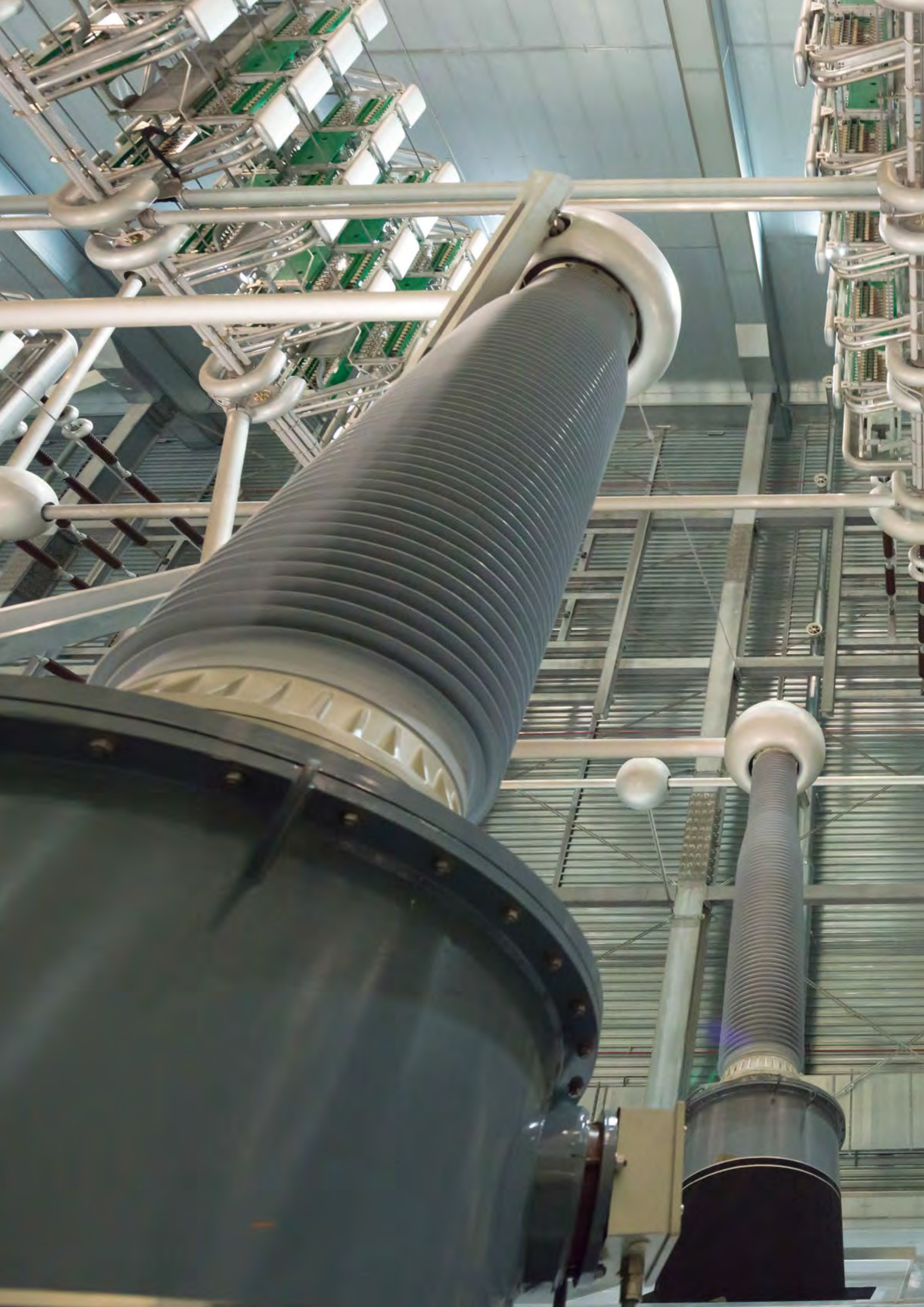

CONSOLIDATED FINANCIAL STATEMENTS

Contents

Consolidated financial statements

Consolidated income statement

(€m)

	NOTE	2021	2020
A - REVENUE			
1. Revenue from sales and services	1	2,534.5	2,377.5
of which: related parties		*1,766.9*	*1,685.3*
2. Other revenue and income	2	71.8	112.9
of which: related parties		*1.6*	*1.5*
Total revenue		**2,606.3**	**2,490.4**
B – OPERATING COSTS			
1. Raw and consumable materials used	3	206.4	160.8
of which: related parties		*0.1*	*1.3*
2. Services	4	218.3	189.1
of which: related parties		*11.0*	*12.6*
3. Personnel expenses	5	295.3	287.0
- gross personnel expenses		*401.1*	*370.2*
- capitalised personnel expenses		*(105.8)*	*(83.2)*
of which: related parties		*3.5*	*3.1*
4. Amortisation, depreciation and impairment losses	6	654.4	634.4
5. Other operating costs	7	31.5	42.5
of which: related parties		*0.1*	*0.2*
Total operating costs		**1,405.9**	**1,313.8**
A-B OPERATING PROFIT/(LOSS)		**1,200.4**	**1,176.6**
C – FINANCIAL INCOME/(EXPENSES)			
1. Financial income	8	16.6	9.6
2. Financial expenses	8	(95.8)	(91.7)
3. Share of profit/(loss) of investees accounted for using the equity method	9	0.3	(3.9)
D – PROFIT/(LOSS) BEFORE TAX		**1,121.5**	**1,090.6**
E – INCOME TAX EXPENSE	**10**	**317.9**	**297.4**
F – PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**803.6**	**793.2**
G – PROFIT/(LOSS) FOR THE YEAR FROM ASSETS HELD FOR SALE	**11**	**(12.8)**	**2.1**
H – PROFIT FOR THE YEAR		**790.8**	**795.3**
Profit attributable to owners of the Parent		***789.4***	***785.5***
Profit attributable to non-controlling interests		***1.4***	***9.8***
Earnings per share	12		
Basic earnings per share		0.393	0.391
Diluted earnings per share		0.393	0.391
Earnings per share from continuing operations			
Basic earnings per share	12	0.400	0.395
Diluted earnings per share		0.400	0.395

Consolidated statement of comprehensive income*

(€m)

	NOTE	2021	2020
PROFIT FOR THE YEAR		**790.8**	**795.3**
Other comprehensive income for the year reclassifiable to profit or loss			
- Cash flow hedges	24	74.9	(78.7)
- Financial assets at fair value through other comprehensive income	24	(3.0)	2.5
- Gains/(Losses) from translation of financial statements in currencies other than the euro	24	5.5	(22.7)
- Cost of hedges	24	0.4	13.7
Other comprehensive income for the year not reclassifiable to profit or loss			
- Actuarial gains/(losses) on provisions for employee benefits	24	9.6	3.1
Total other comprehensive income		**87.4**	**(82.1)**
COMPREHENSIVE INCOME FOR THE YEAR		**878.2**	**713.2**
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Parent		*876.8*	*703.4*
Non-controlling interests		*1.4*	*9.8*

** Amounts are shown net of tax, where applicable..*

Consolidated statement of financial position

(€m)

	NOTE	31 DECEMBER 2021	31 DECEMBER 2020
A – NON-CURRENT ASSETS			
1. Property, plant and equipment	13	15,316.6	14,559.7
of which: related parties		*60.3*	*54.4*
2. Goodwill	14	256.5	230.1
3. Intangible assets	15	400.0	347.8
4. Deferred tax assets	16	146.6	111.8
5. Investments accounted for using the equity method	17	76.2	75.8
6. Non-current financial assets	18	287.7	507.8
7. Other non-current assets	19	17.5	18.9
Total non-current assets		**16,501.1**	**15,851.9**
B – CURRENT ASSETS			
1. Inventories	20	69.9	66.4
2. Trade receivables	21	2,777.4	1,245.2
of which: related parties		*302.3*	*234.1*
3. Current financial assets	18	980.6	638.5
4. Cash and cash equivalents	22	1,566.8	2,689.0
of which: related parties		*0.1*	*0.1*
5. Income tax assets	23	4.8	9.7
6. Other current assets	19	83.1	128.3
Total current assets		**5,482.6**	**4,777.1**
C- Discontinued operations and assets held for sale	**30**	**375.5**	**1.3**
TOTAL ASSETS		**22,359.2**	**20,630.3**

(continued)

(continued) (€m)

	NOTE	31 DECEMBER 2021	31 DECEMBER 2020
D – EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
1. Share capital		442.2	442.2
2. Other reserves		683.4	613.2
3. Retained earnings/(accumulated losses)		2,964.3	2,711.6
4. Interim dividend		(197.4)	(182.7)
5. Profit for the year		789.4	785.5
Total equity attributable to owners of the Parent	**24**	**4,681.9**	**4,369.8**
E - EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**24**	**31.1**	**46.0**
Total equity attributable to owners of the Parent and non-controlling interests		**4,713.0**	**4,415.8**
F - NON-CURRENT LIABILITIES			
1. Long-term borrowings	25	8,835.0	9,860.2
2. Employee benefits	26	60.8	61.7
3. Provisions for risks and charges	27	134.2	171.4
4. Non-current financial liabilities	25	83.7	253.8
5. Other non-current liabilities	28	884.8	836.7
Total non-current liabilities		**9,998.5**	**11,183.8**
G – CURRENT LIABILITIES			
1. Short-term borrowings	25	1,947.0	1,002.2
2. Current portion of long-term borrowings	25	1,640.0	1,388.0
3. Trade payables	29	3,275.6	2,217.3
of which: related parties		*59.9*	*80.4*
4. Tax expense	29	28.1	-
5. Current financial liabilities	25	45.8	90.1
6. Other current liabilities	29	453.4	333.1
of which: related parties		*19.4*	*20.3*
Total current liabilities		**7,389.9**	**5,030.7**
H - Liabilities related to discontinued operations and assets held for sale	**30**	**257.8**	**-**
TOTAL LIABILITIES AND EQUITY		**22,359.2**	**20,630.3**

Consolidated statement of changes in equity

31 DECEMBER 2020 - 31 DECEMBER 2021
GROUP'S SHARE CAPITAL AND RESERVES

(€m)

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE	RESERVE FOR TREASURY SHARES	OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT AND NON-CONTROLLING INTERESTS
EQUITY AT 31 DECEMBER 2020	442.2	88.4	20.0	(216.9)	(9.5)	731.2	2,711.6	(182.7)	785.5	4,369.8	46.0	4,415.8
PROFIT FOR THE YEAR									789.4	789.4	1.4	790.8
OTHER COMPREHENSIVE INCOME:												
- Change in fair value of cash flow hedges				74.9						74.9		74.9
- Actuarial gains/(losses) on employee benefits						9.6				9.6		9.6
- Gains/(Losses) from translation of financial statements in currencies other than the euro							5.5			5.5		5.5
- Financial assets at fair value through other comprehensive income						(3.0)				(3.0)		(3.0)
- Cost of hedges				0.4						0.4		0.4
Total other comprehensive income	-	-	-	75.3	-	6.6	5.5	-	-	87.4	-	87.4
COMPREHENSIVE INCOME	-	-	-	75.3	-	6.6	5.5	-	789.4	876.8	1.4	878.2
TRANSACTIONS WITH SHAREHOLDERS:												-
- Appropriation of profit for 2020:												-
Retained earnings							243.8		(243.8)	-		-
Dividends								182.7	(541.7)	(359.0)		(359.0)
- Interim dividend 2021								(197.4)		(197.4)		(197.4)
- Purchase of treasury shares					(10.0)					(10.0)		(10.0)
Total transactions with shareholders	-	-	-	-	(10.0)	-	243.8	(14.7)	(785.5)	(566.4)		(566.4)
Change in scope of consolidation						(5.8)	2.0			(3.8)	(16.3)	(20.1)
Share option reserve						4.0				4.0		4.0
Other changes						0.1	1.4			1.5		1.5
Total other changes	-	-	-	-	-	(1.7)	3.4	-	-	1.7	(16.3)	(14.6)
EQUITY AT 31 DECEMBER 2021	442.2	88.4	20.0	(141.6)	(19.5)	736.1	2,964.3	(197.4)	789.4	4,681.9	31.1	4,713.0

31 DECEMBER 2019 - 31 DECEMBER 2020
GROUP'S SHARE CAPITAL AND RESERVES

(€m)

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE	RESERVE FOR TREASURY SHARES	OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT AND NON-CONTROLLING INTERESTS
EQUITY AT 31 DECEMBER 2019	442.2	88.4	20.0	(151.9)	-	725.2	2,478.3	(169.2)	757.3	4,190.3	41.6	4,231.9
PROFIT FOR THE YEAR									785.5	785.5	9.8	795.3
OTHER COMPREHENSIVE INCOME:												
- Change in fair value of cash flow hedges				(78.7)						(78.7)		(78.7)
- Actuarial gains/(losses) on employee benefits						3.1				3.1		3.1
- Gains/(Losses) from translation of financial statements in currencies other than the euro							(22.7)			(22.7)		(22.7)
- Financial assets at fair value through other comprehensive income						2.5				2.5		2.5
- Cost of hedges				13.7						13.7		13.7
Total other comprehensive income	-	-	-	(65.0)	-	5.6	(22.7)	-	-	(82.1)	-	(82.1)
COMPREHENSIVE INCOME	-	-	-	(65.0)	-	5.6	(22.7)	-	785.5	703.4	9.8	713.2
TRANSACTIONS WITH SHAREHOLDERS:												-
- Appropriation of profit for 2019:												-
Retained earnings							255.8		(255.8)	-		-
Dividends								169.2	(501.5)	(332.3)	(9.0)	(341.3)
- Interim dividend 2020								(182.7)		(182.7)		(182.7)
- Purchase of treasury shares					(9.5)					(9.5)		(9.5)
Total transactions with shareholders	-	-	-	-	(9.5)	-	255.8	(13.5)	(757.3)	(524.5)	(9.0)	(533.5)
Contribution from newly acquired companies										-	3.6	3.6
Share option reserve						1.2				1.2		1.2
Other changes						(0.8)	0.2			(0.6)		(0.6)
Total other changes	-	-	-	-	-	0.4	0.2	-	-	0.6	3.6	4.2
EQUITY AT 31 DECEMBER 2020	442.2	88.4	20.0	(216.9)	(9.5)	731.2	2,711.6	(182.7)	785.5	4,369.8	46.0	4,415.8

Consolidated statement of cash flows

(€m)

	NOTE	2021	2020
PROFIT FOR THE YEAR		**790.8**	**795.3**
ADJUSTED BY:			
Amortisation, depreciation and impairment losses /(reversals of impairment losses) on non-current property, plant and equipment and intangible assets*	6	664.8	635.2
Accruals to provisions (including provisions for employee benefits) and impairment losses		28.4	49.0
(Gains)/Losses on sale of property, plant and equipment		(13.7)	(7.7)
Financial (income)/expense	8	99.3	85.6
Income tax expense		321.5	299.4
Other non-cash movements		5.2	(71.8)
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN NET WORKING CAPITAL		**1,896.3**	**1,785.0**
Increase/(decrease) in provisions (including provisions for employee benefits and taxation)		(70.3)	(96.2)
(Increase)/decrease in inventories		(19.8)	5.8
(Increase)/decrease in trade receivables and other current assets		(1,592.3)	3.3
Increase/(decrease) in trade payables and other current liabilities		1,168.5	(274.2)
Increase/(decrease) in other non-current liabilities		(33.4)	4.5
(Increase)/decrease in other non-current assets		(38.5)	21.0
Interest income and other financial income received		54.3	32.8
Interest expense and other financial expenses paid		(214.6)	(201.2)
Income tax paid		(317.9)	(339.4)
CASH FLOW FROM OPERATING ACTIVITIES [A]		**832.3**	**941.4**
- of which: related parties		*(89.6)*	*183.4*
Capital expenditure in non-current property, plant and equipment after grants received	13	(1,344.2)	(1,186.6)
Revenue from sale of non-current property, plant and equipment and intangible assets and other movements		32.9	10.5
Capitalised financial expenses		10.8	10.1
Capital expenditure in non-current intangible assets after grants received	15	(130.8)	(101.6)
(Increase)/decrease in investments in associates and joint ventures	17	(0.4)	3.6
Movements in short- and medium/long-term financial investments		600.0	(121.3)
Consideration paid for new acquisitions net of cash		(31.6)	(4.3)
CASH FLOW FOR INVESTING ACTIVITIES [B]		**(863.3)**	**(1,389.6)**
- of which: related parties		*(5.9)*	*(9.1)*
Movement in the reserve for treasury shares	24	(10.0)	(9.5)
Dividends paid		(546.7)	(526.1)
Movements in short- and medium/long-term financial liabilities (including short-term portion)**		(480.8)	2,611.8
Increase/(decrease) in retained earnings and accumulated losses		2.0	-
Increase/(decrease) in non-controlling interests in equity due to new acquisitions		(16.3)	3.6
CASH FLOW FROM FINANCING ACTIVITIES [C]		**(1,051.8)**	**2,079.8**
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS [A+B+C]		**(1,082.8)**	**1,631.6**
Cash and cash equivalents at beginning of year		2,689.0	1,057.4
Cash and cash equivalents at end of year ***		1,606.2	2,689.0
of which cash and cash equivalents from acquisitions		*5.4*	*28.1*

* *After grants related to assets recognised in the income statement for the year.*
** *After derivatives and impact of fair value adjustments, including cash movements in right-of-use assets.*
*** *Of which "Cash and cash equivalents" at 31 December 2021, totalling €1,566.8 million, and "Cash and cash equivalents" attributable to assets held for sale at 31 December 2021, totalling €39.4 million.*

Notes

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A.'s registered office is at Viale Egidio Galbani 70, Rome, Italy. The consolidated financial statements at and for the year ended 31 December 2021 include the Company's financial statements and those of its subsidiaries (the "Group"). The subsidiaries included within the scope of consolidation are listed below.
Publication of the consolidated financial statements was authorised by the Board of Directors on 17 March 2022.
The consolidated financial statements at and for the year ended 31 December 2021 are available for inspection on request at Terna S.p.A.'s registered office at Viale Egidio Galbani 70, Rome, or on the Company's website at www.terna.it.
The Board of Directors has authorised the Chairwoman and the Chief Executive Officer to make any alterations to the form of the financial statements that may be necessary during preparation of the final text to be presented to the Annual General Meeting, and to make any additions and adjustments to the sections concerning significant subsequent events.

The Terna Group is the largest independent transmission system operator in Europe and one of the leading operators in the world in terms of kilometres of line managed (more than 74 thousand kilometres).
It is responsible for the transmission and management of power flows on the high-voltage (HV) and very high-voltage (VHV) grid throughout Italy, in order to guarantee a balance between demand and supply for energy (dispatching). It is also responsible for the planning, construction and maintenance of the grid. It acts as the Italian TSO (Transmission System Operator), having been granted a monopoly under a government concession, and is subject to regulation by Italy's Regulatory Authority for Energy, Networks and the Environment (ARERA) and the guidelines established by the Ministry for Economic Development. It ensures the security, quality and cost-effectiveness of the national electricity system and has the task of developing the grid and integrating it with the European grid. It ensures equal access for all grid users.

As of these financial statements for the year ended 31 December 2021, the requirement introduced by the European Transparency Directive to publish the Annual Financial Report using the xhtml format and to tag all the numbers in the consolidated financial statements and the issuer's basic financial information using the ixbrl format.

Compliance with IAS/IFRS

The consolidated financial statements at and for the year ended 31 December 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), as endorsed by the European Commission ("IFRS").
This document has also been prepared taking into account the provisions of Legislative Decree 38 of 28 February 2005, of the Italian Civil Code and CONSOB Resolutions 15519 ("Provisions governing financial statements in implementation of art. 9, paragraph 3 of Legislative Decree 38/2005") and 15520 ("Amendments to the implementing rules for Legislative Decree 58/1998"), as well as CONSOB Communication DEM/6064293 ("Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public pursuant to art. 116 of the Consolidated Law on Finance").

Basis of presentation

The consolidated financial statements consist of the statement of financial position, the income statement, and the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the notes thereto.
In the statement of financial position, assets and liabilities are classified on a "current/non-current" basis, with separate reporting of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Group's normal operating cycle; current liabilities are those expected to be settled in the Group's normal operating cycle or within one year of the end of the financial year.
The income statement is classified on the basis of the nature of costs. The income statement is presented as two statements, the first of which (the income statement) presents revenue and expense items for the year; the second (the statement of comprehensive income) starts with the result for the year and then presents the revenue and expense items that are recognised in equity rather than profit or loss for the year.
The statement of cash flows has been prepared using the indirect method.

The consolidated financial statements are accompanied by the Integrated Report for Terna S.p.A. and the Group, which as from financial year 2008 has been prepared as a single document, exercising the option granted by Legislative Decree 32 of 2 February 2007, which amended art. 40 (Integrated Report) of Legislative Decree 127 of 9 April 1991. From 2021, the Terna Group's Annual Report contains the first Integrated Report, including in a single document the Report on Operations, the Sustainability Report and the Consolidated Non-financial Statement (the "NFS"), in addition to the consolidated financial statements and the Parent Company's separate financial statements.

These consolidated financial statements are presented in millions of euros, and all amounts are shown in millions of euros to the first decimal place, unless otherwise indicated.

Given that the requirements of IFRS 5 have been met, the total results for 2021 and 2020 attributable to the South American subsidiaries included in the planned sale of assets have been classified in the item "Profit/(Loss) for the year from assets held for sale" in the Group's reclassified income statement. Likewise, the attributable assets and liabilities at 31 December 2021 have been reclassified to the item "Discontinued operations and assets held for sale" and "Liabilities related to discontinued operations and assets held for sale" in the Group's reclassified statement of financial position, without modifying the comparative amount.

Certain amounts in the financial statements at and for the year ended 31 December 2020 have been restated in order to provide an improved basis of comparison, without however modifying the amount of equity at 31 December 2020 or amounts in the income statement and statement of comprehensive income for 2020.

Use of estimates

Preparation of the consolidated financial statements requires the Group to use estimates and assumptions that affect the carrying amounts of assets and liabilities and the related disclosures, in addition to contingent assets and liabilities at the reporting date. These estimates and the associated assumptions are based on previous experience and various factors that are believed to be reasonable under the circumstances. The resulting estimates form the basis for making the judgements about the carrying amounts of assets and liabilities that are not readily apparent from other objective sources. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed periodically and the effects of any changes are recognised in the income statement for the year, if they relate solely to that period. In the case that the revision affects both current and future years, the change is recorded in the year in which the estimate is reviewed as well as in the relevant future years.

The assets and liabilities subject to estimates and key assumptions used by the Group in applying the IFRS endorsed by the European Commission, and that could have a significant impact on the consolidated financial statements, or that could give rise to risks that would entail significant adjustments to the carrying amounts of assets and liabilities in subsequent years, are summarised below.

Impairment losses

Property, plant and equipment and intangible assets with finite useful lives are tested at least once a year to check for evidence of impairment. If there is evidence that an asset may be impaired, its recoverable amount is estimated.

The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated at least annually. The recoverable amount is equal to the greater of the fair value less costs to sell and value in use. Value in use is measured by discounting estimated future cash flows considering information available at the time of estimate and on the basis of estimates of the performance of future variables, such as prices, costs, demand growth rates, production profiles, and discounted at a pre-tax rate that reflects current market assessments of the time value of money for the investment period and risks specific to the asset. If the intangible asset does not generate cash inflows, the asset's recoverable amount is calculated as part of the Cash Generating Unit ("CGU") to which it belongs.

An impairment loss is recognised in the income statement when the asset's carrying amount, or the net invested capital of the CGU to which it belongs, is greater than its recoverable amount.

Impairment losses on CGUs are first taken as a reduction in the carrying amount of any allocated goodwill and then as a reduction in other assets allocated to the CGU on a pro rata basis. Except for goodwill, impairment losses may be reversed up to the recoverable amount or the original cost of the asset if there is an indication that the impairment loss no longer exists or when there is a change in the methods used to measure the recoverable amount.

Allowance for doubtful accounts

Trade receivables are initially recognised at fair value net of any losses relating to sums considered non-recoverable, for which specific provisions have been made in the allowance for doubtful accounts. Credit losses are determined in application of IFRS 9 (a model based on expected credit losses). This requires the Group to assess expected credit losses, and the related changes, at each reporting date.

Specifically, the Group has applied the simplified approach permitted by IFRS 9 to trade receivables, finance lease receivables and assets deriving from contracts with customers, in order to measure the allowance for doubtful accounts based on expected losses over the life of the receivable. The Group has thus determined the amount of expected credit losses using a provisioning matrix, based on information regarding historical credit losses for similar past due exposures, adjusted to take into account current conditions and forward-looking elements.

Provisions for risks and charges

Provisions for risks and charges are allocated when a disbursement of cash, for an amount which can be reliably estimated, will be necessary to fulfil a legal or constructive obligation arising as a result of a past event. Where the time value of money is significant, provisions are discounted, using a rate that the Group believes to be appropriate (a rate is used that reflects current market conditions and the specific risks connected with the liability). After initial recognition, the value of the provisions for risks and charges is updated to reflect the passage of time and any changes in the estimate following alterations to the amounts forecast, the timing and the discount rates used. Any increase in provisions associated with the passage of time is recognised in the income statement under "Financial expenses".

Liabilities that can be associated with legal and tax disputes, early retirement incentives, urban and environmental restoration projects and other sundry charges are estimated by the Group. The measurement of provisions for legal disputes is based on the probability of incurring an expense, including through the use of external legal advisors supporting the Group companies; the estimate of provisions to be set aside for urban and environmental restoration projects, the "offsets" aimed at compensating for the environmental impact of the construction of new plant, is based on an analysis of the agreements entered into with the local authorities concerned and the progress of work on construction of the new infrastructure.

Employee benefits

Post-employment benefits are defined on the basis of plans, even if not formalised, that based on their nature are classified as either "defined benefit" plans or "defined contribution" plans.
The liability for employee benefits paid upon or following termination of employment in relation to defined benefit plans or other long-term benefits is recognised net of any plan assets and is measured on the basis of actuarial assumptions, estimating the amount of future benefits that employees have vested at the reporting date and is recognised on an accruals basis in line with the period of service necessary to obtain the benefit.
Changes in the value of the net liabilities (revaluations) deriving from actuarial gains or losses, resulting from changes in the actuarial assumptions used or adjustments based on past experience, are recognised in other comprehensive income in the year in which they occur. If a plan is modified, curtailed or extinguished, the related effects are recognized in profit or loss.
Net financial expenses include the component of the return on plan assets and the interest cost to be recognised in profit or loss and are measured by multiplying the liabilities, net of any plan assets, by the discount rate applied to the liabilities; net interest on defined benefit plans is recognized in "Financial income/(expenses)".
The actuarial valuations used to quantify employee benefits (of all plans except termination benefits *TFR – Trattamento di Fine Rapporto*) are based on "vested benefits", applying the projected unit credit method. These valuations are based on economic and demographic assumptions: the discount rate (used to determine the current value of the obligation, determined considering returns on high quality bonds in line with the duration of the group of workers measured), the inflation rate, the rate at which future salary levels are expected to rise, the rate of increase for average health reimbursements, rate of increase for electricity prices and demographic factors, such as mortality and invalidity, retirement, resignation, advances and household composition. The method of calculation used for TFR consists of discounting to present value, at the measurement date, each estimated payment due to every employee, projected through to the estimated period in which the TFR will be paid.
The obligation under defined contribution plans, limited to the payment of contributions to the state or to a legally separate entity (a fund), is measured on the basis of the contributions payable. The cost of such plans is recognised in profit or loss based on the contribution paid during the period.

Assessment of the impact of the Covid-19 pandemic

Against a social and economic backdrop deeply affected by the Covid-19 pandemic, in the last two years (2020-2021), the Terna Group's business model proved to be extremely resilient, with a solid financial structure and a significant level of digitalisation capable of enabling us to respond to the new challenges brought about by the pandemic. Based on the current situation in relation to the pandemic in which, although certain concerns remain, above all regarding the spread of the different variants of the virus, there are real signs that the health emergency is coming to an end, there continue to be no circumstances requiring an in-depth assessment of the validity of application of the going concern basis.

This assessment was conducted in view of the provisions of IAS 1, which requires an entity's management, in the event of uncertainties, including the current pandemic, to assess the potential impact on the entity's ability to continue as a going concern. The Group took immediate steps to ensure the continuity of the country's electricity service, putting in place the necessary safeguards to guarantee the security of our operations as a Transmission System Operator (TSO) and the related supply chains. This was done whilst also focusing on efforts to ensure the health and safety of operational personnel and, in general, all the people who work for the Group. In 2021, Terna continued to focus attention on prevention by raising awareness, providing information and through our *Sicuri Insieme* campaign. At the same time, the Group focused on implementation of the NexTerna programme that is shaping and developing the "new normal" post-pandemic. This is described in the paragraph, "Management of the health emergency", of the Annual Report.

Assessment of the impact of the Covid-19 pandemic on the presentation and measurement of items in the consolidated annual financial statements

In line with the ESMA recommendations published in 2020 and 2021[1] and in accordance with the requirements set out in CONSOB Warning 1/2021 dated 16 February 2021, the Group has closely monitored the development of the Covid-19 pandemic and its potential impact on individual items in the Group's consolidated financial statements.

Non-financial assets and investments

Assessment of the impact of the pandemic has not resulted in trigger events requiring the conduct of an impairment test of the value of the property, plant and equipment owned by the Group or of intangible assets with finite useful lives. This assessment confirms the outcome of the same procedure carried out in 2020, as the pandemic has had a marginal impact on expected cash flows, given that cash flows are for the most part linked to concessions.

With regard to the recoverable amount of property, plant and equipment and intangible assets with finite useful lives forming part of the RAB (regulated asset base), the assessment of expected future cash flows generated by these assets has shown that the slowdown in operating activities, which had already been reversed in the second half of 2020), and the macroeconomic effects of the outbreak of the pandemic, have not given rise to impacts constituting triggering events requiring the Group to test for impairment. The same conclusions also apply to the recoverable amount of investments accounted for using the equity method, relating to companies for which the impact of the pandemic has been marginally contained.

Intangible assets with indefinite useful lives (Goodwill)

Measurement of the recoverable amount of the goodwill allocated to the Group's "Transmission" CGU was based on the fair value less costs of disposal. This was determined taking into account Terna's share price, appropriately adjusted for the estimated fair value of assets and liabilities not attributable to the CGU that includes transmission activities. The recoverable amount determined during the impairment test is higher than the carrying amount of goodwill. The same conclusion also applies to the value of goodwill allocated to the CGU relating to the "Production and commercialisation of transformers", where cash flows have only marginally been affected by the negative impact of the pandemic.

Loan agreements and leases

The loan agreements and leases to which the Terna Group is party have not, to date, been subject to contractual amendments concerning either repayments to be made or the related deadlines as a result of the Covid-19 pandemic.

[1] ESMA Reccommendation of 29 October 2021 'European common enforcement priorities for 2021 annual financial reports'.

Financial instruments

The negative effects of the pandemic, which continued throughout 2021, have not, despite the generally poor macroeconomic environment, had a major impact on the Group's financial instruments.

The Group's trade receivables fall within the hold to collect business model, primarily fall due within 12 months and do not include a significant financial component. The current pandemic and the related developments have not, therefore, had any impact, including with regard to the identified business model for financial instruments, not resulting in any changes to the chosen classification.

In addition, fair value measurement of the financial assets and liabilities held by the Group has not undergone changes in terms of an increase in the related risks (market, liquidity and credit). Similarly, movements in the underlying assumptions have not altered the sensitivity analyses linked to their measurement.

In terms of recoverable amount, it should be noted that the outbreak of the pandemic has not led to any deterioration in 2021 in the receivables due from the Group's main counterparties (dispatching customers for injections or for withdrawals and distributors), considered solvent by the market, and therefore assigned high credit ratings.

As described in more detail in the section, "Credit risk", management of this risk is also driven by the provisions of ARERA Resolution 111/06, which introduced instruments designed to limit the risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of an actual insolvency. The assessment conducted has, moreover, not provided evidence of the need to modify the model used following an evaluation of the impact of the pandemic.

With regard, on the other hand, to the Group's ability to obtain financing, no particular issues linked to the pandemic have been identified, considering that the Group has sufficient liquidity to meet its obligations falling due in the next 12 months and beyond.

As described in the section, "Default risk and debt covenants", long-term borrowings do not contain covenants linked to financial ratios, but rather consisting of "negative pledge" and "*pari passu*" provisions and other standard provisions applied to investment grade companies. In addition, Moody's, S&P and Scope have assigned the Group ratings of Baa2/BBB+/A-, one notch above Italy's sovereign rating.
With regard to financial statement items measured at fair value, none of the borrowings and the related hedges accounted for under hedge accounting have, given their nature, been significantly impacted in view of the existing hedging relationship and the strength of counterparties. Moreover, the pandemic and the related effects have not led to changes in the related hedging relationships or in the underlyings, consisting of both past and future transactions.

Revenue recognition

The Group has already, in 2020, assessed the potential impact of the Covid-19 pandemic on movements in the income generated by its activities. Given that the most significant portion of the Group's income consists of revenue from Regulated Activities, and in view of the basis on which revenue is determined, management has not identified a need to modify the value of revenue accounted for by the Group. Moreover, the significant improvement in the final results for 2021 and the related demand for energy have confirmed the above assumptions.

Employee benefits

Assessment of the impact of the current pandemic has not led to a revision of the assumptions underlying the measurement of employee benefits compared with those used in the previous year.

Deferred tax assets

Following the assessment of the effects of the Covid-19 pandemic and the related developments, it was not necessary to revise earlier assessments of the recoverability of deferred tax assets, partly with regard to the final results for the year.

Climate change

Awareness of the progress of climate change and its effects has led to a growing need to provide disclosure in the Annual Report (or Integrated Report). Although there is no international accounting standard governing how the impact of climate change should be taken into account in the preparation of financial statements, the IASB has issued certain documents providing support for IFRS-adopters seeking to satisfy the demand for disclosure from interested parties. Similarly, ESMA, in its European Common Enforcement Priorities dated 29 October 2021, highlighted the need for issuers to consider climate risks when preparing their IFRS financial statements to the extent that such risks are material, regardless of whether or not this is explicitly required by the relevant accounting standards.

The Terna Group describes its considerations on the actions linked to the need to mitigate the impact of climate change primarily in the sections, “The market environment” and “Opportunities and risks linked to climate change” in the Integrated Report for 2021. In these sections, as a TSO providing transmission and dispatching services, the Terna Group undoubtedly plays an active role in supporting the system in achieving the challenging targets linked to efforts to reduce CO_2 emissions. Indeed, in addition to the emissions connected with electricity consumption, the most significant component relating to Terna’s indirect emissions is linked to grid losses that in turn lead to the indirect need to produce CO_2 to offset such losses with additional electricity. In themselves, a TSO’s emissions (scopes 1 and 2 in the ‘GHG emission protocol’) are extremely modest when compared with the potential system-level reduction resulting from the integration of renewable sources and electrification.

The Group has chosen to report its considerations on climate change in a single note. The following is a summary of management’s considerations on aspects deemed material in relation to preparation of the separate financial statements.

IAS 1 – Presentation of Financial Statements

IAS 1 requires entities to provide disclosures - for example, on climate-related matters - not specifically required by IFRS and not presented elsewhere, but that are relevant to an understanding of the financial statements. The requirements of IAS 1 apply to the financial statements as a whole.

As regards the judgements and estimates made in preparing the financial statements, IAS 1 requires entities to provide disclosure of the future-oriented estimates used and that have a significant risk of resulting in a material adjustment within the next financial year. Key assumptions regarding climate-related matters are described below.

In terms of the short term, management has not identified any specific effects of climate-related risks to be considered when applying the accounting standards.

With regard to the medium to long term, management has identified risks primarily linked to the Company’s role as a TSO, deriving from the need to adapt the electricity grid in the form of work designed to boost resilience and allow it to handle the new profile and mix of the energy injected into the grid. However, as described in greater detail in the specific sections that follow, the steps planned with the aim of mitigating such risks do not require further consideration during application of the accounting standards used in preparation of these financial statements.

It should be noted, however, that assessment and, more specifically, quantification of climate-related risks generally requires the use of highly uncertain future-oriented assumptions, such as future technological and policy developments and Government measures.

IAS 16 – Property, Plant and Equipment

With specific regard to the grid and the related transmission service, the action plan requires a commitment to the planning, approval and delivery of investment projects such as, for example, cross-border interconnections and the development of infrastructure to enable the growing integration of renewable energy sources.

In fact, as part of implementation of the Group's Risk Framework, management has identified the risk connected with the intensification of extreme weather events (tornados, heavy snowfall, ice, flooding) with a resulting impact on the continuity and quality of the service provided by Terna and/or damage to equipment, machinery, infrastructure and the grid. In response, the Group continues to carry out new investment designed to increase the resilience of the electricity grid and identify mitigation strategies.

In line with our role in driving the country's energy transition, Terna's 2021 Development Plan (covering a ten-year period) envisages two areas of intervention: a) investment in digitalisation, resilience, inertia and voltage regulation to strengthen the grid and cross-border interconnections; b) predictive solutions for maintenance and renewal.

Mitigating climate-related risk also involves the need to plan maintenance of NTG infrastructure to ensure quality of service, the security of the assets operated (power lines and electricity substations) and their ability to remain fully operational.

In addition to initiatives falling within the scope of the Group's routine maintenance programmes, in this regard, Terna is increasingly required to carry out work on the grid that calls for the replacement of specific components. Aside from renewing grid infrastructure, this enables the Company to mitigate the intensification of damaging weather events. Management considers that this investment does not reduce or modify the expected economic benefits deriving from use of the existing grid accounted for in property, plant and equipment. In the light of the above, it has not been necessary to conduct a critical review of the useful lives of the fixed assets recognised in the financial statements.

The Group also considers that there may be a risk connected with the supply chain due to significant changes in the strategies of key suppliers. This risk is heightened by the crisis in the global supply chain following the pandemic and the energy transition launched in many countries, with a potential impact on construction and maintenance projects, and a resulting impact on the continuity and quality of service and on the time needed to complete infrastructure. The Group constantly monitors developments in the supply chain and has not so far identified any critical issues.

IAS 38 – Intangible assets

With regard to non-regulated activities, the Group is committed to developing innovative, digital technological solutions to support the ecological transition. These activities include the offerings of Tamini and Brugg, the subsidiaries that produce power transformers and terrestrial cables, respectively (Industrial activities), involving the development of expertise throughout the value chain, and the offer of Energy Solutions and Connectivity. In addition, the Group is also committed to investing in digitalisation and innovation, involving the development of solutions for the remote control of electricity substations and key infrastructure. This involves the installation of sensor, monitoring and diagnostic systems, including predictive solutions, improving the security of the grid and the surrounding area.

In 2020 and 2021, within the scope of the Resilience 2.0 methodology, the Group has also developed tools for studying and planning new works designed to respond to issues relating to climate change. To promote the spread of a well-informed energy culture and facilitate broad awareness of the issues faced by the electricity sector, in 2021, the Group developed a new Development Plan application and the digital platform called Terna4Green with a view to monitoring the progress made towards Italy's decarbonisation. Via these two new initiatives, Terna continues and strengthens its commitment to ever greater transparency and the spread of information and data, specific expertise and in-depth knowledge of the national electricity system.

Investment in research is expensed as incurred, whilst development costs that meet certain requirements may be recognised as intangible assets. Further information on the criteria used in the recognition of an intangible asset resulting from development work is provided in the paragraph, "Intangible assets".

IAS 36 – Impairment of Assets

As indicated above with regard to property, plant and equipment, management has not identified factors requiring a critical review of useful lives. Similarly, with regard to the risk of impairment losses on property, plant and equipment, management considers that, whilst the steps taken to mitigate climate-related risk involve the need to plan maintenance work on NTG infrastructure, in keeping with the past, so as to ensure quality of service, the security of the assets operated (power lines and electricity substations) and their ability to remain fully operational, these activities do not, in any event, have a negative impact on the measurement of fair value less costs of disposal. This is because a market operator would take this investment into account as part of the fair value measurement process.

IFRS 9 – Financial Instruments

With regard to borrowings and bond issues, the Group has obtained ESG-linked loans and has issued green bonds. In both cases, the liabilities are linked to sustainability goals and the Group believes that there may be a risk, albeit not significant, connected with the achievement of such goals. The impact of this risk on financial expenses is entirely negligible. The Group constantly monitors developments relating to climate change and has not so far identified any critical issues.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets

The legislation introduced in response to climate change may give rise to new obligations that did not previously exist. In this regard, Terna has introduced an environmental policy setting out its commitment to containing and reducing its environmental impact, in some cases going beyond legal requirements when this does not compromise the protection of other general interests provided for under the concession. Full implementation of this policy, which also covers efforts to reduce greenhouse gas emissions, also involved energy efficiency initiatives and the adoption of measures designed to protect birdlife. Terna extends the issue of environmental protection to both its supply chain and local stakeholders directly affected by NTG development projects, through increasingly eco-sustainable offsets.

Given the regulatory framework, management does not believe that such policies give rise to the need to recognise liabilities not previous accounted for. The same conclusion has also been reached with regard to the previously mentioned risk linked to the supply chain due to significant changes in the strategies of key suppliers. As a result, it has not been necessary to carry out a critical review of provisions in the financial statements.

Subsidiaries and scope of consolidation

The scope of consolidation includes the Parent Company, Terna S.p.A., and the companies over which it has the power to directly or indirectly exercise control, as defined by IFRS 10. Control exists when the Parent Company has the power or the ability to influence the relevant activities (having a substantial impact on the Parent Company's results), and is exposed to or has the right to variable returns from its involvement with the investee, and the ability to use its power over the subsidiaries to affect the amount of the investor's returns. The financial statements of subsidiaries are consolidated on a line-by-line basis from the date when the Parent Company gains control until the date when such control ceases. The companies included within the scope of consolidation are listed below:

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIADIARIES CONTROLLED DIRECTLY BY TERNA S.P.A.					
Terna Rete Italia S.p.A.	**Rome**	**Euro**	**300,000**	**100%**	**Line-by-line**
Business	Design, construction, management, development, operation and maintenance of power lines and grid infrastructure and other grid-related infrastructure, plant and equipment used in the above electricity transmission and dispatching activities and in similar, related and connected sectors.				
Terna Crna Gora d.o.o.	**Podgorica (Montenegro)**	**Euro**	**208,000,000**	**100%**	**Line-by-line**
Business	Authorisation, construction and operation of the transmission infrastructure forming the Italy-Montenegro interconnector on Montenegrin territory.				
Terna Plus S.r.l.	**Rome**	**Euro**	**16,050,000**	**100%**	**Line-by-line**
Business	Design, construction, management, development, operation and maintenance of plant, equipment and infrastructure for grids and systems, including distributed storage and pumping and/or storage systems.				
Terna Interconnector S.r.l.	**Rome**	**Euro**	**10,000**	**65%***	**Line-by-line**
Business	Responsible for construction and operation of the private section of the Italy-France interconnector and civil works on the public section.				
Rete S.r.l.	**Rome**	**Euro**	**387,267,082**	**100%**	**Line-by-line**
Business	Design, construction, management, development, operation and maintenance of high-voltage power lines.				
Difebal S.A.	**Montevideo (Uruguay)**	**Uruguayan peso**	**140,000**	**100%**	**Line-by-line**
Business	Design, construction and maintenance of electricity infrastructure in Uruguay.				
Terna Energy Solutions S.r.l.	**Rome**	**Euro**	**2,000,000**	**100%**	**Line-by-line**
Business	Design, construction, management, development, operation and maintenance of distributed energy storage systems, pumping and/or storage systems, plant, equipment and infrastructure, including grids; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				
PI.SA. 2 S.r.l. in liquidation	**Rome**	**Euro**	**10,000**	**100%**	**Line-by-line**
Business	Design, construction, management, development, operation and maintenance, including on behalf of third parties, of power lines and grid infrastructure and other infrastructure connected to such grids, plant and equipment for use in electricity transmission operations, or in similar, related or connected sectors, and has been established to fulfil the obligations assumed by the energy-intensive companies in relation to implementation of the Italy-France Interconnector.				
ESPERIA-CC S.r.l.	**Rome**	**Euro**	**10,000**	**1%****	**Line-by-line**
Business	A technical centre owned by a number of transmission system operators, which acts as the regional security coordinator for the TSOs, with the aim of improving and upgrading the security and coordination of the electricity system in south-eastern Europe.				

* *5% is held by Terna Rete Italia S.p.A. and 30% by Transenergia S.r.l..*
** *99% is held by Selene CC S.A..*

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROLLED THROUGH TERNA PLUS S.R.L.					
Terna Chile S.p.A.	Santiago (Chile)	Chilean peso	2,224,052,500	100%	Line-by-line
Business	Design, construction, administration, development, operation and maintenance of any type of electricity system, plant, equipment and infrastructure, including interconnectors; provision of all types of product and service, construction, electrical and civil engineering work; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				
SPE Santa Maria Transmissora de Energia S.A.	Rio de Janeiro (Brazil)	Real	42,474,716	99.99%*	Line-by-line
Business	Provision of public electricity transmission services, including construction, operation and maintenance of transmission infrastructure or any other activity necessary in order to fulfil the above purpose.				
SPE Santa Lucia Transmissora de Energia S.A.	Rio de Janeiro (Brazil)	Real	153,714,431	99.99%*	Line-by-line
Business	Provision of public electricity transmission services, including construction, operation and maintenance of transmission infrastructure or any other activity necessary in order to fulfil the above purpose.				
Terna Peru S.A.C.	Lima (Peru)	Sales	116,813,900	99.99%*	Line-by-line
Business	Design, construction, administration, development, operation and maintenance of any type of electricity system, plant, equipment and infrastructure, including interconnectors; provision of all types of product and service, construction, electrical and civil engineering work; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				
Terna 4 Chacas S.A.C.	Lima (Peru)	Sales	9,133,600	99.99%*	Line-by-line
Business	Responsible for construction of a new 16 km power line in Peru.				
SPE Transmissora de energia Linha Verde I S.A.	Belo Horizonte (Brazil)	Real	74,999,313	75%**	Line-by-line
Business	Provision of public electricity transmission services, including construction, operation and maintenance of electricity transmission infrastructure or any other activity necessary in order to fulfil the above purpose.				
SPE Transmissora de energia Linha Verde II S.A.	Belo Horizonte (Brazil)	Real	177,018,162	99.99%*	Line-by-line
Business	Provision of public electricity transmission services, including construction, operation and maintenance of electricity transmission infrastructure or any other activity necessary in order to fulfil the above purpose.				

* *0.01% Terna Chile S.p.A..*
** *25% Quebec Holding Eireli.*

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROLLED THROUGH TERNA ENERGY SOLUTIONS S.R.L.					
Tamini Trasformatori S.r.l.	Legnano (MI)	Euro	4,285,714	100%	Line-by-line
Business	Construction, repair and trading in electrical equipment.				
Avvenia The Energy Innovator S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Provision of energy efficiency, energy consulting and process engineering services to companies and public and private entities; the application of technology to increase energy end-use efficiency; the design, construction, development and maintenance of plant, equipment and infrastructure for networks and other uses.				
Brugg Kabel Services AG	Brugg (Switzerland)	Swiss franc	1,000,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
LT S.r.l.	Rome	Euro	400,000	75%*	Line-by-line
Business	Design, construction and maintenance of renewable power plants.				
SUBSIDIARIES CONTROLLED THROUGH TAMINI TRASFORMATORI S.R.L.					
Tamini Transformers USA LLC	Sewickley - Pennsylvania	US dollar	52,089	100%	Line-by-line
Business	Commercialisation of industrial-grade and high-power electricity transformers.				
Tamini Transformatori India Private Limited	Maharashtra (India)	Indian rupee	13,175,000	100%	Line-by-line
Business	Commercialisation of industrial-grade and high-power electricity transformers.				
SUBSIDIARIES CONTROLLED THROUGH BRUGG KABEL AG					
Brugg Kabel Manufacturing AG	Brugg (Switzerland)	Swiss franc	7,000,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Kabel AG	Brugg (Switzerland)	Swiss franc	22,000,000	90%**	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
SUBSIDIARIES CONTROLLED THROUGH BRUGG KABEL MANUFACTURING AG					
Brugg Cables Italia S.r.l.	Milan	Euro	10,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROLLED THROUGH BRUGG KABEL AG					
Brugg Cables Middle East DMCC	Dubai (UAE)	Dirham	100,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Kabel GmbH	Schwieberdingen (Germany)	Euro	103,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Cables (Shanghai) Co. Ltd	Shanghai	US dollar	1,600,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Cables (India) Pvt. Ltd	Haryana (India)	Indian rupee	48,000,000	99.74%***	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
SUBSIDIARIES CONTROLLED THROUGH BRUGG CABLES (SHANGHAI) CO. LTD					
Brugg Cables (Suzhou) Co. Ltd	Suzhou (China)	Chinese renminbi	32,000,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
SUBSIDIARIES CONTROLLED THROUGH BRUGG CABLES ITALIA S.R.L.					
Laser TLC S.r.l.	Rome	Euro	12,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
SUBSIDIARIES CONTROLLED THROUGH LT S.R.L.					
LT Enerray S.r.l.	Rome	Euro	100,000	100%	Line-by-line
Business	Design, construction and maintenance of renewable power plants.				
Halfbridge Automation S.r.l.	Rome	Euro	10,000	70%****	Line-by-line
Business	Research, design and production of electronic circuit boards for innovative energy efficiency systems				

* *25% Solaris S.r.l..*
** *10% BRUGG GROUP AG.*
*** *0.26% Brugg Kabel GmbH.*
**** *30% Vima Technologies S.r.l..*

The following changes in the structure of the Group have taken place with respect to 31 December 2020:

- on 26 January 2021, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the acquisition of the remaining 30% of Avvenia the Energy Innovator S.r.l. from the minority shareholder, Avvenia S.r.l.. Avvenia the Energy Innovator S.r.l. has thus become a “sole shareholder” company wholly owned by Terna;
- on 1 February 2021, after APG (the Austrian TSO) became the fifth European transmission system operator to enter into partnership with Equigy, Terna S.p.A.’s interest in Equigy decreased from 25% to 20%;
- the reorganisation of the Brugg Group, designed to take full advantage of the group’s distinctive expertise in terrestrial cables and of synergies with the Terna Group’s businesses, was completed on 31 March 2021. As a result, Terna S.p.A.’s interest in the Brugg Group has increased from 90% to 92.6%;
- on 10 June 2021, Terna, acting through its subsidiaries, Terna Plus S.r.l. and Terna Chile S.p.A., completed the acquisition of the remaining 25% interest in the Brazilian-registered company, SPE Transmissora de Energia Linha Verde II S.A., held by the minority shareholder, Construtora Quebec. SPE Transmissora de Energia Linha Verde II S.A. is now 99.9999994% owned by Terna Plus S.r.l., with the remaining shares held by Terna Chile S.p.A.;

- on 5 August 2021, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the acquisition of the remaining 30% of Tamini Transformers S.r.l., which as a result is now a sole shareholder company fully owned by Terna;
- on 12 October 2021, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the acquisition of a 75% stake LT S.r.l. (the LT Group), one of the leading Italian operators providing maintenance services for photovoltaic plants, and engaged in the design and implementation of revamping and repowering projects for existing plants and in the construction of new plants for third parties;
- on 26 October 2021, the return of the entire investment in PI.SA. 2 S.r.l., formerly held by Terna Interconnector S.r.l., to Terna S.p.A. was completed. On 10 December 2021, the company went into voluntary liquidation and the liquidation was completed on 27 January 2022;
- the merger of Elite S.r.l. with and into Rete S.r.l. was completed on 24 December 2021. Previously, on 27 July 2021, Terna had completed the acquisition of a 100% stake in EL.IT.E. S.p.A. on 27 July 2021. The acquired company was simultaneously renamed Elite S.r.l., a vehicle company that owns and manages (under a service agreement entered into with Repower) the approximately 4-km long 150kV merchant line connecting Italy and Switzerland between Tirano and Campocologno. The company also currently owns the Tirano electricity substation, in addition to the 150kV cable connection between the TIRANO ST electricity substation and the Italian border with the related tunnel section;
- on 3 August 2021, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the sale of 100% stakes in Rete Verde 17 S.r.l., Rete Verde 18 S.r.l., Rete Verde 19 S.r.l. and Rete Verde 20 S.r.l. to Banca del Fucino, the purchaser chosen following a competitive auction;
- on 16 September 2021, Terna, pursuant to Law 99/2009, completed the sale of its 100% stake in Resia Interconnector S.r.l. to Interconnector Energy Italia S.c.p.A., Consorzio Toscana Energia S.p.A. and VDP Fonderia S.p.A., entering into agreements for the construction and operation of the private part, located in Italian territory, of the alternating current power line between Italy and Austria;
- on 11 November 2021, Terna, acting through the Brugg Group, completed the acquisition of a 100% stake in Laser TLC S.r.l., a company that provides fibre telecommunications systems to Italian and international customers and that operates in the energy sector, mounting accessories on high-voltage power lines and supervision of their installation.

Associates

Associates are investees over which the Terna Group exercises significant influence, being the ability to participate in the determination of these companies' financial and operating policies, without having control or joint control. In assessing whether or not Terna has significant influence, potential voting rights that are exercisable or convertible are also taken into account. These investments are initially recognised at cost and subsequently measured using the equity method. The profits or losses attributable to the Group are recognised in the consolidated financial statements when significant influence begins and until that influence ceases. Based on application of the equity method, if there is evidence that the investment has been impaired, the Group determines the amount of the impairment based on the difference between the recoverable amount and the carrying amount of the investment in question. In the event that the loss attributable to the Group exceeds the carrying amount of the equity interest, the latter is written off and any excess is recognised in a specific provision, if the Parent Company is required to meet the legal or constructive obligations of the investee or, in any case, to cover its losses.

Joint arrangements

Investments in joint arrangements, in which the Group exercises joint control with other entities, are recognised initially at cost and subsequently measured using the equity method. The profits or losses attributable to the Group are recognised in the consolidated financial statements when joint control begins and until that control ceases. The Group recognises its share of the assets and liabilities attributable to joint arrangements in accordance with IFRS 11. In assessing the existence of joint control, it is ascertained whether the parties are bound by a contractual agreement and whether this agreement attributes to the parties the joint control of the agreement itself. Joint control exists when an entity has control over an arrangement on a contractual basis, and only when decisions relating to the relevant activities require the unanimous consent of all parties that jointly control the arrangement.

The list of associates and joint ventures is shown below:

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL*	PROFIT FOR THE YEAR*	% INTEREST	METHOD OF CONSOLIDATION	CARRYING AMOUNT AT 31 DECEMBER 2021 (€M)
ASSOCIATES							
Cesi S.p.A.	Milan	Euro	8,550,000	(9,825,614)	42.698%	Equity Method	48.2
Business	Experimental research and provision of services related to electro-technology.						
Coreso S.A.	Brussels (Belgium)	Euro	1,000,000	546,000	15.84%	Equity Method	0.7
Business	Technical centre owned by several electricity transmission operators, responsible for coordinating joint operations of TSOs, in order to improve and upgrade the security and coordination of the electricity system in central and western Europe.						
CGES A.D.	Podgorica (Montenegro)	Euro	155,108,283	12,459,748	22.0889%	Equity Method	26.7
Business	Provision of transmission and dispatching services in Montenegro.						
JOINT VENTURES							
ELMED Etudes S.a.r.l.	Tunis (Tunisia)	Tunisian dinar	2,700,000	(172,904)	50%	Equity Method	0.2
Business	Conduct of preparatory studies for the construction of the infrastructure required to connect the Tunisian and Italian electricity system.						
SEleNe CC S.A.	Thessaloniki (Greece)	Euro	200,000	12,479	25%	Equity Method	0.1
Business	A technical centre owned by a number of transmission system operators, which acts as the regional security coordinator for the TSOs, with the aim of improving and upgrading the security and coordination of the electricity system in south-eastern Europe.						
Equigy B.V.	Arnhem (Netherlands)	Euro	50,000	1,292,744	20%	Equity Method	0.3
Business	Provisions of support for electricity balancing by TSOs through the development and implementation of blockchain technology.						

** Figures taken from the latest approved financial statements at the date of preparation of this document.*

Basis of consolidation

All the separate financial statements of the investees used to prepare the consolidated financial statements were drafted as of 31 December 2021 and have been approved by their respective Boards of Directors and by the majority of their shareholders' meetings; they have been adjusted, where necessary, to align them with the Parent Company's accounting policies.
During preparation of the consolidated financial statements, intercompany balances, transactions, revenue and costs are fully eliminated, net of the related tax effect, where material ("consolidation on a line-by-line basis").

Unrealised gains and losses on transactions with associates and joint ventures are eliminated in proportion to the Group's interest therein. In both cases, unrealised losses are eliminated, unless they represent an impairment.

Translation of foreign currency items

In the Group's financial statements, all transactions in currencies other than the functional currency are recognised at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at year end. Any translation differences are taken to the income statement.

Non-monetary assets and liabilities in foreign currency stated at historical cost are converted at the exchange rate prevailing when the transaction was initially recognised. Non-monetary assets and liabilities in foreign currency stated at fair value are converted at the exchange rate prevailing when fair value was measured.

Property, plant and equipment

Property, plant and equipment is recognised at historical cost, including costs directly attributable to preparing the asset for its intended use. In the event of legal or constructive obligations, cost also includes the present value of the estimated cost of dismantling or removing the asset. The corresponding liability is recognised in provisions for risks and charges.

Borrowing costs directly attributable to the purchase, construction or production of an asset that qualify for capitalisation pursuant to IAS 23 are capitalised as part of the cost of the asset. Costs incurred after purchase are recognised as an increase in the carrying amount of the asset to which they relate if it is probable that the future benefits of that cost will flow to the Group, and if the cost can be reliably measured. All other costs are expensed as incurred.

Each element of an item of property, plant and equipment of material value, with respect to the total value of the item to which it belongs, is recognised and depreciated separately.

Property, plant and equipment is shown net of accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful economic life of the asset, which is reviewed annually, with revisions applied on a prospective basis. Depreciation of an asset begins when the asset becomes available for use.

Liabilities associated with items of property, plant and equipment are taken to a specific provision as a contra account of the related asset. The amount is taken to the income statement through depreciation of the asset.

Property, plant and equipment is derecognised either at the time of disposal or when no future economic benefit is expected from their use or disposal. Any profit or loss, recognised in the income statement, is determined as the difference between the net proceeds deriving from disposal and the net carrying amount of the assets eliminated.

The main rates of depreciation, calculated on the basis of the useful lives of the relevant assets, are as follows:

RATES OF DEPRECIATION	
Buildings – Civil and industrial buildings	2.50%
Plant and equipment – Transmission lines	2.22%
Plant and equipment – Transformer substations:	
- Electrical machinery	2.38%
- Electrical devices and equipment	3.13%
- Automation and control systems	6.70%
Plant and equipment - Central systems for remote management and control:	
- Devices, electrical equipment and ancillary plant	5.00%
- Computers	10.00%

Land, regardless of whether it is free of constructions or related to civil and industrial buildings, is not depreciated, since it has an indefinite useful life.

This item also includes right-of-use assets arising from lease arrangements relating to the use of property, plant and equipment, as recognised under IFRS 16. A lease arrangement is, or contains, a lease, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Applying this standard, the lessee recognises: (i) a right-of-use asset in its statement of financial position and a liability representing its obligation to make the payments provided for under the arrangement, for all leases with terms in excess of twelve months where the asset cannot be considered of low value (Terna has elected to apply the practical expedient provided for in the standard, recognising payments relating to this type of lease in the income statement); (ii) depreciation of the recognised assets and interest expense on the lease liability separately in the income statement.
In determining the lease term, the Group considers the non-cancellable period of the lease and the additional periods resulting from any options to extend the lease, or from the decision not to exercise the option to terminate the lease early (where there is reasonable certainty that such options will be exercised).
The lease liability is initially recognised at the present value of the remaining lease payments at the commencement date: (i) fixed payments; (ii) variable lease payments that depend on an index or a rate; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and finally (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. The present value of the payments is determined using a discount rate equal to the Group's incremental borrowing rate, bearing in mind the frequency and duration of the payments provided for in the lease contract. Following initial recognition, the lease liability is accounted for at amortised cost and remeasured, with a matching change in the value of the related right-of-use asset, when there is a change in future lease payments as a result of: (i) a renegotiation of the contract; (ii) changes in the index or rate; or (iii) changes in the assessment of whether or not the options contained in the contract will be exercised (e.g., the purchase of the leased asset, extension or termination of the lease). The right-of-use asset is initially recognised at cost, measured as the sun of the following components: (i) the amount of the initial measurement of the lease liability; (ii) any initial direct costs incurred by the lessee; (iii) any lease payments made at or before the commencement date, less any lease incentives received; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located (or restoring the underlying asset to the condition required by the terms and conditions of the lease). Following initial recognition, the right-of-use asset is adjusted to take into account (i) any accumulated depreciation, (ii) any accumulated impairment losses, and (iii) the effects of any remeasurement of the lease liability.

Intangible assets

Intangible assets, which all have finite useful lives, are recognised at cost and shown net of accumulated amortisation and any impairment losses. Amortisation begins when the asset becomes available for use and is calculated on a straight-line basis over the estimated useful life of the related asset, which is reviewed annually. Any revisions to estimated figures are applied on a prospective basis.

Intangible assets essentially consist of the concession to exclusively provide electricity transmission and dispatching services, granted to the Parent Company Terna S.p.A. on 1 November 2005, with the acquisition of the TSO business unit. As established in the Decree issued by the Ministry of Productive Activities on 20 April 2005, this concession has a 25-year term, renewable for another 25 years, from the date of effective transfer of the activities, functions, assets and legal arrangements of the concession from GSE (formerly GRTN) to Terna S.p.A.. This intangible asset was initially recognised at cost, which reflected fair value.

Other intangible assets essentially refer to software developments and upgrades with a useful life of three years. Development costs are capitalised by the Terna Group only if they can be reliably estimated and there is the technical possibility and intention to complete the intangible asset so that it will be available for use, and the asset can be used and it is possible to demonstrate that it will generate probable future economic benefits.

Financial expenses directly attributable to the acquisition, construction or production of a non-current asset which justifies capitalisation pursuant to IAS 23 are capitalised to the asset as part of its cost.

All other development costs and research expenses are recognised in the income statement when incurred. These intangible assets are amortised over their estimated residual useful life, which is normally three years, given their rapid obsolescence.

Infrastructure rights

Infrastructure includes the property, plant and equipment and intangible assets employed in dispatching activities in Italy and in the operations in Peru. These activities are carried out under concession arrangements, which fall within the scope of application of IFRIC 12, since the services provided are regulated and control exists over the residual interest. More specifically, infrastructure rights have been recognised as an intangible asset, as valued on the basis of the Intangible Asset model, given the return generated by dispatching activities thanks to the charges paid by users. These assets have a useful life of three years.

The revenue and costs relating to investment in dispatching activities are recognised with reference to the contracts concerned on a stage-of-completion basis; revenue recognised during the construction phase is limited to the amount of the internal and external construction costs incurred, considering that the fair value of the construction services is equivalent to the construction cost paid to third-party contractors plus the internal cost of the technical personnel employed on such construction activities. The assets continue to be amortised and depreciated in accordance with the initial schedule.

By contrast, dispatching revenue continues to be recognised in accordance with IFRS 15 and financial expenses continue to be capitalised pursuant to IAS 23.

IFRIC 12, instead, is not applicable to the part of the Parent Company's concession arrangement relating to transmission activities, since neither the concession nor the related legislation envisages that ownership of the NTG is to be restored to the public grantor, even for a consideration.

Goodwill

Goodwill, deriving from the acquisition of subsidiaries, is allocated to each of the cash generating units (CGU) identified, coinciding with Group companies that own electricity transmission grids and with the Tamini Group, relating to the production and commercialisation of transformers. Goodwill is not amortised after initial recognition but is adjusted to reflect impairment losses, measured as described above. Following the acquisition of investments in associates and joint ventures, goodwill is included in the carrying amount of the companies. Where negative goodwill arises, it is recognised in the income statement at the time of acquisition.

Inventories

Inventories are recognised and measured at the lower of purchase cost and net estimated realisable value. Cost is calculated as the weighted average, including accrued ancillary expenses. Net estimated realisable value means the estimated sale price under normal conditions net of completion costs and the estimated costs to sell.

Financial instruments

Financial assets

The new standard, IFRS 9 – Financial Instruments, effective from 1 January 2018, is divided into the following phases: classification and measurement, derecognition, impairment and hedge accounting.
In order to classify and measure financial instruments, the Group recognises financial assets at fair value inclusive of transaction costs.
Financial assets represented by debt instruments, and falling within the scope of application of the standard, may be measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss, depending on the business model adopted to manage the financial assets and the characteristics of the contractual cash flows.
In accordance with the provisions of IFRS 9, the Group correctly classifies these assets based on the results of so-called SSPI (“solely payments of principal and interest”) tests. Under this test, assets may be recognised at amortised cost or fair value through other comprehensive income if the generate cash flows that are solely payments of principal and interest on the principal amount outstanding. This measurement is applied at the level of each individual instrument.

Specifically, the Group measures financial assets:

- at amortised cost, if the financial asset is held with the aim of collecting the contractual cash flows that meet the SPPI test, as the cash flows represent solely payments of principal and interest;
- at fair value through other comprehensive income (“FVOCI”), if the financial asset is held within a business model whose objective is achieved by collecting the contractual cash flows and by selling the financial asset, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Changes in fair value after initial recognition are recognised in other comprehensive income and recycled through profit or loss on derecognition. The government securities held by the Parent Company are included in this category;
- at fair value through profit or loss (“FVTPL”), of the asset is not held in one of the above business models. This category primarily includes derivative financial instruments held for trading and debt instruments with contractual cash flows that are not solely payments of capital and interest.

Infrastructure rights

These include the property, plant and equipment and intangible assets employed in Brazil under concession arrangements falling within the scope of application of IFRIC 12, since the services provided are regulated and control exists over the residual interest. More specifically, infrastructure rights have been recognised in financial assets, as valued on the basis of the Financial Asset model, given the return generated by the activities. This derives from an unconditional contractual right to receive cash or another financial asset from, or at the direction of, the grantor and the fact that the grantor cannot avoid payment.
The revenue and costs relating to investment are recognised with reference to the contracts concerned on a stage-of-completion basis; revenue recognised during the construction phase includes a profit margin on the work performed.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method. Receivables with due dates that reflect normal commercial terms are not discounted.
In accordance with the provisions of IFRS 9, the Group's trade receivables fall within the hold to collect business model, as these assets are held with the objective of collecting the cash flows primarily by collecting the contractual cash flows, the receivables primarily fall due within 12 months and do not include a significant financial component, and the Group does not intent to sell such receivables.
Trade receivables are recognised net of any losses recognised in a specific allowance for doubtful accounts (identified on the basis described in the paragraph, "Allowance for doubtful accounts"). IFRS 9 has introduced application of a model based on expected credit losses. This requires the Group to assess expected credit losses, and the related changes, at each reporting date. Specifically, the Group has applied the simplified approach permitted by IFRS 9 to trade receivables, finance lease receivables and assets deriving from contracts with customers, in order to measure the allowance for doubtful accounts based on expected losses over the life of the receivable. The Group has thus determined the amount of expected credit losses using a provisioning matrix, based on information regarding historical credit losses for similar past due exposures, adjusted to take into account current conditions and forward-looking elements.

Cash and cash equivalents

Cash and cash equivalents are recognised at nominal value and include amounts that are available on demand or can be readily converted into a known amount of cash and are subject to an insignificant risk of changes in value.

Trade payables

Trade payables are initially recognised at fair value and subsequently stated at amortised cost. If their due dates reflect normal commercial terms, they are not discounted.

Financial liabilities

Financial liabilities are recognised at the settlement date and measured at fair value, net of directly related transaction costs. Subsequently, financial liabilities are measured at amortised cost, using the original effective interest method. If the liabilities are covered by fair value hedges, they are adjusted to reflect changes in fair value with respect to the hedged risk.
Subsequent measurement of financial liabilities depends on their classification as financial liabilities at amortised cost or at fair value through profit or loss.

Derivative financial instruments

Derivatives are recognised at fair value at the trade date. The qualifying criteria applied in classifying derivatives as eligible for hedge accounting are as follows:

- the hedging relationship consists only of eligible hedging instruments and eligible hedged items;
- at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio);
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

The Group shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of, and consistent with, the entity's documented risk management objective.

For hedge accounting purposes, there are three types of hedge:

- fair value hedges when the hedge regards the exposure to changes in the fair value of the recognised asset or liability or there is an unrecognised firm commitment;
- cash flow hedges when the hedge regards the exposure to variability in cash flows that is attributable to a particular risk associated with all of the recognised asset or liability or a highly probable forecast transaction or the exchange rate risk on an unrecognised firm commitment;
- the hedge of a net investment in a foreign operation.

When derivatives cover the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the portion of changes in the fair value qualifying as effective is initially recognised in "Other comprehensive income" (accumulated in equity) and subsequently in profit or loss, as the cash flows from the hedged item affects profit or loss. The portion of the fair value of the hedging instrument that does not qualify as effective is recognised in profit or loss.
When hedging derivatives cover the risk of changes in the fair value of hedged instruments (fair value hedges), they are recognised at fair value in profit or loss. Accordingly, the hedged items are adjusted to reflect changes in the fair value associated with the hedged risk.
Changes in the fair value of derivatives that do not meet hedge accounting requirements in accordance with the IFRS are recognised in profit or loss.
Fair value is measured on the basis of official quotations for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured by discounting projected cash flows along a yield curve prevailing in the market at the reporting date, and by translating amounts in currencies other than the euro at closing exchange rates.
Financial and non- financial contracts (which are not already measured at fair value) are also analysed to identify any embedded derivatives, which must be separated and measured at fair value.
This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that produces a material change in the original associated cash flows.

Non-current assets held for sale

Non-current assets and current and non-current assets included in disposal groups are classified as held for sale if their carrying amount is to be recovered primarily through sale rather than through continued use. This classification only applies if the non-current assets (or disposal groups) are available for immediate sale in their present condition and the sale is highly probable. An entity that is committed to a sale plan involving loss of control of a subsidiary must classify all the assets and liabilities of that subsidiary as held for sale, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. The assessment of whether or not the conditions have been met for classification of an asset as held for sale requires management to make a subjective judgement, using reasonable and realistic assumptions based on the available information.

Non-current assets held for sale, current and non-current assets included in disposal groups and the directly attributable liabilities are recognised in the statement of financial position separately from the entity's other assets and liabilities. Before their classification as held for sale, the assets and liabilities included in a disposal group are measured in accordance with the applicable accounting standards. Subsequently, the non-current assets held for sale are no longer subject to depreciation or amortisation and are measured at the lower of carrying amount and fair value less costs to sell.

If the carrying amount of the non-current assets is lower than fair value less costs to sell, the entity must recognise an impairment loss. The entity must recognise a gain for any subsequent increase in fair value less costs to sell of the assets, but not in excess of the cumulative impairment loss previously recognised, including those recognized prior to the assets' classification as held for sale.

Non-current assets and disposal groups classified as held for sale constitute a discontinued operation if they: i) represent a major line of business or geographical area of operations; ii) are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or iii) relate to a subsidiary acquired exclusively with a view to resale.

Profits and losses from discontinued operations, and any gains or losses realised following the sale, are shown in a separate line item in the income statement, net of any tax, with amounts for comparative periods also shown.

When events no longer permit the entity to classify the non-current assets or disposal groups as held for sale, the assets or disposal groups must be reclassified to the respective items in the statement of financial position and recognised at the lower of: (i) their carrying amount at the date of classification as held for sale; and (ii) the recoverable amount at the date of reclassification.

During the year, management approved the sale of the Group's Latin American assets, which includes a portfolio of six special purpose vehicles (SPVs): the Company's four subsidiaries in Brazil and Peru, and the Uruguayan company "Difebal S.A.". A Preferred Bidder has been selected and, on 20 December 2021, a Memorandum of Understanding (MoU) was signed. This sets out the terms and conditions for the potential transaction and an "exclusivity period" to enable due diligence activities to take place before submission of a binding offer. As a result of this transaction, as required by IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, the consolidated assets and liabilities of the Brazilian companies, SPE Santa Lucia Transmissora de Energia S.A., SPE Santa Maria Transmissora de Energia S.A., SPE Transmissora de Energia Linha Verde II S.A. and SPE Transmissora de Energia Linha Verde I S.A., have been classified in the consolidated financial statements for the year ended 31 December 2021 in the item "Assets held for sale" and in the item "Liabilities related to assets held for sale". Comparative amounts in the statement of financial position at 31 December 2020 have instead not been reclassified and are therefore presented in the various line items. In the consolidated income statement, the consolidated net profit or loss attributable to the companies included in the transaction has been reclassified to "Profit/(Loss) for the year from assets held for sale".

Employee benefits

The liability associated with employee benefits payable on or after termination of employment relate to defined benefit plans (deferred compensation benefits, additional months' pay, payment in lieu of notice, energy discounts, ASEM health cover and other benefits) or other long-term employee benefits (loyalty bonuses) and is recognised net of any plan assets. The liability is measured separately for each plan on the basis of actuarial calculations that estimate the amount of vested future benefits that employees have accrued at the reporting date. The liability is recognised on an accruals basis over the vesting period and is measured by independent actuaries.

Share-based payments

Given that they are substantially a form of remuneration, personnel expenses include the cost of share-based incentive plans. The cost of the incentive is measured on the basis of the fair value of the equity instruments granted and the expected number of shares to be effectively awarded. The accrued amount for the period is determined on a straight-line basis over the vesting period, being the period between the grant date and the date of the award. The fair value of the shares underlying the incentive plan is measured at the grant date, based on the expected satisfaction of the performance conditions associated with market conditions and is not subject to adjustment in future periods. When receipt of the benefit is linked to non-market conditions, the estimate relating to these conditions is reflected and the accrual's number of shares expected to be awarded is adjusted over the vesting period. If, at the end of the vesting period, the plan does not result in the award of any shares to beneficiaries due to the failure to satisfy the performance conditions, the portion of the cost linked to market conditions is not reversed through the income statement.

Provisions for risks and charges

Provisions set aside for risks and charges are recognised when, at the reporting date, the Group has a legal or constructive obligation as the result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the disbursement. Where the effect is material, provisions are made by discounting estimated future cash flows using a discount rate that reflects current market rates and the specific risk applicable to the obligation, if any. Where discounting is used, the increase in the provisions due to the passage of time is recognised in the income statement as a financial expense. If it relates to property, plant and equipment (site disposal and restoration, for example), the provision is recognised as a contra entry to the asset to which it relates. The expense is recognised in the income statement through depreciation of the item of property, plant and equipment to which it relates.

Changes in the estimates are recognised in the income statement for the year in which the change occurs, except for the expected costs of dismantling, removal and restoration resulting from changes in the timing and use of the economic resources necessary to extinguish the obligation, or are attributable to a material change in the discount rate. These costs are recognised as an increase or reduction in the related assets and recognised in the income statement through depreciation.

Government grants

Government grants are recognised when there is a reasonable certainty that they will be received and that the Group will comply with all the conditions required for disbursement. Grants received in relation to specific assets whose value is recognised under non-current assets are recognised, in the case of plant already in operation at 31 December 2002, among other liabilities and taken to the income statement over the depreciation period for the assets in question. As of the 2003 financial year, grants related to new plant entering service are recognised as a direct reduction in the non-current asset concerned.

Grants related to income are recognised in the income statement when the conditions for recognition are met.

Revenue

The Group's revenue can be categorised as follows:

- *Revenue from sales and services*, including revenue from contracts with customers and therefore falling within the scope of IFRS 15.
  In accordance with the provisions of IFRS 15, revenue from contracts with customers is recognised when the performance obligations identified in the contract are satisfied and control over the goods or services is transferred to the customer for an amount that reflects the consideration that the Group expects to receive in exchange for the goods or services.
  The standard envisages two methods for identifying the correct time at which to recognise the revenue attributable to each performance obligation: at contract inception, the Group determines if the goods or services covered by the performance obligation will be transferred to the customer over a period of time or at a point in time:
  - *Revenue from the sale of goods* is recognised when control of the goods is transferred to the customer (at a point in time). The Group determines if there are other promises in the contract representing a performance obligation to which a part of the transaction consideration must be allocated. In determining the sale price, the Group takes into account the effects of a variable consideration, significant financial components, non-monetary components and amounts to be paid to the customer (if present);
  - *Revenue from services* is recognised with reference to the stage of completion of the activity, in accordance with the provisions of IFRS 15 (over a period of time).
- *Other revenue and income*, which includes revenue from lease arrangements and other residual forms of revenue, included within the scope of application of IFRS 15, deriving from sales of goods not forming part of the Group's ordinary activities.

Costs

Costs are recognised on an accruals basis. They are recognised in the accounting period when they relate to goods and services sold or consumed in the same period or are allocated in a systematic way when it is not possible to identify a future use for them.

Financial income and expenses

Financial expenses directly attributable to the acquisition, construction or production of an asset that qualify for capitalisation are capitalised as part of the cost of the asset. The property, plant and equipment and intangible assets involved are those that require at least one year in order to prepare them for use. The directly attributable financial expenses are expenses that would not have been incurred had the expenditure for the asset not been incurred.

Where funds are borrowed specifically, the costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. Where loans are obtained for general purposes, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset equal to the weighted average of the financial expenses applicable to the borrowings outstanding for the year, excluding any specifically borrowed funds. The amount of capitalised financial expenses during a year will in any case not exceed the amount of financial expenses incurred during that year.
Capitalisation commences as from the date all the following conditions are first met: (a) expenditure has been incurred for the asset; (b) financial expenses have been incurred; and (c) the activities involved in preparing the asset for its intended use or sale are in progress. Capitalisation ceases when the activities involved in preparing the asset for its intended use or sale are substantially complete.
The average capitalisation rate used for 2021 is approximately 0.8% (0.81% for 2020).
Financial income and expenses other than capitalised amounts are recognised on an accruals basis in respect of the interest on the net value of the related financial assets and liabilities, using the effective interest rate.

Treasury shares

Treasury shares, including those held to service share-based incentive plans, are recognised at cost and accounted for as a reduction in equity. Any gains or losses resulting from the later sale of such shares are recognised in equity.

Dividends

Dividends from investees are recognised when the shareholders' right to receive payment is established. Dividends and interim dividends payable to shareholders are shown as changes in equity at the date in which they are approved by the General Meeting of shareholders and the Board of Directors, respectively.

Earnings per share

Basic earnings per share is calculated by dividing the profit or loss for the year attributable to holders of the ordinary shares by the weighted average of ordinary shares outstanding during the year, excluding treasury shares.
Diluted earnings per share is determined by dividing profit for the period by the weighted average of ordinary shares outstanding during the period, excluding treasury shares, increased by the number of shares that could potentially result from the conversion of any convertible securities.

Income taxes

Current income taxes are recognised as "Tax liabilities", net of advances paid, or "Tax assets" where the net balance of the items is positive. They are based on the estimated taxable income and in accordance with current legislation, taking account of applicable exemptions.
Deferred tax assets and liabilities are calculated on temporary differences between the carrying amounts of assets and liabilities recognised in the separate financial statements and the corresponding amounts recognised for tax purposes, using current tax rates or the rates expected to be in effect when the temporary differences reverse, based on rates approved at the reporting date.

Deferred tax assets are recognised when their recovery is considered probable, i.e., when future taxable income will be available against which the asset can be used. The recoverability of deferred tax assets is reviewed at the end of each year.
Deferred tax liabilities are recognised in any case if they exist. Taxes relating to items recognised directly in equity are also allocated to equity.

New accounting standards

International financial reporting standards effective as of 1 January 2021

A number of new amendments to standards already applied, none of which have had a significant impact, came into effect from 1 January 2021. The relevant standards are as follows:

Amendment to IFRS 4: Extension of the Temporary Exemption From Applying IFRS 9
On 15 December 2020, the European Commission issued Regulation 2020/2097, endorsing the amendment to IFRS 4. The changes have extended the temporary exemption from application of IFRS 9 until 1 January 2023 for insurance undertakings. Adoption of this amendment has not had an impact on the Company's financial statements.

Amendment to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16: Interest Rate Benchmark Reform – Phase 2
On 13 January 2021, the European Commission issued Regulation 2021/25, endorsing the amendment to the following standards in light of the Interest Rate Benchmark Reform:

- IFRS 9 Financial Instruments;
- IAS 39 Financial Instruments: Recognition and Measurement;
- IFRS 7 Financial Instruments: Disclosures;
- IFRS 4 Insurance Contracts; and
- IFRS 16 Leases.

The amendment addresses the correct accounting treatment of financial instruments affected by the interest rate benchmark reform, when interest rate benchmarks are replaced by alternative interest rate benchmarks.
With regard to financial instruments directly affected by the reform, the amendments have introduced the following:

- a practical expedient for accounting for changes in the basis for determining the contractual cash flows from assets and liabilities, thus enabling revision of the effective interest rate;
- a number of exemptions regarding the discontinuation of hedging relationships;
- a temporary exemption from having to meet the requirement to separately identify a risk component, when the separate hedged component is represented by an RFR instrument designated as a hedge of a risk component;
- the introduction of additional disclosures with respect to IFRS 7.

Given that the Group is a party to existing loan agreements, hedging derivatives and lease contracts that provide for sole application of 6-month EURIBOR and Dollar LIBOR (on the loan agreements and derivatives entered into through the Uruguayan subsidiary, Difebal), for which no replacement was carried out in 2021, introduction of the new amendment has not had an impact on the Group's consolidated financial statements.

Amendment to IFRS 16: Covid-19-Related Rent Concessions beyond 30 June 2021

On 30 August 2021, the European Commission issued Regulation 2021/1421, endorsing the amendment to IFRS 16, which has extended the amendment of May 2020 for a further year. This granted lessees the option of accounting for Covid-related rent concessions without having to assess, through an analysis of the related contracts, whether or not the definition of lease modification provided by IFRS 16 has been respected. As a result, lessees who applied this exemption in 2020 accounted for Covid-related rent concessions in the income statement rather than as a lease modification, at the effective date of the reduction. The amendment of 2021, available only to entities who had already applied the amendment of 2020, applies from 1 April 2021 and early adoption is permitted.
The Group did not benefit from such reductions in relation to existing leases and adoption of this amendment has not, therefore, had an impact on the Group's consolidated financial statements.

International financial reporting standards, amendments and interpretations endorsed but not yet effective

At the date of approval of this document, the following standards, amendments or interpretations have yet to become effective:

Amendment to IFRS 3, IAS 16, IAS 37 and Annual Improvements 2018-2020

On 28 June 2021, the European Commission issued Regulation 2021/1080, endorsing the following amendments:

- **Amendments to IFRS 3 Business Combinations**: the changes aim to update the reference to the revised version of the Conceptual Framework in IFRS 3, without this resulting in modifications to the provisions of the standard;
- **Amendments to IAS 16 Property, Plant and Equipment**: the changes aim to not allow the deduction of the amount received from the sale of good produced from the cost property, plant and equipment when testing such assets. This sales revenue and the related costs must therefore be recognized in profit or loss;
- **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets:** the amendment clarifies that in estimating the onerous nature of a contract an entity must take into account all the costs that relate directly to the contract. As a result, assessment of whether or not a contract is onerous includes not only the costs provided for in the contract, but also all the costs that the entity cannot avoid having entered into the contract;
- **Annual Improvements 2018-2020**: the changes regarded IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and Illustrative Examples of IFRS 16 Leases.

All the amendments will come into effect from 1 January 2022. The Group is assessing the potential impact of the introduction of these amendments on its financial statements.

IFRS 17: Insurance contracts

On 19 November 2021, the European Commission issued Regulation 2021/2036, endorsing IFRS 17. The new accounting standard for insurance contracts was published by the IASB on 18 May 2017, to replace the interim version of IFRS 4. The standard aims to ensure that an entity provides pertinent information providing an accurate view of the rights and obligations resulting from the insurance contracts issued. The IASB has developed the standard to remove inconsistencies and weaknesses in existing accounting policies, providing a single principle-based framework that takes into account all types of insurance contracts, including any reinsurance contracts to which an insurance undertaking is party.

The new standard also introduces presentation and disclosure requirements to improve comparability between entities belonging to this sector.
The standard will come into effect from 1 January 2023 and will not have an impact on the Group's consolidated financial statements.

International financial reporting standards, amendments and interpretations awaiting endorsement

For newly-issued amendments, standards and interpretations that have not yet been endorsed by the EU, but which address issues that affect or could affect the Terna Group, assessments are currently being conducted of the possible impact of their application on the financial statements, taking into account the date on which they will take effect. In particular:

Amendment to IAS 1: Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Noncurrent - Deferral of Effective Date

On 23 January 2020 and 15 July 2020, the IASB published the amendment to IAS 1 that aims to clarify how to classify payables and other short- or long-term liabilities.

Amendments to IAS 1 and IAS 8: Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 and Definition of Accounting Estimates – Amendments to IAS 8

On 12 February 2021, the IASB published amendments to IAS 1 and IAS 8, which aim to improve the disclosure of accounting policies in order to provide more useful information for investors and other primary users of financial statements and to help companies to distinguish changes in accounting estimates from changes in accounting policy.

Amendment to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendment, published by the IASB on 7 May 2021, clarifies how to account for deferred tax assets and liabilities arising from certain transactions that may generate assets and liabilities of a matching amount, such as leases and decommissioning obligations.

Amendment to IFRS 17: Initial Application of IFRS 17 and IFRS 9

On 25 June 2020, the IAS published the amendment to IFRS 17. The amendment is a transition option relating to comparative information on financial assets presented at the date of initial application of IFRS 17. The amendment aims to avoid temporary accounting mismatches between insurance contract liabilities and the related financial assets, and to thus improve the usefulness of the comparative information to the users of financial statements.

B. Notes to the consolidated income statement

Revenue

1. REVENUE FROM SALES AND SERVICES - €2,534.5 MILLION

(€m)

	2021	2020	Δ
Transmission charges billed to grid users	2,041.0	1,938.1	102.9
Back-billing of transmission charges for previous years	-	0.4	(0.4)
Other energy-related revenue and from services performed under concession	160.7	137.8	22.9
Quality of service bonuses/(penalties)	11.6	29.4	(17.8)
Other sales and services	321.2	271.8	49.4
TOTAL	**2,534.5**	**2,377.5**	**157.0**

Transmission charges

The charges for use of the NTG regard the revenue attributable to the Parent (€1,892.4 million) and the subsidiaries Rete S.r.l. (€132.7 million) and Terna Crna Gora d.o.o. (€15.9 million).
The increase in revenue from the transmission service (up €102.5 million) primarily reflects the increase in the RAB (up €64 milion), the effects of output-based incentive mechanisms[2] (up €48.1 million, under ARERA Resolutions 23/2022, 579/17, 884/17, 319/21, 395/21 and 25/2022), and the positive impact of the volume effect, offset by the impact of the release in 2020 of provisions for amounts payable to an operator (down €10.6 million) following settlement of the related risk.

Other energy-related revenue and from services performed under concession

This item regards dispatching and metering revenue (essentially relating to €111.6 million, for the dispatching component, €0.4 million for the metering component and other energy-related revenue of €1.8 million) and revenue from infrastructure construction and upgrade services performed under concession, recognised in application of IFRIC 12 (€46.9 million).
The increase in "Other energy-related revenue and from services performed under concession" compared with 2020, totalling €22.9 million, is linked primarily to increased investment in dispatching infrastructure compared with 2020 (up €18.4 million) and an increase in in dispatching revenue (up €5.2 million) linked above all to an increase in the tariff resulting from the increase in the RAB, partially offset by other non-recurring items recognised during the comparative year.

(€m)

OTHER ENERGY-RELATED REVENUE AND FROM SERVICES PERFORMED UNDER CONCESSION	2021	2020	Δ
Dispatching and metering revenue and other energy-related revenue	113.8	109.3	4.5
Revenue from services performed under concession (IFRIC 12)	46.9	28.5	18.4
TOTAL ENERGY-RELATED REVENUE AND FROM SERVICES PERFORMED UNDER CONCESSION	**160.7**	**137.8**	**22.9**

[2] An efficiency bonus linked to the cost of investment in boosting transmission capacity in 2020 (under Resolution 23/2022), efficiency bonuses for development works completed by 30 September 2020, rewards linked to preparations for the introduction of output-based regulation in 2018 and 2019, the reward for unification of the NTG.

Quality of service

This item, amounting to €11.6 million, regards the RENS (Regulated Energy Not Supplied) incentive mechanism introduced by Resolution 653/2015/r/eel, calculated on a pro rata basis taking into account the estimated overall results expected in the 2020-2023 regulatory period. The reduction of €17.8 million in this item compared with the previous year is broadly due to the greater amount of revenue recognised in 2020 following final assessment of the performance in 2019 (€23.4 million under ARERA Resolution 540/2020) and recognition of the pro-rata assessment of the performance in 2021 (€5.9 million, based on the estimated overall outcome for the 2021-2023 regulatory period).

Other sales and services

The item, "Other sales and services", amounting to €321.2 million, mainly regards revenue from Non-regulated Activities, regarding:

- the sale of transformers by the subsidiary, Tamini (€118.2 million);
- revenue contributed by Brugg Group, essentially relating to contracts with third parties for the supply of cables and accessories (€110.1 million);
- Energy Solutions (€51.0 million), above all HV services, totalling €28.2 million and Smart Grids, totalling €22.8 million, including the contribution from the newly acquired LT S.r.l., which specialises in O&M services for photovoltaic plants (€10.1 million) and the energy efficiency services provided by the subsidiary, Avvenia The Energy Innovator S.r.l. amounting to €1.7 million;
- Connectivity (€30.5 million) with specific regard to support and housing services for fibre networks (€25.9 million) and fibre maintenance (€3.5 million).

This item also includes revenue from connections to the NTG (€5.4 million) and relating to the private Italy-France and Italy-Austria Interconnectors (in both cases, €0.6 million), representing the accrued portion of the revenue attributable to the Group for services provided during construction.
This item is up €49.4 million compared with 2020, primarily due to the contribution from the subsidiaries, Tamini group and Brugg Group (totalling approximately €31.9 million), increased revenue from Energy Solutions (up €15.2 million, including €10.1 million from the LT Group acquired in October 2021) and an increase in revenue from the provision of Connectivity services (up €1.6 million) and revenue from connections to the NTG (up €1.0 million). These increase were partially offset by the reduced contribution from private interconnector projects pursuant to Law 99/2009 (down €2.4 million), essentially due to the differing states of progress of works on the Italy-France interconnector.

Pass-through revenue/expenses

This item regards "pass-through" revenue and expenses (the balance of which amounts to zero) attributable solely to the Parent Company. These items result from daily purchases and sales of electricity from electricity market operators. Measurements for each point of injection and withdrawal are taken and the differences, with respect to energy market schedules are calculated. These differences, known as imbalances, are then measured using algorithms established by the regulatory framework. The net charge resulting from calculation of the imbalances and the purchases and sales, carried out by the Parent Company Terna on the DSM, is billed on a pro rata basis to each end consumer via a specific Uplift payment. This item also reflects the portion of the transmission charge that the Parent Company passes on to other grid owners, not included in the scope of consolidation.

The components of these transactions are shown in greater detail below:

(€m)

	2021	2020	CHANGE
Power Exchange-related revenue items	**6,506.7**	**4,081.5**	**2,425.2**
- Uplift	2,357.8	2,430.8	(73.0)
- Electricity sales	963.7	348.5	615.2
- Imbalances	1,580.0	447.7	1,132.3
- Congestion revenue	316.8	226.9	89.9
- Charges for right to use transmission capacity and market coupling	438.6	209.0	229.6
- Interconnectors/shippers	70.6	68.2	2.4
- Load Profiling for public lighting	264.6	149.6	115.0
- Other Power Exchange-related pass-through revenue items	514.6	200.8	313.8
Total over-the counter revenue items	**1,759.5**	**1,422.9**	**336.6**
- Coverage of wind farm costs	36.5	24.2	12.3
- Transmission revenue passed on to other NTG owners	4.9	5.0	(0.1)
- Charge to cover cost of essential plants	727.1	526.6	200.5
- Charge to cover cost of energy delivery capacity	213.9	195.3	18.6
- Charge to cover cost of interruptibility service	326.6	305.0	21.6
- Charge to cover cost of LV capacity and protection service	366.2	299.5	66.7
- Other pass-through revenue for over-the-counter trades	84.3	67.3	17.0
TOTAL PASS-THROUGH REVENUE	**8,266.2**	**5,504.4**	**2,761.8**
Total Power Exchange-related cost items	**6,506.7**	**4,081.5**	**2,425.2**
- Electricity purchases	3,978.1	2.893.3	1,084.8
- Imbalances	1,192.0	370.5	821.5
- Congestion revenue	245.0	138.7	106.3
- Charges for right to use transmission capacity and market coupling	198.5	82.4	116.1
- Interconnectors/Shippers	200.9	216.8	(15.9)
- Load Profiling for public lighting	288.6	176.4	112.2
- Other Power Exchange-related pass-through cost items	403.6	203.4	200.2
Total over-the-counter cost items	**1,759.5**	**1,422.9**	**336.6**
- Shortfall in wind production	36.5	24.2	12.3
- Transmission costs passed on to other NTG owners	4.9	5.0	(0.1)
- Fees paid for essential units	727.1	526.6	200.5
- Fees paid for energy delivery capacity	213.9	195.3	18.6
- Fees paid for interruptibility service	326.6	305.0	21.6
- Fees paid for LV capacity and protection service	366.2	299.5	66.7
- Other pass-through costs for over-the-counter trades	84.3	67.3	17.0
TOTAL PASS-THROUGH COSTS	**8,266.2**	**5,504.4**	**2,761.8**

In 2021, the total Uplift was €2,477[3] million, up 6% on the previous year. The rise was primarily due to the increased cost of procuring services on the DSM, partly offset by increases in congestion revenue and imbalance revenue.

[3] The Uplift includes the virtual interconnection, amounting to approximately €130 million in 2021 (compared with approximately €149 million in 2020).

2. OTHER REVENUE AND INCOME – €71.8 MILLION

(€m)

	2021	2020	CHANGE
Contingent assets	20.0	1.8	18.2
Sales to third parties	13.3	8.2	5.1
Sundry grants	9.0	8.2	0.8
Revenue from IRU contracts for fibre	8.9	1.9	7.0
Gains on sale of infrastructure components	5.7	6.2	(0.5)
Insurance proceeds as compensation for damages	4.1	1.4	2.7
Rental income	2.2	2.9	(0.7)
Bargain purchase	-	73.0	(73.0)
Other revenues	8.6	9.3	(0.7)
TOTAL	**71.8**	**112.9**	**(41.1)**

"Other revenue and income" includes contingent assets (€20.0 million, primarily resulting from the outcome of the claim for a refund of stamp duty paid on the acquisition of Rete S.r.l., totalling €13.4 million), in addition to other significant items relating to sales to third parties (€13.3 million), sundry grants (€9.0 million), revenue from Connectivity services linked to IRU contracts for fibre (€8.9 million), the gain on the sale of infrastructure components (€5.7 million) and other revenue of €8.6 million, primarily generated by the private Italy-Montenegro interconnector, totalling €6.4 million.
This item, totalling €71.8 million, is down €41.1 million compared with the previous year, primarily due to the higher amount of revenue recognised in 2020 due to recognition of the higher value of the net assets acquired following the acquisition of Brugg Cables compared with the consideration paid (proceeds from the gain resulting from a bargain purchase, totalling €73.0 million), partially offset by the increase in contingent assets (up €18.2 million, primarily resulting from the outcome of the claim for a refund of stamp duty paid on the acquisition of Rete S.r.l., totalling €13.4 million), increased revenue from Connectivity services linked to IRU contracts for fibre (up €7.0 million), increased sales to third parties (up €5.1 million, primarily due to the sale of scrap by the subsidiary, Brugg) and by greater revenue in the form of insurance proceeds €2.7 million.

Operating costs

3. RAW AND CONSUMABLE MATERIALS USED – €206.4 MILLION

This item includes the value of the various materials and equipment used in the ordinary operation and maintenance of the plant belonging to the Group and third parties, and the materials consumed in the performance of contract work by the Tamini Group, in the production of cables and accessories by the Brugg group.
The increase of €45.6 million compared with the previous year primarily reflects the cost of materials incurred by Brugg Group and Tamini Group (up €20.4 million and €15.4 million respectively) and the contribution from the LT Group (up €5.8 million). This item also reflects increased costs (up €3.9 million) linked to construction and development of the infrastructure operated under concession, accounted for in application of IFRIC 12.

4. SERVICES – €218.3 MILLION

(€m)

	2021	2020	CHANGE
Maintenance and sundry services	103.4	90.0	13.4
Tender costs for plant	46.7	44.3	2.4
IT services	28.4	18.2	10.2
Insurance	15.4	14.5	0.9
Lease expense	15.4	13.1	2.3
Remote transmission and telecommunications	9.0	9.0	-
TOTAL	**218.3**	**189.1**	**29.2**

This item, totalling €218.3 million is up €29.2 million compared with 2020 (€189.1 million). This primarily reflects increased costs linked to the construction and development of infrastructure under concession, recognised in application of IFRIC 12 (up €14.2 million, in particular reflecting the increase in the cost of IT services of €8.9 million and maintenance costs of €1.1 million) and increased activity and new initiatives carried out by the Group.

Fees payable to members of the Board of Statutory Auditors amount to €0.4 million, whilst those payable to members of the Supervisory Board set up in compliance with Legislative Decree 231/2001 amount to €0.7 million.

5. PERSONNEL EXPENSES – €295.3 MILLION

(€m)

	2021	2020	CHANGE
Salaries, wages and other short-term benefits	375.5	341.8	33.7
Directors' remuneration	1.8	1.7	0.1
Termination benefits (TFR), energy discounts and other employee benefits	20.6	23.8	(3.2)
Early retirement benefits	3.2	2.9	0.3
Gross personnel expenses	***401.1***	***370.2***	***30.9***
Capitalised personnel expenses	(105.8)	(83.2)	(22.6)
TOTAL	**295.3**	**287.0**	**8.3**

Personnel expenses, amounting to €295.3 million in 2021, are up €8.3 million compared with the previous year (€287.0 million). This is due to an increase in the workforce, partly offset by the higher amount of capitalised expenses.

The following table shows the Group's workforce by category at the end of the year and the average for the year.

NO.	AVERAGE WORKFORCE		WORKFORCE AT	
	2021	2020	31 DECEMBER 2021	31 DECEMBER 2020
Senior managers	90	83	92	80
Middle managers	730	669	765	672
Office staff	2,693	2,516	2,815	2,587
Blue-collar workers	1,431	1,356	1,464	1,396
TOTAL	**4,944**	**4,624**	**5,136**	**4,735**

The net increase in the average workforce compared with 2021 is 320, essentially due to the impact of new recruitment as part of the Group's generational turnover plan and the contribution from Brugg Cables, which in the last year referred solely to 10 months from the date of acquisition.

At 31 December 2021, the Terna Group's workforce breaks down as follows:

	TERNA S.P.A.	TERNA RETE ITALIA S.P.A.	TERNA ENERGY SOLUTIONS S.R.L.	TERNA PLUS S.R.L.	AVVENIA THE ENERGY INNOVATOR S.R.L.	TAMINI GROUP	LT GROUP
No.	917	3,206	63	38	18	342	69

	BRUGG KABEL AG	TERNA CRNA GORA D.O.O.	SPE SANTA MARIA TRANSMISSORA DE ENERGIA S.A.	SPE SANTA LUCIA TRANSMISSORA DE ENERGIA S.A.	SPE TRANSMISSORA DE ENERGIA LINHA VERDE I S.A.	SPE TRANSMISSORA DE ENERGIA LINHA VERDE II S.A.	TERNA PERU S.A.C.	DIFEBAL S.A.
No.	435	11	2	18	3	6	6	2

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES – €654.4 MILLION

(€m)

	2021	2020	CHANGE
Amortisation of intangible assets	66.8	65.9	0.9
- *of which on infrastructure*	*18.2*	*23.9*	*(5.7)*
Depreciation of property, plant and equipment	589.2	559.8	29.4
Impairment losses on property, plant and equipment	0.3	8.3	(8.0)
Impairment losses on current assets	0.8	1.0	(0.2)
Impairment losses on trade receivables	(2.7)	(0.6)	(2.1)
TOTAL	**654.4**	**634.4**	**20.0**

Amortisation, depreciation and impairment losses, amounting to €654,4 million (including €11.2 million recognised in application of IFRS 16), are up €20.0 million compared with 2020. This primarily reflects the entry into service of infrastructure operated by the Parent Company (up €14.2 million) and the subsidiaries, Rete S.r.l. (up €4.0 million) and Terna Rete Italia S.p.A. (up €1.8 million), after taking into account the higher value of impairment losses on assets recognized in the previous year (down €8.0 million).

7. OTHER OPERATING COSTS - €31.5 MILLION

(€m)

	2021	2020	CHANGE
Indirect taxes and local taxes and levies	7.1	12.2	(5.1)
Quality of service costs	5.9	8.3	(2.4)
of which mitigation and sharing mechanisms	*4.9*	*7.6*	*(2.7)*
of which the Fund for Exceptional Events	*0.8*	*0.9*	*(0.1)*
of which compensation mechanisms for HV users	*0.2*	*(0.2)*	*0.4*
Fees paid to regulators and membership dues	7.3	7.2	0.1
Adjustment of provisions for litigation and disputes	(1.3)	0.5	(1.8)
Net contingent liabilities	0.9	0.1	0.8
Losses on sales/disposals of plant and net contingent liabilities	0.8	0.3	0.5
Other	10.8	13.9	(3.1)
TOTAL	**31.5**	**42.5**	**(11.0)**

The Group's other operating costs, amounting to €31.5 million, are primarily attributable to the Parent Company (€22.5 million), the subsidiary, Terna Rete Italia S.p.A. (€1.3 million) and the Tamini Group (€4.2 million). They include indirect taxes, local taxes and levies (€7.1 million), membership dues and fees paid to trade bodies and associations relating to the Group's activities (€7.3 million), quality of service costs (€5.9 million) and other costs (€10.8 million) including provisions for risks and charges connected with the activities of the subsidiary, Tamini (€3.6 million, primarily in the form of provisions for product warranties) and other operating costs linked to the subsidiary, Brugg Group, relating to the cost of scrapping waste materials, donations and other expenses.

The reduction of €11.0 million primarily reflects a decrease in the costs incurred for quality of service (down €2.4 million, primarily linked to the steps taken to mitigate the impact of events in December 2020 following heavy snowfall across northern Italy) and the adjustment to provisions linked to amounts previously set aside in relation to Land Registry Circular 6/2012 and for litigation and disputes (down €5.3 million, including €3.3 million for indirect taxes, local taxes and levies).
This also reflects a reduction in other costs (down €3.1 million), mainly attributable to the subsidiary, Brugg Group, as a result of a reduction in the cost of scrapping waste materials compared with 2020.

8. FINANCIAL INCOME/(EXPENSES) – (€79.2) MILLION

(€m)

	2021	2020	CHANGE
FINANCIAL EXPENSES			
Interest expense on medium/long-term borrowings and related hedges	(102.9)	(89.1)	(13.8)
Adjustments to bonds in issue and the related hedges	-	(4.1)	4.1
Discounting of receivables, termination benefits (TFR), operating leases and other liabilities	(2.9)	(3.5)	0.6
Capitalised financial expenses	10.8	10.1	0.7
Translation differences	-	(3.8)	3.8
Other financial expenses	(0.8)	(1.3)	0.5
Total expenses	**(95.8)**	**(91.7)**	**(4.1)**
FINANCIAL INCOME			
Interest income and other financial income	11.6	9.6	2.0
Restructuring of bond issues and related hedges	1.2	-	1.2
Translation differences	3.8	-	3.8
Total income	**16.6**	**9.6**	**7.0**
TOTAL	**(79.2)**	**(82.1)**	**2.9**

Net financial expenses of €79.2 million are essentially attributable to the Parent Company (€81.2 million) and reflect €95.8 million in financial expenses and €16.6 million in financial income. The decrease in net financial expenses compared with 2020, amounting to €2.9 million, primarily reflects the following:

- an increase in financial expenses of €13.8 million on medium/long-term debt due to rising inflation and the greater amount of debt;
- the positive impact of exchange movements, totalling €7.6 million;
- increased income on financial assets (up €2.0 million).

9. SHARE OF PROFIT/(LOSS) OF INVESTEES ACCOUNTED FOR USING THE EQUITY METHOD – (€0.3 MILLION)

This item, amounting to €0.3 million, reflects an increase of €4.2 million compared with the previous year (down €3.9 million), broadly due to the positive impact of the adjustment of the Group's share of equity in the CESI group (up €3.9 million) and Equigy (up €0.3 million).

10. INCOME TAX EXPENSE – €317.9 MILLION

Income tax expense for the year totals €317.9 million, an increase of €20.5 million on the previous year, essentially due to the increase in pre-tax profit and the higher amount of tax-exempt income recognised in the previous year, above all the higher value of the net assets acquired following the acquisition of Brugg Cables compared with the consideration paid. The tax rate of 28.3% compares with the rate of 27.3% for 2020.

(€m)

	2021	2020	CHANGE
Income tax for the year			
Current tax expense:			
- IRES (corporate income tax)	296.2	273.2	23.0
- IRAP (regional tax on productive activities)	63.4	58.5	4.9
Total current expense	***359.6***	***331.7***	***27.9***
New temporary differences:			
- deferred tax assets	(14.7)	(19.3)	4.6
Reversal of temporary differences:			
- deferred tax assets	13.9	23.9	(10.0)
- deferred tax liabilities	(34.3)	(33.5)	(0.8)
Total deferred tax (income)/expense	***(35.1)***	***(28.9)***	***(6.2)***
Adjustments to taxes for previous years and other one-off changes	(6.6)	(5.4)	(1.2)
TOTAL	**317.9**	**297.4**	**20.5**

Current income tax expense of €359.6 million, is up €27.9 million, compared with the previous year, essentially due to the increase in pre-tax profit and the higher amount of tax-exempt income recognised in the previous year.
Net deferred tax expense of €35.1 million is up €6.2 million compared with the figure for the previous year (€28.9 million). This reflects the impact of taxation on depreciation and amortisation, movements in provisions for risks and charges and for employee benefits recognized by the Group during the year.

Adjustments to taxes for previous years, amounting to expense of €6.6 million, primarily regard subsidiaries and include contingent assets resulting from recognition of the effective amount payable when filing annual tax returns. This item is €1.2 million lower than the figure for the previous year, primarily due to the subsidiary, Brugg Kabel.

For a clearer presentation of the differences between the theoretical and effective tax rates, the table below reconciles the profit before taxes with taxable income.

(€m)

	2021	2020
Profit before tax	1,121.5	1,090.6
THEORETICAL TAX CHARGE IRES 24%	**269.2**	**261.7**
IRAP	63.4	58.5
Permanent differences	(8.1)	(17.4)
TAX (after adjustment for previous years and one-off changes)	**324.5**	**302.8**
TAX RATE	**28.9%**	**27.8%**
Adjustments to taxes for previous years and other one-off changes	(6.6)	(5.4)
INCOME TAX EXPENSE FOR THE YEAR	**317.9**	**297.4**
EFFECTIVE TAX RATE	**28.3%**	**27.3%**

11. PROFIT/(LOSS) FROM ASSETS HELD FOR SALE – (€12.8) MILLION

This item includes the net result from the assets included in the potential sale of the Group's Latin American assets, which includes a portfolio of six special purpose vehicles (SPVs): the four subsidiaries in Brazil, Terna Perù and the Uruguayan company Difebal S.A.. A Preferred Bidder has been selected from among the interested parties. A Memorandum of Understanding (MoU) was signed on 20 December 2021, setting out the terms and conditions for the potential transaction and establishing an exclusivity period to enable due diligence activities to take place and a binding offer to be finalised.
As a result of this transaction, as required by IFRS 5, the net assets of the Brazilian companies, SPE Santa Lucia Transmissora de Energia S.A., SPE Santa Maria Transmissora de Energia S.A., SPE Transmissora de Energia Linha Verde II S.A. and SPE Transmissora de Energia Linha Verde I S.A., the Peruvian company, Terna Perù S.A.C., and the Uruguayan company, Difebal S.A., have been reclassified.
The consolidated income statement for 2020 has been restated, recognising a net profit from assets held for sale of €2.1 million.

The revenue and cost items resulting in the net result for the year from assets held for sale, amounting to a loss of €12.8 million, are shown below:

(€m)

	2021	2020	CHANGE
Revenue	43.2	85.3	(42.1)
Operating costs	18.8	75.3	(56.5)
OPERATING COSTS	**24.4**	**10.0**	**14.4**
Financial income/(expenses), net	(16.3)	(7.5)	(8.8)
Impairment loss recognised on remeasurement of the fair value less costs to sell	(17.1)	-	(17.1)
PROFIT/(LOSS) BEFORE TAX	**(9.0)**	**2.5**	**(11.5)**
Income tax expense for the year	3.8	0.4	3.4
Profit/(Loss) for the year from assets held for sale	**(12.8)**	**2.1**	**(14.9)**

Revenue

This item broadly consists of revenue from construction and development of infrastructure operated under concession, above all the assets held for sale located in Brazil and Peru.

Operating costs

Operating costs essentially regard the costs incurred for the construction work being carried out in Brazil (€8.9 million) and for completion of the power line in Peru that entered service in May (€2.8 million), as well as operating costs incurred in South America.

The loss from assets held for sale, amounting to €12.8 million, marks a deterioration of €14.9 million compared with the previous year. This essentially reflects the adjustment to the fair value of the net assets held for sale in application of IFRS 5.

Basic and diluted earnings per share from discontinued operations and assets held for sale, amounting to a loss of €0.006 per share (the numerator of €12.8 million represents the net loss from assets held for sale, whilst the denominator of 2,007,550,679.7 shares is the weighted average number of shares outstanding during the year).

12. EARNINGS PER SHARE

Basic earnings per share, which corresponds to diluted earnings per share, amounts to €0.393 (based on profit for the year attributable to owners of the Parent, totalling €789.4 million, divided by the number of shares outstanding, totalling 2,007,550,679.7 thousand. This number is the weighted average number of shares outstanding during the year).
Earnings per share from continuing operations, which corresponds to diluted earnings per share from continuing operations, is €0.400 (the numerator of €803.6 million represents net profit for the year from continuing operations, whilst the denominator of 2,007,550,679.7 shares is the weighted average number of shares outstanding during the year).

C. Operating segments

In line with the 2022-2026 Industrial Plan, and in compliance with IFRS 8, the Terna Group's identified operating segments are described below:

- **Regulated**
- **Non-Regulated**
- **International**

The Regulated segment includes the development, operation and maintenance of the National Transmission Grid, in addition to dispatching and metering, and the activities involved in the construction of storage systems. These activities have been included in one operating segment, as they are all regulated by ARERA and have similar characteristics, in terms of the remuneration model and the method for setting the related tariffs.

The Non-regulated segment includes deregulated activities and specific business initiatives, above all relating to Industrial activities, which includes the operating results of the Tamini Group, relating essentially to the construction and commercialisation of electrical equipment, above all power transformers, and the Brugg Group, which operates in the terrestrial cable sector, specialising in the design, development, construction, installation and maintenance of electrical cables of all voltages and accessories for high-voltage cables. The Non-regulated segment includes initiatives linked above all to the provision of services to third parties in the areas of Energy Solutions, consisting of the development of technical solutions and the supply of innovative services, including EPC (Engineering, Procurement and Construction) services, operation and maintenance of high-voltage and very high-voltage infrastructure, and the supply of energy efficiency services, broadly attributable to the subsidiary, Avvenia The Energy Innovator S.r.l..). This segment also includes Connectivity (support and housing services for fibre networks and IRU contracts for fibre. This segment includes the activities carried out in relation to the private interconnectors launched by Law 99/2009, legislation that assigned Terna responsibility for selecting undertakings (the "selected undertakings"), on the basis of public tenders, willing to finance specific cross-border interconnectors in exchange for the benefits resulting from a decree granting a third-party access exemption with regard to the transmission capacity provided by the new infrastructure. The Non-regulated Activities segment also includes the results of the LT Group, acquired in October 2021 and a leading provider of O&M services for photovoltaic plants.

On the other hand, the International segment includes the results deriving from opportunities for international expansion, which the Group aims to exploit by leveraging its core competencies developed in Italy as a TSO, where such competencies are of significant importance in its home country. Overseas investment focuses on countries with stable political and regulatory regimes and a need to develop their electricity infrastructure. This segment includes the results of the subsidiary, Terna Plus S.r.l., the Peruvian company Terna 4 Chacas S.A.C. (a charitable project) and the Chilean company, Terna Chile S.p.A..

The results of the Brazilian companies, SPE Santa Lucia Trasmissora de Energia S.A. and SPE Santa Maria Trasmissora de Energia S.A., SPE Transmissora de Energia Linha Verde I S.A. and SPE Transmissora de Energia Linha Verde II S.A., of the Peruvian company, Terna Peru S.A.C., the Uruguayan company, Difebal S.A C., and the Chilean company, Terna Chile S.p.A., have been reclassified to the "Profit/(Loss) from assets held for sale".

(€m)

	2021	2020	CHANGE	% CHANGE
REGULATED REVENUE	2,253.5	2,148.9	104.6	4.9%
NON-REGULATED REVENUE	350.9	341.0	9.9	2.9%
INTERNATIONAL REVENUE*	0.4	0.5	(0.1)	(20.0%)
Cost of international activities	1.5	-	1.5	-
TOTAL REVENUE	**2,606.3**	**2,490.4**	**115.9**	**4.7%**
GROSS OPERATING PROFIT (EBITDA)*	**1,854.8**	**1,811.0**	**43.8**	**2.4%**
of which regulated EBITDA**	1,800.5	1,720.7	79.8	4.6%
of which non-regulated EBITDA	61.8	96.9	(35.1)	(36.2%)
of which International EBITDA	(7.5)	(6.6)	(0.9)	13.6%
Reconciliation of segment result with the Company's profit before tax				
GROSS OPERATING PROFIT (EBITDA)	**1,854.8**	**1,811.0**		
Amortisation, depreciation and impairment losses	654.4	634.4		
OPERATING PROFIT/(LOSS) (EBIT)	**1,200.4**	**1,176.6**		
Financial income/(expenses)	(79.2)	(82.1)		
Share of profit/(loss) of investees accounted for using the equity method	0.3	(3.9)		
Profit/(Loss) before tax	**1,121.5**	**1,090.6**		

* *Gross operating profit - EBITDA is an indicator of operating performance, obtained by adding "Amortisation, depreciation and impairment losses" to "Operating profit/(loss) (EBIT)".*
** *EBITDA including indirect costs.*

The Group's revenue for 2021 amounts to €2,606.3 million, an increase of €115.9 million (4.7%) compared with 2020.
Gross operating profit (EBITDA) of €1,854.8 million is up €43.8 million (2.4%) on the €1,811.0 million of 2020.

EBITDA from Regulated Activities amounts to €1,800.5 million, an increase of €79.8 million compared with the previous year. This primarily reflects the tariff adjustment provided for in ARERA Resolution 565/20 and recognition of the efficiency bonus linked to the cost of investment in boosting transmission capacity in 2020 (under Resolution 23/2022), partly offset by the one-off effect of recognition in the Regulated Activities segment in 2020 of the revenue relating to the acquisition of Brugg Cables.

EBITDA from Non-regulated Activities amounts to €61.8 million for 2021, a decrease of €35.1 million compared with the previous year. This primarily reflects:

- one-off revenue recognised in 2020 as a result of the higher value of the net assets acquired following the acquisition of Brugg Cables compared with the consideration paid (the gain resulting from a bargain purchase, including related ancillary costs, totalling €48.1 million);
- the lower contribution of private interconnector projects pursuant to Law 99/2009 (down €2.3 million), essentially due to the differing states of progress of works on the Italy-France interconnector;
- an increase in revenue from Connectivity (up €7.1 million, primarily due to IRU contracts for fibre);
- the higher contribution from the subsidiaries, Tamini Group and Brugg Group (totalling approximately €5 million), and from the LT Group in the Energy Solutions segment following its acquisition in October 2021 (up €1.1 million).

EBITDA from International Activities reports a loss of €7.5 million for 2021, marking a deterioration of €0.9 million compared with the previous year (a loss of €6.6 million). This reflects an increase in the costs incurred by central departments to support overseas initiatives, primarily due to the resumption of scouting and business travel after the slowdown caused by Covid-19 health emergency.

Assets held for sale report a net loss of €12.8 million, marking a deterioration of €14.9 million compared to the previous year, mainly due to the adjustment of the value of net assets held for sale, recognised in accordance with IFRS 5.

Information on the financial position periodically reported to senior management is not provided directly on the basis of each individual segment, but based on the measurement and presentation of gross invested capital as a whole, given that the contribution from Non-regulated and International Activities is not material. The following table shows this indicator at 31 December 2021 and 31 December 2020.

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020
Net non-current assets *	16,352.9	15,645.9
of which investments in associates and joint ventures	*76.2*	*75.8*
Net working capital **	1,706.7	1,936.2
Gross invested capital ***	14,646.2	13,709.7

* *Net non-current assets include "Property, plant and equipment", "Goodwill", "Intangible assets", "Investments accounted for using the equity method", "Other non-current assets" and "Non-current financial assets" excluding the value of FVHs (€1.6 million).*

** *Net working capital is the difference between total current assets less cash and the items, "Current financial assets" and total current liabilities, less the short-term portion of long-term borrowings and the items, "Short-term borrowings" and "Current financial liabilities", and the item, "Other non-current liabilities".*

*** *Gross invested capital is the sum of net non-current assets and net working capital.*

D. Notes to the consolidated statement of financial position

Assets

13. PROPERTY, PLANT AND EQUIPMENT – €15,316.6 MILLION

(€m)

	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
COST AT 31 DECEMBER 2020	**210.1**	**2,232.3**	**19,314.4**	**198.8**	**189.6**	**1,848.2**	**23,993.4**
Cost reclassified to discontinued operations and assets held for sale	-	(0.1)	-	-	(1.0)	-	(1.1)
of which right-of-use assets	-	*(0.1)*	-	-	*(0.3)*	-	*(0.4)*
Capital expenditure	-	7.1	0.8	5.4	8.5	1,370.1	1,391.9
of which right-of-use assets	-	*4.9*	-	-	*2.3*	-	*7.2*
of which finance leased assets	-	-	*0.3*	-	-	-	*0.3*
Assets entering service	1.9	80.6	916.5	5.0	14.5	(1,018.5)	-
Contribution from newly acquired companies	-	1.2	13.8	0.4	0.2	-	15.6
Change in scope of consolidation	-	-	-	-	-	(0.2)	(0.2)
Other purchases	-	-	15.6	-	-	-	15.6
Translation differences	-	2.6	-	3.4	0.3	-	6.3
of which right-of-use assets	-	*0.2*	-	-	-	-	*0.2*
Disposals and impairments	(0.4)	(20.8)	(75.6)	(0.3)	(2.3)	(0.4)	(99.8)
of which right-of-use assets	-	*(20.3)*	-	-	*(1.0)*	-	*(21.3)*
of which finance leased assets	-	-	*(0.7)*	-	-	-	*(0.7)*
Other movements	0.1	(15.0)	(23.2)	0.4	1.3	(6.5)	(42.9)
of which finance leased assets	-	-	*(1.2)*	-	-	-	*(1.2)*
COST AT 31 DECEMBER 2021	**211.7**	**2,287.9**	**20,162.3**	**213.1**	**211.1**	**2,192.7**	**25,278.8**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31 DECEMBER 2020	**(0.9)**	**(678.6)**	**(8,442.5)**	**(161.9)**	**(149.8)**	**-**	**(9,433.7)**
Accumulated depreciation and impairment losses reclassified to discontinued operations and assets held for sale	-	0.1	-	-	0.3	-	0.4
of which right-of-use assets	-	*0.1*	-	-	*0.2*	-	*0.3*
Depreciation for the year	(0.6)	(62.7)	(503.0)	(8.0)	(14.9)	-	(589.2)
of which right-of-use assets	*(0.6)*	*(9.2)*	-	-	*(1.4)*	-	*(11.2)*
of which finance leased assets	-	-	*(2.7)*	-	-	-	*(2.7)*
Contributions from newly acquired companies	-	(1.2)	(13.8)	(0.2)	(0.2)	-	(15.4)
Translation differences	-	(0.5)	-	(3.2)	(0.3)	-	(4.0)
Disposals	-	8.1	71.7	0.2	2.2	-	82.2
of which right-of-use assets	-	*5.6*	-	-	*0.9*	-	*6.5*
of which finance leased assets	-	-	*0.3*	-	-	-	*0.3*
Other movements	-	1.0	(3.9)	(0.7)	1.1	-	(2.5)
of which finance leased assets	-	-	*0.8*	-	-	-	*0.8*
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31 DECEMBER 2021	**(1.5)**	**(733.8)**	**(8,891.5)**	**(173.8)**	**(161.6)**	**-**	**(9,962.2)**
Carrying amount							
AT 31 DECEMBER 2021	**210.2**	**1,554.1**	**11,270.8**	**39.3**	**49.5**	**2,192.7**	**15,316.6**
of which right-of-use assets	*5.3*	*40.0*	-	-	*2.5*	-	*47.8*
of which finance leased assets	-	*0.6*	*21.9*	-	*1.5*	-	*24.0*
AT 31 DECEMBER 2020	**209.2**	**1,553.7**	**10,871.9**	**36.9**	**39.8**	**1,848.2**	**14,559.7**
of which right-of-use assets	*5.9*	*58.8*	-	-	*1.8*	-	*66.5*
of which finance leased assets	-	*0.6*	*25.1*	-	*1.5*	-	*27.2*
Change	**1.0**	**0.4**	**398.9**	**2.4**	**9.7**	**344.5**	**756.9**

The category, "Plant and equipment," at 31 December 2021 includes the electricity transmission grid and transformer substations in Italy.

"Property, plant and equipment" is up €756.9 million compared with 31 December 2020, reflecting ordinary movements during the year as a result of:

- capital expenditure of €1,391.9 million during the year (including €1,343.5 million in the Group's Regulated Activities and €48.4 million in Non-regulated Activities, primarily with regard to the private Italy-France and Italy-Austria interconnectors and the re-routing of power lines at the request of third parties;
- the purchase of NTG assets from Acciaierie Arvedi for €5.1 million (May 2021) and from the AGSM group and Dolomiti Energia for €10.5 million (December 2021);
- depreciation for the year of -€589.2 million;
- other changes during the year, resulting in a reduction of €45.4 million, including grants related to assets (primarily in relation projects financed by the Ministry for Economic Development and the EU and the re-routing of power lines at the request of third parties);
- disposals and impairments (down €17.6 million).

A summary of movements in property, plant and equipment during the year is shown below.

	(€m)
Capital expenditure	
- Power lines	789.9
- Transformer substations	494.5
- Other	107.5
Total capital expenditure in property, plant and equipment	**1,391.9**
Depreciation for the year	(589.2)
Other purchases	15.6
Other changes	(45.4)
Disposals and impairments	(17.6)
Translation differences	2.3
Contribution from newly acquired companies	0.2
Change in scope of consolidation	(0.2)
Balance at 31 December 2020 reclassified to "Discontinued operations and assets held for sale"	(0.7)
TOTAL	**756.9**

The following information regards work on the principal projects during the year in relation to Regulated Activities: the installation of synchronous compensators (€120.3 million), procurement relating to construction of the Tyrrhenian Link (€70.5 million), a progress on construction of the Paternò-Pantano-Priolo power line (€34.8 million) and the Italy-France interconnector (€15.5 million), extension of the fibre network as part of the "Fiber for the Grid" project (€24.0 million), construction of substation at Vizzini (€17.4 million), construction of the substation at Auronzo in the Upper Bellunese area (€16.5 million) and the Scafati substation for the Sorrento Peninsula interconnector (€11.3 million, with the asset entering service in October 2021), reorganisations in Turin (€13.1 million) and in Naples (€9.8 million) and the grid upgrade in the Foggia-Benevento area (€11.5 million).

14. GOODWILL – €256.5 MILLION

Goodwill regards the Parent Company's acquisition of Terna Rete Italia S.r.l. in previous years, accounted for in the financial statements at a carrying amount of €101.6 million, the acquisition of RTL, with a carrying amount of €88.6 million, the acquisition of Rete S.r.l., with a carrying amount of €26.3 million, the acquisition of TES - Transformer Electro Services by the Tamini Group, with a carrying amount of €13.6 million, and the acquisitions carried out by the parent Company in 2021:

- through the subsidiary, Terna Energy Solutions S.r.l., a 75% interest in LT S.r.l. (LT Group) in October, accounted for at a carrying amount of €24.9 million;
- through the Brugg Group, a 100% interest in Laser TLC S.r.l., accounted for at a carrying amount of €1.5 million.

The increase in this item, amounting to €26.4 million, compared with 31 December 2020 is due to the above acquisitions carried out in 2021, recognised on the provisional basis applicable to business combinations.

Impairment testing

For the purposes of impairment testing, goodwill has been allocated to two cash generating units (CGUs): the first consisting of "Transmission activities" within the Group's Regulated Activities, amounting to €216.5 million, and the second relating to the "Production and commercialisation of transformers", forming part of the Group's Non-regulated Activities, totalling €13.6 million. The business plan of the subsidiary, LT Group, and the projections used by Terna's management at the time of the acquisition foresee strong earnings growth in the coming years.

Disclosures regarding the impairment testing of the goodwill allocated to the Group's "Transmission" CGU are provided below. Measurement of the recoverable value of the goodwill allocated to the transmission activities was based on fair value less costs of disposal. Determination of the carrying amount of the CGU represented by the NTG was based on Terna S.p.A.'s net invested capital at 31 December 2021, appropriately adjusted for the assets and liabilities not falling within the scope of Transmission activities (e.g., Dispatching, Non-regulated and International activities). The recoverable amount was based on fair value after applying an EBITDA multiple to the operating profit of the CGU represented by the NTG. This multiple was calculated at the level of the Company, as the ratio between the enterprise value (the sum of the stock market capitalization and net debt) and the Company's EBITDA. The result obtained is significantly higher than the carrying amount recognised in the financial statements inclusive of goodwill.

The impairment test of the CGU represented by the production and commercialisation of transformers was based on fair value less costs of disposal, determined on the basis of the average EBITDA multiple for the sector. Measurement of the recoverable value was based on estimated fair value applying the EBITDA multiple for 2023, when we expect the impact of the Covid-19 pandemic to have been fully reversed. This multiple was approximately 12.9, the average for a sample of companies operating in the sector. The resulting fair value was then appropriately discounted to present value at the end of 2021. The resulting value is higher than the carrying amount inclusive of goodwill.

15. INTANGIBLE ASSETS – €400.0 MILLION

(€m)

	INFRASTRUCTURE RIGHTS	CONCESSIONS	OTHER ASSETS	ASSETS UNDER DEVELOPMENT AND PREPAYMENTS	TOTAL
Cost	486.3	135.4	508.4	70.5	1,200.6
Accumulated amortisation	(376.6)	(84.9)	(391.3)	-	(852.8)
BALANCE AT 31 DECEMBER 2020	**109.7**	**50.5**	**117.1**	**70.5**	**347.8**
Reclassification of the balance at 31 December 2020 to discontinued operations and assets held for sale	-	-	-	(14.2)	(14.2)
Capital expenditure	-	-	0.6	128.2	128.8
Assets entering service	38.9	-	73.8	(112.7)	-
Contribution from newly acquired companies	-	-	3.0	-	3.0
Disposals and impairments	-	-	-	-	-
Amortisation for the year	(18.3)	(5.6)	(42.9)	-	(66.8)
Other movements	-	-	-	1.4	1.4
BALANCE AT 31 DECEMBER 2021	**130.3**	**44.9**	**151.6**	**73.2**	**400.0**
Cost	525.2	135.4	587.0	73.2	1,320.8
Accumulated amortisation	(394.9)	(90.5)	(435.4)	-	(920.8)
BALANCE AT 31 DECEMBER 2021	**130.3**	**44.9**	**151.6**	**73.2**	**400.0**
Change	**20.6**	**(5.6)**	**34.5**	**2.7**	**52.2**

Intangible assets amount to €400.0 million (€347.8 million at 31 December 2020); this item includes:

- the infrastructure used in provision of the dispatching service in Italy accounted for in accordance with “IFRIC 12 – Service Concession Arrangements”. The carrying amount, at 31 December 2021, is €130.3 million for infrastructure in service, whilst the carrying amount of infrastructure under construction, included in the category “Assets under development and prepayments”, is €32.1 million (at 31 December 2020, €109.7 million and€38.1 million, respectively);
- the concession for electricity transmission and dispatching activities in Italy (with a carrying amount of €44.9 million at 31 December 2021); this 25-year concession was recognised in 2005, initially at fair value and subsequently at cost.

Other intangible assets primarily include software applications, either produced internally or purchased as part of systems development programmes, and the contract to provide support services for fibre networks acquired with Rete S.r.l. in 2015 (measured as part of the process of allocating the goodwill acquired by the Terna Group). Capital expenditure in these assets during the year, primarily attributable to the Parent Company (€81.2 million), essentially regard internal development programmes.

The increase compared with the previous year (up €52.2 million) broadly reflects the net effect of capital expenditure (up €128.8 million, including €47.1 million in infrastructure rights), the contribution from the above acquisition of the LT Group (up €3.0 million) and amortisation (down €66.8 million).

Capital expenditure in intangible assets during the year (€128.8 million, including €128.3 million attributable to the Parent Company’s Regulated Activities) included expenditure on the development of software applications for the Remote Management System for Dispatching (€23.5 million), the Power Exchange (€9.8 million), the Metering System (€1.3 million) and for protection of the electricity system (€2.4 million), as well as software applications and generic licences (€78.9 million).

16. DEFERRED TAX ASSETS – €146.6 MILLION

(€m)

	31 DECEMBER 2020	CONTRIBUTION OF NEWLY ACQUIRED COMPANIES	PROVISIONS	USES AND OTHER MOVEMENTS	EFFECTS RECOGNISED IN COMPREHENSIVE INCOME	31 DECEMBER 2021
DEFERRED TAX LIABILITIES						
Property. plant and equipment	(20.6)	-	-	33.0	-	12.4
Other	(40.7)	-	-	4.2	-	(36.5)
Employee benefits and financial instruments	(4.9)	-	-	0.1	(2.3)	(7.1)
Total deferred tax liabilities	**(66.2)**	**-**	**-**	**37.3**	**(2.3)**	**(31.2)**
DEFERRED TAX ASSETS						
Provisions for risks and charges	23.2	-	4.7	(9.7)	-	18.2
Allowance for doubtful accounts	4.6	-	-	(0.1)	-	4.5
Employee benefits	12.3	-	1.7	(4.7)	0.1	9.4
Cash flow hedges and financial assets	67.7	-	-	-	(22.6)	45.1
Tax relief on goodwill	20.8	-	-	(3.0)	-	17.8
Other	49.4	0.1	8.4	25.1	(0.1)	82.9
Total deferred tax assets	**178.0**	**0.1**	**14.8**	**7.6**	**(22.6)**	**177.9**
NET DEFERRED TAX ASSETS	**111.8**	**0.1**	**14.8**	**44.8**	**(24.9)**	**146.6**

The balance of this item, amounting to €146.6 million, includes the net impact of movements in the Group's deferred tax assets and liabilities.

Deferred tax assets (€177.9 million) are in line with the amount at 31 December 2020 (€178.0 million). These assets underwent the following movements during the year:

- net uses that impact profit or loss, totalling down €22.6 million, primarily reflecting the tax effect of movements in cash flow hedges and employee benefits;
- provisions recognised by the subsidiary Rete S.r.l., for the non-deductible portion of book depreciation recognised by the subsidiary (€4.9 million);
- use of the accrued portion recognised in relation to tax relief on the goodwill resulting from the merger of Terna Rete Italia S.r.l. and attributable to the Parent Company (€3.0 million);
- net uses of provisions for risks and charges (€5.0 million), primarily reflecting the impact on taxation of the release of provisions for quality of service (€2.9 million) and uses for early retirement incentives (€3.2 million);
- net provisions and other movements, totalling €33.5 million, primarily regarding the recognition of deferred tax assets revaluations of properties and on other items recognized by the overseas companies.

Deferred tax liabilities (€31.2 million) are up by a net amount of €35.0 million, essentially due to:

- the use of previous provisions for accelerated depreciation at the Parent Company, Terna (down €31.9 million);
- net provisions and other movements of €4.2 million, primarily following the recognition of deferred tax liabilities on other provisions made by the Brugg Group.

17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – €76.2 MILLION

This item, amounting to €76.2 million, regards the Parent Company's investments in the associate CESI S.p.A. (€48.2 million), the associate CORESO S.A. (€0.7 million), the associate CGES – CrnoGorski Elektroprenosni Sistem AD (€26.7 million) and in the joint ventures, ELMED Etudes S.a.r.l. (€0.2 million), SEleNe CC S.A. (€0.1 million), and Equigy B.V. (€0.3 million), in which the Company's stake was reduced from 25% to 20% in February 2021, after APG (the Austrian TSO) became the fifth European transmission system operator to enter into partnership with Equigy.
The increase compared with the previous year, totalling €0.4 million, essentially reflects the adjustment of the Group's share of equity at 31 December 2021 in the joint venture, Equigy B.V. (€0.3 million) and in the associate, CORESO S.A. (up €0.1 million).

Financial information for the Terna Group's main associates is provided below:

(€m)

	AT 31 DECEMBER 2021				
	NON-CURRENT ASSETS	CURRENT ASSETS	NON-CURRENT LIABILITIES	CURRENT LIABILITIES	EQUITY
CESI	198	28(*)	25	(*)	106
CORESO	8	5	-	8	5
CGES	248	53	62	41	198
EQUIGY	2	2	-	2	1

(*) The pre-closing amount for 2021 does not provide a breakdown of working capital.

(€m)

	2021		
	REVENUE	PROFIT/(LOSS) BEFORE TAX	PROFIT/(LOSS) FOR THE YEAR
CESI	140	(7)	(8)
CORESO	26	1	1
CGES	76	19	17
EQUIGY	7	2	1

18. FINANCIAL ASSETS

(€m)

	MEASUREMENT	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
Deposit in the Interconnector Guarantee Fund	Amortised cost	241.4	221.8	19.6
Financial assets under concession	Amortised cost	-	158.2	(158.2)
Fair value hedges	FVTPL	1.6	94.2	(92.6)
Government securities	FVTOCI	23.1	22.5	0.6
Financial assets included in employee benefit plan assets	FVTOCI	21.4	9.7	11.7
Other non-current financial assets	FVTOCI	0.1	1.3	(1.2)
Other investments	FVTOCI	0.1	0.1	-
NON-CURRENT FINANCIAL ASSETS		**287.7**	**507.8**	**(220.1)**
Government securities	FVTOCI	958.5	611.4	347.1
Financial assets deriving from concession rights	Amortised cost	-	17.4	(17.4)
Deferred assets on fair value hedges		4.3	4.5	(0.2)
Other current financial assets		17.8	5.2	12.6
CURRENT FINANCIAL ASSETS		**980.6**	**638.5**	**342.1**

"Non-current financial assets" are down €220.1 million, compared with the previous year, reflecting:

- the balance of assets held for sale at 31 December 2020 (down €158.2 million), regarding the infrastructure operated under concession in Brazil, recognised in application of IFRIC 12;
- a decrease of €92.6 million in fair value hedges used to hedge bond issues. The value of the hedges is measured by discounting expected cash flows using market interest rates at the measurement date;
- an increase in the benefit plan assets attributable to the employees of the Brugg Group (up €11.7 million);
- an increase in the Interconnector Guarantee Fund, set up to fund investment in interconnections by art. 32 of Law 99/09 (up €18.7 million), offset by a reduction in amounts deposited by operators who participate in the capacity market pursuant to Resolution 98/2011/R/eel, as amended (up €0.9 million).

"Current financial assets" are up €342.1 million compared with the previous year, primarily following the purchase of Italian government securities, net of those reaching maturity, amounting to a notional value of €350 million.

19. OTHER ASSETS

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
Loans and advances to employees	10.4	9.6	0.8
Deposits with third parties	6.9	7.5	(0.6)
Other non-current assets	0.2	1.8	(1.6)
OTHER NON-CURRENT ASSETS	**17.5**	**18.9**	**(1.4)**
Other tax credits	11.2	42.2	(31.0)
Prepayments to suppliers	11.0	24.3	(13.3)
Prepayments of operating expenses and accrued operating income	16.8	14.8	2.0
Amounts due from partners selected for Interconnector projects	3.6	3.8	(0.2)
Amounts due from others	40.5	43.2	(2.7)
OTHER CURRENT ASSETS	**83.1**	**128.3**	**(45.2)**

"Other non-current assets" amount to €17.5 million and are down €1.4 million compared with the previous year, after the impact, at 31 December 2020, of assets held for sale (down €3.0 million). This primarily reflects increases in guarantee deposits paid under contracts with public bodies and authorities (up €0.7 million) an in loans to employees (up €0.8 million).

"Other current assets", totalling €83.1 million are down €45.2 million compared with 31 December 2020, primarily reflecting:

- other tax credits (down €31.0 million), mainly reflecting a reduction in the Group's refundable VAT (down €25.3 million, including €3.2 relating to VAT attributable to assets held for sale recognised in 2020);
- a reduction in prepayments to suppliers (down €13.3 million), reflecting the balance, at 31 December 2020, of assets held for sale (down €13.2 million);
- an increase in prepaid expenses accruing after 31 December 2021 (up €2.0 million), including €0.7 million in rentals and €0.3 million in the form of insurance premiums;
- amounts due from others (down €2.7 million), broadly attributable to the Parent Company, Terna S.p.A. (down €2.8 million).

20. INVENTORIES – €69.9 MILLION

This item, amounting to €69.9 million, is up €3.5 million compared with the previous year. This primarily reflects materials to be used in contract work by the subsidiary, Brugg Cables (up €9.4 million) and by the LT Group (up €6.7 million), offset by a reduction in materials for use in contract work by the Tamini Group (down €12.3 million).

21. TRADE RECEIVABLES – €2,777.4 MILLION

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
Energy-related receivables	2,197.0	844.4	1,352.6
Transmission charges receivables	395.8	200.6	195.2
Other trade receivables	184.6	200.2	(15.6)
TOTAL	**2,777.4**	**1,245.2**	**1,532.2**

Trade receivables amount to €2,777.4 million at 31 December 2021 and are accounted for less any losses and recognised in the allowance for doubtful accounts (€33.2 million for energy-related receivables and €16.4 million for other items in 2021, compared with €34.2 million for energy-related items and €17.8 million for other items in 2020, with further details provided in the section "E. Commitments and risks"). The carrying amount shown broadly approximates to fair value.

The measurement of expected credit losses is described in the section, "A. Accounting policies and measurement criteria".

Energy-related/regulated receivables – €2,197.0 million

This item includes so-called "pass-through items" relating to the Parent Company's activities in accordance with Resolution 111/06 (€2,129.2 million) and receivables due from the users of dispatching services forming part of Regulated Activities (€25.6 million). It also includes the amount due from the Fund for Energy and Environmental Services (*Cassa per i Servizi Energetici e Ambientali - CSEA*)(€42.2 million), relating to quality of service and output-based regulation.
These receivables are up €1,352.6 million compared with the end of 2020, primarily due to:
Pass-through receivables (up €1,331.5 million)

- the Uplift (up €308.8 million) primarily due to the significant increase in the cost of procuring services on the DSM in the last quarter;
- imbalances (up €582.3 million) following the significant increase in energy prices and the impact of this on the conduct of certain market operators;
- the dispatching services market (€189.1 million);
- activity and exchanges on the platforms for providing balancing resources at European level (€103.2 million);

Amounts due from the CSEA (+€22.8 million)

- the recognition of output-based incentives[4] (€47.9 million);
- a reduction of €25.1 million in the receivable relating to quality of service following the collection of RENS bonus for 2019 and 2020 and recognition of the performance in 2021.

[4] An efficiency bonus linked to the cost of investment in boosting transmission capacity in 2020 (under Resolution 23/2022), efficiency bonuses for development works completed by 30 September 2020, rewards linked to preparations for the introduction of output-based regulation in 2018 and 2019, the reward for unification of the NTG following the MEGARETI acquisition.

Transmission charges receivable – €395.8 million

Transmission charges receivable, amounting to €395.8 million, represent the amount due to the Parent Company and other grid owners from electricity distributors for use of the National Transmission Grid. The receivable is up €195.2 million compared with 31 December 2020, linked broadly to the impact of:

- revised tariffs and recognition of the accrued amount due as a return on digital substation systems in accordance with ARERA Resolution 565/2020 (totalling €54.7 million);
- factoring transactions completed at the end of the year (€109.6 million);
- discontinued application of the Split Payment regime when invoicing transmission services to certain counterparties following their participation in Group VAT arrangements (€30.9 million).

Other trade receivables – €184.6 million

Other trade receivables primarily regard amounts receivable from customers of the non-regulated business. These amounts derive from the provision of specialist services to third parties, primarily in relation to plant engineering services, the operation and maintenance of high-voltage and very high-voltage infrastructure, and the housing of telecommunications equipment and maintenance services for fibre networks, as well as in relation to contract work carried out by the Tamini Group, the subsidiary, Brugg Cables and the LT Group.

This item is down €15.6 million compared with the previous year, broadly due to the impact of the balance, at 31 December 2020, of assets held for sale (down €78.3 million), partially offset by contract work at the subsidiary, Brugg Cables (up €29.2 million), the Tamini Group's contract work (up €7.4 million) and the recognition of receivables by the LT Group (up €8.9 million). Further increases in receivables are attributable to the Parent Company (up €1.4 million) and the subsidiaries, Terna Rete Italia S.p.A. (up €8.0 million) and Terna Energy Solutions S.r.l. (up €5.6 million).

The following table shows receivables resulting from contract work in progress (€86.4 million), being carried out by the Group under multi-year contracts with third parties:

(€m)

	PRE-PAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2021	PREPAY-MENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2020
Receivables resulting from contract work in progress	(447.3)	533.7	**86.4**	(384.6)	502.8	**118.2**

The Group's receivables resulting from contract work in progress are down €31.8 million, primarily in relation to the impact of the balance, at 31 December 2020, of assets held for sale (down €75.3 million), offset by an increase in contract work at the subsidiary, Brugg Cables (up €35.7 million) and increased contract work carried out by the subsidiary, Terna Rete Italia S.p.A. (up €4.8 million) and Terna Energy Solutions S.r.l. (up €3.0 million).

22. CASH AND CASH EQUIVALENTS – €1,566.8 MILLION

Cash amounts to €1,566.8 million at 31 December 2021, including €1,383.2 million invested short-term readily convertible deposits and €183.6 million deposited in bank current accounts and cash in hand.

23. INCOME TAX ASSETS – €4.8 MILLION

Income tax assets, amounting to €4.8 million, are down €4.9 million compared with the previous year, broadly reflecting the tax asset recognised at the end of 2020 compared with the tax liability recognised in "Tax liabilities" at 31 December 2021, to which reference should be made. This reflects the increase in tax expense for the year after payments on account during the year (essentially due to the increase in pre-tax profit).

Liabilities and Equity

24. EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT AND NON-CONTROLLING INTERESTS

Equity attributable to owners of the Parent – €4,681.9 million

Share capital – €442.2 million

The Parent Company's share capital consists of 2,009,992,000 ordinary shares with a par value of €0.22 per share.

Legal reserve – €88.4 million

The legal reserve accounts for 20% of the Parent Company's share capital.

Reserve for treasury shares - (€19.5) million

In implementation of the buyback programme linked to the Performance Share Plan 2021-2025, approved by the Annual General Meeting of 30 April 2021, in the period between 31 May 2021 and 23 June 2021, the Parent Company purchased 1,569,292 own shares (equal to 0.078% of the share capital) at a cost of €10.0 million to service the Performance Share Plan 2021-2025.

These shares are in addition to the 1,525,900 own shares purchased by the Company in 2020, at a cost of €9.5 million, in order to service the Performance Share Plan 2020-2023.

As a result, Terna S.p.A. now holds a total of 3,095,192 treasury shares (equal to 0.154% of the share capital), purchased at a cost of €19.5 million, thereby reducing other reserves by this amount.

Other reserves – €614.5 million

The other reserves have increased by €80.2 million compared with the previous year, primarily as a result of other comprehensive income. This reflects:

- fair value adjustments to the Parent Company's cash flow hedges (up €75.3 million, including the related hedging costs of €0.4 million, taking into account the related tax liability of €23.8 million);
- the recognition of actuarial gains and losses on provisions for employee benefits (up €9.6 million, taking into account the related tax expense of €2.2 million);
- fair value adjustments to financial assets represented by government securities (down €3.0 million, after taking into account the related tax asset of €0.9 million).

Other reserves also include the option to purchase the remaining 25% of LT S.r.l. acquired in October (down €7.2 million) and the reserve for share options (up €4.0 million), relating to the incentive plan for the Group's personnel involving the above share-based payments (the Performance Share Plan 2021-2025[5]).

Retained earnings and accumulated losses – €2,964.3 million

The increase in "Retained earnings and accumulated losses", amounting to €252.7 million, primarily regards the remaining portion of the Group's profit for 2020, following the Parent Company's payment of the dividend for 2020 (totalling €541.7 million). This item includes the translation differences resulting from the conversion of financial statements in currencies other than the euro.

[5] The LTI Plan 2021-2025 involves the grant of the right to the award of a certain number of shares in Terna S.p.A. (Performance Shares) free of charge at the end of a performance period, provided that the performance objectives to which the Plan is linked have been achieved.

Interim dividend for 2021 and the final dividend for 2020

On 10 November 2021, the Company's Board of Directors, having obtained the Independent Auditor's opinion required by article 2433-*bis* of the Italian Civil Code, decided to pay an interim dividend of 9.82 euro cents per share. The dividend was payable from 24 November 2021, with an ex-dividend date for coupon n. 35 on 22 November 2021. The dividend was paid to the holders of each ordinary share outstanding, with the exception of the amount payable on treasury shares held at the record date of 23 November 2021 (amounting to €303,947.85, which was taken to retained earnings).

The Annual General Meeting of shareholders held on 30 April 2021 approved payment of a dividend for full-year 2020 of 26.95 euro cents per share, and the payment – before any withholdings required by law – of a final dividend of 17.86 euro cents per share, to be added to the interim dividend of 9.09 euro cents already paid on 25 November 2020. The final dividend was payable from 23 June 2021, with an ex-dividend date for coupon 34 of 21 June 2021.

Equity attributable to non-controlling interests – €31.1 million

Equity attributable to non-controlling interests, relating to the non-controlling shareholders of Terna Interconnector S.r.l., SPE Transmissora de energia Linha Verde I S.A., Brugg Cables, ESPERIA-CC S.r.l. and Gruppo LT, amounts to €31.1 million, a reduction of €14.9 million compared with 31 December 2020.

This change primarily reflects the purchase from non-controlling shareholders, on 5 August 2021, of the remaining 30% of Tamini Trasformatori S.r.l. (down €15.9 million), on 26 January 2021, of the remaining 30% of Avvenia the Energy Innovator S.r.l. (down €5.0 million) and the Terna Group's exercise of the call option on the remaining 10% of Brugg HV Cable Manufacturing held by the Brugg Group (down €2.5 million). These reductions were offset by the contribution to equity attributable to non-controlling interests of the acquisition, on 10 October 2021, of LT S.r.l. (up €6.9 million) and share of profit for the period attributable to non-controlling shareholders recognised by Terna Interconnector S.r.l. (€0.4 million), Brugg Cables (€0.3 million), Linha Verde II S.A. (€0.7 million) and the LT Group (€0.2 million).

25. BORROWINGS AND FINANCIAL LIABILITIES

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
Bond issues	6,925.6	7,485.7	(560.1)
Bank borrowings	1,909.4	2,374.5	(465.1)
LONG-TERM BORROWINGS	**8,835.0**	**9,860.2**	**(1.025.2)**
Cash flow hedges	83.7	253.8	(170.1)
NON-CURRENT FINANCIAL LIABILITIES	**83.7**	**253.8**	**(170.1)**
SHORT-TERM BORROWINGS	**1,947.0**	**1,002.2**	**944.8**
Bond issues	999.9	1,258.8	(258.9)
Bank borrowings	640.1	129.2	510.9
CURRENT PORTION OF LONG-TERM BORROWINGS	**1,640.0**	**1,388.0**	**252.0**
CURRENT FINANCIAL LIABILITIES	**45.8**	**90.1**	**(44.3)**
TOTAL	**12,551.5**	**12,594.3**	**(42.8)**

Borrowings and financial liabilities are down €42.8 million compared with the previous year to €12,551.5 million.

The reduction in bond issues (down €819.0 million) includes a reduction of €34.4 million attributable to assets held for sale and a decrease of €784.6 million attributable to Terna S.p.A.. The change at Terna S.p.A. essentially reflects repayment of the bond issue launched by Terna S.p.A. in March 2011, totalling €1,250 million, after taking into account the green bond issue launched by Terna on 16 June 2021, with a nominal value of €600 million, described in the paragraph, "Financial resources" in the Report on Operations. The change also reflects the adjustment of the amortised cost of these financial instruments.

The latest official prices at 31 December 2021 and 31 December 2020 for the bonds listed on the Luxembourg Stock Exchange are detailed below:

(€m)

	ISIN	PRICE AT 31 DECEMBER 2021	PRICE AT 31 DECEMBER 2020
bond maturity 2021:	XS0605214336	n.a.**	100.96
bond maturity 2022:	XS1178105851	100.11	101.22
bond maturity 2023*:	XS0328430003	131.79	124.72*
bond maturity 2023:	XS1858912915	101.88	103.19
bond maturity 2024:	XS0203712939	114.02	119.52
bond maturity 2025:	XS2033351995	100.05	101.19
bond maturity 2026:	XS1371569978	104.67	107.90
bond maturity 2026:	XS1980270810	103.30	105.41
bond maturity 2027:	XS1652866002	105.23	109.14
bond maturity 2028:	XS1503131713	103.26	107.28
bond maturity 2029:	XS2357205587	98.89	n.a.**
bond maturity 2030:	XS2237901355	97.17	101.89
bond maturity 2032:	XS2209023402	99.66	105.29

* *Source BNP Paribas and Bloomberg.*
** *Not applicable.*

Compared to the previous year, bank borrowings have increased by €45.8 million. This reflects a reduction of €168.7 million relating to assets held for sale and an increase of €214.5 million attributable to Terna SpA, primarily due to as a result of the drawdown of new bank facilities, amounting to €343.0 million, after repayments of existing borrowings.

Long-term borrowings

The following table shows movements in long-term debt during the period, including the nominal amount:

(€m)

	31 DECEMBER 2020			IMPACT OF IFRS 5 AT 1 JANUARY 2021	REPAYMENTS AND CAPITALISATIONS	DRAW-DOWNS	OTHER	CHANGE IN CARRYING AMOUNT	31 DECEMBER 2021		
	NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE						NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE
Bond maturing 2021	1,250.0	1,258.8	1,262.1	-	(1,250.0)	-	(8.8)	(1,258.8)	-	-	-
Bond maturing 2022	1,000.0	999.1	1,012.2	-	-	-	0.8	0.8	1,000.0	999.9	1,001.1
IL bond	579.0	636.3	722.1	-	-	-	(13.4)	(13.4)	594.1	622.9	783.0
Bond maturing 2023	1,000.0	996.4	1,031.9	-	-	-	1.4	1.4	1,000.0	997.8	1,018.8
Bond maturing 2024	800.0	921.1	956.1	-	-	-	(31.3)	(31.3)	800.0	889.8	912.2
Bond maturing 2025	500.0	495.7	506.0	-	-	-	0.9	0.9	500.0	496.6	500.2
Private Placement 2026	80.0	79.2	86.3	-	-	-	0.2	0.2	80.0	79.4	83.7
Bond maturing 2026	500.0	498.2	527.0	-	-	-	0.3	0.3	500.0	498.5	516.5
Bond maturing 2027	1,000.0	1,039.0	1,091.4	-	-	-	(25.3)	(25.3)	1,000.0	1,013.7	1,052.3
Bond maturing 2028	750.0	794.4	804.6	-	-	-	(30.7)	(30.7)	750.0	763.7	774.5
Bonds maturing 2029	-	-	-	-	-	600.0	(3.3)	596.7	600.0	596.7	593.3
Bonds maturing 2030	500.0	495.7	509.5	-	-	-	0.4	0.4	500.0	496.1	485.8
Bonds maturing 2032	500.0	496.2	526.5	-	-	-	(25.8)	(25.8)	500.0	470.4	498.3
Linha Verde II bond issue	34.4	34.4	35.6	(34.4)	-	-	-	(34.4)	-	-	-
Total bond issues	**8,493.4**	**8,744.5**	**9,071.3**	**(34.4)**	**(1,250.0)**	**600.0**	**(134.6)**	**(819.0)**	**7,824.1**	**7,925.5**	**8,219.7**
Borrowings	2,459.1	2,454.8	2,454.8	(168.5)	(116.7)	343.0	-	57.8	2,512.6	2,512.6	2,512.6
Lease liabilities	48.9	48.9	48.9	(0.2)	(8.1)	-	(3.7)	(12.0)	36.9	36.9	36.9
Total borrowings	**2,508.0**	**2,503.7**	**2,503.7**	**(168.7)**	**(124.8)**	**343.0**	**(3.7)**	**45.8**	**2,549.5**	**2,549.5**	**2,549.5**
Total debt	**11,001.4**	**11,248.2**	**11,575.0**	**(203.1)**	**(1,374.8)**	**943.0**	**(138.3)**	**(773.2)**	**10,373.6**	**10,475.0**	**10,769.2**

At 31 December 2021, the Terna Group's has access to additional financing of €3,150.0 million, represented by two revolving credit facilities. In addition, the Group has uncommitted bank credit lines totalling approximately €769 million and approximately €300 million in loans agreed but not yet disbursed.

In addition, as provided for in IFRS 7, the table shows the fair value of borrowings and bond issues. In the case of bond issues, this is market value based on prices at the reporting date, whilst variable rate loans are measured by discounting expected cash flows based on the market interest rate curve at the reporting date.

The following table shows an analysis of bond issues and other borrowings by maturity, showing the related short-term portions.

(€m)

	MATURITY	31 DECEMBER 2020*	31 DECEMBER 2021*	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS	2023	2024	2025	2026	2027	AFTER	AVERAGE INTEREST RATE AT 31 DEC 2021	AVERAGE NET INTEREST RATE OF HEDGES AT 31 DEC 2021
	2021	1,258.8	-	-	-	-	-	-	-	-	-	4.75%	1.29%
	2022	999.1	999.9	999.9	-	-	-	-	-	-	-	0.88%	0.95%
	2023	636.3	622.9	-	622.9	580.8	-	-	-	-	42.1	2.73%	0.43%
	2023	996.4	997.8	-	997.8	1,000.0	-	-	-	-	(2.2)	1.00%	1.14%
	2024	921.1	889.8	-	889.8	-	800.0	-	-	-	89.8	4.90%	0.87%
Bonds	2025	495.7	496.6	-	496.6	-	-	500.0	-	-	(3.4)	0.13%	0.32%
	2026	498.2	498.5	-	498.5	-	-	-	500.0	-	(1.5)	1.00%	1.28%
	2026	79.2	79.4	-	79.4	-	-	-	80.0	-	(0.6)	1.60%	1.80%
	2027	1,039.0	1,013.7	-	1,013.7	-	-	-	-	1,000.0	13.7	1.38%	1.50%
	2028	794.4	763.7	-	763.7	-	-	-	-	-	763.7	1.00%	1.15%
	2029	-	596.7	-	596.7	-	-	-	-	-	596.7	0.38%	0.60%
	2030	495.7	496.1	-	496.1	-	-	-	-	-	496.1	0.38%	0.46%
	2032	496.2	470.4	-	470.4	-	-	-	-	-	470.4	0.75%	0.48%
	2044	34.4	-	-	-	-	-	-	-	-	-	-	-
EIB	2042	515.6	854.0	20.5	833.5	20.5	24.6	47.7	47.7	47.7	645.3	0.81%	0.81%
Terna's borrowing	2022	200.0	200.0	200.0	-	-	-	-	-	-	-	(0.01%)	(0.01%)
Difebal's borrowing	2034	33.6	-	-	-	-	-	-	-	-	-	-	-
Total fixed rate		**9,493.7**	**8,979.5**	**1,220.4**	**7,759.1**	**1,601.3**	**824.6**	**547.7**	**627.7**	**1,047.7**	**3,110.1**		
EIB	2041	1,175.0	1,062.9	112.7	950.2	113.9	115.3	115.3	115.3	115.3	375.1	0.09%	0.73%
Terna's borrowing	2023	400.0	400.0	300.0	100.0	100.0	-	-	-	-	-	(0.01%)	0.02%
Brazilian companies' borrowings	2042	108.1	-	-	-	-	-	-	-	-	-	-	-
Difebal's borrowing	2034	26.8	-	-	-	-	-	-	-	-	-	-	-
Total variable rate		**1,709.9**	**1,462.9**	**412.7**	**1,050.2**	**213.9**	**115.3**	**115.3**	**115.3**	**115.3**	**375.1**		
TOTAL		**11,203.6**	**10,442.4**	**1,633.1**	**8,809.3**	**1,815.2**	**939.9**	**663.0**	**743.0**	**1,163.0**	**3,485.2**		

* *The balance does not include prepaid fees of €4.3 million at 31 December 2021 and €4.3 million at 31 December 2020.*

(€m)

	31 DECEMBER 2020	31 DECEMBER 2021	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS
Finance leases	0.5	0.9	0.9	-
Operating leases	48.4	36.0	6.0	30.0
TOTAL	**48.9**	**36.9**	**6.9**	**30.0**

At 31 December 2021, payments on operating leases recognised in application of IFRS 16 amount to €7.8 million.

The total value of the Terna Group's borrowings at 31 December 2021 is €10,442.4 million (€1,633.1 million falling due within 12 months and €8,809.3 million falling due after 12 months), of which €3,485.2 million maturing after five years.

Non-current financial liabilities – €83.7 million

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
Cash flow hedges	83.7	253.8	(170.1)
TOTAL	**83.7**	**253.8**	**(170.1)**

Non-current financial liabilities, amounting to €83.7 million, reflect the fair value of cash flow hedges at 31 December 2021.

Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The decrease of €170.1 million, compared with 31 December 2020 reflects the change in the market interest rate curve and the change in the notional value of the derivatives portfolio.

Short-term borrowings – €1,947.0 million

"Short-term borrowings" have increased €944.8 million compared with the previous year, due to short-term loans disbursed to the Parent Company.

Current financial liabilities – €45.8 million

Current financial liabilities at 31 December 2021 include the value of net interest expense accrued on financial instruments and not yet paid. This item is down €44.3 million compared with the previous year.

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
DEFERRED LIABILITIES ON:			
Hedging derivatives	4.9	2.5	2.4
Bond issues	39.9	86.0	(46.1)
Borrowings	1.0	1.6	(0.6)
TOTAL	**45.8**	**90.1**	**(44.3)**

Net debt

Pursuant to the CONSOB Communication of 28 July 2006 and in compliance with Recommendation ESMA no. 32-382-1138 of 2021, the Group's net debt is as follows:

(€m)

	31 DECEMBER 2021
A. Cash	183.6
B. Cash equivalents*	1,383.2
C. Other current financial assets**	976.3
D. Liquidity (A) + (B) + (C)	**2,543.1**
E. Current financial liabilities (including debt instruments, but excluding the current portion of non-current financial liabilities)	1,947.0
F. Current portion of non-current debt***	1,681.5
G. Current debt (E+F)	**3,628.5**
H. Net current debt (G) - (D)	**1,085.4**
I. Non-current financial liabilities (excluding the current portion and debt instruments)****	1,993.1
J. Debt instruments*****	6,924.0
K. Non-current net debt (I) + (J)	**8,917.1**
L. Net debt (H) + (K)	**10,002.5**

* *Corresponds with the item, "Cash and cash equivalents" relating to the value of short-term deposits.*

** *Corresponds with the item, " Current financial assets" relating to the value of government securities (€958.5 million) and the value of the related accrued interest income (€17.8 million).*

*** *Corresponds with the item, "Current portion of long-term borrowings" relating to the short-term portion of long-term borrowings (€634.1 million), the short-term portion of bond issues (€999.9 million) and the short-term portion of lease liabilities (€6.0 million) and the item, "Current financial liabilities" relating to the value of accrued expenses (€41.5 million).*

**** *Corresponds with the item, "Long-term borrowings" relating to the value of borrowings (€1,879.4 million) and the long-term portion of lease liabilities (€30.0 million) and the item, "Non-current financial liabilities" relating to the value of derivative liabilities (€83.7 million).*

***** *Corresponds with the item, "Long-term borrowings" relating to the value of bond issues (€6,925.6 million) and the item, "Non-current financial assets" relating to the value of derivative assets (-€1.6 million).*

Default risk and debt covenants

This risk is associated with the possibility that the loan agreements or bond terms and conditions to which the Group is a party may contain provisions that, if certain events occur, authorise counterparties to call in such loans immediately, thereby generating liquidity risk.

Certain long-term loans obtained by the Parent Company, Terna S.p.A., contain covenants that are typical of international practice. The principal covenants relate to:

- the Company's bond issues, which consist of an €800.0 million issue in 2004 and nine issues as part of its EMTN Programme (the "€9.000.000.000 Euro Medium Term Notes Programme");
- bank borrowings, consisting of revolving lines of credit and bilateral term loans ("bank debt");
- a series of loans to the Company from the European Investment Bank (EIB), amounting to a total of €2.2 billion (including €300 million yet to be disbursed).

The main covenants relating to the bond issues and the EMTN Programme involve clauses regarding i) "negative pledges", on the basis of which the Issuer or its Relevant Subsidiaries undertake not to create or maintain mortgages, pledges or other encumbrances on their assets or revenue, to guarantee listed bonds (with the exception of certain "permitted guarantees"); ii) "pari passu", on the basis of which the securities constitute a direct, unconditional and unsecured obligation by the Issuer, ranking equally among them and with at least the same level of seniority as other present and future unsecured and non- subordinated borrowings of the

Issuer; iii) “event of default”, on the basis of which if certain predetermined events occur (e.g., failure to make a repayment, the liquidation of the Issuer, the breach of contractual obligations, a cross-default, etc.) a situation of default is established and the loan is immediately called in.
The main covenants relating to bank borrowings involve clauses related to i) negative pledges, on the basis of which the Issuer or the Relevant Subsidiaries undertake not to create or maintain guarantees on their assets to secure borrowings, with the exception of “permitted guarantees”; ii) pari passu on the basis of which the Borrower’s payment obligations in relation to the loan agreements in question are not subordinated to any obligation related to other unsecured and non-subordinated creditors, without prejudice to privileges under the law; iii) “event of default”, on the basis of which if certain predetermined events occur (e.g. failure to make a repayment, serious inaccuracies in documents and/or declarations, insolvency, business discontinuation, substantially prejudicial effects, the breach of contractual obligations, including pari passu conditions, a cross-default, etc.) a situation of default is established and the loan is immediately called in; iv) accelerated repayment should the rating fall below investment grade (BBB-) for the majority of rating agencies or should the Company cease to be rated by at least one agency.
The main covenants related to the EIB loans involve clauses related to i) negative pledges, on the basis of which the Company cannot create encumbrances, with the exception of encumbrances granted in relation to borrowings below given amounts and under contractually specified circumstances; ii) the provision to the Bank, at its request, of new guarantees should ratings below BBB/Baa2 be assigned by two ratings agencies out of three, or in the event that all of the agencies cease to publish ratings; iii) pari passu, on the basis of which the Company ensures that payment obligations rank equally with those related to all other unsecured, non-subordinated creditors; iv) cases of contract termination/application of the call provision/withdrawal (e.g. failure to make a repayment, serious inaccuracies in documents and/or declarations, insolvency, events that have a negative impact on financial commitments made by the Company, extraordinary administration, liquidation, substantial prejudicial changes, the breach of contractual commitments, etc.); v) accelerated loan payment following the occurrence of given events (e.g. change of control over the Company, loss of the concession, extraordinary corporate events, etc.).

26. EMPLOYEE BENEFITS – €60.8 MILLION

The Group provides its employees with benefits during their period of employment (loyalty bonuses), on termination of employment (TFR, additional months’ pay and payment in lieu of notice) and after termination in the form of post-employment benefits (ASEM health cover).
Loyalty bonuses are payable to the Group’s employees and senior managers once certain requirements have been met regarding length of service (on completing 25 and 35 years of service).
Termination benefits (TFR) are payable to all employees, whilst employees hired by 30 June 1996 receive energy discounts, senior managers recruited or appointed before 28 February 1999 receive payment in lieu of notice and employees (blue-collar workers, office staff and middle managers) employed prior to 24 July 2001 are due additional months’ pay on termination.
Post-employment benefits consist of a form of supplementary health cover in addition to that provided by the Italian national health service, as provided for in the national collective contract for industrial managers (the ASEM health plan).

The following table shows the composition of provisions for TFR and other employee benefits and movements during the year ended 31 December 2021:

(€m)

	31 DECEMBER 2020	CONTRIBUTION FROM NEWLY ACQUIRED COMPANIES	PROVISIONS	USES AND OTHER MOVEMENTS	ACTUARIAL GAINS/ (LOSSES)	31 DECEMBER 2021
Benefits during the period of employment						
Loyalty bonuses and other incentives	4.7	-	0.8	(0.5)	-	5.0
Total	**4.7**	**-**	**0.8**	**(0.5)**	**-**	**5.0**
Termination benefits						
Deferred compensation benefits (TFR)	35.9	0.8	0.1	(2.4)	1.2	35.6
Energy discounts	3.6	-	-	(0.2)	(0.2)	3.2
Additional months' pay	5.8	-	0.2	(0.5)	0.1	5.6
Payment in lieu of notice and other similar	0.1	0.5	-	(0.1)	-	0.5
Total	**45.4**	**1.3**	**0.3**	**(3.2)**	**1.1**	**44.9**
Post-employment benefits						
ASEM health plan	11.6	-	0.5	(0.5)	(0.7)	10.9
Total	**11.6**	**-**	**0.5**	**(0.5)**	**(0.7)**	**10.9**
TOTAL	**61.7**	**1.3**	**1.6**	**(4.2)**	**0.4**	**60.8**

This item, amounting to €60.8 million at 31 December 2021, is down €0.9 million compared with the previous year. This is primarily attributable to net uses and other movements (down €2.6 million, above all for TFR and the additional months' pay), relating essentially to employees who have opted to take part in the generational turnover plan launched in 2019, partly offset by the contribution from termination benefits deriving from the acquisition of the LT Group (€0.5 million) and Laser TLC S.r.l. by the Brugg Group (€0.8 million).

The following table shows the current service cost and interest income and expense.

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	*TFR*	ADDITIONAL MONTHS' PAY	ASEM	TOTAL
Net impact recognised in profit or loss					
- current service cost	0.8	0.1	0.2	0.5	1.6
- curtailment (revenue) and other costs	-	-	(0.2)	-	(0.2)
TOTAL RECOGNISED IN PROFIT OR LOSS	**0.8**	**0.1**	**-**	**0.5**	**1.4**

Revaluation of the net liability for employee benefits is shown in the following table, which provides details of the type of actuarial gain or loss recognised in other comprehensive income.

(€m)

	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM	TOTAL
Actuarial gain/losses					
- based on past experience	0.7	0.2	(0.1)	0.6	1.4
- due to changes in discount rate	0.5	(0.1)	(0.1)	(1.3)	(1.0)
TOTAL IMPACT ON COMPREHENSIVE INCOME	**1.2**	**0.1**	**(0.2)**	**(0.7)**	**0.4**

Finally, the following tables show the main actuarial assumptions applied, a sensitivity analysis of movements in the assumptions and the payment schedule for the plan. In line with 2020, the interest rate used to determine the present value of the obligation was calculated on the basis of the yield on the Iboxx Eurozone Corporates AA index at 31 December 2021, matching the duration of the relevant group of plan participants.

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	TFR	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER
Discount rate	0.98%	0.98%	0.29%	0.29%	0.44%	0.98%
Inflation rate	1.75%	1.75%	-	1.75%	-	2.70%
Duration (in years)	17.49-20.36	8.09-24.29	5.26-5.41	4-6.6	6.67-7.32	17.04-20.55

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
Discount rate +0.25%	4.3	11.4	5.3	3.1	13.4	**37.5**
Discount rate -0.25%	4.3	11.8	5.4	3.3	14.5	**39.3**
Inflation rate +0.25%	4.4	11.8	n/a	n/a	n/a	**16.2**
Inflation rate -0.25%	4.3	11.4	n/a	n/a	n/a	**15.7**
Annual rate of increase in health costs +3%	n/a	n/a	n/a	n/a	14.2	**14.2**
Annual rate of increase in health costs -3%	n/a	n/a	n/a	n/a	13.6	**13.6**

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	TFR	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
By the end of 2022	0.3	0.9	1.7	-	0.6	0.9	4.4
By the end of 2023	0.1	0.9	0.5	-	0.2	1.0	2.7
By the end of 2024	0.4	0.8	0.4	-	0.2	1.0	2.8
By the end of 2025	0.3	1.2	0.4	-	0.3	1.1	3.3
By the end of 2026	0.2	1.1	0.6	-	0.2	1.3	3.4
After 5 years	3.7	30.7	2.0	0.5	1.7	5.6	44.2
TOTAL	**5.0**	**35.6**	**5.6**	**0.5**	**3.2**	**10.9**	**60.8**

27 – PROVISIONS FOR RISK AND CHARGES – €134.2 MILLION

(€m)

	PROVISIONS FOR LITIGATION AND DISPUTES	PROVISIONS FOR SUNDRY RISKS AND CHARGES	PROVISIONS FOR EARLY RETIREMENT INCENTIVES	TOTAL
Amount at 31 December 2020	**19.7**	**121.7**	**30.0**	**171.4**
Provisions	3.9	20.6	3.0	27.5
Uses and other movements	(5.7)	(48.0)	(11.0)	(64.7)
Amount at 31 December 2021	**17.9**	**94.3**	**22.0**	**134.2**

Provisions for litigation and disputes – €17.9 million

These provisions, set aside to cover outstanding liabilities that, at the end of the year, could result from court judgements and out-of-court settlements regarding the activities of Group companies, have been assessed partly on the basis of recommendations from internal and external legal advisors. The balance at 31 December 2021, amounting to €17.9 million, primarily regards disputes involving the Parent Company in relation to the payment of damages relating to operation and maintenance, requests for compensation for easements and labour and social security disputes. This is down €1.8 million compared with the previous year as a result of lower net provisions during the year.

Provisions for sundry risks and charges – €94.3 million

These provisions amount to €94.3 million at 31 December 2021 and essentially regard liabilities associated with urban and environmental restoration projects, regulation of the quality of the electricity service, staff incentive plans, right-of-way fees and tax-related aspects.

These provisions are down by a net €27.4 million, compared with the previous year reflecting:
- the net use of €9.1 million in provisions made in the previous year for urban and environmental restoration schemes;
- a net reduction of €6.5 million relating to staff incentive plans;
- a net reduction of €4.9 million in provisions linked to regulation of the quality of the electricity service (the mitigation and sharing mechanism introduced by ARERA Resolution 653/2015/R/eel) which, after provisions for estimated penalties linked to outages during the year, reflects payments to distribution companies and releases following final determination of the penalties due to previous years;
- the net uses of €6.7 million relating to tax liabilities.

Provisions for early retirement incentives – €22.0 million

Provisions for early retirement incentives reflects the estimated extraordinary expenses to be incurred in relation to the cost of the scheme for the year, linked to the early retirement of Group employees who have reached pensionable age and where the Group has an obligation. This item has decreased by a net €8.0 million, reflecting payments during the year in relation to the existing plan for generational turnover.

28. OTHER NON-CURRENT LIABILITIES – €884.8 MILLION

This item, amounting to €884.8 million at 31 December 2021, regards accrued grants related to assets receivable by the Parent Company (€74.6 million), in addition to payments on account received in relation to construction of the private Italy-Montenegro, Italy-France and Italy-Austria Interconnectors (totalling €558.3 million).
This item also includes the guarantee deposits received from operators participating in the capacity market in accordance with Resolution 98/2011/R/eel (€117.4 million),), in addition to the Interconnector Guarantee Fund set up by Terna S.p.A. following the issue of the 2016 Stability Law (€127.3 million), in order to fund investment in interconnections by art. 32 of Law 99/09.

The increase in this item compared with the previous year, amounting to €48.1 million, essentially reflects the increase in the Interconnector Guarantee Fund (up €20.0 million) and in payments on account received from the entities financing the private Italy-Austria (up €29.5 million), Italy-France (up €2.3 million) and Italy-Montenegro (up €2.4 million) Interconnectors, after a reduction in deferred income relating to grants related to assets receivable by the Parent Company (down €5.1 million) and an increase in guarantee deposits received from operators participating in the capacity market in accordance with Resolution 98/2011/R/eel, as amended, after definition of each party's committed capacity (up €0.9 million).

29. CURRENT LIABILITIES

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
Short-term borrowings*	1,947.0	1,002.2	944.8
Current portion of long-term borrowings*	1,640.0	1,388.0	252.0
Trade payables	3,275.6	2,217.3	1,058.3
Tax liabilities	28.1	-	28.1
Current financial liabilities*	45.8	90.1	(44.3)
Other current liabilities	453.4	333.1	120.3
TOTAL	**7,389.9**	**5,030.7**	**2,359.2**

** Information on these items is provided in note 25, "Borrowings and financial liabilities".*

TRADE PAYABLES – €3,275.6 MILLION

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
Suppliers:			
- Energy-related payables	2,353.5	1,199.1	1,154.4
- Non-energy-related payables	883.8	997.1	(113.3)
Amounts due to associates	9.4	8.8	0.6
Payables resulting from contract work in progress	28.9	12.3	16.6
TOTAL	**3,275.6**	**2,217.3**	**1,058.3**

Suppliers

Energy-related/regulated payables – €2,353.5 million

The increase of €1,154.4 million in this item compared with the end of 2020 essentially reflects energy-related pass-through payables (€1,155.6 million). This is primarily due to:

- an increase in payables linked to DSM transactions and services (€492.4 million) due to rising commodity prices;
- an increase in payables due to imbalances (€258.5 million);
- an increase in payables linked to plants that are essential for the security of the electricity system – UESS (€175.1 million) after payments ordered by ARERA in 2021[6];
- an increase in amounts payable in the form of capacity payments (€18.3 million), after payments made during 2021[7].

[6] ARERA ordered payments to the owners of essential plants in the following resolutions: n. 9-20-30-42-52-67-94-95-118-203-475-476-481-482-499-500-518-519-520-543-544-545-564-565/2021.
[7] In Resolution 437/2019, the regulator also ordered the settlement of capacity payments for 2021.

Non-energy related payables

The exposure to suppliers regards invoices received and to be received for contract work, services and purchases of materials and equipment.

The balance at 31 December 2021 (€883.8 million) is down €113.3 million on the previous year, largely due to increased capital expenditure towards the end of the year (primarily by the subsidiary, Terna Rete Italia S.p.A., down €119.0 million), offset by an increase in payables at the Tamini Group (up €7.9 million).

Amounts due to associates

This item, amounting to €9.4 million, is up €0.6 million on the previous year, and regards amounts payable to the associate CESI S.p.A., for services provided primarily to the Parent Company (€0.9 million) and to the subsidiary Terna Rete Italia S.p.A. (€7.9 million), relating to electro technical studies and research.

Payables resulting from contract work in progress

Payables resulting from contract work in progress, amounting to €28.9 million at 31 December 2021, are up €16.6 million on the figure for 31 December 2020 (€12.3 million), essentially reflecting contract work in progress at the subsidiary, Brugg Cables (up €16.4 million).

This item breaks down as follows.

(€m)

	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2021	PREPAYMENTS	VALUE OF CONTRACT	BALANACE AT 31 DECEMBER 2020
Contract work in progress	(166.2)	137.3	**(28.9)**	(118.9)	106.6	**(12.3)**

The carrying amount of trade payables broadly approximates to fair value.

The commitments assumed by the Group towards suppliers amount to approximately €2,337.3 million and regard purchase commitments linked to the normal “operating cycle” projected for the period 2022-2026.

TAX LIABILITIES – €28.1 MILLION

At 31 December 2021, this item amounts to €28.1 million, compared with net tax assets at the end of the previous year, reflecting an increase in tax payable for the period after payments on account paid during the year (essentially due to the increase in pre-tax profit).

OTHER CURRENT LIABILITIES – €453.4 MILLION

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
Prepayments	91.4	59.7	31.7
Other tax liabilities	38.5	11.4	27.1
Social security payables	26.0	24.7	1.3
Amounts due to personnel	53.5	47.0	6.5
Other amounts due to third parties	244.0	190.3	53.7
TOTAL	**453.4**	**333.1**	**120.3**

Prepayments

This item (€91.,4 million) regards grants related to assets collected by the Group (€87.7 million attributable to the Parent Company, €1.5 million to Rete S.r.l. and €2.2 million to Terna Rete Italia S.p.A.) to fund the construction of non-current assets in progress at 31 December 2021. Compared with the balance at 31 December 2020 (€59.7 million), this item is up €31.7 million, essentially due to the net impact of grants deducted directly from the carrying amount of the related assets, totalling €41.1 million, and new prepayments received from third parties.

Other tax liabilities

Other tax liabilities, amounting to €38.5 million, are up €27.1 million compared with the previous year. This primarily reflects the increase in VAT payable by the Group (up €29.4 million).

Social security payables

Social security payables, essentially relating to contributions payable to INPS (the National Institute of Social Security) by the Parent Company and the subsidiary, Terna Rete Italia S.p.A., amount to €26.0 million. The figure is up €1.3 million compared with the previous year, broadly due to increased contributions payable on staff incentives (up €0.4 million). This item also included the amount payable to the *Fondo Previdenza Elettrici – F.P.E.* (the Electricity Industry Pension Fund), amounting to €2.6 million (€2.9 million at 31 December 2020).

Amounts due to personnel

Amounts due to personnel, amounting to €53.5 million, essentially regard the Parent Company and the subsidiary Terna Rete Italia S.p.A.. They primarily relate to:

- incentives payable in the subsequent year (€33.0 million);
- amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements (€15.0 million);
- benefits payable to personnel leaving the Company by 31 December 2021 (€3.1 million).

The item is up €6.5 million, primarily due to an increase in amounts payable to personnel who have opted to take part in the current generational turnover plan payable to personnel in the following year (up €3.9 million) and an increase in amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements to be settled (up €1.4 million).

Other payables due to third parties

Other payables due to third parties, amounting to €244.0 million, primarily regard guarantee deposits (€170.4 million) received from electricity market operators to guarantee their contractual obligations under dispatching and virtual interconnection contracts. This item also includes the potential liabilities attributable to the subsidiary, Brugg Cables, arising from the Purchase Price Allocation (€33.0 million, covered by an insurance policy) and resulting from ongoing litigation regarding a number of contracts with Colombian counterparties, and deferred income (€19.8 million, primarily attributable to the Group's non-regulated business).
This item is up by a total of €53.7 million, essentially due to an increase in guarantee deposits collected during the year, totalling €49.1 million, an increase in dividends payable (up €9.1 million), the recognition of potential liabilities attributable to the new subsidiary, the LT Group (up €3.8 million) and to the Tamini Group (up €2.4 million). This was partially offset by payment to RFI of the refund received from the tax authority in 2019 (down €13.4 million) in connection with the acquisition of Rete S.r.l (December 2015).

30. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

The items, "Discontinued operations and assets held for sale" and "Liabilities related to discontinued operations and assets held for sale" included the assets and liabilities that make up the net assets attributable to the companies included in the potential sale of the Group's Latin American assets: the Company's four subsidiaries in Brazil, Terna Perù and the Uruguayan company Difebal S.A.. A Preferred Bidder has been selected and, on 20 December 2021, a Memorandum of Understanding (MoU) was signed. This sets out the terms and conditions for the potential transaction and an "exclusivity period" to enable due diligence activities to take place before submission of a binding offer.

The transaction has resulted in the reclassification, as required by IFRS 5, of the consolidated net assets attributable to the Brazilian companies, SPE Santa Lucia Transmissora de Energia S.A., SPE Santa Maria Transmissora de Energia S.A., SPE Transmissora de Energia Linha Verde II S.A. and SPE Transmissora de Energia Linha Verde I S.A., the Peruvian company, Terna Perù S.A.C., and the Uruguayan company, Difebal S.A..

(€m)

ASSETS	31 DECEMBER 2021
Property, plant and equipment	2.3
Intangible assets	16.8
Deferred tax assets	5.7
Non-current financial assets	187.3
Other non-current assets	3.1
Inventories	19.3
Trade receivables	83.6
Current financial assets	20.6
Cash and cash equivalents	39.4
Income tax assets	2.9
Other current assets	11.6
Impairment recognised on remeasurement of fair value less costs to sell	**(17.1)**
TOTAL ASSETS HELD FOR SALE	**375.5**

(€m)

LIABILITIES	31 DECEMBER 2021
Long-term borrowings	179.2
Deferred tax liabilities	32.1
Non-current financial liabilities	1.4
Current portion of long-term borrowings	40.8
Trade payables	2.5
Tax liabilities	0.8
Current financial liabilities	0.4
Other current liabilities	0.6
TOTAL LIABILITIES RELATED TO ASSETS HELD FOR SALE	**257.8**
TOTAL NET ASSETS HELD FOR SALE	**117.7**
Amounts included in OCI:	
Foreign currency translation reserve	(27.4)
CFH reserve	(1.0)
Total reserves related to assets classified as held for sale	**(28.4)**

Net assets held of sale, amounting to €117.7 million at 31 December 2021, primarily regard investment in the infrastructure operated under concession in Brazil and the amount due from third parties for the contract in Uruguay, partly offset by loans.

Cash flow

The following statement of cash flows shows cash flows attributable to the Latin American assets held for sale:

(€m)

	CASH FLOW 2021	CASH FLOW 2020
Operating cash flow	(12.2)	27.0
Cash flow for investing activities	(31.4)	9.0
Cash flow from financing activities	13.9	15.2
Cash flow for the year attributable to discontinued operations and assets held for sale	**(29.8)**	**51.2**

Operating cash outflow attributable to the Latin American assets amounts to €12.2 million, primarily reflecting the adjustment to the value of the net assets held for sale recognised in application of IFRS 5.
Cash flow for investing activities, amounting to €31.4 million, primarily regards investment in the infrastructure operated under concession in Brazil.
Cash flow from financing activities (€13.9 million) primarily reflects the change in net debt attributable to assets held for sale necessary to finance construction services in Brazil.

E. Commitments and risks

Risk management

The Group's financial risk

In the course of its operations, the Terna Group is exposed to different financial risks: market risk, liquidity risk and credit risk.

This section provides information regarding the Terna Group's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to assess them, with further quantitative disclosures concerning the separate financial statements for 2021.

The Group's risk management policies seek to identify and analyse the risks that Group companies are exposed to, establishing appropriate limits and controls and monitoring the risks and compliance with such limits. These policies and the related systems are reviewed on a regular basis, in order to take account of any changes in market conditions or in the companies' operations.

The Terna Group's exposure to the aforementioned risks is substantially represented by the exposure of the Parent Company.

As a part of the financial risk management policies approved by the Board of Directors, Terna has established the responsibilities and operating procedures for financial risk management, specifically as concerns the instruments to be used and the precise operating limits to apply in managing them.

(€m)

	31 DECEMBER 2021			31 DECEMBER 2020		
	AMORTISED COST	FAIR VALUE	TOTAL	AMORTISED COST	FAIR VALUE	TOTAL
Assets						
Derivative financial instruments	-	1.6	1.6	-	94.2	94.2
Cash on hand and government securities	1,566.8	958.5	2,525.3	2,689.0	611.4	3,300.4
Trade receivables	2,777.4	-	2,777.4	1,245.2	-	1,245.2
TOTAL	**4,344.2**	**960.1**	**5,304.3**	**3,934.2**	**705.6**	**4,639.8**

(€m)

	31 DECEMBER 2021			31 DECEMBER 2020		
	AMORTISED COST	FAIR VALUE	TOTAL	AMORTISED COST	FAIR VALUE	TOTAL
Liabilities						
Borrowings	10,475.0	-	10,475.0	11,248.2	-	11,248.2
Derivative financial instruments	-	83.7	83.7	-	253.8	253.8
Trade payables	3.,275.6	-	3,275.6	2,217.3	-	2,217.3
TOTAL	**13,750.6**	**83.7**	**13,834.3**	**13,465.5**	**253.8**	**13,719.3**

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in financial market conditions. Market risk includes three types of risk: exchange rate risk, interest rate risk and inflation risk.

Risk management must be performed with the objective of minimising the related risks by selecting counterparties and instruments compatible with the Company's Risk Management Policy. Speculative activity is not form part of the Parent Company's activities.

The Terna Group seeks to adopt a dynamic approach to financial risk management. This approach is characterised by risk aversion, aimed at minimising risk through continuous monitoring of financial markets in order to obtain new financing and conclude hedging transactions in favourable market conditions. The dynamic approach enables the Group to intervene in order to improve existing hedges should there be a change in market conditions or changes in the hedged item, making the hedges inappropriate or excessively costly.

The fair value of financial instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (Level 2), by means of appropriate valuation techniques for each category of financial instrument, using market data at the closing date (such as interest rates, exchange rates and volatility) and discounting projected cash flows on the basis of the market yield curve at the reporting date.

Interest rate risk

Interest rate risk is represented by the uncertainty associated with interest rate fluctuations. This is the risk that a change in market interest rates may produce effects on the fair value or future cash flows of financial instruments.
In the course of its operations, the Group is exposed to the risk of fluctuations in interest rates.

Its main source of interest rate risk is associated with its borrowings and the related hedges in the form of derivative instruments that generate financial expenses. The borrowing strategy focuses on long-term borrowings, whose term reflects the useful life of the Group's assets. It pursues an interest rate risk hedging policy that aims to guarantee that percentage of debt represented by fixed rate liabilities is at least 40%, as provided for in the relevant policies. At the end of 2021, 91% of the Group's is fixed rate.
At 31 December 2021, interest rate risk is hedged by cash flow hedges, which hedge the risk connected with movements in interest rates relating to long-term borrowings.

Below are the notional amounts and fair values of the derivative financial instruments entered into by the Terna Group

(€m)

	31 DECEMBER 2021		31 DECEMBER 2020		CHANGE	
	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE
Fair value hedges	1,700.0	1.6	1,600.0	94.2	100.0	(92.6)
Cash flow hedges	3,241.0	(83.7)	4,079.9	(253.8)	(838.9)	170.1

The notional amount of outstanding cash flow hedges at 31 December 2021, amounting to €3,241.0 million, breaks down as follows:

- €300.0 million (fair value loss of €0.1 million) maturing 2022;
- €100.0 million (fair value gain of €0.1 million) maturing 2023;
- €641.0 million (fair value gain of €2.3 million) maturing 2024;
- €1,100.0 million (fair value loss of €47.0 million) maturing 2027;
- €1,100.0 million (fair value loss of €39.0 million) maturing 2028.

The notional amount of fair value hedges at 31 December 2021, amounting to €1,700.0 million, breaks down as follows:

- €450.0 million (fair value gain of €8.1 million) maturing 2027;
- €750.0 million (fair value gain of €19.7 million) maturing 2028;
- €500.0 million (fair value loss of €26.2 million) maturing 2032.

Sensitivity to interest rate risk

As regards the management of interest rate risk, following the restructuring of its portfolio, Terna has floating-to-fixed interest rate swaps (cash flow hedges) in place to hedge the risk associated with expected future cash flows.

Since the hedging relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, as verified initially and periodically over its life, is high, the Company has elected to use hedge accounting to ensure a perfect match between the maturities of the hedge and the hedged item. The aim of hedge accounting is to recognise the effects of the hedges and the hedged items in profit or loss at the same time. Accordingly, in the case of cash flow hedges, changes in the fair value of the derivative must be recognised in "Other comprehensive income" (recognising any ineffective portion immediately through profit or loss) and then recycled through profit or loss in the same period in which the cash flows of the hedged instrument materialise. The characteristics of cash flow hedges mirror those of the underlyings, with the timing of the related cash flows matching the timing of interest payments on the debt, without changes in fair value having any impact on profit or loss.

The following table reports the amounts recognised through profit or loss and in “Other comprehensive income” for positions that are sensitive to changes in interest rates, in addition to the theoretical value of the positions following a positive or negative shift in the yield curve and the differential impact of such changes recognised through profit or loss and in “Other Comprehensive Income”. A hypothetical 10% movement in interest rates with respect to market interest rates at the reporting date was assumed:

(€m)

	PROFIT OR LOSS			COMPREHENSIVE INCOME		
	CURRENT RATES +10%	CURRENT AMOUNTS	CURRENT RATES	CURRENT RATES +10%	CURRENT AMOUNTS	CURRENT RATES
31 December 2021						
Positions sensitive to interest rate variations (FVHs, bond issues, CFHs)	1.4	**1.3**	1.2	169.5	**167.7**	165.9
Hypothetical change	*0.1*		*(0.1)*	*1.8*		*(1.8)*
31 December 2020						
Positions sensitive to interest rate variations (FVHs, bond issues, CFHs)	(4.0)	**(4.1)**	(4.2)	(85.1)	**(93.4)**	(101.7)
Hypothetical change	*0.1*	-	*(0.1)*	*8.3*	-	*(8.3)*

Regulators around the world have launched a reform of IBOR (Interbank Offered Rates), which are used as the benchmark for most financial instruments sold throughout the world, with the aim of restoring confidence in the benchmark. In view of the high degree of uncertainty over the timing of the reform during the transition phase, the Group is continuing to closely monitor the market and the results produced by the various working groups overseeing the transition to the new benchmark rates, including announcements made by regulators regarding the transition from LIBOR to SOFR (Secured Overnight Financing Rate) and from EURIBOR to ESTER (Euro Short-term Rate). Management is aware of the associated risks and, for this reason, the Group plans to complete the transition in step with the change in the related legislation. At the same time, all the new financial contracts contain fallback provisions governing the transition period.

Inflation risk

As regards inflation risk, the rates established by the regulator to provide a return on Terna S.p.A.’s activities are determined so as to cover the allowed costs. Such cost components are updated on an annual basis to take into account the impact of inflation. Having used an inflation-linked bond issue in 2007, the Company has put in place an effective hedge of net income; in fact, any decrease in expected revenue due to a decrease in the inflation rate would be offset by lower financial expenses.

Exchange rate risk

The management of exchange rate risk must aim to protect a company’s earnings from the risk of currency fluctuations by keeping a close eye on market movements and constantly monitoring the existing exposures. In managing this risk, Terna from time to time selects hedging instruments with structures and durations matching the Group’s exchange rate exposure. The instruments used by Terna are of limited complexity, highly liquid and easy to price, such as forwards and options. Such contracts have a notional amount and maturity date less than or equal to that of the underlying financial liability, or the expected cash flows, so that any change in the fair value and/or estimated cash flows deriving from a rise or fall in the euro against other currencies is fully offset by a corresponding change in the fair value and/or estimated cash flows of the underlying position.

At 31 December 2021, the Group's exposure to the impact of exchange rate risk on its profit or loss is residual and linked to foreign currency cash flows from the subsidiaries, Tamini and Brugg.

Liquidity risk

Liquidity risk is the risk that the Terna Group might encounter difficulty in discharging its obligations in respect of its financial liabilities and operating cycle. Liquidity risk management seeks to ensure adequate coverage of borrowing requirements by obtaining adequate credit lines and appropriate management of any surplus liquidity. At 31 December 2021, the Terna Group has available short-term credit facilities of approximately €769 million (out of total facilities of approximately €1,216 million), revolving credit facilities of €3,150 million and facilities agreed but yet to be disbursed, totalling approximately €300 million.

Credit risk

Credit risk is the risk a customer or one of the counterparties to a transaction in financial instruments could cause a financial loss by failing to discharge an obligation. It is mainly generated by the Group's trade receivables and financial investments.

The credit risk originated by open positions on transactions in derivatives is considered to be marginal since the counterparties, in compliance with the financial risk management policies adopted, are leading international banks with high ratings.
Terna provides its services essentially to counterparties considered solvent by the market, and therefore with a high credit standing, and does not have high concentrations of credit risk.

Credit risk management is driven by the provisions of ARERA Resolution 111/06, which, in art. 49, introduced instruments designed to limit the risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of an actual insolvency. In particular, the Resolution establishes three instruments to safeguard the electricity market: a guarantee system (bank guarantees provided by individual dispatching customers, based on their turnover); the option of terminating dispatching contracts (in the event of insolvency or failure to replace enforced guarantees); and, finally, the possibility of recovering uncollected debts, after having taken all other possible collection actions, through a specific fee to be fixed by ARERA.

The following table summarises the exposure to such risk at the reporting date:

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
Fair value hedges	1.6	94.2	(92.6)
Cash and cash equivalents	1,566.8	2,689.0	(1,122.2)
Trade receivables	2,777.4	1,245.2	1,532.2
TOTAL	**4,345.8**	**4,028.4**	**317.4**

The total value of the exposure to credit rate risk at 31 December 2021 is represented by the carrying amount of trade receivables, cash and cash equivalents and investments.
The following tables provide qualitative information on trade receivables regarding the geographical distribution and type of customer.

GEOGRAPHICAL DISTRIBUTION

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020
Italy	2,222.5	1,075.2
Euro-area countries	482.4	44.6
Other countries	72.5	125.4
Total	**2,777.4**	**1,245.2**

CUSTOMER TYPE

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020
Distributors	395.8	199.4
CSEA	138.4	93.7
Dispatching customers for injections	755.1	173.2
Dispatching customers for withdrawals (non distributors)	1,288.1	563.9
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	13.8	12.7
Sundry receivables	186.2	202.3
Total	**2,777.4**	**1,245.2**

The following table breaks down customer receivables by due date, showing any potential impairment.

(€m)

	31 DECEMBER 2021		31 DECEMBER 2020	
	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS
Current	(0.6)	2,701.9	(0.6)	1,188.9
0-30 days past due	-	30.8	-	8.8
31-120 days past due	(0.3)	14.0	(0.3)	6.5
Over 120 days past due	(48.7)	80.3	(51.1)	93.0
Total	**(49.6)**	**2,827.0**	**(52.0)**	**1,297.2**

Movements in the allowance for doubtful accounts in the course of the year were as follows.

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020
Balance at 1 January	(52.0)	(42.9)
Release of provisions	2.8	0.1
Impairments for the year	(0.4)	(9.2)
Balance	**(49.6)**	**(52.0)**

The value of guarantees received from eligible electricity market operators is illustrated below.

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020
Dispatching - injections	265.1	215.5
Dispatching - withdrawals	1,349.2	1,316.0
Transmission charges due from distributors	334.3	327.9
Virtual imports	134.3	113.4
Capacity market (*)	129.5	148.3
Balance	**2,212.4**	**2,121.1**

(*) Guarantees relating to Capacity Market contracts to be executed from 2022.

In addition, Non-regulated Activities are exposed to "counterparty risk", in particular in relation to the entities with which sales contracts are entered into, in consideration of the credibility and solvency of the parties in question and the impact that their possible insolvency could have on the financial strength of the business. Counterparty risk is mitigated by implementing special procedures to assess counterparties, measuring operating, financial and reputational aspects of the counterparties in question.

Default risk and debt covenants

This risk is associated with the possibility that the loan agreements or bond terms and conditions to which the Parent Company is a party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. More information on the contractual provisions of outstanding borrowings at 31 December 2021 is provided in the section, "Borrowings and financial liabilities" in the notes to the Terna Group's consolidated financial statements.

Bank guarantees

Banks have issued guarantees to third parties on behalf of Group companies which, at 31 December 2021, amount to €328.1 million. This amount breaks down as follows: €97.2 million on behalf of Terna S.p.A., €78.3 million on behalf of Tamini Trasformatori S.r.l., €55.3 million on behalf of Terna Rete Italia S.p.A., €39.2 million on behalf of Terna Interconnector S.r.l., €38.6 million on behalf of Gruppo Brugg, €0.1 million on behalf of Terna Plus S.r.l., €5.1 million on behalf of Santa Lucia S.A., €4.5 million on behalf of Difebal S.A., €4.4 million on behalf of Terna Perù SAC, €1.0 million on behalf of Santa Maria SA, €4.3 million on behalf of Terna Energy Solutions S.r.l. and €0.1 million on behalf of Terna Chile S.p.A..

Litigation

The main commitments and risks not disclosed in the statement of financial position at and for the year ended 31 December 2021, relating to the Parent Company Terna, its subsidiary Terna Rete Italia S.p.A., are described below. There are no significant commitments or risks for the other subsidiaries at that date.

Environmental and urban planning litigation

Part of environmental litigation deriving from the construction and operation of Terna's power plants, consists of legal actions taken against the alleged negative effects of electric and magnetic fields generated by power lines. In general, this litigation necessarily involves the Parent Company, which owns the infrastructure in question. Moreover, it cannot be ruled out that the parties concerned may also initiate legal proceedings against the subsidiary Terna Rete Italia S.p.A., as the electromagnetism generated by power lines relates not only to ownership of the plant, but also to its operation and the quantity and quality of electricity it transports.

Regarding this matter, it should be noted that the issue of the Cabinet Office Decree of 8 July 2003 – which specifically set the values of the three parameters (exposure limits, safety thresholds and quality targets) provided for in Framework Law 36 of 22 February 2001, which electricity infrastructure must comply with – led to a significant reduction in any such litigation. Other environmental and urban planning disputes, which do not relate to electromagnetic fields, are also pending with regard to Terna S.p.A.. These disputes are connected with the operation of certain Terna-owned plant, which in the event of an unfavourable outcome could also generate immediate effects for Terna Rete Italia S.p.A. (to date unforeseeable and therefore not included in "Provisions for litigation and sundry risks"), both as the entity appointed by Terna S.p.A. to build the related infrastructure and as the entity responsible for its operation. In particular, charges may arise for Terna Rete Italia S.p.A. connected with changes to the infrastructure involved in such disputes and its temporary unavailability. However, after examination of the disputes in question by Terna S.p.A. and external counsel appointed by the Company, it appears that the possibility of any negative outcomes is remote.

Litigation regarding the legitimacy of construction permits and plant operations

Another aspect of litigation connected with the plant owned by the Parent Company derives from legal actions brought before the competent administrative courts, aimed at obtaining the annulment of decisions granting consent for the construction and operation of infrastructure.

Litigation relating to activities carried out under concession

As the operator of transmission and dispatching activities since 1 November 2005, the Parent Company has been a party in a number of court cases, most of which have contested determinations adopted by ARERA (Italy's Regulatory Authority for Energy, Networks and the Environment), and/or the Ministry for Economic Development, (now the Ministry for the Ecological Transition), and/or Terna itself, in relation to these activities. In cases in which the plaintiffs have, in addition to inherent defects in the contested determinations, alleged violation of the regulations laid down by the aforementioned authorities, or in cases in which the determination has had an impact on Terna, the Company has also taken action to defend its interests through the legal system. Within the scope of such litigation – even though some cases have been concluded, at first and/or second instance, with the annulment of ARERA's resolutions and, when applicable, of the consequent determinations adopted by Terna – any negative outcomes for the Company itself may be deemed unlikely, as these disputes normally relate to pass-through items.

F. Business combinations

Acquisition of LT

On 12 October, 2021, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the acquisition of a 75% stake in LT S.r.l. (the LT Group). The acquisition of LT led to the creation the first Italian operator in the photovoltaic plant operation & maintenance sector, with approximately 1,000 MWp under management, thus confirming Terna's role as driver and enabler of the energy transition and our constant support for the growth of renewables. LT S.r.l. is also involved in the design and implementation of the revamping and repowering of existing plants, thereby helping to improve production from Italy's installed power assets and to achieve national energy transition goals. The company is also involved in the construction of new photovoltaic plants for third parties.

LT S.r.l. in turn controls 100% of LT Enerray S.r.l. and 70% of Halfbridge Automation S.r.l., companies operating in the same sector.
The LT Group employed a total of 69 people at 31 December 2021.

The transaction, which Terna financed from cash, was completed through the subsidiary, Terna Energy Solutions S.r.l.. The final consideration for the purchase of a 75% stake was €16.9 million, in addition to an earn-out of €1.5 million linked to the company meeting certain performance targets in 2021.

The share purchase agreement also provides for a put option on the subsidiary, Halfbridge Automation S.r.l. (the "HBA option"), exercisable by 24 March 2022. This includes an earn-out of €2,250,000 if the option is exercised or €1,000,000 if the option is not exercised.

IFRS 3 requires the acquirer of a business combination to measure the cost of the acquisition on the basis of the consideration paid to obtain control of the acquired entity. The accounting standard establishes that the acquisition date is the date on which the acquirer obtains control. In this case, the date is **12 October 2021**. The adjusted acquisition cost for a 100% stake in the company is €27.6 million. The excess/defect purchase price represents the difference between the acquisition cost, measured in accordance with IFRS 3, and the pre-transaction value of the acquiree's net assets.

The accounting effects of the business combination, in compliance with IFRS 3 – Business Combinations, are shown in the following table, which summarises the consideration paid in order to acquire the LT Group and the value of the assets acquired and liabilities assumed, as recognised at the acquisition date:

VALUE OF THE ASSETS ACQUIRED AND LIABILITIES ASSUMED AT 12 OCTOBER 2021

(€000)

	CARRYING AMOUNT	ADJ.	FAIR VALUE
ASSETS			
Non-current assets			
Property, plant and equipment	252		252
Goodwill	546		546
Intangible assets	3,033		3,033
Deferred tax assets	48		48
Total non-current assets	**3,879**		**3,879**
Current assets			
Trade receivables	8,851		8,851
Inventories	2,088		2,088
Income tax assets	76		76
Other assets	2,024		2,024
Cash	980		980
Total current assets	**14,019**		**14,019**
TOTAL ASSETS	**17,898**		**17,898**
EQUITY AND LIABILITIES			
Non-current liabilities			
Employee benefits	456		456
Provisions for risks and charges	13	1,168	1,181
Total non-current liabilities	**469**	**1,168**	**1,673**
Current liabilities			
Short-term borrowings	495		495
Trade payables	8,373		8,373
Tax liabilities	491		491
Current financial liabilities	1,695		1,695
Other liabilities	1,935		1,935
Total current liabilities	**12,989**		**12,989**
TOTAL EQUITY AND LIABILITIES	**13,458**	**1,168**	**14,626**
NET ASSETS ACQUIRED	**4,440**	**(1,168)**	**3,272**
Net assets contributed	**4,440**	**-**	**4,440**
CONSIDERATION AND SHARE ATTRIBUTABLE TO NON-CONTROLLING INTERESTS AT FAIR VALUE	**27,599**	**-**	**27,599**
Goodwill	**23,159**	**1,168**	**24,327**

IFRS3 requires the acquirer to allocate the cost of the business combination in its accounts by recognising all the assets, liabilities and potential liabilities meeting specific recognition criteria at their fair value at the acquisition date. Measurement of the fair value of the assets and liabilities has resulted in adjustments to potential liabilities, amounting to €1.2 million, linked to current litigation and tax risk.

The expected consideration is higher the value of net assets at the acquisition date, resulting in goodwill of approximately €24.3 million.

The share purchase agreement and the shareholder agreement also establish that, within 60 days of approval of the financial statements for the year ended 31 December 2024, or within 90 days of the end of 2024, the Terna Group has the right to exercise a call option on the remaining 25% of the shares in LT S.r.l.. The Group has recognised a liability for the option relating to the purchase of the non-controlling interest for a sum of €7.2 million, calculated at 31 December 2021 on the basis of the metrics and performance and financial indicators specified in the agreements between the parties.

The transaction has been accounted for on a provisional basis, as required by IFRS 3, and the final amounts will be recognised within 12 months of the transaction date.

The company's contribution to consolidated comprehensive income for the year is €0.8 million.

Acquisition of LASER TLC

On 11 November 2021, Brugg Cables Italia S.r.l. (a wholly-owned subsidiary of Brugg Kabel Manufacturing AG[8], itself a subsidiary) acquired 100% of Laser TLC S.r.l., a company specialising in the installation, maintenance and emergency assistance for high-voltage cable accessories and fibre optic telecommunications systems.

The transaction offers Brugg Cables Italia S.r.l. the opportunity to add key capabilities and personnel in the installation of high-voltage cable systems and the related maintenance and emergency services, the installation of high-voltage cable system monitoring systems and services related to fibre systems. The acquired company employed a total of 23 people at 31 December 2021.

The acquisition, which Brugg Cables financed from cash, was completed through the subsidiary, Brugg Cables Italia S.r.l.. The final consideration for the purchase of a 100% stake was €4.0 million, on condition that within 12 months of the closing date the amount due from Laser TLC's major debtors has been collected in full. Specifically, €2.0 million was paid at the closing date and the remaining €2.0 million will be paid in second and third instalments, payable after 6 and 12 months of the closing date, respectively, depending on how the collection of the amounts due from major debtors is progressing.

IFRS 3 requires the acquirer of a business combination to measure the cost of the acquisition on the basis of the consideration paid to obtain control of the acquired entity. The accounting standard establishes that the acquisition date is the date on which the acquirer obtains control. In this case, the date is **11 November 2021**. The cost for the acquisition of a 100% stake in the company is €4.0 million. The excess/defect purchase price represents the difference between the acquisition cost, measured in accordance with IFRS 3, and the pre-transaction value of the acquiree's net assets.

The accounting effects of the business combination, in compliance with IFRS 3 – Business Combinations, are shown in the following table, which summarises the consideration paid in order to acquire Laser TLC S.r.l. and the value of the assets acquired and liabilities assumed, as recognized at the acquisition date:

VALUE OF THE ASSETS ACQUIRED AND LIABILITIES ASSUMED AT 11 NOVEMBER 2021

(€000)

	FAIR VALUE
ASSETS	
Non-current assets	
Property, plant and equipment	150
Deferred tax assets	598
Total non-current assets	**748**
Current assets	
Trade receivables	1,835
Inventories	948
Other assets	55
Cash	733
Total current assets	**3,571**
TOTAL ASSETS	**4,319**
EQUITY AND LIABILITIES	
Non-current liabilities	
Employee benefits	836
Total non-current liabilities	**836**
Current liabilities	
Trade payables	20
Tax liabilities	662
Current financial liabilities	69
Other liabilities	258
Total current liabilities	**1,009**
TOTAL EQUITY AND LIABILITIES	**1,845**
NET ASSETS ACQUIRED	**2,474**
CONSIDERATION	**4,000**
GOODWILL	**1,526**

[8] An indirect subsidiary of TERNA S.p.A., through Brugg Kabel Services AG, which holds a 100% interest and is in turn a subsidiary of Terna Energy Solutions S.r.l..

IFRS3 requires the acquirer to allocate the cost of the business combination in its accounts by recognising all the assets, liabilities and potential liabilities meeting specific recognition criteria at their fair value at the acquisition date. Measurement of the fair value of the assets and liabilities has not led to adjustments as they were considered to be of modest significance.

The expected consideration is higher than the value of the net assets at the acquisition date, resulting in goodwill of €1.5 million.

The transaction has been accounted for on a provisional basis, as required by IFRS 3, and the final amounts will be recognised within 12 months of the transaction date.

Acquisition of EL.IT.E S.r.l.

On 27 July 2021, Terna S.p.A. completed the acquisition of a 100% stake in EL.IT.E. S.p.A., simultaneously renamed EL.IT.E S.r.l., a vehicle company that owns:

- the Italian portion of the 150kV "Tirano – Campocologno" power line connecting Switzerland and Italy that carries electricity to the National Transmission Grid, with a length of approximately 4 km and including the related tunnel located on Italian territory and instrumental to the line;
- the 150/220kV Tirano substation (SO);
- accessions, appurtenances, positive and negative easements, rights, reasons and actions, consents, concessions, permits, authorisations and existing design documentation relating to the assets.

Completion of the transaction was financed by Terna S.p.A. from cash. The final consideration for the purchase of the 100% stake was €5.3 million.

IFRS 3 requires the acquirer of a business combination to measure the cost of the acquisition on the basis of the consideration paid to obtain control of the acquired entity. The accounting standard establishes that the acquisition date is the date on which the acquirer obtains control. In this case, the date is 27 July 2021. The cost for the acquisition was measured at €5.3 million. The excess/defect purchase price represents the difference between the acquisition cost, measured in accordance with IFRS 3, and the pre-transaction value of the acquiree's net assets.

The accounting effects of the business combination, in compliance with IFRS 3 – *Business Combinations*, are shown in the following table, which summarises the consideration paid in order to acquire Elite S.r.l. and the value of the assets acquired and liabilities assumed, as recognised at the acquisition date:

VALUE OF THE ASSETS ACQUIRED AND LIABILITIES ASSUMED AT 27 JULY 2021

(€000)

	FAIR VALUE
ASSETS	
Current assets	
Income tax assets	85
Other assets	493
Cash	3,648
Total current assets	4,226
TOTAL ASSETS	**4,226**
EQUITY AND LIABILITIES	
Current liabilities	
Other liabilities	66
Total current liabilities	**66**
TOTAL EQUITY AND LIABILITIES	**66**
NET ASSETS ACQUIRED	**4,160**
Net assets contributed	**4,160**
CONSIDERATION AND SHARE ATTRIBUTABLE TO NON-CONTROLLING INTERESTS AT FAIR VALUE	**5,345**
Deferred tax assets (bargain purchase)	**1,185**

The expected consideration is lower than the value of the net assets at the acquisition date, resulting in a gain of approximately €1.2 million from a bargain purchase, allocated to deferred tax assets in that it relates to recognition of the tax effect calculated on the share of amortisation and depreciation that is not tax-deductible (in accordance with art. 102-bis of the Consolidated Law on Income Tax). The counterparty was able to recognise these deferred tax assets in view of expiry of the exemption[9].

The deed for the merger of EL.IT.E S.r.l. with and into Rete S.r.l. was executed on 21 December 2021, with the aim of improving the operations of Terna Group companies, increasing synergies through a reorganisation designed to simplify the ownership chain, boost operational efficiency and cut administrative costs. In compliance with the terms of the merger deed, transactions carried out by the merged company, EL.IT.E S.r.l., have been accounted for in the accounts of the acquirer, Rete S.r.l., with the merger effective for accounting and tax purposes from 24 December 2021. Since the acquisition date, the merged company, EL.IT.E S.r.l., has recorded profit for the year of €119,676.76.

The transaction has been accounted for on a provisional basis, as required by IFRS 3, and the final amounts will be recognised within 12 months of the transaction date.

G. Related party transactions

Given that Terna S.p.A. is subject to the de facto control of Cassa Depositi e Prestiti S.p.A. (with its registered office at via Goito 4, 00185 Rome, Italy and whose consolidated financial statements are available on the company's website at www.cdp.it), a situation ascertained in 2007, related party transactions entered into by Terna during the year include transactions with the associates (Cesi S.p.A., Coreso S.A. and CGES) and employee pension funds (Fondenel and Fopen), as well as transactions with Cassa Depositi e Prestiti itself, with CDP Reti S.p.A. and with the companies directly or indirectly controlled by the Ministry of the Economy and Finance ("MEF").

Given that Terna Group companies and the companies directly or indirectly controlled by the Ministry of the Economy and Finance meet the definition for classification as "government-related entities", in accordance with IAS 24 – Related Party Disclosures, the Group has elected to adopt the partial exemption – permitted by the standard – from the disclosure requirements in respect of other companies controlled, influenced or jointly controlled by the same government entity. The remainder of this section provides qualitative and quantitative disclosures on transactions with government-related entities having a significant impact on the Group's results. Amounts relating to pass-through items are not included in these disclosures. Related party transactions in 2021 broadly regard the provision of services in the course of ordinary activities and conducted on an arm's length basis.

[9] The acquired company had, over a ten-year period, benefitted from exclusive use of the power line under Ministry for Economic Development decree 290/ML/2007. On 27 September 2019, the right of exemption expired and the line became to all intents and purposes a part of the National Transmission Grid and subject to the relevant regulation.

The nature of sales to and purchases from related parties by the Terna Group is shown below, followed by details of the revenue and costs resulting from such transactions during the year and the related assets and liabilities outstanding at 31 December 2021.

RELATED PARTY	REVENUE-GENERATING TRANSACTIONS	COST-GENERATING TRANSACTIONS
Parent		
Cassa Depositi e Prestiti S.p.A.		Credit facilities.
Associates		
Cesi S.p.A.	Rental income on laboratories and other similar facilities for specific uses, dividends.	Technical studies and consultancy, research, design and experimentation.
CORESO S.A.		Technical coordination service for the TSO.
Other related parties		
GSE Group	Metering charge, dispatching charge.	Rental of spaces and workstations.
Enel Group	Transmission charge and aggregation of meter readings, dispatching charge, leases and rentals, power line maintenance, movement /re-routing of power lines, housing of fibre cable and maintenance of communications carried over proprietary power lines.	Recovery of energy discount, building services, MV power to new substations, specialist services for connection to Terna's control and protection systems.
Ferrovie Group	Dispatching charge, movement of power lines.	Right-of-way fees.
ENI Group	Dispatching charge.	Contributions for NTG connections, sundry services.
ANAS S.p.A.	Movement /re-routing of power lines.	Right-of-way fees.
Open Fiber S.p.A.	IRU agreements for fibre.	Provision of services for the rental of fibre.
Fondenel and Fopen		Pension contributions payable by the Terna Group.
Other related parties of the MEF	Sundry services	
Ansaldo Energia S.p.A.	Infrastructure maintenance.	

REVENUE AND COSTS

(€m)

	REVENUE COMPONENTS		COST COMPONENTS
	TRANSMISSION CHARGE AND OTHER REVENUE FROM REGULATED ACTIVITIES	NON-ENERGY-RELATED ITEMS	
De facto parent:			
Cassa Depositi e Prestiti S.p.A.	-	-	0.5
Total de facto parent	**-**	**-**	**0.5**
Associates:			
Cesi S.p.A.	-	0.1	1.4
CORESO S.A.	-	-	3.5
Total associates	**-**	**0.1**	**4.9**
Other related parties:			
GSE Group	16.0	2.0	0.1
Sogin S.p.A.	-	0.1	-
Enel Group	1,706.0	17.0	0.8
ENI Group	7.1	1.1	0.2
Ferrovie Group	2.2	1.0	3.3
Anas S.p.A.	-	-	0.2
Fintecna	-	0.2	-
Ansaldo Energia S.p.A.	-	13.4	0.1
Poste Italiane Group	-	-	0.1
Snam Rete Gas S.p.A.	-	0.1	0.2
Open Fiber S.p.A.	-	1.9	-
Other related parties of MEF	-	0.3	0.9
Total other related parties	**1,731.3**	**37.1**	**5.9**
Pension funds:			
Fondenel	-	-	0.7
Fopen	-	-	2.7
Total pension funds	**-**	**-**	**3.4**
TOTAL	**1,731.3**	**37.2**	**14.7**

ASSETS AND LIABILITIES

(€m)

	PROPERTY, PLANT AND EQUIPMENT	RECEIVABLES AND OTHER ASSETS	PAYABLES AND OTHER LIABILITIES	CASH	GUARANTEES*
	CAPITALISED COSTS	OTHER	OTHER		
De facto parent:					
Cassa Depositi e Prestiti S.p.A.	-	-	-	-	(275.0)
Total de facto parent	**-**	**-**	**-**	**-**	**(275.0)**
Associates:					
Cesi S.p.A.	11.5	-	9.1	-	4.8
CORESO SA	-	-	0.3	-	-
Total associates	**11.5**	**-**	**9.4**	**-**	**4.8**
Other related parties:					
GSE Group	0.3	2.6	0.4	-	-
Enel Group	19.7	290.1	32.5	-	737.8
Eni Group	-	1.7	1.5	-	66.3
Ferrovie Group	0.3	4.2	17.2	-	24.5
ANAS S.p.A.	1.5	2.5	2.0	-	-
Fintecna S.p.A.	0.3	0.1	0.1	-	-
Ansaldo Energia S.p.A.	24.4	0.8	12.1	-	25.1
Open Fiber S.p.A.	-	0.1	0.1	-	-
Poste Italiane Group	-	-	0.1	-	-
Sogin S.p.A.	-	0.1	-		-
Other related parties of MEF	2.3	0.1	1.6	0.1	0.1
Total other related parties	**48.8**	**302.3**	**67.6**	**0.1**	**853.8**
Pension funds:					
Fopen	-	-	2.3	-	-
Total pension funds	**-**	**-**	**2.3**		**-**
TOTAL	**60.3**	**302.3**	**79.3**	**0.1**	**583.6**

* *Guarantees regard surety bonds received from contractors, with the exception of the amount relating to Cassa Depositi e Prestiti S.p.A. regarding a Revolving Credit Facility.*

The impact of related-party transactions or positions on the statement of financial position and the income statement is summarised below:

STATEMENT OF FINANCIAL POSITION

(€m)

	31 DECEMBER 2021			31 DECEMBER 2020		
	TOTAL	RELATED PARTIES	% SHARE	TOTAL	RELATED PARTIES	% SHARE
Property, plant and equipment	15,316.6	60.3	0.4%	14,559.7	54.4	0.4%
Trade receivables	2,777.4	302.3	10.9%	1,245.2	234.1	18.8%
Cash and cash equivalents	1,566.8	0.1	-	2,689.0	0.1	-
Trade payables	3,275.6	59.9	1.8%	2,217.3	80.4	3.6%
Other current liabilities	453.4	19.4	4.3%	333.1	20.3	6.1%

INCOME STATEMENT

(€m)

	2021			2020		
	TOTAL	RELATED PARTIES	% SHARE	TOTAL	RELATED PARTIES	% SHARE
Revenue from sales and services	2,534.5	1,766.9	69.7%	2,377.5	1,685.3	70.9%
Other revenue and income	71.8	1.6	2.2%	112.9	1.5	1.3%
Raw and consumable materials used	206.4	0.1	0.0%	160.8	1.3	0.8%
Services	218.3	11.0	5.0%	189.1	12.6	6.7%
Personnel expenses	295.3	3.5	1.2%	287.0	3.1	1.1%
Other operating costs	31.5	0.1	0.3%	42.5	0.2	0.5%
Financial expenses	(95.8)	-	-	(91.7)	-	-

The impact of related party cash flows is shown below:

STATEMENT OF CASH FLOWS

(€m)

	2021			2020		
	TOTAL	RELATED PARTIES	% SHARE	TOTAL	RELATED PARTIES	% SHARE
Cash flow from operating activities	832.3	(89.6)	(10.8%)	941.4	183.4	19.5%
Cash flow from investing activities	(863.3)	(5.9)	0.7%	(1,389.6)	(9.1)	0.7%
Cash flow from financing activities	(1,051.8)	-	-	2,079.8	-	-

H. Significant non-recurring, atypical or unusual events and transactions

With the exception of the instances described above, no significant non-recurring, atypical or unusual events or transactions, involving either third or related parties, took place in 2021.

I. Notes to the statement of cash flows

Cash flow from **continuing operations** amounts to €832.3 million, with approximately €1,896.3 million in operating cash flow and an outflow of approximately €1,064.0 million generated by changes in net working capital.

The cash outflow for **investing activities** totals €863.3 million and regards €1,344.2 million relating to investment in property, plant and equipment (excluding right-of-use assets recognised in application of IFRS 16), €130.8 million invested in intangible assets and €31.6 million for the consideration paid during the year for the above-described newly acquired companies, after €600.0 million in Italian government securities reaching maturity and capitalised financial expenses of €10.8 million.
The net cash outflow for shareholder transactions amounts to €571.0 million, due primarily to payment of the final dividend for 2020 and the interim dividend for 2021 to the Parent Company's shareholders (totalling €546.7 million) and the change in equity attributable to non-controlling interests (down €16.3 million), with more details provided in note "24. Equity attributable to owners of the Parent and non-controlling interests".

As a result, net cash used in investing activities and to provide a return on equity during the year led to a total outflow of €1,434.3 million, mostly covered by cash flow from continuing operations of €832.3 million. The remainder was funded through net debt, which over the course of the year rose €991.7 million compared with the previous year (including assets held for sale).

The following table shows the reconciliation of net changes deriving from financing activities in the statement of cash flows:

(€m)

	31 DECEMBER 2020	CASH FLOW FROM FINANCING ACTIVITIES	CHANGE IN FV AND OTHER	31 DECEMBER 2021
- Long-term borrowings (including current portion)	11,248.2	(437.9)	(115.3)	10,695.0
- Short-term borrowings	1,002.2	(42.9)	987.7	1,947.0
Net change deriving from financing activities	**12,250.4**	**(480.8)**	**872.4**	**12,642.0**

L. Government grants

Article 1, paragraphs 125 to 129, of Law 124 of 4 August 2017 (the annual markets and competition law) has introduced a number of measures designed to ensure the transparency of the government grants system. These measures, later amended by Law Decree 34 of 30 April 2019, include an obligation for companies to disclose amounts and information regarding assistance, subsidies, benefits, grants or aid, whether in cash or in kind, in the notes to the annual financial statements and, where applicable, in consolidated financial statements, where such amounts are not of a general nature and do not have the form of a fee, remuneration or compensation and have been received from a public body (paragraph 125-bis). The legislation also requires the disclosure of any grants disbursed (paragraph 126).

In accordance with Circular 5 of 22 February 2019 "Transparency in the government grants system: an assessment of the regulations and interpretation guidance" and Circular 32 of 23 December 2019 "Enterprise and competition", published by Assonime, the Terna Group has adopted the following basis of reporting for government grants:

- the regulations only apply to entities resident in Italy;
- grants have the nature of grants or donations, and represent incentives or subsidies designed to give beneficiaries a recognised economic advantage; the grants therefore take the form of donations or giving and public aid for specific purposes, and are not awarded under a general aid regime;
- the public resources used are exclusively "national";
- grants are reported on a cash basis and if the amount is not less than €10,000 (with reference to each individual beneficiary) in the reporting period.

In line with the above, the following table shows government grants collected/disbursed by the Group in 2021:

GRANTS RECEIVED (PARAGRAPH 125-*BIS*)

	GRANTOR				
BENEFICIARY ENTITY	NAME	VAT NUMBER	TYPE OF TRANSACTION	AMOUNT (€)	NOTE
TERNA SPA	Ministry for Economic Development	80230390587	State aid*	**22,902,682.76**	Grants collected on the basis of a report on the state of work in progress on projects carried out by Terna S.p.A. financed by government grants, with funding provided under the National Operational Programme (NOP) for Enterprises and Competitiveness 2014 - 2020 FESR - ASSE IV – Investment priority 4d - Action 4.3.1
TERNA SPA	Sicily Regional Authority	02711070827	State aid*	**8,823,237.48**	Grants collected on the basis of a report on the state of work in progress on projects carried out by Terna S.p.A. financed by government grants, with funding provided under the National Operational Programme (NOP) for Enterprises and Competitiveness in Sicily 2014 - 2020 – AXIS IV – Investment priority 4d - Action 4.3.1
Total				**31,725,920.24**	

** These grants are covered by the obligation to publish them in the national state aid register.*

GRANTS DISBURSED (PARAGRAPH 126)

	BENEFICIARY				
GRANTOR	NAME	VAT NUMBER	TYPE OF TRANSACTION	AMOUNT (€)	NOTE
TERNA SPA	Intercultura non-profit foundation	IT91016300526	GIVING	45,000	Educational programme on internationalism for young students in 2022/2023
TERNA SPA	FONDAZIONE CAMPAGNA AMICA	IT10569111007	DONATION	25,000	Donation to families in need – Christmas 2021
TERNA SPA	SUSAN G. KOMEN ITALIA non-profit organisation	IT06073831007	GIVING	20,000	*Carovana della Prevenzione in Azienda* – Third cancer prevention day
TERNA SPA	Save the Children Italia non-profit organisation	IT07354071008	GIVING	20,000	"Let's rewrite the future" project
TERNA SPA	Abruzzo Regional Council	IT80003630664	GIVING	15,000	Restoration of the Dannunziana pine forest
TERNA SPA	SUSAN G. KOMEN ITALIA non-profit organisation	IT06073831007	GIVING	15,000	*Carovana della Prevenzione in Azienda* (second edition 2021)
TERNA SPA	SUSAN G. KOMEN ITALIA non-profit organisation	IT06073831007	GIVING	13,000	*Carovana della Prevenzione in Azienda*
TERNA SPA	CATTOLICA SACRO CUORE UNIVERSITY	IT02133120150	GIVING	10,000	Support for the university's scientific and research activities
TERNA SPA	Chiaramonte Gulfi town council	IT00068940881	GIVING	10,000	Support for recreation initiatives in *Chiaramonte Gulfi*
Total				**173,000**	

M. Events after 31 December 2021

Seven new monitoring devices installed on approximately 16 km of power lines in the Marche region

As part of the plan to digitalise its assets, on **2 January 2022**, Terna completed **the installation in the Marche Region of seven IoT-based sensor devices** designed and developed by Terna to create a true digital replica of its power lines (a digital twin). The sensors — already present in other Italian regions such as Abruzzo, Veneto and Sicily — were installed in the province of Ascoli Piceno, the first of the five provinces of the region involved in the work aimed at guaranteeing the widest and most detailed monitoring of the region's power grid. The high-tech equipment installed will allow approximately 16 km of overhead power lines to be monitored remotely. These lines are subjected to severe weather, including ice and snow, and as these conditions are increasingly frequent in Italy, projects like this ensure further improvements to the grid's reliability. The data thus collected will also make it possible to develop predictive maintenance techniques to further reduce line failures.

Consents process begins for reorganisation of the electricity grid in Val Formazza in the province of Verbano–Cusio-Ossola

Following **the launch, by the Ministry for the Ecological Transition, of the consents process for the planned reorganisation of the electricity grid in Val Formazza**, concerning the municipalities of Formazza, Premia, Crodo, Montecrestese, Crevoladossola, Masera and Baceno in the province of Verbano-Cusio-Ossola, on **4 January 2022**, Terna published the notice identifying the parcels of land potentially affected by the project. The project, in which the Company will invest €120 million, involves the demolition of approximately 60 km of existing high-voltage overhead power lines, including a total of 225 pylons, to be carried out on the completion of 76 km of new overhead power lines and 10 km of underground cable. The work will boost the efficiency of the area's energy transmission service and, as a result of the reorganisation of the existing grid, will make it possible to reduce the impact on the landscape of power lines dating back to the 1940s and 1950s that cross highly built-up areas.

Reorganisation of Teramo-Pescara electricity grid given green light

On **7 January 2022, the decree authorising the reorganisation of the 150kV electricity grid in the Teramo-Pescara area**, affecting a total of 4 municipalities in the provinces of Pescara (Pescara, Montesilvano, Città Sant'Angelo and Spoltore), **was signed by the Ministry for the Ecological Transition**. The project, which will cost over €28 million, involving over 14 km of underground cable and 1.5 km of overhead power lines, will guarantee greater resilience of the electricity grid and higher quality and safety of the service. In particular, by making the 132kV Adriatic backbone more efficient, it will be possible to create a new structure that will power the city of Pescara, meeting the growing needs resulting from the area's social and industrial development. The project will also bring important benefits to the environment because it will be possible to demolish 12 km of old overhead power lines and about 30 pylons, as well as resulting in the decommissioning of 4 km of underground power lines, thus releasing about 40 hectares of land occupied by existing grid infrastructure.

Green light for new underground cable between Veneto and Emilia-Romagna regions

On **12 January 2022, the Ministry for the Ecological Transition authorised the new power line Terna plans to build between Adria Sud substation in Veneto and the Ariano primary substation in Emilia-Romagna**. The 18-km power line will be completely underground, meaning that it will have a minimal impact on the landscape. It will cross the municipalities of Adria, Taglio di Po, Ariano nel Polesine in the province of Rovigo and Mesola in the province of Ferrara. The overall project will also involve the installation of new components to update the existing Adria Sud substation. Terna will invest €31 million in the project, which will increase the meshing of the local grid and help to overcome current operational limitations, making the energy transmission service more efficient and sustainable in the area bordering the two regions. The cable connection will have XLPE insulation, an advanced technology that requires little maintenance. Work on the detailed design and all the preparations for the project will begin in the coming months.

Green light for new underground power line between Roccaraso and Rivisondoli in the province of L'Aquila

On **13 January 2022, the Ministry for the Ecological Transition authorised the project that will involve the construction a new 150kV power line, almost completely in underground cable, between the "Sant'Angelo - Cocullo Brulli" power line and the Roccaraso primary substation in the municipalities of Roccaraso and Rivisondoli**. The new infrastructure, located at an altitude of 1,200 metres, is in the province of L'Aquila. Terna will invest over €10 million for the new connection, which will be approximately 9 km long, with only 200 meters of overhead power lines and the rest underground cable. The project has been planned taking into consideration a series of social, environmental and territorial indicators, making it possible to assess the impact of electricity infrastructure in the area in question. Completion of the project will ensure greater reliability of the grid in an area with high volumes of tourism.

Consents obtained for 37 grid development projects in 2021, amounting to investment of more than €1 billion

On **19 January 2022**, the Company announced that **37 new grid development projects to be carried out by Terna, at a total cost of over €1 billion, had been authorised by the Ministry for the Ecological Transition and regional authorities in 2021**. This marks an unprecedented achievement in Terna's history, confirming our key role as driver and enabler of the energy transition aimed at reaching national and European climate targets. The 2021 figure, achieved thanks to constant collaboration and dialogue between the Company led by Stefano Antonio Donnarumma and the Italian Ministry for the Ecological Transition, reflects a major acceleration of investment that almost quadrupled compared with 2020, when 23 projects, with a total value of €266 million, were authorised. Eight of the authorisation decrees issued regard Sicily and account for almost half of the total value of the investments, including the most economically significant project relating to the construction of the 172-km long "Chiaramonte Gulfi-Ciminna" power line. In terms of investment value, this project is followed by the reorganisation of the electricity grid between Malcontenta and Fusina in the province of Venice, the new submarine link that will connect the island of Elba to the municipality of Piombino in the province of Livorno, and the reorganisation of the electricity grid in Bologna.

Terna organises two digital events to present the new Laion-Corvara cable connection in the province of Bolzano

On **19 and 20 January 2022, Terna organised two meetings to present the new cable connection between Laion and Corvara** to citizens of the towns of Laion, Ortisei, Castelrotto, Santa Cristina Val Gardena, Selva Val Gardena and Corvara in Badia in the self-governing province of Bolzano. The two online events, which started at 5.00pm on the Teams platform, in compliance with the precautions dictated by the pandemic, provided an opportunity to expand on the details of the new project and for everyone taking part to ask general interest questions related to the new infrastructure and put suggestions and observations to the technicians from Terna that also took part.

Green light for new cable connections in the municipality of Caselle Torinese in the province of Turin

On **21 January 2022, the Ministry for the Ecological Transition authorised the project to be carried out by Terna in the municipality of Caselle Torinese in the metropolitan city of Turin**. The project involves the construction of two new 132kV underground power lines. With an investment of €4.4 million, Terna will provide for the construction of two underground connections that will be 3.2 km long. The project will make it possible to connect the new "Caselle" primary substation, belonging to the local distributor, to the existing 132kV Ciriè - Venaria power line, improving the quality and efficiency of the local grid, also in light of future commercial development and services in the area adjacent to Caselle Torinese airport. The new underground power lines will have XLPE insulation, an advanced technology that requires little maintenance. The detailed design and all the preparations for this project will start in the coming months. Work, which is expected to start in 2023, will be carried out with all involved parties and will last approximately 12 months, employing 4 companies and 20 operators.

Terna to invest a further €300 million in developing the electricity grid in the Alto Adige area

On **24 January 2022, Terna announced that it would invest €300 million in developing the electricity grid in the Alto Adige**. Terna presented a restructuring plan for the Val d'Isarco in the province of Bolzano, the consents process for which was launched by the Italian Ministry for the Ecological Transition in December 2021. The works planned by the Company led by Stefano Antonio Donnarumma will lead to improvements to the efficiency and sustainability of the regional electricity grid. They will also strengthen the electricity supply to the railway line along the Brenner route, thanks in part to the construction of 190 km of new power lines, over one-third of which will be 'invisible' because they are underground. Terna's operations will enable the demolition of around 260 km of overhead power lines and 900 pylons, freeing up over 600 hectares of land in total with benefits for the environment and for local communities.

Terna: new Director co-opted on to the Board

On **26 January 2022, a meeting of the Board of Directors of Terna - Rete Elettrica Nazionale S.p.A.** ("Terna" or the "Company"), chaired by Valentina Bosetti, **co-opted Qinjing Shen as a non-executive, non-independent Director, subject to the opinion of the Nominations Committee and approval from the Board of Statutory Auditors.** The appointment follows the resignation of Mr Yunpeng He, occurred in the early days of January due to other professional commitments, following his election by the Annual General Meeting of 18 May 2020 from the slate proposed by the shareholder CDP Reti S.p.A.. With the appointment of Qinjing Shen, currently a director of DP Reti S.p.A., the Board of Directors of Terna S.p.A. has accepted the recommendation made by the shareholder CDP Reti S.p.A., which submitted the related candidacy for independent evaluation in a letter dated 13 January 2022. The new Director has accepted the appointment and will remain in office until the next General Meeting. He does not meet the independence requirements pursuant to the law, art. 15.4 of Terna's Articles of Association or its Corporate Governance Code. His profile is in line with the diversity policies adopted by Terna S.p.A. The Company wished to specify that, to the best of its knowledge, the newly elected Director Qinjing Shen did not hold shares in Terna S.p.A..

Terna included in the Gender Equality Index (GEI) for fourth year running

On **26 January 2022, Terna was included for the fourth year running in the Bloomberg Gender Equality Index**, an international index of companies' performances regarding gender equality issues and the quality and transparency of their public reporting. The Company led by Stefano Antonio Donnarumma is one of only 20 Italian companies, out of 418 global businesses operating across 45 countries and in 11 different sectors, to be included in the final index in 2022. This year, Terna improved its GEI score compared with 2021, with a score that was above both the overall average for companies included in the index and the subset of companies in the Utilities sector. Terna distinguished itself for its excellence with regard to "Equal Pay and Gender Pay Parity" and "Inclusive Culture". As regards "Disclosure", a decisive aspect in terms of the overall score, the Company was given full marks in recognition of Terna's commitment to transparent and quality reporting, which are key elements in the ESG policies adopted by the Company.

Terna holds information event for local people to present the “Acquara - Porto Potenza Picena” project in the province of Macerata

Terna organised an information event on 27 January 2022 to present the new Acquara - Porto Potenza Picena power line. The project will take place in the towns of Civitanova Marche, Potenza Picena and Recanati, all in the province of Macerata. The open day, at which the Company’s technicians were present to explain the planned works, took place in Recanati in the atrium of the town hall, with extended hours from 4.00pm to 8.00pm, in order to allow for the participation of citizens and to ensure compliance with the distancing and the necessary anti-Covid safety measures. This event is another example of the highly productive participatory planning, undertaken by Terna, together with local authorities and the municipalities of Civitanova Marche, Potenza Picena and Recanati, with the aim of defining the best solutions for implementing a strategic project for the whole area. The connection, in which Terna will invest a total of over €13 million, is part of a series of works aimed at upgrading the Adriatic backbone to 132kV, provides for an underground cable power line over 11 km long that will run between the Chiarino area and the Porto Potenza Picena primarily substation.

Successful issue of first hybrid green bond worth €1 billion

On **2 February 2022**, Terna successfully launched the Company’s **first hybrid green bond with a nominal value of 1 billion euros**, the issue of which was authorized by the Board of Directors on January 18, 2022. The non-convertible, perpetual, subordinated green bonds are non-callable for six years and will pay coupon interest of 2.375% until 9 February 2028, the first reset date. After this date, the bonds will pay annual interest equal to the 5-year Euro Mid-Swap rate plus a spread of 212.1 basis points. This was increased by a further spread of 25 basis points from 9 February 2033 and by an additional 75 basis points from 9 February 2048. The issue, aimed at institutional investors, saw extremely high demand, with applications topping €4 billion and the issue being four times oversubscribed. The high quality of the hybrid bonds and the wide geographical diversification of investors mean that the issue was assigned ratings of “BBB-” by Standard and Poor’s, “Ba1” by Moody’s and “BBB” by Scope.

Terna renews Company fleet with 220 new electric vehicles

On **8 February 2022, Terna announced that it was to renew its fleet of vehicles** to make it more efficient and eco-friendly: the fleet will contain over a thousand vehicles available to the national transmission grid operator, including 220 electric vehicles that will replace traditional fossil fuel vehicles. The Company led by Stefano Antonio Donnarumma has completed a European tender process for operational vehicles launched in recent months with the aim of renewing its fleet of vehicles through the long-term lease of cars, vans and off-road vehicles. The increase in investment, carried out by Terna to enable the energy transition and give an important boost to the country’s economic recovery, has resulted in a significant increase in construction sites and, consequently, the need to meet new operational requirements. All the Company’s offices throughout the country were involved in establishing the technical profile for the most suitable vehicles for individual teams working on power lines and at substations to ensure an increasingly reliable and efficient grid.

Terna included in S&P Gender Equality & Inclusion Index

On **11 February 2022, Terna was included in the Standard & Poor's Gender Equality & Inclusion Index**, the new international index launched in August 2021 that ranks the performance of listed companies in terms of gender equality and inclusion. The S&P Gender Equality & Inclusion Index lists the top 100 companies globally with the highest S&P Global Gender Diversity Score, calculated based on performance in certain key areas of the S&P Global CSA (Corporate Sustainability Assessment). Terna is among the five Italian companies listed on this new international index. The company led by Stefano Antonio Donnarumma recorded excellent results in the analysis of its "Board Diversity Policy" and "Board Gender Policy", both of which concern the management of diversity within the Board of Directors. Furthermore, Terna performed strongly in the categories "Workforce Gender Breakdown", which measures the number of women in the company, and "Gender Pay Indicators", regarding equal pay.

Work begins on reorganisation of the electricity grid in Catania

On **16 February 2022, Terna initiated work on the planned reorganisation and modernisation of the electricity grid serving the metropolitan city of Catania**, with the aim of boosting efficiency and sustainability in return for investment of more than €50 million. The project, included in the 2021 Development Plan and of strategic importance for the region's infrastructure assets, will involve the installation of six new underground cables over a distance of over 25 km, and the subsequent demolition of three overhead lines in densely populated urban areas across a total area of approximately 30 km and involving the removal of over 120 pylons. The demolitions, which will free up more than 20 hectares of land, will begin in the spring. The connections will be equipped with remote and real-time monitoring systems to prevent outages, thanks to the installation of sensors to collect and then process information. Of the new underground cables, several are awaiting consent, whereas works are currently under way on the 3.1 km "Catania East PC – Catania North PC" power line, which will be completed within the year. Works will continue on the connections "Catania East PC – Villa Bellini PC" and "San Giovanni Galermo PC – San Giovanni La Punta PC – Acicastello PC".

Terna completes aerial inspection of electricity grid in Basilicata

On **17 February 2022, Terna completed the process of monitoring overhead power lines in Basilicata**. In just seven days, approximately 1,300 km of power line were inspected, including a total of seventy-one 60kV, 150kV, 220kV and 380kV lines. The activities were coordinated by the Asset Management department of Terna and were carried out by operational teams from its Southern department using the Ecureil AS350 helicopter owned by the Group. Terna's technicians conducted a comprehensive analysis of the regional grid in both provinces in the Basilicata region, checking for any defects on the conductors and pylons to ensure that the service is operating at full capacity. Overall, by the end of March the Company led by Stefano Antonio Donnarumma will inspect 6,100 km of overhead power line in the Southern area, which in addition to Basilicata includes Apulia, Campania and Calabria.

Terna completes aerial inspection of electricity grid in Calabria

On **17 February 2022, Terna completed the process of monitoring overhead power lines in Calabria**. In just six days, approximately 1,280 km of power line were inspected, including a total of sixty-seven 60kV, 150kV, 220kV and 380kV lines. The activities were coordinated by the Asset Management department of Terna and were carried out by operational teams from its Southern department using the Ecureil AS350 helicopter owned by the Group. Terna's technicians conducted a comprehensive analysis of the regional grid in all five provinces in Calabria, checking for any defects on the conductors and pylons to ensure that the service is operating at full capacity. Overall, by the end of March the Company led by Stefano Antonio Donnarumma will inspect 6,100 km of overhead power line in the Southern area, which in addition to Calabria includes Basilicata, Puglia and Campania.

Work starts on the new Pettino - Torrione power line (AQ)

On **21 February 2022, work began on construction of the new 150kV underground cable between Pettino and Torrione (AQ)**, which should be completed and enter service at the beginning of 2024. The new connection, in which Terna will invest approximately €7 million, will be approximately 6 km in length and will enable the demolition of around 5 km of old power lines and 18 pylons, freeing up over 10 hectares of land, some of which in the centre of L'Aquila. The project will provide important benefits, making electricity supply in the L'Aquila area more reliable and efficient, in addition to contributing to the collection of renewable energy production in Abruzzo and Lazio.

Work starts on the new “Colunga-Calenzano” power line

On **21 February 2022, Terna began work on construction of the new ‘Colunga-Calenzano’ power line** linking Emilia-Romagna and Tuscany. The Company led by Stefano Antonio Donnarumma will build what will be strategic infrastructure for the entire national grid, investing €170 million in the project. With a length of 84 km between the provinces of Bologna and Florence, the new infrastructure will significantly improve exchange capacity between areas in northern and north-central Italy, strengthening the meshing and increasing the efficiency and sustainability of the electricity grid. This is one of the main and most important development projects included in Terna's ‘Driving Energy’ Industrial Plan.

Terna organises a digital event to present planned reorganisation of electricity grid serving Brianza West

On **22 February 2022, an interactive online event was held to present to local people the planned reorganisation of the 380kV Brianza West grid** in the municipalities of Seveso, Barlassina, Cesano Maderno, Cogliate and Ceriano Laghetto in the province of Monza Brianza. The Company led by Stefano Antonio Donnarumma will invest over €100 million in this project. The online meeting was held between 6.00 and 7.30 in the evening using Teams. The meeting included a session during which participants could ask questions to Terna's technicians to clarify points and receive more detailed information about the works, representing an opportunity for the Company to gather feedback and suggestions. The project to rationalise the electricity grid will improve the efficiency of the energy transmission service in the region by increasing the meshing of the local grid. The work will involve the installation of 12.6 km of underground cable, enabling the demolition of 6.6 km of existing high-voltage overhead power lines located predominantly in densely populated areas in the municipalities of Seveso and Cesano Maderno.

Virtual information event held prior to start of work at Calenzano

On **23 February 2022, a successful virtual meeting was organised by Terna to inform people in Calenzano of the start-up of work in the local area**. The work involves construction of the new Colunga (BO) – Calenzano (FI) power line between Tuscany and Emilia-Romagna. The project, one of the most important in the “Driving Energy” Industrial Plan, and in which Terna will invest approximately €170 million, will involve the construction of 84 km of new power line and the demolition of around 106 km of old overhead lines, affecting 12 municipalities in total, of which 9 in the province of Bologna (Castenaso, San Lazzaro di Savena, Ozzano dell’Emilia, Pianoro, Monterenzio, Monghidoro, San Benedetto Val di Sambro, Castiglione dei Pepoli and Loiano) and 3 in the province of Florence (Firenzuola, Barberino di Mugello and Calenzano).

Terna agrees ESG-linked credit facility worth €300 million

On **28 February 2022**, Terna agreed a **bilateral ESG-linked Term Loan amounting to €300 million** with Intesa Sanpaolo’s IMI Corporate & Investment Banking division, acting as Original Lender and Sustainability Coordinator. The credit facility has a 2-year term, with the interest rate linked to Terna’s ESG performance. The transaction provides Terna with a level of liquidity appropriate to its current rating and confirms the Group’s strong commitment to introducing a model that increasingly reinforces the role of sustainability as a strategic driver of value creation for all our stakeholders.

Energy, Musumeci meets Terna’s CEO: synergies for development and sustainability

On **28 February 2022, Terna’s Chief Executive Officer, Stefano Antonio Donnarumma, met the President of the Sicily region, Nello Musumeci, at the regional authority’s headquarters in Catania**. The meeting was also attended by the regional councillor responsible for energy policy, Daniela Baglieri. The issues discussed included Sicily’s role in the country’s current energy transition, investment of €3.5 billion in electricity infrastructure over the next ten years, the sharing of information for use in the integration of renewable energy, the electrification of the smaller islands and high-quality technological training.

Monitoring of 1,690 km of overhead power line in Campania completed

On **2 March 2022, Terna completed the process of monitoring overhead power lines in Campania**. In just nine days, approximately 1,690 km of power line were inspected, including a total of one hundred and seven 70kV, 150kV, 220kV and 380kV lines. The activities were coordinated by the Asset Management department of Terna and were carried out by operational teams from its Southern department using the Ecureil AS350 helicopter owned by the Group. Terna’s technicians conducted a comprehensive analysis of the regional grid in the five provinces in Campania, checking for any defects on the conductors and pylons to ensure that the service is operating at full capacity. Overall, by the end of March the Company led by Stefano Antonio Donnarumma will inspect 6,100 km of overhead power line in the Southern area, which in addition to Campania includes Basilicata, Apulia and Calabria.

Consents process for electricity grid between Enna and Catania begins

On **7 March 2022, Terna began the process of obtaining consent from the Sicilian Regional Authority for construction of a new substation and two 150kV power lines in the provinces of Enna and Catania**. At the same time, Terna published the list of parcels of land affected by the works: four municipalities in Catania (Ramacca, Raddusa, Paternò and Castel di Iudica) and three in the province of Enna (Regalbuto, Agira and Assoro). Construction of the new infrastructure, in which Terna will invest over €20 million, is linked to the request by RFI (the Italian rail network operator) to connect the Regalbuto substation to the national transmission grid to upgrade the Palermo-Catania railway line. The work to be carried out by Terna will cut journey times on the "Catenanuova-Raddusa-Agira" section of the railway. The new substation will be constructed in the municipality of Regalbuto and will occupy an area of approximately 8,000 square metres. Two new 150kV overhead power lines will begin at the new substation: the 15-km "PC Assoro - ES Regalbuto" line and the 22-km "ES Regalbuto - ES Sferro" line. The work is subject to the outcome of an environmental impact assessment being conducted by Italy's Ministry for the Ecological Transition.

Terna continues work on modernisation of Naples electricity grid

On **9 March 2022, Terna began work on replacing the 5-km long underground power line connecting the "Naples Centre" primary substation with the "Doganella" primarily substation**. The work, which will last about 18 months, consists of replacing the existing liquid oil cable with a XLPE-coated cable, a more efficient, safer technology that requires less maintenance. The construction sites, which will involve three of the city's districts (I, II and IV), will begin at Parco della Marinella before moving on to Via Cristoforo Colombo and Via Nuova Marina. Terna has agreed a plan of work with the City Council with the aim of keeping traffic moving as much as possible and reducing traffic restrictions on the sections of road involved. Once the work has been completed, Terna will adopt mitigation measures to reduce the impact on the area and ensure that the infrastructure is well integrated into the landscape. The Company will also restore the road surfaces.

Information event to present planned reorganisation of the electricity grid in Val Formazza in the province of Verbano–Cusio-Ossola

On **10 March 2022, Terna organised an information day for local people in the towns of Formazza, Premia, Crodo, Montecrestese, Crevoladossola, Masera and Baceno** (in the province of Verbano-Cusio-Ossola) which are to be affected by the reorganization of electricity grid in Val Formazza. From 10 in the morning to 12.30pm and from 3.30pm until 8 in the evening, Terna's technicians were at the Foro Boario in Crodo to provide details of the plans for reorganization of the local grid, for which the process of obtaining consent from the Ministry for the Ecological Transition began in January of this year. The meeting, which reflects the Company's efforts to enter into dialogue with local communities, was also an opportunity to gather suggestions and feedback from local people.

Terna signs Memorandum of Understanding for modernisation of electricity grid in Rome

On **10 March 2022**, the President of the Lazio region, Nicola Zingaretti, the Mayor of Rome, Roberto Gualtieri, and Terna's Chief Executive Officer, Stefano Antonio Donnarumma, signed a **Memorandum of Understanding** at the Terna Auditorium. The document regards the establishment of a partnership between the three parties aimed at developing infrastructure to further increase the efficiency, sustainability and safety of the capital's electricity system. The agreement concerns major work on the high-voltage grid in Rome, involving replacement of the entire 150kV underground power line between the "Laurentina" and "Flaminia" primary substations via the "Ostiense", "Villa Borghese" and "Nomentana" primary substations. **The work will involve four "invisible" connections extending for a total of around 25 km**

and will involve investment of over €60 million. Some of the new cables, which are more technologically advanced than their predecessors, will be installed alongside the existing lines, while others will be laid along new routes. According to the terms of the agreement - valid for five years from the date of signature - a permanent technical working group is to be established to agree on timetables and working methods, with the aim of limiting disruption to traffic and taking a collaborative approach to resolving any issues.

Monitoring of overhead power lines in Sardinia completed

On **11 March 2022, the process of monitoring overhead power lines in Sardinia was completed**. In just eight days, a total of approximately 2,300 km of power line were inspected, including a total of eighty-nine 70kV, 150kV, 220kV and 380kV lines. The activities were coordinated by the Asset Management department of Terna and were carried out by operational teams from its Southern department using the Ecureil AS350 helicopter owned by the Group. Terna's technicians conducted a comprehensive analysis of the regional grid, checking for any defects on the conductors and pylons to ensure that the service is operating at full capacity.

Work on installation of the synchronous compensator at Suvereto begins

On **14 March 2022**, work began on **installation of the synchronous compensator for the Suvereto substation** in the province of Livorno. The new device is a key tool in improving the security of the grid, supporting inertia, voltage regulation and short-circuit power on grid nodes.

Two hectares of land transferred to the Municipality of Capri free of charge

On **16 March 2022, Terna transferred eleven plots of land adjacent to the new electrical substation free of charge to the Municipality of Capri. The plots amount to a total of more than 18,000 square metres, almost two hectares or five acres of land**. The land was purchased by the Company for construction of the island's new electricity substation, inaugurated in October 2020, with a commitment to transfer any areas not strictly necessary for operation of the substation once the work had finished. The transfer confirms the positive and constant dialogue between the Municipality of Capri and Terna, which is committed to working on a daily basis in synergy and in partnership with local and central government institutions throughout the country.

Conflict in Ukraine: risk assessment and prevention for the Terna Group

The very recent international events involving **Russia** and **Ukraine** are being closely watched by the Terna Group as part of our continuous monitoring of ongoing geopolitical developments and, in particular, the related legislation, above all with regard to international sanctions. This assessment is normally conducted on an ongoing basis to **exclude, mitigate and prevent risks that could have an impact on operations and on the security of the transmission service, our business and on the Terna Group's commercial and financial transactions (the "Activities")**. Given the exceptional nature and size of this global crisis, Terna has moved proactively to set up a specific task forces to monitor any new sanctions and to strengthen our due diligence procedures and ordinary controls, partly in view of the related policies adopted by the Terna Group. Whilst there are obvious concerns about how the crisis might develop and within a scenario marked by significant uncertainty, there is not at this time any evidence of an immediate, concrete impact on the normal conduct of our Activities or on the Group's strategy of combining sustainability with growth. Terna will, however, continue to closely follow any developments that could have currently unforeseeable consequences.

Disclosure

pursuant to art. 149-*duodecies* of the CONSOB Regulations for Issuers

The following table, prepared pursuant to art. 149-*duodecies* of the CONSOB Regulations for Issuers, shows the fees paid for audit and other services provided to the Terna Group by the Parent Company's independent auditors and the network of the Parent Company's independent auditors in 2021.

(€)

	ENTITY PROVIDING SERVICE	FEES DUE FOR THE YEAR
Audit of the accounts and financial statements	Parent Company's auditor	434,836
Attestation and other services[10]	Parent Company's auditor	100,335
Audit of the accounts and financial statements	Network of the Parent Company's auditor	217,139
Total		**752,310**

[10] Attestation and other services include the services linked to the audit of the regulatory accounts the opinion on the distribution of interim dividends, the limited review of the Non-financial Statement, the procedures on green bond report and comfort letters for bonds.

Attestation

of the consolidated financial statements pursuant to art. 81-*ter* of CONSOB Regulation 11971 of 14 May 1999, as amended

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Cap. Soc. 442.198.240 Euro interamente versato

"Terna Group"

1. The undersigned, Stefano Antonio Donnarumma, as Chief Executive Officer, and Agostino Scornajenchi, as Manager responsible for Terna SpA's financial reporting, having also taken account of the provisions of art.154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, attest to:
   - the adequacy with regard to the nature of the Company, and
   - the effective application of the administrative and accounting procedures adopted in preparation of the consolidated financial statements during the year ended 31 December 2021.
2. The administrative and accounting procedures adopted in preparation of the consolidated financial statements for the year ended 31 December 2021 were drawn up, and their adequacy assessed, on the basis of the regulations and methods adopted by Terna SpA in accordance with the Internal Control–Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission. This Commission has established a body of general principles providing a standard for internal control and risk management systems that is generally accepted at international level.
3. We also attest that:

   3.1 the consolidated financial statements for the year ended 31 December 2021:

   a. have been prepared in compliance with the International Financial Reporting Standards endorsed by the European Union through EC Regulation 1606/2002, issued by the European Parliament and by the Council on 19 July 2002 and the statutory requirements implementing the provisions of art. 9 of Legislative Decree 38/2005;

   b. are consistent with the underlying accounting books and records;

   c. provide a true and fair view of the financial position and results of operations of the issuer and the companies included in the scope of consolidation.

   3.2 the Directors' report on operations includes a reliable analysis of the operating and financial performance and situation of the issuer and the companies included in the scope of consolidation, as well as a description of the main risks and uncertainties to which they are exposed.

Rome, 17 March 2022

Chief Executive Officer	Manager responsible for financial reporting
Stefano Antonio Donnarumma	**Agostino Scornajenchi**
(original signed)	*(original signed)*

CERTIFICAZIONI, ACCREDITAMENTI E ATTESTAZIONI SOA

Independent Auditor's Report

pursuant to articles 14 of Legislative Decree 39 of 27 January 2010 and aticle 10 of Regulation (EU) 537/2014 - Consolidated financial statements for the year ended 31 December 2021

Deloitte.

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INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Terna S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Terna group (the "Group"), which comprise the statement of financial position as at 31 December 2021, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Investments for the operation and development of the electricity transmission grid, relevant for the purposes of determining the transmission and dispatching activities charges	
Description of the key audit matter	As of 31 December 2021, the Group accounts in "Property, Plant, and Equipment" and "Intangible Assets", respectively equal to Euro 15.317 million and Euro 400 million, mainly related to investments made for operation and development of the Italian national transmission grid (NTG) for high and extra-high voltage power. Investments made in the financial year relating to these items totalled Euro 1.521 million. The Group operates as a natural monopoly and within a market regulated by the Italian Regulatory Authority for Energy, Networks and Environment (Autorità di Regolazione per Energia Reti e Ambiente, "ARERA"), which defines, among the others, the rules for the remuneration of the transmission and dispatching services. In particular, the regulated revenues for these services are determined annually by ARERA and provide for recognition of a predefined return on the regulatory net invested capital recognized (RAB – Regulated Asset Base), of the relative depreciation and of some operating expenses. The RAB value is determined by ARERA mainly through the revalued historical cost method. We believe that investments for the operation and development of the electricity transmission grid represent a key audit matter for the Group's consolidated financial statements as of 31 December 2021 due to: (i) the relevance of the tangible and intangible assets related to operation and development of the electricity transmission grid compared to the Group's total assets, (ii) the relevance of the investments made during the year, (iii) their impact in determining the fees for the transmission and dispatching services. Notes "13. Property, Plant, and Equipment " and "15. Intangible Assets" of the consolidated financial statements include the disclosure on the investments for the operation and development of the electricity transmission grid.
Audit procedures performed	With reference to investments for the operation and development of the electricity transmission grid, our audit procedures included, among the others, the following: • understand the processes for recognition of such investments in the financial statements; • understand the relevant controls implemented by the Group in relation to these processes and assessment of their operating effectiveness;

- comparative analysis of the items “Property, Plant, and Equipment” and “Intangible Assets”, as well as critical analysis of the composition of investments made during the year related to these items, including the analysis of any unusual item;

- with reference to investments and disposals occurred during the year, selection of a sample of transactions and test of the compliance with the capitalization and disposal criteria provided by accounting standards;

- test, on a sample basis, the accurate start of amortisation and depreciation when the asset is available for use for tangible assets under construction and intangible asstes under development, even through the analysis of their aging;

- test the correct application of the depreciation rate with respect to the asset category and recalculation of the amortisation and depreciation for the year.

Finally, we assessed the adequacy of the disclosure provided in the notes to the consolidated financial statements and its compliance with the accounting standards.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Terna S.p.A. has appointed us on 8 May 2019 as auditors of the Company for the years from 31 December 2020 to 31 December 2028.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion on the compliance with the provisions of the Delegated Regulation (EU) 2019/815

The Directors of Terna S.p.A. are responsible for the application of the provisions of the European Commission Delegated Regulation (EU) 2019/815 with regard to the regulatory technical standards on the specification of the single electronic reporting format (ESEF – European Single Electronic Format) (hereinafter referred to as the "Delegated Regulation") to the consolidated financial statements, to be included in the annual financial report.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 700B in order to express an opinion on the compliance of the consolidated financial statements with the provisions of the Delegated Regulation.

In our opinion, the consolidated financial statements have been prepared in XHTML format and have been marked up, in all material respects, in accordance with the provisions of the Delegated Regulation.

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Terna. S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Terna Group as at 31 December 2021, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Terna Group as at 31 December 2021 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Terna Group as at 31 December 2021 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Terna S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Falcone
Partner

Rome, Italy
7 April 2022

This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.