.italo
Nuovo Trasporto Viaggiatori


# Annual Report 2020

*This document has been translated into English for the convenience of the readers. In the event of discrepancy, the Italian language version prevails*.

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# GLOSSARY

The terms and abbreviations listed below are those most regularly used in this document.
The following explanations should not be regarded as technical definitions but as a support for the reader to understand certain terms used in this document.

**AGCM**: *Autorità Garante della Concorrenza e del Mercato*, Italy's Anti-Trust Authority.

**AGV**: the Alstom 575 high-speed train.

**AGV fleet**: the fleet, owned by Italo, consisting of 25 AGV trains.

**Alstom**: Alstom Ferroviaria SpA

**ANSFISA:** *Agenzia Nazionale per la Sicurezza delle Ferrovie e delle Infrastrutture Stradali e Autostradali*, (before called *ANSF - Agenzia Nazionale per la Sicurezza Ferroviaria).* Italy's Rail Safety Regulator.

**ART:** *Autorità di Regolazione dei Trasporti*, Italy's Transport Regulator.

**CONSOB:** Italian Securities and Exchange Commission, the authority responsible for the protection of investors and the efficiency, transparency and development of the Italian financial market.

**Contract for the Use of Infrastructure**: this is an annual contract between the Company and the Infrastructure Manager, setting out the tracks on which the Company can operate during the following railway year in return for payment of the fees provided for in art. 17 of Decree 112/2015.

**Covenant**: in a loan agreement, the commitment assumed by one party, generally the debtor, to carry out certain actions (a positive or affirmative covenant) or to refrain from carrying out certain actions (a negative covenant), or to comply with certain financial ratios (a financial covenant).

**ERA:** European Railway Agency

**ESG**: acronym of Environmental, Social and Governance. The ESG criteria are used to measure the environmental, social and governance impact of companies.

**EVO fleet**: the fleet of EVO Pendolino trains owned by Italo.

**EVO pendolino**: the Alstom ETR 675 "EVO" high-speed train.

**Framework Agreement:** an agreement signed by Italo and RFI on January 17, 2008, and later amended, setting out the terms and conditions for access and use, in terms of track and services, of Italy's national railway infrastructure.

**GME:** *Gestore dei Mercati Energetici*, the state-owned company responsible for managing the energy market.

**GRI:** Global Reporting Initiative, an international non-profit organization that helps businesses, governments and other organizations disclose their sustainable performance, through a Sustainability Report, also known as Corporate Social Responsibility Report.

**GSE:** *Gestore per i Servizi Energetici*, the state-owned company responsible for promoting the use of renewable energy.

**HS/HC:** services or markets relating to high-speed/high-capacity rail transport for medium- and long-haul destinations in Italy.

**Intermodal service**: a service provided using different forms of transport.

**Italo's fleet**: the fleet of high-speed trains owned by Italo, consisting of the AGV fleet and the EVO fleet.

**Italobus**: the intermodal road transport service offered by Italo.

**Leverage**: the ratio of Net Debt to EBITDA (defined in the section, "Alternative Performance Indicators").

**Load Factor:** an indicator typically used in the air and rail transport sectors. It measures the utilization of capacity on trains, based on the ratio of the number of kilometers travelled by the passengers transported to the number of available seats (pass-km/seat-km). It enables the rate of capacity utilization on aircraft and trains to be assessed.

**Lounge**: a facility offering particular types of customer additional comforts, services and refreshments and located in the principal stations served by the Company.

**MED**: Ministry for Economic Development.

**MEF**: Ministry of the Economy and Finances.

**MIT**: Ministry of Infrastructure and Transport (renamed Ministry of Sustainable Infrastructures and Mobility in February 2021).

**Minimum Access Package or MAP:** the services that the Infrastructure Manager must provide to the Railway Undertaking in return for payment of a fee for the right to access and utilize the infrastructure, including: (a) the handling of requests for infrastructure capacity for the purposes of concluding Contracts for the Use of Infrastructure; (b) the right to utilize such capacity as is granted; (c) the use of railway infrastructure, including track, points and junctions; (d) train control, including signaling, train regulation, dispatching and the communication and provision of information on train movements; (e) electrical supply equipment for traction current, where available; (f) all other information as is necessary to implement or to operate the service for which capacity has been granted.

**Pass-km** or **passenger kilometers**: an indicator used in rail transport, representing total kilometers travelled by the total number of passengers transported in a certain period of time.

**RFI or Infrastructure Manager**: Rete Ferroviaria Italiana SpA, the Ferrovie dello Stato group company that has the public role of managing the railway infrastructure and is thus responsible for lines, stations and other equipment.

**Safety Certificate**: a certificate issued by the ANSF attesting to the railway undertaking's compliance with the regulations governing specific technical and operational requirements for rail services and safety requirements for personnel, rolling stock and the undertaking's internal organization.

**Seat-km** or **seat kilometers**: an indicator used in rail transport, representing total kilometers travelled by the fleet by the total number of seats offered in a certain period of time.

**TOE (Ton of Oil Equivalent):** this represents the quantity or energy released by burning a tone of crude oil and is normally equivalent to approximately 42 GJ (Gigajoules).

**Train-km** or **train kilometers**: an indicator used in rail transport, representing total kilometers travelled by trains in a certain period of time, used to measure the capacity offered by the operator.

**WCs (White Certificates) or EECs**: Energy Efficiency Certificates, introduced by decree issued by the Minister for Productive Activities, in agreement with the Minister for the Environment and Land Protection, on July 20, 2004 (Ministerial Decree of July 20, 2004 for electricity and Ministerial Decree of July 20, 2004 for gas), as amended.

# Introduction

## MANAGEMENT AND SUPERVISORY BODIES

### BOARD OF DIRECTORS - in office until approval of the financial statements for 2020

| | |
|---|---|
| **Chairman** | Luca Cordero di Montezemolo |
| **Executive Deputy Chairman** | Flavio Cattaneo |
| **Chief Executive Officer and General Manager** | Gianbattista La Rocca |
| **Directors** | Lucy Chadwick<br>Ines Gandini<br>Philip Marc Iley<br>Christoph Holzer<br>Michael McGhee<br>Scott Allen Stanley |

### EXECUTIVE COMMITTEE - in office until approval of the financial statements for 2020

| | |
|---|---|
| **Chairman** | Flavio Cattaneo |
| **Members** | Philip Marc Iley<br>Gianbattista La Rocca<br>Michael McGee<br>Scott Allen Stanley |

### BOARD OF STATUTORY AUDITORS - in office until approval of the financial statements for 2020

| | |
|---|---|
| **Chairman** | Giovanni Fiori |
| **Standing auditors** | Gianfranco Orlando Fiorica<br>Benedetta Navarra |
| **Alternate auditors** | Fabrizio Bonacci<br>Franco Piero Pozzi |

### INDEPENDENT AUDITORS – engaged to audit the financial statements for the period 2020-2022

Deloitte & Touche SpA

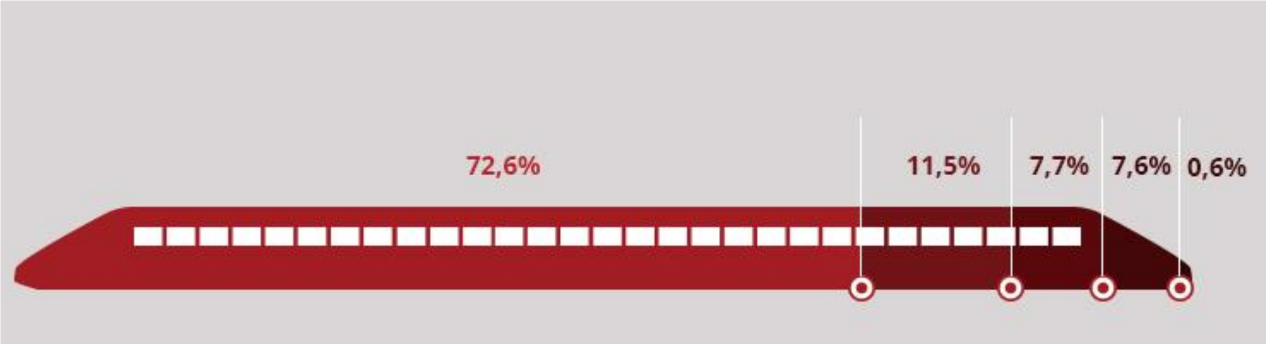
### ENVIRONMENTAL SOCIAL GOVERNANCE (ESG) STEERING COMMITTEE

| | |
|---|---|
| **Chairman** | Gianbattista La Rocca |
| **Deputy Chairman** | Roberto Vitto |
| **Members** | Paolo Belforte<br>Fabrizio Bona<br>Gabriele Cerrati<br>Federico Meda<br>Nicoletta Montella<br>Fabio Sgroi |

## COMPANY INFORMATION

Italo - Nuovo Trasporto Viaggiatori SpA
Viale del Policlinico n. 149/b, 00161 Rome (RM)
Share capital: €60,017,725.00, fully paid-up
Tax code and VAT number; 09247981005
Rome Companies' Register: 09247981005
Business Registration Number in Rome (R.E.A.): 1150652

## SHAREHOLDER STRUCTURE




**72.6%**

**GIP III GLOBAL INVESTMENT Sàrl**

**11.5%**

**ALLIANZ Spa**

**of which 10% held through Allianz Infrastructure Luxembourg II Sàrl**

**7.7%**

**REINVESTING SHAREHOLDERS:**

**Luca Cordero di Montezemolo**
through MCG HOLDINGS Srl
**Flavio Cattaneo**
through PARTIND TRE Srl
**Giovanni Punzo**
through MDP TRE Srl
**Isabella Seragnoli**
through MAIS Spa
**Alberto Bombassei**
through NEXT INVESTMENT Srl
**Peninsula Capital**
through PII1 Sarl

**7.6%**

**IP INFRA INVESTORS LP**

**0.6%**

**MOLAGERS**

# THE COMPANY

Italo is Italy's first and only private high-speed rail operator. It is a sector leader in Europe and today Italo and Italian deregulation are a case study and international rail operators look to the Company's business model and the effects of deregulation on rail transport.

Italo has proven to be a unique example of private excellence in the rail transport sector. It was founded in 2006, with the first commercial service effected in 2012. After the start-up phase, in 2015 the Company successfully entered a turnaround phase, which ended in 2018 with the listing on the stock exchange and the acquisition by GIP.

### Our mission

Italo's mission is to provide passengers safe, reliable and technologically advanced high-speed rail services, so our strategy is focused on safety, hospitality, quality, market presence and sustainability.

Italo, created at a time when the development of sustainable economy models is paramount for a negligible impact of human activities on the ecosystem, has a deep sustainable soul that shows in every activity. The Company, which aims to "make a difference" in the world of transport, has made respect for the person, time as a value, protection of the environment the three principles around which the idea of sustainability revolves. A goal that is pursued every day by providing a service able to meet the needs of people and the world around them in the best possible way.

Italo, with its high-quality services, is ready to meet the Italy's demand for mobility. Its value-for-money offering aims to enable everyone to satisfy their right to travel for work, study, business or for leisure purposes.

Italo provides comfortable and relaxing travel options, allowing passengers to avoid the stress of having to take their cars, especially over longer distances and in the most congested areas.
With its station and onboard staff, the Company has introduced a new approach to rail passengers. At all stages of the customer experience, from when a passenger decides to travel with Italo to when they get to their departure station, and while on the train, they can contact the Company, tell it their needs and obtain the right solution.

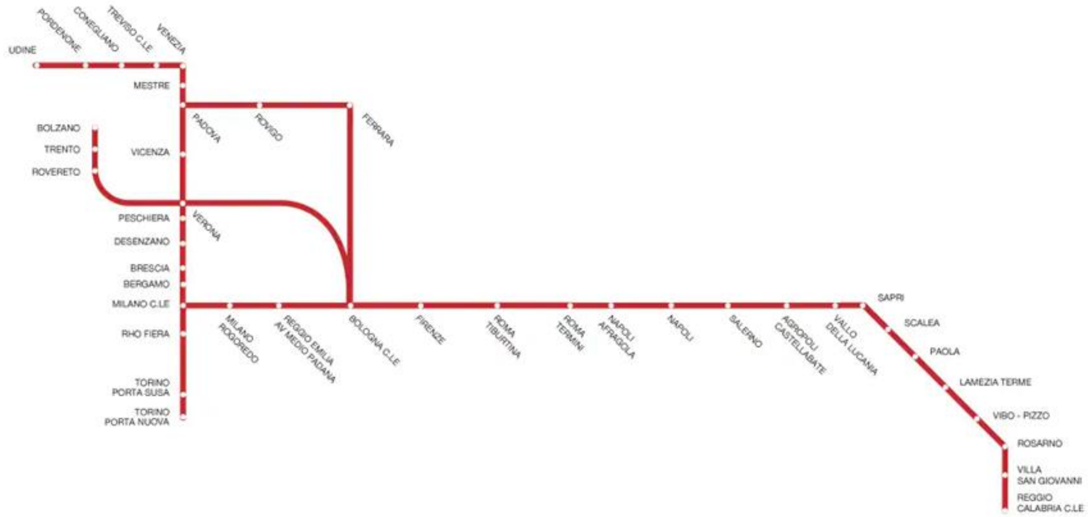
Italo's mission is not immutable, but envisages an ongoing improvement in the service in order to continuously ensure that we can provide what our customers are looking for.

### The network

Italo connects 41 stations in 35 towns throughout Italy.

Moreover, Italo is not just a train but also a strong believer in intermodal transportation. To give a further contribution to a sustainable lifestyle, at the end of 2015 it launched a rail-bus integrated service able to reach cities not served by high speed, thus allowing places without a railway to benefit from mass transit services.

In fact, Italo also offers Italobus road transport services, thus connecting to high-speed stations several locations in Northern and Southern Italy. The plan contributes to reduce the use of private automobiles, by moving a multiplicity of people in a single journey, to the benefit of eco-sustainable mobility.




## Italo's fleet

Italo uses 25 Alstom's AGV (Automotrice Grande Vitesse) trains that use the same traction system as the train that, on 3 April 2007, set the world rail speed record of 574.8 km an hour.
The trains, built at the Savigliano (near Cuneo) and La Rochelle (FRA) plants, first took to the rails of the Italian railway network in April 2012.

Since inception, Italo has invested in an advanced-conception, innovative and sustainable train, which is 98% made of such recyclable materials as aluminum, steel, copper and glass. The AGV combines technology, safety, energy savings and respect for the environment.

Starting in 2015, the Company purchased also 22 EVO trains from Alstom, for a total fleet of 47 trains.
The Italo EVO trains are the latest version of the "Pendolino" range, of which more than 500 trainsets are in circulation around the world. This "evolution" aims to improve the comfort for passengers. In addition, this particular train is fully compatible with the latest 2014 Technical Specifications for Interoperability (TSI-2014), and complies with all European and Italian safety and environmental regulations.

In keeping with the AGV fleet, also the EVO trains are “green”, as they are manufactured with recyclable materials and are designed in accordance with eco-sustainability criteria to reduce $CO_2$ emissions. The distributed traction system improves efficiency and recovers energy by regenerative braking.

**41**
**stations connected**

**35**
**cities served**

**47**
**fleet trains**

## ITALO AND SUSTAINABILITY

Since the foundation of the Company, has been strongly committed to respecting and protecting the environment: from the choice of fleet of electric trains, the best in class, built with recyclable materials, to its approach to environmental protection, which provides for participation in initiatives aimed also at increasing awareness of the best ways to save energy.

This behavior, which is part of Italo's DNA, has led the Company to take an interest in all ESG issues, making its commitment to sustainable transport stronger every day.
Italo's attention to ESG issues is in fact not only a question of added value, but also a necessary condition to ensure a sustainable future and fair development.

The COVID-19 pandemic has had a strong impact on the Company's business, as it faces the most difficult challenge of its life. The transport industry has experienced a profound crisis that has had a strong impact on Company activities and its financial performance. Nevertheless, Italo has maintained vital connections even in the most critical months of the emergency, ensuring health and safety for both our passengers and our employees. In addition, in order to respond to the COVID-19 emergency, the Company has put in place several initiatives aimed at mitigating the consequences of the pandemic on its staff and customers.

The Company is proud of its contribution to the community and is committed more than ever to implementing its sustainability strategy.

### The road to sustainability

Sustainability has accompanied Italo's growth since its foundation and has been one of the hallmarks of the Company.
Over the years, Italo has progressively expanded its commitment to build a fully sustainable business and has embarked on a path that will lead the company to further integrate sustainability into its corporate strategy and to make progress in the development of its Corporate Social Responsibility ("CSR").

In view of these goals, in 2020 the Company achieved several milestones:

- it expanded its corporate governance, appointing new bodies responsible for managing ESG issues (the ESG Steering Committee and the ESG Teams).
- It carried out a Materiality Analysis to identify issues that reflect ESG impacts that are significant to the Company or that may influence stakeholder assessments and decisions.
- It transformed the €1.1 billion Green Loan, making it sustainable.
- It produced its third Sustainability Report which represents a further evolution in transparency and dissemination, adopting for the first time the GRI Sustainability Standards.
- It defined its three-year Sustainability Plan, on the basis of six pillars: Environment, Safety, Quality of Service, People, Community and Territory, Engagement.

### Green financing for green investment

In 2019, the Company received a €1.1 billion Green Loan, the largest ever in the transport sector worldwide, with the chance to change it to a Sustainability-Linked Loan, marking an unprecedented turning point in green financing for the transport sector.
The loan, which was provided by a syndicate of Italian and international banks, was used to re-finance Italo's €900 million green investments and to further expand its modern and efficient fleet.
Italo has proven to be a mass transport operator that uses a fleet of best-in-class eco-friendly trains and a leader in environmental sustainability in the high-speed rail market. This qualifies it as a "pure player", that is a company whose revenues are generated entirely by activities that involve a low level of CO2 emissions and that is therefore able to combat climate change.

Among the key factors that contributed to this great result, the environmental performance of its AGV fleet and the Company's high environmental standards played a decisive role:

- the high percentage of recyclable materials used in train production;
- about 81% and 95% lower CO2 emissions than car and air transport, respectively;
- modern regenerative braking of the trains that leads to energy savings;
- noise reduction lower than the most restrictive limits applicable;
- energy consumption 10% lower than that of other high-speed trains;
- adoption of a paperless policy with over 36,000 kg of paper saved, the equivalent of 62,220 kg of CO2, bringing paper consumption to only 5% of the original usage levels.

In 2020, the Company converted the Green Loan in a Sustainability Linked Option receiving approval from the lenders required for the sustainability KPIs identified. Accordingly, the loan agreement can be classified as "green" and "sustainable".

## Italo's sustainability pillars

Environment - In recent years, the reduction of emissions, including greenhouse gases (GHGs), fine dust and noise, has become a priority for mobility providers. In 2017, transport accounted for a quarter of total energy-related CO2 emissions in the EU. However, only 0.5% of these emissions came from the rail sector, a sign of the increased energy efficiency due to the use of electricity for rail transport traction compared to other modes of transport.

The policy adopted since inception by Italo in the choice of fully-electric AGV trains was also followed for the expansion of the fleet with the EVO trains. The energy efficiency of Italo's new trains has been, in fact, a fundamental element to mitigate the energy impact of increased operational capacity and made it possible to increase energy consumption and scope 2 emissions.

Overall, Italo's fleet saves 140 million kWh a year, compared to the baseline of reference.

Safety

Together with the quality of service, safety is not only a key element of Italo's commitment to its employees, but also a value of its culture. Safety therefore involves both ensuring a safe workplace for employees and collaborators, and a safe journey for passengers, helping to minimize risks. This dual nature of how safety is understood by Italo is confirmed by the two objectives which the Company has decided to set for itself in this area: to ensure maximum safety for workers and passengers.

Quality of service

Customers are central in Italo's culture. The perspective of passengers is the primary and most important feedback for a business that is based on travelers' satisfaction.
Italo has studied a tool to measure customer experience and the strong results obtained so far have fueled the Company's ambition to continue to improve its performance in the coming years to further increase the percentage of travelers fully satisfied with the quality of service.

People

People are a key asset of business success, especially in the railway sector, which requires constant skill upgrading for operators. This makes training one of the most critical aspects of Italo's business. In addition to the mandatory courses provided by law, employees attend additional hours of non-compulsory training.

For this reason, the Company has decided to establish a highly specialized internal department focused on technical and regulatory issues, namely the Training School, which represents a feather in the cap for the Company.

Community and Territory

Italo was born as an Italian excellence and the link with the community has always been a distinctive feature of its identity and corporate strategy, a fundamental pillar of the strategy of sustainability.
The Company's contribution to local realities is twofold and concerns the impact on the community through social and cultural projects, and the impact on the economy through its supply chain. In both areas, Italo considers shared value fundamental for its development and struggles to maximize it through a business strategy that takes the common good into account.

Commitment

Italo operates in a strategic business for the Italian economy and society. Therefore, a responsible, transparent and active relationship with all its stakeholders is of the utmost importance, especially with regard to sustainability. For this reason, Italo directs its sustainability commitment to its stakeholders, to make continuous dialogue with them the basis of every strategic development.

# Report on operations

## INTRODUCTION

Fiscal year 2020 was characterized by the exceptional health, socio-environmental and economic situation, of extraordinary complexity, due to the spread of the COVID-19 virus (i.e. "Coronavirus") on a global scale.

The spread of the pandemic has generated from the early months of the year a strong pressure on the country's health system and the consequent enactment by the Government Authorities of a series of measures restricting mobility, including lockdown, to limit the risk of further expansion of the virus among the population. As a result, the COVID-19 emergency has progressively had disruptive effects on the regular and ordinary performance of the Company's activities.

In particular, with the spread of coronavirus, the transport market has experienced significant declines in the volumes of passengers transported overall. Particularly affected is the AV long-distance rail transport service which, in addition to the loss of demand related to the general pandemic situation and the restrictive measures introduced, has lost 50% of saleable km seats imposed by the Government authorities as a further measure to contain the contagion in May.

Only from mid-May until the first half of September, with the reduction of lockdown measures and the progressive reduction of mobility restrictions, first within the regions and then between regions - was there a slight recovery in traffic volumes. However, for the long-distance sector, the 50% limitation of marketable km seats continued also in those months.

Since October, a second wave of infections has forced Government Authorities to introduce new restrictive mobility measures that have lasted until the end of the year, resulting in a decrease in the volumes of passengers transported.

From the start, the Company was strongly engaged in the operational management of the emergency situation, to guarantee the health and safety of its employees and travelers.

To ensure the essential protection its assets, as well as its operating and financial stability, the Company reacted by taking immediate measures to mitigate the effects of events of an extraordinary nature that occurred progressively during 2020, taking numerous actions aimed at increasing resilience to the new scenario, leveraging a solid financial position, a flexible business model capable of mitigating the downturn and its battle-tested managerial skills, with the support of the entire shareholder base.

In order to ensure the effectiveness, efficiency and speed of implementation of Company initiatives aimed at overcoming the COVID-19 emergency, the Company has set up working groups to:

- implement initiatives aimed at preserving contact with customers and stakeholders in view of a continuing relationship;
- plan the reactivation of the Company's operational and commercial process;
- safeguard and bring to bear the relationship with employees, developing appropriate information, dialogue and sharing initiatives, and ensuring the constant involvement and alignment of people in view of a turnaround;
- prepare scenario simulation models in order to test dynamically the operating and financial adequacy of the initiatives.

While ensuring the necessary support for the mobility of the population, management has adopted a system of modulation of its offering able to adapt the services provided at each stage of the epidemic, providing for the targeted suspension of non-productive services and the opening of new services previously not carried out.

In addition, thanks to the support of the commercial partners, it was possible to review contractual terms and conditions according to the reduction of business activities, an action that made it possible to partially make up for the significant decrease in cash inflows.

The use of the worker assistance programs made available by the Government also had an impact on personnel costs, reducing it according to the new levels of business and the temporary suspension of certain activities, which by their nature cannot be carried out via remote working. In order to financially support its employees, the Company has decided to advance to workers the funds to be disbursed by the redundancy fund.
The Company has also signed with the national trade unions a "Defensive Solidarity Contract" for the reduction of employees' working hours in order to manage the temporary decline of Company business.

It should also be noted that Article 214 of Law Decree 34 of May 19, 2020 (cd. "Turnaround Decree") introduced relief in the amount of €1,190 million (i.e. "COVID-19 grant") for companies that provide rail passenger and freight transport services not subject to public service obligations to make up for the adverse financial effects of the COVID-19 emergency suffered until July 31, 2020 ($1^{st}$ tranche). Any resources available following the allocation of the first tranche are reallocated to companies requesting it to make up for the losses suffered from August 1, 2020 to December 31, 2020 ($2^{nd}$ tranche).
The 2021 Budget Law then made additional resources to the sector (420 million) available to make up for the losses suffered from January 1 to April 30, 2021 ($3^{rd}$ tranche).
The procedures for the disbursement of the COVID-19 grant have been defined by the Ministry of Infrastructure and Transport in consultation with the Ministry of the Economy and Finances through Inter-ministerial Decree 472 of 22 October 2020. The Inter-ministerial Decree also lays down, among other things, the criteria and procedures by which the beneficiary companies report the losses suffered.
Grants will be disbursed to each beneficiary company in fifteen annual instalments. The sums receivable can be sold pursuant to article 1260, paragraph 1, of the Italian Civil Code.

Finally, it should be noted that, as a result of the economic effects of the Covid-19 global pandemic emergency, an impairment test has been carried out in keeping with IAS 36 – "Impairment of assets". The results of this test did not show the need for a devaluation of the assets of the companies.

## KEY FINANCIAL AND OPERATIONAL DATA FOR 2020

Key financial and operational data for 2020 and 2019 are shown below.

| (€m, as ratios and in %) | 2020 | 2019 | Change | Δ % |
|---|---|---|---|---|
| **Operating performance** | | | | |
| Total Operating Revenue | 413.5 | 715.3 | (301.8) | (42.2%) |
| Revenues from Transport Services | 262.9 | 680.6 | (417.7) | (61.4%) |
| Net Revenues from White Certificates | 0.7 | 29.8 | (29.1) | (97.7%) |
| Other Revenues | 149.9 | 4.9 | 145.0 | 2952.8% |
| EBITDA | 111.8 | 292.2 | (180.4) | (61.7%) |
| *EBITDA margin* | *27.0%* | *40.8%* | *(13.8pp)* | *n.a.* |
| Organic EBITDA | 111.1 | 262.4 | (151.3) | (57.6%) |
| *Organic EBITDA margin* | *26.9%* | *38.3%* | *(11.4pp)* | *n.a.* |
| EBIT | 51.7 | 235.7 | (184.0) | (78.1%) |
| *EBIT margin* | *12.5%* | *33.0%* | *(20.5pp)* | *n.a.* |
| EBT | 35.6 | 199.7 | (164.1) | (82.2%) |
| *EBT Margin* | *8.6%* | *27.9%* | *(19.3pp)* | *n.a.* |
| Profit for the year | 31.9 | 151.4 | (119.5) | (79.0%) |
| *Profit margin* | *7.7%* | *21.2%* | *(13.5pp)* | *n.a.* |
| **Financial position** | | | | |
| Net Working Capital | (154.0) | (222.1) | 68.1 | (30.7%) |
| Non-current Assets | 2,955.3 | 2,817.8 | 137.6 | 4.9% |
| Net Non-current Assets | 2,873.7 | 2,766.6 | 107.2 | 3.9% |
| Net Invested Capital | 2,719.8 | 2,544.4 | 175.4 | 6.9% |
| Liquidity | 206.8 | 93.2 | 113.6 | 121.9% |
| Current financial assets | 20.2 | 80.2 | (60.0) | (74.8%) |
| Current and non-current borrowings | 1,101.2 | 900.2 | 201.0 | 22.3% |
| Gross Debt | 1,152.8 | 954.2 | 198.6 | 20.8% |
| Net debt | 925.8 | 780.8 | 145.0 | 18.6% |
| Investment | 71.4 | 144.7 | (73.3) | (50.6%) |
| Total Assets | 3,243.9 | 3,041.5 | 202.4 | 6.7% |
| Equity | 1,793.9 | 1,763.6 | 30.3 | 1.7% |
| **Financial ratios** | | | | |
| Net debt / Equity | 0.5x | 0.4x | 0.1x | n.a. |
| Net debt / EBITDA | 8.3x | 2.7x | 5.6x | n.a. |
| **Operational indicators** | | | | |
| Passengers (in millions) | 6.6 | 20.1 | (13.5) | (67.2%) |
| Commercial offering (millions of train-km) | 14.2 | 22.4 | (8.2) | (36.7%) |
| AGV fleet (at year end) | 25 | 25 | - | 0.0% |
| EVO fleet (at year end) | 22 | 19 | 3 | 15.8% |
| Total AGV + EVO fleet (at year end) | 47 | 44 | 3 | 6.8% |
| Workforce at year end (number) | 1,369 | 1,420 | (51) | (3.6%) |

A number of figures shown in the table constitute Alternative Performance Indicators, as defined in the section, "Alternative Performance Indicators" below.
In addition, the financial data shown in this document is presented in millions of euros, and has been rounded with respect to the corresponding amounts in the financial statements for the year ended December 31, 2020, presented in euros. The totals for certain financial indicators may thus differ slightly from the effective mathematical totals and/or corresponding amounts in euros included in the financial statements for the year ended December 31, 2020.

### An overview of 2020

The year just ended was characterized by two extraordinary events not foreseen in the Company's business plan: the Frecciarossa train derailment, which occurred on February 6, 2020 near Lodi, which made the rail line AV Milano – Bologna involved in the accident inaccessible until March 2, 2020, and the COVID-19 health emergency.

The emergency situation caused by the COVID-19 pandemic has been very difficult for Italy and other countries to deal with, not only in terms of healthcare but also from an economic point of view. In fact, it was an anomalous and sudden recession that affected especially services, tourism and the restaurant sector. Italy was hard hit by the shortage of both domestic and foreign tourism. The transport sector was then particularly affected, due to the mobility restriction measures introduced. This in addition to the decrease in business travel, also as a result of the adoption of agile working (i.e. remote working) which has led to a contraction in the use of public transport.

Passenger demand was down sharply compared to the previous year. Assuming that customers were divided into three main categories (i.e. business travelers, leisure travelers, including those who travel to visit family and friends, and international travelers), there was an 80-90% decrease in business travel compared with the previous year. On the other hand, as far as passengers that travel to visit family and friends are concerned, the decrease is about 55% compared to the previous year, also due to the measures that have imposed social distancing. There was almost no international traffic.

| 6.6 m | €413m | €71m | €112m |
|---|---|---|---|
| **Passengers** | **Operating revenue** | **investment** | **EBITDA** |
| -67.2%<br>20.1m in 2019 | -42.2%<br>€715m in 2019 | -50.6%<br>€145m in 2019 | -61.7%<br>€292m in 2019 |

From an operational point of view, the Company's activity has been characterized by speed of action and flexibility in increasing or decreasing its offering, depending on the changes in a demand closely related to the epidemiological situation.
The Italobus service was temporarily interrupted due to the contraction of market demand and the failure of travelers to use the bus to cover medium and long distances.
Lastly, with the delivery of two new Pendolino, the EVO fleet reached 22 trains, bringing the total of the Italo fleet to 47.

From an operating point of view, the early months of the year were marked by a drastic reduction in operating revenues, with significant repercussions on margins, which were negative for the first time in years. It was only from June that cumulative EBITDA returned to moderately positive, and thanks to the slight growth in passenger traffic in the summer months and the cost control actions implemented by management. This metric continued to be positive until the end of the year, despite the further restrictive measures in place from September to December.
At year-end 2020, the EBITDA Margin stood at 27.0%, down 13.8 percentage points from the previous year.

From a financial standpoint, in light of the progressive results achieved during the year, and the scenario of deep uncertainty, the Company considered appropriate to ask its lenders – which gave their consent - for a waiver to reschedule its repayments under the new scenario. Moreover, to support liquidity, the Company drew down the full amount of its €200 million revolving line of credit.

### Financial highlights

The following operating and financial performance was recorded in 2020:

- **Operating revenue** amounted to €413.5 million, with a reduction of 42.2% compared to 2019. Transport service revenues fell by 61.4%, due to the significant impacts of the lockdown caused by COVID-19. This reduction was due to the decrease in the number of passengers transported compared to the previous year (-67.2%). This decrease was somewhat offset by the Government grants provided to support the rail sector, whose fair value is €141.2 million.

- **EBITDA** amounted to €111.8 million, a reduction of 61.7% compared to the previous year and a margin of 27.0%, also down 13.8 percentage points compared to 2019. This without considering the contribution of White Certificates and other non-recurring items, EBITDA amounted to €111.1 million, which was down 57.6% compared to the previous year, representing on 26.9% of revenues, down 11.4 percentage points compared to 2019.

- **EBIT stood at** €51.7 million, with a negative change of 78.1% (-€184.0 million) compared to 2019.

- **Profit for the year** amounted to €31.9 million, a reduction of 79.0% (-€119.5 million) compared to the previous year.

- **Investments for** 2020 amounted to €71.4 million (€144.7 million in 2019).

- **Net debt** amounted to €925.8 million, an increase of €145.0 million (+18.6%) on the previous year mainly as a result of the reduction in liquid assets determined by the sharp contraction in revenues.

### Non-recurring events

Two extraordinary events not foreseen in Italo's business plan had a large impact on the Company's business in 2020, the Trenitalia railway accident (Frecciarossa no. 9595), which took place near Lodi on February 6, 2020, and, subsequently, the occurrence of a completely extraordinary and unpredictable event, attributable to force majeure, such as the spread of the COVID-19 epidemic.

The Frecciarossa train derailment made the rail line involved in the accident (AV Milano – Bologna) inaccessible until March 2, 2020, forcing the cancellation of a large number of daily journeys by Italo.

Starting in February 2020, with the first local lockdown measures, transport demand began to experience a sharp contraction, finally drying up with the national lockdown on March 9, 2020. In March, April and May there was an average reduction in the number of passengers transported and revenues of 94%.

The lockdown ended on 3 June and, as restrictive measures were eased, there was a slow recovery in transport demand which, however was still 50% lower than the comparable level in 2019, also due to the social distancing measures enacted for long-distance rail travel.

In the period from October to December, given the new increase in COVID-19 cases in Italy, containment measures were again and abruptly imposed. Thus triggering a new decline in demand that, in November and December 2020, was again down by about 95%, compared to 2019, given:

- the establishment of the division of Italy into regions of different colors according to the level of severity and risk associated with the pandemic. In particular, a ban on entry and exit from/from other regions was established for "red" and "orange" regions. This mechanism has in fact had the same effect as the total lockdown for AV rail transport, since, by definition, the reference market for the AV segment is of national importance and, moreover, regions such as Lombardy, Piedmont, Veneto and Campania, important parts of Italo's network, were attributed an orange or red color from the beginning;
- as of December 21, 2020, the ban on travel between regions was established regardless of the category of risk and the color attributed to each of them.

The lower demand for transport is not only due to the implementation of measures such as the restriction of travel between regions (total lockdown between March-May and October-December) and the restriction on the capacity of trains (continuously in force since 26 April 2020), but also to the direct effects determined by all other containment measures, such as:

- the closing or limitation of industrial, productive and commercial activities, together with the recommendation to use remote working (mandatory for Government offices) and to limit business travel, led to a sharp contraction of demand by the business segment;
- the closing or limitation of tourist, cultural, concert and recreational activities led to a reduction in demand by the leisure segment;
- the regulation on access from abroad, together with the pandemic emergency situation of other European and non-European countries, wiped out international tourism;
- the closing of universities or the implementation of distance learning led to the reduction of demand for travel by students and their families.

Finally, the mere continuation of the state of emergency and the communication activity aimed at raising public awareness of the health risks associated with the sociality and mobility of people, has had an immediate and direct impact on mobility in general, and in particular on that which entails the use of public transport.

In the face of the health emergency, Italo was able to quickly modulate the daily trips that, starting from 110 when fully operational, were progressively reduced and then gradually increased from the end of May / beginning of June, at the same time as the elimination of the ban on interregional travel, and subsequently reduced again with the second epidemiological wave begun in October.

The trains also circulated in compliance with the social distancing measures imposed by the Government, with the consequence that the Company could provide only 50% of the seats available on board.

In addition to the remodulation of the number of services offered, the Company has put in place additional measures to reduce the impacts of the health emergency on the business, including disciplined management of both variable and fixed costs.

Regarding the reduction of variable costs, the Company's ability to reduce the offering of service in a timely manner with a positive effect on the two main variable costs - the infrastructure access fee and electricity costs, both of which fell significantly due to the contraction of the service offered - has played a decisive role. Equally important was the reduction of the infrastructure access fee ordered by the Government, to the benefit of rail companies that provide services in the open market.

The reduction of services had also an impact on the costs related to the operation of trains, cleaning services, bar and catering service on board. Attention is called, however, to an increase in certain costs caused by the need to adopt the safety measures required by the Government in relation to the health emergency.

Lastly, other important results have been achieved in terms of personnel costs, achieved through: (i) adherence to the wage guarantee fund and (ii) the signing of the "Defensive Solidarity Contract".

## FINANCIAL REVIEW

### Operating results

The difficult health and socio-environmental situation due to the pandemic emergency caused by the COVID-19, which has been amply illustrated previously and, in particular, the lockdown measures imposed both nationally and internationally, have greatly affected the performance of 2020, which was generally painful. The Company implemented a plan to rationalize its offer by guaranteeing an offer that always meets the country's mobility needs.

The table below shows the main operating results for 2019, compared with the previous year.

| OPERATING RESULTS (€m) | 2020 | 2019 | Change | Δ % |
|---|---|---|---|---|
| Operating revenue | 413.5 | 715.3 | (301.8) | (42.2%) |
| *of which Revenue from transport services* | *262.9* | *680.6* | *(417.7)* | *(61.4%)* |
| *of which Net revenue from White Certificates* | *0.7* | *29.8* | *(29.1)* | *(97.7%)* |
| *of which Other revenue* | *149.9* | *4.9* | *145.0* | *2952.8%* |
| Operating costs | (301.7) | (423.1) | 121.4 | (28.7%) |
| **EBITDA** | **111.8** | **292.2** | **(180.4)** | **(61.7%)** |
| Amortization, depreciation, impairments, gains and losses on disposal of non-current assets | (60.2) | (56.5) | (3.7) | 6.5% |
| **EBIT** | **51.7** | **235.7** | **(184.0)** | **(78.1%)** |
| Net financial income (expenses) | (16.1) | (36.0) | 19.9 | (55.3%) |
| **EBT** | **35.6** | **199.7** | **(164.1)** | **(82.2%)** |
| Income tax | (3.7) | (48.3) | 44.6 | (92.3%) |
| **Profit (loss) for the year** | **31.9** | **151.4** | **(119.5)** | **(79.0%)** |

The net result for the year was sharply down from the comparable year-earlier figure, but was nonetheless positive, as it amounted to €31.9 million.

**Operating revenue** of €413.5 million is down €301.8 million (-42.2%) compared with 2019.

The decrease is driven by **Revenues from transport services** (-61.4%) as a result of the reduction in traffic volumes in terms of Trains/Km due mainly to the pandemic. The sharp contraction in revenues from transport services was offset only in part by the COVID-19 grant. The sum, which is meant to compensate the Company for the losses suffered until June 30, 2020, amounts to €145.6 million and contributes €141.2 million to the operating revenues for the year, in view of the fact that the collection will take place in annual instalments from 2021 to 2034, considering that the grant will be received in 15 annual instalments until 2034. The grant applicable to the second period (until December 31, 2020) was not recognized in the year under review, as it did not meet the requirements for recognition under IAS 20, the applicable standard.

**Revenues from White Certificates** also fell (down €29.1 million). This was mainly due to the fact that, compared to the previous year, 2020 did not benefit from the contribution of the White Certificates related to the energy savings of the AGV fleet, whose project ended in 2019.
As to the EVO fleet, however, there is a reduction linked to the lower circulation of trains due to the pandemic.

**Other revenue** rose by €145.0 million, reflecting mainly the government grants provided to compensate for the losses incurred due to the pandemic.

**Operating costs** amounted to €301,7 million and decreased by €121.4 million (-28.7%), also thanks to the measures implemented by the Company to contain costs in response to the health emergency.

**EBITDA** decreased by 61.7%, to €111.8 million, compared to €292.2 million reported at the end of 2019, with a notable decline in the related margin, compared to the previous year (-13.8 percentage points). This decrease is due to the already commented drop in operating revenues, which could be offset only in part by the reduction in operating costs generated by the activation of all the necessary actions aimed at dealing with the aforementioned emergency and the relief obtained to support the Company's transport services.

**EBIT** was down €184.0 million (-78.1%) compared to 2019, amounting to €51.7 million, after deducting amortization, depreciation and provisions for €60.2 million, which remained largely unchanged.

**EBT** of €35.6 million is down €164.1 million compared with the €199.7 million of 2019. In terms of EBT margin, the decrease is 19.3 percentage points, going from 27.9% in the previous year to 8.6% in 2020.

**Net financial expense** of €16.1 million is down €19.9 million compared with the previous year (-55.3%).

**Income tax** decreased by €44.6 million (-92.3%) compared to 2019, amounting to €3.7 million, due to the deterioration of the results which resulted in the formation of deferred tax assets.

**Profit for the year** totals €31.9 million, down €119.5 million (79.0%) compared to the previous year. In terms of margin, net profit accounted for 7.7% of revenues, which was 13.5 percentage points lower than the comparable figure for 2019.

## Financial position

The table below shows key financial data for 2020, compared with data for the previous year.

| FINANCIAL POSITION (€m) | 2020 | 2019 | Change |
|---|---|---|---|
| Goodwill | 1,683.8 | 1,683.8 | - |
| Intangible assets | 108.8 | 115.5 | (6.6) |
| Property, plant and equipment | 970.1 | 946.5 | 23.6 |
| Right-of-use assets | 46.8 | 52.5 | (5.7) |
| Deferred tax assets | 23.4 | 19.5 | 3.9 |
| Non-current asset for Contribution for Covid-19 | 122.5 | - | 122.5 |
| **A. Non-current assets** | **2,955.3** | **2,817.8** | **137.6** |
| Inventories | 0.8 | 10.1 | (9.3) |
| Trade receivables | 2.4 | 8.3 | (5.9) |
| Current tax receivables | - | - | - |
| Current asset for Contribution for Covid-19 | 18.8 | - | 18.8 |
| Other current assets | 39.6 | 31.9 | 7.7 |
| Trade payables | (145.3) | (188.8) | 43.5 |
| Current tax payables | (7.6) | (14.2) | 6.6 |
| Deferred revenues from transport services | (34.6) | (44.6) | 10.0 |
| Other current liabilities | (28.2) | (24.8) | (3.4) |
| **B. Net working capital** | **(154.0)** | **(222.1)** | **68.1** |
| Employee benefits | (20.4) | (16.9) | (3.5) |
| Deferred tax liabilities | (27.5) | (30.3) | 2.8 |
| Non-current provisions | (33.7) | (4.1) | (29.6) |

| | | | |
|---|---|---|---|
| **C. Other assets (liabilities)** | **(81.6)** | **(51.2)** | **(30.4)** |
| **D. Net invested capital (A+B+C)** | **2,719.8** | **2,544.4** | **175.4** |
| | | | |
| **E. Net debt** | **925.8** | **780.8** | **145.0** |
| | | | |
| **F. Equity** | **1,793.9** | **1,763.6** | **30.3** |
| | | | |
| **G. Total sources of financing (E+F)** | **2,719.8** | **2,544.4** | **175.4** |

**Non-current assets**, which is up €137,6 million on the previous year, amounts to €2,955.3 million and include mainly of goodwill (€1,683.8 million) and other intangible assets (€95.6 million, consisting of "Customer Relationships", totaling €75.4 million, and the Italo trademark, amounting to €20.2 million, gross of deferred tax liabilities of €30.3 million at the reporting date), which were recognized as non-current assets following the merger completed in 2019.
A major portion of the Company's non-current assets is represented by its owned rolling stock, whose historical cost, inclusive of all its components, at December 31, 2020 amounts to €1,191.2 million, with an increase of €65.0 million in 2020 due to the expansion of the EVO fleet.
The increase recorded during the year mainly originates from the recognition in the assets of the portion of the contribution to compensate for the damages suffered as a result of the Coronavirus, the regulation of which is expected in subsequent years until 2034.

**Net working capital** is a negative €154.0 million. The retail nature of the business means that working capital is generally negative, due to the fact that most customers pay in advance for the service they then subsequently use. This results in a low amount of trade receivables compared with the volume of sales. In contrast, current liabilities, and above all trade payables, reflect payment terms for suppliers that are normally extended with respect to the date of supply. As a result, the value of current liabilities, and above all trade payables, tends to remain above the value of current assets.
Compared to the previous year, there was a decrease of €68.1 million that reflects the events for the year and is mainly due to the lower trade payables and the lower deferred income for transport services to be provided, consistent with the significant reduction in activity due to the measures ordered by the competent Authorities for the containment of the COVID 19 health emergency.

**Other assets and liabilities** recorded a change on €30.4 million due to the increase of liabilities.

**Net invested capital** of €2,719.8 million, which is covered by equity of €1,793.9 million and net debt of €925.8 million.
Compared to the previous year-end, there was an increase of €175.4 million mainly attributable to the increase in Net Debt and, residually, to the increase of equity resulting from the profit for the year.

## Net debt

An analysis of net debt as of December 31, 2020, compared with amounts for the end of the previous year, is shown below.

| NET DEBT (€m) | 2020 | 2019 | Change |
|---|---|---|---|
| A. Cash | 1.1 | 3.9 | (2.8) |
| B. Other cash equivalents | 205.7 | 89.3 | 116.4 |
| C. Securities held for trading | - | - | - |
| **D. Liquidity (A + B + C)** | **206.8** | **93.2** | **113.6** |
| **E. Current financial assets** | **20.2** | **80.2** | **(60.0)** |
| F. Current bank borrowings | - | - | - |

| | | | |
|---|---|---|---|
| G. Current portion of non-current borrowings | 3.9 | 2.4 | 1.5 |
| H. Other current financial liabilities | 7.7 | 5.8 | 1.9 |
| **I. Current debt (F + G + H)** | **11.6** | **8.2** | **3.3** |
| **J. Net current debt (I - E - D)** | **(215.4)** | **(165.1)** | **(50.3)** |
| K. Non-current bank borrowings | 1,097.3 | 897.8 | 199.6 |
| L. Notes issued | - | - | - |
| M. Other non-current liabilities | 43.9 | 48.2 | (4.3) |
| **N. Non-current debt (K + L + M)** | **1.141.3** | **946.0** | **195.3** |
| **O. Net debt (J + N)** | **925.8** | **780.8** | **145.0** |

**Net debt** of €925.8 million is up €145.0 million compared with December 31, 2019 mainly due to a decrease in cash inflows determined by the Covid-19 pandemic.
The €113.6 million increase in cash was due to the utilization of the full amount of the €200 million of the revolving line of credit and the cash inflows from disposal of short-term financial assets for €60.0 million. All considered, a decrease of €146.4 million in cash and cash equivalents at year end is registered.

The above is reflected by the change in the "**Net debt/EBITDA**" ratio, which went from 5.6x to 8.3x (2.7x in 2019), due both to the increase in net debt and the decrease in EBITDA.

Also, the "**Net debt/Equity**" ratio deteriorated somewhat, as it went from 0.4x in 2019 to 0.5x in 2020.

## Cash flow

The table below shows a summary of the cash flow statement for the years ended December 31, 2020 and 2019.

| CASH FLOW (€m) | 2020 | 2019 | Change |
|---|---|---|---|
| Cash flow from/(for) operating activities | (76.0) | 283.6 | (359.6) |
| Cash flow from/(for) investing activities | (7.4) | (235.8) | 228.4 |
| Cash flow from/(for) financing activities | 197.0 | (243.6) | 440.6 |
| **Total net cash generated/(used) during the period** | **113.6** | **(195.8)** | **309.4** |

There was a **net cash inflow of** €113.6 million in 2020, thanks to the positive impact of the cash inflow from operating activities which more than offset the negative performance of cash flows for operating and investing activities.

In fact, cash flow for operating activities decreased by €359.6 million compared to year-end 2019, settling at a negative €76 million. The drastic reduction in operating activities is fully reflected in the related cash flows which stand at a negative value of €76.0 million.

Investing activities were down, due both to reasons related to the Company's growth and as a result of the postponement of investments not considered strategic or as priorities to ensure business continuity that management introduced to address the operating and financial uncertainty faced during the year. In addition, a positive impact to cash flows from financing activities was due to the Company's disposal of short-term financial assets for €60 million, which offset nearly entirely capital expenditure.

The cash outflow for operating and investing activities was offset by the cash inflow activated to protect the Company's liquidity via the drawdown of the €200 million line of credit.

At year-end cash on hand amounts to €227.0 million, if short-term investments in financial assets are taken into account.

## INVESTMENT DURING THE YEAR

**Investment** amounted to €71.4 million in 2020, a reduction of €73.3 million compared with the previous year.

Details of investment in property, plant and equipment and intangible assets in 2020 are provided below (for further details, reference should be made to the notes to the financial statements).

| INVESTMENT (€m) | 2020 | 2019 | Change |
|---|---|---|---|
| **Property, plant and equipment** | | | |
| Italo's fleet | 36.6 | 101.8 | (65.2) |
| Onboard telecommunications | - | 0.1 | (0.1) |
| Investment assets under construction | 27.4 | 34.7 | (7.3) |
| Investment in railway stations | - | 0.3 | (0.3) |
| Other PPE | 0.1 | 1.3 | (1.2) |
| **Total investment in property plant and equipment** | **64.1** | **138.2** | **(74.1)** |
| **Intangible assets** | | | |
| Software | 2.9 | 2.3 | 0.6 |
| Investment in intangible assets in progress | 4.4 | 4.2 | 0.2 |
| **Total investment in intangible assets** | **7.3** | **6.5** | **0.8** |
| **Total investment** | **71.4** | **144.7** | **(73.3)** |

Investment in new trains represents the main component of the Company's investment, in line with previous years.

Investment in the EVO fleet amounted to €62.7 million in 2020, including the remaining milestones for trains entering service during the year and payments on account for further trains under construction (recognized in assets under construction).

At December 31, 2020 total investment in the Italo fleet, relating solely to the rolling stock component and ancillary costs, amount to €1,166.6 million.

## KEY EVENTS DURING THE YEAR

Below, a description is provided of key events occurred during the year.

### Operating activities

On **January 7, 2020,** the Chinese authorities identified the new virus called 2019-nCov, part of the Coronavirus family.

On **January 23, 2020,** a lockdown was ordered in Wuhan and other Chinese regions.

By order dated **January 30, 2020,** the Ministry of Health suspended all flights to and from China.

On **January 31, 2020,** two Chinese tourists were the first two cases of Coronavirus in Italy. The Council of Ministers declared a state of emergency, which is still in force till the end of 2020.

On **February 6, 2020** near Lodi there was a derailment involving a Frecciarossa train, in service between Milan and Salerno, on the Milan - Bologna high-speed line. The AV railway line affected by the accident was seized by the Judicial Authority and made inaccessible until March 2, 2020, resulting in the cancellation of numerous Italo trains per day starting from February 6, 2020.

On **February 21, 2020,** the first Italian case of Coronavirus was discovered (patient no. 1).

On **February 23, 2020,** "red zones" were established in 11 municipalities in Lombardy and Veneto, with a ban on access and expulsion from the municipal territory and the suspension of events and any form of meeting in a public or private place, including of a cultural nature.

On **4 March 2020,** school activities were suspended throughout the country and the measures already in force in the red zones of the North were extended to the whole of Italy.

As of **March 9, 2020,** government authorities ordered the national lockdown in order to contain the spread of the virus. The Company began to progressively to reduce the number of daily services.

On **March 11, 2020,** the World Health Organization officially declared a state of pandemic.

On **March 17, 2020,** the Government launched the first economic support measure to the country following the health emergency (so-called "health emergency". Decree "Cura Italia").

On **March 20, 2020,** the European Commission provided for a temporary suspension of the Growth and Stability Pact to allow Member States to implement actions to deal with the effects of the emergency.

On **March 22, 2020,** the Italian Government adopted further restrictive measures, which the closing of most activities and the introduction of a ban on travel.

On **April 7, 2020,** the Italian Government launched the second series of economic actions (i.e. "Liquidity" Decree), with the main objective of supporting the liquidity of companies overwhelmed by the economic emergency.

On **April 12, 2020,** the Minister of Infrastructure and Transport, in agreement with the Minister of Health, adopted a ministerial decree containing, among others, specific provisions, inter alia, for rail transport. The general principle is that only essential minimum services are provided.

On **April 26, 2020,** the cabinet Office Decree containing measures to address the COVID-19 emergency in the so-called "Phase Two" was signed. Specific protocols were introduced for means of transport (containment measures and information measures), in particular for long-distance transport: (i) the obligation to wear a mask on board trains and (ii) distancing on board with a maximum capacity of 50% of capacity.

On **May 4, 2020,** in light of the reduction in the number of infections, the so-called "Phase 2" began in Italy.

On **May 17, 2020,** the Prime Minister signed the Cabinet Office Decree laying down measures to contain the COVID-19 epidemiological emergency, effective May 18, maintaining the obligation to respect social distancing on board trains, fostered by a checkerboard reservation system with consequent application of markers on unusable seats.

On **May 19, 2020,** the Government enacted Law Decree 34/2020 (i.e. "Turnaround" decree) containing specific economic support measures for families, workers and companies affected the COVID-19 health emergency. This law decree also laid down measures in favor of the rail transport sector, and therefore also of Italo. In particular, the most significant measures included:

- the reduction of the infrastructure access fee for 2020 for all railway companies carrying passengers not subject to public service obligations, with an overall decrease in such fee of approximately: (i) 80% from March 10 to June 30, 2020, and (ii) 50% from July 1 to December 31, 2020;
- Contribution to railway companies carrying passengers and freight which are not subject to public service obligations (i.e. Covid Grant). In this regard, the expenditure of €70 million for 2020 and €80 million from 2021 and up to 2034 was authorized to cope with the negative economic effects directly attributable to the COVID-19 health emergency, which occurred from February 23 to July 31, 2020;
- the extension of the validity of vouchers issued by railway companies: following the infringement procedure initiated by the European Commission against the Government, a new amendment has been proposed to the law of 24 April 2020, n. 27, which establishes the extension of the validity of vouchers issued, among other things, by railway companies by a further 6 months (i.e., for a total of 18 months), with the right of passengers to be refunded in cash, at their request, 12 months after the issue of the voucher, as well as, automatically, 18 months in the absence of its use.

On **June 1, 2020,** the Company signed with the national trade union representatives a "Defensive Solidarity Contract" for the reduction of employees' working hours in order to manage the temporary reduction of company production.

Starting **June 3, 2020** the Government reintroduced the possibility of moving freely between regions and, therefore, the Company has gradually resumed its operation, always in compliance with all the safety regulations provided for, such as distancing among travelers with unusable seats marked and not bookable, specific sanitization actions on board the train and at the station, disinfectant gel dispensers in the carriage and adequate ticket-checking distance between Italo staff and travelers for the protection of all those on board the train.

On **June 11, 2020,** the Cabinet Office Decree was enacted, which entered into force on June 15, 2020, which started "Phase 3", with a series of re-openings and the easing of the restrictive provisions, while confirming the spread containment and prevention measures that had been established with the Cabinet Office Decree of May 17, 2020 for rail transport.

On **June 14, 2020,** with the adoption of the summer schedule, Italo introduced new cities into its network, starting 4 trips per day to Cilento and Calabria. In fact, connections to Reggio Calabria have been introduced, without interchanges and with direct connections from Turin, Milan, Reggio Emilia, Bologna, Florence, Rome, Naples and Salerno - and with intermediate stops at the stations of Agropoli/Castellabate, Vallo della Lucania, Sapri, Paola, Lamezia Terme, Rosarno and Villa San Giovanni.

As **of July 2, 2020,** throughout the summer season, trips to Rimini, Riccione, Pesaro and Ancona were restarted, thanks to 6 daily connections to Milan and Bologna. Moreover, the stations of Scalea and Vibo Pizzo were added to Calabrian network.

On **July 14, 2020,** the Prime Minister signed the Cabinet Office Decree that extended until July 31, 2020 the measures of the previous Cabinet Office Decree of June 11, 2020.

On **July 17, 2020**, the conversion of Law Decree 34/2020 resulted also in the introduction of compensation for losses incurred by rail passenger and freight companies in the period from August 1 - December 31, 2020 with any remaining funds not allocated for the first contribution period.

On **August 1, 2020,** by order of the Ministry of Health, the social distancing measures on board the trains were extended, remaining in force throughout 2020.

On **September 24, 2020** new waves of coronavirus exploded.

As of **October 1, 2020,** the Company again reduced its offering. This arrangement was broadly stable until the end of the year, except for occasional changes when service was adapted to the country's mobility needs.

On **October 19, 2020** the Government enacted a new Cabinet Office Decree to curb the second wave of contagion with new restrictive measures for bars and restaurants, contact sports, school and distance learning, remote working.

On **22 October 2020,** the inter-ministerial decree signed by MIT and MEF was enacted to govern the criteria and methods for reporting the losses suffered by railway operators directly attributable to the COVID-19 emergency, for the purpose of allocating the extraordinary grant introduced by Article 214 of Law Decree 34/2020.

On **October 30, 2020,** the Company applied for eligibility to the grant under Art. 214 of Law Decree 34/2020 for the period until July 31, 2020.

On **November 4, 2020,** a new Cabinet Office Decree signed by the Prime Minister divided Italy into three zones (red, yellow and orange) with different restrictions, which entered into force on November 6, 2020, in relation to the seriousness of the situation. A curfew was also ordered throughout the country from 10.00 p.m. to 05.00 a.m.

On **December 2, 2020** the Infrastructure Manager announced that, due to the Covid-19 health emergency, no penalties would be applied due to the failure to use the railway lines between January 1 and April 30, 2020.

On **December 9, 2020** Italo entered into an Access Agreement with the Infrastructure Manager (RFI) to provide for the assignment of slots for the use of railway lines and related services for the 2020/2021 working timetable.

On **December 18, 2020,** the Italian Government enacted the so-called "Christmas Decree", with a series of limitations - especially in the festive days, when Italy as a whole became a red zone - substantially similar to lockdown.

On **December 27, 2020,** anti-SARS-CoV-2/COVID-19 vaccinations began in Italy and Europe.

By decree of **31 December 2020,** the Ministry of Infrastructure and Transport accepted the application for eligibility to the grant pursuant to Art. 214 Law Decree 34/2020 submitted by the Company, authorizing the multi-year commitment to disburse the total amount requested.

### Financial matters

On **March 9, 2020** the Company requested to draw down the full amount of the €200 million revolving credit line.

On **June 26, 2020,** the Company submitted a waiver request to its lenders, receiving consent from the majority on June 30. In particular, the lenders accepted all requests proposed by the Company regarding:
- the financial covenants for 2020 and 2021;
- the possibility of increasing the Company's debt up to Euro 300 million in order to support Italo's liquidity, if necessary, and cope with the COVID-19 health emergency.

No further amendments to the original contractual provisions have been envisaged.

On **July 16, 2020,** the Company exercised the Sustainability Linked Option provided for in the contracts signed, identifying three Sustainability KPIs with their objectives. On August 16, 2020 the Company received approval from the majority lenders required by the applicable provisions and therefore, after completing the relevant procedure, the loan agreement can be classified as "green" and "sustainable".

### Corporate events

On **March 23, 2020,** the General Meeting of shareholders resolved to postpone until June 30, 2020 the distribution of dividends, originally scheduled for March 31, 2020, to June 30, while reserving the right to evaluate any choice in light of pandemic evolution and the consequent operating and financial situation of the Company.

At the meeting **on June 24, 2020,** in order to preserve the Company's ability to operate also in an unprecedented situation, the shareholders decided on a further postponement, providing that the distribution would take place by December 31, 2020, in the presence of the right economic and financial conditions.

Finally, on **16 December 2020,** the shareholders decided to cancel the planned distribution of dividends, bringing forward the full amount of profit for 2019, thus putting the Company on a firmer financial footing in case of a prolonged period of market crisis.

### Social and cultural initiatives

Starting in April, Italo made its services available to support the **Italian Red Cross** in dealing with the Coronavirus emergency. The volunteers of the Italian Red Cross were able to use Italo trains free of charge to carry out their work, to move between the different health facilities throughout Italy and to transport basic healthcare goods such as masks and sanitizing materials.

Numerous **welfare initiatives** have been implemented by the Company to support of its employees, in particular with new opportunities for the health of employees and their families.
The activation of a special COVID-19 health policy for its entire team, providing assistance from hospitalization to home stay, with ad hoc services such as baby-sitting, home shopping delivery and pet-sitting.
A telemedicine tool available to Italo's employees who, from home or from the workplace, have at their disposal a direct line with healthcare professionals 24/7.

Another Italo initiative, in line with all those put in place during the period of the health emergency, is that relating to the flu vaccine, with the Company that decided to reimburse its employees for the expenses incurred to vaccinate.

Lastly, even in such a difficult year, the Company has decided to make its contribution to **scientific research** with the collective interest in mind, contributing to the funding of a scholarship for a young AIRC researcher and offering its employees a dedicated editorial plan made available by AIRC to inform them and raising their awareness about the correct habits to follow daily to protect their health, highlighting the importance of scientific research.

# THE GENERAL CONTEXT

## Macroeconomic environment[1]

According to data published by the Bank of Italy in Economic Bulletin no. 1/2021, the recovery was weighed down by the new pandemic wave. The resurgence of coronavirus cases in the autumn led to a slowdown in global economic activity at the end of 2020, especially in the advanced countries. The start of the vaccination campaigns is affecting the medium-term prospects favorably, but the timing and intensity of the recovery remain uncertain

**In the euro area, the effects of the pandemic** on economic activity and on prices **are set to last longer than was previously assumed**. The ECB Governing Council has expanded and prolonged monetary stimulus to ensure favorable lending conditions for all sectors for as long as necessary to guarantee full support to the economy and to inflation. It stands ready to recalibrate its instruments once again if necessary.

**In Italy**, the higher-than-expected growth in the third quarter demonstrated the **economy's strong capacity to recover**. As in the other euro-area countries, the second pandemic wave nevertheless caused a further decrease in GDP in the fourth quarter. Based on the available indicators, this decline can currently be estimated at around -3.5 per cent, although there is a great deal of uncertainty over this figure.

The downturn was **considerable in services and marginal in manufacturing.**

**Italian exports of goods and services recovered significantly** in the third quarter of 2020, far more so than world trade; this continued in the autumn, but less markedly. Capital flows and purchases of Italian government securities by non-residents started up again. Thanks to the protracted current account surplus, Italy's net **international investment position turned slightly positive** after more than thirty years of negative balances.

**The recovery in employment weakened after the summer.** With the reopening of the activities suspended during the first wave of the pandemic, in the third quarter the number of hours worked rose sharply and recourse to wage supplementation schemes declined. The number of payroll employment positions also returned to growth. However, the latest available data indicate another upturn in the use of the wage supplementation scheme (CIG), albeit much less so than during the first wave. In November, the increase in the number of new jobs essentially came to a halt, highlighting a gap compared with the same period of the previous year, particularly for young people and women.

**The change in consumer prices remained negative**, reflecting price developments in the service sectors hit hardest by the crisis, whose growth continues to be affected by the weakness of demand. The inflation expectations of analysts and firms continue to point to very low rates over the next twelve months.

**There is greater optimism on the financial markets.** The optimism of financial market operators in Italy and abroad has been boosted by the announcement of the rollout of vaccines, further monetary policy and fiscal support, and the end of the uncertainty surrounding the presidential elections in the United States. The yield spread between Italian and German ten-year government bonds remains at lower levels than those observed before the healthcare crisis. Financial markets nevertheless remain sensitive to the course of the pandemic.

[1] Source: data published by the Bank of Italy in Economic Bulletin n. 1 – 2021 (January 2021).

Italian banks continued **to meet demand for funds from firms**. Supply conditions remained relaxed overall, thanks to the continuing support of monetary policy and public guarantees. Banks' bond funding costs declined further, and rates on lending to firms and households remained low.

In response to the resurgence of the health crisis, **the Government enacted additional measures to support households and firms** in the last quarter of 2020. Compared with the scenario at unchanged policies, the budget envisages an increase in net borrowing both this year and the next. Further expansionary stimulus should come from the measures that will be defined under the Next Generation EU (NGEU) program.

According to macroeconomic projections for the Italian economy in the three-year period 2021-23, spring should witness a return to **sustained growth** but the **risks to be faced are still high**.

### Market environment [2]

Owing to the severity of the lockdowns, the associated travel restrictions and the expected global recession associated to a historical and unprecedented economic crisis caused by the COVID-19 pandemic, UIC (Union Internationale des Chemins de fer) estimates a **loss of revenue** from rail passenger and freight transport services of 125 billion dollars for both 2020 and 2021, in a slow recovery scenario.

Globally, restrictions on services and people movement, combined with authorities' advice not to travel, led in 2020 to a **decrease in passenger volumes** of approximately **80% for all national rail services** during lockdowns.
For **international rail passenger services**, the passenger volumes have dropped by almost **100%** for all operators, in line with international passenger border closures.

The main forecast drivers of the slow recovery include an evaporated passenger demand as some countries continue to be in lockdown and borders remain closed to prevent the spread of the virus, which have a huge impact on the rail sector. Further, without customer confidence, passenger revenues are expected to decline, despite marketing actions implemented by the rail operators such as price stimulation policies.
Looking at the revenues, the UIC estimate shows more than $36 billion of losses for rail operators in the first half of 2020, and the decrease continues into the second half, while having a lower impact, (i.e. approximately $23 billion of lost revenues) in the second part of the year, **leading to a total loss of 60 billion dollars in 2020**.
Most losses occur in Asia (53%) and in Europe (44%), where there is an active passenger market. Elsewhere in the world, losses are less significant as passenger rail does not play such a big role in the rail market.
**For 2021 estimated losses amount to 22 billion dollars**.

While it is not clear whether the virus will develop further, whether a second or even a third wave will occur and involve additional losses, almost all rail operators have taken immediate measures to adapt their operations to maintain the minimum required capacity and to reduce all costs.

The rail sector is undergoing a **historical, unprecedented crisis** calling for governmental economic measures. Several governmental authorities have already expressed appropriate economic measures to be taken to support the rail sector, in line with the priority given to a rail sector competitive with other transport modes.

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[2] Source: UIC COVID-19 Task Force, MANAGEMENT OF COVID-19 – First estimation of the global economic impact of Covid-19 on Rail Transport (July 2020)

In Italy, passenger rail transport is characterized by the provision of market-based transport services, which are left to the choices of the individual railway companies, and services that are provided on the basis of public service contracts executed by the State (with regard to long and medium-distance rail services) and by the regions (for regional and interregional connections). **The main market-based services are provided by high-speed trains.**

In view of the sharp reduction in rail traffic as a result of the COVID-19 epidemic, Law Decree 34 of 2020 provided **substantial financial support to railway companies that perform market-based services.**
In particular, the total expenditure of €1.190 billion was authorized (in installments equal to €70 million for 2020 and €80 million per year from 2021 to 2034) in order to support companies that provide rail passenger transport services not subject to public service obligations due to the direct adverse effects of the COVID-19 emergency **suffered from February 23, 2020 to July 31, 2020.**
Companies will also be assigned any remaining resources, also for the adverse effects suffered **from August 1, 2020 to December 31, 2020.**
Lastly, the 2021 budget law (paragraph 675) authorized the expenditure of an additional €30 million a year from 2021 to 2034 (making a total of €420 million) for the benefit of the companies indicated above to compensate them for the losses directly attributable to the COVID-19 emergency suffered **from January 1, 2021 to April 30, 2021.**

Still for the benefit of railway operators providing market-based services, a reduction in the fee for the use of the railway infrastructure for passenger and freight rail services not subject to public service obligations will be activated, and borne by RFI (in the period from March 10, 2020 to December 31, 2020).
The 2021 budget law (paragraph 679) then authorized the payment of €20 million for 2021 and €10 million a year from 2022 to 2034 (for a total of €150 million) to RFI, so that this entity might, from **January 1, 2021 to April 30, 2021,** reduce the access fee by up to 100% of the amount exceeding the cost directly linked to the provision of the rail service for passenger rail services not subject to public service obligations and for rail freight services. The measure is therefore aimed at supporting railway operators. Any remaining resources will be used to compensate the operator of the national railway infrastructure for the lower revenue from the access fee during the same period.

Finally, with regard to companies that carry out long-distance public rail services or undivided interregional services, reductions in transport services as a result of measures to contain the COVID-19 virus **will not entail reductions in prices or the application of sanctions or penalties due to the fewer trips made from February 23, 2020 to December 31, 2020.**

# THE REGULATORY FRAMEWORK

The Company's business is subject to the rules governing railway transportation services, especially (HS/HC) passenger transportation services, in a free market regime (i.e. not subject to public service obligations).
This section provides a description of the regulatory framework for the sector in question, thereby providing the reader with information on the regulatory environment in the Company operates.

## Applicable EU and national rules and regulations

Directives 2001/12/EC, 2001/13/EE and 2001/14/EC (the "**First Railway Package**") kicked off the liberalization of the railway market, establishing the principle of freedom of access by railway undertakings to the railway network and the provision of transport services on a non-discriminatory, fair and transparent basis. These directives were transposed into the Italian legal system by Legislative Decree 188 of July 8, 2003 ("Implementation of directives 2001/12/EC, 2001/13/EE and 2001/14/EC in the matter of railways").

The foregoing directives were recast into directive 2012/34/EC of November 21, 2012. This directive was eventually transposed by Legislative Decree 112 of July 15, 2015 ("Implementation of directive 2012/347EU of the European Parliament and the Council of November 21, 2012 establishing a single European railway area"), which repealed and replaced Legislative Decree 188 of July 8, 2003.

Directives 2004/49/EC, 2004/50/EC and 2004/51/EC (the "**Second Railway Package**") introduced measures aimed at rail safety and interoperability of the European rail system (the possibility for the trains of every Member State to travel throughout the European network). These directives were transposed into the Italian legal system by:

- Legislative Decree 162 of August 10, 2007 ("Implementation of directives 2004/49/EC, 2004/50/EC and 2004/51/EC relating to the safety and development of EU railways"), subsequently repealed and replaced by Legislative Decree 50 of May 14, 2019 ("Implementation of directive 2016/798 of the European Parliament and Council, dated May 11, 2016, on railway safety"), with the exception of safety certificates valid at the date of entry into force of the latter decree, which will continued to be valid until their original expiry date;
- Legislative Decree 163 of August 10, 2007 ("Implementation of directive 2004/50/EC amending directives 96/48/EC and 2004/51/EC on the interoperability of the trans-European high-speed rail system").

Further directives have been subsequently adopted:

- directives 2007/58/EC and 2007/59/EC – constituting the "Third Railway Package" to create an integrated European railway area - and transposed by Law 99 of 23 July 2009, by Legislative Decree 15 of January 25, 2010 and by Legislative Decree 247 of December 30, 2010;
- directives 2016/797/EU, 2016/798/EU and 2016/2370/EU (interoperability and safety), Regulation 2016/796 on the organization and tasks of the European Union Agency for Railways, and directive 2016/2370/EU which amended directive 2021/34/EU - constituting the "Fourth Railway Package" – and transposed into law by Legislative Decree 57 of May 14, 2019, Legislative Decree 50 of May 14, 2019 and Legislative Decree 139 of November 23, 2018 (which amended Legislative Decree 112/2015) the aim of which is to increase the competitiveness of railway services and consolidate establishment of the single European railway area.

Law Decree 109 of September 28, 2018, converted as amended by Law 130 of November 16, 2018 established, as of January 1, 2019, the National Agency for the Safety of Railways and Road and Motorway Infrastructure **(ANSFISA)** based in Rome. Without prejudice to the tasks, obligations and responsibilities of

the owners and operators in the field of safety, ANSFISA promotes and supervises the safety conditions of the national railway system and of road and motorway infrastructure.
In a note of December 3, 2020, the Ministry of Infrastructure and Transport announced the registration of the Cabinet Office Decree that appointed the ANSFISA Steering Committee and completed the appointment of ANFISA's governance and management bodies. This led the National Agency for the Safety of Railways and Road and Motorway Infrastructure to become fully operational and to take over all the assets and liabilities as well as the human resources, capital and financial assets of the National Railway Safety Agency – ANSF, which was eventually abolished.

### The role of the Infrastructure Manager

The Infrastructure Manager is the party responsible for building, operating and maintaining the railway infrastructure, which consists of the lines – including high-speed lines – and equipment utilized for train circulation (excluding regional and isolated local networks or those used only for urban and regional inter-city transportation and private networks).

The Infrastructure Manager allocates infrastructure capacity – in terms of train paths - to the railway undertakings and sets and collects the relevant fees (in accordance with the criteria established by the Transport Regulator).

The **Infrastructure Manager is RFI** by virtue of the concession granted by the Ministry of Infrastructure and Transport in ministerial decree 138T of October 31, 2000.

### The functions of the Regulator

The regulator oversees the relationships between the Infrastructure Manager and Railway Undertakings and may deal with appeals from Undertakings that think they have been treated unjustly, have been subject to discrimination or have been damaged in any other way by the Infrastructure Manager in terms of the allocation of train paths and charges. The decisions of the Regulator may be challenged before an administrative court.

The regulator in Italy is the Transport Regulator (ART), which was established pursuant to article 37 of Law Decree 201 of December 6, 2011 (converted into law, as amended, by Law 214 of December 22, 2011) in connection with regulatory authorities for public services under Law 481 of November 14, 1995.

The Transport Regulator is responsible also for drawing up the criteria to be used by the Manager in setting the fees charged for access and use of the infrastructure.

### Conditions for the provision of rail transport services

According to Legislative Decree 112 of July 15, 2015 – in line with Legislative Decree 188 of July 8, 2003 – the following conditions must be met in order to provide rail transport services:
- a railway license corresponding with the service provided;
- a safety certificate;
- a contract governing use of the infrastructure.

The **railway license** is valid throughout the European Union and confers on the holder the ability to provide rail transport services as a "railway undertaking" (the ability can be limited to the provision of specific types of service).

The railway license is issued by the Ministry of Infrastructure and Transport. To obtain such licenses an operator must fulfil certain requirements relating to integrity, financial strength, professional competence and adequate civil liability insurance.

Licenses are for an unlimited period of time. However, the Ministry can review from time to time whether the above requirements have been met and, if they have not, licenses may be suspended or revoked.
The procedures involved in the issue, review and confirmation of licenses are contained in specific Guidelines adopted by the Ministry.

Legislative Decree 50 of May 14, 2019 transposed Directive (EU) 2016/798 on railway safety, which provides that access to railway infrastructure is only permitted for railway undertakings holding the Single Safety Certificate (SSC) issued in accordance with Article 10 (Article 9 of the Transposition Decree).

The Single Safety Certificate is issued by the European Union Agency for Railways (ERA) in the case of a railway operator carrying out the service in an operating area comprising the railway networks of more than one Member State of the European Union, while it is the applicant's right to identify the safety certification body, choosing between the ERA or the national safety authority, in the case of rail services carried out in a single Member State's operating area.

Article 8 of Legislative Decree 50/2019 requires infrastructure managers and railway undertakings to develop their own Safety Management Systems (SGS) in order to ensure that the railway system reaches at least the CST (common safety objectives), complies with the safety requirements contained in the TSIs (technical specifications for interoperability) and that the relevant elements of the CPMs (common safety methods) and national standards are applied. In the same Article 8 of Legislative Decree 50/2019, the requirements and essential elements of a railway safety management system are also established.

Italo's Railway Safety Management System is drawn up in compliance with the provisions of Legislative Decree 50/2019 and in accordance with Regulation (EU) 762/2018, which establishes common safety methods relating to the requirements of the safety management system in accordance with Directive (EU) 798/2016.
As part of the expansion of its network, Italo submitted in October a request to update its valid Safety Certificate (issued in accordance with Legislative Decree 162 of August 10, 2007), fulfilling the new procedures for issuing the Single Safety Certificate to the railway undertakings referred to in Directive 2016/798/EU and obtaining the issue of the Certificate n.IT1020200015 valid until March 14, 2024.

The **contract to use the infrastructure** is an agreement between the Infrastructure Manager and a railway undertaking, whereby the latter is granted permission to use the infrastructure in terms of train paths in exchange for the payment of fees for a period in which the service timetable applies.
The service timetable is set every year by the Infrastructure Manager and includes the period between the second Sunday in the month of December of year x and the second Saturday in the month of December of year x + 1.
Use of the infrastructure entails the right for railway undertakings to use the services covered by the minimum access package (MAP) and other services not covered by the MAP. The services covered by the MAP are provided by the Infrastructure Manager and include: the handling of requests for railway infrastructure capacity in view of agreements on the use of the infrastructure; the right to use the allocated capacity; use of the railway infrastructure, including points and crossings; train control including signaling, regulation, dispatching and the communication and provision of information on train movements; the use of power supply equipment for traction current, where available; all other information required to implement or operate the service for which capacity has been granted.
The contract for the use of railway infrastructure is signed after the allocation of train paths in relation to each service timetable and governs the use of the infrastructure (and other MAP services) – in legal and financial terms – in accordance with the regulatory framework implemented by the Infrastructure Manager and by the Transport Regulator in pursuance of Legislative Decree 112 of July 15, 2015.
The Company entered into a Framework Agreement with RFI in 2008. This sets out the terms and conditions for access and use of Italy’s national railway infrastructure. The Framework Agreement, drawn up on the basis of the model annexed to the Network Prospectus, was later amended. An addendum was signed in 2019, among other things extending the duration of the agreement until 2033.

## RISK FACTORS

The first paragraph of art. 2428 of the Italian Civil Code requires a description of the principal risks and uncertainties the Company is exposed to, which might have an impact on the Company's situation in the foreseeable future.
The overall factors deemed to give rise to corporate risks, together with the activities carried out to monitor and mitigate them, are described below.

### Operational risk

Risks related to reliance on the manufacturer and maintenance provider for Italo's fleet

The Company's activity relies heavily on the supplier, Alstom, from which Italo has purchased its AGV and EVO fleets and maintenance services.
If the supplier were to be unable, or no longer wished, to provide maintenance services to the required standard, the Company might encounter difficulties in identifying a provider of maintenance services with the same technical capabilities at an acceptable price, with possible negative effects on the operation of Italo's fleet and safety levels. These occurrences might have an adverse impact on the Company's ability to deliver its services.
For this reason, the contract governing the maintenance services supplied by Alstom sets clear levels of service and includes a system of penalties applicable should the supplier fail to meet such levels, thereby enabling the Company to mitigate this risk.
There have never been any instances in which Alstom has failed to carry out maintenance of the trains to the required standard.

Risks related to maintenance facilities and interruptions to their operation

The Company does not own the facilities in which maintenance of its trains takes place. The potential impossibility of continuing to use these facilities could have a negative impact on the Company's business and, as a result, on its future prospects and operating performance, financial position and/or cash flow.
Maintenance of Italo's fleet is carried out at the Interporto Campano site (Nola, near Naples), owned by Alstom, and at the facilities located at Milan-Porta Garibaldi station and at Venice Santa Lucia station, both owned by RFI. The availability of these two facilities is governed by specific contracts and supplements to the Framework Agreement. In all the centers, maintenance is carried out by Alstom.
The ability to ensure timely and regular maintenance of Italo's fleet is a crucial factor for the Company's business.
There have never been any instances in which it was not possible to carry out maintenance of Italo's fleet in a timely manner and with regularity.

Risks related to information systems, network infrastructure and data protection

Italo is dependent on technology infrastructure (hardware and a telecommunications network) and its application platforms (software) in order to coordinate planning and other aspects of the services provided, as well as the sale of tickets for the rail and bus services connected to the Italobus service, accounting and numerous other functions. Any malfunctions in this technology infrastructure and the related systems, or the Company's inability to ensure their maintenance and development, could have a negative impact on the Company's business and, as a result, on its operating performance, financial position and/or cash flow.
Information systems play a key role in ensuring that the Company can operate smoothly and in guaranteeing the desired level of customer satisfaction.
In order to safeguard the continuity of its essential processes and IT systems, and avoid serious malfunctions, the Company has adopted technological infrastructure with highly-reliable redundant

services which were integrated, on core systems, with clone Disaster Recovery infrastructure. Systems and Cybersecurity processes provide a stable environment capable of ensuring that data is protected.
To date, there have not been any cyber-attacks on the Company's IT systems.

Risks related to industrial relations

The Company may have to deal with labor disruption that could interfere with its business and could have a negative impact on the Company's operations and, as a result, on its operating performance, financial position and/or cash flow.
The Company's relations with its employees are governed by the applicable legislation and collective agreements (*CCL Italo* and *CCNL Dirigenti delle Aziende Commerciali*), which include provisions covering the management of employee relations and, in certain cases, the termination of employment. The CCL Italo contract is a collective agreement entered into by the Company with the unions representing its employees after lengthy negotiations.
The difficulties and disagreements encountered with the workforce or with the unions could lead to, among other things, strikes, stoppages and other forms of industrial action by the workers concerned, and the Company could be forced to deal with significant disruption to its operations and an increase in personnel costs.
To date, the above difficulties and disagreements encountered during talks with the workforce or with the unions have not had a significant negative impact on the Company's operating performance, financial position and/or cash flow.

Risks related to services provided by other suppliers

Italo relies on certain suppliers that perform activities necessary for the proper running of the business and for the safety and comfort of its customers and employees.
The provision of these services is more complex from a logistical point of view, due to the nationwide extension of activities and locations, and the fact that many of these services are provided on board trains whilst they are traveling.
In addition, the Company relies on external companies for the supply and operation of the buses used for Italobus services.
Should such companies discontinue their services, or in the presence of irregularities and malfunctions in the delivery of the services, NTV would be forced to identify and contact alternative suppliers. This circumstance could cause disruption to services and might, in turn, negatively affect its reputation and business.
In 2020 and in previous years, there were no instances of key suppliers being unable to provide contracted services to the required standard.

**Risks related to the sector in which the Company operates**

Risks related to access to and management of the infrastructure

The Company does not own or operate the rail transport infrastructure network, and related structures and services, that it uses for its activities. Moreover, it shares access to rail infrastructure with other operators.
Even though access to and utilization of the rail network and other infrastructure is specifically regulated, the Company's operation relies on the activities and decisions of the infrastructure manager, on the regulatory decisions taken by the Italian authorities and on the rulings of Italian administrative courts.
Furthermore, the Company is exposed to the risk that agreements with the infrastructure manager and with other service providers may be terminated.
In the event that the Company is unable to negotiate the technical, operational and financial terms for access and utilization of the rail infrastructure, it might not be able to provide a commercial offering

capable of attracting customers or might be forced to incur greater operating costs, which might make its business less profitable or even impractical. For example, if it cannot secure train paths in the hours of greater interest to customers, the Company's commercial offering might be considered less attractive, leading to a loss of passengers. In addition, any expansion of services, on existing or new paths, requires amendment of the Framework Agreement to obtain new access rights.
The Company has in place a Framework Agreement guaranteeing its right to access and use the Italian rail network through to 2033.

Risks related to the utilization of rail stations

The availability of the spaces utilized by the Company in the main rail stations is governed by lease agreements entered into with RFI, Grandi Stazioni Rail SpA and Grandi Stazioni Retail SpA.
These companies operate a large number of rail stations throughout Italy. The ability to provide optimal locations for ticket offices and automated ticket vending machines, waiting rooms and areas, information points and other services is fundamental for the Company's business. However, the Company relies to a significant extent on these third parties to access the most attractive commercial areas in every station.
Should the Company be unable to reach agreement with railway station operators, Italo can request ART to take action in order to have its requirements met. In fact, in the past, the Company had to ask ART to intervene to resolve a number of disputes with station management companies. The resulting solution met Italo's requirements regarding the location of ticket offices and automated ticket vending machines, "Casa Italo" offices and lounges, obtaining the same degree of visibility given to the Company's competitor.

Risks related to changes in the fees for infrastructure access and in the cost of electricity

In the Network Prospectus, RFI fixes the level of fees applicable to railway operators based on specific regulatory guidelines (the criteria for setting the fees applicable to the MAP and services other than those covered by the Package) issued by ART. ART examines and approves the fees to ensure that they are in line with the above guidelines before they are applied to operators. ART's guidelines establish the principles and criteria applicable over periods of five years. The current period will be expired as at December 2021.
An increase in access costs (the fees relating to the MAP, other services or electricity costs) could compromise the Company's cost structure.
In terms of electricity costs, RFI passes on the electricity costs it pays to its energy suppliers to railway operators. These costs are determined in application of the current regulations for electricity prices, included in the regulations governing the industry and set out in specific determinations issued by the Regulatory Authority for Energy, Networks and the Environment ("ARERA").
In this regard, the criteria for calculating the cost of traction energy have changed in the past few years – lastly in 2020 with a decrease - and might change also in the future.

Risks related to the suspension or revocation of licenses

Rail transport is a highly regulated industry. More specifically, to operate a railway company it is necessary to obtain a license from the Ministry of Infrastructure and Transport to provide international rail passenger services and authorization to operate at national level.
Retention of these authorizations, permits and licenses is subject to specific requirements, which are reviewed from time to time by the competent authorities.
The suspension or cancellation of any of these authorizations, permits or licenses would limit or prevent the Company from conducting its business, seriously jeopardizing its prospects.
Since its establishment, none of the Company's licenses have ever been suspended or revoked.

Risks related to changes in industry regulations

The Company is subject to the risk that the large number of legal, administrative and regulatory requirements applicable to rail passenger transport may change over time.
Rail transport, especially high-speed rail passenger transport, is subject to numerous, stringent and constantly changing legal, administrative and regulatory requirements regarding, among others, the fitness of railway operators to provide rail transport services, the testing of rolling stock to be used in operations, safety certification and access to rail infrastructure.
Many of these requirements must be constantly met in the course of the railway operator's activity and are subject to constant checks and supervision by the regulator.
Failure by the Company to comply with applicable laws, regulations or provisions, or any change or interpretation thereof, might entail delays in the submission of additional applications for access to RFI or in the general operation of the train paths allocated, leading in some cases to an increase in the costs incurred to operate the business or an increase in the risk of incurring in sanctions, fines, civil actions or other unexpected expenses.

**Fare evasion risk**

The Company is subject to the risk of lost revenue due to fare evasion or other frauds perpetrated by customers.
If customers do not pay for the services rendered, the Company would still incur the costs related to the service without obtaining the relevant revenues. Loss of revenue is a general risk that concerns all transport operators, taking place when passengers take a train without purchasing a ticket and refuse to pay the ticket on board, or give false personal information to the conductor demanding payment, or commit frauds in using the payment system when they have to pay for the ticket.
The Company is committed to combating fare evasion. While it is not currently significant, this phenomenon has led the Company, over the years, to undertake a number of initiatives to deter fare evasion, mainly by increasing the number of inspectors on board its trains to collect the fare from passengers traveling without tickets and intensifying credit collection activities, related to the fines levied on evaders.
Among the main risks of fraud identified within the Company, that related to commercial transactions effected with electronic payment methods is a constantly growing phenomenon. To limit the impact of such a problem, the Company, through a team of dedicated staff, has adopted a series of measures designed to prevent and combat such activity, including with the support of specific anti-fraud software and partners, market leaders with which action is taken to mitigate this risk.

**Strategic risk**

Risks related to the competition

The Company is exposed to competition from the only other operator of high-speed railway services in Italy and from the operators of other passenger transport services.
In the first place, the Company competes on the basis of the quality of the services offered, the composition of its commercial offering, including the convenience of its train timetables, and price. Competition is expected to remain fierce, considering the aim of each competitor is to gain market share at the expense of the other. In addition, even though the high-speed passenger rail transport industry has high barriers to entry, the entry of new competitors in this market could further intensify these competitive pressures.
The Company must also deal with competition from the airline industry (particularly on the Rome-Milan route), private automobile transport and bus services. Consumer preferences and the competition among the different transport services is largely determined by travel times, the degree of comfort on offer, the ease of access to urban centers on departure and arrival, and the price and frequency of services. Even though in the last few years consumers have shown a preference for high-speed rail transport over air

transport, an increase in the number of air carriers, especially low-cost airlines, might constitute a further challenge for the Company.
In response adequately to these competitive pressures, the Company has devised a strategy that includes the expansion of intermodal services – on rail and road – through the introduction of new services, an increase in existing services, improved operating efficiency and expansion of the fleet.
In addition, in the belief that the quality of service provided – a feature considered to form part of our distinctive brand identity – offers a means of creating a lasting competitive advantage and of creating value, the Company has set up a unit with responsibility for the continuous monitoring of quality, both on board its trains and in the stations it serves.

Risks related to the concentration of the business in Italy and changes in the macroeconomic environment

The Company is subject to the risk that adverse macroeconomic market conditions in Italy could adversely affect its operating results, business and its financial condition.
The macroeconomic situation in Italy, the only country where the Company operates, affects its activity. The Italian economy is affected by national, European and global macroeconomic developments.
Italo's customers primarily use the services offered for business or leisure, each of which is significantly influenced by the state of the economy. A deterioration in economic conditions might have a negative impact on customers' propensity to travel.
The Company responds to this risk by continuously monitoring the market and through appropriate commercial and promotional initiatives.

Risks related to traffic volumes and changes in customer preferences

The Company is exposed to the risk of a downturn in traffic and, as a result, an adverse change in demand for Italo's services.
In a business characterized by substantial fixed costs (depreciation of rolling stock, infrastructure access fees, personnel costs), the Company's profitability depends, in essence, on its ability to generate revenues, which in turn depends on the number of tickets sold and the price of these tickets.
The ability to identify and meet customer expectations with a quality service in terms of high technological standards and comfort, at a competitive price, on routes with high demand and at appropriate hours, is a key factor for the Company's prospects and success.

**Risks linked to climate change**

The Company is exposed the risks linked to climate change, which could have a negative impact on the business. The reduction of water resources, soil instability, forest fires and land consumption are some of the risk factors that characterize the entire Mediterranean basin, in addition to the additional pressures caused by the current climate change acting as "amplifiers" with consequences that could be extremely negative in the coming decades if a new model of sustainable development, able to reduce impacts and strengthen the resilience of the territory, is not pursued.
Italo is firmly convinced of the strategic importance of protection of the environment and the land, resulting in our commitment to supporting the development of intermodal collective transport with a minimal impact on the environment. To this end, Italo is performing an analysis on the main risks deriving from climate change for the Italian territory focusing on its sector with the aim of identifying any economic impacts, in order to create a greater awareness on the subject and on the need to adapt one' behaviors and choices.

**Risks related to pandemic events and other exogenous factors**

The spread of the Coronavirus epidemic has had, in addition to the inevitable dramatic health problems, also repercussions on the Company, both at the level of processes and in terms of content, for the possible effects on the company's activity.

The pandemic, in fact, is characterized as an event capable of compromising the continuity of railway operations (i.e. " Business Continuity). This is an event falling within the category of purely exogenous risk factors, such as terrorism, natural disasters, changes in the macroeconomic framework and, in fact, epidemics and pandemics.
For such events, which invasively affect business continuity, the Company believes that the internal control system alone is unsuitable for mitigating their potential impacts within acceptable thresholds. The Company therefore tends to manage these risks by transferring them to the insurance market.
It should be noted that the events that took place during the year prompted an analysis of all external factors that could compromise business continuity and an evaluation of the related management methods currently implemented. The analysis carried out identified a number of actions to be taken in the 2021 financial year in order to mitigate this category of risks.

**Litigation risk**

The Company is or may be involved in court and/or out-of-court legal proceedings brought by various categories of interested or entitled parties (including, but not limited to, customers, suppliers and employees, etc.).
For information regarding the litigation risk to which the Company is exposed, reference should be made to the notes to the financial statements.
The Company, based on the opinion of its legal counsel, has made specific provisions for risks and charges to cover potential losses, where quantifiable, that it might incur in unsolved disputes.
Provisions have been made for losses considered probable. No provisions have been made for losses considered remote or only possible, as explained in greater detail in the notes to the financial statements.

## FINANCIAL RISKS

Pursuant to art. 2428 of the Italian Civil Code, an assessment of the Company’s exposure to financial risk is provided below. Further Details are provided in the notes to the financial statements.

### Risks related to financial liabilities

The Company pays interest and financial charges on funds borrowed from banks. In addition, the Company is exposed to the risk that failure to comply with the obligations and commitments contained in the loan agreements may result in, among other things, the forfeiture of the benefit of the term of the existing loans.
The provisions contained in these loan agreements also impose some limitations on the Company's operations that could cause negative effects on its business, as well as on its economic, asset and / or financial situation.
In fact, the existing loan agreement contains provisions that legitimize the counterparties to ask the debtor, upon the occurrence of certain events, for the immediate repayment of the sums lent.
The occurrence of these events provides for some agreed materiality thresholds, exceptions (carve out) and guarantee periods (grace period).

No events of default occurred in the period under review, the Company honored all its obligations under the loan agreements in force from time to time and complied with all the covenants. For more information on borrowings and positive (i.e. obligation to do) and negative (i.e. prohibition to do) are illustrated in the Notes.

### Liquidity risk

As of December 31, 2020, the Company's available cash amounts to €227.0 million, including the €20.2 million invested in short-term financial assets.
The Company expects to be able to generate adequate operating cash flow to meet its requirements and pursue its planned objectives.

Any default or acceleration of payment might give rise to a liquidity risk for the Company, given that its lenders could demand immediate repayment of the debt, but the occurrence of any such event is unlikely.

Despite the profound uncertainty, the Company does not currently believe that it is exposed to a significant level of liquidity risk, also in view of the possibility to obtain further credit from its lenders to support Italo’s liquidity, if necessary, to cope with the COVID-19 emergency.

### Interest rate risk

Italo’s interest rate risk management policies are designed to minimize the risk related to interest rate fluctuations.

As the Company has variable-rate liabilities, it is exposed to interest rate fluctuations. In line with its hedging policy, the Company implemented a new interest rate hedging strategy through Interest Rate Swaps, which can be classified in part as ESG Linked Swaps.

These are not speculative instruments and all of them have a hedged item as underlying. In accounting terms, they are treated as cash flow hedges, in keeping with the risk mitigation strategy adopted by the Company.

### Foreign exchange risk

The Company is not exposed to foreign exchange risk.

### Credit risk

The extension of credit terms is governed by operational practices intended to achieve commercial growth in keeping with the Company's risk appetite. The selection of debtors takes the form of an analysis designed to assess creditworthiness. The constant monitoring of receivables allows the Company to promptly identify any risk of default or deterioration in the creditworthiness of counterparties and to adopt the necessary mitigating actions.

The type of business and the payment methods used guarantee that the Company's overall exposure to credit risk is limited. Specifically:

- payment for the services offered to customers is usually made before the service is used, as tickets are generally purchased before journeys are made;
- the sales channels and related payment methods offered to customers (electronic money, bank transfer, cash) guarantee the certainty of collection at the time of sale, except in the event of credit and debit card fraud.

## EVENTS AFTER DECEMBER 31, 2020

Reference should be made to the section of the notes to the financial statements entitled “Events after December 31, 2020”.

## OUTLOOK

In consideration of the actions taken described above and taking into account the evidence that emerged, the Directors positively assessed the assumption of business continuity as they verified the absence of financial, managerial or other indicators that could signal critical issues regarding the capacity of the Company to meet its obligations in the foreseeable future and in particular in the next 12 months.

However, it should be noted that, given the current situation, the measures in force and the forecasts of the competent authorities, it is not possible to imagine a market recovery, albeit minimal, before the second half of 2021, it being understood that:

- the so-called "third wave" is currently underway,
- the vaccination plan approved by the Italian Government in December is already late due to delays in the vaccine delivery plan,
- the State of Emergency has been extended to 30 April 2021.

At present, among other things, there are still restrictive measures that strongly limit mobility, a strict and extremely limiting constraint that places long-distance transport on AV in a lockdown condition, as well as the obligation to limit the capacity of trains to 50%.

In view of this situation of uncertainty, the Company is continuously monitoring of the main asset and financial indicators, as well as in monitoring and analysis the market in order to adapt its evaluation scenarios and adapt its business to the context.

## OTHER INFORMATION

### Research and development

There was no expenditure on research and development during the year.

### Related party transactions

The Company has adopted regulations aimed at establishing basic principles and defining criteria for the identification of related party transactions in order to provide procedural regulations designed to ensure that such transactions are conducted in compliance with fairness and procedural criteria, and on an arm's length basis.

The Company transactions with related parties during the year are described in the notes to the financial statements.

### Treasury shares and shares/equity interests in parent companies

Pursuant to art. 2428 of the Italian Civil Code, the Company hereby declares that is does not directly or indirectly own treasury shares or shares in parent companies, either through trust companies or proxies.

### Disclosures related to the environment and personnel

The Company recognizes railway safety, the health and safety of workers and environmental protection as key factors of every activity performed in the context in which it operates.

To this end, the Company has adopted an integrated policy on operational safety on the railway, safety at work and environmental protection. This defines the values that the Company, its employees, other staff and all those that, for any reason work on behalf of Italo, whether on an ongoing or on an occasional basis, must comply with.

Italo ensures constant improvements in safety, with reference to the peculiarities of the work involved, its experience and technical standards and in relation to changes in the socio-economic context in which it operates, making choices consistent with universally accepted sustainability principles.

To guarantee the safety of its railway operations, the Company is committed to:
- conducting information and educational initiatives focusing on safety in order to reduce the risk of dangerous behavior on the railway network, aimed at all types of user, in terms of age, nationality, gender and role;
- guaranteeing effective oversight of maintenance activities in keeping with the Common Safety Methods to ensure that they meet the specific requirements and established standards;
- combining aspects related to the human organizational factors in the railway safety management system and in its operational procedures;
- promoting the development of a positive "Safety Culture" in its operations and those of suppliers;
- ensuring that the findings of investigations on incidents and problems are used to review risk assessment and learn from it, to improve safety and adopt corrective or improvement measures.

To guarantee health and safety at work, the Company is committed to:
- pursuing a constant and substantial reduction in occupational injuries, with the long-term objective of achieving "zero injuries";
- pursuing a constant and substantial reduction in the number of accidents at work;

- improving the culture of safety with systematic training and specific information initiatives, designed to enhance the awareness of hazards and risks and knowledge of the techniques involved in preventing injuries and managing emergencies;
- ensuring the effectiveness and efficiency of the occupational health and safety management system, by performing regular audits and implementing the corrective actions recommended following the audits performed;
- advancing the physical, psychological and social well-being of employees through a system based on health prevention and promotion programs, linked to factors of an organizational nature.

Considering the prevention of pollution and environmental protection to be mandatory objectives, to be achieved and improved constantly, the Company is also committed to:
- monitoring the electricity consumption of the Italian fleets of AGV575 and ETR675 through the measurement systems installed on board and considering the steps to minimize them;
- analyzing the impacts and risks of climate change to minimize the exposure and vulnerability of Italo's activities and to improve the ability both to restore functions quickly and effectively in the face of interruptions and to adapt to an extreme climate event;
- reducing the risk of damage to the environment by implementing a system for monitoring Italo's activities across all its operating sites;
- reducing the environmental impact of the activities of Italo's personnel (for example, in managing waste and in consuming electricity, water and paper), including by promoting development of a positive "Sustainability Culture";
- implementing and improving recycling schemes for the waste produced on board Italo's trains and at other sites.

To meet the foregoing commitments, the Company uses the following Management Systems:
- Railway Safety Management System (compliant with Legislative Decree 162/2007);
- Integrated Health and Safety and Environmental Protection Management System (compliant with standards UNI ISO 45001 and UNI ISO 14001.

During 2020:
- Italo was involved in only one major safety-related accident, when a person not authorized to cross the tracks at a duly closed level crossing was hit by a train. The investigation initiated to ascertain the dynamics and cause of the aforementioned accident have ruled out any responsibility for Italo and its staff;
- there were no deaths or serious injuries at work;
- the Company was not held responsible for the occupational illness of employees or former employees and does not have any contingent liability for the occupational illness of employees or former employees or for legal actions brought in relation to harassment,
- there was no legal action brought against the Company in relation to environmental damage.

**Certifications**

Occupational health and safety

The UNI ISO 45001 standard of 2018 "Occupational health and safety management systems – Requirements and guidance for use" is the first international standard to define minimum standards of good practice for the protection of workers worldwide. It establishes a framework for improving safety, reducing risks in the workplace and improving the health and well-being of workers, thus increasing health and safety performance for any organization that chooses to certify its management system under accreditation.

In this way, by regularly monitoring our trains, offices, ticket offices, lounges and training centers located around Italy, Italo guarantees not only the safety of its workers but also that of all those people operating or present at the various sites. This represents further confirmation of Italo's long-standing commitment to continuously improving people's safety and well-being.

As of March 2021, at the end of a transition period of three years from publication, UNI ISO 45001 will replace BS OHSAS 18001 as the only standard for the certification of occupational health and safety management systems.

Italo obtained the first OHSAS 18001 certification, valid for three years, at the end of 2017 and, during 2020, the planned audit was conducted with success, certifying that the adopted system is in compliance with the law and capable of achieving the goals set.

The audit planned for 2020 did not reveal any areas of non-compliance; this clearly indicates the degree of effectiveness achieved by Italo's health and safety management system.

On a statistical level, the number of injuries to Italo's personnel and reported to INAIL in 2020 fell compared with the number registered in 2019. In greater detail, in 2020 there were a total of 9 accidents at work in 2020, while the figure was 23 in 2019, marking a reduction of 60%.

Environmental protection

Italo obtained its first certification in May 2018, valid for three years. During 2020, the second planned audit was conducted with success, certifying that the adopted system is in compliance with the law and capable of achieving the goals set. The auditors did not find any area of non-compliance.

ISO 14001:2015 certification provides confirmation, at international level, of Italo's voluntary and substantial commitment to adopting a system that allows it to control and manage all its activities, in order to minimize the impact of its business processes on natural resources, contributing to their conservation and to protection of the environment.

In this way, by regularly monitoring our trains, offices, ticket offices, lounges and training centers located around Italy, Italo guarantees protection of the environment, underlining once again the Company's long-standing commitment to continuous improvement in relation to the environment.

### The Energy Efficiency Program: White Certificates

The AGV and EVO fleets have been admitted to a program designed to foster energy efficiency supported by the Italian Government and governed, as regards the AGV fleet and the ETR fleet (numbers 1 to 12), by the Ministerial Decree of December 28, 2012 and, as regards the ETR fleet (numbers 13 to 22) by the Ministerial Decree of January 11, 2017.

This program calls for the assignment of White Certificates (or EECs – Energy Efficiency Certificates) which attest to the achievement of energy savings through the application of efficient technologies and systems. The certificates, issued by the GSE, certify the savings obtained by the party admitted to the program.

One certificate is equivalent to the saving of one TOE (ton of oil equivalent), the conventional unit of measure commonly used in energy reports to express all the sources of energy based on their heating value.

The White Certificates assigned by the GSE can be sold either through bilateral contracts or through the market for EECs organized and managed by the GME.
Sales are not subject to limits on time or quantity. The largest buyers are electrical energy distributors which – as an alternative to the energy saving measures to be implemented with final consumers to meet

the goals set in the Ministry for Economic Development's guidelines published each year – can fulfil the obligations provided for by the applicable regulations by purchasing White Certificates.
In the Company's case, the calculation is made on the basis of an algorithm that evaluates, for every period of reference, the energy efficiency of the service considering, among other things, energy consumption, the kilometers travelled and the load factor.

The duration of the program for the AGV fleet was five years, from January 1, 2015 to December 31, 2019. The duration for the ETR fleet (from numbers 1 to 12) is the same, starting from January 1, 2018.
The duration of the program from the ETR fleet (from numbers 13 to 22) is, however, 10 years from May 2019 for ETRs 13 to 17 and from January 2020 for ETRs 18 to 22.
In 2020 requests for the issue of certificates for the ETR project (numbers 1 to 22) were submitted to the GSE in relation to trains in circulation in 2019 and 2020.

### ESG Steering Committee

To ensure a consistent approach to governance and specialist oversight of Environmental Social Governance (ESG) projects, the Company has set up an ESG Steering Committee, with responsibility for defining and promoting Italo's ESG policies and the related governance procedures, ensuring their alignment with the Company's growth plans and strategies.

### Internal control

On 19 February 2020, the Company's Executive Committee approved the Audit Plan for the year 2020. This plan was updated in July 2020, following the impacts deriving from the spread of the COVID-19 pandemic.
In light of the indications deriving from the business risk management process, the Audit Plan identifies the areas of analysis and the types of reviews of business processes and procedures for the periodic assessment of the adequacy of the related internal control activities. The preparation of the Audit Plan takes into account the principles and guidelines issued by the Italian Internal Auditors Association and is shared in advance with the Board of Statutory Auditors.
As of December 31, 2020, the planned audits for 2020 were completed and the report on the last planned audit is being shared.
During 2020, the Enterprise Risk Management process was upgraded through the structured integration of risk analysis and assessments and controls carried out by the various control Functions, for a holistic and efficient management of the different types of risk and related improvement actions.
The results of the Integrated Risk Assessment conducted in the fourth quarter of 2020 provided the inputs for the preparation of the proposed Audit Plan 2021 - 2023 which, at the beginning of 2021, will be presented to the Board of Statutory Auditors and, for approval, to the Executive Committee of the Company.

### Internal Control and Organizational Model as per Legislative Decree 231/2001

In line with the provisions of articles 6 and 7 of Legislative Decree 231 of 2001 (hereinafter "the Decree"), the Organizational, Management and Control Model was adopted by the Company in order to prevent, or in any event reduce to an "acceptable level", the risk of commission of the offences referred to in the legislation by senior management or subordinates.
Italo's Model 231 is updated whenever organizational or regulatory needs require it.
During 2020, with the aim of continuously updating its internal control system for the purposes of the Decree, the Company launched a project aimed at including in its Model 231 the regulatory developments occurred since the last approval of the Model, in particular with the introduction in the Decree of the new article 25-quinquiesdecies.

With Law 157 of December 19, 2019, published on December 14, 2019, article 25-quinquiesdecies was introduced within the Decree, providing for the administrative liability of institutions in case certain tax offenses are committed.
To update Model 231, the Company used the same methodological approach followed in the past. The Model was developed following identification of areas at risk of commission of offenses and any at-risk activities and, therefore, on the basis of the Company's exposure to such risks in the conduct of its business, taking into account the controls used to minimize them.
As a result of the above activities, all the annexes to Model 231 have been updated and a new Special Part "H" relating to tax offenses has been introduced, in the context of which, after a description of the relevant tax offenses, the risk areas were identified on the basis of the results of the risk assessment carried out.
Model 231 was approved by the Board of Directors on July 15, 2020.

The Supervisory Board – established by Board of Directors' resolution – has three members and is responsible for overseeing application of and compliance with the Organizational, Management and Control Model's content and provisions.
On February 21, 2020, the Supervisory Board approved the 2020 Supervisory Plan and then updated it on July 14, 2020, following the spread of the COVID-19 epidemic. During 2020, the Internal Audit department performed the planned activities and periodically reported the results to the Supervisory Board.

## Code of Ethics

The Code of Ethics, forming an integral part of the Organizational, Management and Control Model, represents the set of ethical principles and values that should inspire the conduct and behavior of all the people who operate, internally and externally, within the Company's sphere of action. Aware of the importance of the social impact of its business, the Company aims to be competitive in the marketplace via fair and functional use of its resources, while fully respecting the quality of the environment and the social system, partly with a view to growing its capacity to create value and wellbeing for the communities it serves.

The Code of Ethics, which the Company adopted in 2011 and was recently updated by the Board of Directors at their meeting of July 15, 2020, consists of general principles and behavioral standards. The Code is available on the Company's website and is referred to in the various agreements entered into by Italo.

## ALTERNATIVE PERFORMANCE INDICATORS

This section describes the key financial and non-financial indicators used by management to monitor the Company's operating performance and financial condition (hereinafter "Alternative Performance Indicators" or "APIs"). These differ from those defined or required by the applicable accounting standards. The Company deems the information provided by APIs to be an additional important metric for evaluating performance, as it makes it possible to closely monitor its operating results and financial position, and represents tools that help management to identify operational trends and to take decisions on investment, the allocation of resources and other operational decisions.
The Company believes that:

- EBITDA is, in addition to the operating result, an indicator that is useful in assessing the Company's operating performance and provided information on its ability to service its debt;
- the EBITDA margin is a useful indicator of the Company's ability to generate a profit on revenue. In fact, the EBITDA margin represents the proportion of revenue that becomes EBITDA;
- Net Working Capital enables management to assess whether or not the Company has sufficient current assets to meet its short-term trading liabilities and, together with net non-current assets and net invested capital, to assess the balance between the structure of investments on the one hand and that of its sources of financing on the other;
- the ratio of Net Debt to EBITDA is a useful indication of the Company's ability to service its financial debt.

To correctly interpret the APIs used by the Company, it should be noted that they are derived from the financial statements and from calculations performed on the basis of data available in the accounting records.
APIs are not indicators measured in accordance with the accounting standards used in preparation of the Company's financial statements and, even though they are derived from the financial statements, they are not audited.
APIs should not, therefore, be regarded as a substitute for indicators calculated in accordance with the applicable accounting standards. In addition, given that they are unrelated to the applicable accounting standards, the APIs used by the Company are calculated using methods that may not be consistent and comparable with those adopted by other companies.
The alternative performance indicators used are illustrated below.

**EBITDA,** calculated as follows:

| (€m) | 2020 | 2019 |
|---|---|---|
| **Profit for the year** | **31.9** | **151.4** |
| Income tax | 3.7 | 48.3 |
| Financial expenses | 16.3 | 36.8 |
| (Financial income) | (0.2) | (0.8) |
| Losses (gains) on disposal of non-current assets | 0.0 | 0.1 |
| Depreciation, amortization and impairments | 60.1 | 56.4 |
| **EBITDA** | **111.8** | **292.2** |

**EBITDA margin,** calculated as the ratio of EBITDA to "Total operating revenue".

**Organic EBITDA,** calculated as follows:

| (€m) | 2020 | 2019 |
|---|---|---|
| **EBITDA** | **111.8** | **292.2** |
| Revenues from White Certificates | (0.7) | (29.8) |
| **Organic EBITDA** | **111.1** | **262.4** |

**Organic EBITDA margin,** calculated as the ratio of "Organic EBITDA" to "Total operating revenue", after deducting revenues from White Certificates.

**EBIT**, calculated as follows:

| (€m) | 2020 | 2019 |
|---|---|---|
| **Profit for the year** | **31.9** | **151.4** |
| Income tax | 3.7 | 48.3 |
| Financial income | (0.2) | (0.8) |
| Financial expenses | 16.3 | 36.8 |
| **EBIT** | **51.7** | **235.7** |

**EBIT margin,** calculated as the ratio of EBIT to "Total operating revenue".

**EBT**, calculated as follows:

| (€m) | 2020 | 2019 |
|---|---|---|
| **Profit for the year** | **31.9** | **151.4** |
| Income tax | 3.7 | 48.3 |
| **EBT** | **35.6** | **199.7** |

**EBT margin,** calculated as the ratio of EBT to "Total operating revenue".

**Profit margin**, calculated as the ratio of "Profit for the year" to "Total operating revenue".

**Net Working Capital**, calculated as follows:

| (€m) | 2020 | 2019 |
|---|---|---|
| Inventories | 0.8 | 10.1 |
| Trade receivables | 2.4 | 8.3 |
| Tax receivables | - | - |
| Current asset for Contribution for Covid-19 | 18.8 | - |
| Other current assets | 39.6 | 31.9 |
| Trade payables | (145.3) | (188.8) |
| Current tax liabilities | (7.6) | (14.2) |
| Deferred revenues from transport services | (34.6) | (44.6) |
| Other current liabilities | (28.2) | (24.8) |
| **Net Working Capital** | **(154.0)** | **(222.1)** |

**Non-current assets**, calculated as follows.

| (€m) | 2020 | 2019 |
|---|---|---|
| Goodwill | 1,683.8 | 1,683.8 |
| Intangible assets | 108.8 | 115.5 |
| Property, plant and equipment | 970.1 | 946.5 |
| Right-of-use assets | 46.8 | 52.5 |
| Non-current asset for Contribution for Covid-19 | 122.5 | - |
| Deferred tax assets | 23.4 | 19.5 |
| **Non-current assets** | **2,955.3** | **2,817.8** |

**Net Non-current Assets**, calculated as follows:

| (€m) | 2020 | 2019 |
|---|---|---|
| Non-current Assets | 2,955.3 | 2,817.8 |
| Employee benefits | (20.4) | (16.9) |
| Deferred tax liabilities | (27.5) | (30.3) |
| Non-current provisions | (33.7) | (4.1) |
| **Net Non-current Assets** | **2,873.7** | **2,766.6** |

**Net Invested Capital**, calculated as follows.

| (€m) | 2020 | 2019 |
|---|---|---|
| Net Working Capital | (154.0) | (222.1) |
| Net Non-current Assets | 2,873.7 | 2,766.6 |
| **Net Invested Capital** | **2,719.8** | **2,544.4** |

**Liquidity**, calculated as follows:

| (€m) | 2020 | 2019 |
|---|---|---|
| Short-term bank deposits | - | - |
| Cash and cash equivalents | 206.8 | 93.2 |
| **Total Liquidity** | **206.8** | **93.2** |

**Gross Debt**, calculated as follows:

| (€m) | 2020 | 2019 |
|---|---|---|
| Current borrowings | 3.9 | 2.4 |
| Non-current borrowings | 1.097.3 | 897.8 |
| **Current and non-current borrowings** | **1.101.2** | **900.2** |
| Current lease liabilities | 7.7 | 5.8 |
| Non-current lease liabilities | 43.9 | 48.2 |
| **Current and non-current lease liabilities** | **51.6** | **54.0** |
| **Gross Debt** | **1.152.8** | **954.2** |

**Net Debt**, calculated as follows:

| (€m) | 2020 | 2019 |
|---|---|---|
| A. Cash | 1.1 | 3.9 |
| B. Other cash equivalents | 205.7 | 89.3 |
| C. Securities held for trading | - | - |
| **D. Liquidity (A + B + C)** | **206.8** | **93.2** |
| **E. Current financial assets** | **20.2** | **80.2** |
| F. Current bank borrowings | - | - |
| G. Current portion of non-current borrowings | 3.9 | 2.4 |
| H. Other current financial liabilities | 7.7 | 5.8 |
| **I. Current debt (F + G + H)** | **11.6** | **8.2** |
| **J. Net current debt (I - E - D)** | **(215.4)** | **(165.1)** |
| K. Non-current bank borrowings | 1,097.3 | 897.8 |
| L. Notes issued | - | - |
| M. Other non-current liabilities | 43.9 | 48.2 |
| **N. Non-current debt (K + L + M)** | **1.141.3** | **946.0** |
| **O. Net debt (J + N)** | **925.8** | **780.8** |

**Net Debt/Equity**, calculated as follows:

| (€m) | 2020 | 2019 |
|---|---|---|
| Net Debt | 925.8 | 780.8 |
| Equity | 1,793.9 | 1,763.6 |
| **Net Debt / Equity** | **0.5x** | **0.4x** |

**Net Debt /EBITDA,** calculated as follows:

| (€m) | 2020 | 2019 |
|---|---|---|
| Net Debt | 925.8 | 780.8 |
| EBITDA | 111.8 | 292.2 |
| **Net Debt / EBITDA** | **8.3x** | **2.7x** |

The impact on key indicators of first-time adoption of IFRS 16 is shown below.

| (€m) | 2020 | IFRS 16 | 2020 Adj |
|---|---|---|---|
| **EBITDA** | 111.8 | (6.8) | 105.0 |
| **EBIT** | 51.7 | (1.1) | 50.6 |
| **EBT** | 35.6 | 0.8 | 36.4 |
| **NET DEBT** | 925.8 | (51.6) | 874.2 |

# PROPOSED APPROVAL OF FINANCIAL STATEMENTS AND APPROPRIATION OF PROFIT

Dear Shareholders,

Your Company's Board of Directors has convened this Ordinary General Meeting of shareholders to recommend that you approve the financial statements of Italo – Nuovo Trasporto Viaggiatori SpA as of and for the year ended December 31, 2020 and to the proposed appropriation of profit.

The Financial Statement as of **December 31, 2020** reports a **profit for the year of 31,867,079 Eur**, which is proposed to entirely allocate to Retained Earnings.

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With approval of the financial statements as of and for the year ended December 31, 2020 the term of office of the Board of Directors and the Board of Statutory Auditors will expire. We therefore ask you to elect a new Board of Directors and a new Board of Statutory Auditors.

Rome, April 26, 2021

For the Board of Directors

Chairman

Luca Cordero di Montezemolo

# Financial Statements 2020

# INCOME STATEMENT

| (€) | Note | 2020 | 2019 |
|---|---|---|---|
| Revenue from transport services | 7 | 262,914,026 | 680,565,276 |
| Other operating revenues | 8 | 150,569,004 | 34,734,807 |
| **Total operating revenues** | | **413,483,030** | **715,300,083** |
| Access and electricity costs | 9 | (72,278,970) | (161,587,758) |
| Train management costs | 10 | (66,903,787) | (91,991,675) |
| Personnel costs | 11 | (63,769,625) | (69,445,177) |
| Other operating costs | 12 | (98,709,295) | (100,079,705) |
| **Operating profit (loss) before depreciation, amortization, impairments and (losses) gains on disposal of non-current assets** | | **111,821,353** | **292,195,768** |
| Depreciation, amortization and impairments | 13 | (60,121,716) | (56,423,449) |
| (Losses) gains on disposal of non-current assets | 14 | (33,482) | (116,667) |
| **Operating profit (loss)** | | **51,666,155** | **235,655,652** |
| Financial income | 15 | 174,833 | 820,455 |
| Financial expenses | 15 | (16,253,024) | (36,792,732) |
| **Profit (loss) before tax** | | **35,587,964** | **199,683,375** |
| Income tax | 16 | (3,720,885) | (48,263,118) |
| **Profit (loss) for the year** | | **31,867,079** | **151,420,257** |

## STATEMENT OF COMPREHENSIVE INCOME

| (€) | Note | 2020 | 2019 |
|---|---|---|---|
| **Profit (loss) for the year** | | **31,867,079** | **151,420,257** |
| Profit on cash flow hedges | 29 | (2,178,896) | 2,160,004 |
| Profit on cash flow hedges - taxation | 29 | 522,935 | (518,401) |
| **Other components of comprehensive income that will be reclassified to profit or loss in future years** | | **(1,655,961)** | **1,641,603** |
| Actuarial (loss) / profit for employee benefits | 29, 33 | 125,806 | (1,308,745) |
| Actuarial (loss) / profit for employee benefits - taxation | 29 | (30,193) | 314,099 |
| **Other components of comprehensive income that will not be recycled to profit or loss in future years** | | **95,613** | **(994,646)** |
| **Total other components of comprehensive income** | | **(1,560,348)** | **646,957** |
| **Comprehensive income (loss) for the year** | | **30,306,731** | **152,067,214** |

## STATEMENT OF FINANCIAL POSITION

| (€) | Note | 2020 | 2019 |
|---|---|---|---|
| Goodwill | 17 | 1,683,797,961 | 1,683,797,961 |
| Intangible assets | 18 | 108,815,198 | 115,448,392 |
| Property, plant and equipment | 19 | 970,094,241 | 946,448,789 |
| Right-of use assets | 20 | 46,799,193 | 52,533,059 |
| Deferred tax assets | 21 | 23,385,485 | 19,533,435 |
| Non-current asset for Contribution for COVID-19 | 22 | 122,452,072 | - |
| **Total non-current assets** | | **2,955,344,150** | **2,817,761,636** |
| Inventories | 23 | 759,892 | 10,145,787 |
| Trade receivables | 24 | 2,415,991 | 8,261,756 |
| Current tax receivables | 25 | 18,912 | - |
| Current asset for Contribution for COVID-19 | 22 | 18,793,648 | - |
| Other current assets | 26 | 39,619,475 | 31,943,578 |
| Current financial assets | 27 | 20,212,824 | 80,187,753 |
| Cash and cash equivalents | 28 | 206,770,653 | 93,206,101 |
| **Total current assets** | | **288,591,395** | **223,744,975** |
| **Total assets** | | **3,243,935,545** | **3,041,506,611** |
| Share capital | | 60,017,725 | 60,017,725 |
| Share premium reserve | | 2,672 | 2,672 |
| Other reserves | | 1,551,511,656 | 1,553,167,617 |
| Retained earnings | | 182,385,631 | 150,422,939 |
| **Total equity** | 29 | **1,793,917,684** | **1,763,610,953** |
| Non-current borrowings | 30 | 1,097,349,355 | 897,791,129 |
| Non-current lease liabilities | 32 | 43,907,921 | 48,184,666 |
| Employee benefits | 33 | 20,396,811 | 16,886,706 |
| Deferred tax liabilities | 34 | 27,544,659 | 30,254,912 |
| Non-current provisions | 35 | 33,668,676 | 4,064,838 |
| **Total non-current liabilities** | | **1,222,867,422** | **997,182,251** |
| Current borrowings | 30 | 3,875,432 | 2,418,285 |
| Current lease liabilities | 32 | 7,694,586 | 5,826,314 |
| Trade payables | 36 | 145,298,109 | 188,804,299 |
| Deferred revenues from transport services | 37 | 34,555,290 | 44,585,304 |
| Current tax payables | 25 | 7,560,245 | 14,233,337 |
| Other current liabilities | 38 | 28,166,777 | 24,845,868 |
| **Total current liabilities** | | **227,150,439** | **280,713,407** |
| **Total liabilities** | | **1,450,017,861** | **1,277,895,658** |
| **Total equity and liabilities** | | **3,243,935,545** | **3,041,506,611** |

## STATEMENT OF CHANGES IN EQUITY

| *(€)* | Share capital | Share premium reserve | Other reserves | Retained earnings | Total Equity |
|---|---|---|---|---|---|
| As of January 1, 2019 | 60,017,725 | 49,615,855 | 21,644,947 | 117,345,065 | 248,623,592 |
| Profit for the period | - | - | - | 151,420,257 | 151,420,257 |
| Cash flow hedge reserve (Note 29) | - | - | 1,641,603 | - | 1,641,603 |
| Actuarial gain (loss) on employee benefits (Note 29) | - | - | - | (994,646) | (994,646) |
| Comprehensive income (loss) for the year | - | - | 1,641,603 | 150,425,611 | 152,067,214 |
| Reverse merger | - | - | 1,766,164,742 | - | 1,766,164,742 |
| Dividends | - | (49,613,183) | (236,283,676) | (117,347,738) | (403,244,597) |
| As of December 31, 2019 | 60,017,725 | 2,672 | 1,553,167,617 | 150,422,939 | 1,763,610,953 |
| Profit for the period | - | - | - | 31,867,079 | 31,867,079 |
| Cash flow hedge reserve (Note 29) | - | - | (1,655,961) | - | (1,655,961) |
| Actuarial gain (loss) on employee benefits (Note 29) | - | - | - | 95,613 | 95,613 |
| Comprehensive income (loss) for the year | - | - | (1,655,961) | 31,962,692 | 30,306,731 |
| As of December 31, 2020 | 60,017,725 | 2,672 | 1,551,511,656 | 182,385,631 | 1,793,917,684 |

# STATEMENT OF CASH FLOWS

| *(€)* | Note | 2020 | 2019 |
|---|---|---|---|
| *Profit (loss) before tax* | | *35,587,964* | *199,683,375* |
| *Adjustments for:* | | | |
| Depreciation, amortization and impairments | 13 | 60,121,716 | 56,423,449 |
| (Releases from) / accruals for provisions for risks and charges | 24, 35 | 29,943,694 | 953,222 |
| Net financial expenses/(income) | 15 | 16,078,191 | 35,972,277 |
| Other non-monetary items[3] | 8,12 | (136,557,434) | 3,709,621 |
| Payment of employee benefits | 33 | (708,972) | (6,280,682) |
| Interest paid | | (12,786,942) | (20,606,670) |
| Interest paid on leases | | (1,222,798) | (1,575,558) |
| Tax paid | | (16,425,964) | (14,988,560) |
| Interest collected | | 258,841 | 152,518 |
| Cash flow generated by/(used in) operating activities before changes in net working capital | | (25,711,704) | 253,442,992 |
| Change in inventories | 23 | 9,385,895 | (2,712,964) |
| Change in trade receivables | 24 | 5,815,279 | (1,180,608) |
| Change in trade payables | 36 | (47,034,918) | 23,111,608 |
| Change in other assets/liabilities | 25,26,37,38 | (18,449,006) | 10,877,711 |
| Cash flow generated by/(used in) operating activities (A) | | (75,994,454) | 283,538,739 |
| Investment in property, plant and equipment | 19 | (61,486,310) | (149,384,228) |
| Investment in intangible assets | 18 | (5,927,712) | (6,455,553) |
| Disposals of property, plant and equipment and intangible assets | | 18,500 | 74,070 |
| Investment in current financial assets | 27 | - | (100,000,000) |
| Divestment of current financial assets | 27 | 60,000,000 | 20,000,000 |
| Cash flow generated by/(used in) investing activities (B) | | (7,395,522) | (235,765,711) |
| New long-term borrowings | 30 | 200,000,000 | 1,047,791,129 |
| Repayment of long-term borrowings | | - | (880,000,000) |
| Financial expenses on early repayment of borrowings | | - | (5,070,100) |
| Repayment of lease liabilities | 32 | (3,045,472) | (4,507,734) |
| Dividends paid | | - | (401,855,169) |
| Cash flow generated by/(used in) financing activities (C) | | 196,954,528 | (243,641,874) |
| Total change in cash and cash equivalents (A + B + C) | | 113,564,552 | (195,868,846) |
| Cash and cash equivalents at beginning of year | | 93,206,101 | 289,044,460 |
| Cash and cash equivalents resulting from the reverse merger | | - | 30,487 |
| Cash and cash equivalents at the end of the year | | 206,770,653 | 93,206,101 |

[3] As at December 31, 2020, other non-monetary items include the Covid-19 Grant (Law Decree no. 34 of 19 May 2020) recognized at its fair value and not yet collected at the reporting date.

# Notes

# NOTES TO THE FINANCIAL STATEMENTS

## 1. General information

Italo - Nuovo Trasporto Viaggiatori SpA (hereinafter "Italo" or the "Company") is a joint-stock company, with registered office in Rome, Viale del Policlinico no. 149/B, structured in accordance with the legislation of the Italian Republic. ITALO is the first and only private Italian operator on the high-speed rail network.

## 2. Reporting standards

These financial statements have been prepared in compliance with International Financial Reporting Standards (hereinafter "IFRS") issued by the International Accounting Standards Board (hereinafter "IASB") and adopted by the European Commission according to the procedure set forth in art. 6 of (EC) Regulation no. 1606/2002 of the European Parliament and Council of July 19, 2002. IFRS also cover all international accounting standards ("IAS") and all interpretations of the International Financial Reporting Standard Interpretations Committee, previously called the "Standard Interpretations Committee" (SIC).

IFRS have been applied consistently and voluntarily to all of the periods included in this document, taking account also of the view of highly qualified scholars in this field. Any future orientations and updates to interpretations will be reflected in future years, in accordance with the procedures required on each occasion by the applicable standards.

The financial statement schedules and the related classification criteria adopted by the Company are illustrated below, in accordance with the options set out in IAS 1 – Presentation of Financial Statements:

- the Statement of financial position has been prepared, classifying assets and liabilities according to the "current and non-current" criterion;
- the Income statement has been prepared, classifying operating costs by nature;
- the Statement of comprehensive income is presented separately to the income statement and includes, in addition to the profit or loss for the year resulting from the income statement, the income and the charges that by express provision of IFRS are recognized directly in equity;
- the Statement of changes in equity shows the comprehensive income (loss) for the year, transactions with shareholders and other changes in equity;
- the Statement of cash flows is prepared according to the "indirect method", by adjusting the profit or loss for the year on the basis of non-monetary components.

This structure best reflects the elements that have led to the Company's profit or loss as well as its financial and equity structure.

The Financial Statements have been prepared by applying the historical cost method, also considering, where appropriate, value adjustments, with the exception of financial statements items which, according to IFRS, must be recognized at fair value, as indicated in the accounting policies and without prejudice to cases in which IFRS provisions permit a different accounting policy.

All amounts in these financial statements and the accompanying notes are in euros.

**Going concern**

As described extensively in the Report on operations, to which reference is made for more information, 2020 was characterized by the health emergency resulting from the worldwide spread of the COVID-19 virus. Since the beginning of the year, the pandemic put strong pressure on Italy's health system, prompting the government authorities to enact a series of measures to restrict mobility, so as to limit the risk of spreading the virus among the population. As a result, the COVID-19 emergency has had disruptive effects on the regular and ordinary performance of business activities. Passenger transport, particularly the high-speed sector, also suffered the consequences of the pandemic.

The Company, in this turbulent context, reacted by taking immediate measures to mitigate the effects of events of an extraordinary nature that occurred progressively during the year. It implemented numerous actions, in operational and financial terms, to increase resilience to the new conditions, leveraging a flexible business model capable of mitigating the downturn and its managerial skills with the support of all the shareholder.

From an operational standpoint, to ensure the effectiveness, efficiency and speed of implementation of Company initiatives aimed at overcoming the COVID-19 emergency, the Company has set up working groups to:

- carry out initiatives intended to keep in contact with customers and stakeholders to preserve continuity in relationships;
- plan the operational and commercial reactivation process of the company;
- safeguard and enhance the relationship with employees, developing appropriate information, dialogue and sharing initiatives, and ensuring the constant involvement and alignment of people in view of the turnaround;
- prepare scenario simulation models in order to dynamically test the economic and financial adequacy of the activities undertaken.

Regarding the financial aspects, reference is made to the extensive description of the procedures through which the Company does (and did) manage its financial risks in note 5 “Financial risk management”, with particular reference to liquidity risk.

Based on the actions undertaken and the evidence emerged, the Directors prepared the Financial Statements on a going concern basis, insofar as the Directors have confirmed that there are no indicators - financial, operational or of any other nature - that could point to a difficulty in the Company’s ability to meet its obligations in the foreseeable future and in particular in the next twelve months

## 3. Accounting policies

The most important accounting standards and policies adopted in the preparation of the financial statements are briefly illustrated below.

**Non-current assets**

*(i) Goodwill*

The Goodwill recognition originates from the reverse merger whereby Italo acquired its parent company, GIP III Neptune SpA, which carried this intangible on its Balance Sheet as of December 31, 2018 as a result of the completion of the Purchase Price Allocation (or PPA) process related to the Italo shares.
The Goodwill resulting from acquisition is determined as the difference between the cost of the business combination and the acquirer’s interest in the difference between the assets acquired and liabilities assumed measured at fair value.

*(ii) Intangible assets*

Intangible assets are assets without physical substance, controlled by the Company and able to produce future economic benefits, as well as goodwill arising on an acquisition of a business. The definition of an intangible asset requires it to be identifiable to distinguish it from goodwill. This requirement is usually met when:

- the intangible assets arise from a legal or contractual right; or
- the assets are separable, or may be sold, transferred, rented or exchanged, either individually or as an integral part of other assets.

Intangible assets are recognized at purchase or production cost including directly attributable ancillary charges to bring it to working condition. No revaluations are permitted, even for the application of specific Italian laws.
Intangible assets with a defined useful life are amortized systematically over the asset's useful life, meaning the estimated period for which the assets will be used by the Company.

*Trademark*
The Trademark recognition originates from the reverse merger whereby Italo acquired its parent company, GIP III Neptune SpA, which carried this intangible on its Balance Sheet as of December 31, 2018 as a result of the completion of the Purchase Price Allocation (or PPA) process related to the Italo shares.
The asset refers to the fair value of the Italo brand, determined by estimating fair value, with the assistance of an independent expert, on the basis of estimates based on assumptions deemed to be reasonable and realistic, and based on the information available at the acquisition date. The choice of method used to estimate the value of the trademark was made taking into account the purpose of the transaction and the nature of the intangible asset itself. In particular, in line with expert opinion and generally accepted practice, the value of the trademark owned by Italo was determined by using the income method, discounting the future economic benefits generated by the intangible asset being measured. The income method was applied using the discounted value of expected royalty income.

*Customer Relationships*
The recognition of Customer relationships originates from the reverse merger whereby Italo acquired its parent company, GIP III Neptune SpA, which carried this intangible on its Balance Sheet as of December 31, 2018 as a result of the completion of the Purchase Price Allocation (or PPA) process related to the Italo shares. Recognition was based on measurement of discounted future income on the basis of the expected residual margin to be earned on the Company's customer base. Fair value measurement of customer relationships was based on discounted future cash flows.

The estimated useful lives of our primary intangible assets are as follows:

| Intangible asset | Useful life in years |
|---|---|
| Software | 3-5 |
| Railway license and safety certificates | 5 |
| Trademark | 10 |
| Customer relationships | 14 |

*(iii) Property, plant and equipment*

Property, plant and equipment are recognized at cost and recorded at the purchase price or at the cost of production including directly attributable ancillary charges to bring it to working condition, after deducting any impairments. No revaluations of property, plant and equipment are permitted, even for the application of specific laws.
Leasehold improvements, upgrades and transformations are capitalized to the applicable asset when it is likely that they will increase the future economic benefits expected from the use or sale of the asset. They are:

- recorded as an increase to the asset in question;
- depreciated over the useful life of the improvements made or the remaining term of the related lease contract, whichever is shorter.

When measuring the term of the lease contract, the possibility of renewing it must be considered, in the event that this is reasonably certain and therefore dependent on the will of the lessee.

Property, plant and equipment is depreciated on a straight-line basis over the asset's useful life, meaning the estimated period for which the asset will be used by the Company. Said period starts from the month in which the asset starts to be used or could have been used. When the item of property, plant and equipment is comprised of a number of significant components with different useful lives, depreciation is performed for each component separately. The amount to be depreciated is represented by the recognition amount less the presumed residual value at the end of its useful life. Land, even if purchased jointly with a building, fine art collections, as well as property, plant and equipment held for sale are not depreciated. Any changes to the depreciation plan resulting from a revision of the useful life of the property, plant and equipment, of the residual value or the manner in which the economic benefits of the asset are obtained, are recognized prospectively.

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

| Property, plant and equipment | Useful life in years |
|---|---|
| AGV/EVO rolling stock | 30 |
| Buildings | 10-30 |
| Other property, plant and equipment | 5-10 |
| Onboard telecommunications | 5 |
| Seat upholstery | 6 |
| Investments at railway stations and depots | Base on the lease term |

*(iv) Financial expenses capitalized*

The financial expenses incurred to purchase, build or produce an asset that justify capitalization are included in the cost of the same asset. Such financial expenses are capitalized as part of the cost of the asset if it is likely that they will lead to future economic benefits for the Company and if they can be reliably calculated.
The capitalization of said financial expenses starts from the moment in which the Company satisfies the following conditions:

- it has incurred the costs relating to the asset in question (costs for the purchase/production of the asset that led to the need to take out a loan);
- the activities required to prepare the asset for the use envisaged or for its sale are in progress.

The Company must suspend the capitalization of financial expenses:

- during prolonged periods in which the development/production of the asset that justifies its capitalization is suspended;
- when all of the operations required to render the asset (that justify said capitalization) in a condition to guarantee the envisaged use or the sale, have been substantially completed.

*(v) Right-of-use assets and current and non-current lease liabilities*

Finance and operating leases are accounted for in accordance with IFRS 16, which requires the lessee to recognize the leased item as an asset and a matching financial liability initially measured at the present value of future lease payments. The depreciation of right-of-use assets and interest on the lease liability are recognized in the income statement.
The Company, acting in accordance with the standard, does not recognize arrangements where the underlying asset is of low value (assets with a value lower than €5,000) or leases contracts with terms equal to or less than 12 months as a lease.

Contracts for which the exemption has been applied fall mainly within the following categories:

- computers, phones and tablets;
- printers;
- other electronic devices.

The Company has determined the duration of the lease as the non-cancelable period of the contract, together with periods covered by an option to extend and terminate the contract, if it is reasonably certain that these options will be exercised.
The Company uses its judgment in assessing whether the extension option is reasonably certain.
In carrying out this assessment, the Company takes into account all relevant factors that involve an economic incentive in the exercise of the extension option.

After the commencement date, the Company must reassess the carrying amount of the lease liability to take into account any new assessment or lease modifications. This reassessment may concern:

- the duration of the lease upon the occurrence of a significant event or significant change in circumstances within the Company's control and has an impact on the reasonable certainty of exercising an option not previously included in its assessment of the duration of the lease or of not exercising an option previously included in its assessment of the duration of the lease (for example, a change in the Company strategy) or as a result of amendments to contractual terms;
- the contractually agreed-upon payment.

The Company has included the extension period in the duration of the lease with reference to the leases of the Company's headquarters and the stations and maintenance and formation plants of the fleet (where applicable) as they are of significant importance for its activities. Such leases have a short non-cancelable period and the absence of a promptly available replacement would have a negative effect on the Company's business activities.

*(vi) Impairment of non-financial assets*

At the end of each reporting period, non-financial assets are analyzed to assess whether there is any indication that they may be impaired. If events occur that result in the presumed impairment of the non-financial assets, their recoverability is assessed by comparing the carrying amount with the related recoverable amount represented by the higher of the asset's fair value less costs of disposal and its value in use. The value in use is calculated on the basis of reasonable and demonstrable assumptions that represent the best estimate of the future cash flows that will be generated during the residual useful life of the asset, giving due importance to external indicators. When the recoverable amount of a single asset cannot be estimated, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. More specifically, the calculation is made for a single asset or for the smallest identifiable set of assets that generate autonomous incoming cash flows resulting from its use on a continuous basis (cash generating unit – "CGU"). The impairment is recognized in the income statement. If the reasons for the impairment no longer apply, the value of the assets is reinstated and the adjustment is recorded in the income statement as a write-back (reversal), except for goodwill. The reversal is made at the lower of the recoverable amount and the carrying amount before the impairments made and reduced by the charges for amortization that would have been made if no impairment loss been recognized.

**Current assets**

*(i) Inventories*

Final inventories of finished products are recognized at the lower of purchase cost and net realizable value represented by the amount that the Company expects to obtain from their sale during the normal course of business, net of ancillary sales costs. The cost of inventories is determined by applying the weighted average cost method, written down on the basis of market trends and the presumed lack of use of the inventories linked to obsolete or slow-moving goods.

*White certificates*

White certificates (Energy Efficiency Certificates or EECs) are awarded by the Ministry of Infrastructure and Transport (currently Ministry of sustainable infrastructures and mobility), through the Gestore dei Servizi Energetici (Energy Services Operator) based on the achievement of energy savings through the application of efficient technologies and systems.

In the period between the Company acquiring the right to the certificates by providing the service and the effective issue of the EECs on completion of the certification process and their subsequent sale, revenues from EECs are recognized in the Company's financial statements on an accruals basis, based on the best estimate of the number of EECs to be issued, in proportion to the estimated saving of TOE (Tons of Oil Equivalent) recorded during the period. They are measured at the weighted average market value for the energy year (as defined by the Italian Energy Services Operator) on the reporting date for the financial statements and recognized in warehouse inventories until their sale. Given the timing difference between the Company acquiring the right to receive the certificates (the end of each period in which the Company provides the service) and their effective issue to the recipient (following certification by the Italian Energy Services Operator) and sale, the Company recognizes revenues in its accounts based on the estimated number of EECs it believes it has the right to receive at the end of each period, measured at the weighted average market value for the energy year available on the reporting date. When the certificates are effectively sold, the Company then recognizes any loss or gain with respect to the previously estimated amount.

*(ii) Grants*

Grants, including non-monetary grants measured at fair value, are recognized when there is reasonable certainty that they will be received and that the Company will meet all of the conditions required for their disbursement.

*(iii) Receivables and current financial assets*

Trade receivables, other receivables and current assets and current financial assets are held within the context of a business model where contractual cash flows collected represent solely of payments of principal and interest accrued thereon. Consequently, they are initially recognized at fair value adjusted by directly attributable transaction costs and subsequently recognized at amortized cost on the basis of the effective interest rate method (namely the interest rate that, at the time of initial recognition, renders the present value of future cash flows and the carrying amount equal), appropriately adjusted to take any write-downs into account, through the recognition of a provision for doubtful accounts. Receivables due from customers and other financial receivables are included in current assets, with the exception of those whose contractual expiry date is over twelve months from the reporting date, which are classified as non-current assets.

Financial assets, including, among other things, bank deposits and other financial instruments that do not qualify as cash equivalents, are classified in the following categories in accordance with IFRS 9: financial assets at amortized cost; financial assets at fair value through other comprehensive income; financial assets at fair value through profit or loss.
Classification within the above categories is based on the business model used to manage the financial asset and the nature of the contractual cash flows generated by the asset.

*(iv) Impairment of financial assets*

At the end of each reporting period, all financial assets, other than those measured at fair value through profit or loss are analyzed to assess whether there is objective evidence that they may be impaired. IFRS 9 requires the application of a model based on expected credit loss. The Company uses the simplified approach to estimate credit losses throughout the life of the receivables and takes into account its historical credit loss experience, as adjusted to reflect current conditions and estimated future economic conditions. If there is evidence of impairment, the loss is accounted for as a financial expense.

The expected credit loss model requires the immediate recognition of credit losses expected throughout the life of the financial asset, without the need to wait for the materialization of a trigger event.

For financial assets recognized at amortized cost, when an impairment loss has been identified, the value of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted on the basis of the original effective interest rate. This amount is recognized in the income statement.

*(v) Derecognition of financial assets*

Financial assets are derecognized when one of the following conditions is met:

- the contractual right to receive the cash flows from the asset has expired;
- the Company has substantially transferred all of the risks and rewards related to the asset, transferring its rights to receive the cash flows from the asset or assuming a contractual obligation to pass the cash flows received to one or more beneficiaries by virtue of an agreement that meets the requirements set out in IFRS 9 (pass through test);
- the Company has not transferred nor substantially maintained all of the risks and rewards related to the financial asset, but has transferred control.

*(vi) Offsetting financial assets and liabilities*

The Company offsets financial assets and liabilities if and only if:

- there is a legally exercisable right to offset the amounts recognized in the financial statements;
- there is an intention either to offset or to dispose of the asset and settle the liability at the same time.

*(vii) Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, demand deposits, together with financial assets whose maturity from the date of acquisition is equal to or less than three months, that can readily be convertible into cash, and that are subject to an insignificant risk of changes in value. The components of cash and cash equivalents are measured at fair value. Term deposits are not included in cash and cash equivalents as they do not meet the requirements of IFRS.

Short-term bank deposits whose original maturity is equal to or more than three months, which do not meet the requirements of IAS 7, are included separately in the statement of financial position as part of total current assets.
Collection transactions are recorded by date of the bank transaction, while payment operations also take into account the order date.

**Current and non-current liabilities**

*(i) Financial liabilities and trade payables*

Financial liabilities and trade payables are recognized when the Company becomes a party to the related contractual clauses and are initially recognized at fair value, adjusted by any directly attributable transaction costs.
They are later recognized at amortized cost using the effective interest rate method.

*(ii) Derecognition of financial liabilities*

Financial liabilities are derecognized when they are extinguished, namely when the contractual obligation has been met, cancelled or prescribed, or when they are sold with a substantial transfer of all the risks and rewards of their ownership. An exchange of debt instruments with substantially different contractual terms, must be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial variation of the contractual terms of an existing financial liability must be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

*(iii) Provisions for risks and charges*

Provisions for risks and charges regard costs and charges of a specific nature, whose existence is certain or likely, for which at the closing date of the reference period, the amount and/or date of occurrence have not been established.
Allocations to these provisions are recognized when:

- the existence of a current, legal or constructive obligation, resulting from a past event, is likely;
- it is likely that the obligation will be fulfilled against payment;
- the amount of the obligation can be reliably estimated.

Provisions are recognized at a value that represents the best estimate of the amount that the Company should reasonably pay to extinguish the obligation or to transfer it to third parties on the closing date of the period. When the financial impact of the passing of time is significant and the payment dates of the obligations can be reliably estimated, the allocation is determined by discounting the expected cash flows taking the risks associated with the obligation into account; the increase of the provision related to the passing of time is recognized in the income statement under “Financial expenses”.
The costs that the Company expects to incur to implement restructuring programs are recognized in the year in which the program is formerly defined and the interested parties have a valid expectation that the restructuring will take place.
Provisions are updated periodically to reflect changes in cost estimates, realization timing and the discounting rate; revised estimates are recorded under the same income statement item that previously covered the allocation. When the liability relates to tangible assets, the changes in estimates of the provisions are recognized in a balancing entry to the asset to which they refer within the limits of the recognition amounts; any surplus is booked to the income statement.
If it is expected that all expenses (or a part of the same) required to extinguish an obligation are repaid by third parties, the indemnity, when virtually certain, is recognized as a separate asset.

*(iv) Employee benefits*

Short-term benefits are represented by salaries, wages, the related social security contributions, compensated holiday leave and incentives paid in the form of a bonus. These benefits are accounted for as personnel cost components for the period in which the employee works.
In defined benefit plans, which include the post-employment benefits due to employees under art. 2120 of the Italian Civil Code (“TFR”), the amount of the benefit to be paid to the employee can only be quantified when the employment ends, and is linked to one or more factors, such as age, years of service and pay; therefore, the related charge is recognized in the relevant income statement on the basis of an actuarial calculation. The liability recognized in the financial statements for defined benefit plans corresponds to the present value of the obligation on the date of the reporting period. The obligations for defined benefit plans are determined annually by an independent actuary using the Project Unit Credit method. The present value of a defined benefit plan is determined by discounting the future cash flows at a specific interest rate. The actuarial gains and losses resulting from the above-cited adjustments and changes in actuarial assumptions are recognized in the statement of comprehensive income.

If the employee opts for external pension funds, the company is only responsible for paying a defined contribution into the chosen fund and, from said date, the newly-accrued amounts are considered as defined contribution plans and are not subject to actuarial valuations.
The liabilities for obligations relating to other medium/long-term benefits to employees, such as management incentive plans, are calculated on the basis of actuarial assumptions. The impact resulting from changes in actuarial assumptions or from adjustments based on past experience are recognized in the income statement.

*(v) Fair value measurement*

Fair value measurements and disclosures are made or prepared applying IFRS 13 "Fair value measurement". The fair value represents the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The fair value measurement is based on the assumption that the sale of the asset or transfer of the liability takes place in the principal market, namely the market with the greatest volume and level of transactions for the asset or liability. In the absence of a principal market, it is assumed that the transaction takes place in the most advantageous market to which the Company has access, namely the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability.
The fair value of an asset or a liability is determined by considering the assumptions that market participants would use to set the price of the asset or liability, on the assumption that they are acting according to their best economic interest. Market participants are informed, independent buyer or sellers, able to enter into a transaction for the asset or liability and motivated but not obliged nor induced to perform the transaction.

*Measuring the fair value of financial instruments*

The fair value of quoted financial instruments is measured by observing prices that can be directly accessed on the market, while for non-quoted financial instruments, by using specific measurement techniques that make the greatest use possible of inputs observable on the market. In the event in which this is not possible, the inputs are estimated by management, taking the characteristics of the instruments to be measured into account. Changes in the assumptions made in input data estimates could impact the fair value recognized in the financial statements for the instruments.

The fair value of derivative financial instruments entered into by the Company is measured using valuation techniques widely used in the financial markets and market data at the date of preparation of the financial statements.

The fair values of the financial instruments listed below are classified on the basis of a fair value hierarchy which reflects the significance of the inputs used to measure the fair value (IFRS 13 "Fair value measurement").

- Level 1 - Quoted prices (active markets): the data used in measurements is represented by quoted prices in markets in which assets and liabilities that are identical to those to be measured are traded;
- Level 2 - Use of parameters observable on the market (for example, for derivatives, the exchange rates recorded by the Bank of Italy, market interest rate curves, volatilities provided by Bloomberg, credit spreads calculated on the basis of Credit default swaps, etc.) other than the quoted prices of level 1;
- Level 3 - Use of parameters that cannot be observed on the market (internal assumptions, for example, cash flows, risk-adjusted spreads, etc.).

The fair value measurement of instruments entered into by the Company is made according to methods that are classified in level 2.

*(vi) Derivative financial instruments*

Derivative instruments are considered as assets held for trading and measured at fair value through profit or loss, with the exception of cases in which they are structured as effective hedges against a specific risk relating to the underlying assets or liabilities or commitments undertaken by the Company.
More specifically, the Company uses derivative instruments in its hedging strategies with a view to offsetting the risk of changes in the fair value of financial assets and liabilities recognized in the financial statements or of contractually-defined commitments (fair value hedges) or of changes in expected cash flows relating to contractually-defined or highly likely transactions (cash flow hedges).
The effectiveness of hedges is documented and tested both at the beginning of the transaction and periodically (at least at each financial statement reporting date) and is measured by comparing the changes in the fair value of the hedging instrument with those of the hedged element or, in the case of more complex instruments, through statistical analyses based on the change in the risk.

*Cash flow hedges*

Changes in the fair value of derivatives designated as cash flow hedges and that qualify as such, are recognized, limited to the “effective” portion only, in the statement of comprehensive income through a specific equity reserve (“Cash flow hedge reserve”), which is then reversed to the income statement at the time the underlying asset or liability impacts profit and loss. The change in the fair value relating to the ineffective portion is immediately recognized in the income statement for the period. If the occurrence of the underlying transaction is no longer considered highly likely, the portion of the “Cash flow hedge reserve” relating to the transaction is immediately reversed to the income statement. If, instead, the derivative instrument is sold, reaches maturity or no longer qualifies as an effective instrument to hedge the risk against which the transaction had been performed, the portion of the cash flow hedge reserve relating to the transaction is maintained until such time as the underlying contract materializes. The recognition of the hedge as a cash flow is terminated prospectively.

*(vii) Revenue and costs*

Revenue is recognized when control of the good or service passes to the customer. Revenue is measured at the transaction price, which is based on the consideration that the Company expects to receive for the transfer to the customer of the goods and services promised, net of taxes paid by the customer to the tax authority.

The Company enters into agreements that, in general, can be distinguished and treated as separate performance obligations. Revenue is recognized to the extent of the price that the Company expects to receive. The Company attributes the price of the transaction to performance obligations on the basis of stand-alone selling prices (SSP) for every obligation. In the absence of an SSP, the Company estimates such price by using a market adjusted approach.

The Company generates revenue from transport services and recognizes a contract with a customer when it is legally binding between the Company and the customer, the parties’ rights are identified, the contract has commercial substance and the collection of the price is probable. Payments from customers are generally due before the service is used, as tickets are purchased before the journey.
The Company does not recognize any asset that it does not expect to recover. Revenue is recognized as the service is provided (at a point-in-time). The Company has also opted to apply the practical expedient indicated by he standard, allowing it to recognize any incremental costs to obtain the contract as they are incurred, if the asset that would otherwise be recognized is to be fully depreciated in a year or less.

Revenue from transport services is recognized in the income statement as soon as passengers are transported, taking into account any commercial discounts, premiums and customer loyalty programs. Train tickets sold but not yet used for travel are recognized as “Deferred revenues from transport services” under current liabilities, taking into account the terms and conditions of the tickets.

Revenue from the provision of services is recognized when the service has been rendered; revenues from sales when control is effectively transferred.

Costs are recognized on an accrual basis when relating to services and goods purchased or consumed during the period or are systematically distributed, namely when the future usefulness of the same cannot be identified.
Operating lease payments are recognized in the income statement on a straight-line basis over the term of the lease contract, unless they fall within the scope of IFRS 16 – Leases, as described above.
The income and the expenses generated by the disposal and/or sale of non-current assets are recognized in a specific income statement item "(Losses) gains on disposal of non-current assets".
Financial income and expenses are recognized in the income statement over the course of the year in which they accrued.

*Non-recurring expenses and revenues*

Non-recurring expenses and revenues are generated from non-recurring events or transactions, namely transactions or events that do not occur frequently in the normal course of operations. These items are reported separately from recurring revenues and costs.

*(viii) Foreign currency transactions*

The revenues and the costs relating to transactions in currencies other than the Company's functional currency are recognized at the current exchange rate on the day on which the transaction is recorded.

Monetary assets and liabilities in currencies other than the functional currency are converted into the functional currency by applying the current exchange rate on the reporting date of the financial statements, recognizing the impact on the income statement. Non-monetary assets and liabilities expressed in currencies other than the functional currency, measured at cost, are recognized at the exchange rate at the time of initial recognition; when the measurement is made at fair value, or at the recoverable or realizable amount, the current exchange rate on the date the said value is determined is adopted.

*(ix) Dividends*

Dividends are recognized on the date on which the resolution of the Shareholders' Meeting that established the right to receive the payment is approved, except when the sale of shares before the ex-dividend date is reasonably certain.
The dividends approved by the Shareholders' Meeting are represented as changes in equity in the year in which they are approved.

*(x) Income tax and deferred taxation*

Current taxes on income for the year - recognized under "Current tax payables" net of any advances paid, or under "Current tax receivables", when the tax account shows a debit balance - are calculated on the basis of an estimate of taxable income and in accordance with tax legislation in force. Taxable income differs from net profit in the income statement because it excludes items of income and expenses that are taxable or deductible in other years or that are non-taxable or non-deductible. More specifically, said payables and receivables are determined by applying the tax rates applicable on the reporting date.

Current taxes are booked in the income statement, with the exception of those relating to items recognized outside of the income statement, which are directly booked to other comprehensive income or equity.
Deferred taxes are calculated based on the temporary differences between the carrying amount recorded in the financial statements and the corresponding amounts recognized for tax purposes, by applying the tax rate in force on the date on which the temporary difference will reverse, on the basis of the tax rates applicable on the reporting date.

Deferred tax assets arising from all temporary differences, tax losses or tax credits are recognized when their recovery is highly probable, that is when it is expected that future taxable income will be sufficient to recover the tax assets. Recoverability of deferred tax assets is reviewed at every year-end.
Deferred tax assets not recognized in the financial statements are re-analyzed on each reporting date and are recognized to the extent to which it is probable that future taxable income will enable their recovery.
Deferred tax liabilities and assets, resulting from the application of legislation relating to the same tax authority, are offset if there is a legally exercisable right to offset current tax assets against the current tax liabilities that will be generated at the time of their reversal.

*(xi) Related parties*

Related parties are considered those that share the same controlling entity as the Company, companies that directly or indirectly control it, are subsidiaries, or are subject to joint control by the Company and those in which the Company holds an investment that enables it to exercise a significant influence. Related parties also include members of the Board of Directors and key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

**Recently-issued accounting standards**

*(i) Accounting standards, amendments and interpretations not yet applicable and not adopted early by the Company*

At the reporting date, the competent bodies of the European Union have not yet completed the endorsement process required for adoption of the following accounting standards and amendments:

| | |
|---|---|
| IFRS 17 "Insurance Contracts" | On May 18, 2017, the IASB issued IFRS 17 "Insurance Contracts", which establishes the criteria to be applied in the recognition, measurement, presentation and disclosure of insurance contracts included in the standard. The aim of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents such contracts, thus enabling the users of financial statements to assess the effect that insurance contracts have on the entity's financial position, operating performance and cash flows.<br>On 25 June 2020, IASB issued certain amendments to IFRS 17 to:<br>• reduce costs by simplifying some requirements in the Standard;<br>• make financial performance easier to explain;<br>• ease transition by deferring the effective date of the Standard to 2023.<br>As such, the provisions of IFRS 17 are effective for annual periods starting on or after January 1, 2023. |
| Amendments to IAS 1 "Presentation of Financial Statements" | On January 23, 2020, the IASB issued certain amendments to IAS 1, to clarify how to classify debts and other liabilities as current or non-current.<br>The amendments will take effect for the annual reporting periods falling on or after January 1, 2023. |

| | |
|---|---|
| Amendments to IFRS 3 “Business Combinations” | On May 14, 2020, the IASB issued certain amendments to IFRS 3, to update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.<br>The amendments to IFRS 3 will take effect for the annual reporting periods falling on or after January 1, 2022. |
| Amendments to IAS 16 “Property, Plant and Equipment” | On May 14, 2020, the IASB issued certain amendments to IAS 16. The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related costs in profit or loss.<br>The amendments to IAS 16 will take effect for the annual reporting periods falling on or after January 1, 2022. |
| Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” | On May 14, 2020, the IASB issued certain amendments to IAS 37, to specify which costs a company includes when assessing whether a contract will be loss-making.<br>The amendments to IAS 37 will take effect for the annual reporting periods falling on or after January 1, 2022. |
| Amendments to the “Annual Improvements to IFRS Standards 2018-2020 Cycle” | On May 14, 2020, the IASB issued certain amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IFRS 9 “Financial Instruments”, IAS 41 “Agriculture” and the Illustrative Examples accompanying IFRS 16 “Leases”.<br><br>The amendments to the “Annual Improvements to IFRS Standards 2018-2020 Cycle” will take effect for the annual reporting periods falling on or after January 1, 2022. |

The Company does not think that the adoption of these standards and amendments had a significant impact on its financial condition and operating results at the reporting date.

*(ii) Accounting Standards, amendments and interpretations IFRS and IFRIC approved by the European Union, not yet applicable and not adopted early by the Company as at December 31, 2020*

At the date of the annual financial statements, the competent bodies of the European Union have not yet completed the endorsement process required for adoption of the following accounting standards and amendments:

| | |
|---|---|
| Amendments to IFRS 4 “Insurance Contracts” | On May 28, 2020 the IASB issued certain amendments to IFRS 4, to defer to January 1, 2023 the fixed expiry date of expiration of the temporary exemption from applying IFRS 9 “Financial Instruments” for insurance companies.<br>The amendments to IFRS 4 will take effect for the annual reporting periods falling on or after January 1, 2021. |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2” | On August 27, 2020 the IASB issued certain amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. These amendments form the second part of the two-phase plan to reform benchmark interest rates.<br>The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 will take effect for the annual reporting periods falling on or after January 1, 2021. |

The Company does not think that the adoption of these standards and amendments had a significant impact on its financial condition and operating results at the reporting date.

*(iii) Accounting Standards, amendments and interpretations adopted early by the Company*

At the reporting date, the competent bodies of the European Union have approved the adoption of the following accounting standards and amendments, which had been adopted early by the Company in the previous year.

| | |
|---|---|
| Interest Rate Benchmark Reform (amendments to IFRS 9, IAS 39 and IFRS 7) | On September 26, 2019, the IASB published "Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform", which impacts on IFRS 9 "Financial Instruments" and IAS 39 "Financial Instruments: Recognition and Measurement", in addition to IFRS 7 "Financial Instruments: Disclosures".<br>In particular, the amendments have modified a number of requirements for the application of hedge accounting, with a view to mitigating the impact of uncertainty over future cash flows as a result of the reform of the InterBank Offered Rate (IBOR), which reverberates on interest rates.<br><br>The IASB has adopted a phased approach to the provision of adoption guidelines following the above reform. With these amendments, the Board has limited itself to a first phase regarding to the accounting effects of uncertainty in the period leading up to the reform. The amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.<br><br>The amendments are effective from January 1, 2020 but early adoption at 31 December 2019 is permitted.<br><br>The above amendments are considered relevant to the Company, given that hedge accounting is applied to its exposures to changes in interest rate benchmarks.<br><br>As a result, the Company has opted for early adoption of the amendments for the year ended December 31, 2019.<br><br>At the reporting date, the Company holds floating rate debt instruments linked to Euribor (bank borrowings), with the related cash flows partially hedged via interest rate swaps ("IRSs") expiring in 2022 and having a total notional value of €500 million. Further information is provided in note 5. "Financial risk management" and note 38 "Other current liabilities" in this document.<br><br>Early adoption of these amendments means that:<br>• the Company will continue to classify its derivative instruments as hedges and to apply hedge accounting, despite uncertainty over changes to the floating interest rates included in the interest rate swaps;<br>• as permitted by the amendments themselves, the Company will continue to account for gains and losses on changes in the fair value of the derivative instruments classified as hedges, and which are subject to the reform, in a specific cash flow hedge reserve in equity. It has opted to do this despite the uncertainty caused by the IBOR reform in relation to the timing and amount of the cash flows connected with the hedged items. |

*(iv) New accounting Standards, amendments and interpretations adopted by the Company*

At the reporting date, the competent bodies of the European Union had approved adoption of the following accounting standards and amendments, which have therefore been adopted for the first time by the Company in 2020.

| | |
|---|---|
| Amendments to references to the Conceptual Framework for IFRS | On March 29, 2018, the IASB issued amendments to the references in IFRS to the Conceptual Framework. The amendments aim to update existing references to the Conceptual Framework in the various standards and interpretations, replacing them with references to the Revised Conceptual Framework.<br>The amendments are effective for reporting periods starting on or after January 1, 2020. |
| Amendments to IFRS 3: Definition of a Business | On October 22, 2018, the IASB issued this amendment to IFRS 3 to clarify the definition of business, to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets that does not meet the definition of business provided in IFRS 3.<br>The amendment is effective for reporting periods starting on or after January 1, 2020. |
| Amendments to IAS 1 and IAS 8: Definition of Material | On October 31, 2018, the IASB issued this amendment to IAS 1 and IAS 8 to clarify the definition of "material", to help companies decide whether information should be included in their financial statements.<br>The amendment to IAS 1 and IAS 8 is effective for reporting periods starting on or after January 1, 2020. |
| Amendments to IFRS 16 "Leases" | On May 28, 2020, the IASB issued certain amendments to IFRS 16, introducing a practical expedient that allows lessees not to consider rent concessions occurring as a direct consequence of the COVID-19 pandemic as lease modifications.<br>The amendments to IFRS 16 will take effect for the annual reporting periods falling on or after June 1, 2020. |

The Company thinks that the application of these amendments to the relevant IFRSs will not have a significant impact on its operating performance or financial condition.

## 4. Use of estimates

Preparation of the financial statements entails the use of accounting estimates, often based on complex and/or subjective assessments, based on past experience and assumptions considered reasonable and realistic with regard to the information known at the time of the estimate. The use of these estimates influences the carrying amount of assets and liabilities and the disclosure of potential assets and liabilities at the reporting date, as well as the amount of revenues and costs in the accounting period represented. Actual results may differ from estimated ones due to the uncertainty that characterizes the assumptions and the conditions on which the estimates are based. Conditions become even more uncertain in a context such as the current one, with the significant slowdown in nearly all the sectors of the national and international economy due to the COVID-19 pandemic emergency.

The estimates and assumptions are periodically reviewed and the effects of any change are reflected in the income statement.

To better understand the interim financial statements, the most significant estimates made during the preparation process of the interim financial statements, because they are substantially based on subjective opinions, assumptions and estimates relating to areas which, by their very nature, are uncertain, are illustrated below. Changes to the conditions underlying the judgements and assumptions adopted could have a significant impact on the subsequent results.

**Impairment of assets**

Assets are analyzed to ascertain whether there is any impairment loss, recognized by means of a write-down, if there are indicators that lead to assumed difficulties in recovering the related net carrying amount through its use. Verifying the existence of the above-cited indicators requires Directors to make subjective assessments based on information available within the Company and on the market as well as past experience. Furthermore, if it is decided that a potential impairment may have been generated, the Company measures the amount of the impairment using measurement techniques that are deemed suitable. The correct identification of the elements indicating the existence of any impairment, as well as the estimates to determine the amount of impairment, depend on factors that may change over time, influencing the measurements and the estimates made by the Directors.

**Recoverability of deferred tax assets**

Deferred tax assets are recorded in the financial statements, mainly relating to the recognition of tax losses and financial expenses that may be used in future years and, to a lesser extent, to income components with deferred tax deductibility, for an amount whose recovery in future years is expected to be probable. The recoverability of the above-cited deferred tax assets is conditional on the generation of future taxable income that is sufficient to absorb the aforementioned tax losses or up to the amount of the deferred taxes related to other deferred tax assets. Significant management judgement is required to determine the amount of deferred tax assets that may be recognized in the financial statements on the basis of the timing and the amount of future taxable income. In particular, it should be noted that deferred tax assets have been recognized on financial expenses not previously deducted to the extent that it is deemed probable that future taxable profits will be available against which the asset can be utilized. This is based on the Company's updated strategic plans and the fact that the above items may be carried forward over an unlimited period. Despite the current context of the health crisis, the Company expects to achieve sufficiently large future taxable profits for the purpose of recovering deferred tax assets.

**Goodwill**

In accordance with the accounting standards applied in preparing the financial statements, goodwill is tested for impairment at least annually. To this end, goodwill is allocated to one or more separate cash generating units (CGUs), coinciding with the Company, Italo, and its recoverable amount is calculated on the basis of the higher of fair value and value in use. If the recoverable amount is less than the carrying amount of the CGU, the Company recognizes an impairment loss on the goodwill allocated to the CGU. Based on the impairment test carried out as below, the value of the goodwill tested was judged to be adequately justified in terms of expected income and the related cash flows. There was, therefore, no evidence of impairment such as to require the Company to recognize any impairment loss.

The Company tested goodwill for impairment bearing in mind that the operational and market assumptions underlying the plan are affected – in the short/medium/long run - by a greater degree of uncertainty related to the overall instability, market volatility risk, the difficult predictability of the health and regulatory contexts and, last but not least, the resulting purchasing behavior of passengers. In light of these considerations, the value of the goodwill tested during the period was judged to be adequately justified in terms of expected income and the related cash flows. As such, there was nothing that suggested that the Company should take a goodwill impairment loss. For more information, reference is made to note 17. "Goodwill".

**Lease liabilities**

Lease liabilities are initially recognized at the present value of future lease payments at the commencement date, using a discount rate equal to the interest rate implicit in the lease. If this rate cannot be readily determined, the rate used is the lessee's incremental borrowing rate. Lease payments included in the value of the lease liability include: (i) the fixed component of the lease payments, less any lease incentives received; (ii) variable lease payments that depend on an index or a rate (e.g. inflation); (iii) any residual value guarantees that the lessee expects to pay; (iv) the exercise price of the purchase option; and (v) the extension or termination option only when the exercise of these options is considered to be reasonably certain.

**Contingent liabilities**

The Company recognizes a liability against legal disputes and risks resulting from existing or potential lawsuits when it believes that a financial disbursement is likely and when the amount of the liability may be reasonably estimated. In the event in which a financial disbursement becomes probable but the amount cannot be determined, this fact is reported in the notes to the financial statements. The Company continually monitors the status of lawsuits underway and consults experts in legal and tax-related matters.

**Employee benefits**

The liabilities for employee benefits are measured using an actuarial method which requires the use of estimates and assumptions to determine the net value of the obligation. The actuarial method considers financial parameters, such as the discount rate and the inflation rate curve, and demographic factors, such as the mortality rate and the rate of employee turnover. The COVID-19 pandemic in progress has not triggered any changes to the assumptions used for the assessment of employee benefits compared to the previous year.

## 5. Financial risk management

The Company's operations are exposed to the following risks: interest rate risk, risk related to financial liabilities, credit risk and liquidity risk.

Exposure to these risks is continuously monitored by the relevant internal department which, in keeping with the Company's risk management strategy, identifies the action to be taken. Certain types of risk are mitigated through the use of derivative instruments.

**Interest rate risk**

In November 2019, the Company revised its capital structure by obtaining a green loan and using the proceeds to repay early its existing borrowings[4].
As the Company has floating rate debt, it is exposed to interest rate fluctuations.
In keeping with the existing hedging policy, the Company has entered into interest rate swaps, most of which classifiable as ESG-linked.

As of December 31, 2020 the total notional value of the derivative portfolio is €600,000,000 (€450,000,000 as of December 31, 2019), with a negative fair value of €2,180,376 (negative fair value of €1,480 as of December 31, 2019). For accounting purposes, these transactions qualify as cash flow hedges, in line with the risk mitigation strategy adopted by the Company

[4] Further information is provided in note 30. "Current and non-current borrowings".

If the floating interest rate had been 0.1% higher/lower (10 basis points) than that recorded as of December 31, 2020, with all other variables equal, but considering the effect of the derivative contracts, the profit/loss for the period before tax would have been €1,230,770 thousand lower/higher (€238,278 thousand in 2019), and the profit/loss for the period after tax would have been €992,556 lower/higher (€181,091 thousand in 2019).

As described in note 3. “Accounting policies – ii) Accounting standards, amendments and interpretations adopted early by the Company”, the Company will continue to apply the amendments to IFRS 9 “Financial Instruments” and IAS 39 “Financial Instruments: Recognition and Measurement”, in addition to IFRS 7 “Financial Instruments: Disclosures” until the uncertainty resulting from the reform of interest rate benchmarks continues. Once these uncertainties have been resolved, appropriate changes will be made to the contract terms of both the hedged and hedging instruments.

It is noted that the impacts of the health crisis on financial markets might determine a change in the fair value of these instruments, with effects on equity and income statement.

**Risk related to financial liabilities**

The Company is exposed to the risk that failure on its part to meet the obligations and commitments laid down in the loan agreements might trigger, among others, the relevant acceleration clauses. In addition, the provisions of these loan agreements set a number of restrictions on the Company’s operations, with adverse effect on its business and, consequently, on its financial condition, operating performance and cash flows.

In fact, the loan agreement in place allows lenders to ask the borrower to repay immediately any balance outstanding, upon occurrence of certain events.
The occurrence of such events is subject to certain agreed-upon materiality thresholds, carve-outs and grace periods.

The existing loan agreement sets out certain events of default, which are standard conditions for these types of loan, such as:

- Any missed payment, unless remedied as per the contractual timing;
- Breach of Financial Covenants;
- Failure to meet the disclosure obligations provided for by the loan agreement, unless remedied as per the contractual timing;
- Cross-default in case of default on any other Company debt;
- Insolvency due to the Company’s inability to pay its debt or a declaration of insolvency for the Company under the law;
- Failure to comply with the Intercreditor Agreement and the contracts related to it;
- In the event of a Material Adverse Change as defined by the contract.

Furthermore, a mandatory repayment clause is triggered in case of:

- Change of control;
- Sale of all the Company’s assets or issue of a new financial instrument in the capital market.

No events of default occurred in the period under review, the Company honored all its obligations under the loan agreements in force from time to time, as illustrated in note 30. “Current and non-current borrowings”.

**Credit risk**

Credit risk represents the Company’s exposure to the risk of potential losses resulting from a counterparty’s inability to discharge an obligation.

The Company's exposure to credit risk is linked to i) financial investments, such as short-term bank deposits and other bank and post office deposits, where counterparties are major banks and ii) the Company's trading activities.

The trade receivables accounted for in the financial statements primarily relate to the indirect sales channel, represented by agencies. The measurement of these receivables and establishment of the related credit limits are based on credit scores provided by specialist agencies.
Most ticket sales take place through direct channels without the involvement of an intermediary. As a result, the related receivables are collected almost immediately. Specifically:

- payment for the services offered to customers is usually made before the service is used, as tickets are generally purchased before journeys are made;
- the sales channels and related payment methods offered to customers (electronic money, bank transfer, cash) guarantee the certainty of collection at the time of sale, except in the event of fraud linked to cloned credit cards.

Ensuring effective management of credit risk is of strategic importance for the Company and, in this sense, the type of business and the payment methods used ensure that the Company's overall exposure to credit risk is limited.
The following table provides a breakdown of trade receivables as of December 31, 2020 and 2019, grouped by due dates.

| *(€)* | 2020 | 2019 |
|---|---|---|
| Current | 1,658,257 | 8,039,904 |
| Past due for 0-60 days | 733,786 | 277,727 |
| Past due for 61 to 180 days | 9,779 | 9,305 |
| Past due for over 181 days | 385,408 | 275,572 |
| **Total gross trade receivables** | **2,787,230** | **8,602,509** |
| Provisions for doubtful accounts | (371,239) | (340,753) |
| **Total trade receivables** | **2,415,991** | **8,261,756** |

The Company continuously monitors the recoverability of trade receivables through a specific department set up for this purpose. Impairments and/or provisions for doubtful accounts are made on the basis of historical experience of the creditworthiness of a counterparty, assessments of expected credit losses and of specific evidence in relation to individual exposures, also taking into account the type of contractual relationship with the counterparty within the context of the Company's commercial policies. In this sense, provisions for doubtful accounts for each financial year are estimated primarily on the basis of receivables past due for over 180 days. As of the reporting date, past due trade receivables for which the Company had made no provisions, as they are fully collectible, amount to €757,734.

Given the type of business and the model implemented to manage sales, together with the payment tools used, even though the Company's exposure to credit risk cannot be quantified accurately, it is not expected to have a significant impact on the Company's accounts.

**Currency risk**

The Company is not exposed to currency risk.

**Liquidity risk**

Liquidity risk is associated with the Company's ability to meet its business obligations. Prudent liquidity risk management as regards the Company's ordinary business activities implies maintaining an adequate level of cash and cash equivalents and the availability of funds that may be obtained through the use of credit facilities.

The measures adopted by the Italian Government to curb the risk of spread of COVID-19 resulted in a temporary drop in the Company's sales, with repercussions on its cash reserves. Thanks to constant monitoring and a number of measures taken to preserve its liquidity, the Company believes that it has sufficient cash to meet its requirements over a period of time consistent with expectations of the end of the crisis triggered by the pandemic. This consideration should be framed against a backdrop of uncertainty due mainly to the operational and commercial restart of the Company and the timeliness with which regulatory, monetary and fiscal measures are undertaken to support the economy, particularly the high-speed rail sector.

It should also be noted that, with Law Decree no. 23 of April 8, 2020, the Government Authorities introduced urgent measures to facilitate companies' access to credit for by expanding the possibilities for using State guarantees, such as that by SACE SpA. As of December 31, 2020, the Company did not consider it necessary to use this measure to support liquid assets. However, this is an additional instrument available in the event that the contraction in sales and, consequently, the repercussions on liquidity continue beyond expectations.
Attention is also called to the fact that the Company has recognized in its accounts a financial receivable of €141,245,720, which reflects the present value of the grant obtained through Law Decree no. 34 of May 19, 2020 which, as established therein, may be transferred pursuant to art. 1260 paragraph 1 of the Italian Civil Code.
Both of the above instruments can be used by the Company within the limits of the law and the requirements of the current loan agreement.

At December 31, 2020 cash and cash equivalents amount to €206,770,653. It should be noted that in March the Company drew on the available revolving line of credit made available by the current loan agreement.

The following tables show cash flow forecasts for future years (including principal and interest) as regards financial assets and liabilities as of December 31, 2020 and 2019:

| As of December 31, 2020 (€) | Carrying amounts | Expected cash flows Within 12 months | Expected cash flows Between 1 and 5 years | Expected cash flows Over 5 years |
|---|---|---|---|---|
| Current and non-current borrowings | 1,101,224,787 | 16,380,120 | 1,153,799,543 | - |
| Current and non-current lease liabilities | 51,602,507 | 9,387,447 | 20,778,687 | 37,037,404 |
| Trade payables | 145,298,109 | 145,298,109 | - | - |
| **Total financial liabilities excluding derivative financial instruments** | **1,298,125,403** | **171,065,676** | **1,174,578,230** | **37,037,404** |
| | | | | |
| Derivative financial instruments | 2,180,376 | 1,047,326 | 1,121,451 | - |
| **Total** | **1,300,305,779** | **172,113,002** | **1,175,699,681** | **37,037,404** |

| As of December 31, 2019 (€) | Carrying amounts | Expected cash flows Within 12 months | Expected cash flows Between 1 and 5 years | Expected cash flows Over 5 years |
|---|---|---|---|---|
| Current and non-current borrowings | 900,209,415 | 12,392,400 | 961,479,490 | - |
| Current and non-current lease liabilities | 54,010,980 | 7,662,623 | 26,702,395 | 37,124,647 |
| Trade payables | 188,804,299 | 188,804,299 | - | - |
| Other current and non-current liabilities | 1,307,193 | 1,332,666 | - | - |
| **Total financial liabilities excluding derivative financial instruments** | **1,144,331,887** | **210,191,988** | **988,181,885** | **37,124,647** |
| | | | | |
| Derivative financial instruments | 1,480 | 304,251 | (300,876) | - |
| **Total** | **1,144,333,367** | **210,496,239** | **987,881,009** | **37,124,647** |

### Financial and non-financial assets and liabilities by category

Non-current and current financial assets and liabilities are settled or measured at market rates and therefore it is deemed that their fair value is substantially in line with their current carrying amounts.

The table below shows the classification of financial and non-financial assets and liabilities by category as of December 31, 2020 and 2019.

| As of December 31, 2020 (€) | Financial assets and liabilities at amortized cost | Financial assets and liabilities at FVTPL | Hedging derivatives | Non-financial assets / liabilities | Total |
|---|---|---|---|---|---|
| *Assets* | | | | | |
| Non-current asset for Contribution for COVID-19 | - | - | - | 122,452,072 | 122,452,072 |
| Trade receivables | 2,415,991 | - | - | - | 2,415,991 |
| Current asset for Contribution for COVID-19 | - | | | 18,793,648 | 18,793,648 |
| Other current and non-current assets | 3,027,507 | - | - | 36,591,968 | 39,619,475 |
| Current financial assets | - | 20,212,824 | - | - | 20,212,824 |
| Cash and cash equivalents | 206,770,653 | - | - | - | 206,770,653 |
| **Total assets** | **212,214,151** | **20,212,824** | **-** | **177,837,688** | **410,264,663** |
| *Liabilities* | | | | | |
| Current and non-current borrowings | 1,101,224,787 | - | - | - | 1,101,224,787 |
| Current and non-current lease liabilities | 51,602,507 | - | - | - | 51,602,507 |
| Trade payables | 145,298,109 | - | - | - | 145,298,109 |
| Deferred revenues from transport services | - | - | - | 34,555,290 | 34,555,290 |
| Other current and non-current liabilities | 130,744 | - | 2,180,376 | 25,855,657 | 28,166,777 |
| **Total liabilities** | **1,298,256,147** | **-** | **2,180,376** | **60,410,947** | **1,360,847,470** |

| As of December 31, 2019 (€) | Financial assets and liabilities at amortized cost | Financial assets and liabilities at FVTPL | Hedging derivatives | Non-financial assets / liabilities | Total |
|---|---|---|---|---|---|
| *Assets* | | | | | |
| Trade receivables | 8,261,756 | - | - | - | 8,261,756 |
| Other current and non-current assets | 5,019,800 | - | - | 26,923,778 | 31,943,578 |
| Current financial assets | - | 80,187,753 | - | - | 80,187,753 |
| Cash and cash equivalents | 93,206,101 | - | - | - | 93,206,101 |
| **Total assets** | **106,487,657** | **80,187,753** | **-** | **26,923,778** | **213,599,189** |
| *Liabilities* | | | | | |
| Current and non-current borrowings | 900,209,414 | - | - | - | 900,209,414 |
| Current and non-current lease liabilities | 54,010,980 | - | - | - | 54,010,980 |
| Trade payables | 188,804,299 | - | - | - | 188,804,299 |
| Deferred revenues from transport services | - | - | - | 44,585,304 | 44,585,304 |
| Other current and non-current liabilities | 1,361,868 | - | 1,480 | 23,482,520 | 24,845,868 |
| **Total liabilities** | **1,144,386,561** | **-** | **1,480** | **68,067,824** | **1,212,455,865** |

### Fair value measurement

The following table summarizes the assets and liabilities that are measured at fair value as of December 31, 2020 and 2019, based on the level that reflects the inputs used to determine the fair value.

| (€) | 2020 | 2019 |
|---|---|---|
| Liquidity | 20,212,824 | 40,101,283 |
| Short-term deposits | - | 40,086,470 |
| Derivative liabilities | (2,180,376) | 1,480 |
| **Total** | **18,032,448** | **80,189,233** |

The fair value measurement of liquidity is made according to methods that are classified as level 1, whilst the fair value measurement of derivative liabilities and short-term deposits are classified as level 2.
There were no transfers between different levels of the fair value hierarchy during the periods in question.

## 6. Segment reporting

IFRS 8 defines an operating segment as a component (i) that engages in business activities from which it may earn revenues and incur expenses, (ii) whose operating results are reviewed regularly by the entity's chief operating decision maker and (iii) for which separate financial information is available.
The Company's operating segments are identified based on the information provided to and analyzed by the Board of Directors, which represents the chief operating decision maker, making decisions regarding the allocation of resources and assessing performance. For the purposes of IFRS 8, the activities performed by the Company are identified as belonging to a single operating segment, given that the Company's business consists of the provision of rail transport services in Italy.

## 7. Revenues from transport services

The following table shows a breakdown of revenue from transport services:

| *(€)* | 2020 | 2019 | Change |
|---|---|---|---|
| Transportation revenues | 262,914,026 | 680,565,276 | (417,651,250) |
| **Total** | **262,914,026** | **680,565,276** | **(417,651,250)** |

This item refers to revenue originating from rail transport services and the intermodal ItaloBus integrated rail and bus service, after commercial discounts, returns, rebates, adjustments for fraud and customer loyalty programs.

The Company recognizes revenues following satisfaction of the related performance obligation "at a point in time", that is when passengers are transported.

The decrease in revenue is attributable to two non-recurring and unpredictable events that took place in 2020:
- The accident due to the derailment of a Trenitalia train, near Lodi on February 6, 2020;
- The COVID-19 pandemic.

## 8. Other operating revenues

The following table shows a breakdown of other operating revenues:

| *(€)* | 2020 | 2019 | Change |
|---|---|---|---|
| COVID-19 Contribution | 141,245,720 | - | 141,245,720 |
| White certificates | 689,233 | 29,825,222 | (29,135,989) |
| Royalties and advertising space | 449,740 | 1,217,044 | (767,304) |
| Recharges for services to third parties | 1,285,279 | 1,323,533 | (38,254) |
| Other income | 6,899,032 | 2,369,008 | 4,530,024 |
| **Total** | **150,569,004** | **34,734,807** | **115,834,197** |

The item "COVID-19 Contribution" includes the operating grant provided for by the Government for the Company to compensate for the losses suffered as a result of the COVID-19 epidemic.

The grant is governed by: (i) Article 214 of Law Decree 34/2020[5] (Turnaround Decree), enacted by the Italian Government and subsequently converted into law, and (ii) an inter-ministerial decree issued by the MIT and the MEF[6], laying down the criteria and procedures by which the beneficiary companies proceed to report the losses suffered.

The grant provided or by the Government, for a total amount of €1,190 million, is intended for rail freight and passenger operators - not subject to a public service obligation and licensed to perform transport services in Italy, in accordance with European legislation – which, compared to the corresponding period of 2019, recorded lower revenues and higher costs directly attributable to the COVID-19 emergency. Such grant refers to public services provided without receiving any compensation from the State for rail transport until December 31, 2020 (i.e. contribution period). This period has been divided by the Italian legislation into two parts: (i) a first contribution period until July 31, 2020; and (ii) a second contribution period from August 1, 2020 to December 31, 2020.
The payment of the grant assigned to each railway undertaking will take place in 15 annual instalments until 2034[7]. However, the receivables arising from this grant can be sold pursuant to art. 1260 paragraph 1 of the Italian Civil Code.

The benefit for the second contribution period, not recognized in these financial statements, will be disbursed if resources remain available after the first allocation.

On October 30, 2020, the Company submitted to MIT the grant application, accompanied by the report signed by an independent external party, as provided for by Inter-ministerial Decree No. 472 of October 22, 2020. With the subsequent commitment decree issued on December 31, 2020, the MIT authorized the multi-year payment commitment (IPE) for 2020.

As described in note 41.” Events after December 31, 2020” the European Commission has issued a declaration of compatibility for the resources[8] granted by the Italian Government according to the aforementioned Law Decree in reference only to the period March-June 2020 for an amount equal to Euro 145.6 million. Consequently, the amount of income recorded in the Financial Statements refers only to the quantification of the effects suffered in that time frame.

On April 14, 2021, the Company submitted to the Ministry of Infrastructure and Sustainable Mobility an application for admission to the contribution, according to the various parameters contained in the declaration of compatibility issued by the European Commission.

Since the COVID-19 Contribution will be paid in fifteen annual instalments and there is no interest on the extended payment term, the grant has been recognized in the Company's Financial Statements at its fair value, equal to €141,245,720, that is the amount allocated net of the interest component deemed significant.[9]

Finally, refers to change in “Other operating revenues” the five-year energy savings program related to the AGV fleet ended on December 31, 2019. As such, at December 31, 2020, the item “White Certificates” refers solely to the Energy Efficiency Certificates (EECs) issued by the Gestore dei Servizi Energetici (GSE, or Energy Services Operator) on the basis of the energy savings achieved by the EVO fleet with respect to a specific threshold.

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[5] Law Decree no. 34 May 19, 2020 (Turnaround Decree), as amended and supplemented, containing "Urgent measures in the matter of health, support for work and the economy, as well as social policies related to the epidemiological emergency of Covid-19".
[6] Inter-ministerial Decree No. 472 of October 22, 2020.
[7] The resources allocated are divided into €70 million for the year 2020 and €80 million for each of the years from 2021 to 2034.
[8] "[...] article 108(3) of the Treaty on the Functioning of the European Union."
[9] The time value of money is not reflected in the nominal value of the grant, so it was appropriate to deduct the interest component.

"Other income" mainly consists of revenues for ancillary services to passenger transport and insurance proceeds as a result of claims submitted.

## 9. Access and electricity costs

The following table shows a breakdown of access and electricity costs:

| *(€)* | 2020 | 2019 | Change |
|---|---|---|---|
| Access costs | 51,723,591 | 128,468,944 | (76,745,353) |
| Electricity costs | 20,555,379 | 33,118,814 | (12,563,435) |
| Total | 72,278,970 | 161,587,758 | (89,308,788) |

This item refers to fees paid to the railway infrastructure operator for access costs and electricity costs.

The decrease posted for the period is due mainly to the reduction in the commercial services provided cause by the traffic decline resulting from the implementation of the measures to contain and prevent the COVID-19 epidemiologic emergency. In fact, the emergency situation led rail operators to cancel services, with the resulting drop in volumes.
Moreover, to help the railway industry cope with the losses inflicted by the contraction of rail traffic due to the COVID-19 pandemic, the Government cut the fee for the use of the infrastructure for passenger and freight rail services not subject to public service obligations for the period between March and December 2020 and did not apply penalties for the cancellation of available train paths.

## 10. Train management costs

The following table shows a breakdown of train management costs:

| *(€)* | 2020 | 2019 | Change |
|---|---|---|---|
| Rolling stock maintenance | 56,960,362 | 78,649,061 | (21,688,699) |
| Cleaning costs for trains | 7,937,487 | 11,397,227 | (3,459,740) |
| Other train costs | 2,005,938 | 1,945,387 | 60,551 |
| Total | 66,903,787 | 91,991,675 | (25,087,888) |

This item primarily regards the costs incurred for the maintenance and management of Italo's fleet of trains and for the internal and external cleaning of trains. The total decrease of this item compared to the previous year is due to the lower activity level linked to the COVID-19 pandemic, together with cost-containment actions taken by management, in agreement with the commercial partners, in response to the emergency.

## 11. Personnel costs

The following table shows a breakdown of personnel costs:

| *(€)* | 2020 | 2019 | Change |
|---|---|---|---|
| Wages and salaries | 47,277,982 | 50,614,895 | (3,336,913) |
| Social security and insurance contributions | 10,994,615 | 13,152,274 | (2,157,659) |
| Post-employment benefits (*TFR*) | 2,537,806 | 2,407,395 | 130,411 |
| Other personnel costs | 2,959,222 | 3,270,613 | (311,391) |
| Total | 63,769,625 | 69,445,177 | (5,675,552) |

"Personnel costs" primarily consist of remuneration, salaries, wages, social security and pension contributions. In addition, this item includes amounts paid into supplementary pension funds and flat taxes, totaling €676,753 for the year ended December 31, 2020 (€559,936 in the year ended December 31, 2019).

Attention is called to the information, consultation and joint review report signed by the Company in March to obtain access to the furlough scheme (*Cassa Integrazione Guadagni Ordinaria – CIGO*) made available by the Italian Government during the year.
Later, in June, an agreement was entered into with the trade unions for the application of the Solidarity Contract until the end of the year.

The decrease in this item was primarily due to the use of the foregoing social programs in the period under review and, to a limited extent, to staff reduction.

The following table shows figures for the Company's workforce:

| | Average number of employees | | Number of employees | |
|---|---|---|---|---|
| *(number)* | 2020 | 2019 | 2020 | 2019 |
| Officers | 17 | 17 | 17 | 17 |
| Managers | 66 | 65 | 65 | 68 |
| Employees | 1,136 | 965 | 1,155 | 1,058 |
| Others | 197 | 288 | 132 | 277 |
| **Total** | **1,416** | **1,335** | **1,369** | **1,420** |

## 12. Other operating costs

The following table shows a breakdown of other operating costs, which have risen in line with expansion of the business:

| *(€)* | 2020 | 2019 | Change |
|---|---|---|---|
| Consultants' fees | 12,848,003 | 12,159,984 | 688,019 |
| Ticket sale commissions | 10,723,601 | 26,442,445 | (15,718,844) |
| Third party services | 10,357,669 | 18,416,535 | (8,058,866) |
| Other operating costs | 8,370,839 | 10,175,494 | (1,804,655) |
| Insurance services | 5,877,088 | 4,492,183 | 1,384,905 |
| Rental and lease expenses | 5,578,325 | 3,256,874 | 2,321,451 |
| Connectivity | 3,712,358 | 3,870,020 | (157,662) |
| Promotional expenses | 3,491,138 | 6,549,057 | (3,057,919) |
| Maintenance | 2,982,776 | 3,040,393 | (57,617) |
| Travel expenses | 2,528,375 | 3,913,652 | (1,385,277) |
| Credit card fees | 2,295,429 | 6,809,846 | (4,514,417) |
| Provisions for doubtful accounts | 30,486 | 124,610 | (94,124) |
| Net provisions for risks | 29,913,208 | 828,612 | 29,084,596 |
| **Total other recurring operating costs** | **98,709,295** | **100,079,705** | **(1,370,410)** |

"Third party services" mainly include the costs for the on-board caring service, for the cash management service for the automatic vending machines, for the Italobus integrated rail and bus service and for office cleaning and sanitization, security and surveillance services.

"Other operating costs" mainly includes costs for staff catering, costs connected with ancillary services to passenger transport, the cost of staff training, indirect taxes and duties, utility costs and telephone expenses as well as costs for safety and protection devices necessary to deal with the health emergency.

"Connectivity" includes the costs for on board connectivity services and those at operating units.

“Net provisions for risks” includes quantifiable provisions for risks deemed probable. The increase is mainly due to the amount set aside in light of ART resolution no. 39 of March 25, 2021 described extensively in note 35. “Non-current provisions”, to which reference is made.

As described in the previous notes, the overall decrease in other operating costs is due in part to the contraction of operating activities and in part to the cost-containment actions taken by management.

## 13. Depreciation, amortization and impairments

The following table shows a breakdown of depreciation, amortization and impairments:

| *(€)* | 2020 | 2019 | Change |
|---|---|---|---|
| Depreciation of rolling stock | 36,703,461 | 32,287,541 | 4,415,920 |
| Amortization of intangible assets | 13,897,721 | 14,406,846 | (509,125) |
| Depreciation of right-of-use assets | 5,747,354 | 5,783,017 | (35,663) |
| Depreciation of other property, plant and equipment | 3,773,180 | 3,946,045 | (172,865) |
| **Total** | **60,121,716** | **56,423,449** | **3,698,267** |

The increase in depreciation of the fleet reflects the entry into service of three new EVO trains in 2020.

## 14. Gains (losses) on disposal of non-current assets

The following table shows a breakdown of this item:

| *(€)* | 2020 | 2019 | Change |
|---|---|---|---|
| Losses on disposal of non-current assets | (43,000) | (140,696) | 97,696 |
| Gains on disposal of non-current assets | 9,518 | 24,029 | (14,511) |
| **Total** | **(33,482)** | **(116,667)** | **83,185** |

During the year the disposal of certain tangible assets generated gains for €9,518. Losses for the period were due to the cancellation of certain investments in the planning phase.

## 15. Financial income (expenses)

The following table shows a breakdown of net financial income (expenses):

| *(€)* | 2020 | 2019 | Change |
|---|---|---|---|
| Interest on bank deposits | 79,505 | 311,512 | (232,007) |
| Change in fair value of current financial assets | - | 288,349 | (288,349) |
| Income from current financial assets | 33,879 | 172,901 | (139,022) |
| Other interest income | 32,013 | 47,693 | (15,680) |
| Other financial income | 29,436 | - | 29,436 |
| **Total financial income** | **174,833** | **820,455** | **(645,622)** |
| | | | |
| Interest expense on borrowings | 13,282,969 | 19,452,492 | (6,169,523) |
| Financial expenses on early repayment of borrowings | - | 10,674,219 | (10,674,219) |
| Financial expenses on derivative instruments | 423,427 | 1,924,833 | (1,501,406) |
| Financial expenses on leases | 1,846,462 | 1,778,290 | 68,172 |
| Fees | 506,970 | 1,389,638 | (882,668) |
| Change to fair value of derivative instruments | - | 1,061,883 | (1,061,883) |
| Change in fair value of current financial assets | - | 228,543 | (228,543) |
| Interest on post-employment benefits (*TFR*) | 123,512 | 145,253 | (21,741) |
| Other financial expenses | 69,489 | 137,133 | (67,644) |
| Net foreign exchange losses | 195 | 448 | (253) |
| **Total financial expenses** | **16,253,024** | **36,792,732** | **(20,539,708)** |

**Financial income**

"Financial income" primarily regards accrued financial income on bank current accounts and current financial assets.
The decrease compared with the previous year, amounting to €645,622, is due in essence to lower financial income generated from financial assets and lower interest rates applied to cash balances in bank accounts.

**Financial expenses**

"Financial expenses" primarily refer to interest and fees paid on the Company's financial instruments. In the year under review this item fell by €20,539,708, compared to the previous year.

Interest on loans obtained, together with financial expenses incurred in connection with the early repayment of loans, decreased by €16,843,742, compared to the previous year, due to the different funding structures adopted in the two years under review, details of which are provided in note 30. "Current and non-current borrowings" in this document.

"Financial expenses on derivative instruments" and "Changes to the fair value of derivative instruments" refer to recognition of the derivative instruments entered into by the Company in order to hedge interest rate risk on existing borrowings, using hedge accounting.
Specifically, these items include i) the cost of negative differentials on outstanding derivatives ii) charges and/or income recognized in profit or loss and representing the ineffective portion of hedges.

## 16. Income tax

The following table shows a breakdown of income tax:

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| Current income tax expense | 9,790,445 | 24,949,691 | (15,159,246) |
| Deferred tax income | (2,710,253) | (2,710,253) | - |
| Deferred tax expense | (3,359,307) | 26,023,680 | (29,382,987) |
| Total | 3,720,885 | 48,263,118 | (44,542,233) |

This item includes current income tax and the impact on profit or loss of deferred tax assets and liabilities. Income tax expense for the year under review decreased by €44,542,233 compared to the previous year, owing to the reduction of taxable income, due to the diminished results and the lower reversal of deferred tax assets recognized in the financial statements in 2020.

The following table shows the reconciliation of the tax charge at the statutory rate and the effective charge for the years ended December 31, 2020 and 2019:

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| Profit (loss) before tax | 35,587,964 | 199,683,375 | (164,095,411) |
| Theoretical tax charge (24%) | 8,541,111 | 47,924,010 | (39,382,899) |
| Other differences | (7,763,553) | (11,285,781) | 3,522,228 |
| **Effective charge for IRES** | 777,559 | 36,638,229 | (35,860,670) |
| **Effective charge for IRAP** | 2,943,326 | 11,624,889 | (8,681,563) |
| | | | |
| Effective tax charge | 3,720,885 | 48,263,118 | (44,542,233) |

Further details of movements in deferred taxes are provided below in notes 21. "Deferred tax assets" and 34. "Deferred tax liabilities".

## 17. Goodwill

The following table shows details of this item:

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| Goodwill | 1,683,797,961 | 1,683,797,961 | - |
| **Total** | **1,683,797,961** | **1,683,797,961** | **-** |

Goodwill, which resulted from the reverse merger of 2019, reflects the unallocated excess purchase price recognized in intangible assets with indefinite useful lives.

Goodwill has been allocated to a single identified Cash Generating Unit (CGU), represented by the Company, Italo. Management has not identified any other smaller CGUs that generate largely independent cash flows to which goodwill could be allocated.

With the assistance of an independent expert, the Group tested the recoverability of net invested capital as of December 31, 2020 (including goodwill), in accordance with IAS 36. Based on ESMA's public statement no. 32-63-1041 of October 28, 2020, "European common enforcement priorities for 2020 annual financial reports", and the "Guidelines on the post-COVID-19-pandemic effects on impairment tests" published by Organismo Italiano di Valutazione (OIV) in July 2020, the COVID-19 pandemic has been considered as an indicator of impairment observable at year-end 2020. To determine the recoverable value – the CGU's value in use – use was made of the Company's expected future cash flows, which were estimated on the basis of the 2021 budget and the operational plan, as updated to reflect potential risks arising from the market uncertainty in the short and medium term as a result of the COVID-19 pandemic. The expected cash flows were discounted to present value at a rate ("UDCF Model") that reflects, among others, the Company's return on equity and cost of debt (WACC). For periods not covered by the business plan, cash flows were estimated by extrapolating the figures forecast for the most representative year, considering a perpetual growth rate (g) and the gradual return to normalcy of the healthcare situation in the long run.
Based on the impairment test carried out as above and the sensitivity analyses performed on key factors, the total value of net invested capital as of December 31, 2020 (including goodwill) was judged to be adequately justified in terms of expected income and the related cash flows. In particular, a sensitivity analysis was conducted on the recoverable value resulting from a stress test of the possible medium/long-term impacts determined also by the current health emergency. The result of the sensitivity analysis confirmed the recoverability of the full value of the Company's assets.

Based on the above, there was, therefore, nothing to suggest that the Company should recognize an impairment loss for its net invested capital at December 31, 2020 (inclusive of goodwill).

## 18. Intangible assets

The following table shows a breakdown of intangible assets and the related movements:

| (€) | Railway license | Software | Trademark | Customer relationships | Intangible assets in progress | Total |
|---|---|---|---|---|---|---|
| As of December 31, 2019 | 19,425 | 5,857,372 | 22,926,667 | 82,053,667 | 4,591,261 | 115,448,392 |
| *of which:* | | | | | | |
| *- historical cost* | *183,845* | *44,629,505* | *27,512,000* | *93,142,000* | *4,591,261* | *170,058,611* |
| *- accumulated amortization* | *(164,420)* | *(38,772,133)* | *(4,585,333)* | *(11,088,333)* | *-* | *(54,610,219)* |
| Reclassifications | - | 2,491,125 | - | - | (2,469,624) | 21,501 |
| Additions | - | 2,858,730 | - | - | 4,427,300 | 7,286,030 |
| Reductions | - | (43,000) | - | - | - | (43,000) |
| Amortization | (7,413) | (4,486,112) | (2,751,200) | (6,653,000) | - | (13,897,725) |
| As of December 31, 2020 | 12,012 | 6,678,115 | 20,175,467 | 75,400,667 | 6,548,937 | 108,815,198 |

| | | | | | | |
|---|---|---|---|---|---|---|
| *of which:* | | | | | | |
| *- historical cost* | *183,845* | *49,936,360* | *27,512,000* | *93,142,000* | *6,548,937* | ***177,323,142*** |
| *- accumulated amortization* | *(171,833)* | *(43,258,245)* | *(7,336,533)* | *(17,741,333)* | *-* | ***(68,507,944)*** |

As of December 31, 2020, intangible assets amount to €108,815,198, a decrease of €6,633,194 compared with December 31, 2019.

This decrease was due to the combined effect of investment and reclassifications for €7,307,531, amortization for €13,897,725 and divestments for €43,000.

The additions to “Software” and “Intangible assets in progress” primarily regard investment in the upgrade of the Company’s IT systems, to implement the new ERP system and to make other improvements to expand the data management capabilities of the production systems necessary to ensure the Company’s full operational efficiency as a result of the increased commercial offering and the growth of the business.

## 19. Property, plant and equipment

The following table shows a breakdown and the related movements:

| *(€)* | **AGV fleet** | **EVO fleet** | **Onboard telecomm-unications AGV fleet** | **Onboard telecomm-unications EVO fleet** | **Assets under construction** | **Investments at plants and railway stations** | **Land and buildings** | **Other PPE** | Total |
|---|---|---|---|---|---|---|---|---|---|
| As of December 31, 2019 | 480,809,554 | 397,402,661 | 705,737 | 1,060,857 | 51,722,652 | 5,734,635 | 36,913 | 8,975,782 | 946,448,789 |
| *of which:* | | | | | | | | | |
| *- historical cost* | *638,401,339* | *415,833,549* | *12,310,267* | *1,489,507* | *51,722,652* | *12,879,920* | *132,465* | *22,312,551* | ***1,155,082,250*** |
| *- accumulated depreciation* | *(157,591,785)* | *(18,430,888)* | *(11,604,530)* | *(428,650)* | *-* | *(7,145,286)* | *(95,553)* | *(13,336,770)* | ***(208,633,462)*** |
| Reclassifications | 470,400 | 30,104,169 | 1,824 | 198,206 | (32,301,651) | 568,007 | - | 937,545 | (21,500) |
| Additions | - | 36,599,950 | - | 12,000 | 27,393,762 | 17,854 | - | 129,302 | 64,152,869 |
| Reductions | - | - | - | - | | - | - | (9,135) | (9,135) |
| Depreciation | (21,360,373) | (15,343,087) | (341,205) | (325,727) | - | (540,389) | (8,314) | (2,557,685) | (40,476,781) |
| As of December 31, 2020 | 459,919,581 | 448,763,693 | 366,356 | 945,335 | 46,814,763 | 5,780,107 | 28,599 | 7,475,808 | 970,094,241 |
| *of which:* | | | | | | | | | |
| *- historical cost* | 638,871,739 | 482,537,668 | 12,312,091 | 1,699,713 | 46,814,763 | 13,465,782 | 132,465 | 23,339,107 | 1,219,173,327 |
| *- accumulated depreciation* | (178,952,158) | (33,773,975) | (11,945,735) | (754,378) | - | (7,685,675) | (103,866) | (15,863,299) | (249,079,086) |

As of December 31, 2020 property, plant and equipment amounts to €970,094,241, an increase of €23,645,452 compared with December 31, 2019, due to the combined effect of investment and reclassifications, amounting to €64,131,369, depreciation of €40,476,781, and net disposals, amounting to €9,135.

Investment and reclassifications primarily regard the EVO fleet, with a residual amount relating to improvements to AGV trains, investment in railway equipment and stations and other property, plant and equipment.

“Assets under construction” include €45,222,000 attributable to progress under the EVO long-term contract.

Disposals refer to other equipment with a carrying amount of €9,135, which was sold for €18,500, at a gain of €9,365.

## 20. Right-of-use assets

This item breaks down as follows:

| (€) | Train maintenance centers | Marshalling yards | Station spaces and self-service ticket machines | Offices | Self-service ticket machines | IT systems | Vehicles | Total |
|---|---|---|---|---|---|---|---|---|
| As of December 31, 2019 | 11,727,091 | 782,975 | 32,470,574 | 1,384,979 | 5,339,656 | 656,278 | 171,505 | 52,533,059 |
| *of which:* | | | | | | | | |
| *- historical cost* | 12,220,528 | 844,549 | 35,613,855 | 2,397,937 | 6,032,434 | 936,884 | 265,607 | **58,311,794** |
| *- accumulated depreciation* | (493,437) | (61,574) | (3,143,281) | (1,012,958) | (692,778) | (280,605) | (94,102) | **(5,778,735)** |
| Additions | - | - | 532,358 | - | 417,193 | 27,302 | 158,948 | **1,135,801** |
| Reductions | - | - | (1,012,683) | (109,253) | - | - | (51,997) | **(1,173,933)** |
| Depreciation | (486,274) | (60,243) | (3,111,542) | (1,008,883) | (732,947) | (227,521) | (68,321) | **(5,695,733)** |
| As of December 31, 2020 | 11,240,816 | 722,732 | 28,878,707 | 266,842 | 5,023,902 | 456,059 | 210,134 | 46,799,193 |
| *of which:* | | | | | | | | |
| *- historical cost* | 12,220,528 | 844,549 | 35,133,530 | 2,288,684 | 6,449,627 | 964,186 | 372,558 | **58,273,661** |
| *- accumulated depreciation* | (979,712) | (121,817) | (6,254,822) | (2,021,842) | (1,425,726) | (508,126) | (162,423) | **(11,474,468)** |

As of December 31, 2020, right-of-use assets total €46,799,193, a decrease of €5,733,866 compared with December 31, 2019.

The decrease reflects the combined effect of:

- new lease contracts entered into (€1,015,979);
- modifications of existing leases (€119,821);

after deducting:

- reductions in right-of-use assets (€1,173,933);
- depreciation (€5,747,354), shown after deducting decreases in accumulated depreciation (€51,621).

## 21. Deferred tax assets

The following table shows a breakdown of movements in deferred tax assets:

| (€) | 2020 | 2019 |
|---|---|---|
| Balance at January 1, 2020 | 19,533,435 | 45,761,418 |
| Differences from income tax return and other adjustments | 22,578 | 310,804 |
| Reversals to profit or loss | 3,336,730 | (26,334,485) |
| Reversals to comprehensive income statement | 492,742 | (204,302) |
| Balance at December 31, 2020 | 23,385,485 | 19,533,435 |

"Deferred tax assets" refer to temporary differences primarily relating to:

- Partial deduction of excess financial expenses in previous years;
- derivative liabilities;
- other timing differences (mainly due to provisions not deducted during the reporting periods, mismatches between book and tax amortization and depreciation, and other timing differences, including the medium/long-term incentive programs and bonuses).

The following table shows details of deferred tax assets:

| (€) | Financial expenses | Derivative liabilities | Other timing differences | Total |
|---|---|---|---|---|
| Balance at December 31, 2019 | 13,382,893 | 355 | 6,150,187 | 19,533,435 |
| Differences from income tax return and other adjustments | 123,526 | - | (100,948) | **22,578** |
| Reversals to profit or loss | (7,039,224) | - | 10,375,954 | **3,336,730** |
| Reversals to comprehensive income statement | - | 522,935 | (30,193) | **492,742** |
| Balance at December 31, 2020 | 6,467,195 | 523,290 | 16,395,000 | 23,385,485 |

### 22. Non-current and current asset for Contribution for COVID-19

The item "Non-current and current asset for Contribution for COVID-19" breaks down as follows:

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| Nun current asset for Contribution for COVID-19 | 122,452,072 | - | 122,452,072 |
| Current asset for Contribution for COVID-19 | 18,793,648 | - | 18,793,648 |
| Total | 141,245,720 | - | 141,245,720 |

This item reflects the receivable arising from the grant payable to the Company for the lower revenues and higher costs directly attributable to the COVID-19 emergency until July 30, 2020. This grant meets the requirements for recognition under IAS 20.

The receivable, which consist of a current and a non-current portion, was still outstanding at the reporting date. In addition, since it is non-interest accruing and payable in fifteen equal annual instalments, the receivable was recognized at its fair value for a total of €141,245,720. For more details, reference is made to note 8. "Other operating revenues".

At April 9, 2021 the Ministry of sustainable infrastructures and mobility (previously named The Ministry of infrastructures and transport) authorized the payment of the first two installments of the contribution for a total amount of Euro 19,4 million.

### 23.Inventories

Inventories consist of Energy Efficiency Certificates (EECs or white certificates) representing the TOE (tons of oil equivalent) accruing during the period, not yet issued by the Italian Energy Services Operator (GSE) and thus not yet sold.

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| White certificates (EECs) | 759,892 | 10,145,787 | (9,385,895) |
| Total | 759,892 | 10,145,787 | (9,385,895) |

As of December 31, 2020, this item related to the energy efficiency projects of the EVO trains and includes mainly EECs accrued in January-December 2020 and, for a residual amount, in May-December 2019. Certificates are measured at the weighted average price for the energy year (as defined by the Italian Energy Services Operator) at the end of the reporting period.

The decrease compared with the previous year is due to the completion of the AGV fleet project at the end of the previous year.

### 24. Trade receivables

The following table shows a breakdown of trade receivables:

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| Receivables due from customers | 2,787,230 | 8,602,509 | (5,815,279) |
| Provisions for doubtful accounts | (371,239) | (340,753) | (30,486) |
| Total | 2,415,991 | 8,261,756 | (5,845,765) |

Trade receivables primarily regard the indirect sales channel, consisting of travel agencies, and have decreased as a result of lower ticket sales.

Given the type of business and the structure of sales operations, as well as the payment methods used, the Company's overall exposure to credit risk is limited. The following table shows changes in provisions for doubtful accounts:

| (€) | Provisions for doubtful accounts |
|---|---|
| As of December 31, 2019 | 340,753 |
| Additions | 47,014 |
| Utilizations/Releases | (16,528) |
| As of December 31, 2020 | 371,239 |

## 25. Current tax receivables and payables

This item breaks down as follows:

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| Other tax credits | 18,912 | - | 18,912 |
| Total tax receivables | 18,912 | - | 18,912 |
| IRES payable | 5,689,862 | 10,847,572 | (5,157,710) |
| IRAP payable | 1,870,383 | 3,385,765 | (1,515,382) |
| Total current tax payables | 7,560,245 | 14,233,337 | (6,673,092) |

At December 31, 2020 total tax receivables amounted to €18,912. This item reflects the tax credit under Law Decree of 19 May 2020 no.34, article 125, for the sanitization and purchase of personal protection devices.

At December 31, 2020 total tax payables amount to €7,560,245 net of tax withholdings paid and offsets of tax withholdings by third parties, reflecting a decrease as a result of the diminished profitability.

## 26. Other current assets

This item breaks down as follows:

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| VAT receivables | 19,174,302 | 11,054,788 | 8,119,514 |
| Advances to vendors | 11,199,471 | 11,711,448 | (511,977) |
| Other assets | 4,346,309 | 3,232,130 | 1,114,179 |
| Social security contribution receivables | 1,671,460 | 727,536 | 943,924 |
| Deposits and guarantee deposits | 2,810,320 | 2,756,370 | 53,950 |
| Receivables resulting from credit cards | 217,187 | 2,263,430 | (2,046,243) |
| Amounts due from employees | 200,426 | 197,876 | 2,550 |
| Total | 39,619,475 | 31,943,578 | 7,675,897 |

The increase in "VAT receivables" reflects the activities for the period.

"Other assets" primarily consist of prepayments relating to commission on sureties, insurance policies and other payments made in advance for future periods.

"Social security contribution receivables" rose following the advance payment, made by the Company, of the salary supplements provided for by the Solidarity Contract signed with the trade unions, as described in note 11. "Personnel costs".

"Receivables resulting from credit cards" fell due to lower sales volumes.

## 27. Current financial assets

This item reflects the liquidity invested with a primary asset management company. The following table shows a breakdown.

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| Short-term investment of liquidity | 20,000,000 | 80,000,000 | (60,000,000) |
| Fair value gains/(losses) through profit or loss | 212,824 | 187,753 | 25,071 |
| Total | 20,212,824 | 80,187,753 | (59,974,929) |

In addition to changes to fair value through profit or loss, this item reflects the liquidity amount invested with a primary asset management company.
In view of the business model used and the contractual nature of the cash flows, the financial asset is measured at fair value through profit or loss. The investment of liquidity is considered short-term as the related instruments are held for trading and or are expected to be sold within twelve months of the reporting date.

At December 31, 2020 this item was €59,974,929 lower than the comparable year-earlier amount due to the divestments for the year.

## 28.Cash and cash equivalents

The following table shows a breakdown of cash and cash equivalents:

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| Bank and post office deposits | 205,710,055 | 89,301,165 | 116,408,890 |
| Cash at bank and in hand | 1,060,598 | 3,904,936 | (2,844,338) |
| Total | 206,770,653 | 93,206,101 | 113,564,552 |

This item includes current account balances and cash held at the various operating units around the country.
The increase on December 31, 2019 is due to the utilization of the revolving line of credit in March for the full amount available (€200 million).

More detailed information on movements in this item is provided in the statement of cash flows.

## 29. Equity

Equity breaks down as follows:

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| Share capital | 60,017,725 | 60,017,725 | - |
| Share premium reserve | 2,672 | 2,672 | - |
| Other reserves | 1,551,511,656 | 1,553,167,617 | (1,655,961) |
| Retained earnings | 182,385,631 | 150,422,939 | 31,962,692 |
| Total | 1,793,917,684 | 1,763,610,953 | 30,306,731 |

### Share capital

As of December 31, 2020, the Company's share capital amounts to €60,017,725 and consists of 64,013,275 no par ordinary shares divided in three classes, each of which attributes to the relevant shareholders specific rights under the Articles of Association.

The shares that make up the share capital do not entail any rights, constraints or obligations to distribute preference dividends or to make other preferential distributions. The shares have been pledged to lenders pursuant to the loan agreement in place. For additional information reference should be made to note 30. “Current and non-current borrowings”.

**Share premium reserve**

The share premium reserve reflects the share premium paid by shareholders at the time of the share capital increases subscribed in previous years.

**Other reserves and retained earnings**

*(i) Other reserves*

The breakdown of “Other reserves” is as follows:

| *(€)* | 2020 | 2019 | Change |
|---|---|---|---|
| Legal reserve | 12,004,000 | 12,004,000 | - |
| Cash flow hedge reserve | (1,657,086) | (1,125) | (1,655,961) |
| Reverse merger reserve | 1,541,164,742 | 1,541,164,742 | - |
| **Total** | **1,551,511,656** | **1,553,167,617** | **(1,655,961)** |

The legal reserve has reached the threshold required by law.

Movements in the cash flow hedge reserve are as follows:

| *(€)* | Cash flow hedge reserve |
|---|---|
| As of December 31, 2019 | (1,125) |
| Gain/(Loss) on cash flow hedges | (2,178,896) |
| Gain/(Loss) on cash flow hedges - tax effect | 522,935 |
| **Other comprehensive income/(loss)** | **(1,655,961)** |
| As of December 31, 2020 | (1,657,086) |

*(ii) Retained earnings/ (Accumulated losses)*

Movements in “Retained earnings/ (Accumulated losses)” are as follows:

- an increase of €31,867,079 due to profit for the period;
- an increase of €95,613 in the actuarial reserve for employee benefits.

Movements in the actuarial reserve for employee benefits are as follows:

| *(€)* | Actuarial reserve |
|---|---|
| As of December 31, 2019 | (997,318) |
| Actuarial gains/(losses) on employee benefits | 125,806 |
| Actuarial gains/(losses) on employee benefits - tax effect | (30,193) |
| **Other comprehensive income/(loss)** | **95,613** |
| As of December 31, 2020 | (901,705) |

Lastly, the table below shows the equity components at December 31, 2019, with indications for each of origin, possible use and distributability.

| (€) | As of December 31, 2020 | Possible uses (A, B, C) | Amount available as of December 31, 2020 |
|---|---|---|---|
| Share capital | 60,017,725 | | - |
| Share premium reserve | 2,672 | A, B, C | 2,672 |
| Legal reserve [10] | 12,004,000 | A, B | 455 |
| Reverse merger reserve | 1,541,164,742 | A, B, C | 1,541,164,742 |
| Cash flow hedge reserve | (1,657,086) | | - |
| Actuarial reserve [11] | (901,705) | | (901,705) |
| Retained earnings | 183,287,336 | A, B, C | 183,287,336 |
| **Total** | **1,793,917,684** | | **1,723,553,500** |

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

## 30. Current and non-current borrowings

The following table provides a breakdown of current and non-current borrowings.

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| Non-current portion of bank borrowings | 1,097,349,355 | 897,791,129 | 199,558,226 |
| Current portion of bank borrowings | 3,875,432 | 2,418,285 | 1,457,147 |
| **Total current and non-current borrowings** | **1,101,224,787** | **900,209,414** | **201,015,373** |

The following table shows movements in current and non-current borrowings in 2020.

| (€) | Non-current borrowings | Current borrowings | Total |
|---|---|---|---|
| As of January 1, 2020 | 897,791,129 | 2,418,285 | 900,209,414 |
| New issues /increase in borrowings | 200,000,000 | - | 200,000,000 |
| Repayments/reductions | - | - | - |
| Non-monetary effects | (441,774) | 1,136,836 | 695,062 |
| Interest | - | 320,311 | 320,311 |
| As of December 31, 2020 | 1,097,349,355 | 3,875,432 | 1,101,224,787 |

The breakdown of the current and non-current portions of borrowings as of December 31, 2020 and 2019 is as follows.

| As of December 31, 2020 (€) | Within 12 months | Between 1 and 5 years | After 5 years | Total |
|---|---|---|---|---|
| Bank borrowings | 3,875,432 | 1,097,349,355 | - | 1,101,224,787 |
| Total | 3,875,432 | 1,097,349,355 | - | 1,101,224,787 |

| As of December 31, 2019 (€) | Within 12 months | Between 1 and 5 years | After 5 years | Total |
|---|---|---|---|---|
| Bank borrowings | 2,418,285 | 897,791,130 | - | 900,209,415 |
| Total | 2,418,285 | 897,791,130 | - | 900,209,415 |

The following table shows the breakdown of bank borrowings by bank as of December 31, 2020 and 2019.

[10] The amount of the legal reserve in excess of the legal limit set by article 2430 of the Italian Civil Code is available for share capital increases.
[11] The actuarial reserve is to be covered out of retained earnings and must not be considered for dividend distribution purposes.

| (€) | | | As of December 31, | | As of December 31, | |
|---|---|---|---|---|---|---|
| Bank | Nominal value | Interest rate | *of which current* | 2020 | *of which current* | 2019 |
| Banca IMI, Unicredit, BPM, Mediobanca, Natixis, Santander, Caixa, NatWest, MUFG, ING, BNL, BPER, Société Générale | 900,000,000 | Euribor 3m + spread | 2,841,152 | 900,632,282 | 2,418,285 | 900,209,215 |
| Banca IMI, Unicredit, BPM, Mediobanca, Natixis, Santander, Caixa, NatWest, MUFG, ING, BNL, B PER, Société Générale | 200,000,000 | +Euribor 6m + spread | 1,034,280 | 200,592,505 | - | - |
| Total | | | 3,875,432 | 1,101,224,787 | 2,418,285 | 900,209,415 |
| *of which at a fixed interest rate* | | | | - | | - |
| *of which at a variable interest rate* | | | | *1,101,224,787* | 2,418,285 | 900,209,415 |

On November 6, 2019, the Company obtained a new syndicated green loan worth a total of €1,100 million, a sum that was used in part to repay early the full amount of the previous loan outstanding. The green transaction was hailed as the largest ever in the transport sector.
In the meantime, the Company activated a process to support the growing commitment and attention that it intends to devote to ESG issues, with the objective of increasingly integrate sustainability in its strategy.
In particular, in January 2020, an analysis was conducted on the stakeholders that might affect, or be affected by, the Company, its activities and the relevant results, in tandem with a materiality analysis designed to identify the factors that might have a significant economic, environmental and social impact for the Company or its stakeholders.
The assessment, which included also benchmark analyses with comparable companies in terms of business size and nature, identified a number of sustainability indicators, from which the Company selected the three considered most fitting with its ESG strategy.
Thus, by exercising the Sustainability Linked Option set out in the agreement, the Company presented to the lenders the three KPIs selected and related targets, obtaining their approval in August, which makes it possible to qualify the loan as both sustainable and green.

The Loan Agreement (hereinafter "the Agreement") consists of two credit facilities, to be drawn down by way of cash disbursements, in particular:

- A "Facility A") for a total of €900,000,000, with a 5-year tenor, which was used in 2019 to repay the existing loan and to pay for borrowing fees, costs and expenses;
- A Revolving Facility for a total of €200,000,000, fully drawn down in 2020, to meet working capital and general cash requirements.

Facility A is a bullet loan for repayment at maturity (November 2024), whilst the Revolving Facility will expire on the last day of the relevant interest period, save for any extension. This facility has been recognized as part of non-current borrowings, based on assessments made on the reporting date.

The interest rate applied is given by a spread plus Euribor, it being understood that the total of both can never be lower than zero.

The Agreement calls for several general obligations, as well as positive and negative covenants, in line with market practice for loans of a similar nature and amount. Moreover, by way of example, the Agreement calls for, among other things:

- early repayment of the loan upon occurrence of certain events, including among others: (i) change of control; (ii) acts of disposition of all or substantially all of the Company's assets; (iii) use of proceeds from any listing (within the limits indicated in the Agreement); (iv) use of proceeds from acts of disposition of company assets, the issue of financial instruments, listing and insurance proceeds, within the limits indicated in the agreement;
- a prohibition on the payment of management, consulting or other fees to a shareholder of the Company;

- specific limitations on dividend distributions.

The Agreement also contains cross-default provisions in the event that:
- any borrowing, within the meaning of the Agreement, is not repaid at maturity or by the end of the original grace period, if any;
- repayment of any borrowing is accelerated following a default;
- the total of the borrowings, as referred to in the previous two points, should exceed €10,000,000.

In addition, there are other events of default, such as:
- missed or late payment of any sum due (except for cases where such missed or late payment is due to technical errors and/or to errors related to a failure of payment systems and the relevant payment is made within the following 5 business days;
- failure to comply with the additional obligations provided for in the Agreement that is not remedied within 15 days from the time the Company is made aware of the issue;
- untrue and incorrect representations and warranties in relation to substantial aspects that are not remedied within 15 days from the time the Company is made aware of the issue;
- the start of pre-bankruptcy or bankruptcy proceedings and other insolvency events; and/or
- occurrence of a Material Adverse Effect that is not remedied within 15 days from the time the Company is made aware of it.

In addition to the Loan Agreement, the Company signed a Deed of Pledge over 100% of the Company's shares to secure the Loan.

Following the extraordinary and exceptional events occurring during the year, the Company submitted a waiver request to its lenders in June, obtaining the consent to waive compliance with the ratios set in the financial covenants throughout 2020, as well as to changes to such ratios for 2021.

The table below compares the thresholds for the financial covenants indicated in the loan agreement with the ratios applicable to the Company at December 31, 2020 and December 31, 2019.

| | Covenants[12] | 2020 | | 2019 | |
|---|---|---|---|---|---|
| | | Contractual threshold | Ratio at the reporting date | Contractual threshold | Ratio at the reporting date |
| ***Senior Facilities Agreement*** | | | | | |
| 1 | Consolidated Net Leverage Ratio (Net Debt/EBITDA Adj.) | n.a. | 8.3x | < 5.5x | 2.5x |
| 2 | Fixed Charge Coverage Ratio (EBITDA Adj./interest expenses) | n.a. | 7.8x | > 3.5x | 14.4x |

## 31. Net debt

The table below shows the composition of the Company's net debt and reported net debt as of December 31, 2020 and December 31, 2019.

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| A. Cash | 1,060,598 | 3,904,936 | (2,844,338) |
| B. Other cash equivalents | 205,710,055 | 89,301,165 | 116,408,890 |
| C. Securities held for trading | - | - | - |
| **D. Liquidity (A + B + C)** | **206,770,653** | **93,206,101** | **113,564,552** |
| **E. Current financial assets** | **20,212,824** | **80,187,753** | **(59,974,929)** |
| F. Current bank borrowings | - | - | - |

[12] The ratios under the financial covenants are set by contract.

| | | | |
|---|---|---|---|
| G. Current portion of non-current borrowings | 3,875,432 | 2,418,285 | 1,457,147 |
| H. Other current financial liabilities | 7,694,586 | 5,826,314 | 1,868,272 |
| **I. Current debt (F + G + H)** | **11,570,018** | **8,244,599** | **3,325,419** |
| **J. Net current debt (I - E - D)** | **(215,413,459)** | **(165,149,255)** | **(50,264,204)** |
| K. Non-current bank borrowings | 1,097,349,355 | 897,791,129 | 199,558,226 |
| L. Notes issued | - | - | - |
| M. Other non-current liabilities | 43,907,921 | 48,184,666 | (4,276,745) |
| **N. Non-current debt (K + L + M)** | **1,141,257,276** | **945,975,795** | **195,281,481** |
| **O. Net debt (J + N)** | **925,843,817** | **780,826,540** | **145,017,277** |

## 32. Current and non-current lease liabilities

The table below provides details of current and non-current lease liabilities.

| *(€)* | 2020 | 2019 | Change |
|---|---|---|---|
| Non-current portion of finance leases | 43,907,921 | 48,184,666 | (4,276,745) |
| Current portion of finance leases | 7,694,586 | 5,826,314 | 1,868,272 |
| **Total current and non-current lease liabilities** | **51,602,507** | **54,010,980** | **(2,408,473)** |

The aging schedule for outstanding current and non-current lease liabilities as of December 31, 2020 and 2019 is shown below:

| As of December 31, 2020 *(€)* | Within 12 months | Between 1 and 5 years | After 5 years | Total |
|---|---|---|---|---|
| Finance leases | 7,694,586 | 15,277,032 | 28,630,889 | 51,602,507 |
| **Total** | **7,694,586** | **15,277,032** | **28,630,889** | **51,602,507** |

| As of December 31, 2019 *(€)* | Within 12 months | Between 1 and 5 years | After 5 years | Total |
|---|---|---|---|---|
| Finance leases | 5,826,314 | 19,491,755 | 28,692,911 | **54,010,980** |
| **Total** | **5,826,314** | **19,491,755** | **28,692,911** | **54,010,980** |

Movements in lease liabilities during the period are shown below:

| *(€)* | Lease liabilities |
|---|---|
| As of January 1, 2020 | 54,010,980 |
| Additions due to new leases | 1,015,979 |
| Additions/(Reductions) due to lease modifications | (1,002,644) |
| Financial expenses | 1,846,462 |
| Payments | (4,268,270) |
| As of December 31, 2020 | 51,602,507 |

## 33. Employee benefits

Employee benefits include the provisions relating to post-employment benefits (*TFR*) for Company employees and the liabilities relating to medium/long-term incentive plans awarded to several of the Company's employees. The following table shows a breakdown:

| *(€)* | 2020 | 2019 | Change |
|---|---|---|---|
| Post-employment benefits (TFR) | 16,084,574 | 14,730,588 | 1,353,986 |
| Medium/long-term incentive plan | 4,312,237 | 2,156,118 | 2,156,119 |
| **Total** | **20,396,811** | **16,886,706** | **3,510,105** |

As of December 31, 2020, "Employee benefits" amount to €20,396,811 (€16,886,706 as of December 31, 2019) and include liabilities relating to:

- post-employment benefits (*TFR*) for Company employees, determined on the basis of actuarial techniques;
- the medium/long-term incentive plan for several key management personnel whose roles are considered to contribute to the achievement of strategic results.

**Post-employment benefits (TFR)**

Movements in post-employment benefits (*TFR*) break down as follows:

| *(€)* | Post-employment benefits (*TFR*) |
|---|---|
| As of December 31, 2019 | 14,730,588 |
| Interest on the obligation | 123,512 |
| Service costs | 2,547,021 |
| Due from INPS under solidarity contract | 80,109 |
| Utilizations and prepayments | (1,270,851) |
| Actuarial loss/(gain) | (125,805) |
| As of December 31, 2020 | 16,084,574 |

The actuarial assumptions used to calculate the post-employment benefits (*TFR*) are shown in the following table:

| | 2020 | 2019 |
|---|---|---|
| **Economic assumptions** | | |
| Annual discount rate | 0.34% | 0.77% |
| Annual inflation rate | 0.80% | 1.20% |
| Annual increase in post-employment benefits | 2.10% | 2.40% |
| Annual salary increases | Managers 2.50% | Managers 2.50% |
| | Non-managers 1.00% | Non-managers 1.00% |
| **Demographic assumptions** | | |
| Frequency of advance payments | 1.20% | 1.20% |
| Employee turnover rate | 2.00% | 2.00% |

With regard to the discount rate, for all of the periods in question, the Iboxx Corporate AA with a duration of 10+ on the valuation date was used as the reference rate.
The table below provides a sensitivity analysis of the liability for post-employment benefits (*TFR*) in terms of changes in the main actuarial assumptions for the year ended December 31, 2020:

| *(€)* | 2020 |
|---|---|
| Employee turnover rate + 1% | 15,605,530 |
| Employee turnover rate - 1% | 16,666,383 |
| Inflation rate + 0.25% | 16,703,579 |
| Inflation rate – 0.25% | 15,495,604 |
| Discount rate + 0.25% | 15,329,367 |
| Discount rate – 0.25% | 16,892,207 |

**Medium/long-term incentive plan**

This item reflects the three-year incentive plan for the period 2019-2021 that was launched for several key management personnel whose roles are considered to contribute to the achievement of strategic results. The incentive is assigned when certain future performance goals for the Company are achieved.

As of December 31, 2020, the liability has been calculated on the basis of the Company's results for the three-year period 2019-2021, and the benefit linked to the incentive plan, to be paid at the end of the period, is determined on the basis of the expected cash flows, calculated at a discounting rate of 0.34%.

Movements in the provision relating to the medium/long-term incentive plan (also long-term incentive plan or "LTIP") as of the reporting date break down as follows.

| (€) | Medium/long-term incentive plan |
|---|---|
| As of December 31, 2019 | 2,156,118 |
| Interest on the obligation | 14,703 |
| Provisions | 2,141,416 |
| As of December 31, 2020 | 4,312,237 |

## 34. Deferred tax liabilities

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| Deferred tax liabilities | 27,544,659 | 30,254,912 | (2,710,253) |
| Total | 27,544,659 | 30,254,912 | (2,710,253) |

"Deferred tax liabilities" consist of temporary differences on the mismatch between the carrying amounts of the trademark and customer relationships and the related fair value recognized on completion of the PPA.

The following table shows movements in deferred tax liabilities.

| (€) | Trademark | Customer Relationships | Total |
|---|---|---|---|
| As of December 31, 2019 | 6,607,374 | 23,647,538 | 30,254,912 |
| Positive Impact on profit or loss | (792,885) | (1,917,368) | (2,710,253) |
| As of December 31, 2020 | 5,814,489 | 21,730,170 | 27,544,659 |

## 35. Non-current provisions

The following table shows movements in non-current provisions:

| (€) | Disputes with third parties | Disputes with personnel | Other provisions | Total |
|---|---|---|---|---|
| As of December 31, 2019 | 2,812,687 | 91,588 | 1,160,563 | 4,064,838 |
| Additions | 30,881,280 | 128,795 | 270,000 | 31,280,075 |
| Releases | (1,321,937) | (19,358) | (25,573) | (1,366,868) |
| Utilizations | (40,856) | (101,512) | (167,001) | (309,369) |
| As of December 31, 2020 | 32,331,174 | 99,513 | 1,237,989 | 33,668,676 |

As of December 31, 2020 "Non-current provisions" amount to €33,668,676 (€4,064,838 as of December 31, 2019) and primarily include provisions for pending legal proceedings.
"Other provisions" primarily include provisions made in previous years for operating costs that the Company may be requested to pay.

The following paragraphs provide a brief description of the main pending legal proceedings that the Company is involved in, for which it has made non-current provisions as of December 31, 2020 in the belief, as the requirements of IAS 37 are satisfied, based also on counsel's legal opinion, that an adverse ruling is probable.

<u>Lawsuits brought before the Civil Court of Rome</u> - On July 29, 2014, a supplier notified the Company of a court order to pay an amount of €166,104 plus interest and legal costs, which the Company has challenged before the court. At the first hearing, the court denied the claimant's request for provisional enforcement of the above order. The same supplier also notified the Company of the following: (i) on April 9, 2015 another provisionally enforceable court order to pay an amount of €197,640 plus interest

and legal costs and a corresponding writ of execution, which the Company has challenged; (ii) on January 28, 2016, a further court order for the amount of €244,000 plus interest and legal costs, which the Company has challenged.
All the above challenges of the court orders have been combined with a previous lawsuit brought by the Company against this supplier - regarding termination for breach of the procurement contract awarded to the latter and consequent compensation for damages. The hearing was adjourned until May 5, 2021 for clarification of the pleadings.

Lawsuits brought before the Civil Court of Rome - On December 29, 2017, a supplier notified the Company of a court order to pay an amount of €12,519 plus interest, court fees, VAT, legal fees and other expenses. The Company has appealed. The application for the court to grant provisional enforceability of the injunction was rejected. The hearing was adjourned until June 10, 2021 when oral discussion of the case will take place, with a deadline of May 30, 2021 for final briefs to be filed.

Lawsuit brought before the Civil Court of Rome - On December 14, 2018 a network of travel agencies notified the Company of an action requesting the court to rule on: i) the Company's non-fulfilment of the obligations referred to in the train ticket sale agreement; and ii) Italo's non-contractual liability. As a result, the plaintiff requested total damages of €721,689 plus legal expenses. The hearing was adjourned until September 29, 2021 for clarification of the pleadings.

Extraordinary appeal to the President of the Republic by Trenitalia SpA against the new Lounge rates of GS Retail Italia SpA - On August 25, 2020 notified an extraordinary appeal to the President of the Republic for the nullification (a) of the measure implemented by Grandi Stazioni Retail SpA, prot. 401 of February 28, 2020, containing "ART Resolution no. 130/2019 – application of new rates for lounge areas", after ascertaining the unlawfulness of the different rates charged by the same company pursuant to Resolutions ART no. 130/2019 and no. 96/2015, for the use by railway operators, including the Company, of areas in train stations designed to welcome and assist passengers (i.e. Lounge); and (b) of any other act in any way related, coordinated, preliminary or consequent. Following the challenge filed by Grandi Stazioni Retail SpA pursuant to article 10, paragraph 1, Presidential Decree 1199/1971, Trenitalia transferred the appeal to a jurisdictional venue, before the Administrative Regional Court (TAR) of the Lazio Region. A hearing date is awaited for this case.

Lawsuit brought before the Civil Court of Rome – On October 20, 2020 the Company filed an appeal against an order to pay notified by a railway operator for €191,786 plus interest, proceeding expenses and any necessary alleged training costs under Legislative Decree 247/2020 and decree of the Ministry of Infrastructure and Transport of November 30, 2012. The dispute was settled by the parties and at the hearing scheduled for March 31, 2021 the Judge took the case under advisement revoke the injunction and to declare that the action was deprived of purpose, with each party paying its own costs.

Lawsuit against resolution ART no.70 of October 31, 2014 concern "The regulatory measures the equitable and non-discriminatory access to railway infrastructures"
On January 8, 2015, the Company notified an appeal requesting the annulment of Transport Regulator's resolution no. 70/2014 of October 31, 2014 concern "The Regulatory measures for equitable and non-discriminatory access to railway infrastructures" and of any other original, connected and/or consequential act with particular reference to the inclusion of investments among the costs to be considered for the purpose of determining HS access costs. By order of March 10, 2016 the Lazio Regional Administrative Court rejected its territorial jurisdiction over the matter, indicating as the competent court the Piedmont Regional Administrative Court. The Company proceeded to file its appeal with this new Court. On June 5, 2017, the Company, following the examination of the documents filed by ART and RFI SpA at the request of the Regional Administrative Court (order no. 388 of March 17, 2017) notified - in connection with the case - an appeal for reasons added to confirm the complaints already raised in the application of the judgment and the illegality of the tariff determinations made by ART with resolution 70

of 2014. By judgment no. 1239 of November 20, 2017, the Piedmont Regional Administrative Court dismissed the action brought by the Company.
On February 20, 2018 the Company appealed this ruling. On August 5, 2019 the Council of State ordered a review of the complaints raised by the Company. The hearing is scheduled for October 7, 2021.

On July 26, 2017, Rete Ferroviaria Italiana SpA (RFI SpA) notified the Company its appeal against decision no. 541 of April 21, 2017 by which the Piedmont Regional Administrative Court rejected in part and in part declared inadmissible the appeal brought by RFI SpA for the annulment of resolution no. 70/2014 of October 31, 2014 by the Transport Regulator and any other original, connected and /or consequential act. By judgment no. 6108/2019 of September 9, 2019, the Council of State upheld the appeal brought by RFI SpA.

On October 31, 2019, the Company notified an appeal for the reversal of the decision of the Council of State of September 9, 2019 no. 6108, containing acceptance of the appeal brought by RFI against the decision of the Piedmont Regional Administrative Court no. 541/2017, concerning the Transport Regulator’s resolution no. 70/2014. In that case, on November 29, 2019, the Transport Regulator notified a counterclaim, with an injunction application (which it subsequently withdrew). By judgment no. 1262/2019 of February 12, 2021, the Council of State, after meeting on the appeal brought by Trenitalia SpA against the same decision, declared the appeals inadmissible.

On November 29, 2019 Trenitalia SpA notified an appeal for the reversal of the decision of the Council of State of September 9, 2019 no. 6108, containing acceptance of the appeal brought by RFI against the decision of the Piedmont Regional Administrative Court no. 541/2017, concerning the Transport Regulator’s resolution no. 70/2014. By judgment no. 1262/2019 of February 12, 2021 the Council of State, after meeting on the appeal brought by Italo SpA against the same decisions (see above), declared the appeals inadmissible.

On December 23, 2019, the Transport Regulator notified an appeal, brought in accordance with art. 111, paragraph 8 of the Constitution, against Council of State judgement 6108 of September 9, 2019, upholding the appeal brought by RFI against Piedmont Regional Administrative Court judgement 541/2017, concerning the Transport Regulator’s determination 70/2014. In connection with this lawsuit, on January 31, 2020, both the Company (backing the appeal brought by the Transport Regulator) and RFI (challenging the Regulator’s appeal) filed cross-appeals. A date for the relevant hearing is awaited.

In compliance with judgment 6108/2019 of the Council of State, by resolution no. 39 of March 25, 2021 ART initiated a procedure to identify the criteria for the redetermination of the HS/HC rail infrastructure access fee for the period between November 6, 2014 to December 31, 2015 and, to this end, called for a public consultation on the draft containing the criteria for the redetermination of the access fee to the HS/HC railway infrastructure for the aforementioned period.

<u>Lawsuit brought before the Civil Court of Rome</u> – On February 24, 2021, a supplier appealed under Art. 702 bis of the civil procedure code to obtain a Court order for the Company to pay €152,618 for incorrect calculation of the sums due in relation to the purchase of advertising space and related premiums. The hearing for the appearance of the parties is scheduled for April 2021.

<u>Lawsuit brought before the Labor Court Judge</u> - The Company is the defendant in actions concerning the following matters: request for classification as permanent employee; appeals against disciplinary measures and alleged anti-union conduct. Where quantifiable and if the risk of losing the case is deemed to be likely, specific provisions have been allocated for risks and charges.

<u>Lawsuits brought before Justices of the Peace and Courts</u> – The Company is the defendant in lawsuits brought by certain passengers requesting reimbursements or complaining about alleged damage, financial and otherwise, caused by problems linked to the COVID-19 epidemic, delays to the train in which

they were travelling or by accidents affecting them on board trains. Where quantifiable and if the risk of losing the case is deemed to be likely, specific provisions have been allocated for risks and charges.

### 36. Trade payables

The following table shows a breakdown of trade payables:

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| Trade payables | 87,406,105 | 131,780,023 | (44,373,918) |
| Invoices to be received | 57,892,004 | 57,024,276 | 867,728 |
| **Total** | **145,298,109** | **188,804,299** | **(43,506,190)** |

At December 31, 2020 the reduction of trade payables, in the amount of €43,506,190, is due mainly to the contraction of activities determined by the pandemic and by the introduction of restrictive measures by the Government Authorities, which resulted in a decrease in operating costs as well as a review of the terms and conditions of arrangements with certain partners in light of the diminished business.

The supplier of the trains in Italo's fleet has sold trade receivables due from Italo and related to the supply of EVO pendolinos to a factoring company. These items are accounted for in trade payables as of December 31, 2020. This transaction:

- does not involve any modification of payment terms for the Company, although it can allow the deferment of payments due to the use, by the factoring company, of more favorable interest rates than those specified in the original contract with Alstom;
- does not entail the payment of any fees to the factor by the Company.

Since there have been no changes in the nature of the debt that has been factored (no significant amendments to payment terms or additional costs for the Company), it continues to be classified as a trade payable and not as a financial liability.

As of December 31, 2020 trade payables due to the factoring company amount to €18,796,279.

### 37. Deferred revenues from transport services

The following table shows a breakdown of this item:

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| Deferred revenues from transport services | 34,555,290 | 44,585,304 | (10,030,014) |
| **Total** | **34,555,290** | **44,585,304** | **(10,030,014)** |

This item primarily includes revenues collected for train tickets sold for services to be provided after the end of each period under review and, to a lesser extent, reimbursements due to passengers as a result of delays or disruptions to services.

The decrease compared with the previous year, amounting to €10,030,014, is mainly due to lower ticket sales as a result of the restrictive measures adopted by the government authorities to combat the health emergency determined by the pandemic.

### 38.Other current liabilities

The following table shows a breakdown of this item:

| (€) | 2020 | 2019 | Change |
|---|---|---|---|
| Due to employees | 18,556,376 | 13,590,050 | 4,966,326 |

| | | | |
|---|---|---|---|
| Tax liabilities and social security payables | 5,853,018 | 6,402,936 | (549,918) |
| Other liabilities | 1,446,263 | 3,489,534 | (2,043,271) |
| Current liabilities for amounts settled | - | 1,307,193 | (1,307,193) |
| Derivative liabilities | 2,180,376 | 1,480 | 2,178,896 |
| Payables for derivative financial expenses | 130,744 | 54,675 | 76,069 |
| Total | 28,166,778 | 24,845,868 | 3,320,909 |

The decrease in "Tax liabilities and social security payables" was due to the use of measures implemented by the Government to support the liquidity of businesses hit by the pandemic.

"Other liabilities" include mainly the security deposits received from travel agencies in relation to the sale of tickets and other liabilities toward customers. The decrease in this item was due to lower sale volumes.

The item "Derivative liabilities" indicates the fair value of derivative instruments held by the Company at the reporting date.
The instruments involve the periodic exchange of cash flows (outflows at a fixed rate and inflows at a variable Euribor rate) with a notional value hedging a portion of the underlying debt. The above derivative instruments, some of which are classified as "ESG-linked", qualify for the application of hedge accounting and as cash flow hedges of existing debt. The increase was due to the combined effect of the overall notional value of the derivative portfolio and a shift of the yield curve.

The following table shows financial assets and liabilities measured and recognized at fair value as of December 31, 2020 and December 31, 2019:

| As of December 31, 2020 *(€)* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets | | | | |
| Bonds | - | - | - | - |
| Term deposits | - | - | - | - |
| Cash | 20,212,824 | | - | 20,212,824 |
| Total financial assets | 20,212,824 | - | - | 20,212,824 |
| Financial liabilities | | | | |
| Non-current borrowings | | (1,097,349,355) | - | (1,097,349,355) |
| Current borrowings | - | (3,875,432) | - | (3,875,432) |
| Derivative instruments | - | (2,180,376) | - | (2,180,376) |
| Total financial liabilities | - | (1,103,405,163) | - | (1,103,405,163) |

| As of December 31, 2019 *(€)* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets | | | | |
| Bonds | - | - | - | - |
| Term deposits | - | 40,086,470 | - | 40,086,470 |
| Cash | 40,101,283 | - | - | 40,101,283 |
| Total financial assets | 40,101,283 | 40,086,470 | - | 80,187,753 |
| | | | | |
| Financial liabilities | | | | |
| Non-current borrowings | - | (897,791,129) | - | (897,791,129) |
| Current borrowings | - | (2,418,285) | - | (2,418,285) |
| Derivative instruments | | (1,480) | - | (1,480) |
| Total financial liabilities | - | (900,210,894) | - | (900,210,894) |

## 39. Other information

**Remuneration of directors and statutory auditors**

Pursuant to article 2427, paragraph one, no. 16 of the Italian civil code, the table below shows the annual compensation payable to Directors and members of the Board of Statutory Auditors.

| (€) | 2020 | 2019 |
|---|---|---|
| Directors | 11,433,494 | 5,262,619 |
| Board of Statutory Auditors | 140,000 | 140,000 |
| Total | 11,573,494 | 5,402,619 |

**Auditors' fees**

Pursuant to article 37, paragraph 16, of Legislative Decree 39/2010 and sub-paragraph 16-*bis* of article 2427 of the Italian Civil Code, it is noted that fees payable to the audit firm for the year ended December 31, 2020 amount to €403,000 (net of VAT and expenses incurred) and include:

- the audit of financial statements for the year ended December 31, 2020;
- the procedures performed in relation to completion of the quarterly and annual tax returns;
- other audit and non-audit services.

| (€) | 2020 |
|---|---|
| Audits | 95,000 |
| Tax attestation services | 18,000 |
| Other audit services | 110,000 |
| Other non-audit services | 180,000 |
| Total | 403,000 |

**Guarantees**

The guarantees issued by banks to third parties on the Company's behalf break down as follows:

| (€) | 2020 | 2019 |
|---|---|---|
| Sureties to guarantee performance of lease contracts | 2,424,733 | 2,433,755 |
| Sureties to guarantee repayment of surplus VAT | - | 34,968,801 |
| Sureties in favor of RFI SpA for use of infrastructure | 15,876,000 | 15,876,000 |
| Other | 1,031,679 | 632,138 |
| **Total** | 19,332,412 | 53,910,694 |

During the periods in question, the Company did not directly grant any guarantees to third parties.

**Commitments**

The main commitments made by the Company relate to purchases of new EVO trains and maintenance contracts Italo's fleet.

Expected payments for non-cancellable contracts as of December 31, 2020 and 2019 are as follows.

| (€) | 2020 | | 2019 | |
|---|---|---|---|---|
| | Purchase of EVO trains | Train maintenance | Purchase of EVO trains | Train maintenance |
| Within 12 months | 43,972,000 | 65,349,191 | 62,660,356 | 74,725,250 |
| Between 1 and 5 years | - | 352,121,953 | 43,972,000 | 330,682,069 |
| After 5 years | - | 1,913,582,121 | - | 1,957,348,955 |
| **Total** | 43,972,000 | 2,331,053,265 | 106,632,356 | 2,362,756,274 |

**Contingent liabilities**

The Company is a party to civil, administrative, labor and social security proceedings arising as a result of its ordinary activities. Based on the information currently available, and considering risk provisions in place, the Company believes, based also on counsel opinion, that the outcomes of these proceedings can be reasonably expected not to have a significant negative impact on the financial statements. Therefore, in line with the provisions of IAS 37, contingent liabilities resulting from pending legal actions brought against the Company, where an adverse outcome is not deemed likely and, in any case, cannot be quantified, have not been recognized in the financial statements for the periods under review. The following paragraphs provide a brief description of the pending proceedings.

<u>Lawsuit brought before Lazio Regional Administrative Court</u> – On February 11, 2014, a consumers' association notified the Company of a petition requesting annulment of (i) measures to authorize the installation of “Train Repeater” systems and “Wi-Fi access points” on board Italo trains, and (ii) any other related, connected or consequential action. A date for the hearing is awaited.

<u>Lawsuit brought before the Council of State by a consumers’ association against Piedmont Regional Administrative Court judgement 1181/2017</u> - On February 9, 2018, a consumers’ association notified Italo SpA of an appeal against sentence no. 1181 of 9 November 2017, with which the Piemonte Regional Administrative Court rejected the appeal brought by the same association for the cancellation (i) of art. 3, paragraphs 1, 2, 4 and 5 of the Transport Regulator’s determination 54/2016 of May 11, 2016, regarding "Measures concerning the minimum content of the specific rights of passengers in possession of season tickets in respect of the operators of high-speed rail services" and (ii) of any other related, connected and/or consequential action. On March 16, 2018, Trenitalia SpA notified a cross-appeal against the aforementioned Piedmont Regional Administrative Court sentence 1181 of November 9, 2017. A date for the appeal is awaited.

<u>Lawsuit brought before Piemonte Regional Administrative Court by Trenitalia SpA against the Transport Regulator’s determination 152/2017, the Network Prospectus for 2019 and the Transport Regulator’s determination 33/2018</u> - On February 20,2018, Trenitalia SpA notified the Company of an appeal with which it has requested the annulment - subject to precautionary relief - of the Transport Regulator’s determination 152/2017 of December 22,2017, concerning "Conclusion of the proceeding initiated with determination 77/2017. Additions to the principles and criteria applied in regulation of the national railway system ... ", as well as of the January 2018 edition of the Network Prospectus for 2019, limited to certain paragraphs, and of any other related, connected and/or consequential action. On March 22, 2018, Italo SpA declared that it would appear before the court, challenging the territorial jurisdiction of Lazio Regional Administrative Court. As part of the same lawsuit, on May 21, 2018, Trenitalia notified the Company of additional reasons for its appeal, also requesting annulment (i) of the Transport Regulator’s determination 33/2018, concerning “Application of the principles and criteria for regulating access to the national railway system established in determination 152/2017: approval, subject to certain requirements, of the formats for the information published by RFI SpA in accordance with provision 1 in Annex A; compliance with the requirements of the new rate system drawn up by RFI SpA”, (ii) of the Network Prospectus for 2019 – March 2018 edition, limited to certain paragraphs, and of any other related, connected and/or consequential action. On June 22, 2018, in order 6977, Lazio Regional Administrative Court declared that it did not have jurisdiction, indicating Piedmont Regional Administrative Court as the competent court. Following the appeal under article 16 of the code for administrative proceedings lodged by Trenitalia SpA against the above order 6977/2018, the Council of State with order no.7321 of December 31, 2018, upheld the jurisdiction of Piedmont Regional Administrative Court over the challenge to the measures adopted by the Transport Regulator. As notified on January 14, 2019, Trenitalia SpA thus resumed its action before Piedmont Regional Administrative Court, subsequently declaring that it was no longer interested in precautionary relief. A hearing has been scheduled for May 11, 2021.

Lawsuit before the Council of State brought RFI SpA against Piedmont Regional Administrative Court 264/2019 – On June 10, 2019 RFI SpA notified an appeal against decision no. 264/2019 of March 11, 2019, whereby Piedmont Regional Administrative Court rejected the appeal filed by the RFI SpA against resolution no. 78/2018 of the Transport Regulator and any other related, connected and/or consequential action. Following the hearing held on March 11, 2021, the appeal was held under advisement.

Lawsuit brought before the Supreme Court of Cassation by ARERA (the Regulatory Authority for Energy, Networks and the Environment) against Council of State judgement 3348/2019 – On September, 23 2019, ARERA (the Regulatory Authority for Energy, Networks and the Environment) notified the Company of its decision to appeal Council of State judgement 3348/19 before the Supreme Court of Cassation, in accordance with art. 111 of the Constitution, art. 362 of the of the Code of Civil Procedure and art. 110 of the code for administrative proceedings. The case concerns subsidies for energy intensive companies. A date for the relevant hearing is awaited.

Extraordinary appeal to the President of Italy by Trenitalia SpA against the Transport Regulator's determination 130/2019 - On January 31, 2020, Trenitalia notified an extraordinary appeal to the President of Italy, requesting cancellation of (a) The Transport Regulator's determination 130/2019 of October 01, 2019, concerning "Conclusion of the proceeding initiated with determination 98/2018 - Regulatory measures concerning access to service facilities and rail-related services", and in particular the measures prescribed in some paragraphs of the same determination, and (b) any other related, connected, prior and/or consequential action.
Following the appeal filed by the Transport Regulator, pursuant to article 10, paragraph 1, Presidential Decree 1199/1971, on March 24, 2020 Trenitalia SpA transferred the case to a jurisdictional venue, before the Regional Administrative Court of the Piedmont Region. On July 7, 2020, Trenitalia SpA – in connection with the case – notified an appeal for additional reasons requesting cancellation of the Transport Regulator's protocol 6839/2020 of May 8, 2020, laying down "Transport Regulator's Resolution no. 130/2019 containing "Measures concerning access to service facilities and rail-related services". Statement of exclusion from scope of Transport Regulator's resolution no. 130/2019. Response". At the end of the hearing of November 25, 2020, the case was taken under advisement.

Lawsuit brought before Lazio Regional Administrative Court – On January 19, 2021 a railway operator notified the Company of an appeal for reasons added for the cancellation of the measures whereby the Ministry of Infrastructure and Transport rejected this operator's request for the grant under article 214 of Law Decree 34 of May 19, 2020, converted into Law 77 of July 17, 2020; and (ii) any related, connected and consequential action. The Company filed an appearance. On March 15, 2021 the railway operator notified further added reasons with respect to further measures relating to the Company's ineligibility to the grant in question. A date for the hearing is awaited.

Extraordinary appeal to the President of Italy by Trenitalia SpA against the Plans To Use GS Retail SpA's Stations – On April 2, 2021, Trenitalia notified an extraordinary appeal to the President of Italy, requesting cancellation of (a) Grandi Stazioni Retail SpA's "Plan To Use Station 2022 – Measure 11.6 of Resolution no. 130/2019 of the Transport Regulator" e (b) and any other connected and coordinated, preceding and consequential action. The proceedings are under way.

Finally, the Company could be involved in future in court cases and/or proceedings brought by: (i) suppliers that raised exceptions concerning contractual obligations, (ii) travelers who claim alleged unfair commercial practices can ask for refunds or damages for problems related to the COVID-19 pandemic, the purchase of tickets, delays of the trains with which they travelled or accidents occurred on board the train; (iii) consultants, employees and former employees regarding the payment of amounts deemed to be due and damages, appeals against disciplinary action and dismissal, requests for position upgrade, resulting in claims for payment of the related differences in pay, and other claims for work-related payments or damages; (iv) third parties claiming damages for the alleged breach of image rights; (v) other rail companies claiming compensation under articles 1 *et seq* of the Ministry of Infrastructure and Transport decree of November 30, 2012; and/or (vi) the Italian Antitrust Authority ("AGCM") or the Transport Regulator regarding the Company's handling of refunds payable as a result of the COVID-19 epidemic.

**Related-party transactions**

The following paragraphs show the details of transactions performed by the Company with related parties, identified according to the criteria defined by IAS 24 "Related Party Disclosures", for the years ended December 31, 2020 and December 31, 2019.

In the following tables, related party transactions include transactions with the following in the periods shown:

- Shareholders: Allianz SpA.
- Subsidiaries of shareholders: Essecieffe Investment Srl.
- Senior managers: members of the Board of Directors, the Chairman of the Board of Directors, the Executive Deputy Chairman, the Chief Executive Officer and key management personnel.

The following tables summarize the impact of related party transactions on the income statement for the years ended December 31, 2020 and December 31, 2019 and on the statement of financial position as of December 31, 2020 and 2019.

| *(€)* | Shareholders | Subsidiaries of shareholders | Members of the Board of Directors | Key management personnel | Total related parties | Financial statement item | Impact on financial statement item |
|---|---|---|---|---|---|---|---|
| ***Impact of transactions on the income statement*** | | | | | | | |
| ***Personnel costs*** | | | | | | | |
| Year ended December 31, 2020 | - | - | (11,273,592) | (1,508,934) | (12,782,526) | (63,769,625) | 20.04% |
| Year ended December 31, 2019 | - | - | (5,122,996) | (1,472,331) | (6,595,327) | (69,445,177) | 9.50% |
| *Other operating costs* | | | | | | | |
| Year ended December 31, 2020 | (217,671) | (600,000) | (12,429) | (41,699) | (871,799) | **(98,709,295)** | **0.88%** |
| Year ended December 31, 2019 | (219,964) | (598,348) | (11,213) | (37,383) | (866,908) | (100,079,705) | 0.87% |

| *(€)* | Shareholders | Subsidiaries of shareholders | Members of the Board of Directors | Key management personnel | Total related parties | Financial statement item | Impact on financial statement item |
|---|---|---|---|---|---|---|---|
| ***Impact of transactions on the statement of financial position*** | | | | | | | |
| ***Employee benefits*** | | | | | | | |
| As of December 31, 2020 | - | - | 1,111,828 | 658,360 | 1,770,188 | 20,396,811 | 8.68% |
| As of December 31, 2019 | - | - | 554,430 | 581,708 | 1,136,138 | 16,886,706 | 6.73% |
| *Other current liabilities* | | | | | | | |
| As of December 31, 2020 | - | - | 9,054,200 | 226,856 | 9,281,056 | 28.166.777 | 32,95% |
| As of December 31, 2019 | - | - | 2,930,634 | 232,151 | 3,162,785 | 24.845.868 | 12,73% |

Personnel costs refer to salaries, remuneration, bonuses and incentives, inclusive of social security payables, paid to members of the Board of Directors and key management personnel.

Other operating costs mainly refer to:

- premiums payable on insurance policies stipulated by the Company with Allianz SpA;
- the cost of consulting services provided by Essecieffe Investment Srl;
- the cost of leasing company cars granted as benefits to senior managers.

Employee benefits refer to post-employment benefits (*TFR*), amounts payable under medium/long-term incentive plans and other accrued and unpaid benefits due to senior management and key management personnel at the reporting date.

Other current liabilities refer mainly to accrued but unpaid compensation and bonuses due to members of the Board of Directors and key management personnel as of the reporting date.

### 40. Disclosure required by Law 124 of August 4, 2017

Pursuant to Law 124 of 4 August 2017, the following is the disclosure required.

| Entity | Description | Amount in € |
|---|---|---|
| MINISTRY OF INFRASTRUCTURE AND TRANSPORT | Reduction of infrastructure access fee (Law Decree no. 34 of May 19, 2020) | 30,150,857 |

By Law Decree no. 34 of May 19, 2020, the Government Authorities provided, among other measures, for the reduction of the access fee to the railway infrastructure for 2020 in favor of all railway companies carrying passengers not subject to public service obligations, with an overall reduction in the infrastructure access fee of approximately: (i) 80% from March 10 until June 30, 2020; and (ii) 50% from July 1 until December 31, 2020.

Since there is no real monetary disbursement that would allow the point in time at which the grant was received to be fixed, it was considered appropriate to adopt the accrual basis of accounting, although the legislation on the transparency of public grants provides for the disclosure in the notes to the financial statements of "[...] information relating to grants, subsidies, benefits, contributions or aid, in cash or in kind, not of a general nature and provided without consideration - in the form of remuneration or compensation - for such disbursements by the public authorities referred to in Article 1, paragraph 2, of Legislative Decree 165 of 30 March 2001 and by the parties referred to in Article 2-bis of Legislative Decree 33 of 14 March 2013", indicating the use of cash basis accounting. However, in the case at hand,

### 41. Events after December 31, 2020

On January 11, 2021 the Ministry of sustainable infrastructures and mobility (formerly Ministry of Infrastructure and Transport), in concert with the Ministry of the Economy and Finances, enacted the grant eligibility decree, pursuant to article 214 of Law Decree 34 of May 19, 2020.

By Cabinet Office Decree 30 of March 13, 2021, the Government Authorities again imposed restrictive measures in almost the entire country for the period March 15- April 6, tightening in particular on the days close to the Easter holidays, strongly recommending to avoid all unnecessary travel and thus starting a new decline in demand and, therefore, services. Eventually, with law decree no. 44 of April 1, 2021, such measures were substantially extended until April 30, 2021.

On March 15, 2021 the Company submitted to the Ministry of sustainable infrastructures and mobility an application for grant eligibility status under paragraph 5-bis of article 214 of Law Decree 34 of May 19, 2020, converted as amended by Law 77 of July 17, 2020. The report prepared in accordance with the same criteria, manners and procedures laid down by Inter-ministerial Decree 472 of October 22, 2020, on which the first application was based, is designed to obtain another grant to mitigate the effects of the COVID-9 emergency, between August 1, 2020 and December 31, 2020 (second grant period).

By Law Decree 41 of March 22, 2021, the government authorities enacted new provisions aimed at strengthening the tools to combat the spread of COVID-19 infection and containing the social and economic impact of the prevention measures adopted. The effects of these provisions will unfold in five areas: i) support for service enterprises and operators, ii) work and the fight against poverty, iii) health and safety, iv) support for local and regional authorities; v) additional sector actions.

In March, the European Commission issued the declaration of compatibility pursuant to Article 108(3) of the Treaty on the Functioning of the European Union with reference to the resources provided to railway undertakings for goods and passengers in accordance with Article 214 of Law Decree 34 of May 19, 2020. To that effect, the amount to compensate the Company for the damage suffered up to June 30, 2020, which amounts to €145.6 million, representing a contribution of €141.2 million to the operating revenues for the year, in view of the fact that the collection will take place in 15 annual instalments until 2034.
By virtue of the above declaration, on April 9, 2021 the Ministry of infrastructure and sustainable mobility authorized the disbursement of the first two grant installments for a total amount of €19.4 million, upon trasmission to the competent bodies for registration.

* * * * *

These financial statements, consisting of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes provide a true and fair view of the Company's financial position, the profit (loss) for the period and cash flows, in compliance with the IFRS adopted by the European Union.

Rome, April 26, 2021

For the Board of Directors

The Chairman

Luca Cordero di Montezemolo