of the Naples ETS receivables (Euro 10,730 thousand).

The cash flow from operating activities allowed the coverage of investment activities (Euro 43,212 thousand) as well as a reduction in net financial debt of Euro 232,762 thousand.

The cash flow from financing activities is the result of the amount repaid in the period, through the cash sweep and prepayment mechanism, of Tranche A in terms of principal and interest (Euro 46,377 thousand) and of Tranche B in terms of principal and interest (Euro 212,143 thousand). These reductions are partially offset by the drawdown of the Revolving Facility (Euro 20,000 thousand) and by the increase deriving from the capitalisation of the financial expenses for the period for Euro 5,750 thousand.

Cash and cash equivalents, equal to Euro 26,424 thousand as at December 31, 2019, decreased by Euro 12,381 thousand as a result of the aforementioned changes and amounted to Euro 14,044 thousand as at December 31, 2020.

Net financial debt decreased from Euro 304,518 thousand as at December 31, 2019 to Euro 84,136 thousand as at December 31, 2020.

37.1 Relationships with subsidiaries, affiliates, parent companies and companies controlled by the latter

Any transactions carried out with other related parties, as described below, were carried out under normal market conditions and in the interest of each company:

(thousands of Euro)	Receivables 12/31/2020	Payables 12/31/2020	Costs 12/31/2020	Revenues 12/31/2020
Financial				
ENGIE ITALIA Spa				
Tax transparency	87			
ENERGIA ITALIANA S.p.A.				
Tax transparency	838			
Trade				
ENGIE Global Markets Italia		578	739	
Sorgenia Trading Spa	412			1,634
Sorgenia S.p.A.				103
Tractebel Engineering Suez		15	15	

Loans to shareholders, amounting to Euro 925 thousand, relate to IRES (corporate income taxes) refund requests for non-IRAP deductions, presented when the Company signed up to the tax transparency regime in accordance with art. 115 of the Consolidated Law on Income Tax.

Commercial items due to Sorgenia Trading S.p.A. instead relate to the sales of energy.

37.2 Contingent assets and liabilities

There are no additional contingent assets and liabilities to be highlighted arising from events that occurred during the year 2020, in addition to what has already been reported in the Management Report and in the notes.

In particular, with regard to the contingent assets deriving from the expected insurance reimbursement in relation to flood damages, please refer to the "Damage due to flooding on October 2 - 3, 2020" paragraph.

With regards to the contingent liabilities arising from the proceedings pending at the Office of the Public Prosecutor of Savona, please refer to the "Information regarding criminal proceedings of the Vado Ligure site" paragraph.

To date, also taking into account the opinion of the legal consultants who assist the Company, since the investigation was slowed due to the protracted health emergency, has not yet addressed the technical issues relevant to the charge and there has still been no outcome to the discussion of the civil parties, the risk of losing must be considered possible and the compensation consequences for the Company deriving from the pending criminal proceedings are not foreseeable.

37.3 Atypical and unusual transactions

There were no atypical or unusual transactions, or outside normal company operations or able to significantly impact the Company's financial position.

37.4 Significant events after the close of the period

Please refer to the relevant paragraph of the Management Report.

37.5 Proposed allocation of profit for the year

Please refer to the "Proposals of the Board of Directors" paragraph of the Management Report.

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