
ATR5

SEPARATE FINANCIAL STATEMENTS

Contents

Financial statements

Income statement of Terna S.p.A.

(€)

	NOTE	2021	2020
A - REVENUE			
1. Revenue from sales and services	1	2,146,811,627	2,037,100,265
of which: related parties		*1,757,378,433*	*1,713,712,766*
2. Other revenue and income	2	77,270,263	49,508,889
of which: related parties		*31,267,339*	*27,703,214*
Total revenue		**2,224,081,890**	**2,086,609,154**
B – OPERATING COSTS			
1. Raw and consumable materials used	3	5,976,243	2,934,602
of which: related parties		*2*	*87,966*
2. Services	4	411,931,685	395,060,854
of which: related parties		*350,578,841*	*348,096,223*
3. Personnel expenses	5	76,342,716	71,128,754
- gross personnel expenses		*88,448,387*	*76,418,183*
- capitalised personnel expenses		*(12,105,671)*	*(5,289,429)*
of which: related parties		*1,096,829*	*909,882*
4. Amortisation, depreciation and impairment losses	6	585,810,876	571,171,050
5. Other operating costs	7	23,028,603	30,520,691
of which: related parties		*68,501*	*198,961*
Total costs		**1,103,090,123**	**1,070,815,951**
A-B OPERATING PROFIT/(LOSS)		**1,120,991,767**	**1,015,793,203**
C – FINANCIAL INCOME/(EXPENSES)			
1. Financial income	8	14,360,043	29,339,820
of which: related parties		*436,302*	*19,933,688*
2. Financial expenses	8	(92,772,644)	(86,633,507)
of which: related parties		*(20,867)*	*(32,604)*
D – PROFIT/(LOSS) BEFORE TAX		**1,042,579,166**	**958,499,516**
E – INCOME TAX EXPENSE	9	**297,665,547**	**269,339,403**
F – PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**744,913,619**	**689,160,113**
G - PROFIT/(LOSS) FOR THE YEAR FROM ASSETS HELD FOR SALE	10	**(9,665,093)**	**(1,588,847)**
H – PROFIT FOR THE YEAR		**735,248,526**	**687,571,266**

Statement of comprehensive income of Terna S.p.A.*

(€)

	NOTE	2021	2020
PROFIT FOR THE YEAR		**735,248,526**	**687,571,266**
Other comprehensive income for the year reclassifiable to profit or loss			
- Cash flow hedge	21	74,275,418	(77,891,323)
- Financial assets at fair value through other comprehensive income	21	(2,974,000)	2,445,211
- Cost of hedges	21	350,773	13,705,891
Other comprehensive income for the year not reclassifiable to profit or loss			
- Actuarial gains/(losses) on provisions for employee benefits	21	825,777	(405,488)
Total other comprehensive income		**72,477,968**	**(62,145,709)**
COMPREHENSIVE INCOME FOR THE YEAR		**807,726,494**	**625,425,557**

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

Statement of financial position of Terna S.p.A.

(€)

	NOTE	31 DECEMBER 2021	31 DECEMBER 2020
A – NON-CURRENT ASSETS			
1. Property, plant and equipment	11	13,447,430,700	12,755,221,891
of which: related parties		*160,872,604*	*116,552,050*
2. Goodwill	12	190,228,231	190,228,231
3. Intangible assets	13	353,625,748	285,659,821
4. Deferred tax assets	14	109,342,277	109,825,683
5. Non-current financial assets	15	1,415,091,938	1,513,097,841
of which: related parties		-	*22,422,935*
6. Other non-current assets	16	6,361,704	4,918,651
of which: related parties		*1,415,511*	*349,352*
Total non-current assets		**15,522,080,598**	**14,858,952,118**
B – CURRENTS ASSETS			
1. Trade receivables	17	2,633,333,626	1,091,087,665
of which: related parties		*309,176,439*	*263,061,089*
2. Current financial assets	15	980,574,975	621,024,841
3. Cash and cash equivalents	18	1,619,814,640	2,451,843,285
of which: related parties		*137,693,625*	*(58,704,126)*
4. Income tax assets	19	3,454,116	3,220,794
of which: related parties		*26,421,752*	*24,312,747*
5. Other current assets	16	21,018,618	34,894,879
of which: related parties		-	*265,883*
Total current assets		**5,258,195,975**	**4,202,071,464**
C- Assets held for sale	20	**23,044,212**	**-**
TOTAL ASSETS		**20,803,320,785**	**19,061,023,582**

(continued)

(continued) (€)

	NOTE	31 DECEMBER 2021	31 DECEMBER 2020
D – EQUITY			
1. Share capital		442,198,240	442,198,240
2. Other reserves		684,132,325	617,660,889
3. Retained earnings/(accumulated losses)		2,665,343,879	2,518,877,167
4. Interim dividend		(197,381,214)	(182,708,272)
5. Profit for the year		735,248,526	687,571,266
Total equity	**21**	**4,329,541,756**	**4,083,599,290**
E – NON-CURRENT LIABILITIES			
1. Long-term borrowings	22	8,813,900,637	9,630,770,331
2. Employee benefits	23	12,320,918	13,578,290
3. Provisions for risks and charges	24	104,626,447	141,691,759
4. Non-current financial liabilities	22	83,661,191	251,373,591
5. Other non-current liabilities	25	346,621,805	332,823,592
of which: related parties		*27,325,796*	*29,231,349*
Total non-current liabilities		**9,361,130,998**	**10,370,237,563**
F – CURRENT LIABILITIES			
1. Short-term borrowings	22	1,917,570,334	977,134,397
2. Current portion of long-term borrowings	22	1,634,927,207	1,377,753,541
3. Trade payables	26	3,090,931,401	1,884,552,822
of which: related parties		*627,816,091*	*578,009,833*
4. Tax expense	26	33,912,907	-
5. Current financial liabilities	22	45,708,530	89,726,277
6. Other current liabilities	26	389,597,652	278,019,692
of which: related parties		*12,566,139*	*26,158,919*
Total current liabilities		**7,112,648,031**	**4,607,186,729**
TOTAL LIABILITIES AND EQUITY		**20,803,320,785**	**19,061,023,582**

Statement of changes in equity

31 DECEMBER 2020 - 31 DECEMBER 2021
SHARE CAPITAL AND RESERVES OF TERNA SPA

(€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	EQUITY
EQUITY AT 31 DECEMBER 2020	**442.2**	**88.4**	**20.0**	**(215.1)**	**(9.5)**	**733.8**	**2,518.9**	**(182.7)**	**687.6**	**4,083.6**
PROFIT FOR THE YEAR	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**735.2**	**735.2**
OTHER COMPREHENSIVE INCOME:										
- Change in fair value of cash flow hedges	-	-	-	74.3	-	-	-	-	-	74.3
- Financial assets at fair value through other comprehensive income	-	-	-	-	-	(3.0)	-	-	-	(3.0)
- Cost of hedges	-	-	-	0.4	-	-	-	-	-	0.4
- Actuarial gains/(losses) on employee benefits	-	-	-	-	-	0.8	-	-	-	0.8
Total other comprehensive income	**-**	**-**	**-**	**74.7**	**-**	**(2.2)**	**-**	**-**	**-**	**72.5**
COMPREHENSIVE INCOME	**-**	**-**	**-**	**74.7**	**-**	**(2.2)**	**-**	**-**	**735.2**	**807.7**
TRANSACTIONS WITH SHAREHOLDERS:										
- Appropriation of profit for 2020										
- Retained earnings	-	-	-	-	-	-	145.9	-	(145.9)	-
- Dividends	-	-	-	-	-	-	-	182.7	(541.7)	(359.0)
-Interim dividend 2021	-	-	-	-	-	-	-	(197.4)	-	(197.4)
-Purchase of treasury shares	-	-	-	-	(10.0)	-	-	-	-	(10.0)
Total transactions with shareholders	**-**	**-**	**-**	**-**	**(10.0)**	**-**	**145.9**	**(14.7)**	**(687.6)**	**(566.4)**
Share option reserve	-	-	-	-	-	4.0	-	-	-	4.0
Other changes	-	-	-	-	-	-	0.6	-	-	0.6
Total other changes	**-**	**-**	**-**	**-**	**-**	**4.0**	**0.6**	**-**	**-**	**4.6**
EQUITY AT 31 DECEMBER 2021	**442.2**	**88.4**	**20.0**	**(140.4)**	**(19.5)**	**735.6**	**2,665.4**	**(197.4)**	**735.2**	**4,329.5**

31 DECEMBER 2019 - 31 DECEMBER 2020
SHARE CAPITAL AND RESERVES OF TERNA SPA

(€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	EQUITY
EQUITY AT 31 DECEMBER 2019	**442.2**	**88.4**	**20.0**	**(150.9)**	**-**	**730.5**	**2,306.6**	**(169.2)**	**713.5**	**3,981.1**
PROFIT FOR THE YEAR	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**687.6**	**687.6**
OTHER COMPREHENSIVE INCOME:										
- Change in fair value of cash flow hedges	-	-	-	(77.9)	-	-	-	-	-	(77.9)
- Financial assets at fair value through other comprehensive income	-	-	-	-	-	2.5	-	-	-	2.5
- Cost of hedges	-	-	-	13.7	-	-	-	-	-	13.7
- Actuarial gains/(losses) on employee benefits	-	-	-	-	-	(0.4)	-	-	-	(0.4)
Total other comprehensive income	**-**	**-**	**-**	**(64.2)**	**-**	**2.1**	**-**	**-**	**-**	**(62.1)**
COMPREHENSIVE INCOME	**-**	**-**	**-**	**(64.2)**		**2.1**	**-**	**-**	**687.6**	**625.5**
TRANSACTIONS WITH SHAREHOLDERS:										
Appropriation of profit for 2019										
- Retained earnings	-	-	-	-	-	-	212.0	-	(212.0)	-
- Dividends	-	-	-	-	-	-	-	169.2	(501.5)	(332.3)
Interim dividend 2020	-	-	-	-	-	-	-	(182.7)	-	(182.7)
Purchase of treasury shares	-	-	-	-	(9.5)	-	-	-	-	(9.5)
Total transactions with shareholders and other transactions	**-**	**-**	**-**	**-**	**(9.5)**	**-**	**212.0**	**(13.5)**	**(713.5)**	**(524.5)**
Share option reserve	-	-	-	-	-	1.2	-	-	-	1.2
Other changes	-	-	-	-	-	-	0.3	-	-	0.3
Total other changes	**-**	**-**	**-**	**-**	**-**	**1.2**	**0.3**	**-**	**-**	**1.5**
EQUITY AT 31 DECEMBER 2020	**442.2**	**88.4**	**20.0**	**(215.1)**	**(9.5)**	**733.8**	**2,518.9**	**(182.7)**	**687.6**	**4,083.6**

Statement of cash flows

(€m)

	NOTE	2021	2020
PROFIT FOR THE YEAR		**735.2**	**687.6**
ADJUSTED BY:			
Amortisation. depreciation and impairment losses /(reversals of impairment losses) on non-current property, plant and equipment and intangible assets*		589.4	562.6
Accruals to provisions (including provisions for employee benefits) and impairment losses		18.7	39.8
(Gains)/Losses on sale of property, plant and equipment		(12.6)	(5.5)
Financial (income)/expense	8	79.9	54.7
Income tax expense	9	297.7	269.3
Other non-cash movements	21	4.0	1.2
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN NET WORKING CAPITAL		**1,712.3**	**1,609.7**
Increase/(decrease) in provisions (including provisions for employee benefits and taxation)		(56.1)	(66.1)
(Increase)/decrease in trade receivables and other current assets		(1,528.9)	47.7
Increase/(decrease) in trade payables and other current liabilities		1,312.2	(175.1)
Increase/(decrease) in other non-current assets		(10.8)	4.6
Increase/(decrease) in other non-current liabilities		(59.3)	(9.5)
Interest income and other financial income received		51.6	26.4
Dividends collected	8	-	19.5
Interest expense and other financial expenses paid		(209.0)	(195.2)
Income tax paid		(285.5)	(303.1)
CASH FLOW FROM OPERATING ACTIVITIES [A]		**926.5**	**958.9**
of which: related parties		*(211.2)*	*53.0*
Purchase of non-current property, plant and equipment after grants collected	11	(1,206.1)	(1,010.5)
Proceeds from the sale of non-current property, plant and equipment and other movements		(0.1)	10.5
Purchase of non-current intangible assets	13	(128.3)	(92.4)
Intercompany (additions)/sales of property, plant and equipment		0.1	0.9
Capitalised financial expenses		10.8	10.1
(Increase)/decrease in investments		(5.4)	(102.9)
Movements in short- and medium/long-term financial investments		600.0	(121.2)
CASH FLOW FOR INVESTING ACTIVITIES [B]		**(729.0)**	**(1,305.5)**
of which: related parties		*(44.3)*	*(20.6)*
Recognition of the reserve for treasury shares	21	(10.0)	(9.5)
Dividends paid		(546.7)	(517.1)
Movements in short- and medium/long-term financial liabilities (including short-term portion)**		(472.9)	2.605.9
CASH FLOW FROM/(FOR) FINANCING ACTIVITIES [C]		**(1,029.6)**	**2,079.3**
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS [A+B+C]		**(832.1)**	**1,732.7**
Cash and cash equivalents at beginning of year		2,451.9	719.2
Cash and cash equivalents at end of year		1,619.8	2,451.9

* *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.*

Notes

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A., which provides electricity transmission and dispatching services, is a joint-stock company and its registered office is at Viale Egidio Galbani 70, Rome, Italy.
Publication of the separate financial statements was authorised by the Board of Directors on 17 March 2022.
The separate 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.

Compliance with IAS/IFRS

The separate financial statements 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").

The separate financial statements have been prepared on a historical cost basis, with the exception of certain financial instruments, and on a going concern basis.

Basis of presentation

The separate financial statements consist of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the 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 Company's normal operating cycle; current liabilities are those expected to be settled in the Company'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 separate financial statements are accompanied by the Integrated Report for Terna S.p.A. and the Group, which as from financial year 2008 have 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.

The separate financial statements are presented in euros, whilst amounts in statement of changes in equity, statement of cash flows and notes are presented in millions of euros to the first decimal place, unless otherwise stated.
The separate financial statements have been prepared on a historical cost basis, with the exception of certain items that, in accordance with IFRS, are recognised at fair value, as indicated in the measurement criteria for individual items.
Given that the requirements of IFRS 5 have been met, gains and losses for 2021 and 2020 on the investment in the Uruguayan subsidiary involved in the planned sale of assets have been classified in the item "Profit/(Loss) for the year from assets held for sale" in the reclassified income statement. Likewise, the assets attributable to the same subsidiary at 31 December 2021 have been reclassified to the item "Assets held for sale" in the 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

In application of IFRS, preparation of the statement of financial position and the income statement requires the Company 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.
Estimates are based on the information available to management at the date of preparation of the financial statements. 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 key estimates and assumptions used by the Company in applying the IFRS endorsed by the European Commission, and that could have a significant impact on the separate 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 that are largely independent, 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 Company to assess expected credit losses, and the related changes, at each reporting date.
Specifically, the Company 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 Company 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 Company believes to be appropriate (a rate is used gross of taxes, which 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 Company. 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 Company; 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 infrastructure, 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 or *TFR*) were 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 present 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 Company's 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 Covid-19

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.

Assessment of the impact of the Covid-19 pandemic on the presentation and measurement of items in the separate 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 Company has closely monitored the development of the Covid-19 pandemic and its potential impact on individual items in the separate 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 Company 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 Company 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 Company'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.

Loan agreements and leases

The loan agreements and leases to which the Company 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.

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 Company's financial instruments.
The Company'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.

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

In addition, fair value measurement of the financial assets and liabilities held by the Company 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 Company'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 Company's ability to obtain financing, no particular issues linked to the pandemic have been identified, considering that the Company 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 Company 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 Company 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 Company'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 Company. 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, 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company has obtained ESG-linked loans and has issued green bonds. In both cases, the liabilities are linked to sustainability goals and the Company 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 Company 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.

Investments in subsidiaries and associates

Investments in subsidiaries are investments where Terna has the power to directly or indirectly govern the financial and operating policies of the investee so as to obtain benefits from its activities. Associates are investees over which Terna exercises significant influence.
In assessing whether or not Terna has control or significant influence, being the ability to participate in the determination of these companies' financial and operating policies, without having control or joint control, potential voting rights that are exercisable or convertible are also taken into account.
Investments in subsidiaries and associates are recognised at cost, written down in the event of an impairment loss. If the circumstances that gave rise to the impairment cease to exist, the value of the investment is restored to the extent of the impairment loss recognised and the reversal is recognised in the income statement.
In the event that the loss attributable to the Company exceeds the carrying amount of the equity interest, and the Company is required to meet the legal or constructive obligations of the investee or, in any case, to cover its losses, any excess is recognised in a specific provision.

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 Company 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.

Translation of foreign currency items

Terna's financial statements are prepared in euros, the Company's functional currency. In the 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 Company, 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 the depreciation of the asset.
Property, plant and equipment is written off 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%

The estimated useful life of transmission lines has been reviewed to take account of empirical evidence, primarily of physical deterioration and technical obsolescence. This process has resulted in the reasonable conclusion that the expected useful life of transmission lines should be raised to 45 years (from the 40 years previously used). Based on similar considerations, ARERA has conducted its own review of the useful life of the lines for regulatory purposes (see Resolution 654/2015/R/eel).
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 asset class also includes right-of-use assets, recognised under IFRS 16, arising from lease arrangements where the Company is lessee and relating to the use of property, plant and equipment. 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 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 Company 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. 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 the "Cash Generating Unit" ("CGU") identified, relating to the scope represented by Terna S.p.A.'s regulated activities. Goodwill is not amortised after initial recognition but is adjusted to reflect impairment losses, measured as described above. Goodwill relating to investments in associates and joint ventures is included in the carrying amount of those companies. Where negative goodwill arises, it is recognised in the income statement at the time of acquisition.

Financial instruments

Financial assets

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 Company recognises financial assets at fair value inclusive of transaction costs.

Financial assets represented by debt instruments, 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 Company correctly classifies these assets based on the results of co-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 they 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 Company 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.

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 Company'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 Company 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 Company to assess expected credit losses, and the related changes, at each reporting date. Specifically, the Company 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 Company 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 and 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 Company discontinues 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 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.

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 with other long-term employee benefits (loyalty bonuses) 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 Company 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 Company 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 Company'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 Company 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 Company 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 Company 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 Company 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 Company'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.

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 the income statement are also allocated to the income statement.

Discontinued operations and assets held for sale

Where the carrying amount of non-current assets (or disposal groups) is to be recovered primarily through sale rather than through continued use, these items are classified as held for sale and shown separately from other assets and liabilities in the statement of financial position. Non-current assets (or disposal groups) classified as held for sale are initially recognised under the specific IFRS/IAS applicable to each asset and liability and subsequently accounted for at the lower of the carrying amount and fair value less costs to sell. The carrying amounts of each asset and liability not falling within the scope of application of the measurement criteria provided for in IFRS 5, but that are held for sale, are remeasured in accordance with the applicable IFRS before remeasurement of the fair value less costs to sell. Any subsequent impairment losses are recognised directly as an adjustment to non-current assets (or disposal groups) classified as held for sale with a matching entry in profit or loss. The matching amounts for the previous year are not reclassified. A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, represents a major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or, finally, is an investment acquired exclusively with a view to resale.

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 Company is a party to existing loan agreements, hedging derivatives and lease contracts that provide for sole application of 6-month EURIBOR for which no replacement was carried out in 2021, introduction of the new amendment has not had an impact on the Company's 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 Company did not benefit from such reductions in relation to existing leases and adoption of this amendment has not, therefore, had an impact on the Company's 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 Company 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 Company's 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 Terna, 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 income statements

Revenue

1. REVENUE FROM SALES AND SERVICES – 2,146.8 MILLION

(€m)

	2021	2020	CHANGE
Transmission charges billed to grid users	1,891.1	1,795.2	95.9
Back-billing of transmission charges for previous years	1.3	1.7	(0.4)
Quality of service bonuses/(penalties)	11.6	29.4	(17.8)
Other energy-related revenue	160.7	137.8	22.9
Other sales and services	82.1	73.0	9.1
TOTAL	**2,146.8**	**2,037.1**	**109.7**

Transmission charges

This item, amounting to €1,892.4 million, includes revenue from the core business relating to the allowed return due to the Company for use of the National Transmission Grid.

The increase in revenue transmission charges billed to grid users and the related back-billing (up €95.5 million) primarily reflects the increase in the RAB, 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.

[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 energy-related revenue and from services performed under concession

This item regards dispatching and metering revenue (€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).
This item is up €22.9 million compared with the previous year, 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.

Other sales and services

The item, “Other sales and services”, amounting to €82.1 million mainly regards revenue from administrative, support and consultancy services provided to subsidiaries (€22.5 million, including €17.6 million from services rendered to Terna Rete Italia S.p.A.), from connections to the NTG (€5.4 million) and from Non-regulated Activities (€54.2 million), primarily support and housing services for fibre networks (€20.3 million) and progress on construction of the private Italy-Austria interconnector (€22.6 million).
The increase of €9.1 million compared with the previous year is primarily due to increased revenue reflecting the state of progress of work on the private Italy-Austria interconnector (up €6.1 million), from the Connectivity services provided by the Non-regulated business (up €1.0 million), from connections to the NTG (up €1.0 million) and from subsidiaries (up €1.5 million), primarily due to administrative services following changes to the range of activities carried out, as well as other non-recurring items.

Pass-through revenue/expenses

This item regards “pass-through” revenue and expenses (the balance of which amounts to zero). These items result from purchases and sales of electricity from electricity market operators carried out each day. 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 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 Terna passes on to other grid owners.

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

(€m)

	2021	2020	CHANGE
Power Exchange-related revenue items	**6,506.8**	**4,081.5**	**2,425.3**
- Uplift	2,357.9	2,430.8	(72.9)
- 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
- Load Profiling for public lighting	264.6	149.6	115.0
- Charges for right to use transmission capacity and market coupling	438.6	209.0	229.6
- Interconnectors/shippers	70.6	68.2	2.4
- Other Power Exchange-related pass-through revenue items	514.6	200.8	313.8
Total over-the-counter revenue items	**1,910.6**	**1,567.1**	**343.5**
- Coverage of wind farm costs	36.5	24.2	12.3
- Transmission revenue passed on to other NTG owners	156.0	149.2	6.8
- 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	**8,417.4**	**5,648.6**	**2,768.8**
Total Power Exchange-related cost items	**6,506.8**	**4,081.5**	**2,425.3**
- 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
- Load Profiling for public lighting	288.6	176.4	112.2
- Charges for right to use transmission capacity and market coupling	198.5	82.4	116.1
- Interconnectors/Shippers	200.8	216.8	(16.0)
- Other Power Exchange-related pass-through cost items	403.8	203.4	200.4
Total over-the-counter cost items	**1,910.6**	**1,567.1**	**343.5**
- Shortfall in wind production	36.5	24.2	12.3
- Transmission costs passed on to other NTG owners	156.0	149.2	6.8
- 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	**8,417.4**	**5,648.6**	**2,768.8**

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 – €77.3 MILLION

(€m)

	2021	2020	CHANGE
Payment for lease of operations	22.2	22.2	-
Contingent assets	19.0	2.4	16.6
Revenue from IRU contracts for fibre	8.6	1.8	6.8
Sundry grants	8.5	8.1	0.4
Gains on sale of infrastructure components	4.3	3.8	0.5
Rental income	2.8	3.7	(0.9)
Sales to third parties	2.5	2.4	0.1
Insurance proceeds as compensation for damages	1.2	0.7	0.5
Other revenues	8.2	4.4	3.8
TOTAL	**77.3**	**49.5**	**27.8**

The most significant components of "Other revenue and income" primarily regard the revenue received from the subsidiary, Terna Rete Italia S.p.A., as payment for the year made under the agreement for the lease of certain operations (€22.2 million), sundry grants (€8.5 million) in relation to the re-routing of lines for third parties, the sale of IRU contracts for fibre (€8.6 million), gains on the sale of infrastructure components (€4.3 million), in addition to other revenues and contingent assets totalling € 27.2 million, including €7.6 million from subsidiaries for services rendered under existing intercompany contracts.
The increase of €27.8 million primarily reflects increases in revenue resulting from the outcome of the claim for a refund of stamp duty paid on the acquisition of Rete S.r.l. (up €13.4 million), in revenue from Connectivity sales (up €5.3 million, primarily from IRU contracts for fibre) and in revenue from the subsidiary, Terna Rete Italia S.p.A. (up €2.2 million), primarily due to sureties and other non-recurring items.

Operating costs

3. RAW AND CONSUMABLE MATERIALS USED - €6.0 MILLION

This item, amounting to €6.0 million, includes the value of the various materials and supplies, including fuel for the vehicle fleet. This item is up €3.0 million compared with the previous year, broadly due to increased purchases of telecommunications equipment.

4. SERVICES – €411.9 MILLION

(€m)

	2021	2020	CHANGE
Intercompany services, including technical and administrative services	345.4	344.4	1.0
Maintenance and sundry services	40.8	31.4	9.4
Insurance	9.8	8.6	1.2
Lease expense	9.0	7.2	1.8
IT services	3.5	2.3	1.2
Tender costs for plant	3.0	0.9	2.1
Remote transmission and telecommunications	0.4	0.3	0.1
TOTAL	**411.9**	**395.1**	**16.8**

The item, "Intercompany services, including technical and administrative services" regards the accrued costs incurred under specific intercompany contracts (€344.7 million), largely regarding the subsidiary Terna Rete Italia S.p.A., which maintains and operates the infrastructure owned by the Company (€272.1 million), to investment in the development of the Company's transmission and dispatching infrastructure (€39.4 million) and activities and services relating to plant owned by third parties (€15.7 million). This item also includes bonuses relating to the quality of the transmission service attributable to Terna Rete Italia S.p.A. (up €5.7 million).

Fees payable to members of the Board of Statutory Auditors amount to €0.2 million, whilst those payable to members of the Supervisory Board set up in compliance with Legislative Decree 231/2001 amount to €0.1 million.

After the costs recognised in application of IFRIC 12 for the development of dispatching infrastructure (up €14.8 million), the increase in in "Services" is €2.0 million, primarily due to the increase costs incurred on Terna's investments in GRIT and CORESO.

Under the Terna Group's current organisational structure, responsibility for the activities involved in investment in the development and upgrade of dispatching infrastructure lies with both Terna S.p.A. itself and the subsidiary Terna Rete Italia S.p.A.. The related cost is charged in full to "Services" as a service received from the subsidiary. The following table shows details of the costs recognised in application of IFRIC 12 and within the scope of the item under review.

(€m)

	2021	2020	CHANGE
IT services	1.3	0.5	0.8
Tender costs for plant	2.3	-	2.3
Maintenance and sundry services	1.6	1.2	0.4
Cost of services relating to investment in dispatching infrastructure (IFRIC 12)	**5.2**	**1.7**	**3.5**
Cost of services recognised in application of IFRIC 12 – Services from Terna Rete Italia S.p.A.	35.4	24.1	11.3
Total cost of services relating to investment in dispatching infrastructure (IFRIC 12)	**40.6**	**25.8**	**14.8**

5. PERSONNEL EXPENSES - €76.4 MILLION

(€m)

	2021	2020	CHANGE
Salaries, wages and other short-term benefits	78.4	62.4	16.0
Directors' remuneration	1.7	1.6	0.1
Termination benefits (TFR), energy discounts and other employee benefits	5.1	9.6	(4.5)
Early retirement incentives	3.3	2.8	0.5
Gross personnel expenses	**88.5**	**76.4**	**12.1**
Capitalised personnel expenses	(12.1)	(5.3)	(6.8)
TOTAL	**76.4**	**71.1**	**5.3**

Personnel expenses are up €5.3 million, primarily linked to the increase in the workforce.

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

UNIT	AVERAGE WORKFORCE		WORKFORCE AT	
	2021	2020	31 DECEMBER 2021	31 DECEMBER 2020
Senior managers	45	41	46	41
Middle managers	279	220	308	250
Office staff	516	400	563	476
TOTAL	**840**	**661**	**917**	**767**

The above net increase in the average workforce compared with 2020 amounts to 179 and essentially reflects the impact of new recruitment as part of the Company's generational turnover plan.

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES – €585.8 MILLION

(€m)

	2021	2020	CHANGE
Amortisation of intangible assets	60.3	60.3	-
- of which rights on infrastructure	*18.2*	*23.9*	*(5.7)*
Depreciation of property. plant and equipment	527.2	502.7	24.5
Impairment losses on property, plant and equipment	0.3	7.7	(7.4)
Impairment losses on other current assets	-	1.0	(1.0)
Impairment losses on trade receivables	(2.0)	(0.5)	(1.5)
TOTAL	**585.8**	**571.2**	**14.6**

Amortisation, depreciation and impairment losses for the year amount to €585.8 million, an increase of €14.6 million compared with 2020. This primarily reflects the entry into service of new infrastructure, after taking into account the greater amount of impairment losses on assets recognised in the previous year (down €7.4 million).

7. OTHER OPERATING COSTS - €23.0 MILLION

(€m)

	2021	2020	CHANGE
Quality of service costs	5.9	8.3	(2.4)
of which mitigation and sharing mechanisms	*4.9*	*7.6*	*(2.7)*
of which Fund for Exceptional Events	*0.8*	*0.9*	*(0.1)*
of which compensation mechanisms for HV users	*0.2*	*(0.2)*	*0.4*
Indirect taxes and local taxes and levies	*5.7*	*10.8*	*(5.1)*
Losses on sales/disposal of plant	0.2	0.1	0.1
Adjustment of provisions for litigation and disputes	(0.9)	(0.4)	(0.5)
Other	12.1	11.7	0.4
TOTAL	**23.0**	**30.5**	**(7.5)**

The most significant components of this item regard the costs incurred by the Company in relation to the quality of the electricity service (€5.9 million), indirect taxes, local taxes and levies (€5.7 million, including €4.0 million in council tax) and other costs (€12.1 million) which include membership dues and contributions to trade bodies and associations, donations and other expenses.

The reduction €7.5 million is due essentially to the adjustment to provisions linked to amounts previously set aside in relation to Land Registry Circular 6/2012 and for litigation and disputes (down €4.0 million), in addition to 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).

8. FINANCIAL INCOME/(EXPENSES) – (€78.4) 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 termination benefits (TFR) and operating leases	(0.1)	(0.4)	0.3
Capitalised financial expenses	10.8	10.1	0.7
Other financial expenses	(0.6)	(1.1)	0.5
Translation differences	-	(2.0)	2.0
Total expenses	**(92.8)**	**(86.6)**	**(6.2)**
FINANCIAL INCOME			
Dividends from subsidiaries	-	19.5	(19.5)
Financial income from subsidiaries	0.4	0.5	(0.1)
Restructuring of bond issues and related hedges	1.2	-	1.2
Interest income and other financial income	10.9	9.4	1.5
Translation differences	1.9	-	1.9
Total income	**14.4**	**29.4**	**(15.0)**
TOTAL	**(78.4)**	**(57.2)**	**(21.2)**

Net financial expenses for the year amount to €78.4 million, reflecting €92.8 million in financial expenses and €14.4 million in financial income. The increase in net financial expenses compared with the previous year, amounting to €21.2 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;
- an increase in capitalised financial expenses (up €0.7 million);
- the collection of dividends in 2020 from the subsidiary, Terna Interconnector, amounting to €19.5 million;
- the positive impact of €3,9 million linked to the performance of the euro/dollar exchange rate, which had an impact on the intercompany loan granted to the subsidiary in Uruguay;
- increased financial income on financial assets (up €1.5 million).

9. INCOME TAX FOR THE YEAR – €297.7 MILLION

(€m)

	2021	2020	CHANGE
Income tax for the year			
Current tax expense:			
- IRES (corporate income tax)	265.3	241.1	24.2
- IRAP (regional tax on productive activities)	57.5	52.1	5.4
Total current tax expense	***322.8***	***293.2***	***29.6***
New temporary differences:			
- deferred tax assets	(4.6)	(9.8)	5.2
Reversal of temporary differences:			
- deferred tax assets	14.2	19.9	(5.7)
- deferred tax liabilities	(31.9)	(30.5)	(1.4)
Total deferred tax (income)/expense	***(22.3)***	***(20.4)***	***(1.9)***
Adjustments of taxes for previous years	(2.8)	(3.5)	0.7
TOTAL	**297.7**	**269.3**	**28.4**

Current income tax expense for the year of €322.8 million is up €29.6 million compared with the previous year, essentially reflecting the increase in pre-tax profit and the greater amount of tax-exempt income recognised during the previous year.

Net deferred tax expense of €22.3 million is down €1.9 million, primarily due to the net effect of the reversal of temporary differences, primarily connected with the impact of taxation on depreciation and amortisation.

Adjustments to taxes for previous years, amounting to a reduction of €2.8 million, reflect the overpayment of current tax expense in previous years and have decreased by €0.7 million.

The effective tax charge for the year (€297.7 million) results in a tax rate of 28.6%, up on the 28.1% of 2020. For a clearer presentation of the differences between the theoretical and effective tax charges, the table below reconciles the theoretical and effective tax rates for the year.

(€m)

	TAXABLE INCOME	TAX	% CHANGE
Profit before tax	1,042.6		
IRES – Theoretical tax charge (rate of 24.0%)		250.2	
IRAP – theoretical tax charge (rate of 5.10% on the operating profit of €1,121.0 million)		57.2	
		307.4	
THEORETICAL TAX RATE			**29.5%**
Permanent differences in IRES			
Impairments		0.1	-
Non-deductible remuneration		0.9	0.1%
Contingent assets and liabilities		0.6	0.1%
Membership dues		0.1	-
Other increases		1.8	0.2%
Single council tax (Imposta Municipale Unica, IMU)		(0.5)	-
Accelerated depreciation		(4.9)	(0.5%)
Tax relief (ACE – Aiuto alla Crescita Economica)		(5.1)	(0.5%)
IRAP – art. 6 of Law 28/01/2009 (10%)		(1.3)	(0.1%)
Permanent differences in IRAP			
Capitalised financial expenses		0.6	0.1%
Personnel expenses		0.4	-
Other increases		0.4	-
Effective tax rate after adjustments of taxes for previous years			**28.9%**
Income tax for previous years		(2.8)	(0.3%)
Total income tax expense for the year		**297.7**	
EFFECTIVE TAX RATE			**28.6%**

10. PROFIT/(LOSS) FROM ASSETS HELD FOR SALE – (€9.7) MILLION

This item includes the loss reported by the Uruguayan subsidiary, Difebal S.A., included in the potential sale of the Terna Group's Latin American assets. 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 for due diligence activities and governing the submission of a binding offer.
The transaction has led to the reclassification, in accordance with IFRS 5, of the net assets attributable to the Uruguayan subsidiary, Difebal S.A..

The relevant amounts in the Company's income statement for the previous year have been restated, resulting in a net loss attributable to Difebal S.A. for 2020 of €1.6 million.

(€m)

	2021	2020	CHANGE
Revenue	0.1	0.2	(0.1)
OPERATING PROFIT/(LOSS)	**0.1**	**0.2**	**(0.1)**
Financial income/(expenses), net	0.3	(1.8)	2.1
Impairment recognised on remeasurement of fair value less costs to sell	(10.1)	-	(10.1)
PRE-TAX PROFIT/(LOSS)	**(9.7)**	**(1.6)**	**(8.1)**
Net profit/(loss) for the year attributable to assets held for sale	**(9.7)**	**(1.6)**	**(8.1)**

The loss from assets held for sale, totalling €9.7 million, is down €8.1 million on the figure for the previous year. This essentially reflects the adjustment to the value of the net assets held for sale recognised in application of IFRS 5.

C. Operating segments

In line with the requirements of "IFRS 8 – Operating segments", companies that publish a Parent Company's consolidated financial statements in a single document, together with the Company's separate financial statements, only have to present segment information in the consolidated financial statements.

D. Notes to the statement of financial position

Assets

11. PROPERTY, PLANT AND EQUIPMENT – €13,447.4 MILLION

(€m)

	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
COST AT 31 DECEMBER 2020	**130.9**	**2,057.7**	**17,884.5**	**112.8**	**175.3**	**1,507.9**	**21,869.1**
Investments	-	3.6	0.4	4.1	7.0	1,233.2	1,248.3
of which right-of-use assets	*-*	*1.6*	*-*	*-*	*1.0*	*-*	*2.6*
of which finance leased assets	*-*	*-*	*0.3*	*-*	*-*	*-*	*0.3*
Assets entering service	1.8	62.8	812.5	4.1	14.1	(895.3)	-
Other purchases	-	-	15.6	-	-	-	15.6
Intercompany sales	-	-	(0.2)	-	-	-	(0.2)
of which finance leased assets	*-*	*-*	*(0.1)*	*-*	*-*	*-*	*(0.1)*
Disposals and impairments	(0.4)	(2.5)	(69.4)	-	(1.1)	(0.4)	(73.8)
of which right-of-use assets	*-*	*(2.5)*	*-*	*-*	*(0.5)*	*-*	*(3.0)*
of which finance leased assets	*-*	*-*	*(0.6)*	*-*	*-*	*-*	*(0.6)*
Other changes	0.1	(15.0)	(15.3)	(0.2)	0.2	(9.4)	(39.6)
of which finance leased assets	*-*	*-*	*(1.2)*	*-*	*-*	*-*	*(1.2)*
COST AT 31 DECEMBER 2021	**132.4**	**2,106.6**	**18,628.1**	**120.8**	**195.5**	**1,836.0**	**23,019.4**
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31 DECEMBER 2020	**(0.6)**	**(644.8)**	**(8,245.8)**	**(85.1)**	**(137.6)**	**-**	**(9,113.9)**
Depreciation for the year	(0.3)	(51.1)	(457.1)	(5.3)	(13.4)	-	(527.2)
of which right-of-use assets	*(0.3)*	*(1.4)*	*-*	*-*	*(0.5)*	*-*	*(2.2)*
of which finance leased assets	*-*	*-*	*(2.7)*	*-*	*-*	*-*	*(2.7)*
Intercompany sales	-	-	0.1	-	-	-	0.1
Disposals	-	0.9	67.0	-	1.1	-	69.0
of which right-of-use assets	*-*	*0.8*	*-*	*-*	*0.5*	*-*	*1.3*
of which finance leased assets	*-*	*-*	*0.3*	*-*	*-*	*-*	*0.3*
Other changes	-	1.0	(1.0)	-	-	-	-
of which finance leased assets	*-*	*-*	*0.8*	*-*	*-*	*-*	*0.8*
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31 DECEMBER 2021	**(0.9)**	**(694.0)**	**(8,636.8)**	**(90.4)**	**(149.9)**	**-**	**(9,572.0)**
Carrying amount							
AT 31 DECEMBER 2021	**131.5**	**1,412.6**	**9,991.3**	**30.4**	**45.6**	**1,836.0**	**13,447.4**
of which right-of-use assets	*5.0*	*4.1*	*-*	*-*	*1.1*	*-*	*10.2*
of which finance leased assets	*-*	*0.6*	*20.8*	*-*	*-*	*-*	*21.4*
AT 31 DECEMBER 2020	**130.3**	**1,412.9**	**9,638.7**	**27.7**	**37.7**	**1,507.9**	**12,755.2**
of which right-of-use assets	*5.3*	*5.6*	*-*	*-*	*0.6*	*-*	*11.5*
of which finance leased assets	*-*	*0.6*	*24.0*	*-*	*-*	*-*	*24.6*
Change	**1.2**	**(0.3)**	**352.6**	**2.7**	**7.9**	**328.1**	**692.2**

The category, “Plant and equipment”, essentially includes the electricity transmission grid and transformer substations in Italy.

“Property, plant and equipment” is up €692.2 million, compared 31 December 2020, broadly due to the following movements:

- investment of €1,248.3 million during the year, including €1,235.0 million in Regulated Activities;
- the purchase of NTG assets from Acciaierie Arvedi for €5.1 million (May 2021) and from then AGSM Group and Dolomiti Energia for €10.5 million (December 2021);
- amortisation and depreciation for the year (€527.2 million);
- other changes (down €39.6 million) relating to 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) and disposals and impairment losses (down €4.8 million).

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 (€21.2 million), construction of the Vizzini substation (€17.4 million), construction of the Auronzo substation 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).

12. GOODWILL – €190.2 MILLION

Goodwill of €190.2 million regards the goodwill resulting from the mergers with the subsidiaries RTL (€88.6 million, merged into the Company in 2008) and Terna Rete Italia S.r.l. (€101.6 million, merged in 2017).
The balance is unchanged with respect to the previous year.

Impairment testing

Cash Generating Unit – Terna S.p.A.’s transmission activities

For impairment testing purposes, Terna S.p.A.’s Regulated Activities were considered to be a cash generating unit (CGU). 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.

13. INTANGIBLE ASSETS – €353.6 MILLION

(€m)

	INFRASTRUCTURE RIGHTS	CONCESSIONS	OTHER ASSETS	ASSETS UNDER DEVELOPMENT AND PREPAYMENTS	TOTAL
Cost	486.3	135.4	333.6	56.4	1,011.7
Accumulated amortisation	(376.6)	(84.9)	(264.5)	-	(726.0)
BALANCE AT 31 DECEMBER 2020	**109.7**	**50.5**	**69.1**	**56.4**	**285.7**
Investments	-	-	0.1	128.2	128.3
Assets entering service	38.9	-	72.5	(111.4)	-
Amortisation for the year	(18.2)	(5.6)	(36.5)	-	(60.3)
Other changes	(0.1)	-	-	-	(0.1)
BALANCE AT 31 DECEMBER 2021	**130.3**	**44.9**	**105.2**	**73.2**	**353.6**
Cost	525.2	135.4	406.2	73.2	1,140.0
Accumulated amortisation	(394.9)	(90.5)	(301.0)	-	(786.4)
BALANCE AT 31 DECEMBER 2021	**130.3**	**44.9**	**105.2**	**73.2**	**353.6**
Change	**20.6**	**(5.6)**	**36.1**	**16.8**	**67.9**

Intangible assets amount to €353.6 million and include:

- the infrastructure used in provision of the dispatching service carried out under concession and accounted for in accordance with “IFRIC 12 – Service Concession Arrangements”, with the carrying amount, at 31 December 2021 of infrastructure entering service during the year amounting to €130.3 million and of infrastructure under construction, included in the category “Assets under development and prepayments”, amounting to €32.1 million (at 31 December 2020, the matching figures were €109.7 million and €23.9 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. Investment in these assets during the year (€81.2 million) essentially regards internal development programmes.

The increase compared with the previous year (up €67.9 million) reflects the net effect of investment (€128.3 million, including €47.1 million in infrastructure rights) and amortisation (€60.3 million).

Investment in intangible assets during the year (€128.3 million), 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).

14. DEFERRED TAX ASSETS – €109.4 MILLION

(€m)

	31 DECEMBER 2020	PROVISIONS	USES AND OTHER MOVEMENTS	EFFECTS RECOGNISED IN COMPRE-HENSIVE INCOME	31 DECEMBER 2021
DEFERRED TAX ASSETS					
Provisions for risks and charges	21.3	3.8	(8.1)	-	17.0
Allowance for doubtful accounts	4.3	-	-	-	4.3
Amounts due to employees	3.1	1.0	(4.1)	(0.3)	(0.3)
Cash flow hedges and financial assets	66.7	-	-	(22.7)	44.0
Tax relief on goodwill	20.9	-	(3.0)	-	17.9
Other	5.3	(0.1)	1.2	-	6.4
TOTAL DEFERRED TAX ASSETS	**121.6**	**4.7**	**(14.0)**	**(23.0)**	**89.3**
DEFERRED TAX LIABILITIES					
Property, plant and equipment	(8.7)	-	31.9	-	23.2
Employee benefits and financial instruments	(3.1)	-	-	-	(3.1)
TOTAL DEFERRED TAX LIABILITIES	**(11.8)**	**-**	**31.9**	**-**	**20.1**
NET DEFFERRED TAX ASSETS	**109.8**	**4.7**	**17.9**	**(23.0)**	**109.4**

The balance of this item, amounting to €109.4 million, includes the net impact of movements in the Company's deferred tax assets and liabilities.

Deferred tax assets (€89.3 million) are down by a net €32.3 million compared with the previous year, reflecting the following movements:

- uses totalling €23.0 million, reflecting the tax effect on the comprehensive income statement, primarily of movements in cash flow hedges;
- net uses of €4.3 million, relating to movements during the year in provisions for risks and charges, primarily due to the tax effect on the release of provisions for quality of service (€2.9 million) and early retirement incentives (€3.2 million)
- the release of deferred tax assets recognised in relation to tax relief on the goodwill resulting from the merger with Terna Rete Italia S.r.l. (€3.0 million).

Deferred tax liabilities (€20.1 million) are up €31.9 million compared with the previous year, due to the use of previous provisions for accelerated depreciation, including the net release for depreciation for the year.

15. FINANCIAL ASSETS

(€m)

	MEASUREMENT	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
Investments in subsidiaries	at cost	1,104.2	1,107.4	(3.2)
Investments in associates	at cost	44.8	44.7	0.1
Guarantee deposits	Amortised cost	241.4	221.8	19.6
Fair value hedges	FVTPL	1.6	94.2	(92.6)
Loan to subsidiaries	Amortised cost	-	22.5	(22.5)
Government securities	FVTOCI	23.1	22.5	0.6
NON-CURRENT FINANCIAL ASSETS		**1,415.1**	**1,513.1**	**(98.0)**
Government securities	FVTOCI	958.5	611.4	347.1
Other current financial assets		17.8	5.2	12.6
Deferred assets on fair value hedges		4.3	4.4	(0.1)
CURRENT FINANCIAL ASSETS		**980.6**	**621.0**	**359.6**

"Non-current financial assets" includes the items described below.

The value of "Investments in subsidiaries" (€1,104.2 million) regards investments in Terna S.p.A.'s direct subsidiaries and is down €3.2 million compared with 31 December 2020. This primarily reflects reclassification of the investment in Difebal S.A. (down €8.5 million) to assets held for sale, partially offset by an increase in the investment in Rete S.r.l. (up €5.3 million), following the merger of EL.IT.E. S.r.l. with and into Rete S.r.l., following the former's acquisition by Terna S.p.A. on 27 July 2021.

The value of "Investments in associates" (€44.8 million) mainly regards the investments in CGES – CrnoGorski Elektroprenosni Sistem AD (€26.7 million), CESI S.p.A. (€17.5 million), CORESO S.A. (€0.2 million) and the joint operations, ELMED Etudes S.a.r.l. (€0.3 million) and Selene CC S.A. (€0.1million). The increase compared with the previous year, amounting to €0.1 million, essentially reflects the adjustment to the share of equity at 31 December 2021 in the joint operation, ELMED Etudes S.a.r.l. (up €0.1 million).

The following table shows key information on investments in subsidiaries, associates and joint ventures owned directly by Terna S.p.A. at 31 December 2021. Amounts relate to the latest approved financial statements.

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	CARRYING AMOUNT (€)
SUBSIDIARIES CONTROILLED DIRECTLY BY TERNA SPA					
Terna Rete Italia S.p.A.	Rome	Euro	300,000	100%	21,461,425.2
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%	208,000,000.0
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%	86,861,553.0
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%*	19,925.9
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%	775,559,948.5
Business	Design, construction, management, development, operation and maintenance of high-voltage power lines.				
Difebal S.A.	Montevideo (Uruguay)	Uruguayan peso	140,000	100%	-
Business	Design, construction and maintenance of electricity infrastructure in Uruguay.				
Terna Energy Solutions S.r.l.	Rome	Euro	2,000,000	100%	12,282,156.2
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%	-
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%**	100.0
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	CARRYING AMOUNT (€)
ASSOCIATES					
Cesi S.p.A.	**Milan**	**Euro**	**8,550,000**	**42.698%**	**17,563,381**
Business	Experimental research and provision of services related to electro-technology.				
Coreso S.A.	**Brussels (Belgium)**	**Euro**	**1,000,000**	**15.84%**	**210,742**
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**	**22.0889%**	**26,694,419**
Business	Provision of transmission and dispatching services in Montenegro.				
JOINT VENTURES					
ELMED Etudes S.a.r.l.	**Tunis (Tunisia)**	**Tunisian dinar**	**2,700,000**	**50%**	**274,917**
Business	Conduct of preparatory studies for construction of the infrastructure required to connect the Tunisian and Italian electricity systems.				
SEleNe CC S.A.	**Thessaloniki (Greece)**	**Euro**	**200,000**	**25%**	**50,000**
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**	**20%**	**10,000**
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.*

This item also includes:

- guarantee deposits (€241.4 million), including the Interconnector Guarantee Fund (€123.9 million) set up to fund investment in interconnections by art. 32 of Law 99/09 and up €18.7 million compared with the previous year. Guarantee deposits also include €117.5 million received from operators participating in the capacity market in accordance with Resolution Del.98/2011/R/eel[4], as amended, registering an increase of €0.9 million compared with the previous year;
- fair value hedges, amounting to €1.6 million, hedging bond issues are down €92.6 million compared with the previous year; the value of the hedges was measured by discounting expected cash flows using market interest rates at the measurement date;
- the value of Italian government bonds ("BTP"), amounting to €23.1 million, with a notional value of €21.2 million acquired in May 2020, maturing in May 2025 and paying interest at a rate of 1.4%.

"Current financial assets" are up €359.6 million compared with the previous year, primarily due to the purchase of government securities net of those reaching maturity, amounting to a notional value of €350 million.

[4] The regulations regarding the system of remuneration for availability of production capacity was approved by a Ministerial Decree of 28 June 2019. The deposits were paid by the energy-intensive operators after the competition held by Terna on 6 and 28 November 2019. These provide a guarantee for the entire capacity market from 2022, with the aim of ensuring the achievement and maintenance of the adequacy of the national electricity system, in order to structurally fulfil expected electricity consumption and the power reserve margins needed to meet predetermined levels of safety and quality of service.

16. OTHER ASSETS

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
Loans and advances to employees	3.7	3.6	0.1
Deposits with third parties	1.3	1.0	0.3
Non-current receivables due from subsidiaries	1.4	0.3	1.1
OTHER NON-CURRENT ASSETS	**6.4**	**4.9**	**1.5**
Current receivables due from subsidiaries	-	0.2	(0.2)
Other tax credits	4.9	14.3	(9.4)
Other current assets – Interconnector Guarantee Fund	3.6	3.8	(0.2)
Prepayments to suppliers	1.5	3.3	(1.8)
Prepayments of operating expenses and accrued operating income	8.9	8.4	0.5
Amounts due from others	2.1	4.9	(2.8)
OTHER CURRENT ASSETS	**21.0**	**34.9**	**(13.9)**

"Other non-current assets" amount to €6.4 million, an increase of €1.5 million compared with the previous year, essentially due to amounts due from subsidiaries recognised in relation to the new Performance Share Plan 2021-2025 (up €1.1 million).
"Other current assets" of €21.0 million are down €13.9 million compared with 31 December 2020, essentially reflecting:

- a reduction in "Other tax credits" (down €9.4 million), primarily reflecting a reduction in refundable VAT (down €9.7 million)
- a reduction of €2.8 million in "Amounts due from others", broadly due to other items to be settled recognized in the previous year and collected in early 2021 (down €1.5 million).

17. TRADE RECEIVABLES – €2,633.3 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	22.5	10.7	11.8
Amounts due from subsidiaries	18.0	35.4	(17.4)
TRADE RECEIVABLES	**2,633.3**	**1,091.1**	**1,542.2**

Trade receivables amount to €2,633,3 million and are accounted for less any losses on items deemed not to be recoverable and recognised in the allowance for doubtful accounts (€33.2 million for energy-related receivables and €9.9 million for other items in 2021, compared with €34.2 million for energy-related items and €11.0 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 (€42.2 million) from the Fund for Energy and Environmental Services (Cassa per i Servizi Energetici e Ambientali - CSEA), 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 (up €22.8 million)

- the recognition of output-based incentives[5] (€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.

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 – €22.5 million

Other trade receivables, totalling €22.5 million, are up €11.8 million with the previous year. This primarily reflects a decrease in receivables resulting from Non-regulated Activities in the final quarter of the year.

Amounts due from subsidiaries – €18.0 million

This item, totalling €18.0 million, primarily regards the amount receivable from the subsidiary, Terna Rete Italia S.p.A. (€12.8 million), primarily relating to services provided in the last part of the year under existing contracts, mainly relating to the amount due on the business unit leased to this company (€6.4 million), and administrative services (€3.4 million).
This item is down compared with the previous year (down €17.4 million), broadly reflecting the receivables recognised in the previous year and due from Resia Interconnector S.r.l. (down €13.5 million), sold on 16 September 2021 to Interconnector Energy Italia S.c.p.a., the Consorzio Toscana Energia S.p.A. and VDP Fonderia S.p.A.. The receivables regard construction and operation of the private portion of the alternating current power line between Italy and Austria. In addition, there has been a reduction in amounts due from the subsidiary, Terna Energy Solutions S.r.l. (down €2.5 million), reflecting the receivables recognised in the previous year in relation to recovery of the due diligence costs incurred by the Company in relation to acquisition of the subsidiary, Brugg Cables (€3.5 million), and a reduction of €1.7

[5] 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.

million in amounts due from the subsidiary, Terna Rete Italia S.p.A., reflecting a reduction in amounts due for administrative services (down €1.6 million, after the related fees were adjusted to take account of the volume of work carried out, as assessed at the end of 2021).

18. CASH AND CASH EQUIVALENTS – €1,619.8 MILLION

Cash amounts to €1,619.8 million at 31 December 2021, including €1,371.3 million in liquidity invested in readily convertible short-term deposits and €248.5 million in net deposits in bank current accounts (including a net debit balance of €137.6 million on intercompany treasury accounts).

19. INCOME TAX ASSETS – €3.5 MILLION

Income tax assets, amounting to €3.5 million, are up €0.3 million compared with the previous year. This essentially reflects 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).

20. ASSETS HELD FOR SALE – €23.0 MILLION

This item includes the existing assets of the Uruguayan subsidiary, Difebal S.A., included in the potential sale of the Terna Group's Latin American assets.

(€m)

ASSETS	31 DECEMBER 2021
Non-current financial assets	33.0
Trade receivables	0.1
Impairment recognised on remeasurement of fair value less costs to sell	**(10.1)**
TOTAL ASSETS HELD FOR SALE	**23.0**

Assets held for sale amounting to €23.0 million, broadly include outstanding items due from the Uruguayan subsidiary in the form of a loan granted by Terna S.p.A. and the investment, after an adjustment to the value of these assets recognized in application of IFRS 5.

Equity and liabilities

21. EQUITY – €4,329.5 MILLION

Share capital – €442.2 million

Terna'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 Company's share capital and is unchanged with respect to the previous year.

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 – €615.2 million

The other reserves have increased €76.5 million, reflecting other comprehensive income. This reflects:

- fair value adjustments to the Parent Company's cash flow hedges (up €74.6 million, including the related hedging costs of €0.4 million, and after taking into account the related tax liability of €23.6 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 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[6]).

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Retained earnings and accumulated losses – €2,665.4 million

The increase in "Retained earnings and accumulated losses", amounting to €146.5 million, primarily regards the remaining portion of profit for 2020, following payment of the dividend for that year (totalling €541.7 million).

Interim dividend for 2021 and 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.

[6] 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.

The individual components of equity at the end of the year are shown below, specifying their origin, availability and distributability.

(€m)

	31 DECEMBER 2021	POTENTIAL USE	AVAILABLE AMOUNT
Share capital	442.2	-	-
Legal reserve	88.4	B	88.4
Other reserves			
- capital reserves	416.1	A. B. C	416.1
- actuarial gains (losses) on employee benefits and cash flow hedges after taxation - STOCK OPTION	(134.3)	-	-
- revenue reserves	313.9	A. B. C	313.9
Retained earnings	2,665.4	A. B. C	2,665.4
Interim dividend	(197.4)	A. B. C	-
TOTAL	**3,594.3**		

Key:
A – for capital increases
B – to cover losses
C – for distribution to shareholders

The available amount includes €521.4 million in untaxed revenue reserves.

22. BORROWINGS AND FINANCIAL LIABILITIES

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
Bond issues	6,925.6	7,451.3	(525.7)
Bank borrowings	1,888.3	2,179.5	(291.2)
LONG-TERM BORROWINGS	**8,813.9**	**9,630.8**	**(816.9)**
Cash flow hedges	83.7	251.4	(167.7)
NON-CURRENT FINANCIAL LIABILITIES	**83.7**	**251.4**	**(167.7)**
SHORT-TERM BORROWINGS	**1,917.6**	**977.1**	**940.5**
Bond issues	999.9	1,258.8	(258.9)
Bank borrowings	635.0	119.0	516.0
CURRENT PORTION OF LONG-TERM BORROWINGS	**1,634.9**	**1,377.8**	**257.1**
CURRENT FINANCIAL LIABILITIES	**45.7**	**89.7**	**(44.0)**
TOTAL	**12,495.8**	**12,326.8**	**169.0**

Borrowings and financial liabilities have increased by €169.0 million compared with the previous year to €12,495.8 million.
The reduction in bond issues (down €784.6 million) essentially reflects repayment of the bond issue, 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 with the previous year, bank borrowings are up €224.8 million, 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 table below shows movements in long-term debt during the year, including also the nominal amount:

(€m)

	31 DECEMBER 2020			REOAYMENTS AND CAPITALISATIONS	DRAWDOWNS	OTHER	CHANGE IN CARRYING AMOUNT	31 DECEMBER 2021		
	NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE					DEBITO NOZION.	VALORE CONTAB.	VALORE DI MERCATO
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
Total bond issues	**8,459.0**	**8,710.1**	**9,035.7**	**(1,250.0)**	**600.0**	**(134.6)**	**(784.6)**	**7,824.1**	**7,925.5**	**8,219.7**
Borrowings	2,290.6	2,286.3	2,286.3	(116.7)	343.0	-	226.3	2,512.6	2,512.6	2,512.6
Lease liabilities	12.2	12.2	12.2	(2.5)	-	1.0	(1.5)	10.7	10.7	10.7
Total borrowings	**2,302.8**	**2,298.5**	**2,298.5**	**(119.2)**	**343.0**	**1.0**	**224.8**	**2,523.3**	**2,523.3**	**2,523.3**
Total debt	**10,761.8**	**11,008.6**	**11,334.2**	**(1,369.2)**	**943.0**	**(133.6)**	**(559.8)**	**10,347.4**	**10,448.8**	**10,743.0**

At 31 December 2021, Terna has access to additional financing of €3,150.0 million, represented by two revolving credit facilities. In addition, the Company has uncommitted bank credit lines totalling approximately €769.0 million and approximately €300.0 million in loans agreed but not yet disbursed.

In addition, as provided for in IFRS 7, the table shows the fair value of borrowings. In the case of bond issues, this is market value based on prices at the reporting date, which do not include accrued interest payable at maturity.

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
Bonds	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%
	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%
	2032	496.2	470.4	-	470.4	-	-	-	-	-	470.4	0.75%	0.48%
	2030	495.7	496.1	-	496.1	-	-	-	-	-	496.1	0.38%	0.46%
BEI	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%)
Total fixed rate		**9,425.7**	**8,979.5**	**1,220.4**	**7,759.1**	**1,601.3**	**824.6**	**547.7**	**627.7**	**1,047.7**	**3,110.1**		
BEI	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 borrowings	2023	400.0	400.0	300.0	100.0	100.0	-	-	-	-	-	(0.01%)	0.02%
Total variable rate		**1,575.0**	**1,462.9**	**412.7**	**1,050.2**	**213.9**	**115.3**	**115.3**	**115.3**	**115.3**	**375.1**		
TOTAL		**11,000.7**	**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	0.1	0.1	0.1	-
Operating leases	12.1	10.6	1.7	8.9
TOTAL	**12.2**	**10.7**	**1.8**	**8.9**

At 31 December 2021, payments on operating leases recognised in application of IFRS 16 amount to €2.5 million.
The total value of Terna's borrowings at 31 December 2021 is €11,442.4 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	251.4	(167.7)
TOTAL	**83.7**	**251.4**	**(167.7)**

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

Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The increase of €167.7 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 – €1,917.6 million

"Short-term borrowings", amounting to €1,917.6 million, consist of short-term loans disbursed to the Company.

Current financial liabilities – €45.7 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 €44.0 million compared with the previous year.

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
DEFERRED LIABILITIES ON:			
Hedging derivatives	4.7	2.5	2.2
Bond issues	39.9	86.0	(46.1)
Borrowings	1.1	1.2	(0.1)
TOTAL	**45.7**	**89.7**	**(44.0)**

Net debt

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

(€m)

		31 DECEMBER 2021
A.	Cash	248.5
B.	Cash equivalents*	1,371.3
C.	Other current financial assets**	976.3
D.	**Liquidity (A) + (B) + (C)**	**2,596.1**
E.	Current financial liabilities (including debt instruments, but excluding the current portion of non-current financial liabilities)	1,917.6
F.	Current portion of non-current debt***	1,676.3
G.	**Current debt (D+E+F)**	**3,593.9**
H.	**Net current debt (G) - (D)**	**997.8**
I.	Non-current financial liabilities (excluding the current portion and debt instruments)****	1,972.0
J.	Debt instruments*****	6,924.0
K.	**Non-current net debt (I) + (J)**	**8,896.0**
L.	**Net debt (H) + (K)**	**9,893.8**

* *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 (€633.2 million), the short-term portion of bond issues (€999.9 million) and the short-term portion of lease liabilities (€1.8 million) and the item, "Current financial liabilities" relating to the value of accrued expenses (€41.4 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 (€8.9 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).*

Information on the provisions in outstanding loan agreements at 31 December 2021 is provided in the notes to the consolidated financial statements.

23. EMPLOYEE BENEFITS – €12.3 MILLION

Terna 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 (energy discounts and ASEM health cover).

Loyalty bonuses are payable to the Company'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, 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	PROVISIONS	USES AND OTHER MOVEMENTS	ACTUARIAL GAINS/ (LOSSES)	31 DECEMBER 2021
Benefits during the period of employment					
Loyalty bonuses	0.8	0.3	(0.1)	-	1.0
Total	**0.8**	**0.3**	**(0.1)**	**-**	**1.0**
Termination benefits					
Deferred compensation benefits (TFR)	4.2	-	-	(0.4)	3.8
Energy discounts	0.4	-	(0.1)	(0.1)	0.2
Additional months' pay	0.6	-	(0.1)	-	0.5
Total	**5.2**	**-**	**(0.2)**	**(0.5)**	**4.5**
Post-employment benefits					
ASEM health cover	7.6	0.4	(0.6)	(0.6)	6.8
Total	**7.6**	**0.4**	**(0.6)**	**(0.6)**	**6.8**
Total	**13.6**	**0.7**	**(0.9)**	**(1.1)**	**12.3**

This item, amounting to €12.3 million, is down €1.3 million compared with 31 December 2020, due primarily to the change in actuarial gains and losses (down €1.1 million).

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

(€m)

	LOYALTY BONUS	ADDITIONAL MONTHS' PAY	ASEM HEALTH PLAN	TOTAL
Net impact recognised in profit or loss				
- current service cost	0.3	-	0.4	0.7
- (revenue) due to curtailment	-	(0.2)	-	(0.2)
TOTAL RECOGNISED IN PROFIT OR LOSS	**0.3**	**(0.2)**	**0.4**	**0.5**

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	ENERGY DISCOUNTS	ASEM HEALTH PLAN	TOTAL
Actuarial gain/(losses)				
- based on past experience	(0.4)	(0.1)	0.2	(0.3)
- due to changes in discount rate	-	-	(0.8)	(0.8)
TOTAL IMPACT ON COMPREHENSIVE INCOME	**(0.4)**	**(0.1)**	**(0.6)**	**(1.1)**

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 Iboxx Eurozone Corporates AA at 31 December 2021, matching the duration of the relevant group of plan participants.

(€m)

	LOYALTY BONUSES	*TFR*	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH PLAN
Discount rate	0.98%	0.98%	0.29%	0.44%	0.98%
Inflation rate	1.75%	1.75%	-	-	2.70%
Duration (in years)	17.54	8.09	5.26	6.57	17.04

(€m)

	LOYALTY BONUSES	*TFR*	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH PLAN	TOTAL
Discount rate +0.25%	1.0	3.8	0.4	0.2	6.5	**11.9**
Discount rate -0.25%	1.0	3.9	0.4	0.2	7.1	**12.6**
Inflation rate +0.25%	1.0	3.9	n/a	n/a	n/a	**4.9**
Inflation rate -0.25%	1.0	3.8	n/a	n/a	n/a	**4.8**
Annual rate of increase in health costs +3%	n/a	n/a	n/a	n/a	6.9	**6.9**
Annual rate of increase in health costs -3%	n/a	n/a	n/a	n/a	6.7	**6.7**

(€m)

	LOYALTY BONUSES	*TFR*	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH PLAN	TOTAL
By the end of 2022	-	0.3	0.2	-	0.5	**1.0**
By the end of 2023	-	0.3	-	-	0.5	**0.8**
By the end of 2024	0.1	0.3	-	-	0.5	**0.9**
By the end of 2025	-	0.4	-	-	0.6	**1.0**
By the end of 2026	0.1	0.4	-	-	0.6	**1.1**
After 5 years	0.8	2.1	0.3	0.2	4.1	**7.5**
TOTAL	**1.0**	**3.8**	**0.5**	**0.2**	**6.8**	**12.3**

24. - PROVISIONS FOR RISKS AND CHARGES – €104.7 MILLION

(€m)

	PROVISIONS FOR LITIGATION AND DISPUTES	PROVISIONS FOR SUNDRY RISKS AND CHARGES	PROVISIONS FOR EARLY RETIREMENT INCENTIVES	TOTAL
Amount at 31 December 2020	**18.2**	**93.5**	**30.0**	**141.7**
New provisions	3.4	13.4	3.0	19.8
Uses and other movements	(4.8)	(41.0)	(11.0)	(56.8)
Amount at 31 December 2021	**16.8**	**65.9**	**22.0**	**104.7**

Provisions for litigation and disputes – €16.8 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, totalling €16.8 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 €1.4 million compared with the previous year as a result of net uses during the year.

Provisions for sundry risks and charges – €65.9 million

These provisions amount to €65.9 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.
Compared with the previous year, the provisions are down by a net €27.6 million, reflecting:

- net uses for staff incentive plans, totalling €4.3 million;
- net uses for urban and environmental restoration schemes (€9.1 million);
- a net decrease 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;
- net uses of €6.7 million relating to tax liabilities.

Provisions for early retirement incentives – €22.0 million

Provisions for early retirement incentives reflect the estimated extraordinary expenses linked to the early retirement of the Company's employees who have reached pensionable age and where the Company has an obligation. This item has decreased by €8.0 million reflecting payments during the year in relation to the existing plan for generational turnover.

25. OTHER NON-CURRENT LIABILITIES – €346.6 MILLION

This item, amounting to €346.6 million at 31 December 2021, regards the amount payable to Terna Rete Italia S.p.A., resulting from the transfer of net liabilities included in the operations leased to this subsidiary (€27.3 million), accrued grants related to assets receivable (€74.6 million) and the Interconnector Guarantee Fund (€127.3 million) set up by the 2016 Stability Law, in order to fund investment in interconnections by art. 32 of Law 99/09. This item also includes guarantee deposits received from operators participating in the capacity market and electricity market operators guaranteeing their obligations assumed in dispatching and virtual interconnection agreements (€117.4 million).
The increase in this item compared with the previous year, amounting to €13.8 million, essentially reflects an increase in the Interconnector Guarantee Fund (up €20.0 million) and an increase in the guarantee deposits received from operators and subsequent modifications and additions

(up €0.9 million), after settlement of a part of the liabilities included in the leased business unit (down €1.9 million), with particular regard to the termination benefits (*TFR*) payable to personnel participating in the generational turnover plan, and the release of portions of grants related to assets (a reduction of €5.1 million).

26. CURRENT LIABILITIES

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
Short-term borrowings*	1,917.6	977.1	940.5
Current portion of long-term borrowings*	1,634.9	1,377.8	257.1
Trade payables	3,090.9	1,884.5	1,206.4
Tax liabilities	33.9	-	33.9
Current financial liabilities*	45.7	89.7	(44.0)
Other current liabilities	389.6	278.0	111.6
TOTAL	**7,112.6**	**4,607.1**	**2,505.5**

(*) Information on these items is provided in note 22, "Borrowings and financial liabilities".

TRADE PAYABLES – €3,090.9 MILLION

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
Suppliers:			
- Energy-related payables	2,378.7	1,223.1	1,155.6
- Non-energy-related payables	115.3	111.9	3.4
Non-energy-related payables due to subsidiaries	594.9	546.9	48.0
Amounts due to associates	1.2	2.0	(0.8)
Payables resulting from contract work in progress	0.8	0.6	0.2
TOTAL	**3,090.9**	**1,884.5**	**1,206.4**

Suppliers

Energy-related/regulated payables – €2,378.7 million

The increase of €1,155.6 million in this item compared with the end of 2020 essentially reflects energy-related pass-through payables (€1,156.9 million). The increase in these payables is primarily due to:

- an increase in payables ljnked 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 net 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[7];
- an increase in amounts payable in the form of capacity payments (€18.3 million), after payments made during 2021[8].

[7] ARERA ordered payments to the owners of essential plants in the following resolution: 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.

[8] 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 increase compared with the previous year (up €3.4 million) is largely due to an increase in activity towards the end of the year.

Non-energy-related payables due to subsidiaries

This item, totalling €594.9 million, is up €48.0 million compared with the previous year, primarily due to the increased amount payable to Terna Rete Italia S.p.A. (up €48.5 million) as a result of the greater volume of capital expenditure carried out towards the end of the year, compared with the same period of 2020.

Amounts due to associates

This item, amounting to €1.2 million, is down €0.8 million compared with the previous year, reflecting a reduction in amounts payable to the associate, CESI S.p.A., for services provided to the Company, relating to electro technical studies and research.

The commitments assumed by the Company towards suppliers amount to approximately €264.4 million and regard purchase commitments linked to the normal "operating cycle" projected for the period 2022-2026.

TAX LIABILITIES – €33.9 MILLION

This item amounts to €33,9 million at 31 December 2021 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 – €389.6 MILLION

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020	CHANGE
Prepayments	87.7	57.3	30.4
Other tax liabilities	84.6	43.1	41.5
Social security payables	6.6	6.4	0.2
Amounts due to personnel	14.7	13.9	0.8
Amounts due to subsidiaries	2.1	9.5	(7.4)
Other amounts due to third parties	193.9	147.8	46.1
TOTAL	**389.6**	**278.0**	**111.6**

Prepayments

This item (€87.7 million) regards grants related to assets collected by the Company to fund the construction of non-current assets in progress at 31 December 2021.

Compared with the balance at 31 December 2020 (€57.3 million), the balance is up €30.4 million, essentially due to the impact of grants deducted directly from the carrying amount of the related assets, totalling €39.6 million, and new prepayments from third parties.

Other tax liabilities

Other tax liabilities, amounting to €84.6 million, regard withholding tax payable on salaries paid at the end of the year, in addition to the balance of the Group's VAT at the end of the year.

Compared with the balance at 31 December 2020 (€43.1 million), the balance is up €41.5 million due primarily to increase in VAT payable (up €42.6 million).

Social security payables

Social security payables, essentially relating to employee contributions payable to INPS (the National Institute of Social Security), amount to €6.6 million. This is broadly in line with the figure for the previous year.

Amounts due to personnel

Amounts due to personnel, amounting to €14.7 million, primarily regard:

- staff incentives and early retirement incentives payable in the subsequent year (€10.9 million);
- amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements (€3.1 million).

The increase of €0.8 million in this item compared with the previous year primarily reflects the rise in amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements (up €0.5 million) and an increase in incentives payable to personnel (up €0.1 million).

Other amounts due to subsidiaries

Amounts due to subsidiaries, totalling €2.1 million, regard the amount payable to Terna Interconnector S.r.l., primarily in the form of VAT payable by the Company (€1.2 million) under the Group's VAT arrangements.
This item is down €7.4 million compared with the previous year, primarily due to recognition of the above VAT payable.

Other payables due to third parties

Other payables due to third parties, amounting to €193.9 million, essentially relate to 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 deferred income (€11.4 million, primarily attributable to Non-regulated Activities) and dividends payable (€11.5 million).
The increase of €46.1 million in this item compared with the previous year essentially reflects the greater amount of guarantee deposits collected during the previous year (up €49.1 million), an increase in dividends payable (up €9.1 million), after payment to RFI of the refund received from the tax authority in 2019 (down €13.4 million) linked to the acquisition of Rete S.r.l (December 2015).

E. Commitments and risks

Risk management

Terna S.p.A.'s market and financial risks

In the course of its operations, Terna is exposed to different financial risks: market risk, liquidity risk and credit risk.
This section provides information regarding Terna'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.
Terna's risk management policies seek to identify and analyse the risks that the Company is 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 Company's operations.
As a part of the financial risk management policies approved by the Board of Directors, Terna S.p.A. 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		
	RECEIVABLES AT AMORTISED COST	FAIR VALUE	TOTAL	RECEIVABLES AT AMORTISED COST	FAIR VALUE	TOTAL
Assets						
Derivative financial instruments	-	1.6	1.6	-	94.2	94.2
Cash on hand and government securities	1,619.8	958.5	2,578.3	2,451.9	611.4	3,063.3
Trade receivables	2,633.3	-	2,633.3	1,091.1	-	1,091.1
TOTAL	**4,253.1**	**960.1**	**5,213.2**	**3,543.0**	**705.6**	**4,248.6**

(€m)

	31 DECEMBER 2021			31 DECEMBER 2020		
	PAYABLES AT AMORTISED COST	FAIR VALUE	TOTAL	PAYABLES AT AMORTISED COST	FAIR VALUE	TOTAL
Liabilities						
Long-term debt	10,448.8	-	10,448.8	11,008.6	-	11,008.6
Derivative financial instruments	-	83.7	83.7	-	251.4	251.4
Trade payables	3,090.9	-	3,090.9	1,884.5	-	1,884.5
TOTAL	**13,539.7**	**83.7**	**13,623.4**	**12,893.1**	**251.4**	**13,144.5**

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 Company's activities.
Terna S.p.A. 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 carry out the planned 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, Terna 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. Terna's borrowing strategy focuses on long-term borrowings, whose term reflects the useful life of the Company's assets. It pursues an interest rate risk hedging policy that aims to guarantee that the percentage of debt represented by fixed rate liabilities is at least 40%, as provided for in the relevant policies. Considering the low level of interest rates and the new regulatory review, all debt is now 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 Terna:

(€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)	4,061.9	(251.4)	(820.9)	167.7

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 outstanding 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

With regard to the management of interest rate risk, following the restructuring of the derivatives portfolio, Terna is party to interest rate swaps to hedge cash flow interest rate risk.
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.
As a result:

- in the case of fair value hedges, changes in the fair value of the hedged item, attributable to the hedged risk, must be accounted for in profit or loss, where they are offset against changes in the fair value of the derivative;
- 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 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			OCI		
	CURRENT RATES +10%	CURRENT VALUES	CURRENT RATES -10%	CURRENT RATES +10%	CURRENT VALUES	CURRENT RATES -10%
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)	(84.2)	**(92.4)**	(100.6)
Hypothetical change	*0.1*	-	*(0.1)*	*8.2*	-	*(8.2)*

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 Company 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 Company 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 a partial 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 Company'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 component of financial instruments associated with exchange rate risk is residual in nature and attributable to the investments in Latin America and Switzerland.

Liquidity risk

Liquidity risk is the risk that Terna 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 lines of credit and appropriate management of any surplus liquidity.
At 31 December 2021, Terna 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 Company'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 the regulator.

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	1,619.8	2,451.9	(832.1)
Trade receivables	2,633.3	1,091.1	1,542.2
TOTAL	**4,254.7**	**3,637.2**	**617.5**

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 fair value hedges.

The following tables provide qualitative information on trade receivables regarding the geographical distribution and type of customers.

GEOGRAPHICAL DISTRIBUTION

(€m)

	31 DECEMBER 2021	31 DECEMBER 2020
Italy	2,139.2	1,032.1
Euro-area countries	466.8	35.6
Other countries	27.3	23.4
Total	**2,633.3**	**1,091.1**

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	1,288.0	563.9
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	13.8	12.7
Sundry receivables	42.2	48.2
Total	**2,633.3**	**1,091.1**

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

(€m)

	31 DECEMBER 2021		31 DECEMBER 2020	
	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS
Current	(0.3)	2,576.9	(0.4)	1,049.5
0-30 days past due	0.1	24.9	0.1	1.8
31-120 days past due	(0.1)	6.1	(0.1)	4.6
Over 120 days past due	(42.8)	68.5	(44.8)	80.4
Total	**(43.1)**	**2,676.4**	**(45.2)**	**1,136.3**

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	(45.2)	(37.0)
Release of provisions	2.2	0.7
Impairments for the year	(0.1)	(8.9)
Balance at 31 December	**(43.1)**	**(45.2)**

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.

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 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 Terna S.p.A.'s consolidated financial statements.

Parent company guarantees issued on behalf of subsidiaries

The Company has issued parent company guarantees to third parties to guarantee the fulfilment of certain contractual obligations assumed by its subsidiaries, with the Company's maximum exposure at 31 December 2021 amounting to €1.194.6 million. This breaks down as follows: €294 million on its own behalf, €141.4 million for Terna Interconnector S.r.l., €570.5 million for Terna Rete Italia S.p.A., €9.3 million for Difebal S.A., €86.4 million for Rete S.r.l., €12.3 million for Terna Peru S.A.C., €1.93 million for Terna Energy Solutions S.r.l., €1 million for Terna Plus S.r.l., €44.4 million for Linha Verde II, €33.3 million for Linha verde I.

In relation to the long-term loan obtained by the Uruguayan subsidiary, Difebal, on 14 July 2017, Terna S.p.A. has signed a Sponsor Support Agreement, requiring the parent to inject contingent equity of up to 50 million US dollars.

Bank guarantees

Bank guarantees issued in relation to Terna S.p.A.'s credit facilities, to third parties and on behalf of subsidiaries amount to €211.2 million at 31 December 2021 and break down as follows: €97.2 million on behalf of Terna S.p.A., €55.3 million on behalf of Terna Rete Italia S.p.A., €39.2 million on behalf of Terna Interconnector S.r.l., €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 Peru 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 Company are described below.

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 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 the subsidiary 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 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 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 the Ministry for Economic Development, and/or Terna, 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

There were no business combinations in 2021.

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 subsidiaries, associates (Cesi S.p.A., Coreso SA 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 S.p.A. and the above companies 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 Company'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.

Under the Terna Group's current organisational structure, the subsidiary, Terna Rete Italia S.p.A., which has entered into an agreement with the Company covering the lease of certain operations and a number of related intercompany agreements. In accordance with these arrangements, the subsidiary is responsible for the traditional activities involved in operation and routine and extraordinary maintenance of the owned portion of the NTG, and for management and implementation of the grid development initiatives included in the related concession arrangement for transmission and dispatching operations, as set out in Terna's Development Plan.
Terna is responsible for managing the operations of all its subsidiaries under specific service agreements which, in addition to covering administrative and financial coordination and the coordination of relations with government bodies and other institutions, give the Company the right to act on behalf of its subsidiaries, or in their name and on their behalf.
The Company's Non-regulated Activities are conducted in Italy and overseas through the subsidiaries, Terna Energy Solutions S.r.l. and Terna Plus S.r.l. under existing intercompany service agreements.

From a financial viewpoint, Terna is responsible for subsidiaries' cash management in accordance with specific treasury management arrangements. These cover the conduct and coordination of all the transactions carried out from time to time, in order to manage financial resources and meet subsidiaries' cash and treasury requirements, and the execution of any other related transaction.

The following table shows the contractual terms and conditions governing financial relations with subsidiaries.

	DEPOSITS*	WITHDRAWALS
Terna Rete Italia S.p.A.	monthly average 1-month Euribor+0.30%	monthly average 1-month Euribor+0.80%
Rete S.r.l.	monthly average 1-month Euribor+0.30%	monthly average 1-month Euribor+0.80%
Terna Energy Solutions S.r.l.	monthly average 1-month Euribor+0.30%	monthly average 1-month Euribor+0.80%
Terna Plus S.r.l.	monthly average 1-month Euribor+0.30%	monthly average 1-month Euribor+0.80%
Difebal S.A.	n/a	3-month Libor +1.30%

** If the sum of the average "1-month Euribor" plus the spread of 0.30% is negative, the interest rate applied will be 0.01%.*

Existing intercompany agreements at 31 December 2021 are summarised below.

COUNTERPARTY	TYPE	ANNUAL FEE
Terna Rete Italia S.p.A.	**Service agreement:**	
	Operation & Maintenance	€272,083,064
	Upgrade and development	equal to costs incurred + allowed margin on personal expenses incurred
	Administrative, support and consultancy services	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (revenue-generating)	€17,581,341
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (cost-generating)	€3,469,227
	Rental of workstations for staff	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (revenue-generating)	€440,341
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (cost-generating)	€173,955
	Lease of operations	€22,190,000
Rete S.r.l.	**Service agreement:**	
	Upgrade and development	equal to costs incurred + 5.82% of personnel expenses incurred
	Admin. Support and consultancy service agreement (revenue-generating)	€1,340,001
Terna Plus S.r.l.	**Service agreement:**	
	Management fee (revenue-generating)	€193,329
	Rental of workstations for staff (revenue-generating)	€59,411
Terna Energy Solutions S.r.l.	**Service agreement:**	
	Terna's Non-regulated Activities (cost-generating)	€8,105,159
	Management fee (revenue-generating)	€930,542
	Rental of workstations for staff (revenue-generating)	€136,296
Gruppo Tamini	**Service agreement**	
	Administrative service (revenue-generating	€510,381
	Technical services	equal to costs incurred + 5.82% of personnel expenses incurred
Gruppo Brugg	**Administrative Service agreement (revenue-generating)**	€96,666
	Services provided by staff on secondment and on assignment (revenue-generating)	€537,243
Terna Interconnector S.r.l.	**Administrative Service agreement (revenue-generating)**	€680,845
	Management and coordination of civil works for Italy-France Interconnector (cost-generating)	equal to costs incurred + 5.82% of personnel expenses incurred
Esperia CC S.r.l.	**Administrative Service agreement (revenue-generating)**	€116,964
Terna Crna Gora d.o.o.	**Service agreement:**	
	Technical services	equal to costs incurred + 5.82%
	Administrative services	€40,532
Avvenia The Energy Innovator S.r.l.	**Administrative service agreement (revenue-generating)**	€191,368

Terna S.p.A. is the consolidating entity in a tax consolidation arrangement for the purposes of corporation tax (IRES), in which the following subsidiaries participate: Terna Rete Italia S.p.A., Rete S.r.l., Terna Plus S.r.l., Terna Energy Solutions S.r.l., Tamini Trasformatori S.r.l. and Avvenia The Energy Innovator S.r.l..

The nature of sales and purchases from related parties by the Company is shown below, followed by details of the revenue and costs resulting from such transactions during the year, and the related receivables and payables outstanding at 31 December 2021.

RELATED PARTY	REVENUE-GENERATING TRANSACTIONS	COST-GENERATING TRANSACTIONS
Parent		
Cassa Depositi e Prestiti S.p.A.		Credit facilities
Related parties: subsidiaries operating in Regulated Activities		
Terna Rete Italia S.p.A.	Rental for leased operations, administrative services, rental of workstations and other services	Maintenance and other technical services, grid upgrade and development, quality of service allowance, administrative services, rental of workstations for staff
Rete S.r.l.	Provision of technical and administrative services	Transmission charge
Terna Crna Gora d.o.o.	Administrative services, services provided by seconded personnel and staff on temporary transfers.	Transmission charge
Esperia CC S.r.l.	Administrative services, rental of workstations	
Related parties: subsidiaries operating in Non-regulated Activities		
Terna Energy Solutions S.r.l.	Technical, administrative and financial services, rental of spaces and workstations	Operation of Non-regulated Activities
Terna Plus S.r.l.	Technical, administrative and financial services, rental of spaces and workstations	Operation of Non-regulated Activities
Gruppo Tamini	Administrative and other services	
Terna Perù S.A.C.	Financial services	
Brugg Kabel AG	Administrative and other services	
Terna Interconnnector S.r.l.	Administrative and consultancy services, loan agreements	Management and coordination of performance of civil works for Italy-France interconnector
Resia Interconnector S.r.l.	Administrative and other services	
SPE Transmissora de energia Linha Verde I S.A. (Brasile)	Financial services	
SPE Transmissora de energia Linha Verde II S.A. (Brasile)	Financial services	
Avvenia The Energy Innovator S.r.l.	Administrative and other services	
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

RELATED PARTY	REVENUE-GENERATING TRANSACTIONS	COST-GENERATING TRANSACTIONS
Other related companies		
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
Open Fiber S.p.A.	IRU agreements for fibre	Provision of services for the rental of fibre
Snam Rete Gas		Contributions for NTG connections, sundry services
ENI Group	Dispatching charge	Contributions for NTG connections, sundry services
Poste Italiane		Sundry services
ANAS S.p.A.	Movement /re-routing of power lines	Right-of-way fees
Other related parties of the MEF		Sundry services
Fondenel and Fopen		Pension contributions payable by the Terna Group

REVENUE AND COSTS

(€m)

	REVENUE COMPONENTS		COST COMPONENTS
	TRANSMISSION CHARGE AND OTHER REVENUE FROM REGULATED ACTIVITIES	NON-ENERGY-RELATED ITEMS	NON-ENERGY-RELATED ITEMS
Subsidiaries:			
Terna Rete Italia S.p.A.	-	45.2	336.6
SPE Transmissora de energia Linha Verde I S.A. (Brasile)	-	0.3	-
SPE Transmissora de energia Linha Verde II S.A. (Brasile)	-	0.3	-
Terna Perù S.A.C.	-	0.1	-
Terna Crna Gora d.o.o.	-	0.1	-
Terna Plus S.r.l.	-	0.4	-
Gruppo Tamini	-	0.7	-
Terna Energy Solutions S.r.l.	-	1.6	8.1
Rete S.r.l.	-	2.1	-
Terna Interconnector S.r.l.	-	0.8	-
Esperia CC S.r.l.	-	0.2	-
Avvenia The Energy Innovator S.r.l.	-	0.2	-
Brugg Kabel AG	-	1.0	-
Resia Interconnector S.r.l.	-	0.1	-
Total subsidiaries	**-**	**53.1**	**344.7**
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	0.5
CORESO S.A.	-	-	3.5
Total associates	**-**	**0.1**	**4.0**
Other related parties:			
Gruppo GSE	16.0	-	0.1
Open Fiber S.p.A.	-	1.4	-
Gruppo Enel	1,706.0	2.3	0.1
Gruppo Eni	7.1	0.0	0.1
Gruppo Ferrovie	2.2	0.7	0.2
ANAS S.p.A.	-	-	0.2
SNAM Rete e Gas	-	-	0.2
Ministry for Economic Development	-	0.2	0.7
Total other related parties	**1,731.3**	**4.6**	**1.6**
Pension funds:			
Fondenel	-	-	0.5
Fopen	-	-	0.5
Total pension funds	**-**	**-**	**1.0**
TOTAL	**1,731.3**	**57.8**	**351.8**

ASSETS AND LIABILITIES

(€m)

	PROPERTY, PLANT AND EQUIPMENT	RECEIVABLES AND OTHER ASSETS	PAYABLES AND OTHER LIABILITIES	BALANCE ON INTER-COMPANY TREASURY ACCOUNT AND CASH	GUARANTEES*
	CAPITALISED COSTS	OTHER	OTHER		
Subsidiaries:					
Terna Rete Italia S.p.A.*	78.5	19.8	619.7	(82.8)	-
SPE Transmissora de energia Linha Verde I S.A. (Brazil)	-	0.1	-	-	-
SPE Transmissora de energia Linha Verde II S.A. (Brazil)	-	0.1	-	-	
Terna Perù S.A.C.	-	0.1	-	-	-
Terna Gora d.o.o.	-	-	2.6	-	-
Terna Plus S.r.l.*	-	(2.8)	-	32.1	-
Gruppo Tamini*	26.3	2.7	-	-	-
Terna Energy Solutions S.r.l.*	-	2.2	2.0	120.3	-
Rete S.r.l.*	-	22.7	22.7	76.3	-
Terna Interconnector S.r.l.	1.4	0.2	2.5	-	-
Esperia CC S.r.l.	-	0.1	-	-	-
Avvenia The Energy Innovator S.r.l.*	-	(0.1)	0.1	(8.3)	-
Brugg Kabel AG	50.0	0.7	-	-	-
Total subsidiaries	**156.2**	**45.8**	**649.6**	**137.6**	**-**
De facto parent:					
Cassa Depositi e Prestiti S.p.A.	-	-	-	-	(275.0)
Total de facto parent	**-**	**-**	**-**	**-**	**(275.0)**
Associates:					
Cesi S.p.A.	2.5	-	0.9	-	0.4
CORESO S.A.	-	-	0.3	-	-
Total associates	**2.5**	**-**	**1.2**	**-**	**0.4**
Other related parties:					
Gruppo GSE	0.2	2.4	0.2	-	-
Open Fiber S.p.A.	-	0.2	0.1	-	-
Gruppo Enel	0.1	283.0	10.0	-	736.4
Gruppo Eni	-	1.2	1.0	-	66.4
Gruppo Ferrovie	-	1.7	2.5	-	24.2
ANAS S.p.A.	-	2.5	1.9	-	-
Other related parties of MEF	1.9	0.2	0.8	0.1	0.1
Total other related parties	**2.2**	**291.2**	**16.5**	**0.1**	**827.1**
Pension funds:					
Fopen	-	-	0.4	-	-
Total pension funds	**-**	**-**	**0.4**	**-**	**-**
TOTAL	**160.9**	**337.0**	**667.7**	**137.7**	**552.5**

* *The balances for the item, "Other", include receivables and payables relating to the tax consolidation arrangement for IRES.*
** *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	13,447	160.9	1.2%	12,755	117	0.9%
Non-current financial assets	1,415.1	-	-	1,513.1	22.4	1.5%
Other non-current assets	6.4	1.4	21.9%	4.9	0.3	6.1%
Trade receivables	2,633.3	309.2	11.7%	1,091.1	263.1	24.1%
Cash and cash equivalents	1,619.8	137.7	8.5%	2,451.9	(58.7)	(2.4%)
Tax assets*	3.5	26.4	754.3%	3.2	24.3	759.4%
Other current assets	21.0	-	-	34.9	0.3	0.9%
Other non-current liabilities	346.6	27.3	7.9%	332.8	29.2	8.8%
Trade payables	3,090.9	627.8	20.3%	1,884.5	578.0	30.7%
Tax liabilities*	33.9	-	-	-	-	-
Other current liabilities	389.6	12.6	3.2%	278.0	26.2	9.4%

** The balances for the items include receivables and payables relating to the tax consolidation arrangement for IRES.*

INCOME STATEMENT

(€m)

	2021			2020		
	TOTAL	RELATED PARTIES	% SHARE	TOTAL	RELATED PARTIES	% SHARE
Revenue from sales and services	2,146.8	1,757.4	81.9%	2,037.1	1,713.7	84.1%
Other revenue and income	77.3	31.3	40.5%	49.5	27.7	56.0%
Raw and consumable materials used	6.0	-	-	3.0	0.1	3.3%
Services	411.9	350.6	85.1%	395.1	348.1	88.1%
Personnel expenses	76.4	1.1	1.4%	71.1	0.9	1.3%
Other operating costs	23.0	0.1	0.4%	30.5	0.2	0.7%
Financial income	(78.4)	0.4	(0.5%)	29.4	19.9	67.7%
Financial expenses	-	-	-	(86.6)	-	-

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	926.5	(211.2)	(22.8%)	958.9	53.0	5.5%
Cash flow from investing activities	(729.0)	(44.3)	6.1%	(1,305.5)	(20.6)	1.6%
Cash flow from financing activities	(1,029.6)	-	-	2,079.3	-	-

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

No significant non-recurring, atypical or unusual events or transactions, involving either third or related parties, took place in 2021.

I. Notes to statement of cash flows

Cash flow from **continuing operations** amounts to €926.5 million, with approximately €1,712.3 million in operating cash flow and an outflow of approximately €785.8 million generated by changes in net working capital.

The cash outflow for **investing activities** totals approximately €729.0 million and regards €1,206.1 million relating to investment in property, plant and equipment (excluding right-of-use assets recognised in application of IFRS 16) and €128.3 million invested in intangible assets, 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 €556.7 million, due primarily to payment of the final dividend for 2020 and the interim dividend for 2021 (totalling €546.7 million).
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 €1,285.7 million, partly covered by cash flow from continuing operations of €926.5 million. The remainder was funded through net debt, which over the course of the year rose €732.0 million compared with the previous year (including assets held for sale).

The following table shows the reconciliation of liabilities 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)	11,008.6	(426.2)	(133.6)	10,448.8
- Short-term borrowings	977.1	(46.8)	987.3	1,917.6
Net change deriving from financing activities	**11,985.7**	**(473.0)**	**853.7**	**12,366.4**

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 Assonime circulars, Circular 5 of 22 February 2019 on "Transparency in the government grants system: an assessment of the regulations and interpretation guidance" and Circular 32 of 23 December 2019 on "Enterprise and competition", Terna S.p.A. uses the following criteria and 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 Terna S.p.A. 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)

GRANTOR	BENEFICIARY NAME	BENEFICIARY 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. Proposal for appropriation of profit for the year

Terna S.p.A.'s Board of Directors proposes to pay a total dividend of €585,108,671.20 for 2021, equal to €0.2911 per share, of which €0,0982 per share was declared in the form of an interim dividend on 10 November 2021.

The Board of Directors thus proposes to appropriate Terna S.p.A.'s profit for 2021, amounting to €735,248,526.11, as follows:

- €197,381,214.40 to cover payment of the interim dividend payable from 24 November 2021 to the holders of each of the ordinary shares outstanding after adjusting for the treasury shares held at the "record date" of 23 November 2021 (with the relevant amount of €303,947.85 taken to retained earnings);
- €387,727,456.80 to pay a final dividend of €0.1929 to the holders of each of the 2,009,992,000 ordinary shares representing the share capital at the date of this Board of Directors' meeting. The final dividend will be payable on 22 June 2022, with an ex-dividend date for coupon 34 of 20 June 2022 (a record date, as defined by art.83-terdecies of Legislative Decree 58 of 24 February 1998, the Consolidated Law on Finance, of 21 June 2022). The treasury shares held as of the above record date will not participate in the distribution. The final dividend for 2021 attributable to the treasury shares held by the Company at the record date, amounting to €597,062.54, will be taken to retained earnings;
- €150,139,854.91 to be taken to retained earnings.

N. 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 Italy's national transmission grid operator 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 by Terna S.p.A.'s independent auditors in 2021.

(€)

	ENTITY PROVIDING SERVICE	FEES DUE FOR THE YEAR
Audit of the accounts and financial statements	Deloitte & Touche S.p.A.	199,981
Attestation services and other services[9]	Deloitte & Touche S.p.A.	93,816
Total		**293,797**

[9] 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 separate 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

Attestation of the separate financial statements pursuant to 81-*ter* of CONSOB Regulation 11971 of 14 May 1999, as amended

"Terna SpA"

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 separate financial statements during the year ended 31 December 2021.
2. The administrative and accounting procedures adopted in preparation of the separate 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 separate 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.

   3.2 the Directors' report on operations includes a reliable analysis of the operating and financial performance and situation of the issuer, as well as a description of the main risks and uncertainties to which it is exposed.

Rome, 17 March 2022

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

BOARD OF STATUTORY AUDITORS' REPORT

TO THE ANNUAL GENERAL MEETING OF TERNA S.P.A.'s SHAREHOLDERS

under the terms of art. 153 of Italian Legislative Decree 58/1998 and art. 2429 of the Italian Civil Code

Dear Shareholders,

this report, prepared under the terms of art. 153 of Legislative Decree 58/1998 (CLF) and art. 2429 of the Italian Civil Code, details the activities of the Board of Statutory Auditors of Terna S.p.A. ("Terna" or also the "Company") during the year ended 31 December 2021. The report has been prepared in compliance with the applicable legislation, taking into account the "Standards of Conduct for the Boards of Statutory Auditors of Listed Companies" recommended by the Italian Association of Chartered Accountants (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), the requirements of CONSOB (the Commisione Nazionale per le Società e la Borsa, Italy's Securities and Exchange Commission) regarding corporate controls and the guidelines contained in the Corporate Governance Code published by Borsa Italiana.

In addition, given that Terna has adopted the traditional governance framework, the Board of Statutory Auditors also fulfils the role of "Internal Control and Audit Committee", which is responsible for carrying out further specific controls and oversight over financial reporting and statutory auditing, as detailed in art. 19 of Legislative Decree 39 of 27 January 2010, as amended by Legislative Decree 135 of 17 July 2016.

The current Board of Statutory Auditors was elected by the Annual General Meeting of Terna Shareholders held on 18 May 2020 and will remain in office until approval of the financial statements for the year ended 31 December 2022. During 2021, the Board of Statutory Auditors performed its responsibilities holding 13 meetings. During the year, the Chairperson of the Board of Statutory Auditors or its members also attended 9 meetings of the Board of Directors, 10 meetings of the Audit, Risk, Corporate Governance and Sustainability Committee (hereinafter the "Audit and Risk Committee"), 6 meetings of the Appointments Committee, 5 meetings of the Remuneration Committee and 4 meetings of the Related-Party-Transactions Committee, in addition to the Annual General Meeting of Shareholders held on 30 April 2021.

During the year, the Board of Statutory Auditors, together with the Audit and Risk Committee, met the Supervisory Board in order to exchange information.

Responsibility for the statutory audit required by Legislative Decree 39/2010 (as amended by Legislative Decree 135/2016) has been assigned to the independent auditors, Deloitte & Touche

S.p.A. (the "Independent Auditors"), appointed by the Annual General Meeting of 8 May 2019 for nine years from 2020 to 2028.

1. OVERSIGHT ACTIVITIES

1.1 Oversight of compliance with the law and regulatory and statutory requirements

The oversight tasks assigned to the Board of Statutory Auditors are governed by art. 2403 of the Italian Civil Code, Legislative Decree 58/1998 and Legislative Decree 39/2010. The Board took into account the amendments to Legislative Decree 39/2010 introduced by Legislative Decree 135/2016 in implementation of Directive 2014/56/EU and EU Regulation 537/2014.

Based on the indications contained in CONSOB announcement DEM/1025564 of 6 April 2001, as amended by announcement DEM/3021582 of 4 April 2003 and, later, by announcement DEM/6031329 of 7 April 2006, the Board reports the following with regard to our oversight activities during the year.

The Board of Statutory Auditors periodically obtained information from the Directors, including through our attendance of meetings of the Board of Directors and of Board Committees, on their activities and on the most significant transactions, in terms of their impact on the results of operations and financial position, approved and implemented by the Company, and, pursuant to art. 150, paragraph 1 of the CLF, on those carried out by subsidiaries. Based on the available information, the Board of Statutory Auditors is able to provide reasonable assurance that the above transactions were compliant with the law and the Articles of Association and were not manifestly imprudent, risky or in contrast with resolutions approved by the Annual General Meeting, or such as to compromise the value of the Company.

Furthermore, transactions involving a potential conflict of interest were managed and approved in compliance with the law, the relevant regulations, the Articles of Association and the Guidelines for the Approval of Significant Transactions and Managing Situations of Interest.

During the year, the Board has monitored correct application of the new Corporate Governance Code, which came into force in January 2021 and, specifically, confirms implementation of the recommendations announced by the Chairperson of the Corporate Governance Committee for 2021. Due to their significance, the Board of Statutory Auditors notes the following key events during the year, referring readers to the Report on Operations for more detailed information:

- Brugg Kabel: as part of the reorganisation of the Brugg group, on 11 March 2021, the demerger of Brugg Kabel AG was completed, resulting in the establishment of two new companies directly and indirectly controlled by Terna S.p.A.;

- The entry into service of new power lines: a total of 96 km of new lines entered service in 2021;

- Bond issues: on 16 June 2021, in the context of its "Euro Medium Term Note Programme (EMTM)", Terna launched a new green bond issue for a total of € 600 million with maturity of 8 years;

- European Bank loan: on 13 July 2021, Terna formalised a loan from the European Investment Bank for € 300 million, with maturity of 22 years, to support the 2021-2025 Business Plan;

- Interim dividend: on 10 November 2021, the Company's Board of Directors, having obtained the Independent Auditors' opinion required by art. 2433-*bis* of the Italian Civil Code, decided to pay an interim dividend of € 0.0982 per share, amounting to a total payout of € 197,381,214.40 million. The dividend was payable from 24 November 202;

- LatAm: the potential sale of the Group's LatAm portfolio includes six companies, the four Brazilian subsidiaries, Terna Perù and Uruguayan company Difebal. A preferred bidder has been selected, with whom, on 20 December 2021, a Memorandum of Understanding (MOU) was signed, defining the principles and terms of the potential transaction;

- Covid-19: the Company continued to operate throughout the emergency, given that its activities are classified as of strategic importance for the Italian economy. To this end, Terna complied with all the measures introduced by the government, implementing all the national protocols and setting up – on the initiative of the Chief Executive Officer – a steering committee to examine occupational health and safety initiatives and consider new initiatives to adopt in this area;

- Next Terna project: this is a multi-year programme aimed at Terna personnel. Starting with working methods experimented with during the pandemic, it aims to generate a change in culture in all areas of the company, beginning with the promotion of an inclusive leadership model and working towards a true work/life balance through optimisation of workplaces and their use, in order to guarantee efficiency, productivity, logistical benefits and quality of life;

- Related-Party-Transactions Procedure modified by the Board of Directors on 16 June 2021 to align it with applicable legislation for correct application of the new regulatory provisions that came into force on 1 July 2021;

- Market-Engagement Procedure: on 14 October 2021, the Board of Directors adopted the "Policy for managing dialogue with shareholders in general and other stakeholders of Terna S.p.A." in implementation of the recommendations of the new Corporate Governance Code.

Among events occurring after the end of the reporting period, the Board of Statutory Auditors notes:

- New Director: on 26 January 2022, the Board of Directors appointed a new non-executive and non-independent director by co-optation, following the resignation of another director with the same position;

- Hybrid Green Bond: on 2 February 2022, Terna launched the first hybrid green bond for a nominal amount of € 1 billion, a subordinate non-convertible perpetual bond that is non-callable for six years, following authorisation from the Board of Directors on 18 January 2022;

- Chief Risk Officer (CRO): on 23 February 2022, the Board of Directors appointed the new CRO;

- ESG-Linked Term Loan: on 28 February 2022, Terna signed a bilateral ESG-Linked Term Loan for a total of € 300 million with Intesa Sanpaolo - IMI Corporate & Investment Banking division as the Original Lender and Sustainability Coordinator. The line of credit has a term of 2 years and an interest rate linked to Terna's performance in relation to specific environmental, social and governance (ESG) indicators

- 2021 Integrated Report: on 17 March 2022, the Board of Directors approved the "2021 Annual Financial Report", which includes the "2021 Integrated Report", combining the Report on Operations, Sustainability Report and Consolidated Non-Financial Statement, the Consolidated Financial Statements for the year ended 31 December

2021, the Annual Financial Statements of the Parent Company for the year ended 31 December 2021 and the Green Bond Report, into a single document;

- 2021-2025 Business Plan: on 24 March 2022, the Board of Directors approved the update of the 2021-2025 business Plan;
- With regard to the Notice published by CONSOB on 18 March 2022, aimed at listed issuers and discussing the impact of the war in Ukraine on insider information and on financial reporting, the Board of Statutory Auditors highlights that in the Annual Financial Report approved by the Board of Directors on 17 March 2022, and specifically in the section on events occurring after the end of the reporting period, it is stated that: "Whilst general worries remain connected to developments in the crisis and a scenario marked by great uncertainty, at the current time no tangible and immediate impacts have been identified on ordinary performance of Group business or on the strategy of the Group aimed at combining sustainability and growth. Nevertheless, Terna will continue to closely follow any developments that may lead to currently unforeseeable consequences."

Details of other transactions are provided in the notes to the financial statements in the section on events occurring after the end of the reporting period.

With regard to the health emergency, the Board of Statutory Auditors has systematically overseen the Company's adoption of the appropriate steps to protect the health and safety if its workers, intensifying the exchange of information on this aspect with the Company's management and the Independent Auditors, as required by Notice 1/21 issued by CONSOB on 16 February 2021.

1.2 Oversight of compliance with the principles of good governance and the adequacy of the organizational structure

The Board of Statutory Auditors acquired information on and oversaw the adequacy of the organisational structure, compliance with the principles of good governance and the adequacy of the instructions issued by the Company to its subsidiaries pursuant to art. 114, paragraph 2 of the CLF, by obtaining information from the boards of statutory auditors of its Italian-registered subsidiaries, the heads of the relevant departments and the Independent Auditors, as part of the reciprocal exchange of material data and information.

During the year, the Company took steps to implement or comply with the requirements established by law, supervisory authorities, the Corporate Governance Code and the "Guidelines on the Composition of the Management and Oversight Bodies and Supervisory Boards of the Terna Group's subsidiaries", being drawn up by the Company and on which the Board of Statutory Auditors has been kept informed during the meetings held.

The annual reports prepared by the Boards of Statutory Auditors of the Italian-registered subsidiaries on the subsidiaries' financial statements have not raised any areas of concern. Similarly, no concerns have been raised as a result of the information received from the boards of statutory auditors of the subsidiaries, including in the form of specific questionnaires completed and signed by these oversight bodies and meetings with oversight bodies of the main subsidiaries.

The Annual Financial Report, information received during Board of Directors' meetings and from the Chief Executive Officer, from senior managers, from the Boards of Statutory Auditors of subsidiaries and from the Independent Auditors has not provided evidence of transactions of an atypical and/or unusual nature with Group companies, or with third parties or related parties.

1.3 Oversight of the internal control and risk management system

The Board of Statutory Auditors has overseen the adequacy of internal control and risk management system by:

- noting the results of the Board of Directors' assessment of the adequacy of Terna's organisational, administrative and accounting systems and those of its strategic subsidiaries;
- examining the report of the Audit and Risk Committee on its activities and on the adequacy of the internal control and risk management system;
- examining the Annual Report produced by the Head of Internal Audit on the internal control system;
- examining the reports produced by the Supervisory Board pursuant to Legislative Decree 231/2001;
- holding periodic meetings, including attendance at Audit and Risk Committee meetings, with the Internal Audit and Legal and Compliance departments to assess the procedures for planning work, based on the identification and assessment of the main risks present in organizational processes and units;

- holding meetings with the risk management department in order to analyse the Group's strategic risks;
- holding meetings with senior management regarding the organisational and operational impacts of Terna's activities;
- examining the periodic reports prepared by the Internal Audit department in coordination with the Company's Audit and Risk Committee;
- holding meetings with the Manager responsible for financial reporting;
- acquiring information from the oversight bodies of the Italian-registered subsidiaries, pursuant to the first and second paragraphs of art. 151 of the CLF, on material events involving Group companies and on the internal control system, through the completion of specific questionnaires;
- holding joint meetings with the Company's Audit and Risk Committee and Supervisory Board;
- discussing the results of the work carried out by the Independent Auditors;
- participating regularly in meetings of the Company's Audit and Risk Committee, the Appointments Committee, the Remuneration Committee and the Related-Party-Transactions Committee, dealing jointly with issues when deemed appropriate.

The Company's Internal Audit department operates on the basis of a multi-year plan, which is reviewed annually. This defines the activities and processes to be audited using a risk-based approach. The plan is approved by the Board of Directors following a favourable opinion from the Audit and Risk Committee, reached in consultation with the Board of Statutory Auditors.

The activities carried out by Internal Audit during the year covered the range of planned activities. The department's activities did not identify any major concerns, but did find areas for improvement, which are being closely monitored and which are being addressed during the current year.

The Board of Statutory Auditors acknowledges that the annual report prepared by the Internal Audit department states that existing internal controls are reliable, and that the Audit and Risk Committee has concluded that the internal control and risk management system is adequate with respect to the size and nature of the Company.

On the basis of the activities carried out, the information obtained and the content of the report produced by the Internal Audit department, the Board of Statutory Auditors is not aware of any concerns raising doubts on the validity of the internal control and risk management system.

1.4 Oversight of the administrative and accounting system and the financial reporting process

The Board of Statutory Auditors monitored the process and checked the effectiveness of the system of internal controls and risk management over financial reporting.

The Board of Statutory Auditors held periodic meetings with the Manager responsible for financial reporting in order to exchange information on the administrative and accounting system, and on the system's reliability in providing a true and fair view of operations.

The Board of Statutory Auditors also examined the attestations released by the Chief Executive Officer and the Manager responsible for financial reporting in accordance with the requirements of art. 154-*bis*, paragraphs 3 and 4 of the CLF, presented on 17 March 2022.

On 17 March 2022, the Board of Directors approved the Impairment Testing procedure drawn up in accordance with the requirements of IAS 36, with the aim of providing guidelines for the conduct of tests on the recoverability of the Terna Group's assets, and for application of the outcome of the tests to the relevant items in the financial statements for 2021.

The Board oversaw (i) the Board of Directors' adoption of the procedure and, subsequently, (ii) the outcomes of the tests carried out by management, which confirmed the recoverability of the assets tested for impairment.

The Board of Statutory Auditors has not identified shortcomings such as to invalidate the judgement on the adequacy and effective application of administrative and accounting procedures.

During periodic meetings between the Independent Auditors and Board of Statutory Auditors, the former did not raise concerns that could cast doubt on the validity of the internal control system over administrative and accounting procedures.

1.5 Oversight of related-party transactions

Intra-group or related-party transactions are shown in the notes to the financial statements for 2021, under "Related-party transactions", showing transactions with the parent, subsidiaries and associates.

The Board of Statutory Auditors oversaw compliance of the Procedure adopted by TERNA S.p.A. regarding Related-party transactions (i.e. Guideline LG026 "*Related-Party Transactions Procedure*" and the corresponding Operating Instruction IO414CA), as last amended by the Board of Directors on 16 June 2021, with applicable legislation and the correct application of the new regulatory provisions that came into force on 1 July 2021.

2. INTERNAL CONTROL AND AUDIT COMMITTEE

Under the terms of art. 19 of Legislative Decree 39/2010 as amended by Legislative Decree 135/2016, the Board of Statutory Auditors is also assigned the role of Internal Control and Audit Committee and, in this role, conducted the required oversight of the statutory audit of the annual and consolidated accounts.

The Board of Statutory Auditors held periodic meetings with the Independent Auditors, Deloitte & Touche S.p.A., in part pursuant to art. 150, paragraph 3 of the CLF, in order to exchange information. During these meetings, the Independent Auditors did not report omissions, shortcomings or irregularities requiring specific disclosure pursuant to art. 155, paragraph 2 of the CLF.

In conducting oversight of the financial statements, the Board of Statutory Auditors held periodic meetings with the Independent Auditors to examine the results of their assessment of the regular nature of accounting systems, to examine the audit plan for Terna and the Group for 2021 and the state of progress in implementing the plan.

The Board of Statutory Auditors and the Independent Auditors also engaged in continuous exchanges of information. In particular, the Board (i) noted an adequate level of professional scepticism; (ii) promoted effective and timely dialogue with the auditors; (iii) oversaw, without identifying any concerns, the impact of the introduction of remote working for the Independent Auditors’ personnel, availing itself of the support provided by company departments.
The Board of Statutory Auditors (i) analysed the activities of the Independent Auditors, and in particular, the methods used, the audit approach applied to the various material components of the financial statements and to the planning of audit work, and (ii) discussed issues relating to the related business risks with the Independent Auditors, thereby enabling us to assess the adequacy of the auditors’ plans with respect to the structural and risk profiles of the Company and the Group; (iv) continued in-depth examination of the Audit Quality Indicators.

The financial statements for the year ended 31 December 2021, accompanied by the Directors’ report on operations and the attestation signed by the Chief Executive Officer and the Manager responsible for financial reporting, approved by the Board of Directors at the meeting held on 17 March 2022, were at the same time made available to the Board of Statutory Auditors in view of the Annual General Meeting of shareholders called for 29 April 2022. On 17 March 2022, Terna’s Board of

Directors approved the consolidated financial statements, as prepared by the Manager responsible for financial reporting and, pursuant to art. 154-*bis* of the CLF, accompanied by the attestation signed by the Chief Executive Officer and the Manager responsible for financial reporting.

On 7 April 2022, the Independent Auditors issued their audit reports, pursuant to art. 14 of Legislative Decree 39/2010 as amended by Legislative Decree 139/2016 and art. 10 of Regulation (EU) 537/2014, on the separate financial statements and the Terna Group's consolidated financial statements for the year ended 31 December 2021, prepared in compliance with the International Financial Reporting Standards - IFRS adopted by the European Union.

In terms of opinions and attestations, in their audit reports on the separate and consolidated financial statements the Independent Auditors have:

- issued an opinion stating that Terna's separate financial statements and the Terna Group's consolidated financial statements provide a true and fair view of the financial and equity situation of the Company and Group at 31 December 2021, and of the economic result and cash flows for the year ended on that date, in conformity with the International Financial Reporting Standards adopted by the European Union, as well as with provisions issued in implementation of art. 9 of Legislative Decree 38/2005;
- issued an opinion on the consistency of the Report on Operations accompanying the separate and consolidated financial statements for the year ended 31 December 2021 and certain specific information in the "Report on Corporate Governance and Ownership Structures" indicated in art. 123-*bis*, paragraph 4 of the CLF, responsibility for which lies with the Directors of Terna, with the annual financial statements and preparation in compliance with the law;
- declared that, with regard to potential material errors in the Report on Operations, based on the information obtained and their understanding of the Company and associated context acquired during audit activities, they had nothing to report;
- declared that the annual financial statements were prepared in XHTML format in compliance with the provisions of Delegated Regulation (EU) 2019/815 and was compiled in all material ways in compliance with the provisions of the delegated regulation;
- confirmed the Directors' approval of the Non-financial Statement and expressed the following conclusions: "On the basis of the work carried out, no matters have come to our attention that would cause us to conclude that the Terna Group's NFS for the year ended 31

December 2021 has not been prepared, in all material aspects, in compliance with the requirements of arts 3 and 4 of the Decree and GRI Standards."

On 7 April 2022, the Independent Auditors also presented the Board of Statutory Auditors with the additional report required by art. 11 of Regulation (EU) 537/2014, in which the auditors do not identify any significant issues or shortcomings relating to the system of internal controls over financial reporting, to be brought to the attention of persons involved in the governance of the Company. The Board of Statutory Auditors will inform the Company's Board of Directors of the outcome of the statutory audit, providing the Directors with the additional report required by art. 11 of Regulation (EU) 537/2014, accompanied by any observations, pursuant to art. 19 of Legislative Decree 39/2010, as amended by Legislative Decree 135/2016, and EU Regulation 537/2014.

In their additional report required by art. 11 of Regulation (EU) 537/2014, the Independent Auditors have presented the Board of Statutory Auditors with the declaration regarding their independence, as required by art. 6 of Regulation (EU) 537/2014, which does not contain evidence of any situations that might compromise such independence.

The Independent Auditors received attestation and other engagements during 2021, as described in the Annual Financial Report for 2021, prepared in accordance with art. 149-*duodecies* of the Regulations for Issuers.

The fees for these engagements amount to € 93,816 and break down as follows:

- audit of unbundling for ARERA € 8,055
- opinion on payment of the interim dividend € 16,370
- issue of EMTN comfort letters and other documents € 19,644
- attestation of Non-Financial Statement € 15,747
- Green Bond Report € 34,000

3. OTHER ASSETS

3.1 Method for effective implementation of corporate governance rules

In carrying out its duties, as required by art. 2403 of the Italian Civil Code and art. 149 of the CLF, the Board of Statutory Auditors monitored effective implementation of the corporate governance rules provided for in the corporate governance codes Terna has stated that it has adopted. The

Company adheres to the Corporate Governance Code drawn up by Borsa Italiana's Corporate Governance Committee and has prepared, pursuant to art. 123-*bis* of the CLF, the annual "Report on Corporate Governance and Ownership Structures".

The report provides information on, among other things (i) ownership structures; (ii) the corporate governance rules adopted; (iii) the internal control and risk management system; (iv) procedures for General Meetings of shareholders; (v) shareholder rights and how they are exercised; (vi) composition and terms of reference of the management and oversight bodies and board committees.

The Board of Directors approved the "Report on Corporate Governance and Ownership Structures" on 17 March 2022.

The Board of Statutory Auditors has verified correct application of the criteria and procedures adopted by the Board of Directors for assessing the independence of its members in accordance with the new procedure adopted by the Board of Directors on 26 January 2022.

The Board of Directors, with the assistance of an external consulting firm, has conducted a board review, with the findings discussed at the meeting held on 23 February 2022 and described in Terna's Report on Corporate Governance.

3.2 Remuneration policies

The Board of Statutory Auditors has audited the processes involved in drawing up the Company's remuneration policies, with particular regard to the criteria used in determining the remuneration of the Chief Executive Officer and Senior Managers with strategic responsibilities, providing, where required by law, the related opinions. Following the proposal of the Remuneration Committee, the Board of Directors' meeting of the 24 March 2022 approved the "Annual Remuneration Report", prepared pursuant to art. 123-*ter* of the CLF and in compliance with art. 5 of the Corporate Governance Code.

3.3 Omissions or shortcomings, opinions provided and initiatives undertaken

The Board of Statutory Auditors did not receive any complaints pursuant to art. 2408 of the Italian Civil Code, nor did we receive any petitions from third parties in 2021.

The Board of Statutory Auditors also expressed the opinions required by law, in particular regarding the remuneration of Directors holding special office.

On the basis of our activities and the information obtained, the Board of Statutory Auditors is not aware of any omissions, shortcomings, irregularities or any other circumstances that require reporting to the supervisory authorities or mention in this report.

3.4 Non-Financial Statement

In carrying out its duties, the Board of Statutory Auditors oversaw compliance with the provisions of Legislative Decree 254 of 30 December 2016 and of the CONSOB Regulation implementing the Decree and adopted in Resolution 20267 of 18 January 2018. This above all regards the process involved in preparation and the content of the Non-financial Statement ("NFS") prepared by Terna.

The NFS was approved at the Board of Directors' meeting of 17 March 2022, as a document included in the report on operations for the year ended 31 December 2021.

The Independent Auditors issued their report on the NFS pursuant to art. 3, paragraph 10 of Legislative Decree 254/2016 on 7 April 2022. The report states that no matters have been brought to the attention of the independent auditors that would cause them to conclude that the Terna Group's NFS for the year ended 31 December 2021 has not been prepared, in all material aspects, in compliance with the requirements of arts 3 and 4 of Legislative Decree 254/2016 and the Global Reporting Initiative Standards (GRI Standards).

The Board of Statutory Auditors obtained, partly through participation in Audit and Risk Committee meetings, periodic updates on the preparation of the NFS and, in carrying out its duties, has not become aware of any breaches of the related legislation.

3.5 Review of the Board of Statutory Auditors

In accordance with Standard Q.1.1 in the Standards of Conduct for the Boards of Statutory Auditors of Listed Companies, the Board of Statutory Auditors has, with the assistance of an external consulting firm, conducted a review of our composition, size and performance, with the outcome of the Review presented to the Board of Directors at the meeting held on 23 February 2022. With regard to the requirements and competencies of individual members and of the Board as a whole, the Review confirmed that:

- in addition to satisfying the related integrity and professional requirements, and there being no evidence of the grounds for disqualification provided for in the relevant legislation, all the Standing Auditors meet the independence requirements provided for in the Corporate Governance Code;

- the Board of Statutory Auditors guarantees the gender and age diversity of its members;
- each Standing Auditor possesses ample knowledge and experience in several areas of expertise;
- the Board of Statutory Auditors possesses an adequate level of expertise overall.

4. CONCLUSIONS

Based on the above, and considering the content of the reports issued by the Independent Auditors, and the attestations released jointly by the Chief Executive Officer and the Manager responsible for financial reporting, the Board of Statutory Auditors, within the scope of our responsibilities, expresses a favourable opinion on approval of Terna’s financial statements for the year ended 31 December 2021 and on the appropriation of profit for the year of € 735,248,526.11 as proposed by the Board of Directors.

Rome, 7 April 2022

The Board of Statutory Auditors

Mario M. Busso	(Chairman)
Raffaella Fantini	(Standing Auditor)
Vincenzo Simone	(Standing Auditor)

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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 FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Terna S.p.A. (the "Company"), 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 financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union 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 Financial Statements* section of our report. We are independent of 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 financial statements of the current period. These matters were addressed in the context of our audit of the 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 Company accounts in “Property, Plant, and Equipment” and “Intangible Assets”, respectively equal to Euro 13.447 million and Euro 354 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 1.377 million. The Company 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 Company’s 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 Company’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 “11. Property, Plant, and Equipment “ and “13 Intangible Assets” of the 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 Company 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 financial statements and its compliance with the accounting standards.

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

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company’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 for the termination of the operations or have no realistic alternative to such choices.

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

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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 Company'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 Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

We 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 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 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 financial statements with the provisions of the Delegated Regulation.

In our opinion, the financial statements have been prepared in XHTML format 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 ownership structure of Terna S.p.A. as at 31 December 2021, including their consistency with the related 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 ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Terna S.p.A. 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 information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Terna S.p.A. 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.

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.