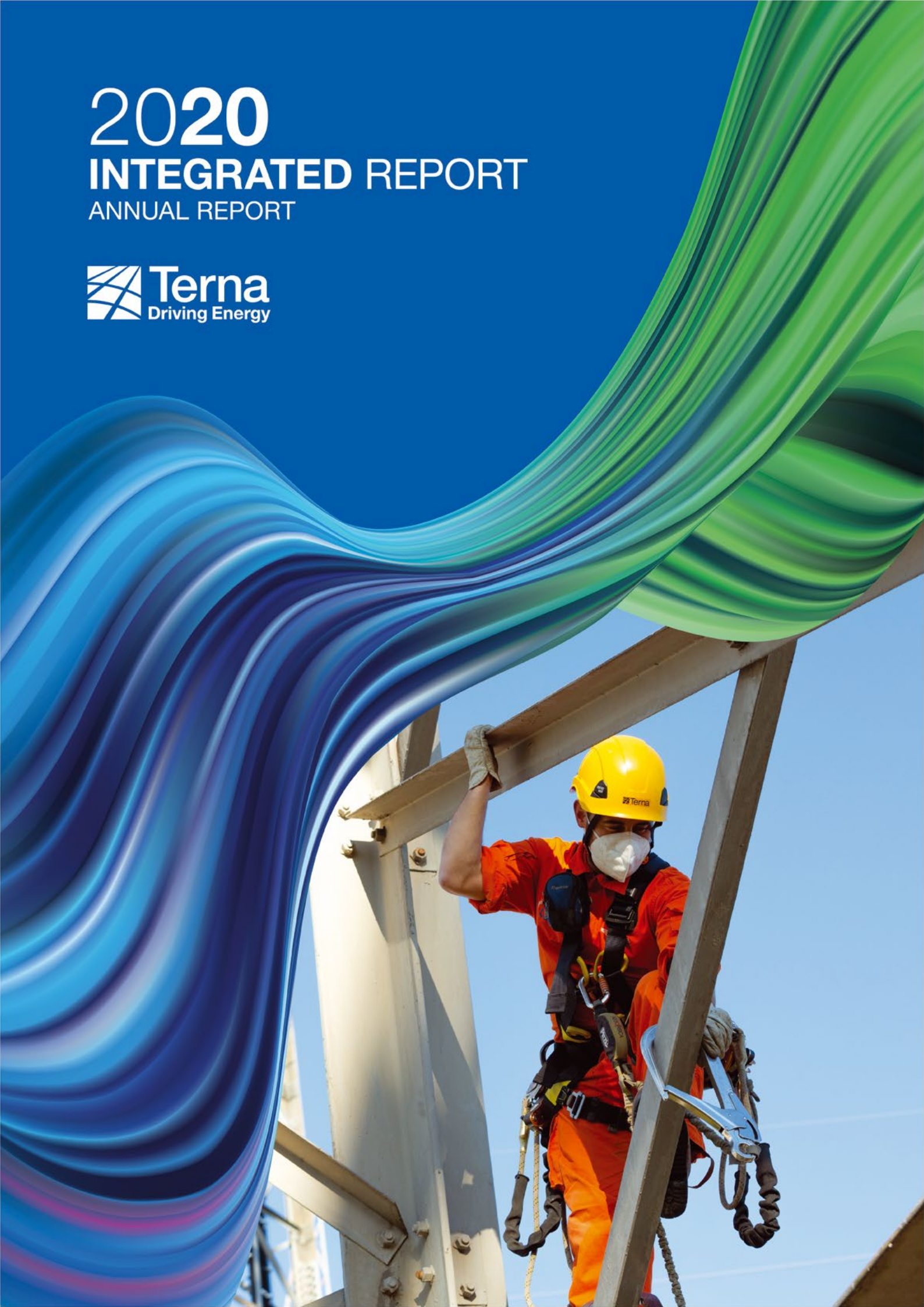
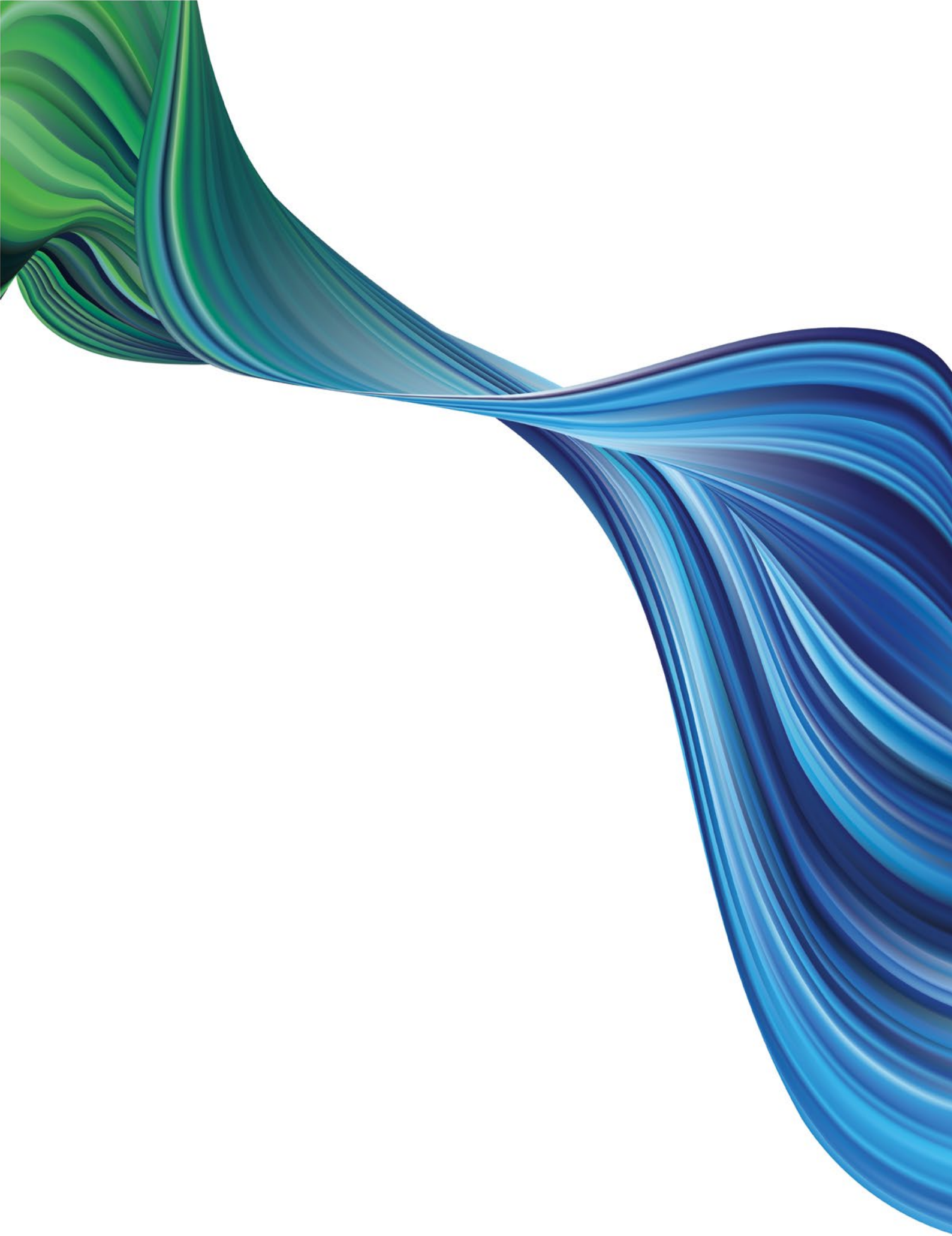


2020

INTEGRATED REPORT

ANNUAL REPORT





Driving Energy

We are engaged in driving and enabling the ecological transition in order to create a new development model based on renewable sources and respect for the environment. Sustainability, innovation and distinctive competencies are behind everything we do, with the aim of providing the generations to come with a clean, accessible and emission-free energy future.

We are Europe's largest independent electricity transmission system operator.

We have the major responsibility for providing the country with energy, ensuring **security, quality and cost-effectiveness over time**.

We manage Italy's high-voltage electricity transmission grid, one of the most modern and technologically advanced in Europe, which we are working to **develop and integrate with the European grid**, guaranteeing secure and **equal access to all grid users**.

We are developing **Non-regulated Activities** and new business opportunities, making our expertise and experience available in Italy and overseas.

We are one of Europe's leading electricity transmission grid operators.

We manage the high-voltage Italian transmission grid, one of the most modern and technologically advanced in Europe. We play a central role in **driving the ecological transition**, guaranteeing the secure and efficient supply of energy to households and businesses.



6.786 €

**NEW ALL-TIME HIGH
SHARE PRICE**
recorded on 19 February 2020

Terna's share price

**PERFORMANCE FROM
THE START OF THE YEAR**

+4.97%

€ **6.250** per share at 31 December 2020

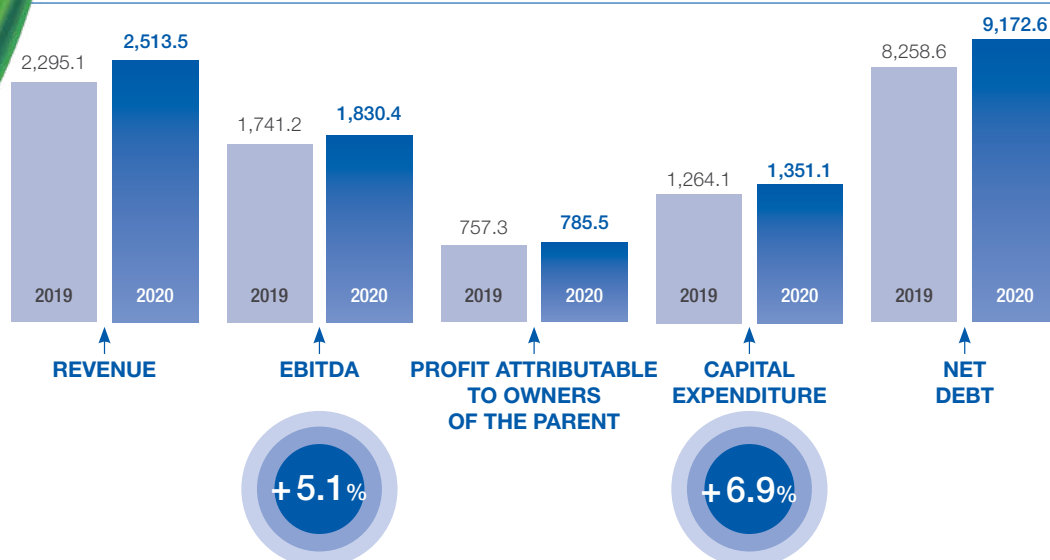
versus € **5.954** per share at 31 December 2019



**4,735
EMPLOYEES**

at 31 December 2020

Financial highlights



About Terna

The **Terna Group** is the owner of the Italian national transmission grid (NTG) for high and extra-high voltage power and is **the largest independent electricity transmission system operator (TSO) in Europe**.

We conduct **grid planning, development and maintenance activities**, bringing together expertise, technology and innovation to optimise high-voltage electricity transmission **(transmission operator)**. In operating the electricity system, we ensure that power supply and demand are balanced 24 hours a day throughout Italy, managing energy flows through the grid in our role as a provider of **“dispatching” (system operator)**.

We have a public service role, crucial to ensuring the country's power supply

and enabling the entire Italian electricity system to function.

We operate as a monopoly under the regulatory framework defined by the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) and in implementation of the guidelines established by the Italian Ministry for Economic Development.

Listed on the Italian Stock Exchange since 2004 and with a free float of around 70%, Terna is a company that focuses on efficiency, profitability and performance, as our results show.

What we do

The transition we are going through will radically change the face of the electricity system. As transmission and system operators, located in Italy and the heart of Europe, we are working to bring about all aspects of this transformation. This is why our Industrial Plan is based around **sustainable investment in the national transmission grid** (€8.9 billion over the five years between 2021 and 2025), which will, among other things, enable us to boost transmission capacity between the different market areas and increase cross-border connections.

Our **Regulated Activities** represent approximately 85% of our business.

We also conduct **Non-regulated Activities** to support the ecological transition as an **energy solutions provider**. Through our **International Activities**, we also export our expertise and technological know-how, developed in Italy, making it available to international operators for the development of electricity grids and the management of complex systems, transmission, the integration of renewable sources and storage systems.

#DrivingEnergy



26

CROSS-BORDER
INTERCONNECTIONS



74,723 KM

OF HIGH-VOLTAGE
LINES MANAGED



38%

OF ITALIAN ELECTRICITY
DEMAND MET
BY RENEWABLES



€8.9 billion

TO BE INVESTED in national
transmission infrastructure under
the 2021-2025 INDUSTRIAL PLAN



95%

OF THIS WILL BE
SUSTAINABLE
INVESTMENT



~€900 million

TO BE INVESTED
IN DIGITALISATION
AND INNOVATION

Letter to shareholders

ANNUAL REPORT 2020

Dear shareholders and stakeholders,

2020 was primarily marked by the health emergency linked to Covid-19, which had a major impact on markets and on the Italian and world economies. **Terna immediately prioritised the health of all our personnel and their ability to operate safely**, introducing a series of measures designed, on the one hand, to guarantee the stability and efficiency of the electricity system and, on the other, to ensure the best possible working conditions for all our people.

In just a few days, therefore, everyone who works for the Company, except for those in departments that provide support for essential services or operational personnel working on the front line, was requested to work remotely from home. This meant that the security of the electricity system, which was severely tested by the fall in consumption, was always assured. The know-how typical of Terna's management team, who are used to managing emergencies, enabled us to meet complex challenges and **to maintain the high quality of the service we provide**.

All our colleagues also showed enormous generosity, voluntarily **donating the equivalent of almost three thousand hours' pay to fund the expansion of intensive care units within the National Health Service and the purchase of personal protection equipment for use by the Civil Protection Agency**. The Company also stepped up to the plate, donating a sum equal to the amount raised by personnel.

As a result of our approach to managing the Covid-19 emergency, Terna was recognised as an example of best practice by grid operators who are members of the various international industry associations.

Despite the climate of great uncertainty, **2020 saw Terna achieve improvements in all our financial indicators**, reflecting our ability to significantly accelerate the delivery of investment projects as soon as the lockdown came to an end.

In the second half of the year, we continued with work on **making the electricity system more reliable, the reorganisation of electricity grids in the country's metropolitan areas, the renewal of assets to make them more efficient, and the development of innovative, digital solutions to support the ecological transition and increase exchange capacity between the various areas of the electricity market**. One of the most significant events for Terna in 2020 was the inauguration of the new power line connecting Capri with the mainland: €150 million invested in totalling invisible, technologically advanced infrastructure, which is now supplying the island with renewable energy and has cut polluting emissions thanks to the retirement of the island's existing diesel power station.

This connection has further confirmed Terna's commitment to **sustainability, a key aspect of our business and one of the cornerstones of our virtuous growth path**, enabling us to remain in line with the United Nations ten Global Compact principles that we have adopted. Electrification, accompanied by the development of renewable sources, is driving the ecological transition and is, by definition, sustainable: under the European taxonomy, Terna's regulated investments are in fact considered 95% sustainable. In addition, **we have maintained our number one ranking in the Electric Utilities sector of the Dow Jones Sustainability World Index** and we are still present in the "Gold Class" for sustainability at global level. We are also present in Bloomberg's

Gender Equality Index (GEI), the Euronext (World, Europe and Eurozone), the FTSE4GOOD (Global and Europe), STOXX® ESG (Global, Environmental, Social and Governance), STOXX® Low Carbon, ECPI, ESI (Ethibel Sustainability Index), MSCI and the United Nations Global Compact ("GC100").

In November, we thus launched a **new Industrial Plan for the period 2021-2025**, which **targets investment of approximately €9 billion over the next five years** and aims to **reinforce Terna's central role in managing Italy's energy system and enabling the ecological transition**. The Plan, based on sustainable investment in Italy's national transmission grid, will allow Italy to achieve the step change called for in Italy's Integrated National Plan for Energy and the Climate (*Piano Nazionale Integrato per l'Energia e il Clima* or "PNIEC") and help to generate value for the country, with **every billion euros invested in infrastructure generating almost three billion euros of GDP** and **creating around a thousand new jobs**.

One of the pillars of our future growth strategy is, finally, represented by innovation, both technological and cultural. Electricity infrastructure will increasingly be at the centre of ecosystems based on **big data, artificial intelligence and technologies**, with the aim of making grids every more efficient.

We have enormous opportunities to take advantage of and distinctive competencies and capabilities that have made us the major Group that we are today and that will enable us to achieve our objectives, for the benefit of the country as a whole. **Italy can become an energy hub serving the Mediterranean area**. Our country is interconnected with France, Austria, Switzerland, Slovenia, Montenegro, Greece and Malta and, in the coming years, will also be connected with Tunisia, with the goal of creating an energy corridor linking Africa with northern Europe.

Underpinning each and every prestigious result achieved by the Group is the excellence of Terna's people. 2021 will be the year in which we adopt NexTerna, once again demonstrating our ability to pioneer and drive the transition.

Valentina Bosetti
Chairwoman

Stefano Antonio Donnarumma
Chief Executive Officer



Terna and the Covid-19 emergency

The Covid-19 ("Coronavirus") epidemic, which began in Italy on 21 February 2020 with identification of the first case in Codogno (LO), has resulted in a lengthy and complex health emergency that Terna responded to immediately, acting in accordance with government guidelines and in close contact with the relevant authorities.

In line with our governance arrangements, we promptly set up a **Crisis Committee**, chaired by the Chief Executive Officer and consisting of the heads of key departments, with one member permanently seconded to the Civil Protection Agency's Operational Committee. This was done both to ensure the **continuity of the electricity service** throughout the country, which also involved constant monitoring of the related supply chains and enhanced cooperation with neighbouring TSOs, and to protect the **health and safety of our operational personnel and all the people who work for us**.

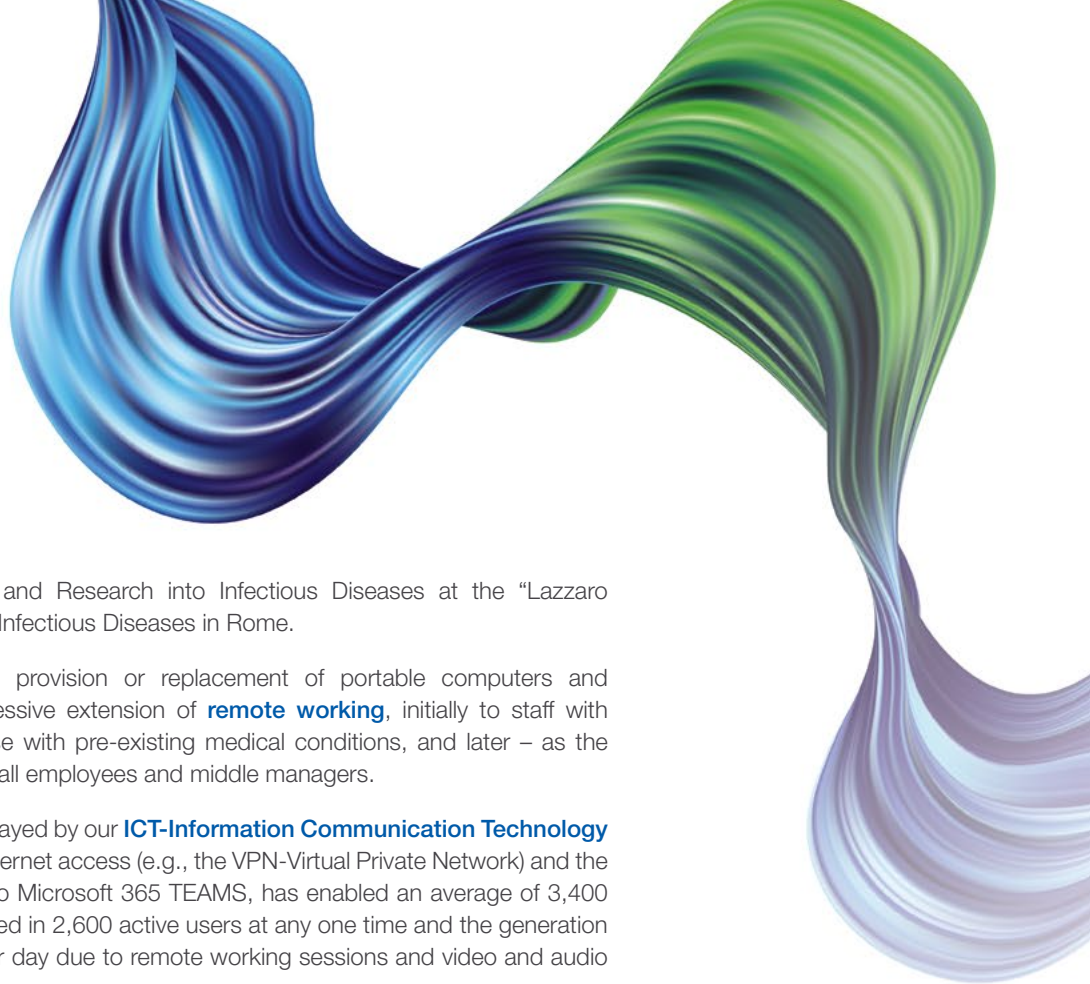
Dispatching operations were guaranteed by targeted interventions involving the staff and operational capacity of local centres. This resulted in the adoption of tighter restrictions on access to Control Rooms and Remote Control Centres, measures ensuring that sites were thoroughly cleaned between one shift and another and social distancing rules. The operational capacities of local dispatching centres were also **stress tested** by simulating critical scenarios based on growing shortfalls in available energy.

The sharp fall in demand for electricity during the first national lockdown (from 9 March to 3 May) unexpectedly brought forward the phase-out of coal to 2025 and enabled us to **stress test the National Transmission Grid** ("NTG"). The falls in demand registered in March (-10.2%), April (-17.2%) and May (-10.3%) led to a significant increase in the proportion of overall energy demand in Italy met from renewable sources: in March and April, 47% of total demand was met from green energy sources, with the figure rising to an all-time high of 51.2% in May. An experience that once again has highlighted the need to accelerate investment in the grid, but also in storage systems, above all in Italy's southern regions.

In terms of **consumption**, April saw the biggest decline, with a fall of 17.2% compared with the same month of the previous year. This was followed by a slow recovery from May onwards, before a return to a level in September broadly in line with the figure for September 2019 (26.6 billion kWh). From November, consumption then began register growth of 1.1% compared with the same months of 2019.

At the same time, the **health of all our personnel and their ability to operate safely** was Terna's main priority: during the initial stages of the emergency, in agreement with the labour unions, the Company proceeded with the operational and maintenance activities necessary in order to guarantee the continuity of the electricity service, **deploying protective equipment** (FFP2 and FFP3 masks, latex gloves and protective clothing) for operational personnel and taking out specific Covid-19 insurance cover for all our personnel.

This was accompanied by the introduction of a **continuous internal communication channel**, created to keep personnel up-to-date with changes to internal regulations following the introduction of new legislation. We also organised information events such as, for example, a live-streamed video conference on the Company's intranet with the Head of the Department



responsible for Clinical Studies and Research into Infectious Diseases at the “Lazzaro Spallanzani” National Institute for Infectious Diseases in Rome.

Rapid completion of the mass provision or replacement of portable computers and smartphones enabled the progressive extension of **remote working**, initially to staff with young children, over 65s or those with pre-existing medical conditions, and later – as the health emergency worsened – to all employees and middle managers.

A major role in this process was played by our **ICT-Information Communication Technology** unit which, thanks to upgraded internet access (e.g., the VPN-Virtual Private Network) and the large-scale extension of access to Microsoft 365 TEAMS, has enabled an average of 3,400 connections each day. This resulted in 2,600 active users at any one time and the generation of 3.5 Terabytes of data traffic per day due to remote working sessions and video and audio meetings (4,500 a day).

The extremely positive impact of remote working on productivity has led the Company to conclude an **agreement with the national labour unions** in November 2020. Once the Covid-19 emergency has come to an end, the accord will result in remote working being introduced on a more permanent basis, allowing people to work in this way for up to two days a week.

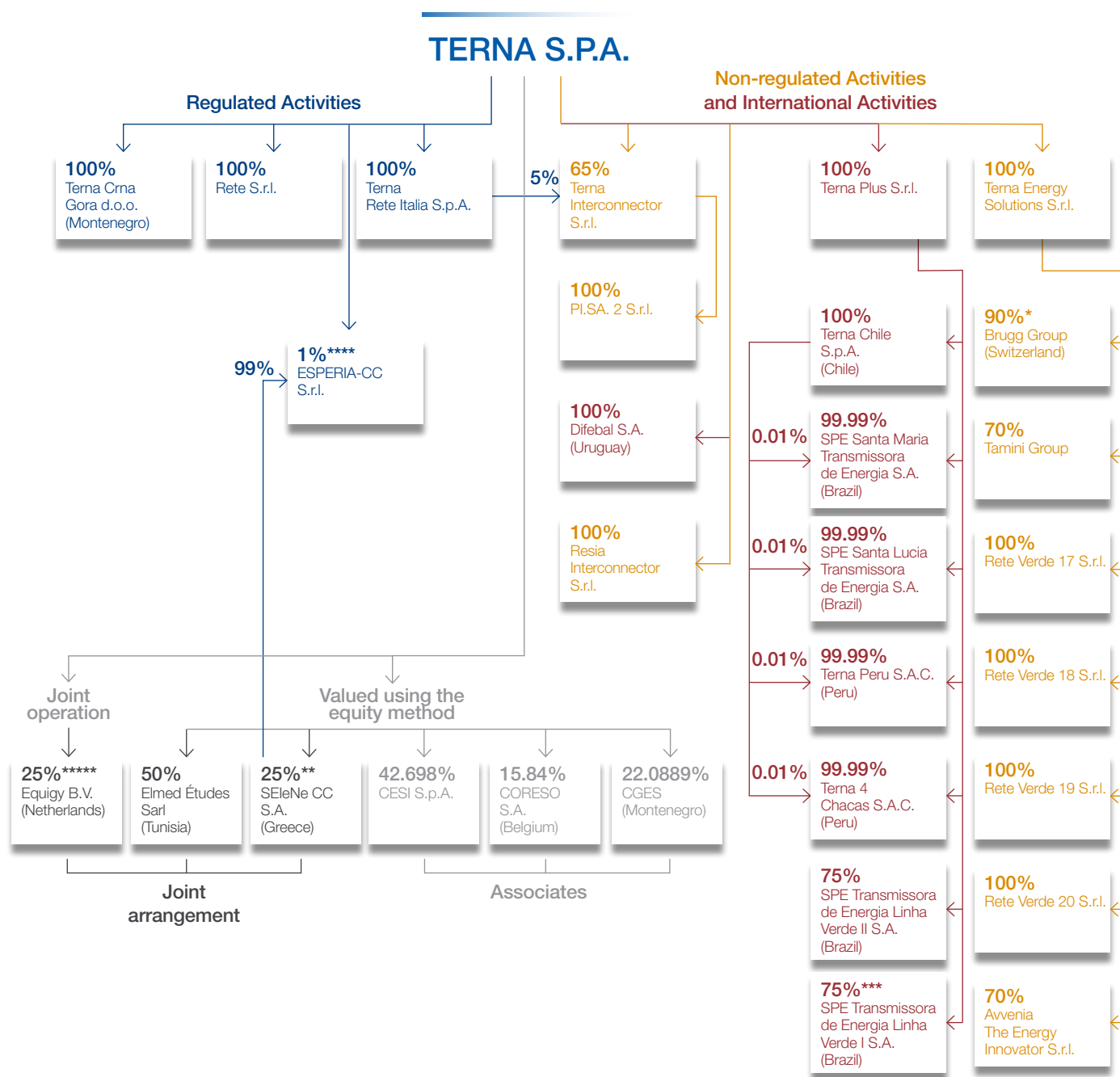
The second half of the year saw the gradual reopening of our offices, with up to 40% of personnel coming into work (with the exception of people with children under 14, who were granted the option of continuing to work from home until schools reopened). From September, this was accompanied by the **“Sicuri Insieme”** campaign, an initiative that, as part of efforts to combat Covid-19 and help to ease people’s concerns, offered all employees the option of taking a **free serological test** at their place of work by booking an appointment on the Company’s intranet.

A second round of serological tests, followed by the rollout of **rapid testing**, took place from October 2020 onwards. This was followed, in December, by a **seasonal influenza prevention** campaign, with vaccinations offered free of charge, and a new round of Covid testing, this time using **molecular tests**. From January 2021, all personnel can book a molecular test at any time to check for the virus.

As part of our commitment to social responsibility, Terna also supported the work of the Civil Protection Agency at the height of the health emergency, by making two **donations** of PPE (masks and gloves) and ventilators for intensive care units. Over the year, Terna also provided operational support to Rome’s Agostino Gemelli University Hospital, helping to boost the capacity of intensive care and other units and in the distribution of PPE.

Terna’s personnel also played their part, donating approximately 3,000 hours’ pay to provide funding for intensive care units within the National Health Service. In line with the initiative promoted by the labour unions, this donation was doubled by the Company and then passed on to Italy’s Civil Protection Agency.

Structure of the Group



Compared with 31 December 2019:

* On **29 February 2020**, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the acquisition of a 90% interest in Brugg Kabel AG (a Brugg group company). The transaction forms part of the Company's growth strategy.

** On **22 May 2020**, the Company established SEleNe CC S.A., a joint venture 25%-owned by Terna, with the remaining shares held by three other European TSOs. The company will operate as a Regional Security Coordinator, in accordance with European Regulation 2017/1485, for the TSOs who own shares in it.

*** On **11 August 2020**, Terna, acting through its subsidiary Terna Plus S.r.l., completed the transaction with Construtora Quebec that has led to the acquisition of a 51% interest in the Brazilian-registered company, SPE Transmissora de Energia Linha Verde I S.A.. On **9 September 2020**, a further interest was acquired, increasing the Group's interest to 75%.

**** On **20 November 2020**, Terna and the joint venture, SEleNe CC S.A., established ESPERIA-CC S.r.l., a wholly owned subsidiary as a result of its corporate governance structure, despite Terna holding a 1% interest and SEleNe CC S.A. a 99% interest. The company provides support services for dispatching activities (in accordance with European Regulations 2017/1485, 2015/1222 and 2019/943), but is not included among companies that carry out regulated activities which are, therefore, regulated by ARERA.

***** On **1 December 2020**, Terna S.p.A. acquired a 25% interest in Equigy B.V., a limited liability company registered in the Netherlands and jointly controlled by Terna and the other TSOs who hold its shares. The investment represents a joint operation under IFRS 11 – *Joint Arrangements*.



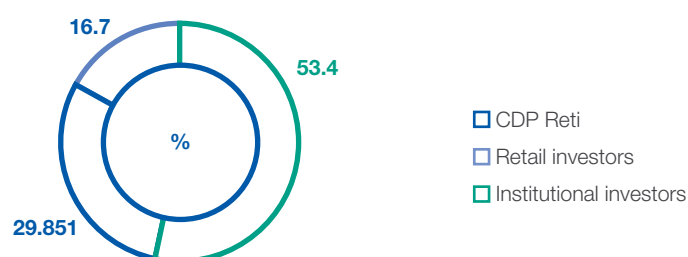
Shareholder structure

At the date of preparation of this report, **Terna's share capital amounts to €442,198,240**, comprising 2,009,992,000 fully paid-up ordinary shares with a par value of €0.22 each.

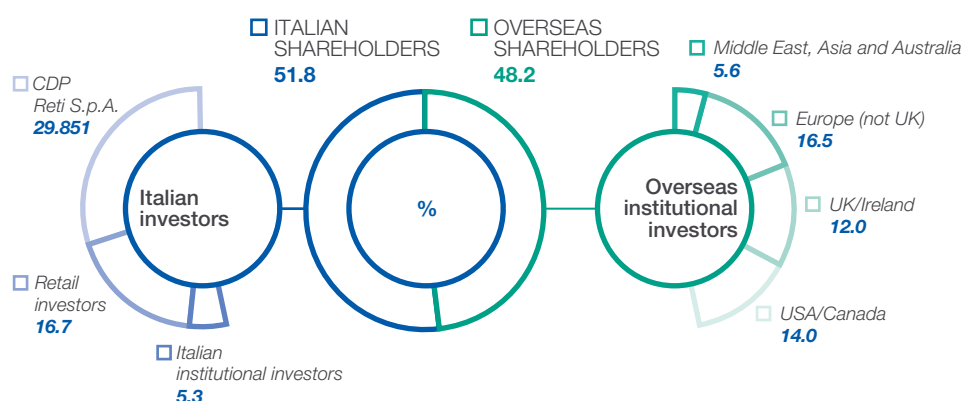
Based on periodic surveys carried out by the Company, it is estimated that 51.8% of Terna's shares are held by Italian shareholders, with the remaining 48.2% held by overseas institutional investors, primarily from Europe (formerly the UK) and the USA.

Based on information from the shareholder register and other data collected as at February 2021, Terna's shareholder structure breaks down as follows.

SHAREHOLDERS BY CATEGORY



SHAREHOLDERS BY GEOGRAPHICAL AREA AND CATEGORY



The Parent Company's buy back of **1,525,900 own shares** (equal to 0.076% of the share capital) was completed in August at a total cost of approximately €9.5 million. The shares have been purchased to service the Performance Share Plan 2020-2023.

Major shareholders¹

CDP RETI S.p.A.²

(a company controlled by Cassa Depositi e Prestiti S.p.A.): _____

29.851%

LAZARD ASSET MANAGEMENT LLC

(as a discretionary asset manager): _____

5.122%

NORGES BANK

(as a discretionary asset manager): _____

1.643%

INARCASSA

(as a discretionary asset manager): _____

1.110%

BANK OF ITALY

(as a discretionary asset manager): _____

1.017%

¹ Shareholders who, based on the available information and notifications received from the CONSOB, own interests in Terna S.p.A. that are above the notifiable threshold established by CONSOB Resolution 11971/99 and Legislative Decree 58/98, as amended. The interests held by the shareholders, Norges Bank, Inarcassa and the Bank of Italy, were notified in implementation of the transitional regime for enhanced transparency regarding changes in major shareholdings introduced by the CONSOB and most recently extended by Resolution 21672 of 13 January 2021, containing the extension of the provisions relating to the identification of further notifiable thresholds for shareholdings and the declaration of investment objectives, as required by CONSOB resolutions 21326 and 21327 of 9 April 2020, adopted in accordance with article 120, paragraphs 2-bis and 4-bis, Legislative Decree 58 of 1998, as previously extended by resolutions 21434 of 8 July 2020 and 21525 of 7 October 2020.

² On 27 November 2014, a shareholder agreement was entered into by Cassa Depositi e Prestiti S.p.A. (CDP), on the one hand, and State Grid Europe Limited (SGEL) and State Grid International Development Limited (SGID), on the other, in relation to CDP Reti S.p.A., Snam S.p.A. and Terna S.p.A.. This was later amended and supplemented to extend the scope of the agreement to include Italgas S.p.A..



Socially Responsible Investors

At the end of 2020, 160 socially responsible investors (SRIs) had invested in Terna's shares using an approach that takes into account ESG (Environmental, Social, Governance) aspects (147 in 2019 and 109 in 2018).

Environmental, social and governance (ESG) criteria are three key factors that investors take into account when considering a company's ethical impact and the sustainability of its business practices. The criteria are applied in ESG investing, sometimes referred to as sustainable, responsible or socially responsible investing. Examples of ESG criteria include assessing a company's impact on climate change or greenhouse gas emissions, its use of water or its conservation efforts, its approach to fighting corruption, to gender diversity and expertise with regard to members of its board of directors, as well as its record on human rights and community development initiatives.

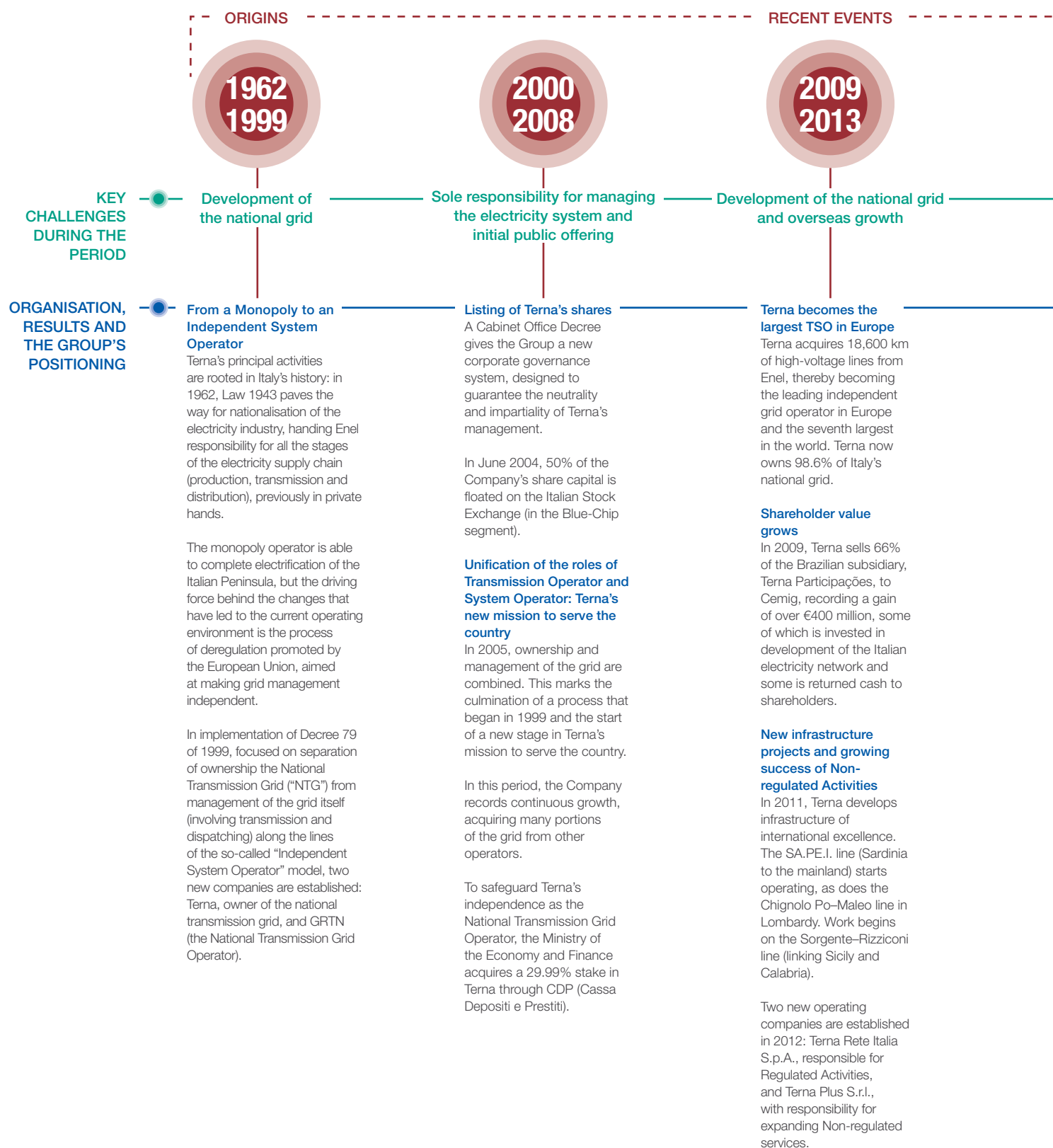
The interest taken by SRIs in the ESG aspects incorporated in Terna's strategy can also be seen in the bond market. The green issues of the last two years have proved a great success with the market, as well as reducing the effective cost of the issues to the lowest ever level for a corporate bond. This demonstrates the appreciation shown by SRIs of both the positive environmental impact of Terna's infrastructure investments, and the Company's commitment to sustainability across all aspects of its operations, including financial transactions. Terna is, in fact, actively committed to the development of sustainable finance at both national and international level, with the aim of fully incorporating the concept of sustainability into its financial strategy. This involves working with investors to drive the development of a more sustainable economy through the use of innovative forms of financing.

Overall, **at the end of 2020, SRIs represented 16.0% of Terna's free float** (11.8% in 2019 and 9.5% in 2018) and 21.4% of the capital held by identifiable institutional investors (15.4% at the end of 2019 and 12.9% at the end of 2018).

Information on the ownership structure, restrictions on the transfer of shares, securities that grant special rights, and restrictions on voting rights, as well as on shareholder agreements, is provided in the "Report on Corporate Governance and Ownership Structures" for 2020. This is available in the "Investors" section of Terna S.p.A.'s website (www.terna.it).



Milestones



THE PRESENT DAY

2014
2016

Decarbonisation, decentralisation and digitalisation of the system

European leadership consolidated with new investments

In 2015, Terna acquires the Ferrovie dello Stato group's high-voltage grid for €757 million, consolidating its leadership in Europe with approximately 72,600 km of grid managed. Terna's value has more than doubled since its IPO.

In 2016, Terna focuses on strategic power lines. The Villanova-Gissi and Sorgente-Rizziconi lines enter service. The latter is a record-breaking power line, connecting Sicily and Calabria and the Italian Peninsula with the rest of Europe via the country's high-voltage electricity system.

2017
2020

The TSO as an enabler of the ecological transition

The reorganisation of Non-regulated Activities and the development of new businesses overseas

In August 2018, the partial demerger of Terna Plus S.r.l. (a wholly-owned subsidiary of the Parent Company, Terna S.p.A.), and the transfer of the demerged assets to a newly established company named Terna Energy Solutions S.r.l., came into effect. The latter's business is focused on energy market solutions. Terna Plus will now be responsible for the Group's development and plant construction activities in South America and, more generally, for the development of new businesses around the world.

The energy bridge with the Balkans

On 15 November 2019, the President of Italy, Sergio Mattarella, attended Terna's inauguration of the Italy-Montenegro interconnector: extending for 445 km, the connector is the longest ever built by Terna and links the Cepagatti substation, located in the province of Pescara, and the Lastva substation in the town of Kotor, in Montenegro. It is the first "electricity bridge" between Italy and the Balkans, a key link that will enable Italy to reinforce its role as a European and Mediterranean electricity transmission hub.

2020
2021

Terna "driving" the transformation

A new Board of Directors is elected in May 2020, with Stefano Antonio Donnarumma appointed Chief Executive Officer and General Manager, the arrival of new managers in key roles and the election of Valentina Bosetti as Chairwoman.

The "Driving Energy" Industrial Plan

On 19 November, the new "Driving Energy" Industrial Plan for the period 2021-2025 is presented. The Plan is based on sustainable investment in the national transmission grid (Regulated Activities), which continues to represent the Group's core business. A record €8.9 billion is to be invested over the life of the Plan, marking an increase of 22% compared with the previous Plan and reinforcing Terna's central role in enabling and driving the ecological transition.

Acquisition of BRUGG CABLES

As part of the Group's growth strategy, in February 2020, acting through its subsidiary, Terna Energy Solutions S.r.l., Terna completed the acquisition of a 90% interest in Brugg Kabel AG (a Brugg group company), one of Europe's leading manufacturers of terrestrial cables.



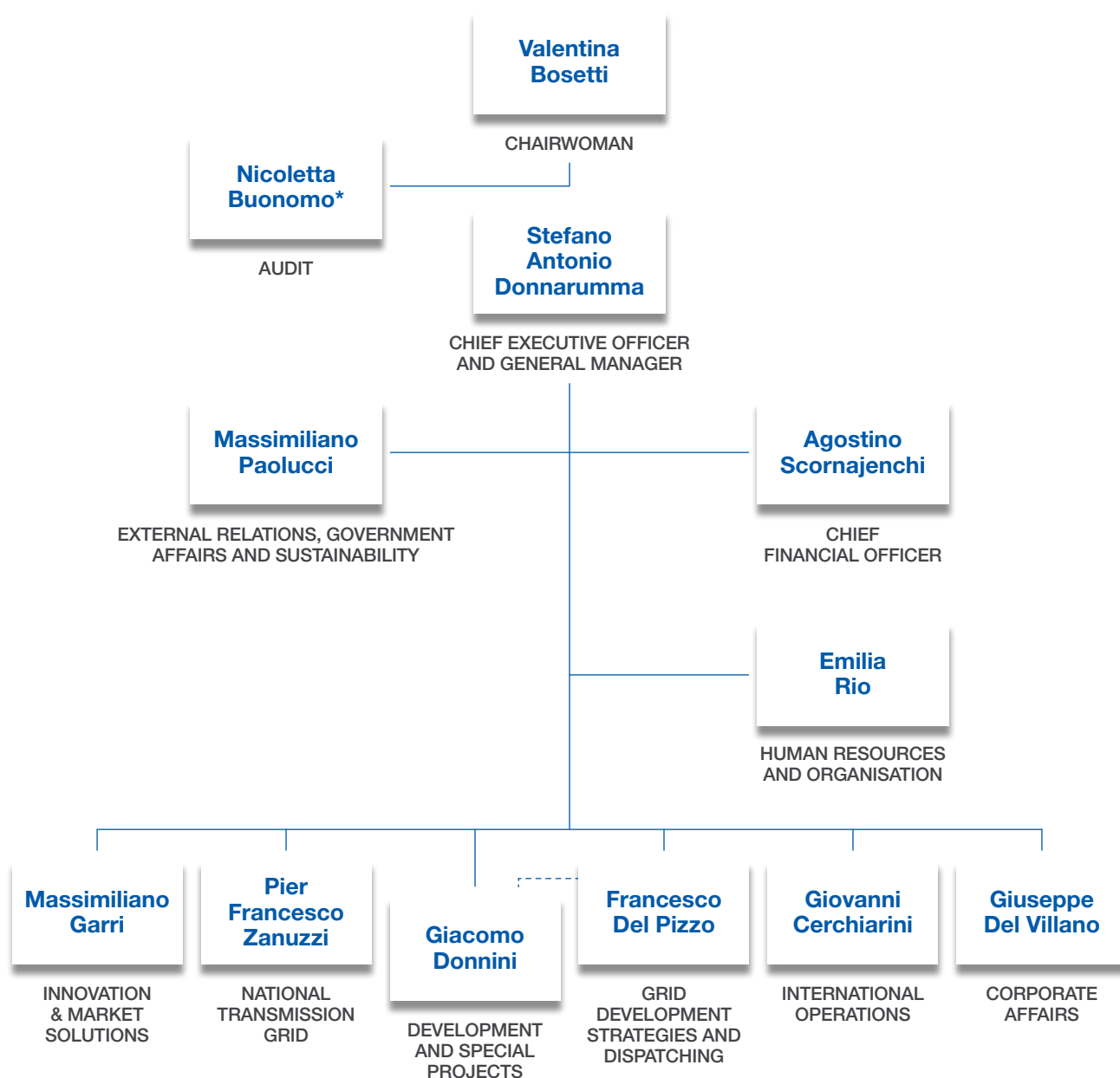
For additional information, go to page. 128



Governance

Our corporate governance system has been designed with the aim of creating value for shareholders, whilst recognising the social importance of what we do. Promoting collaboration and listening in order to tackle future challenges and apply a culture of responsibility are the underlying principles of our approach.

The Board of Directors was elected on 18 May 2020 and will remain in office for the three-year period 2020-2022. The Board is led by the Chairwoman, Valentina Bosetti, and by the Chief Executive Officer, Stefano Antonio Donnarumma.



* Since 1 April 2021.

These objectives are pursued taking into account the social and environmental importance of the Group's operations and the resulting need to adequately consider all stakeholders in conducting our business.

In this regard, the ultimate guide relating to matters of sustainability is the **Code of Ethics**³, which references the ten principles regarding human rights, labour, the environment and corruption covered by the Global Compact, the multi-stakeholder network set up by the United Nations and which Terna has been a member of since 2009. The Code of Ethics also requires the Group to publish an annual Sustainability Report, which in the Group's case also includes the non-financial statement required by art. 4 of Legislative Decree 254/2016. The Sustainability Report contains disclosures on fulfilment of our environmental and social commitments and on the consistency of the results achieved with the targets set.

Chairwoman Valentina Bosetti	Directors Alessandra Faella Yunpeng He Valentina Canalini Ernesto Carbone Giuseppe Ferri	Antonella Baldino Fabio Corsico Marco Giorgino Gabriella Porcelli Paola Giannotti Jean-Michel Aubertin	Board of Directors ⁴
Chief Executive Officer Stefano Antonio Donnarumma			
Chairman Mario Matteo Busso	Standing Auditors Raffaella Fantini Vincenzo Simone	Alternates Massimiliano Ghizzi Maria Assunta Damiano Barbara Zanardi	Board of Statutory Auditors ⁴
		Deloitte & Touche S.p.A.	Independent auditors
		Agostino Scornajenchi	Manager responsible for Terna S.p.A.'s financial reporting
Audit, Risk, Corporate Governance and Sustainability Committee Paola Giannotti (Chairwoman, independent) Giuseppe Ferri (independent) Marco Giorgino (independent)	Nominations Committee Gabriella Porcelli (Chairwoman, independent) Jean-Michel Aubertin (independent) Fabio Corsico (independent)		Board Committees ⁴
Remuneration Committee Fabio Corsico (Chairman, independent) Gabriella Porcelli (independent) Alessandra Faella (independent)	Related Party Transactions Committee Marco Giorgino (Chairman, independent) Ernesto Carbone (independent) Paola Giannotti (independent)		

³ Available on Terna's website at <http://www.terna.it/it-it/investorrelations/corporategovernance/eticadimpresa/codiceetico.aspx>, sub: <http://download.terna.it/terna/0000/0063/62.pdf> e sub <http://download.terna.it/terna/0000/0054/05.pdf>

⁴ The Annual General Meeting of shareholders held on 18 May 2020 elected Terna S.p.A.'s new Board of Directors and Board of Statutory Auditors. On the same date, shareholders appointed Stefano Antonio Donnarumma as Terna S.p.A.'s Chief Executive Officer and elected the members of board committees.



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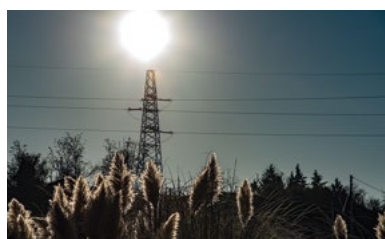
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At the centre of
the ecological transition

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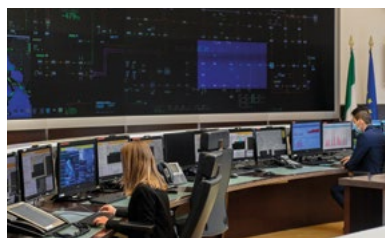
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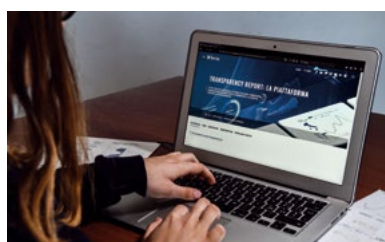
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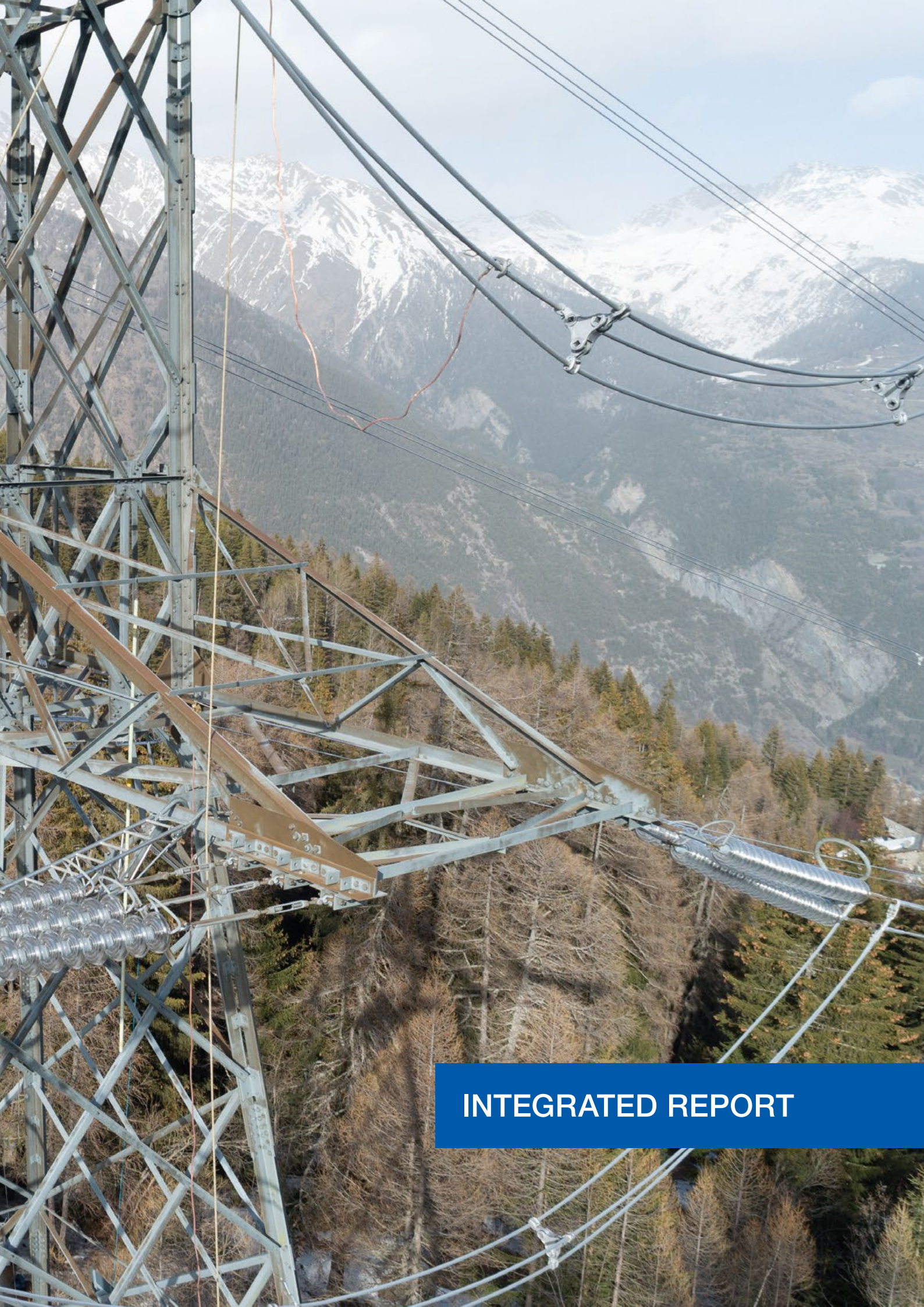
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“

Electricity is an essential good, above all during a health emergency. During 2020, marked by the pandemic, Terna introduced a series of measures designed to guarantee the **uninterrupted continuity of the electricity service** and the safety of our people. To ensure the continuity of the electricity service, we acted on a number of fronts, safeguarding the security of our operations as a Transmission System Operator (TSO) and of the associated supply chains, whilst at the same time guaranteeing the **health and safety of our operational personnel** and, more generally, everyone who works for us.”

#TernaPeople #Covid_19 #DrivingEnergy



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The international environment

The United Nations has established a roadmap setting global goals. Central to this agenda are the **17 sustainable development goals designed to bring an end to poverty, protect the planet and guarantee sustainable development**. We need to act immediately, as the climate emergency and the erosion of natural resources is accelerating. The sustainable development goals were adopted in 2015, after a lengthy consultation process, with the aim of creating a sustainable, inclusive society. These goals have a crucial role to play in ensuring that the efforts of institutions, businesses and communities are fully aligned. Terna can and wants to play its part on a number of fronts:



To increase energy efficiency

Research into Non-regulated Activities

Active role in international associations



Implementation of **Development and Resilience Plans**

Construction of **cross-border interconnections**

Development of **international activities**



Implementation of the **Resilience Plan**

Research, Development and Innovation in Non-regulated Activities

Innovation designed to boost the **resilience of the grid**

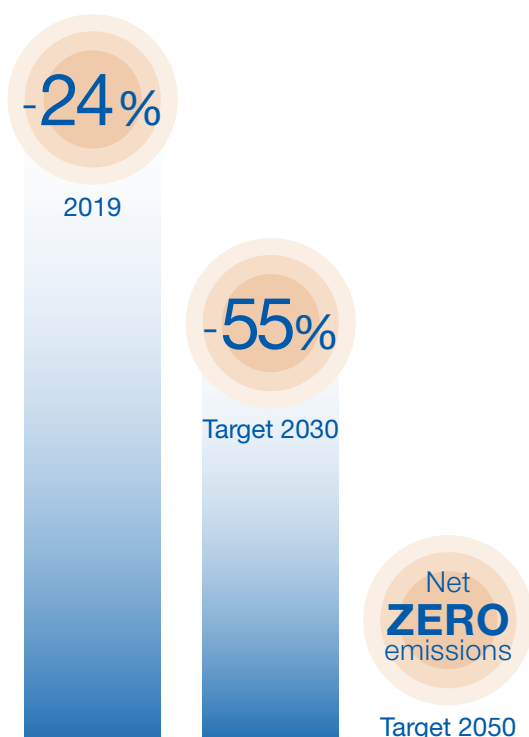


Strengthen the **means of implementation**

Revitalise **partnerships** for **sustainable development**

The European context

In September 2020, the EU Commission set a path towards reducing greenhouse gas emissions, targeting a 55% cut by 2030. The new proposal is in keeping with the commitment made in December 2019 and is in line with the objective set in the Paris agreement to keep the rise in global temperatures to below 2°C compared with pre-industrial levels, with the willingness to intensify efforts in order limit the increase to 1.5°C.



The **European Green Deal sets out a new growth strategy** that envisages the European Union as **a modern, efficient economy in terms of resources and competitiveness**, in which:

- the **efficient use of resources is promoted**, involving a switch to a clean, circular economy and breaking the link between economic growth and the use of resources;
- **biodiversity is restored and pollution is reduced by cutting net greenhouse gas emissions to zero** by 2050.

This new deal thus establishes a shared timetable for making the European economy sustainable, turning climate issues and environmental challenges into opportunities for every sector and ensuring a fair, inclusive transition.

To achieve these objectives, the Green Deal envisages €1,000 billion in investment over the next ten years, with around a half of this to be invested in energy and approximately €100 billion in grids.

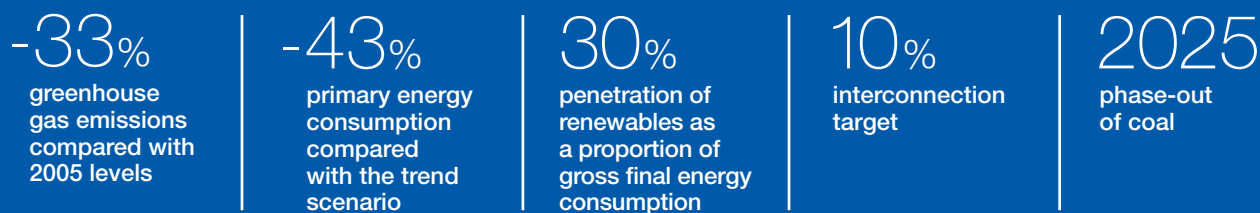
The Italian context

The Integrated National Plan for Energy and the Climate (*Piano Nazionale Integrato per l'Energia e il Clima* or PNIEC), published in January 2020, has established national targets to be met by 2030 regarding energy efficiency, renewable sources and cuts in CO₂ emissions, as well as setting goals for energy security, interconnections, the single energy market and competitiveness, development and sustainable mobility, in each case describing the measures needed to ensure their achievement. Italy's objective is to **make a decisive contribution to bringing about the necessary changes in the European Union's energy and environmental policy**, by identifying agreed measures capable of also assisting in the transition underway in the industrial sector towards the Green Deal.

By June 2021, the Commission will re-examine and, if necessary, propose changes to energy legislation, with the potential for a revisitation of the targets set out in the national energy and climate plans submitted by individual member states.

TARGETS SET IN THE PROPOSED PNIEC

(*Piano Nazionale Integrato per l'Energia e il Clima*)



The key **interventions and tools** indicated in order to achieve these **ecological transition** goals are:

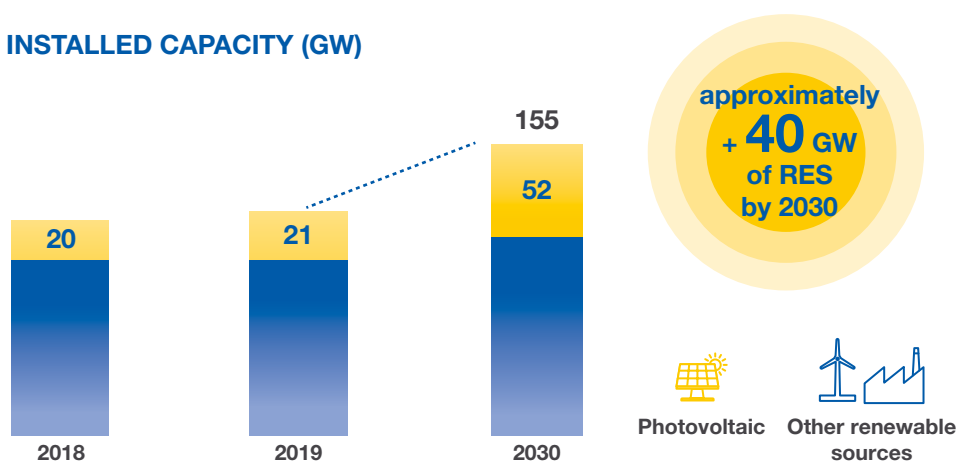
- **an increase in renewable energy production**, above all photovoltaic and wind power, as a share of gross final energy consumption;
- **major development of grids so as to integrate non-programmable renewables**, boost the system's security and resilience and resolve bottlenecks, partly by strengthening cross-border interconnections;
- **energy efficiency**, above all with regard to housing, thanks above all to the progressive switch to electric heating systems;
- **storage systems** (above all electrochemical and hydroelectric) to ensure system security and reduce grid congestion to a minimum;
- **green and sustainable transport** by using electric or low-emission vehicles facilitated by the rollout of charging infrastructure.

Development of the system

Growth in renewable production

The electricity sector has **a central role to play in achieving the decarbonisation targets for the energy system** as a whole, thanks to the intrinsic efficiency of electricity as an energy carrier and the technological maturity of renewable energy sources (RES). This will translate into strong growth by 2030, with total installed capacity due to rise from the current 115 GW to 155 GW, almost entirely in the form of non-programmable sources, such as wind and photovoltaic. Photovoltaic energy alone is expected to see an increase in capacity from the current 21 GW to 52 GW in 2030 (up 30 GW), whilst wind is due to see growth of around 9 GW.

INSTALLED CAPACITY (GW)

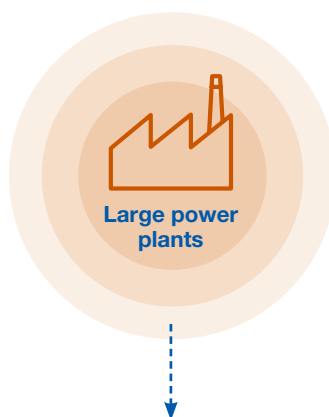


The transformation to a distributed model

The national electricity system is evolving **from a centralised to an integrated, distributed model**: if only 15 years ago there were no more than around 250 large production plants, today there are over 800,000 throughout Italy. Proof of this is the fact that Terna is handling requests for the connection of new plants with a total capacity of approximately 70 GW, having recently registered an upward trend. To meet the targets for 2030, we will in any event need the sizeable contribution made by grid-scale plants, meaning plants connected to the transmission grid. We are still some way from achieving this objective, but this will be our big challenge for the future.

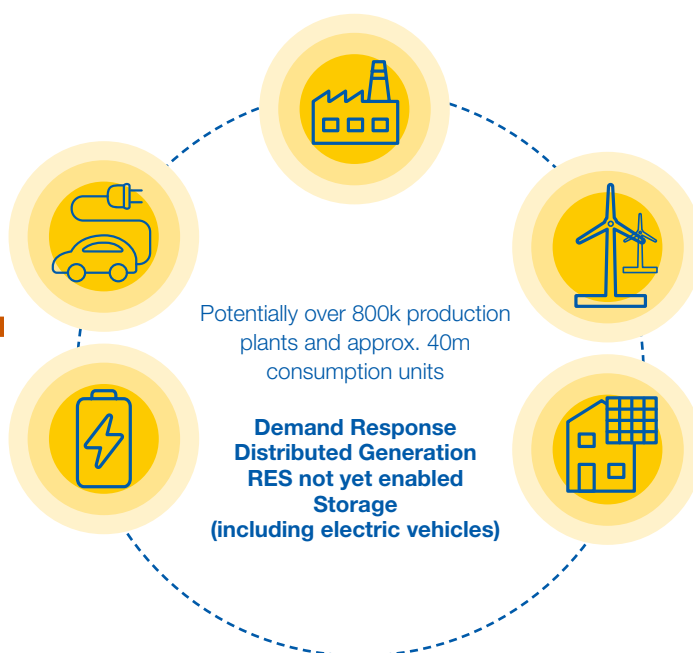
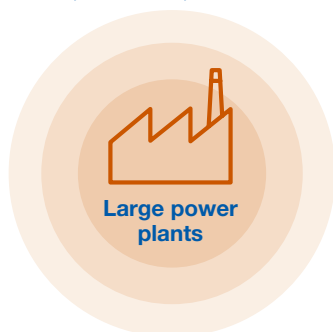
From traditional system resources....

approx. 250
production plants



...to a larger, far more complex market

approx. 250
production plants



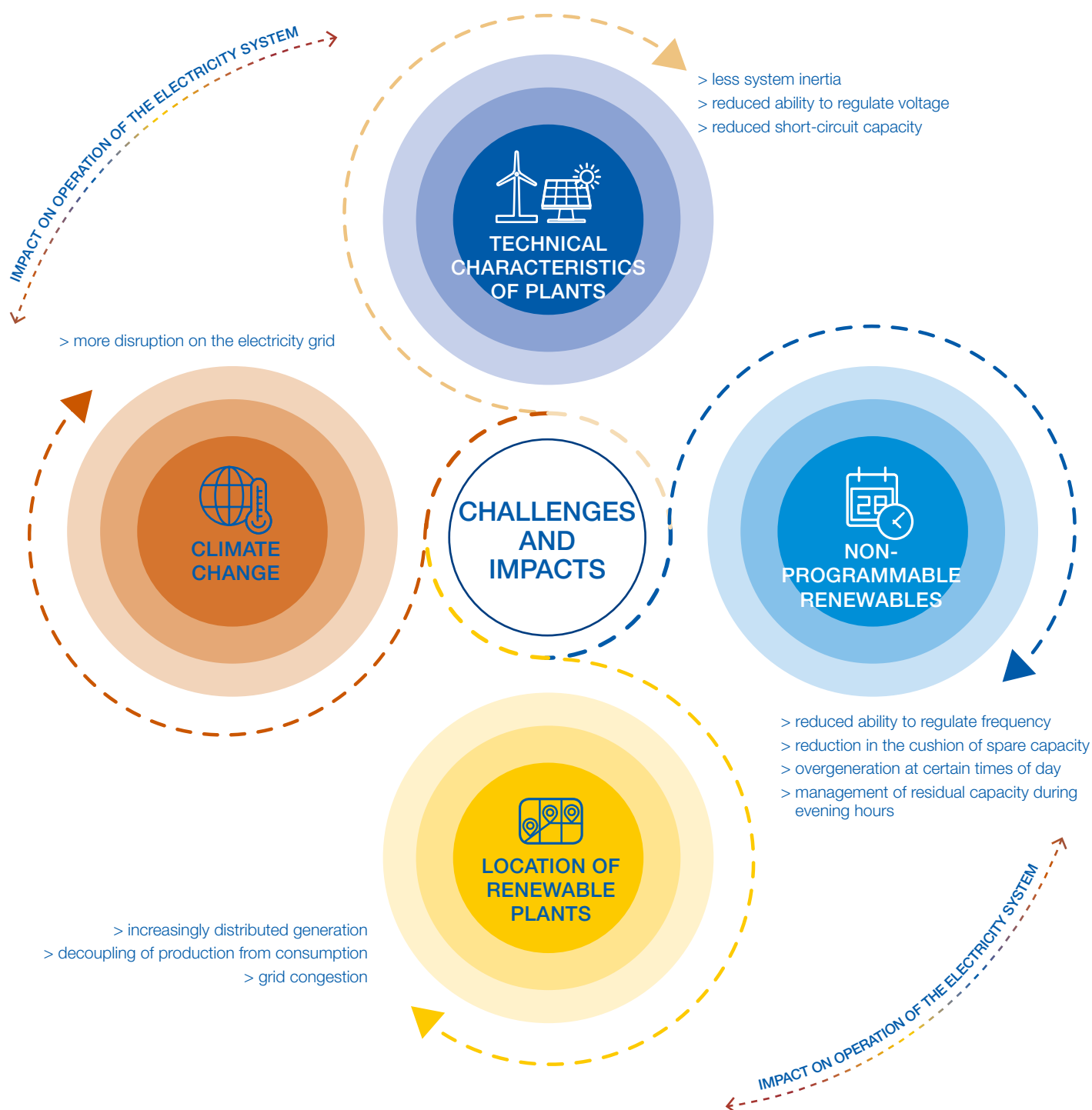
Covid-19 and the step change brought about by the lockdown

Among the many effects on the lives of millions of Italians, the Covid-19 pandemic also led to a **collapse in demand for electricity and a resulting sharp rise in the share of total consumption met from RES**. In practice, this was a **foretaste of what will happen in 2025** and later on in 2030, if the Integrated National Plan for Energy and the Climate is effectively implemented as expected. At the start of spring 2020, the sharp decline in demand for electricity (down 10.2% in March 2020, 17.2% in April and 10.3% in May) was matched by a significant increase in the share of energy consumption met by renewable sources. This meant that, for example, 47% of Italian demand for electricity in March and April was met by green sources, rising to an all-time high of 51.2% in May. In terms of consumption, April saw the biggest decline, with a fall of 17.2% compared with the same month of the previous year. This was followed by a slow recovery from May onwards, before a return to a level in September broadly in line with the figure for September 2019 (26.6 billion kWh).



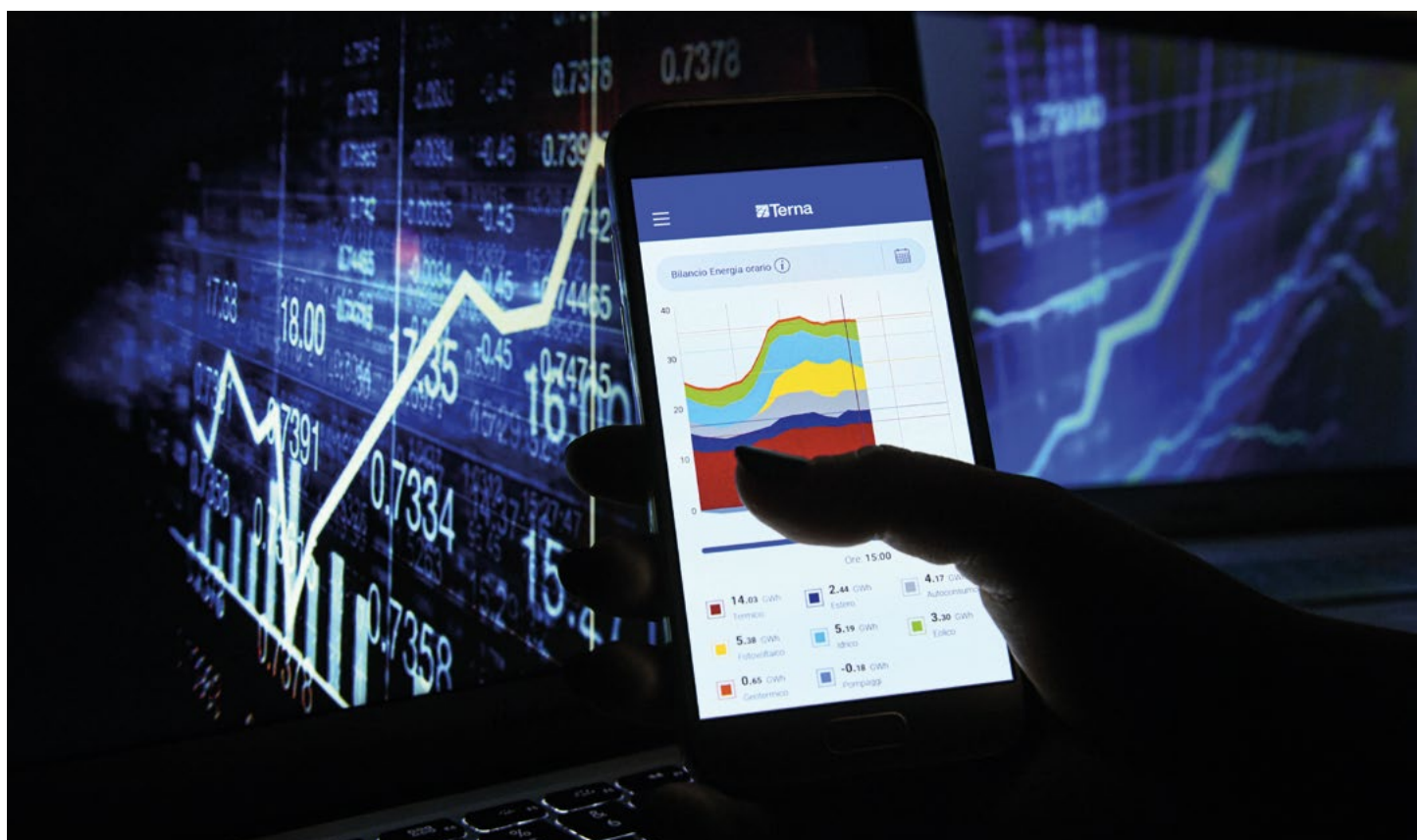
The impact on the electricity system

The progressive switch to a decarbonised energy scenario, allied with the growing intensity of extreme weather events in recent years, means that transmission system operators (TSOs) are faced with a series of challenges in order to effectively deliver on the ecological transition, whilst maintaining existing levels of service quality and avoiding an excessive increase in costs for the community. The effects of the above problem are amplified by the structural nature of the Italian electricity grid which, as a result of the country's geography, makes management of the electricity even more complicated in the new scenario.



To respond to these challenges and achieve decarbonisation targets, **we will need a large-scale plan for digitalisation**. The tools we use must be ever more effective, powerful, interactive and modern. This is a major opportunity to acknowledge the role that technology has to play as an important enabler of change. The key factors enabling this transformation include, on the one hand, new digital technologies that allow data to be gathered at low cost (such as IoT, smart meters, etc.), big data flows to be transferred using reliable connectivity solutions (such as fibre or 5G) and data to be effectively stored and analysed (advanced analytics and data driven decision making), on the other, investment in innovation projects bringing together new digital solutions enabling the response to the new challenges presented by the energy environment, including cybersecurity. Moreover, the growing need to integrate renewable sources calls for an increasingly sophisticated approach to forecasting and planning in order to manage the grid in real time, including the use of artificial intelligence. Finally, robotics will play an extremely important role in maintenance, particularly with regard to the use of drones for the automated inspection of power lines and other system assets.

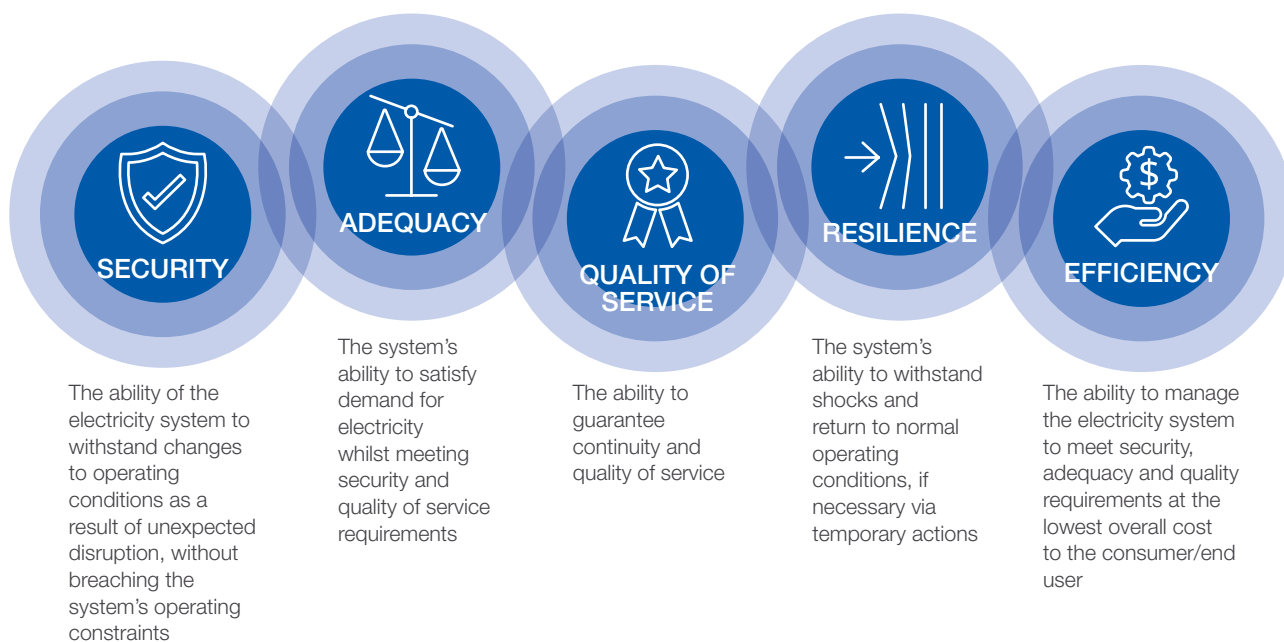
The ecological transition **is a major opportunity for investment, growth and job creation for all**. It represents a shared challenge that requires, and will in the future increasingly require, all the stakeholders involved, such as government institutions, businesses and associations in Italy and overseas, to come together to forge a strategy based on a coherent interpretation of the potential scenarios and ensuring that all the various actors play their part in the process.



Terna's role

Driving the system

Terna has a central role in achieving the objectives to be met in this period of transformation: from being a simple operator, we are becoming drivers of the system, leveraging innovation and our distinctive competencies and technologies. The electricity grid has in fact a key role to play in enabling progressive decarbonisation and driving the ever-greater integration of renewable energy plants. To fulfil this increasingly strategic role, Terna focuses on **five key dimensions of the electricity system: security, adequacy, quality of service, resilience and efficiency**.



It must be emphasised that all our objectives are aligned with those of the regulator (the *Autorità di Regolazione per Energia Reti e Ambiente* or ARERA) in ensuring both the security of the supply chain and the lowest possible cost for end users. This is why it is of fundamental importance to ensure that investment remains on track to provide a secure and efficient system.

Our investment not only enables the system, but also represents a way of getting back to work and creating new jobs. It is a major driver of the country's restart following the Covid-19 emergency. According to a recent study, each investment in the grid has a multiplier effect on GDP, worth two to three times the cost of the infrastructure built: **every €1 billion invested by Terna generates almost €3 billion in GDP⁵**.

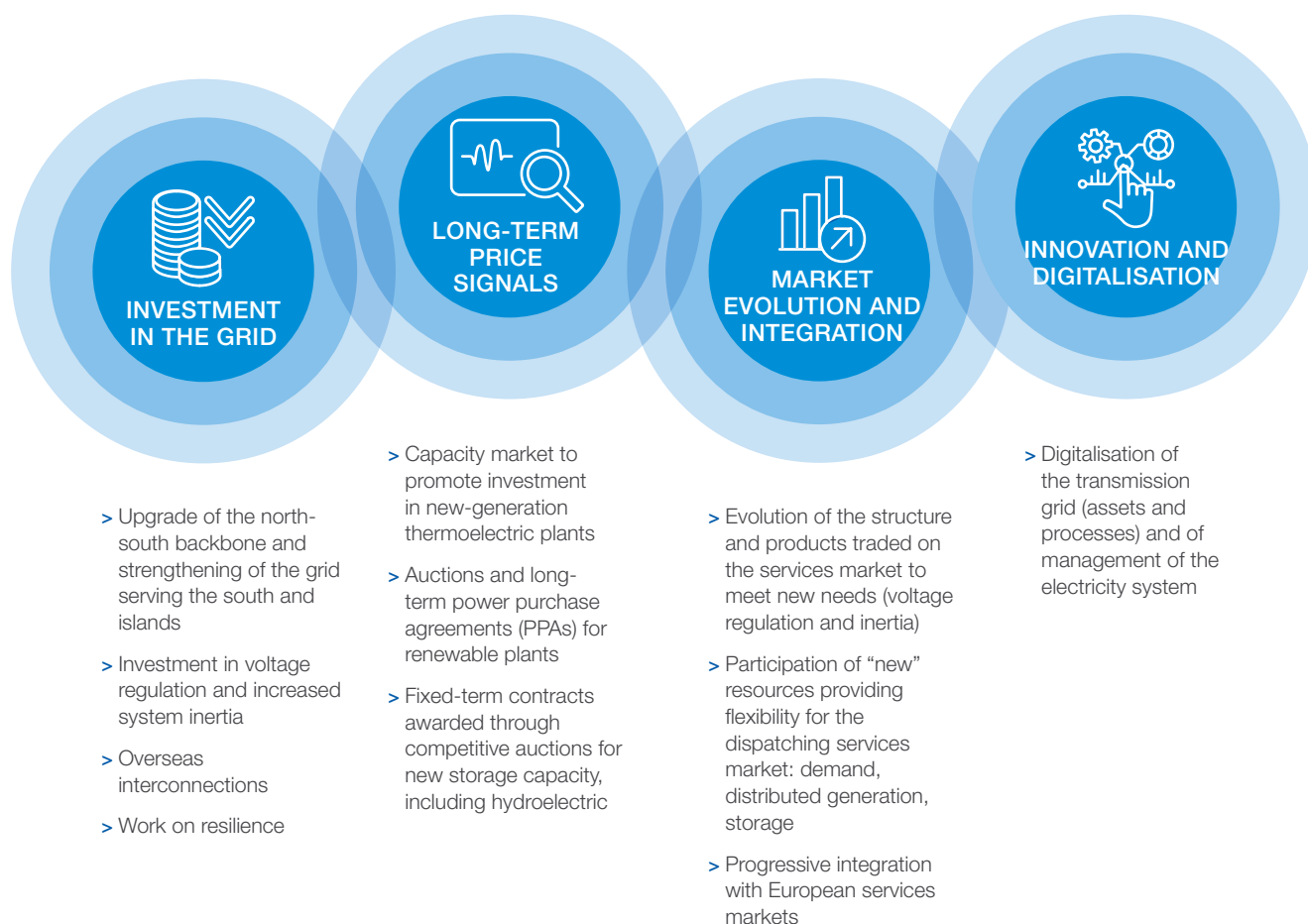
⁵ Source: ICE Infrastructure as a stimulus – laying the foundations for the new normal - <https://www.ice.org.uk/getattachment/5537b8f1-755d-458d-b578-d02db60a436c/attachment.aspx>

Driving Energy

Regulated Activities

Our strategy, in this challenging environment, is based on further accelerating investment in the grid to enable the transition to sustainable energy. 95% of this investment is classifiable as green under the criteria used in the EU Taxonomy, whilst 70% of projects are focused on achieving the goals set in the PNIEC and, in particular, on integrating renewables and cutting CO₂ emissions by approximately 1.5 million tonnes.

Terna believes that it is crucial to act now in order to hand over an increasingly reliable, efficient and decarbonised electricity system to future generations, by carrying out a set of essential, coordinated and coherent actions. These are four categories of intervention that have a key role to play in achieving Italy's decarbonisation targets.



For additional information, go to page 94



Terna has been actively contributing to the achievement of these objectives for some time, including through concrete initiatives and cutting-edge innovation to support the ecological transition, such as the **Equigy platform** and the **Fast reserve project**.

EQUIGY

Terna, in partnership with the Dutch TSO, TenneT, and Switzerland's Swissgrid, has developed a new platform based on blockchain technology that aims to facilitate the participation of new flexible resources in the system services market. The aim is to ensure a balance between demand and supply. Equigy is a crowd balancing platform ("CBP") that can potentially involve millions of small consumers.



Fast Reserve

Terna awarded approximately 250 MW of energy storage capacity in the auction for the Fast Reserve pilot project, which aims to enable batteries to play a part in the dispatching services market. With bids amounting to six times the request capacity, the outcome confirms the enormous interest among operators and the maturity of storage technology. Terna is one of the first in the world to promote this project, which enable batteries to provide services that have a key role to play in guaranteeing the flexibility, stability and security of the national grid.

Dialogue with local communities

Every project designed to create new infrastructure or modernise existing elements of the grid has a series of effects on the local area. For this reason, in the coming years we are not only committed to stepping up investment, but also to engaging ever more closely with all the parties affected by the infrastructure planning and development process, using an approach based on listening and dialogue. Terna has thus adopted the very latest forms of "participatory design" and stakeholder engagement, enabling us to consult widely with citizens and government institutions and work together with local communities in order to agree on innovative technical solutions.

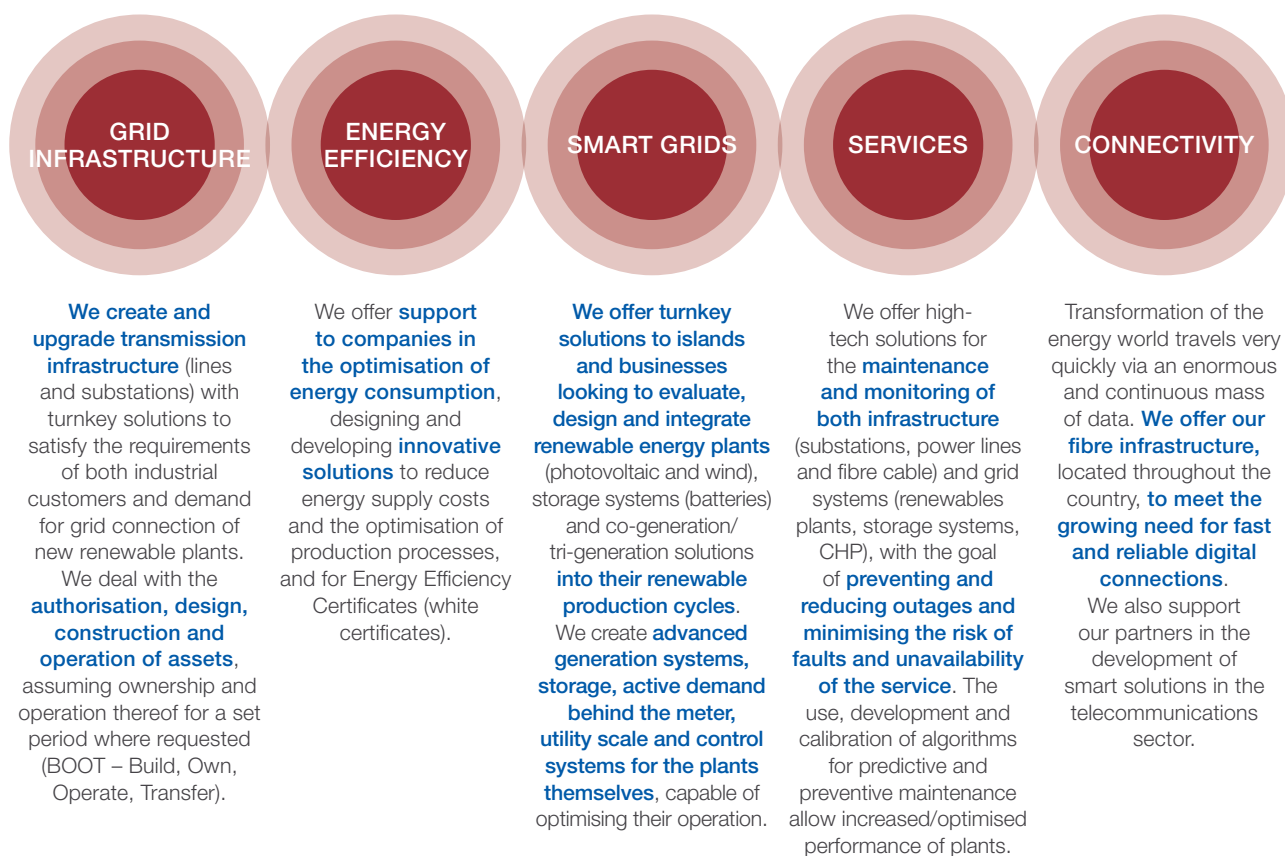


For additional information, go to page 76



Non-regulated Activities

Our strong background enables us to offer **solutions allowing customers to take full advantage of the ecological transition**. To get the most out of this new energy economy, we use Terna's design, engineering, operational and maintenance expertise to offer complex solutions that increasingly resemble what we like to classify as "from watts to bytes", thanks in part to the integration of telecommunications networks with proprietary systems.



For additional information, go to page 127



International Activities

For many years, our Group has provided support for TSOs and energy companies in developing countries, including as part of multilateral projects and programmes. We make available to international operators the technological know-how acquired **in managing complex systems, in transmission, in the integration of renewable sources and in storage systems**, together with our exceptional experience in the construction, management and operation of infrastructure for all voltages. **In this way, we are promoting the ecological transition at international level and the development of markets**, mindful of the fact that the radical transformation the world is undergoing is a shared responsibility.



INFRASTRUCTURE DEVELOPMENT



SYSTEMS INTEGRATION



TECHICAL ADVISORY

For additional information, go to page 137



A shared challenge: partnerships

The ecological transition is a major opportunity for investment, growth and job creation for all. Terna's commitment to driving this transformation also takes the shape of efforts to encourage ever closer strategic cooperation with government institutions, businesses and associations.

The new European platform for the exchange of Replacement Reserve

On **15 January 2021**, Europe's **TERRE** (Trans European Replacement Reserves Exchange) went live: Terna is now connected to the European platform for the exchange of Replacement Reserve (RR). The new platform facilitates the integration of the balancing markets of EU countries, guaranteeing the cost-efficient exchange of reserves for the benefit of the electricity system's security. As well as Italy, the Czech Republic, the UK, Poland, Switzerland, France, Spain and Portugal are also taking part in the project.

Resilience: partnership with ENEA to develop new grid technologies

On **14 January 2021**, **Terna and ENEA**, the Italian agency for new technologies, energy and sustainable economic development, launched a partnership for research aimed at increasing the security and resilience of the high-voltage grid. Artificial intelligence, sensors and IoT data analytics will be used to develop models and tools for the prevention and management of emergencies linked to extreme weather events, air pollution and geological events.

The Carabinieri police force and the security of energy infrastructure

A memorandum, further strengthening physical protection of the country's strategic electricity infrastructure, was signed on **7 January 2021** in the presence of the Commander General of the Carabinieri, General Giovanni Nistri, and Terna's Chief Executive Officer, Stefano Antonio Donnarumma. Terna will supply 675 new, state-of-the-art devices to the units directly involved in monitoring the infrastructure.

Sharing know-how for an increasingly participatory electricity system **EQUIGY**

A joint venture with TenneT and SwissGrid was entered into on **18 December 2020**, resulting in the launch of **Equigy**, the new crowd balancing platform (CBP) that has the potential to involve millions of small consumers. Using blockchain technology, TSOs and aggregators can keep track of all energy transactions through a secure, permanent ledger, validating the flexibility available from small distributed resources in real time. A veritable **#EnergyofThings**.

Ten of Europe's leading transmission system operators (TSOs) launched a joint initiative on **18 December 2020** as part of efforts to decarbonize the electricity system. The project will enable the TSOs to reduce their carbon footprints, at the same time creating even more significant opportunities at the level of the system, thanks to electrification and the integration of renewable sources. In addition to Terna, the other participants are Amprion (Germany), APG (Austria), Elia Group (Belgium and Germany), Red Eléctrica (Spain), RTE (France), Swissgrid (Switzerland) and Tennet (the Netherlands and Germany).

Ten European system operators join forces to cut emissions

Drones, electric mobility, augmented reality and new digital tools to be installed on high-voltage pylons. These are the projects that Terna presented during the eighth edition of the Maker Faire in Rome held between **10 and 13 December 2020**. The fair is the number one event in Europe that specialises in innovation, organized by the Rome Chamber of Commerce through its "Innova Camera" initiative. The common thread linking all of these projects is the challenge offered by the ecological transition, involving the switch from fossil fuels to renewables, requiring the major adoption of digital technologies, including those needed to make the grid ever more sustainable.

Drones, robots, augmented reality: Terna attends the Makers Fair in Rome

ROME
Maker Faire®
THE EUROPEAN EDITION

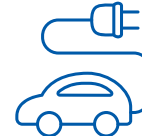
On **13 October 2020**, more than 100 CEOs from major Italian companies who are part of the ELIS Consortium (63 in attendance and 40 participating remotely) met in Rome to plan the country's recovery based on education, business and work, having accepted the invitation made by Terna's CEO, Stefano Antonio Donnarumma. "Our commitment is to help give young people the skills they will need in the future, enabling them to play a full part in this future commented Donnarumma on the margins of the meeting at Villa Blanc, the Rome campus of the Luiss Business School.

ELIS Consortium: one hundred CEOs to train young people in the skills of the future



On **14 September 2020**, Terna, FCA and Engie Eps inaugurated their Vehicle-to-Grid (V2G) charging hub at FCA's Mirafiori complex in Turin. One of the most interesting technologies for the energy sector, the project marks nothing less than a structural revolution, featuring the bidirectional charging of electric vehicles which can thus both withdraw and inject energy from and into the grid, "supporting it" in times of difficulty. The project was developed entirely in Italy and aims to become the world's leading V2G solution, with the potential to charge up to 700 vehicles at the same time.

V2G "made in Italy" as part of the ecological transition



With investment of €110 billion planned for the period between 2018 and 2030, energy infrastructure is a key driver not only of GDP growth, but above all of the post-Covid-19 recovery. According to the study entitled "Energy infrastructure for Italy and the Mediterranean", conducted by Confindustria Energia, and in which Terna also took part, grids will play a major role in enabling economic development in Europe, above all in countries around the Mediterranean. The study was presented on **20 July 2020** during a webinar in which Terna's CEO, Stefano Antonio Donnarumma, also took part.

Energy infrastructure key to the recovery

An increasingly sustainable Convent in Assisi

A memorandum of understanding was signed on **16 April 2020** governing collaboration with the General Custody of the Sacred Convent of Saint Francis of the Friars Minor Conventual. In keeping with our mission and our commitment to sustainable growth and the development of local areas, Terna will contribute with targeted initiatives and projects, carried out by Terna Energy Solutions, to developing a sustainability project for the Monumental Area close to the Basilica of Saint Francis in Assisi.

The roadmap to a sustainable development model

On **15 April 2020**, Snam and Terna renewed and extended their partnership regarding coordinated research and development, aimed at exploiting potential synergies between the gas and electricity systems. After renewing their memorandum of understanding, the two companies intend to carry on working together to identify, define and implement joint initiatives, with the aim of further strengthening their commitment as key players in the current ecological transition. Together with Italy's gas system operator, since 2019 Terna has published a joint study on future energy scenarios, in readiness for the preparation of their respective grid development plans.

Agreement with Finance Police (*Guardia di Finanza*) renewed

The strategic memorandum of understanding between Terna and the Finance Police was renewed on **4 March 2020**. The agreement centres around efforts to safeguard the construction of electricity infrastructure by ensuring the proper and transparent conduct of tenders for the award of contracts for works, services and goods. The agreement also covers efforts to combat informal employment and the evasion of contributions, as well as attempts by criminal organisations to infiltrate the economy.

Launch of the “*Cantiere dei Consumatori*” initiative to look into the future of the electricity system

Terna and eleven consumer associations signed a memorandum of understanding on **31 January 2020**, setting up a permanent focus group to discuss operation and development of the grid, above all looking at the objectives of security and efficiency. The shared goal is to work together continuously as part of the process of agreeing on the best locations for new electricity infrastructure. Adiconsum, Adoc, Altroconsumo, Asso-Consum, Assoutenti, Codacons, Codici, Federconsumatori, Lega Consumatori, Movimento Consumatori and Udicon are the associations involved.



Highlights



The **2021-2025 Industrial Plan Driving Energy**, was presented on **19 November 2020**, following its approval by the Board of Directors.

Terna's commitment to developing the grid continues, with progress on all the major investment projects supporting the current ecological transition.



The **power line connecting Capri** with the mainland **was inaugurated** on 14 October in the presence of the Prime Minister and local dignitaries. The connection, 19 km in length, will cut air pollution following retirement of the island's diesel power station.



On 29 February 2020, Terna completed the acquisition of a **90% interest in Brugg Kabel AG**, one of Europe's leading manufacturers of terrestrial cables. The acquired company designs, develops, produces, installs and maintains electric cables for all voltages and accessories for high-voltage cables.



A total of 112 km of new power lines **entered service** and 9 electricity substations were built and/or enlarged in 2020.

On 4 February 2021, the new **23,2 km long 'invisible' power line connecting Cortina d'Ampezzo with Auronzo di Cadore entered service** in Veneto.



The second concession covered by the agreement between Construtora Quebec and **SPE Transmissora de Energia Linha Verde I S.A.**, relating to construction of the "Governador Valadares – Mutum" line, was agreed.

AWARDS AND SUSTAINABILITY



Terna included for the third year in the **Bloomberg Gender Equality Index (GEI)**, for the sixteenth year running in the **FTSE4GOOD** and for the tenth consecutive year in the **STOXX® ESG** index.

Terna is the first Italian electric utility to join the **Nasdaq Sustainable Bond Network**, a platform focusing on sustainable finance.

For the third year running, Terna ranks as the **number one Electric Utility in the Dow Jones Sustainability Index World**; this led to our inclusion in the **Gold Class in "The Sustainability Yearbook 2021"** published by **SAM** – S&P Global.

Terna is acknowledged as one of the **50 most sustainable businesses in the world** at the **2020 Seal Business Sustainability Awards**.

Terna Plus, which has responsibility for overseas expansion, was **recognised as the world leader in the management and organisation of infrastructure projects**, being the only Italian energy company to be certified by IPMA Delta®.

BUSINESS PERSON OF THE YEAR 2020

The Chief Executive Officer, **Stefano Antonio Donnarumma**, was awarded **Business Person of the Year** in the energy sector by **FORTUNE Italia**.

DIGITAL COMMUNICATION

On 30 November 2020, Terna was ranked **number one in Italy and Europe for the quality of our digital communication**.

S&P Global Ratings (S&P), Moody's, Fitch Ratings and Scope Ratings have confirmed Terna's long-term ratings, in recognition of Terna's central role in driving and enabling the ecological transition.

FINANCE

New bond issues

New 10-year bonds worth €500 million, and paying coupon interest of 0.375%, were issued in September.

The issue of a 12-year green bond worth €500 million, paying an effective rate of interest of 0.78%, was completed in July.

Three ESG-linked Term Loans agreed

In October and August, Terna agreed three ESG-linked loans worth a total of €500 million. The interest rate is indexed to Terna's performance against certain specific ESG objectives.

BUSINESS ENABLERS

381 personnel added in 2020 following the acquisition of Brugg Kabel AG.

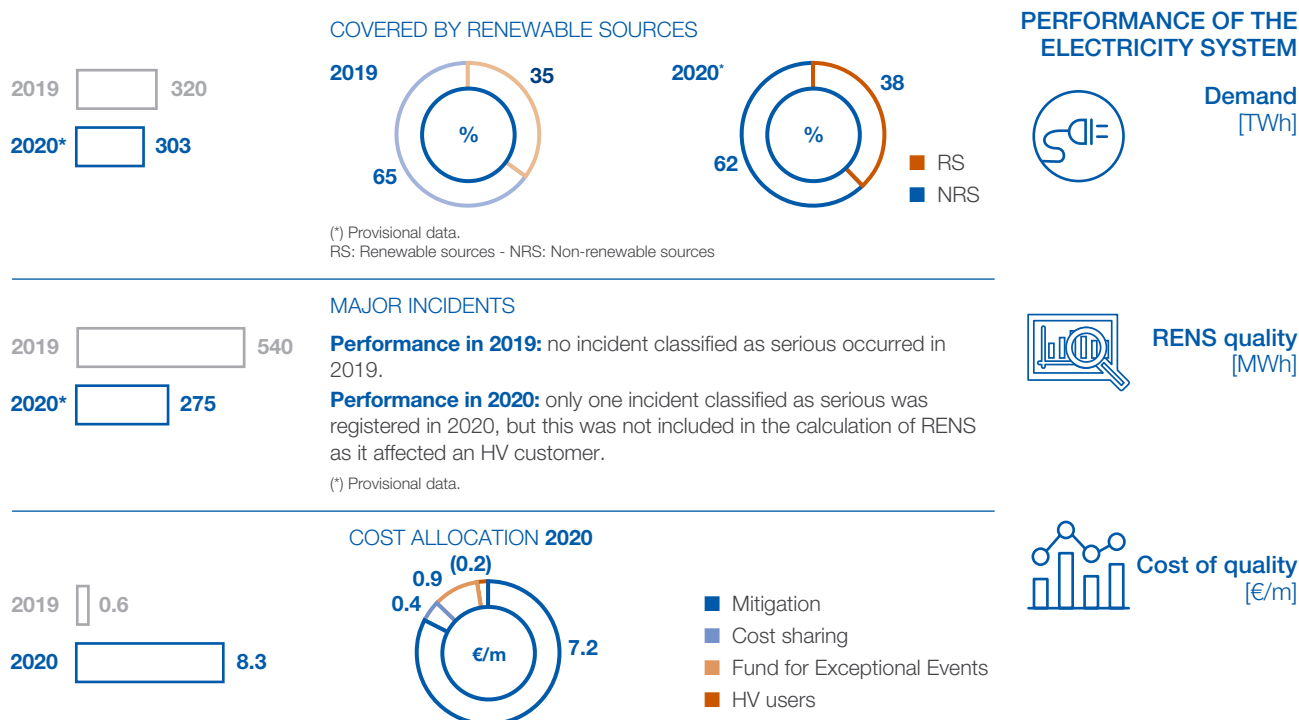


OUR PEOPLE

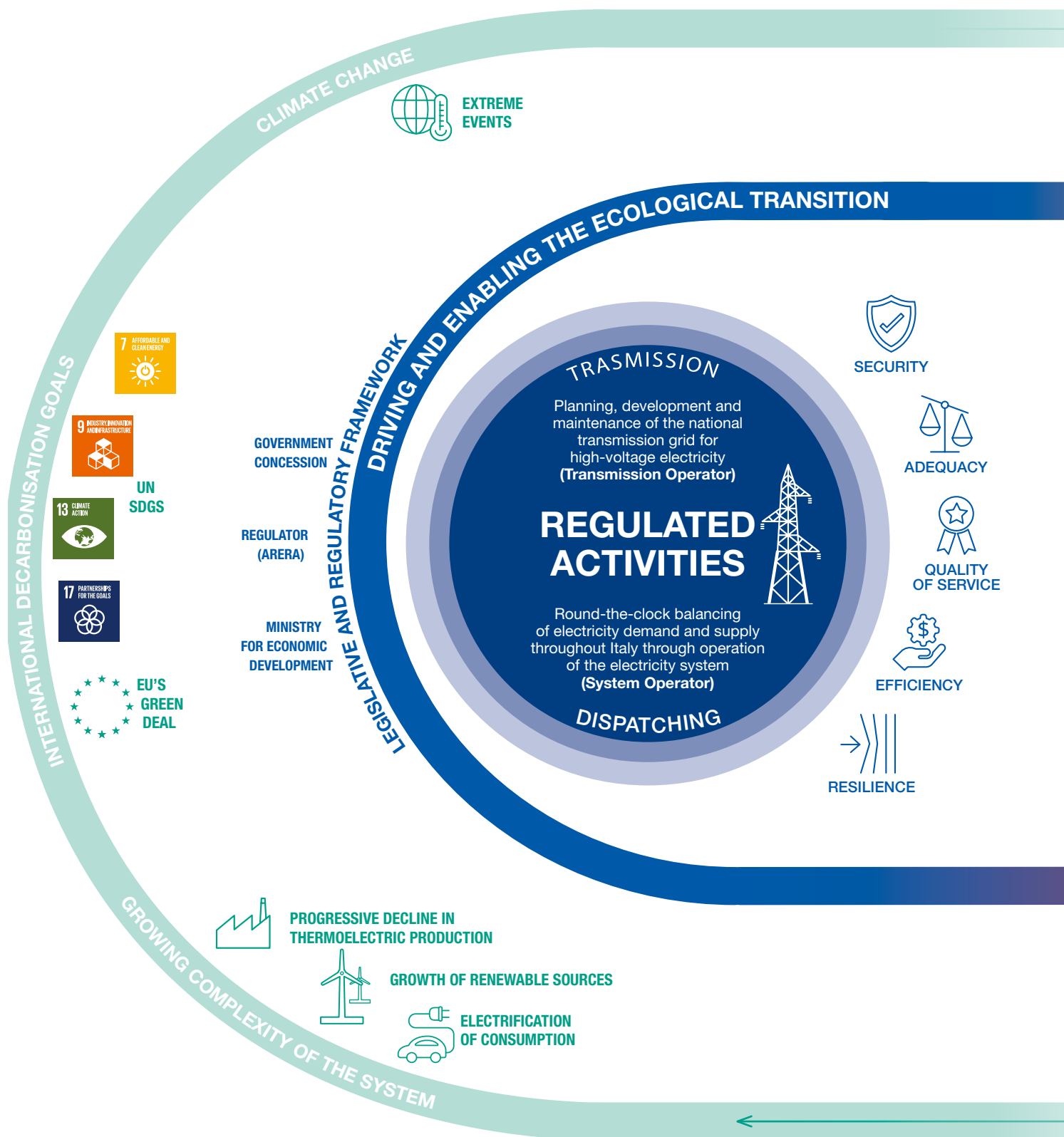
Call for Innovation – Energy Efficiency for Sustainability and the **“Sustainable Materials” Hackathon**, two initiatives focusing on sustainability, completed in December.



INNOVATION



The business model





“

The national lockdown, imposed in response to Covid-19 from 9 March to 3 May 2020, unexpectedly projected the electricity system towards meeting the targets set in Italy's Integrated National Plan for Energy and the Climate, with the entire system undergoing nothing less than a sort of stress test. The sharp decline in demand for electricity in this period (-10.2% in March, -17.2% in April and -10.3% in May) led to a **significant increase in the proportion of overall energy demand met from renewable sources**: in March and April, 47% of total demand was met from green energy sources, with the figure rising to an all-time high of 51.2% in May. ”

#TernaPeople #Covid_19 #electricityconsumption

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2

**A continually
changing environment**

Macroeconomic environment

In 2020, the economy was hit hard by the effects of the Covid-19 pandemic, which from China initially spread to the rest of Asia before arriving in Europe, the Middle East and the United States early in the year and then spreading to the rest of the world.

Falling GDP
throughout the
world by Covid-19
pandemic crisis

The highly contagious nature of the virus forced governments to impose **severe restrictions on movements and to halt non-essential activity**. The adoption of these measures, whilst differing in terms of duration and severity, was more or less ubiquitous, with changes introduced depending on specific developments in each country. In general, **there were significant declines in GDP, household income and consumption**, which went beyond anything previously seen in times of crisis. The halt to business activity and travel also led to a **reduction in demand for energy**, pushing down commodity and energy prices. With no upward pressure on prices, **inflation was weak everywhere**. In contrast, unemployment rose significantly and many businesses were forced to close. To offset the devastating economic effects, governments and central banks took unprecedented steps to ease budgetary and monetary policy.

The crisis caused by the pandemic thus resulted in **falling GDP throughout the world** in 2020, with the World Bank **estimating the decline at 4.3%** compared with the previous year, when GDP grew by 2.3% (growth in 2019 was already at its lowest level in the last ten years). In the United States, where ten years of expansion came to an end in February 2020, the fall in GDP was 3.5% (+2.2% in 2019), proving to be the best of a bad bunch among the leading advanced economies.

-6.6%
GDP fell in the
euro area in 2020

In the euro area, after a very difficult start to the year – when the European Central Bank was forced to strengthen its expansionary monetary policy by increasing the size and duration of its asset purchase programme - **economic activity recovered well in the third quarter, coinciding with an easing of the earlier restrictions designed to curb the spread of the virus**. This was followed, in the autumn, by a new upturn in infections, leading once again to the imposition of restrictions, though less drastic than before. According to figures from EUROSTAT, **euro area GDP fell 6.6% in 2020 compared with the previous year** (+1.3% in 2019).

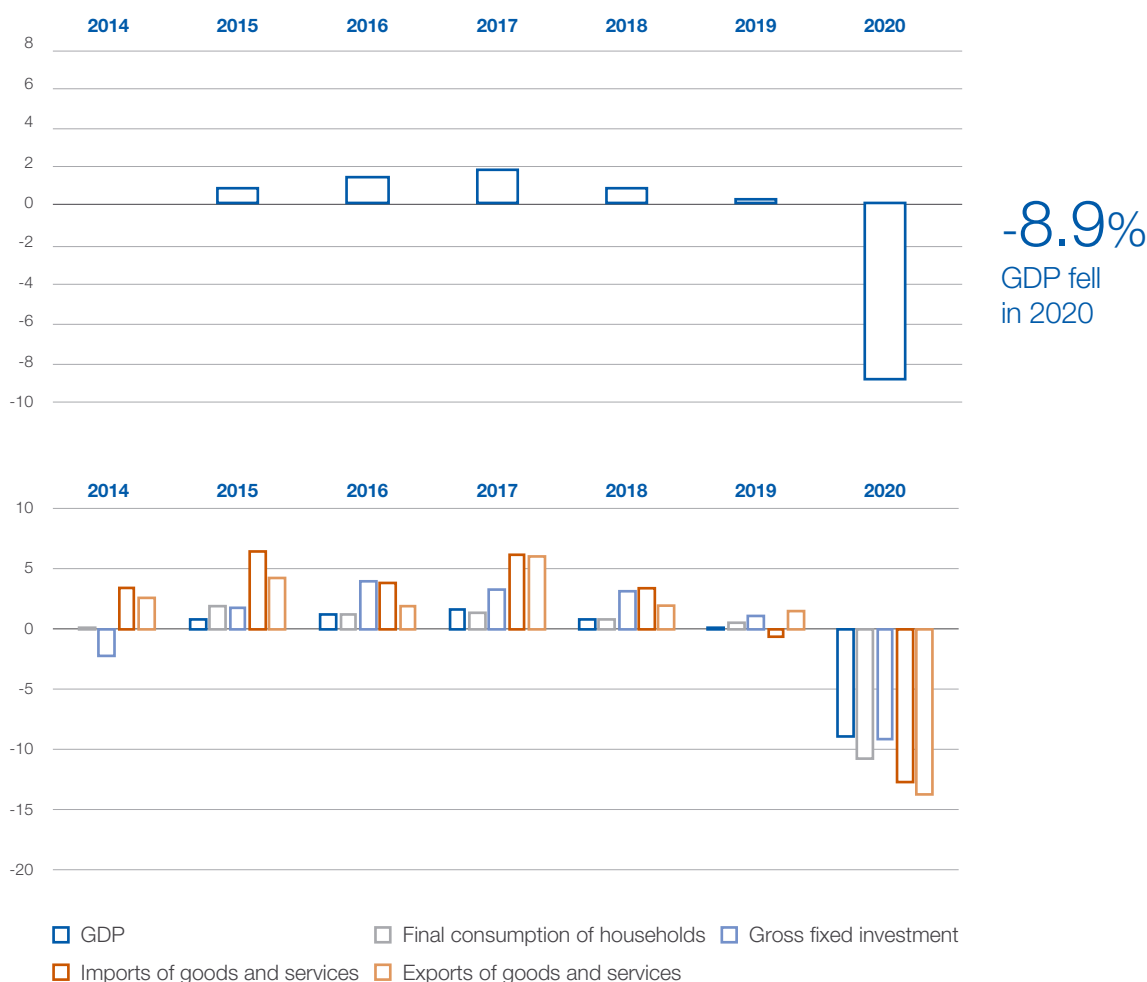
In Italy, the government responded to the seriousness of the pandemic at the end of February with a strict lockdown in the period covering March and April. The easing that took place in the following months, as the health situation improved, never fully restored the country to normal, given the need for social distancing. In economic terms, this had a notable impact on the services sector (such as transport, hospitality, entertainment, etc.), where the upturn in activity seen in the third quarter was not sufficient to make up for the decline registered in the first half of the year, unlike the performance of value added in the manufacturing sector.

As regards the labour market, the negative impact was softened by the freeze on layoffs and by the provision of income support. Further aid was provided by the European Union under the Sure (Support to mitigate Unemployment Risks in an Emergency) programme. In the last quarter of the year, the new wave of infections, with the resulting restrictions, resulted in a 2.0% decline in economic activity compared with the previous quarter. According to figures from ISTAT, **GDP fell 8.9% in 2020 compared with the previous year** (+0.3% in 2019). This reflects a reduction in internal demand (household consumption down 10.7% and gross fixed investment down 9.1%) and a downturn in net external demand.

Industrial output fell 11.4% in 2020 compared with 2019, the worst performance since 2009. Output declined across the board, with the biggest declines registered for textiles, clothing, leather goods and accessories (down 28.5%), vehicles (down 18.3%) and the manufacture of machinery and equipment n.e.c. (down 14.8%).

ITALIAN GDP AND KEY ECONOMIC INDICATORS

% annual change in volume



Source: ISTAT, March 2021 edition

The energy sector

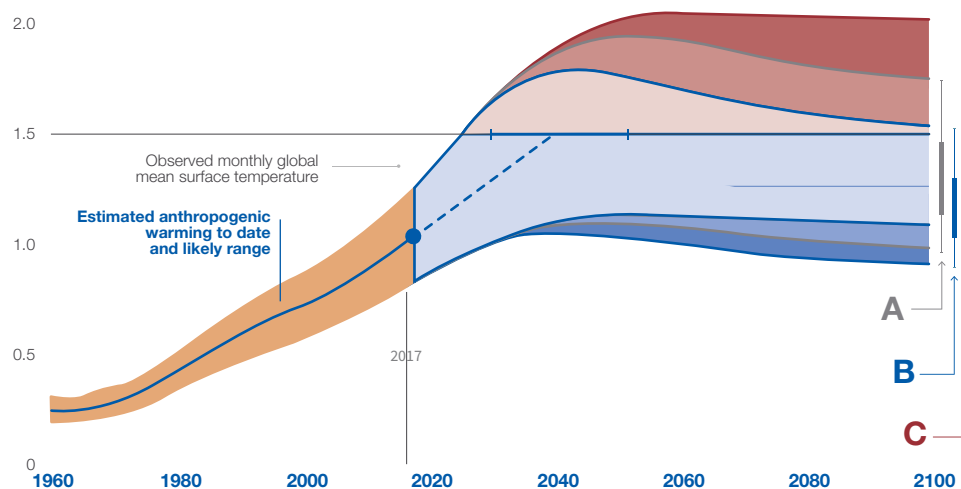
The ecological transition is an obligatory, irreversible process. Progressive changes in generation technologies and consumption patterns, together with the application of international directives in Italian energy sector regulations, mean that we are at the centre of a radical transformation: to achieve national and European climate targets, whilst also making a decisive contribution to restarting the post-Covid-19 economy, Terna has, in keeping with our role in driving Italy's energy system, decided to significantly step up investment in Regulated Activities, which over the 2021-2025 Plan will amount to €8.9 billion.

The outlook for the energy sector

In order to combat global warming, in December 2015, at the end of the twenty-first Climate Change Conference (COP21), 185 countries and international organisations drew up and decided to adopt **an action plan designed to keep the rise in the global temperature below 2°C compared with pre-industrial levels, and preferably below 1.5°C.**

The study published by the Intergovernmental Panel on Climate Change (IPCC) on 6 October 2018 officially announced that global warming is already within the range of 0.8 to 1.2 °C, with a rising trend of 0.2 °C per decade.

GLOBAL WARMING COMPARED WITH THE PERIOD 1850-1900 (C°)



Source: "Global Warming of 1.5 °C", Intergovernmental Panel on Climate Change, 2018

BASELINE SCENARIO (A)

SCENARIO (B)

SCENARIO (C)

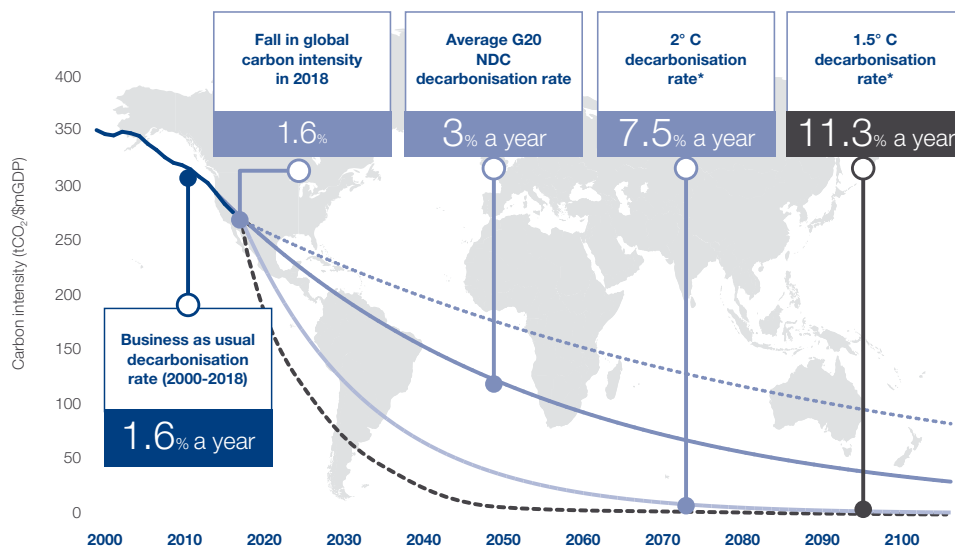
- Global CO₂ emissions reach net zero by 2055.
- Emissions of greenhouse gases other than CO₂ will be reduced from 2030.

Best-case scenario: global CO₂ emissions reach net zero by 2040 (greater likelihood of limiting the temperature rise to 1.5 °C).

Worst-case scenario: emissions of greenhouse gases other than CO₂ are not reduced from 2030 (less likelihood of limiting the temperature rise to 1.5 °C).

To prevent warming from rising above 2°C compared to pre-industrial levels, **the global economy must commit to cutting its carbon intensity by 7.5% per year until 2100** (source: "The Low Carbon Economy Index 2019", PwC). A necessary condition for achieving the COP 21 targets is decarbonisation of the electricity sector together with acceleration of the decoupling of economic growth and energy consumption via the electrification of final consumption.

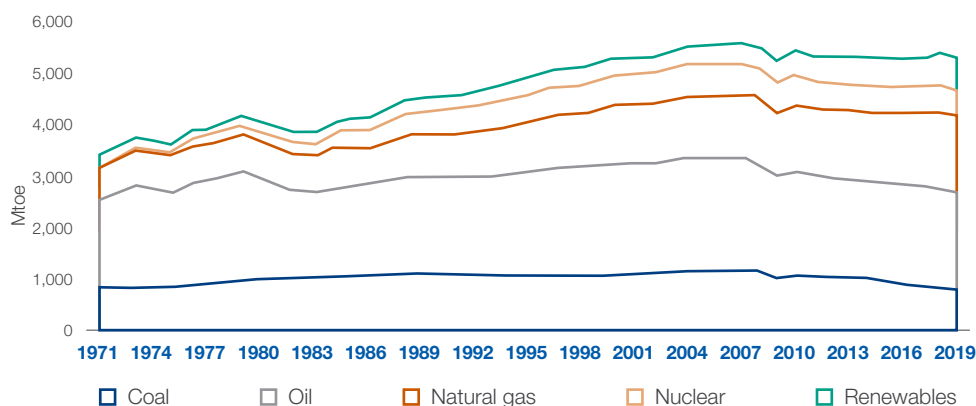
LOW CARBON ECONOMY INDEX 2019



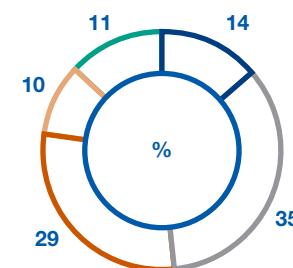
* Source: The Low Carbon Economy Index 2019, PwC

World primary energy consumption is growing steadily, although the share of primary energy consumption met from RES has not registered a net growth trend. With regard to OECD countries, for example, in 2019 the share of primary consumption met from RES was approximately 11%, a figure broadly in line with the previous decade. In this sense, it appears evident that there is a need to speed up the penetration of RES in all sectors at global level, so as to achieve decarbonization targets and contain the rise in the global temperature.

TOTAL SUPPLY OF PRIMARY ENERGY*, OECD COUNTRIES



2019



* Excluding electricity trading.

Source: International Energy Agency - World Energy Balances, 2020.

The European approach



The European approach to development of the energy sector are set out in the guidelines and regulations in the European Union's **Clean Energy Package**, presented on 30 November 2016 and including a number of legislative measures introduced in 2018 and 2019. These include:

- **Regulation (EU) 2018/1999** which established the Governance of the Energy Union and Climate Action, in line with the Paris Agreement of 2015 (COP21) and the United Nations Sustainable Development Goals (SDGs);
- the Energy Efficiency Directive 2018/2002;
- the Energy Performance of Buildings Directive 2018/844;
- the Renewable Energy Directive 2018/2001;
- the Internal Market for Electricity Regulation 2019/943;
- the Common Rules for the Internal Market for Electricity Directive 2019/944;
- the Risk-preparedness in the Electricity Sector Regulation 2019/941;
- the Regulation establishing an Agency for the Cooperation of Energy Regulators (ACER).

Several of the above directives provide for their transposition into national law by 2021.

The United Nations SDGs

Approved by 193 member states of the United Nations in September 2015, the 17 Sustainable Development Goals (SDGs) form the heart of the 2030 Agenda, the global plan that aims to eradicate poverty and promote economic prosperity, social development and protection of the environment.

Terna is playing a central role in enabling the energy system's transition to one in which production is based on renewable sources.

For further details on Terna's commitment to the SDGs, reference should be made to the Sustainability Report.



Energy efficiency
Research in Non-regulated Activities
Active role in international associations

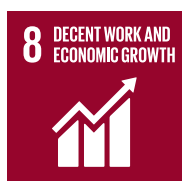


Development and Resilience Plans
Interconnections
International Activities



Implementation of the Resilience Plans
Research, Innovation and Development
Focus on resilience of the grid

Key SDGs for Terna



Promote lasting, inclusive and sustainable growth



Guarantee sustainable patterns of production and consumption



Protect and promote a sustainable use of the ecosystem



Promote a peaceful, inclusive society



Revitalise partnerships for sustainable development

In line with these guidelines, at the end of 2018 the Italian government finally prepared a **Proposed Integrated National Plan for Energy and Climate (PNIEC)**, produced by the Ministry of Economic Development, the Ministry of the Environment and Protection of Land and Sea and the Ministry of Infrastructure and Transport. This provides key guidelines on the development policies for the national energy system. Following the recommendations received from the European Commission in June 2019, Italy drew up and submitted the final version of the country's PNIEC at the end of 2019.

The final document does not differ significantly from the proposal put forward at the end of 2018 in terms of structure and targets for 2030, providing a number of clarifications and proposing slight changes, above all linked to the transport sector.



5 KEY DIMENSIONS

Integrated National
Plan for Energy and
Climate (PNIEC)
(December 2019)



- Reduction in final energy consumption: 116.6 Mtoe in 2020 and 103.8 Mtoe in 2030.

- RES to increase from 18.6% in 2020 to 30% in 2030 as a share of total energy consumption.
- In the electricity sector, the increase will be from 34.1% in 2017 to 55.4%, compared to expected gross domestic electricity consumption.

- Competitive auction mechanisms.
- Promotion of self-consumption for smaller power plants and renewable energy communities.
- Full deregulation of the retail market.

- Introduction of the Capacity Market.
- Development of the grid to facilitate integration with renewable production plants and resolve congestion.
- Addition of 6 GW of centralised storage and 4 GW of distributed storage.

- In the industrial sector, the reconversion of infrastructure to improve sustainability.
- Additional measures to combat energy poverty.



6 million
plug-in hybrid
vehicles by 2030

To **reduce energy demand**, it will be necessary to deploy major initiatives. The expected reduction in final energy consumption will result in overall savings of 51.0 Mtoe, and development of renewable resources that will enable an increase in the consumption of RES as a share of total consumption.

Sustainable growth will also be enabled through the development of new technologies - such as electric vehicles (up to 4 million fully electric and 2 million plug-in hybrid vehicles by 2030) - and applications relating to air conditioning that ought to be used more widely, in view of the energy efficiency savings they offer. Finally, a measure adopted in the 2017 SEN for the electricity sector regarding the phase-out of coal for power generation by 2025 is maintained.

Plans to increase
the capacity of
storage systems

+6 GW
centralised storage
+4 GW
distributed storage

The regulatory measures regarding the **security of supply for energy**, above all electricity, are dependent on the introduction of the Capacity Market, as well as revision of the Emergency Plan for the Security of the Electricity System (*Piano di Emergenza per la Sicurezza del Sistema Elettrico* or "PESSE").

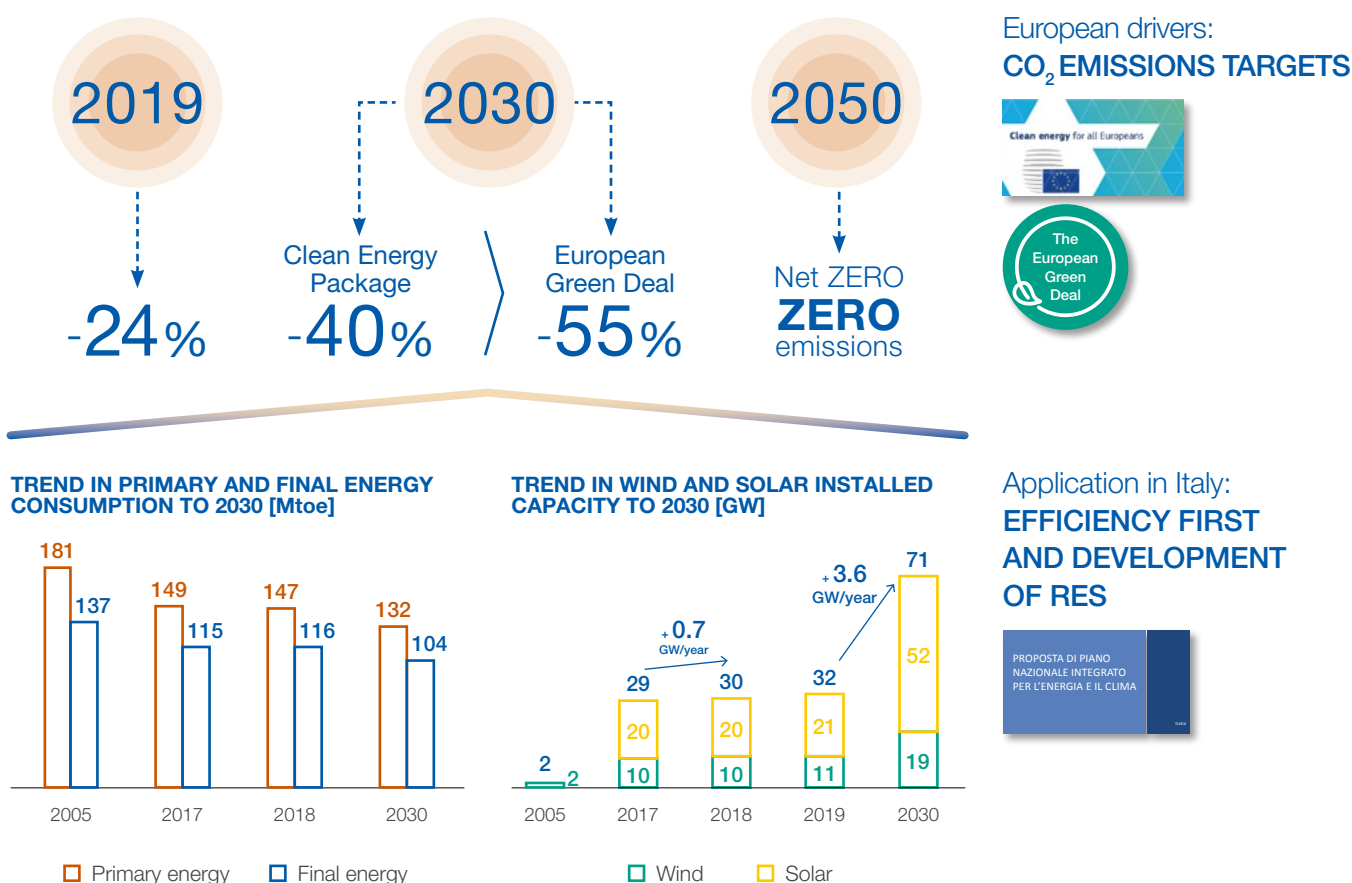
There are also plans to increase the capacity of storage systems (an additional 6 GW of centralised storage and 4 GW of distributed storage), above all through the use of pumps, and for further expansion of interconnections with neighbouring countries (up to 14.375 MW).

Investment in resilience, in relation to transmission grids and interconnector projects, will also play a major role, by helping to increase the network's ability to cope with increasingly frequent extreme weather events and the emergencies they create, including boosting coordination at European level. This has taken on added importance given the structural changes currently taking place in the electricity systems of many European countries, primarily linked to progressive decarbonisation and the reduction in nuclear generation capacity.

Even more challenging are the goals set for the electricity sector: in 2030 RES (renewable energy sources) must cover over half of gross electricity consumption (the target is 55.4%, compared with a figure of 35% in 2019), increasing the amount generated from renewables to 186.8 TWh by 2030, compared with 117.7 TWh in 2019. By 2030, it will thus be necessary

to install around a further 40 GW of new RES capacity, to be provided almost exclusively by non-programmable renewable sources, such as wind and photovoltaic.

As part of the European Green Deal, in September 2020, the European Commission approved the proposal to raise the target for the reduction of greenhouse gas emissions by 2030, including emissions and removals, from 40% (as set in the Clean Energy Package) to 55%, compared with 1990 levels. This was done taking into account all the steps needed in all sectors, including an increase in energy efficiency and in renewable energy. The process of drawing up detailed draft legislation will begin in June 2021.



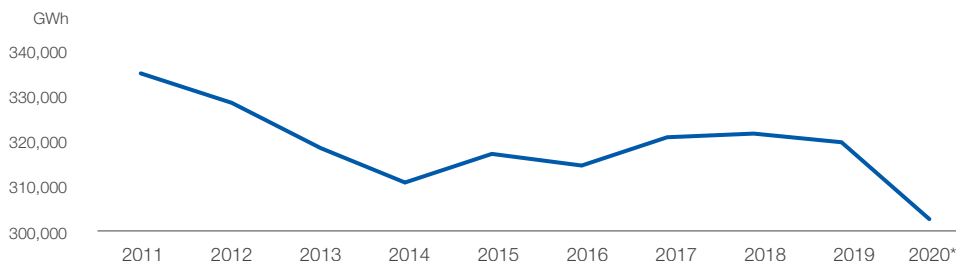
This represents an enormous challenge. To achieve these targets, it will be necessary to rapidly implement a series of initiatives:

- **investment in electricity grids**, to upgrade the so-called north-south transmission backbones, interconnections with the islands and other countries and to facilitate the full integration of green sources. In the period 2021-2025, planned investment in the electricity grid will total a record €8.9 billion for our country;
- **enable the development of resources** (RES, storage, gas-fuelled plants) by giving long-term price signals to stimulate investment and streamlining consents processes;
- **encourage the electrification of consumption**, as the energy carrier is intrinsically efficient and capable of bringing the energy produced from renewable sources directly to all sectors of consumption;
- **drive the growth of the market for flexible services**, enabling the participation of RES and distributed resources (demand, small plants, electric vehicles), whose contribution will be increasingly important as the availability of traditional resources declines.

Electricity demand and production in Italy

Terna monitors domestic demand trends and takes appropriate actions, in full implementation of EU directives.

DEMAND TREND OVER THE LAST 10 YEARS



* Provisional data

Demand for electricity in Italy

Demand for electricity in Italy amounted to 302,751 GWh in 2020, **a reduction of 5.3% compared with 2019**, which registered a slight decrease of 0.6% compared with the previous year.

ELECTRICITY BALANCE IN ITALY (GWH)*	2020**	2019	CHANGE	% CHANGE
Net production	273,108	283,950	(10,842)	(3.8%)
From overseas suppliers (imports)	39,787	43,975	(4,188)	(9.5%)
Sold to overseas customers (exports)	(7,587)	(5,834)	(1,753)	30.0%
For use in pumping***	(2,557)	(2,469)	(88)	3.6%
Total demand in Italy	302,751	319,622	(16,871)	(5.3%)

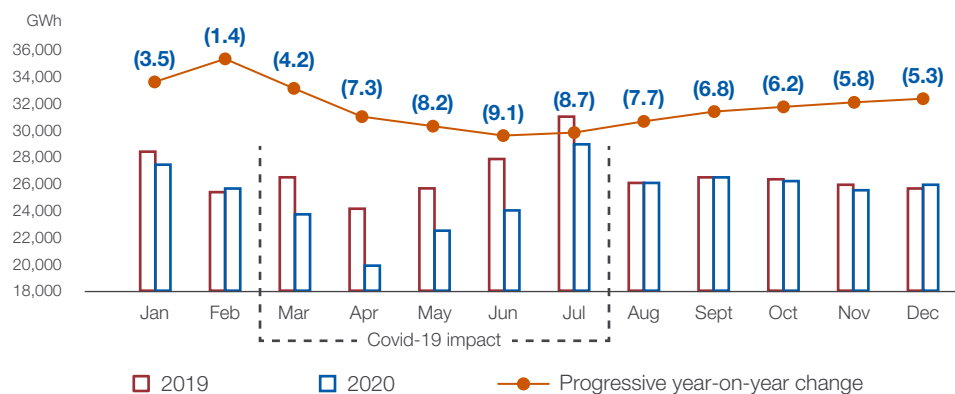
* Does not include demand for energy for ancillary services related to electricity production.

** Provisional data.

*** Electricity used for pumping water, for sole subsequent use in electricity production.

Monthly demand for electricity in Italy in 2020 was sharply down compared with the previous year, due essentially to the legislation enacted in response to the Covid-19 pandemic. The reduction can be seen across every month, with the exception of February and December, which registered slight increases, essentially due to calendar effects (the leap year effect in February and the fact that December contained one more working day).

MONTHLY DEMAND FOR ELECTRICITY *



* Provisional data

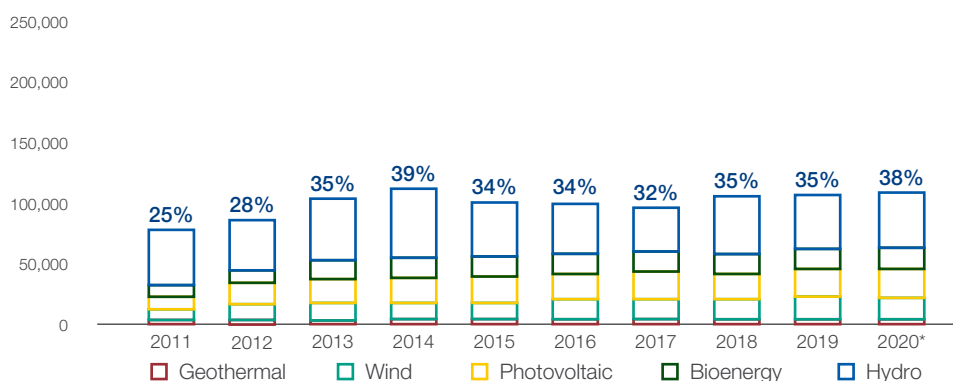
Meeting demand and energy production

In 2020 (provisional data), approximately **38% of total energy demand was met by renewable energy sources**, marking an increase with respect to 2019. The increase is partially due to the sharp fall in demand during the Covid-19 lockdown.

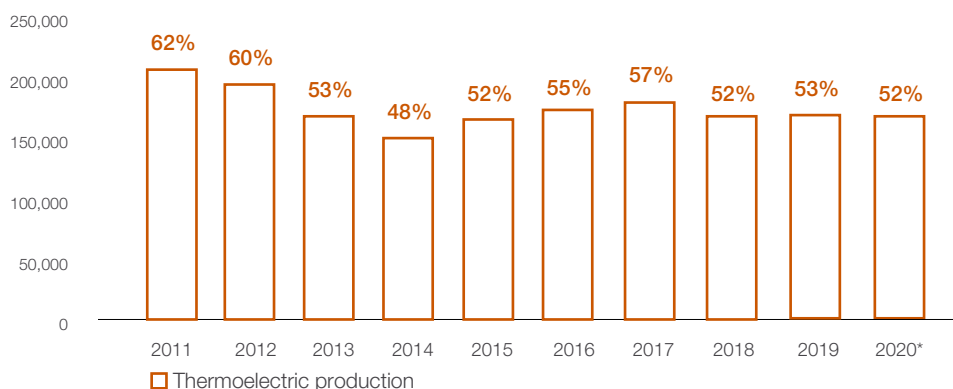
In terms of the performance of the various renewable sources, there were increases in photovoltaic production (up 10%) and hydro production (up 1%) which offset the significant decline in wind production (down 7%).

PERFORMANCE OF PRODUCTION SOURCES AS A PROPORTION OF DEMAND⁶

Renewable sources



Traditional sources



The two charts on the left show the performance of renewable production in Italy over recent years, compared with the performance of thermoelectric production over the same time period.

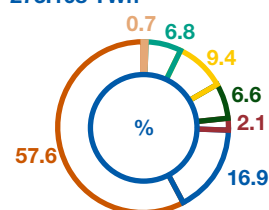
* Provisional data

As can be seen from the charts, Italy met the target set in European Community directives, which required that renewable sources account for over 27% of demand by 2020, from as early as 2012.

NET ELECTRICITY PRODUCTION BY SOURCE

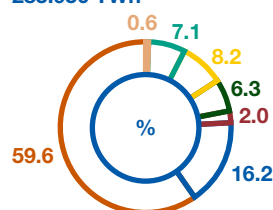
2020*

273.108 TWh



2019

283.950 TWh



- Net wind production
- Net photovoltaic production
- Net biomass production
- Net geothermal production
- Net renewable hydro production
- Net thermoelectric production
- Net non-renewable hydro production

* Provisional data

⁶ The percentages shown in the two charts compared refer to the share of demand met by renewable sources and thermoelectric sources (traditional sources).

European and international relations

Terna plays a strategic role in the integration of Europe's main electricity grids. Our goal is to achieve an increasingly secure and efficient continental system that serves citizens and businesses. As Europe's leading independent network operator, we play an active part in the initiatives of European, national and trade associations.

Opportunities for engagement and dialogue are provided by Terna's membership of the **principal European and international trade associations**, as well as of the leading associations connected with sustainability issues.

Stakeholder

EUROPEAN RELATIONS

ENTSO-E
(European Network of
Transmission System
Operators for Energy)

ENTSO-E is the European Network of Transmission System Operators for Electricity including 43 operators which is involved in the process of integrating national electricity markets, coordinating the secure operation of interconnected electricity systems and developing electricity transmission grids, in implementation of EU legislation (the latest of which being the CEP- Clean Energy Package). ENTSO-E's main objectives are to: draw up European network codes, guarantee the coordinated development of the electricity grid at European level by drawing up the European Electricity Grid Development Plan (TYNDP) and the related benchmark scenarios, and draw up the Research, Development and Innovation Plan at European level. ENTSO-E's activities focus on four courses of action (security of supply, functioning of the energy market, promotion of energy saving, and promotion of the interconnection of energy networks), which generate new tasks for ENTSO-E (implementation of the Regional Coordination Centres - RCC, enhanced cooperation with DSOs, digitisation of networks and development of demand response). These activities will be developed in line with the new climate policies previously set out by the European Commission with the launch of the so-called European Green Deal, a roadmap that seeks to make the EU the first climate-neutral continent by 2050.

EASE
(European Association
for Storage of Energy)

The European association that is responsible for promoting industrial research and development in the field of electricity storage system applications in Europe and around the world and the use of this technology for the transition to a stable, flexible, sustainable and cheaper continental energy system. In particular, EASE is working on the development of a European platform for sharing information in the field of energy storage.

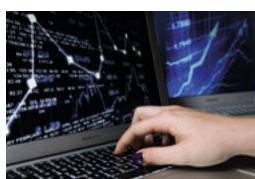
RGI
(Renewable Grid
Initiative)

An association consisting of eleven European TSOs and twelve environmental NGOs which aims to promote the integration of renewable energy sources through the development of electricity grids. RGI is committed to promoting strategic planning and participating in the construction of new power lines, via a meeting platform involving environmental NGOs and European TSOs.

INTERNATIONAL RELATIONS

Stakeholder

An international non-profit association that conducts research regarding high-voltage grids. It has over 90 member countries, represented by 60 national committees, and Terna is currently the Chair and Vice Chair of the Italian Committee.	CIGRE (Conseil International des Grands Réseaux Electriques)
An independent, nonpartisan US-based organisation dedicated to the study and analysis of global problems. The organisation promotes debate on key strategic and political issues of international importance.	CFR (Council on Foreign Relations)
An association, based in Rome, that promotes dialogue between diplomats and institutions of international importance.	DIPLOMATIA
An international association that promotes the global interconnection of electricity systems in order to meet demand for electricity in a sustainable way, by creating shared technical standards and fostering cooperation in research and innovation.	GEIDCO (Global Energy Interconnection Development and Cooperation Organization)
An international association bringing together the 17 leading grid operators worldwide in order to share best practices in the management of electricity transmission grids. In addition to being present on the Steering Board and Governing Board, Terna is co-chairing the Strategic Working Groups on "Pathways to a Low Emission Power Grid" (SWG1) and "Resilience, infrastructure development and interconnections" (SWG2).	GO15 (Reliable and Sustainable Power Grids)
A Harvard University think tank bringing together leading international stakeholders in the electricity sector to analyse and discuss technical, legal and regulatory issues linked to the electricity industry.	HEPG (Harvard Electricity Policy Group)
This association brings together the TSOs from 19 Mediterranean countries, with the aim of promoting the standardisation of development plans and the coordinated management of grids. The association also works to facilitate the creation of a legislative and regulatory framework designed to drive the development of interconnection projects and promote the exchange of electricity between electricity systems in the Mediterranean area. Terna hosts the association's offices in Rome and appoints its Secretary General, as well as chairing the Technical Planning Committee.	Med-TSO (Mediterranean Transmission System Operators)
This is a foundation established by the association of the same name on 7 June 2019. Its objective is to promote the use of renewable sources and the widespread adoption of energy efficiency measures, and to support the creation of favourable conditions for investment in renewable energies in countries in the southern and eastern Mediterranean and Sub-Saharan Africa. Its registered office is in Rome.	RES4MED/RES4FRICA (Renewable Energy Solutions for the Mediterranean & Africa)
The Italian national committee of the WEC, an international organisation that brings together operators from over 90 countries, with the aim of promoting a sustainable energy system worldwide. Terna is a member of the Managing Board.	WEC Italia (World Energy Council - Comitato operativo Italia)
A regional body, whose members include energy companies and local government institutions. The organisation's aim is to pursue the integration of energy systems at regional level through cooperation among its members.	CIER (Comision de Integration Energetic Regional)



In spite of the limitations imposed by the difficult international situation, Terna continued to work with European and non-European transmission system operators in 2020, with the aim of concluding **cooperation agreements**, at both bilateral and multilateral level, **in areas of common interest**, particularly with regard to:

- grid development;
- electricity system operations;
- technological innovation.

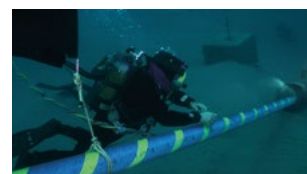
The various initiatives pursued during the year include the following:

- On **18 December 2020**, the **Energy of Things** was established, thanks to the joint venture entered into with TenneT and SwissGrid that led to the launch of **Equigy**, the innovative digital platform supporting the ecological transition. Millions of small consumers will be increasingly involved in the management of the electricity system, making active contributions to balancing and efficiency of the national grid. Domestic and industrial electrical devices will play leading roles in this Energy of Things, including residential heating and cooling climate control systems, photovoltaic systems with batteries, as well as e-cars, interconnected and capable of regulating energy exchanged with the grid through an innovative digital platform providing services that support the grid managed by Terna and, in turn, the ecological transition. Equigy will offer innovative and intelligent support for the participation of multiple devices of varying size, and in different locations, in order to handle energy demands on the grid as required. This will benefit the flexibility, security, sustainability and cost-efficiency of the system, but will also benefit the owners of the devices in the form of revenue generated by the supply of grid services;
- On **18 December 2020**, ten leading European transmission system operators launched a **joint initiative to reduce greenhouse gas emissions**. The group will work together to assess their role in decarbonising the energy system. The results of the joint initiative will be announced by mid-2021. The final document will deal with a number of issues, including:
 - the TSOs' plans and direct initiatives for continuing to reduce the carbon footprint of their own activities and controlling the carbon footprint of their value chains;
 - how TSOs enable secure electrification and RES integration while contributing to the decarbonisation of the energy system as a whole, and how these contributions can be assessed and monitored under a common framework;
 - the most efficient instruments to be implemented and/or supported by TSOs that should be fully activated in the public interest to enable the decarbonisation of the energy system;
- In November 2020, a Greek-registered entity, **SEleNe CC**, was set up as Regional Security Coordinator for the GRIT region (an area that covers the borders between internal market areas in the Italian system and the interconnection with Greece). The new entity is jointly owned by Terna S.p.A., ADMIE (Greece), ESO-EAD (Bulgaria) and Transelectrica (Romania) who own equal shares. The entity is tasked with carrying out the regional activities provided for in European Regulations (EU) 2017/1485 and 2015/1222 (respectively, the "Guidelines on system operation" and the "Guidelines on capacity allocation and congestion management"): calculation of the exchange capacity between market areas, regional coordination of operational security and of the available countermeasures, the creation of a shared grid model, regional coordination of unavailability and the assessment of regional adequacy. The company owns 99% of **ESPERIA-CC S.r.l.** (the other 1% is held by Terna, which exercises control), which operates as the Regional Security Coordinator for the GRIT region;

- In 2020, Terna took part in the **States General of the Economy** organized by the Italian government in order to discuss plans for the country's restart and recovery following the Covid-19 emergency;
- Via **ELMED Etudes SARL⁷**, work continued on development of the electricity interconnector project between Italy and Tunisia. In particular, the tender for conducting the survey for the submarine section was launched. Surveys for the submarine section, the overland section and the environmental and social impact assessment are funded by the two credit facilities granted by the World Bank to the Tunisian Republic in relation to the project to provide technical assistance for the Tunisia - Italy electricity interconnector. ELMED Etudes has also been appointed the implementing agency. On 27 May 2020, the promoters Terna and STEG applied to the EU's **Connecting Europe Facility (CEF)** for funding for the Tunisia - Italy electricity interconnector. The CEF was set up to enable the delivery of projects of common interest;
- In addition to consolidating its presence in the trade associations it leads, Terna has also joined the **Harvard Electricity Policy Group (HEPG)**, a Harvard University think tank that analyses policies relating to the electricity sector from various aspects, with a special focus on the US experience;
- In 2020, Terna **took part in the steering committees set up by the Ministry of Foreign Affairs** to examine issues relating to energy, the climate and the environment. In addition to describing the status of electricity interconnections in the Mediterranean area and the electricity transmission operator's commitment to decarbonisation and the economic sustainability, Terna also used the committees to express its views on the opportunities and challenges faced by the national transmission grid as a result of EU (Green Deal) and international (COP26) policies. This included highlighting the positive role played by European funding programmes, above all with regard to the interconnection infrastructure needed to further upgrade the national and European transmission grid;
- In 2019, Terna, together with seven other European TSOs, signed a **joint declaration aimed at highlighting the crucial role played by transmission system operators** in guaranteeing the security of electricity systems during the pandemic, ensuring that markets can continue to operate when demand for electricity is falling and the performance of priority maintenance interventions where necessary.

During the Covid-19 emergency, Terna provided an example of **best practice for transmission operators** who are members of the various trade associations (including GO15, WEC, etc.), with regard to both measures aimed at combating the spread of the virus among personnel and activities linked to operation of the grid against a backdrop of significant, abrupt changes in the structure of consumption. Terna also played an active role in the international debate on the measures to be adopted by grid operators in order to support the economic recovery post-Covid-19.

Despite the evident logistical difficulties caused by the Covid-19 emergency, Terna's Brussels office, set up in 2018 in synergy with other entities in which CDP owns stakes, continued to conduct its activities without interruption. This entailed strengthening both relations with other European TSOs and links with EU institutions, including on a technical level, in order to take advantage of the Company's technical contribution regarding European matters ahead of implementation of European legislation to reform the electricity sector (the Clean Energy Package and the European Green Deal) in support of the ecological transition and the EU's decarbonisation goals.



⁷ This is the 50/50 Tunisian joint venture between Terna S.p.A. and STEG (Tunisia's vertically integrated, state-owned electrical utility) established in 2009 with the role of conducting studies and providing technical assistance for the Tunisia-Italy electricity interconnector.

Regulatory framework

Regulated revenues
represents approximately
the **83.4%**
of the Group's
total revenue

Terna operates as a natural monopoly and within a market regulated by the Regulatory Authority for Energy, Networks and the Environment (ARERA).

Regulated revenue from transmission and dispatching activities represents approximately 83.4% of the Group's total revenue, and is determined on the basis of the regulatory framework established by the **Regulatory Authority for Energy, Networks and the Environment (ARERA)**.

In Resolutions 653/2015/R/eel, 654/2015/R/eel and 658/2015/R/eel, ARERA set the tariff regime for electricity transmission, distribution, metering and dispatching services and regulations regarding the quality of the transmission service for the first four-year period of the fifth regulatory period (sub-period "NPR1", 2016-2019). The regulatory framework for the second four-year period (sub-period "NPR2", 2020-2023) was revised by Resolutions 567/2019/R/eel, 568/2019/R/eel and 574/2019/R/eel.

The framework for the period 2020-2023 (NPR2) is broadly in line with the criteria applied in the previous four-year period from 2016 to 2019 (NPR1), with the principles for recognising the cost of capital (rate of return) and operating costs (price cap and profit sharing) unchanged with respect to the previous regime. The most important change regards readmission of the return on fixed assets in progress, under a mechanism that reflects the related expenditure in tariffs based on rates of return differentiated on the basis of how long ago the expenditure was incurred and for a maximum of four years (beyond four years, the tariff will take into account interest expense incurred whilst work was in progress)⁸. The change will enable operators to recover earlier costs, together with those relating to the Italy-France Interconnector project. At the end of NPR2, and on a trial basis in 2023, the regulations provide for adoption of a **TOTEX/OUTPUT BASED approach**. This recognises costs based on total expenditure incurred (operating and capital expenditure) and shares the resulting benefits for the community.

In Resolution 583/2015/R/com, ARERA announced the procedure for determining and revising the **Weighted Average Cost of Capital (WACC)** for a period of six years (2016-2021). This applies to infrastructure services in the electricity and gas sectors and is subject to revision, mid-way through the period, which, with Resolution 639/2018/R/COM, enabled adjustment of the allowed WACC in a predictable and transparent manner in keeping with the economic cycle. The WACC the period 2019-2021 has been set at 5.6%. This is a vital element in guaranteeing an adequate return on capital, a key factor in enabling Terna to complete the substantial investment programme needed to meet the challenges of the ecological transition. In October 2020, ARERA published Resolution 380/2020/R/com, launching the procedure for redetermining the allowed WACC for infrastructure services in the electricity and gas sectors with effect from 1 January 2022, identifying the initial general criteria – broadly unchanged – for revising the method for determining the WACC.

A number of key aspects of regulation in the fifth regulatory period are described below, with regard to allowed revenue for transmission and dispatching services.

⁸ When reviewing transmission tariffs for 2020, ARERA also accepted Terna's request for the partial readmission of the Italy-Montenegro Interconnector project among the list of strategic projects in the regulatory period 2012-2015. This means restoring the return on the related LICs not already included in the tariffs, in relation to the share of public investment (not covered by the interconnectors).

Transmission revenue makes up the most significant portion of regulated revenue and is generated from application of the related transmission charge (**TC**), billed by Terna to distributors connected to the National Transmission Grid. This charge pays for the transmission services provided by all transmission service operators, including the owners of residual portions of the grid (external to the Terna Group), and is divided into two components: a power component (equal to 90% of revenue, expressed in euro cents/kW/year) and an energy component (10% of revenue, expressed in euro cents/kWh).

The **dispatching service charge (DSC)** aims to recompense Terna for carrying out the activities relating to the dispatching service and is billed by Terna to users of the dispatching service in proportion to the quantity of energy dispatched.

Transmission revenue makes up the most significant portion of regulated revenue

Allowed costs that combine to determine the TC and DSC components are attributable to three main categories, as summarised below.

THE THREE MAIN TYPES OF ALLOWED COST

Determined on the basis of the Regulated Asset Base (RAB) and the Weighted Average Cost of Capital (WACC). The RAB represents net invested capital for regulatory purposes. It is revalued annually on the basis of data from ISTAT (Italy's Office of National Statistics) on the change in the deflator applied to gross fixed investment and revised on the basis of the performance of investment and disposals. The WACC represents the weighted average cost of equity and debt.

The methods of determining and revising the WACC are established by the regulator.

1. To cover the return on capital (RAB)

Allowed depreciation (calculated on the basis of an asset's useful life for regulatory purposes) is revalued annually based on the change in the deflator applied to gross fixed investment.

2. To cover depreciation

Allowed costs are determined by the regulator at the beginning of the regulatory sub-period, based on operating costs recognised during the relevant year, increased by any remaining portions of additional efficiencies achieved in previous regulatory periods.

3. To cover operating costs

The resulting amount is revalued annually to take account of inflation and reduced by an efficiency factor designed to ensure that additional efficiencies are, over time, passed back to end users in full.

OBJECTIVE

Regulators and other government stakeholders: changes to the mechanisms used to determine rates of return

ACTIONS

Steps taken to mitigate and control the identified risks > page 88



“ We have not altered our approach to **maintenance of the grid**: we check that circuits are working properly, resolve any major issues and, in general, ensure that all the vital components of electricity substations are fully functional. Indeed, you could say that we have sharpened our focus even more. We keep our distance and wear the necessary protective equipment, as required by the Company and more in general. But **we are fully operational** and our teams continue to be made up of four to six people as before, because certain jobs cannot be carried out without the physical presence of Terna's professionals. ”



#TernaPeople #Covid_19 #gridmaintenance



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3

The Group's strategy

2021-2025 Industrial Plan

DRIVING ENERGY

The 2021-2025 Industrial Plan, **Driving Energy**, aims to confirm and reinforce Terna's central role in managing and enabling the Italian energy system and the ecological transition, and as the main driving force behind the country's efforts to achieve the targets in the European Green Deal and Italy's Integrated National Plan for Energy and the Climate, above all the 55% reduction in emissions by 2030, marking the first step on the road to achieving zero emissions by 2050.

The exponential increase in global primary energy consumption, the increase in CO₂ emissions and the impact on our planet's ecosystem are evidence of the fact that the energy model on which the planet's development has depended in recent years is no longer sustainable. It is, therefore, necessary for national and international institutions to commit to a progressive and as rapid as possible decarbonisation and improved efficiency across all forms of energy. In this context, the electricity sector has a central role to play in achieving the energy system's overall decarbonisation goals, thanks to the intrinsic efficiency of electricity as an energy carrier compared with other forms of energy and the technological maturity of renewable energy sources (RES).



Driving the Ecological Transition



REGULATED ACTIVITIES
Develop, modernize and strengthen
the National Transmission Grid

€8.9 billion
in investment,
the highest
ever seen
in Italy

+22% on previous
Plan



including **95%** in sustainable
investment

RAB of € **21.8** bn in 2025
6% CAGR over life of Plan
(sharply up on previous Plan)

This transformation will not have zero impact on the electricity system, but will face us with a series of challenges that we must meet in order to ensure decisive and effective delivery of the ecological transition, whilst **maintaining the current high levels of service quality and, at the same time, avoiding an excessive increase in the cost to society**.

The growing presence of renewable energy plants has a significant impact on the way in which Terna manages the grid. These intermittent sources of energy, not as flexible as traditional power plants and sometimes far away from centres of consumption, result in an increase in grid congestion, especially on sections connecting the south with the north.

In addition, the growing frequency of extreme climate events, allied with the structural nature of the Italian transmission grid, puts major demands on the TSO, which is called on to protect and manage the national grid in order to **guarantee the security of electricity supply**.

Enablers



NON-REGULATED ACTIVITIES

Technological, innovative and digital solutions to support the ecological transition

Contributing €**450** million to EBITDA



INTERNATIONAL ACTIVITIES

Putting our competencies and know-how into grids worldwide

€**300**m in investment

Contribution to EBITDA +€**200**m



PEOPLE

+10%
workforce
in next 3 years

NexTerna (New ways of working)
project launched

INNOVATION AND DIGITALISATION

€**900**m

invested
in digitalisation,
innovation
and new
technologies



Enablers

Major projects:

Power lines

- Colunga (BO) - Calenzano (FI)
- Chiaramonte Gulfi (RG) - Ciminna (PA)

HVDC connection

Sardinia - Corsica - Italy (SA.CO.I.3)

HVDC connection

Mainland - Sicily - Sardinia (Tyrrhenian Link)

Under Terna's approach, ensuring that the ecological transition provides the necessary security requires the following key elements: **investment in the grid** (to enable security, resilience and the integration of non-programmable RES), the installation of renewable energy sources and storage systems, providing additional storage capacity for electricity that will allow the system to operate and minimize overgeneration.

With specific regard to investment in the grid, Terna's Plan focuses on efforts to significantly accelerate sustainable investment, the integration of non-programmable renewable sources and the strengthening of system security and resilience, thereby supporting the ecological transition and the phase-out of coal. The aim of this strategy is to resolve grid congestion and upgrade the transmission backbones that play an essential role in linking places of production with consumption. This goal will be achieved by reinforcing connections between the north and south of the country and with the islands, and by boosting cross-border interconnection capacity. To achieve this, the Terna Group plans to invest a total of €9.2 billion over the next five years.

Our development initiatives will focus on three strategic areas: Regulated Activities, Non-regulated Activities and International Activities.

Investments
in Regulated
Activities
€8.9 billion
a record level of
investment for Italy

In terms of **Regulated Activities**, which continue to represent the Group's core business, Terna plans to **invest €8.9 billion**, a record level of investment for Italy and up 22% compared with the target of €7.3 billion set in the previous Plan. This investment will bring major benefits for the entire system, well beyond their initial cost, and will focus on developing, modernising and strengthening the national transmission grid, confirming Terna's role as the enabler of an increasingly complex, sustainable and technologically advanced electricity system. In addition, 95% of this investment is classifiable as green under the criteria used in the EU Taxonomy currently being devised.

The most important projects include the **Tyrrhenian Link**, which will contribute to the decarbonisation of Sardinia, integrating different market areas with major benefits in terms of efficiency; the power line that will link the **Colunga zone (Bologna)** with the **Calenzano zone (Florence)**, significantly boosting exchange capacity between south-central and north-central Italy; the power line that will connect southern and northern Sicily between **Chiaramonte Gulfi (Ragusa)** and **Ciminna (Palermo)**, improving the quality and continuity of electricity supply in the region; and **SA.CO.I.3**.

As a result of this investment, the value of our regulated asset base (RAB) will rise to €21.8 billion in 2025, with a CAGR of 6% over the life of the Plan, a significant increase compared with the previous Plan.

Non-regulated Activities will focus on the development of innovative, digital solutions to support the ecological transition, fully in line with the Group's core business. These activities include:

- Energy Solutions: services for high-voltage infrastructure and smart grids, and energy efficiency services offered through Avvenia;
- Connectivity: the offer of connectivity, dark fibre and housing and hosting services for telecommunications providers;
- Manufacturing: the production of power transformers and terrestrial cables carried out by Tamini and Brugg, whose growth will help to drive efficient delivery of Terna's existing strategy for insourcing distinctive capabilities.

Non-regulated Activities are expected to contribute a cumulative total of approximately €450 million to the Group's EBITDA over the life of the Plan, in return for limited investment and risk exposure.

In terms of **International Activities**, Terna now operates in a number of Latin American countries, where we aim to maintain a presence in order to exploit our expertise and build on our know-how in cross-border high-voltage and very high-voltage connections. In addition to the projects currently underway in Brazil, Peru and Uruguay, the 2021-2025 Industrial Plan envisages that we will take advantage of new opportunities capable of driving further EBITDA growth in return for low levels of risk and modest capital outlays. Terna expects to invest up to €300 million in new projects over the life of the Plan.

Terna thus expects that its International Activities will contribute a cumulative total of over €200 million to the Group's EBITDA over the life of the Plan.

To help drive delivery of the Plan and enable Terna to effectively transform our business processes, two strategic enablers have been identified: the development of new technologies and of our people.

In this regard, the **Group has earmarked approximately €900 million** of the total budget of €8.9 billion for expenditure on **digitalisation and innovation**, which will play an increasingly central part in keeping with their crucial role in enabling the ecological transition for the benefit of the entire system. This form of investment will generate value for the entire system and the market.

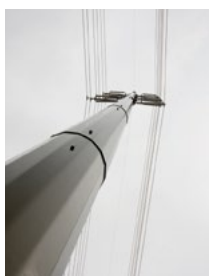
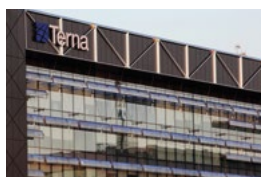
In addition, in order to optimise the working environment for our people, we have launched a project called **NexTerna**, with the aim of reengineering our processes through the use of digital technologies and by rethinking physical workplaces.

Finally, maintenance of a strong capital structure through robust cash generation will also help to support an attractive dividend policy.

Investments
digitalisation and
innovation

approximately € **900** m

Outlook



As described above, with our new Industrial Plan, Terna aims to confirm and strengthen our central role in driving and enabling the Italian energy system and the ecological transition. As a result, despite the ongoing pandemic, 2021 will see the Group committed to delivering on its 2021-2025 Industrial Plan. Of the €9.2 billion to be invested over the next five years, approximately €1.4 billion will be invested in 2021.

The Group will continue to invest in our **Regulated Activities** and in strengthening the core business. This will involve direct engagement across the country, through listening and dialogue with all the key stakeholders, local communities, authorities and institutions.

The principal electricity infrastructure under construction includes the interconnection with France, which is due to enter service in 2021, and the start of work on the new SA.CO.I.3 project (strengthening the link between Sardinia, Corsica and the Italian mainland). In addition, the main projects to increase the exchange capacity between the various areas of the Italian electricity market include the Colunga-Calenzano and Paternò-Pantano-Priolo power lines, whilst the reorganisation of electricity grids in metropolitan areas will primarily involve the renewal of existing infrastructure, with new technologically advanced connections meeting the highest standards in terms of environmental sustainability (e.g., Naples, Milan and Rome).

During 2021, Terna will also engage in the usual dialogue with ARERA as part of the process of establishing the methods and criteria for determining and revising the allowed WACC for the electricity and gas sectors from 2022.

With regard to **Non-regulated Activities**, Terna will continue to consolidate our role as a provider of both energy solutions, developing high value-added services for corporate customers, including energy efficiency solutions, and taking advantage of market opportunities for traditional and renewable customers, and connectivity, pursuing opportunities based on exploiting the Group's own fibre infrastructure. In terms of manufacturing, the aim is to build on Tamini's performance and complete the integration of Brugg in order to take advantage of significant potential synergies with the non-regulated business and exploit the company's distinctive expertise in the production of terrestrial cables.

International Activities will continue to focus on managing and maintaining the power lines that have entered service in Brazil, and on completing existing projects in Peru and Brazil.

The process of scouting for further opportunities in overseas markets will continue. This may take the form of partnerships and will involve the careful selection of projects with a view to ensuring a low risk profile and avoiding the need to tie up large amounts of capital.

Investment in innovation and digital solutions will play a crucial role in supporting these initiatives, as part of the transformation that will enable us to manage the growing complexity of the system. Attention will also be paid to the development and insourcing of strategic competencies, to the strengthening of departments, and to optimising the working environment for our people through delivery of the NexTerna project.

The Industrial Plan, based on sustainability and respect for the ESGs, will ensure that we are able to minimise our environmental impact, involve local stakeholders and meet the need for integrity, responsibility and transparency, principles that have always formed the basis of Terna's approach to doing business.

The above objectives will be pursued whilst maintaining our commitment to maximising the cash generation necessary ensure a sound, balanced financial structure.

Our people

People are Terna's most important asset, the main enabling factor in the Strategic Plan. Each of us brings skills and experience that can help to increase the value of the Company.

The new 2021-2025 Industrial Plan, approved on 19 November 2020, confirms and strengthens Terna's central role in driving and enabling the Italian energy system and the ecological transition.

Terna's strategy is based around a **significant acceleration in investment, technology and digitalisation and our people**.

Comprising a wide range of professionals across a broad spectrum of skills, Terna's team places great emphasis on working together. For us it is vital to have the best talent on our team, so we seek to identify new ways of working, tapping into new ways of thinking, and thus creating more productive and satisfying working conditions and corporate wellbeing.

People will be at the heart of the **New Ways of Working** project, an ambitious plan designed to develop a new mindset, with the aim of putting in place new ways of working through the **active, informed involvement of people** in order to enable the Group to achieve the challenging objectives set in the 2021-2025 Industrial Plan. The response to these new challenges is **NexTerna**, which we launched in February 2021. The programme is due to develop over several years and is aimed at everyone who works for the Company.

IMPACTS

- Real estate optimisation
- Greater flexibility
- Benefits for logistics and quality of life
- Improved carbon footprint



KEY ACTIONS

- Ensure adequate infrastructure
- Promote corporate sociality and culture
- Review training methods
- Redesign performance measurement systems

The plan also aims to boost the contribution made by Terna's people, with the workforce due to increase by as much as 10% in the first three years to over 5,000, enabling the development and insourcing of strategic skills.

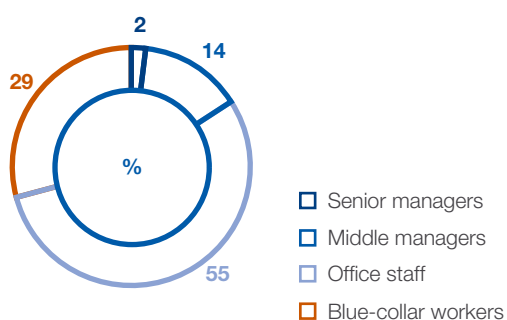
	AT 31 DECEMBER 2020	AT 31 DECEMBER 2019	CHANGE
WORKFORCE			
Senior managers	80	72	8
Middle managers	672	617	55
Office staff	2,587	2,382	205
Blue-collar workers	1,396	1,219	177
Total	4,735	4,290	445

unit

The increase in the Terna Group's workforce at 31 December 2020 primarily reflects the growth of international Non-regulated Activities, with the addition of 381 new personnel following the acquisition of Brugg Kabel AG.

At 31 December 2020, the number of agency workers employed totalled 25 (29 in 2019).

% BREAKDOWN OF THE WORKFORCE



WORKFORCE TRENDS



COMPOSITION OF THE WORKFORCE	2020	2019	CHANGE
Permanent employees	100%	100%	-
Average age (in years)	41	41	-
University and high-school graduates	96.2%	95.6%	0.6%
Women as a % of the total	14.2%	13.9%	0.3%
Women in senior and middle management roles (out of total senior and middle managers)	19.8%	19.8%	-

The average age of the workforce is 41, in line with 2019. University and high-school graduates make up 96.2% of the total workforce, up 0.6% compared with 2019. In terms of gender, there has been an **increase in women employed (up 0.3%)**, although the majority of the Group's workforce consists of men (accounting for 85.8%).

The **presence of women in the workforce has grown steadily over the years**, rising from 8.8% in 2005 to 14.2% in 2020. In addition, in 2020, 24.4% of new recruits, excluding operating personnel, were women.

In terms of type of contract, all employees are on permanent contracts.

The measures introduced in response to the Covid-19 emergency

Terna responded to the emergency by progressively adopting **specific organisational measures designed to contain and reduce the risk of infection from Covid-19**, as summarized below:

- the introduction of remote working for all administrative and business support staff, as an exception to the requirements of Law 81/2017, and personnel within infrastructure units, introducing suitable shift arrangements for employees. The adoption of organisational solutions designed to spread operational personnel workers across different locations with the aim of ensuring that teams were kept apart and cutting the risk of infection;
- measures were introduced for the Dispatching control and operations centres with the aim of reducing the risk of infection among shift personnel. These included alternating use of the main control rooms with the use of backup facilities, rotating staff between places of work and changes on the ground with personnel on part shifts of 16 hours being switched to shifts of 24 hours to limit the possibility of workers infecting each other. Solutions were also introduced in order to isolate control room personnel if someone tested positive for Covid-19 among the people in service;
- the alternate use of rooms and the potential isolation of personnel at the Security Operation Centre.

For the so-called re-entry phase - from 4 May - a **"Sicuri Insieme"** ("Safe Together") campaign was launched, aimed at providing "operating instructions" on behaviours to be adopted in the workplace. This involved placing posters containing behavioural guidance directly in the various workplaces (entrance halls, meeting rooms, lifts, canteens, corridors, break areas, etc.). Terna also obtained a specific **Covid-19 insurance policy** for all our personnel, which includes the payment of compensation in the event of hospitalisation due to infection with Covid-19.

As part of the *Sicuri Insieme* campaign, **serological tests** were offered to all Terna's employees from September. This was followed, in December, by a seasonal influenza vaccination campaign and, from January to March, continuing with the Covid-19 prevention campaign, an agreement was entered into with Rome's Agostino Gemelli Hospital to provide a special area in which to offer molecular testing to staff from the Group's Rome offices.

There was constant dialogue with the national labour unions in 2020, resulting in the signature of eight agreements linked to the emergency situation.

The widespread and generalised introduction of remote working during the Covid-19 emergency progressively led to a cultural change among Terna's personnel, encouraging more people to work from home in order to safeguard the health and safety of the workforce. Partly on the basis of this experience, on 9 November 2020, an important, innovative agreement was reached with the national labour unions that, once the state of emergency has ended, provides for the introduction of remote working in a structured form.

Occupational safety

Terna's approach

Safety and accident prevention to guarantee the physical integrity of employees are among the Company's main priorities.

In 2020, Terna continued with the **"Zero Accidents"** project, which aims to promote a global approach to safety involving all the Company's staff, as well as people working at Terna's plants in various capacities. Through the definition of improvement and prevention plans, including awareness raising and training initiatives, the project aims to ensure that safety becomes nothing less than a way of life.

The objective is to obtain a significant reduction in accident indicators over the years, in order to achieve and then maintain the target of **zero accidents**.

A total number of 27 accidents was registered in 2020, one of which had an initial prognosis of more than 40 days of estimated recovery time, while 8 accidents had a subsequent ongoing prognosis of more than 40 days, which therefore had not been deemed serious⁹ on initial prognosis. Two accidents were also registered with an initial prognosis of less than 3 days of estimated recovery time¹⁰.

OCCUPATIONAL INJURIES SUFFERED BY TERNA EMPLOYEES - GRI-ILO DEFINITIONS	2020	2019
Injury rate	0.77	0.95
Lost day rate	40.07	35.77
Number of injuries	27	33
- of which serious (initial prognosis > 40 days)	1	-
- of which serious (subsequent ongoing prognosis > 40 days)	8	7
- of which fatal	-	-

The injury rate and the lost day rate in 2020 are down compared with the previous year. For further details on this matter, reference should be made to the "Sustainability Report".

Environmental protection

Environmental protection is a priority for the Company, which has always been committed to improving its ESG (Environmental, Social, Governance) performance. This commitment is reflected positively in the sustainability ratings, in the Company's inclusion in the leading international sustainability indices and in the appreciation shown by socially responsible investors.

2020 witnessed the extension of two projects launched in 2019: Plastic Free (the procurement of drinking fountains and the provision of personalised bottles) and Recycling (the creation of little "internal eco-islands"). As a result, all Transmission Operations departments and many Infrastructure Units became "plastic free". This process will be completed in the first quarter of 2021.

In December, specific training was provided to all personnel involved in the procurement of goods and services and the award of design and construction contracts for buildings and electricity substations.

This year, Terna sponsored the **XIVth edition of the CompraVerde BuyGreen Forum** (the most important event in Italy and Europe dedicated to public and private Green Procurement policies, projects, goods and services). The Company played an active part, making a specific presentation during the conference on the "Sustainability Monitor Report: a survey of procurement and sustainable supply chains in Italy in 2020", organised by the Ecosistemi Foundation in collaboration with Confindustria (the Confederation of Italian Industry). The survey covered 200 of Italy's largest public and private companies, representing approximately 50% of the country's GDP, and assessed the steps taken by businesses in applying sustainability criteria in their direct and indirect procurement.

⁹ Since 2018, the criterion for classifying an injury as serious has become more detailed. A serious injury is now defined as resulting in a total absence from work of 40 days or more, excluding the day of the event, as an initial prognosis or as a subsequent ongoing prognosis accompanied by medical certificates. Previously, only injuries with an initial prognosis of 40 days or more were registered as being serious, excluding the day of the event.

¹⁰ Since 12 October 2017 (art. 3, paragraph 3-bis of Law Decree 244/2016), companies have an obligation to report to INAIL any injuries resulting in an absence from work of at least one day, excluding the day of the relevant event. Previously, the obligation only applied to absences of over 3 days, excluding the day of the event. Absences of less than 3 days were only registered internally.

As a result of the Covid-19 emergency, training in 2020 was conducted in digital format, with the organisation of **virtual classrooms** for all activities not involving practical or on-the-job sessions. Despite the limitations, at **31 December 2020, over 132,000 hours of training had been provided, equal to 34 hours per capita**.

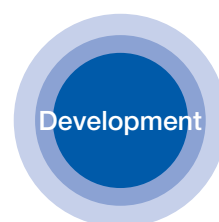
In the area of **online training**, approximately 108,000 hours of training in the **study of the main operating instructions** took place (with the aim of developing and consolidating knowledge of conventional methods applicable to work on de-energised lines and substations), as did the **Train the Trainers** initiative for internal personnel used as teachers, tutors and trainers on the various courses, with the aim of developing new skills and experimenting with innovative teaching methods in order to encourage the sharing, development and preservation of knowledge within the Company.

Health, Safety and Environment courses, focusing on the Covid-19 health emergency, were also run during the year. These included, for example, online training on the content of Terna's anti-infection safety protocol and mandatory training in the requirements imposed by the Consolidated Act 81/08, including the course on how to manage Covid-19, which examined the knowledge, competencies and responsibilities of people tasked with coordinating the implementation of Covid-19 prevention and anti-infection measures.

In the **corporate** sphere, Terna continued to participate in the main initiatives in progress, such as, for example, **"Valore D"**, an association that promotes skills development and networking (courses, programmes and mentoring) with a special focus on diversity and women's career development; **"Musica e Management"**, a programme run in collaboration with the Luiss Business School and the National Academy of Santa Cecilia; the **"Project Management Fundamentals"** course, involving virtual classroom sessions and remote participation led by tutors; the **"Program for Management Development (PMD)"**, organised by the IESE Business School-University in Navarra and specifically dedicated to the TSO community. The **Virtual Language Learning** project forming part of the Training Programme for Dispatching Personnel, drawn up on the basis of the new European regulations governing this area, is also in progress.

Two projects deriving from the **"Call For Innovation"**, also took place in 2020. These focused on HR processes and were hosted at the Naples Innovation Hub. Both are based on the concept of "readiness" as a skill enabling people to meet challenges in a continually changing world. The first project, **"Ready To Live"**, trains participants in parenting and caring skills, with the aim of putting them to use in a working environment. The second, **"Ready To Lead"**, involved talented young colleagues in training designed on the basis of Terna's Leadership Model.

The **Terna Skill Mapping** project was launched in 2020. This provides a tool for assessing and mapping the Group's key skills thanks to a special library. The project is designed to periodically assess the penetration and distribution of these skills via a series of surveys, thus developing a more accurate picture of the skills profile of each employee and allowing us to increase our skills base by accurately targeting training and development pathways.



Talent Acquisition

During 2020, staff recruitment and selection activities focused on technical and operational roles to complete the generational turnover process launched in previous years and on staff roles (maternity leave) and roles for people covered by Law 68/99.

New partnerships with the STEM departments of leading Italian universities were entered into, with the aim of making Terna more attractive for recent graduates in physics, statistics, mathematics and data science.

The **Terna “Sustainable materials” Hackathon**, a contest of ideas for technical college graduates, recent university graduates and PhD students at the University of Padua who have studied STEM subjects. In order to foster a virtuous circle of exchange between the corporate and academic worlds and to support the new staff recruitment process, Terna also engages with schools, universities and employment centres.

Welfare

Following specific agreements with the unions, the **“Terna Welfare”** initiative was reconfirmed and reinforced in 2020. This initiative allows Group employees to allocate part of their performance bonus for the purchase of welfare goods and services and supplementary pension schemes.

In order to help take advantage of the opportunities offered by existing legislation, the Company will again, in the three-year period 2020-2022, increase the share of bonuses converted into welfare goods by 16% (compared with 15% in 2019), including amounts invested in supplementary pension schemes. In defining the management service for the welfare plan, special attention was paid to the “Family” category. Indeed, employees allocated a significant portion of their bonuses to reimbursement of this type of expenditure, especially school expenses relating to tuition fees, study vacations and books.

Performance Share Plan 2020-2023

On 29 July 2020, the Board of Directors approved the Terms and Conditions of the **Performance Share Plan 2020-2023**, in implementation of the terms established by the Annual General Meeting of shareholders held on 18 May 2020.

The LTI Plan 2020-2023 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.

Further details are provided in the Information Circular on the Performance Share Plan 2020-2023 and in the Report on the Remuneration Policy and Remuneration Paid, published on the Company's website (www.terna.it).

Terna ranked number one in Italy and in Europe for the quality of our digital communication

On 30 November 2020, Terna was ranked **number one in Italy and Europe for the quality of our digital communication**. The Webranking by Comprend 2020-2021 study on the quality and transparency of the digital communication of listed companies, carried out in collaboration with Lundquist, ranked Terna number one in Italy and Europe. Ranked first among the 122 biggest Italian blue chips and among the 500 largest companies in Europe by market capitalization, the study acknowledged Terna's excellence in terms of the credibility, transparency and accessibility of information.

OBJECTIVE

Human Resources: to enhance and protect in-house expertise and reduce workplace injuries and accidents

ACTIONS

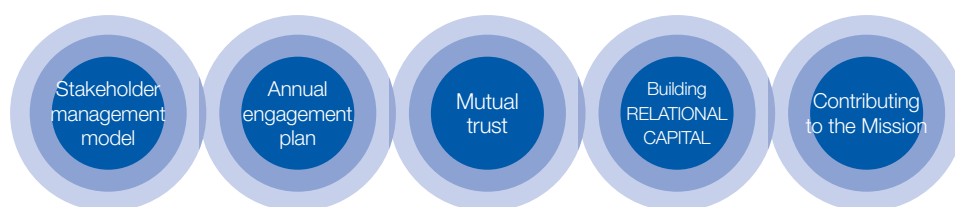
Steps taken to mitigate and control the identified risks > page 88



Local stakeholders

Engagement with local communities is a key part of our Grid Development Plan. This allows us to create the conditions in which together we can build an increasingly sustainable national grid.

A favourable social environment, coinciding with the availability of sufficient relational capital, is essential to Terna's ability to carry out the investments envisaged in the Grid Development Plan within the established time-scale and to exploit available opportunities for its Non-regulated business, in Italy and overseas.



Participatory design

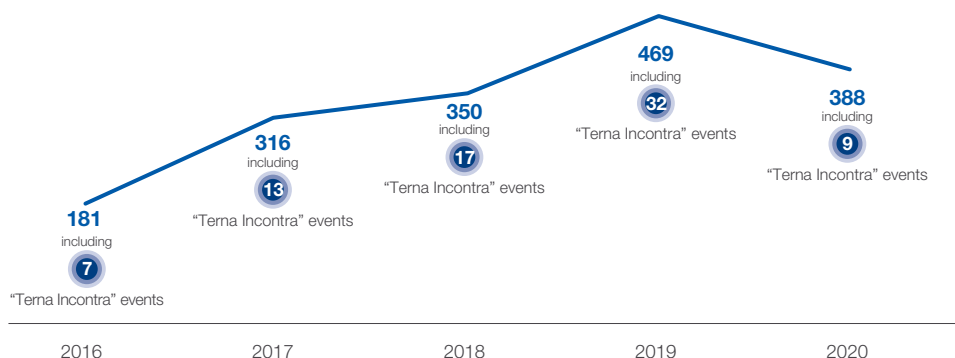
To create the best conditions for building and maintaining high-quality stakeholder relations, Terna has developed a number of tools and procedures within its "Stakeholder Engagement Model" designed to engage with and monitor public opinion, with the aim of creating an increasingly efficient and sustainable grid together.

A specific engagement programme is conducted each year to identify the actions to be taken in order to bring the Group's relations into line with best practices and to ensure that stakeholders are listened to on a regular basis.

In line with this approach, Terna:

- speaks directly to people living in the areas where new infrastructure is to be located;
- presents and explains projects, and listens to local communities' opinions and requests for clarification;
- shares improvement solutions regarding the location of new infrastructure or the reorganisation of existing assets, always respecting environmental and landscape constraints.

NUMBER OF LOCAL MEETING



SUSTAINABILITY INITIATIVES

Stakeholder

Terna has, since 2002, adopted a voluntary approach designed to foster the prior involvement of local government. For some years, alongside meetings with government institutions, representing the lion's share of our engagement activities, Terna has adopted a further tool for engaging with local communities, called **"Terna Incontra"**. These are planned events that institute a continuous communication channel with people from the communities directly affected by new electricity infrastructure, whether a power line or a substation, in order to enter into a participatory design process.

Due to the restrictions imposed as a result of the Covid-19 pandemic, in 2020, Terna devised and implemented an innovative form of engagement based on a digital format. This consists of a new way of consulting local citizens and stakeholders, combining paper communication (leaflets and pamphlets) with digital content on the website (web pages providing digital information for online meetings) and social media (the publication of social media kits among local stakeholders and sponsored campaigns) in an integrated, coordinated manner. A total of 9 "Terna Incontra" meetings were held in 2020, including 2 in person at the beginning of the year, and 7 via digital platforms.

Local communities:
more engagement and
consultation

Terna's commitment to the environment and biodiversity led, in 2009, to the conclusion of partnership agreements with critical stakeholders, such as leading environmental organisations, with the aim of arriving at shared solutions designed to boost the environmental sustainability of the National Transmission Grid (NTG). Growing concerns over the impact of climate change, and the accompanying focus on ecological transition initiatives, has led to further cooperation between Terna and these organisations. Terna currently has partnerships with Legambiente, the WWF and Greenpeace.

**Environmental
organisations:**
strengthening
partnerships

Approaches to climate change and the ecological transition **have widened calls from numerous institutional investors** for major companies to conduct an informed and full assessment of the business risks linked to ESG (environmental, social and governance) issues. Of particular importance, in terms of transparency and reporting, are the recommendations from the Task Force on Climate-related Financial Disclosures (the so-called Bloomberg Task Force) regarding the publication of information on the implications of climate change for business strategies, in terms of risks and opportunities. This is considered of central importance, with regard to both the best possible allocation of investment and efforts to combat climate change. Terna has for some time now implemented these recommendations (an examination of the emerging risks has also been included this year in the section "Dispatching of electricity").

Investors: a growing
request for transparency
regarding environmental,
social and governance
aspects

Innovation



Innovation and digital transformation are essential in an increasingly complex energy sector. Decisions regarding future development focus on the technology trends most relevant to our business.

The current **ecological transition** process requires a new systemic and organic approach to innovation, based around the acceleration of a portfolio of effective research, development and innovation initiatives in keeping with the Group's strategies. Terna has decided to further speed up its innovation process via a centralised and coordinated vision, in order to promote research and development into ideas and synergistically manage the innovation ecosystem, so as to **enable the transition to the new TSO 2.0 model**.

The change brought about by the transition requires an increasingly intelligent and flexible electricity system management model, both at the level of the grid, thanks to 4.0 enabling technologies (the Internet of Things - IoT, big data, advanced analytics), and in terms of the market. This will bring about an unprecedented revolution that will rapidly result in the integration of distributed generation resources, storage and market demand for services, and the Europe-wide integration of national markets. Moreover, in the medium term, it will be necessary to ensure the progressive integrability and interoperability of electricity grids and other networks (transport, gas, water, etc.), in order to make the Italian and European economies stronger and more eco-sustainable.

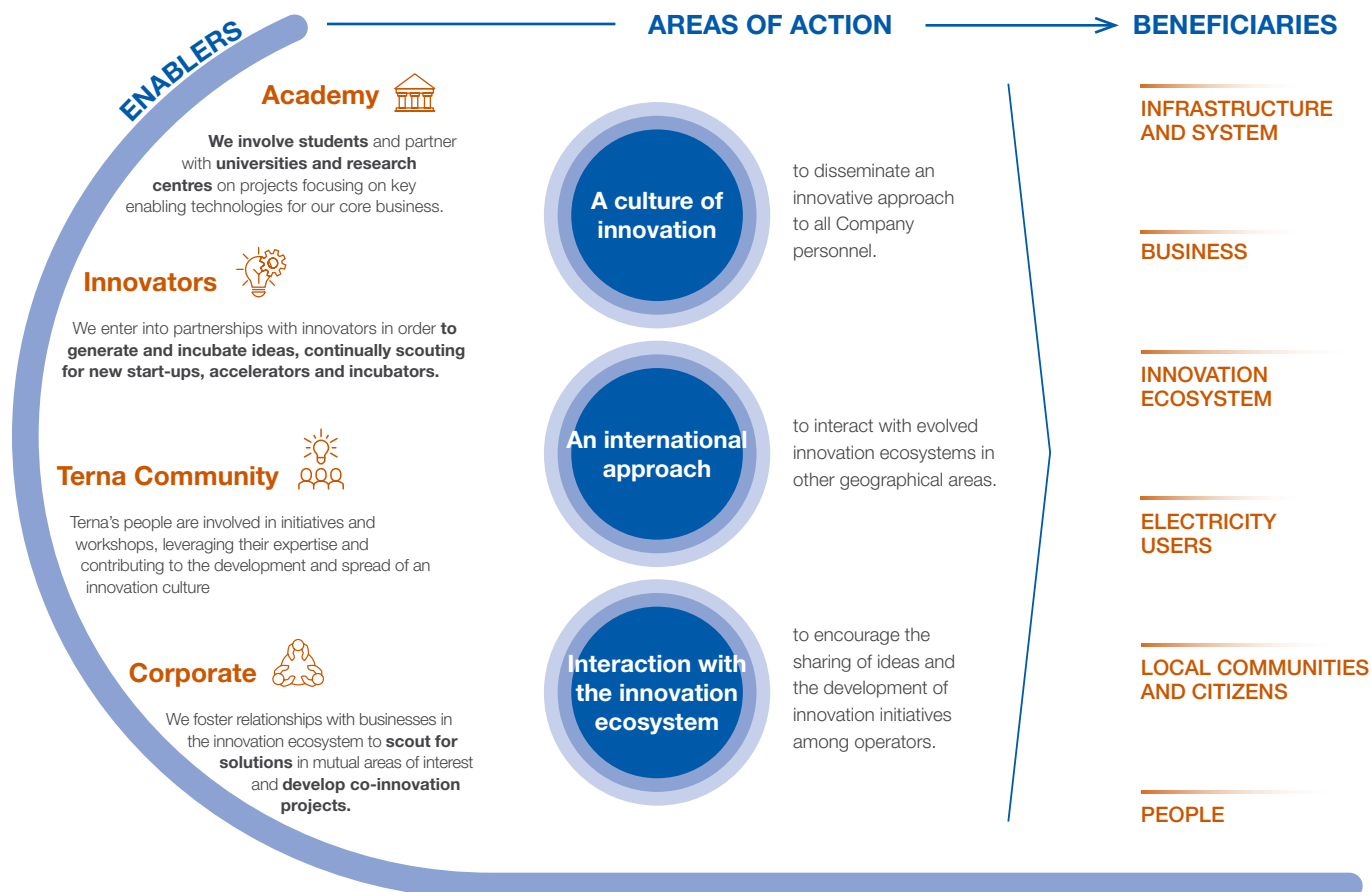
Innovation is one of the pillars of Terna's businesses. Indeed, in the new 2021-2025 Industrial Plan more than €900 million have been earmarked for **innovation and digitalisation**. During the second half of 2020, the new Terna management drew up the **2021-2025 Innovation Plan**, which sets out the new innovation model.

Terna has developed an innovation model geared towards meeting new needs and generating value for the Company and our stakeholders, via an approach that is:

- > **Concrete:** from needs to solutions, via a process that develops ideas and implements projects.
- > **Open:** with the involvement of external actors as enablers and beneficiaries.
- > **Inclusive:** with the involvement of the whole Company in the innovation process.
- > **Distributed:** with gathering of needs and development of ideas and projects in the various organisational departments.

The new Innovation Plan is focused on critical enabling technologies, including a balanced portfolio of initiatives to grasp even the most disruptive challenges.

2021-2025 INNOVATION PLAN



The Covid-19 emergency posed Terna another important challenge regarding digital systems to support operations strongly impacted by remote working during lockdowns. Several initiatives have been implemented and launched that have enabled full remote operations, with a gradual shift of working practices towards a new normal. Specific actions have also been undertaken in support of internal processes and skills to promote and sustain NexTerna, a key element of the Company's resilience during the Covid-19 health emergency.



The initiatives provided for regard various technological clusters (Full Internet of Things, Advanced Materials, Energy Tech, Digital and Computing, Cybertech and Analytics), and the main tools Terna has implemented to develop innovation include:

- creation of **Terna Innovation Hubs**;
- implementation of an **Open Innovation** process;
- execution of projects within the Innovation Hubs via the **Innovation Factories and central departments**.

Terna Innovation Hubs

Laboratories where new business projects can actually be created, developed and tried out. The aim is to bring together a community of people with different experiences and skills, to promote skills integration and development of industrial solutions that can be applied on a larger scale. Synergy with the local community is vital, partly to identify excellence and distinctive skills in local areas.

During 2020, the first four workshops in the **Terna Start Hub** series took place virtually in the Milan, Turin and Naples Hubs, with the aim of disseminating specialist content and presenting best practices and examples of technological applications to the community of Terna's local Transmission Operating Areas. The initiative was made possible by the **Terna Innovation Hub Digital Twin**, which was set up in the first quarter of 2020.

At the **Milan Innovation Hub**, the first phase of development and training for the predictive modelling of electricity transits on a limited portion of the National Transmission Grid was completed. Three start-ups each implemented prototype software trained with the most up-to-date machine learning techniques, made available to Terna for an initial assessment and testing; the results obtained will be evaluated in the upcoming predictive maintenance and advanced analytics initiatives of the System Operator and Transmission Operator Innovation Factories.

The second phase, which is still in progress, involves two start-ups, and is aimed at an operational application to be used in short-term planning of the electricity system.

At the Turin Innovation Hub, initiatives were concluded with:

- the **ISI Foundation** research institute, which led to the development of a prototype algorithm for forecasting the generation capacity needed for primary substations in a portion of the NTG using advanced analytics techniques. The application of advanced mathematics and statistics also enabled the project to investigate the issue of adequacy margins in the electricity system, defining the scope of potential future projects;
- the start-up **WaterView**, regarding the potential for video cameras to identify the weather conditions leading to the formation of ice coatings. This will continue in 2021 with an application along new lines that are far from the transformer stations. The activity was carried out as a continuation of the engagement phase after Next Energy.

At the **Padua Innovation Hub**, five innovative projects, connected with the Advanced Materials for Sustainability call held in 2019, were launched. The projects, currently in progress, regard the use of bio-materials to boost the energy efficiency of Terna's buildings, and nano coatings to prevent the formation of ice on overhead power lines and ground wires.

Finally, December 2020 saw the launch and completion of the **Turin E.mobility Lab**, which involves testing the V2G (Vehicle-to-Grid) behaviour of electric car charging station systems. Moreover, in collaboration with Engie-EPS and FCA, the first facilities have been installed and initial testing has begun.

Open Innovation

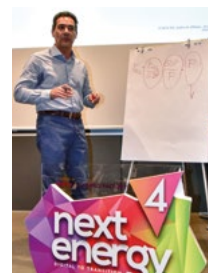
The Open Innovation approach encourages the opening up of new development fronts within and beyond the Company. We promote dynamic interaction with universities and research centres, collaborate with peers and large industrial players, and facilitate access to start-ups and small and medium enterprises.

The portfolio of innovation initiatives is coherently organised through the Innovation Plan, from the birth of new ideas to the development of projects. The new initiatives, which may arise from internal Company needs or from the Open Innovation process, are included in a framework encompassing the key areas of technological development Terna has identified: digital, energy tech, advanced materials, robotics.

The academic world

In collaboration with universities and research centres, basic research is conducted on key enabling technologies for the core business, and ideas are also generated and incubated via specific agreements.

- Agreements regarding research, development and innovation activities at Innovation Hubs, and teaching, training and networking activities at the **Universities of Padua** (June 2020) and **Naples** (December 2020); in May 2020 a similar agreement with the **Polytechnic University of Turin** was revised;
- A second research project was developed as part of the five-year partnership with the **University of Stanford** in California, involving selection of a Terna member of staff as a visiting scholar. The aim of the study is to design and test mechanisms to improve the efficiency of electricity markets in Italy;
- Idea generation initiatives:
 - In November 2020, as part of the **Sustainable Materials Hackathon**, held with students from Padua University and in collaboration with UniSMART, an in-house company at the university, Terna awarded a prize to the coatings project for the renovation of overhead lines;
 - The **Smart Tower Hackathon**, developed with the Polytechnic University of Turin and with the support of CLICK Torino concluded in July 2020. This led to the prototyping of two solutions proposed in the idea generation phase regarding monitoring and warning tools for fire risk and air quality.
 - Between March and October 2020, Terna took part in the Veneto region **Contamination Lab** initiative, a multidisciplinary cross-contamination project involving university students, recent graduates, PhD students, teachers, experts, professionals and companies in which, thanks to the support of UniSMART, project challenges proposed by the participating companies are developed. The challenge launched by Terna comes within the scope of additive manufacturing and regards the application of 3D printing in corporate operations.
- Other initiatives: In October, Terna took part in the seventh edition of the **Start-up Intelligence** Observatory promoted by PoliHub which is sponsored by the Polytechnic University of Milan. This innovative research, scouting and community programme is aimed at innovation managers and people involved in corporate digital innovation.



Initiatives involving innovative companies, solvers and start-ups that propose ideas and solutions at various stages of technological maturity, with the aim of seeking new ideas or solutions, at different stages of maturity, which create value for Terna.

- **Next Energy:** the fourth edition of Next Energy, an Open Innovation initiative consisting of three Calls, was completed in 2020:
 - the Call for Talents, which gave 10 new graduates access to a 6-month internship at several of Terna's facilities;
 - the Call for Ideas, which was won by the start-up **Nemesys** in June. Collaboration with other start-ups participating in the programme is being evaluated for possible future developments;
 - the Call for Growth which, following an engagement process conducted by the five selected start-ups and supported by the **Cariplo Factory**, concluded with a technical assessment of the use cases presented for potential collaborations with Terna.
- Terna participates in the **Open Italy** programme, an ELIS Open Innovation initiative set up to encourage dialogue and collaboration between large companies, Italian start-ups/SMEs and innovation facilitators such as accelerators and research centres, regarding concrete innovation projects relating to eight areas of innovation. The 2020 edition, for which Terna identified three priority areas of innovation (Urban Intelligence and Smart Mobility, Cybertech and Clean Technologies and Advanced Materials), enabled two co-innovation projects to be carried out with Snam regarding cyber security and satellites.
- Call for Innovation:
 - In June 2020, the **Call for Innovation I4G - Innovation For the Grid** concluded with the award of a cash prize of €15,000 to the start-up InSensus Project S.r.l.. The call, which is aimed at start-ups and innovative SMEs offering solutions relating to the digitalisation and increased resilience of the NTG, was conducted digitally with the support of Digital Magics, a business incubator listed on Borsa Italiana's AIM Italia. In September, three more start-ups were selected to take part in a co-design process with Terna and the partner Digital Magics, in order to define a technical and economic deliverable for application of the solution developed on an industrial scale. This Call, which is specifically focused on seeking solutions that can be integrated with the IoT monitoring network Terna is installing on various assets of Italy's high-voltage electricity system, was aimed at identifying advanced analytics algorithms and developing specialised sensors for power lines that can be integrated with the monitoring network to enhance and improve it;
 - The Call for Innovation, **EES - Energy Efficiency for Sustainability**, which is aimed at identifying sustainable solutions focused on energy efficiency that can benefit Terna and may be exploited in the market by Avvenia, concluded in December 2020. The winner was the start-up **Hive Power**, which has developed an innovative digital platform solution that improves data management of energy efficiency and smart grids by applying machine learning and artificial intelligence algorithms. Hive Power was awarded a prize of €15,000 and, together with other interesting start-ups, will have access to a co-design phase relating to the definition of a use case, with a view to evaluating possible commercial and technological partnerships with the selected companies.

Terna Community

Initiatives that involve Terna's community of people, with the aim of enhancing, expanding and disseminating skills and a culture of innovation.

In January 2020, specific activities relating to **Intellectual Property Protection** were defined with a view to implementing a process for leveraging and protecting the intellectual property generated by Terna. A process of raising stakeholders' awareness of the intellectual property management procedure is underway. A screening phase has also begun for ongoing activities that can be leveraged accordingly, in terms of intellectual property. During 2020, four new Italian patent applications were filed as well as another four at international level, and one design registration was obtained at EU level. In 2020, the asset portfolio consists of 19 assets in the pipeline (compared with 6 in 2019), with 3 patents granted, 8 applications filed and 8 under assessment.

The start-up ecosystem developed by Open Innovation has proved useful during the Covid-19 emergency in providing and developing **smart PPE** solutions for social distancing and contact tracing. Four solutions were trialled between July and September, enabling experience to be gained of the technologies deployed in these areas, as well as preparation of the subsequent market survey. Four solutions have been submitted to management and possible developments are being defined.

In December, technology scouting activities were launched on a global scale, with participation in the first international scale-up summit in Paris, focusing on the ecosystem. During the event, which was held remotely, Terna's team had the opportunity to evaluate technological solutions proposed by innovative international companies regarding the areas of safety and energy harvesting, and to exchange views with teams from other corporations on key innovation topics, including intrapreneurship and corporate venture capital.



Corporate

Initiatives involving large companies and industrial partners, to foster cross-contamination and dissemination of best practices and the development of co-innovation projects.

- On 15 April 2020, **Snam** and Terna relaunched and extended their partnership regarding coordinated research, development and innovation activities, aimed at leveraging potential synergies between the electricity and gas systems, by renewing their memorandum of understanding (first signed on 1 March 2019). The two companies intend to carry on working together to identify, define and implement joint initiatives, also sharing their expertise and best practices, with the aim of further strengthening their commitment as key players in the current ecological transition.

Specifically, the MoU breaks down into three areas of interest:

- “dual fuel” power plants, in which Snam plans to convert its compression and storage plants to gas-electric power, entailing significant environmental benefits for the national economy in terms of reducing CO₂ emissions, and the development of new flexibility resources for the electricity system;
- research and development, in which initiatives relating to so-called “sector coupling” will be developed, with particular reference to power to gas technologies; Development of a roadmap for the construction of pilot electrolysis plants in Italy, aimed at power to gas (P2G) and the consequent provision of flexibility services to the NTG;
- co-innovation, to continue the testing and development of innovative initiatives and technological solutions regarding the sustainability of energy networks, via infrastructure monitoring using drones, satellites and IoT sensors, as well as workers’ safety and the environment.

Other initiatives

- On the international front, **NDA were signed with US companies**, as well as an MoU with **Brugg eConnect**, and opportunities were explored in the charging hubs sector.
- As part of the integration programme for Brugg, 964 programmes were launched in 2020, aimed at developing IoT and sensor synergies.
- As a partner of the **Maker Faire Rome**, which took place in December, Terna set up a virtual stand to present our latest innovation ideas. Three projects were presented: lot4thegrid, drones and robotics for line monitoring; E-mobility lab (experimental electric mobility demonstrator); and the Terna lines simulator (virtual and augmented reality technologies to simulate the impact of electricity infrastructure).

Factories

The main strategic project streams have been identified in the Transmission Operator (TO) and System Operator (SO) areas. Therefore, two related Factories were set up in 2018: **Innovation Factory Transmission Operator** and **Innovation Factory System Operator**.

- **The TO Innovation Factory** includes the field of **Transmission Technologies** and is related to asset management, engineering and plant construction processes. It provides support for technological scouting, identification and implementation of technologies, and innovative processes and solutions for the evolution and continuous improvement of the NTG.
- **The SO Innovation Factory** includes the **Dispatching and Conduction** process, as well as **System Engineering** (upgrade and management of the national electricity system, preparation of defence and restart plans, and actions for the commissioning of plants). It also deals with the process of grid research and measurement, calibration and protection systems, malfunction analysis and statistics, functional requirements and system innovation.

Therefore, the SO Innovation Factory mainly focuses on enabling participation in distributed power generation resource markets, electricity demand and storage, with the key objective of promoting the penetration and integration of non-programmable renewable sources into the national electricity and energy system. The priority innovation project streams in this sector thus regard flexibility of the electricity system (e.g., vehicle-to-grid projects, demand-side response, etc.) and its secure management (e.g., R&D relating to the resilience of the electricity system, pilot projects on improved observability of distributed resources, etc).



Cybersecurity & Data Protection

Terna has adopted a Cyber Security Governance model that has enabled the top cyber risks to be identified and kept under control.

The Company pays constant attention to new cyber threats by implementing threat modelling procedures and complying with industry regulations (Network and Information Security - NIS, National Cyber Security Perimeter - PSNC, Privacy with the General Data Protection Regulation - GDPR). This model is based on constantly evolving risk analysis methodology, guidelines and operating procedures, inspired by national and international reference standards (including: National Institute of Standards and Technology - NIST, National Cyber Security and Data Protection Framework, ISO 27001) and Security by Design principles (defence in depth, need to know, etc.).

In 2020, Terna continued to focus on cyber defence with several projects, including:

- strengthening of **Perimeter Defence** solutions, through adoption of Technological Perimeter (IT/OT/IoT/Cloud) Defence and Protection technologies, and implementation of new security features to counter new threats;
- evolution of **CERT** via the boosting of monitoring, identification and incident response capabilities, in line with new cyber risk and threat intelligence scenarios;
- **cyber protection of the industrial domain (OT)**, through adoption of technologies and new security solutions to strengthen the capabilities of context visibility, active defence and threat identification in the industrial domain;
- **IoT security**, through adoption of technologies to defend against cyberattacks on Terna's IoT infrastructure and IT system;
- design of a **Cyber LAB** for testing innovative cyber security solutions in a controlled security environment, and to support Terna's cyber security awareness programme, via awareness-raising campaigns on cyber issues with a focus on simulating attacks (e.g., phishing), and related training courses for users;
- continuous improvement of the tools and methodologies that support the **Information Security Framework** within Governance Risk and Compliance (GRC) processes, and security assessment solutions relating to vulnerability assessments, penetration tests and red team initiatives.

The operational nerve centre for the management of cyber events is the Computer Emergency Readiness Team ("TERNA-CERT"), which from 1 January 2021 will operate within Terna's newly established Cyber Defence Centre. TERNA-CERT provides centralised real-time monitoring of the Group's security, and preventive and reactive monitoring of potential cyber threats.



Risk management

We carefully analyse all types of risk and assess the most suitable “sustainable” actions to take in order to mitigate any resulting effect, adopting specific safeguards, tools and organisational structures for this purpose.

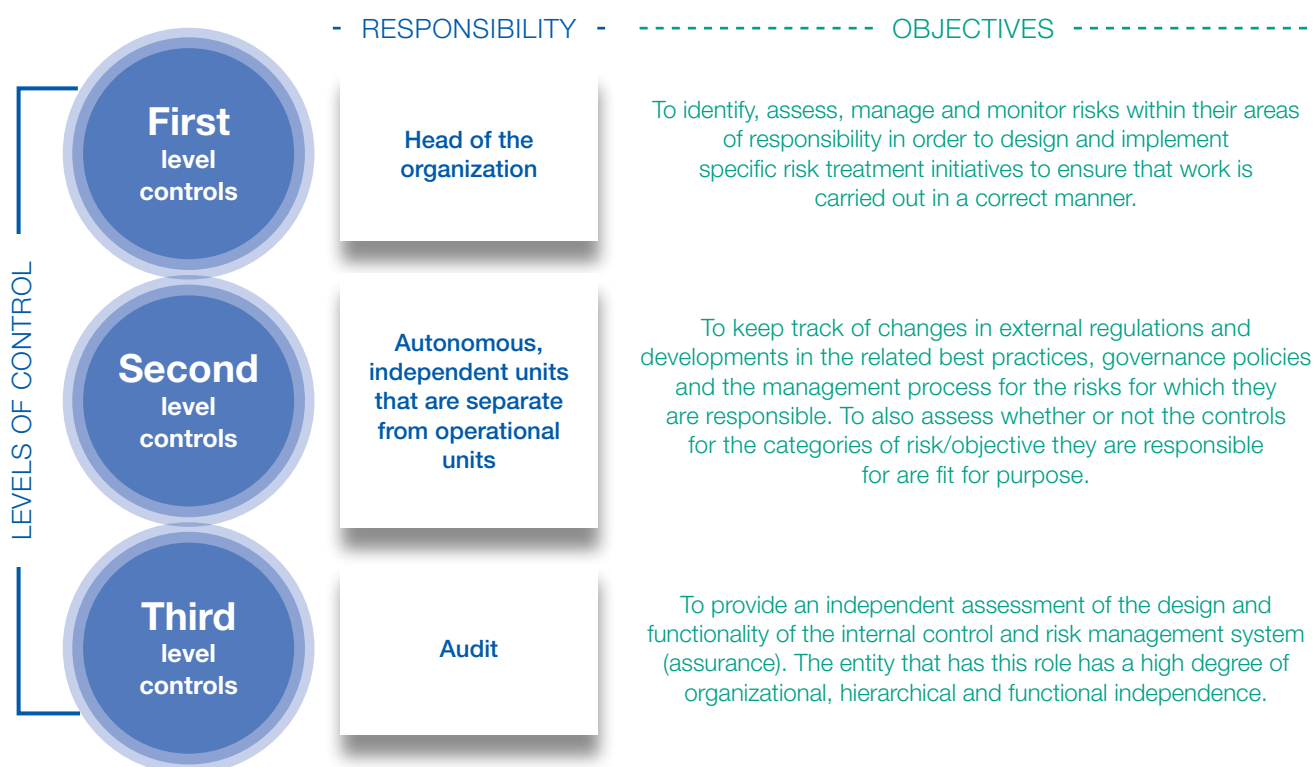
In view of the distinctive and specific nature of the core business, regulated primarily through a government concession arrangement and by the Regulatory Authority for Energy, Networks and the Environment (ARERA, or the *Autorità di Regolazione per Energia reti e Ambiente*), Terna is not so much exposed to the usual price- and market-related risks (or is so only to a limited extent with regard to our Non-regulated and International Activities, which in any event involve a low level of economic and financial risk), as we are to regulatory and legislative risk, as well as the traditional operational risks that have become increasingly critical during the current ecological transition.

Regulatory risk derives from potential changes in the criteria used to determine regulated revenue, particularly following a multi-year review of the regulatory framework. Legislative risk relates to potential changes in Italian and European laws governing matters relating to the environment, energy, tax and social aspects (above all labour and tenders).



Risk framework

The Terna Group has for some time used an **Enterprise Risk Management (ERM)** framework based on the standards contain in the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A., and more generally on the relevant national and international best practices. This framework, continually added to and improved, includes both specific practices for managing risk and objectives and elements relating to aspects such as: the organisation, skills and ethics. Risk management takes place throughout the Company, based on a structured, systemic approach organised on three levels, each with different objectives and responsibilities:



Terna implements procedures and processes created to coordinate relations between and the activities of the various internal auditors tasked with carrying out controls at the different levels. **Coordination of the activities carried out by second and third level auditors** is of particular importance in order to minimise the duplication of activities and maximise the efficiency of the Internal Control and Risk Management System.

The risk management process

Terna's Risk Management is based on a widespread process within the organization, involving the systematic, iterated **identification, assessment, treatment and monitoring** of risk.

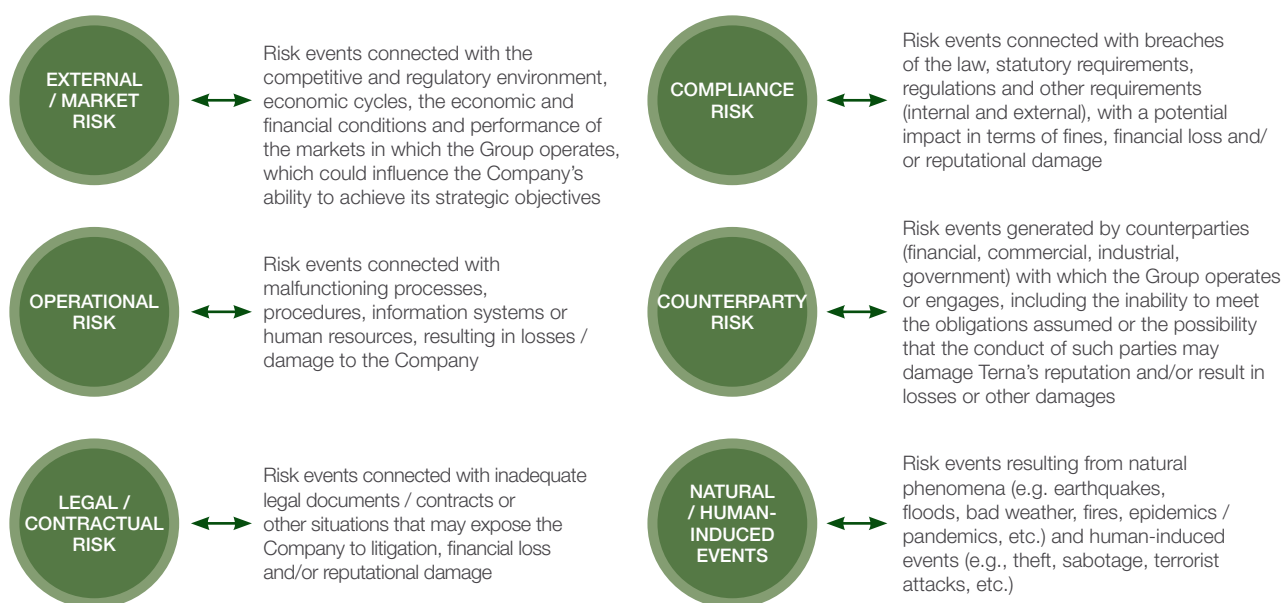
IDENTIFICATION



An important role in enabling Management to identify risk events is the corporate objectives framework, which shows the targets to be met and whose achievement may be compromised, divided into Strategic (linked to the Industrial Plan) and Recurring (continuous risks linked to the activities carried out under concession, the corporate mission and the codes of conduct adopted).



For each of these objectives, potential risk events applicable to the various areas of the organization and that may have an impact on achievement of the objectives, including events that may be emerging, are identified. Risk events are classified in the following categories:



ASSESSMENT



Each risk event is assessed on the basis of the combination between **Impact** (divided into four types: financial, reputational, operational and HSE-Sustainability) and **Probability** of occurrence over the life of the Plan. The assessment also takes into account the **Level of Maturity** of existing Risk Management systems. Based on the outcome of this process, the risk treatment priorities are selected.

TREATMENT



A risk management strategy is devised, identifying specific initiatives and the related timing of implementation.

MONITORING



Objectives and the associated risks may change over time. There may be changes in the cost and effectiveness of mitigation and corrective initiatives. As a result, the above phases of the process are regularly repeated (at least once a year).

Risk assessment cycles were completed in 2020 applying the above framework and involving Terna's middle and senior management. The risk assessments resulted in the identification of **64** risk events that were assessed in terms of impact, probability of occurrence over the life of the plan and the level of maturity of existing risk management systems. This enabled us to closely examine the systems and take further steps to mitigate the identified risks. Based on this assessment, the following table shows the **12 priority risks** identified, the associated objectives and their classification based on the above risk categories, as well as the main actions taken to mitigate and control such risks.

OBJECTIVE	RISK EVENT	CATEGORY	MANAGEMENT ACTION
CONTINUITY AND QUALITY OF SERVICE	Increased severity of weather events		
	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.	Natural/ human- induced events	New investment to increase the resilience of the electricity grid and identify mitigation strategies.
	Separation of the European transmission grid		
	The risk connected with extreme weather events / incorrect setup of the structure of the grid in accordance with n-1 security criteria for the European transmission grid, with the potential for cascading failures triggering overloads / line failures, critical events and major incidents on the interconnected European transmission grid with separation of the grid and widespread blackouts.	Operational risk	<ul style="list-style-type: none"> - Control processes and systems to defend the electricity system - Involvement in working groups and programmes analysing security / defence scenarios at European level, with the aim of improving the security and coordination of the interconnected grid.
HUMAN RESOURCES	Cyberattack		
	The risk connected with a cyberattack, using for example ransomware, that could cause: <ul style="list-style-type: none"> - the loss of visibility of infrastructure - the temporary shutdown of systems - data loss and / or additional costs for recovery. 	Natural/ human- induced events	<ul style="list-style-type: none"> - Internet and perimeter security systems and the segregation of IT and OT networks - Consolidated IT monitoring processes (CERT - Computer Emergency Response Team) - Awareness campaigns.
	Enhancement and oversight of internal competencies		
	Enhancement and oversight of adequate specialist knowledge to enable achievement of the challenging goals contained in the Plan.	Operational risk	<ul style="list-style-type: none"> - Expansion of the workforce - Training and skills development.
REGULATORS AND OTHER GOVERNMENT STAKEHOLDERS	Workplace injuries / incidents		
	The risk connected with serious/fatal injuries and/or incidents that may have consequences for the health of employees and/or contractors and sub-contractors, as well as impeding the Company's efforts to achieve goals relating to safeguarding people's health and having a serious impact on the Group's reputation and credibility.	Operational risk	A strategic steering committee with the aim of achieving continuous overall improvements throughout the Group (procedures, technologies, working practices, etc.) with a specific focus on HSE issues.
REGULATORS AND OTHER GOVERNMENT STAKEHOLDERS	Evolution of rates of return		
	The risk connected with the introduction of new frameworks and changes to the parameters used in determining revenue from regulated activities carried out under concession.	External / market risk	Focus on output-based regulation linked to investment in projects providing major benefits for the electricity system.

OBJECTIVE	RISK EVENT	CATEGORY	MANAGEMENT ACTION
DEVELOPMENT OF THE NATIONAL TRANSMISSION GRID	Timing of the issue of consents for projects with an impact on the investment programme		
	The risk connected with delays or missed deadlines in obtaining the necessary consents for the construction of infrastructure, resulting in delays to the entry into service of infrastructure and an impact on the investment programme.	External / market risk	Identification of back-up projects to start work on in the event of delays to certain projects.
	Extended consents processes due to opposition from local bodies /environmentalists		
	The risk connected with the possibility that opposition from local bodies, environmentalists, the public and local authorities may lead to major delays in concluding the agreements necessary in order to complete projects involved in the development and security of the national grid.	External / market risk	As regards the impact on the landscape, assessment of the need to expand and encourage the use of underground / submarine cable in place of overhead lines, when this is compatible with the security and operation of the national grid.
	Delays in obtaining consents due to the imposition of conditions prior to granting consent		
CUSTOMERS, SUPPLIERS AND BUSINESS PARTNERS	The risk connected with the presence, in intermediate opinions and/or Environmental Impact Assessments and/or landscape assessments, of conditions resulting in the need to "make changes to projects for which consent has been applied for" or to change parts of the project, thus lengthening the consents process in order to ensure compliance.	External / market risk	Planning of back-up projects to start work on in the event of delays to certain projects.
	Timing of compliance and implementation of environmental restrictions imposed following the receipt of consents, specialist advice and environmental controls of construction sites		
	The risk connected with possible delays during construction in order to comply with restrictions imposed as a condition for granting consent, and to comply with and monitor all the environmental requirements (archaeological, wildlife, geology, environmental engineering and green engineering); in order to engage with the entities responsible for inspection and involved in compliance with the restrictions imposed (e.g., dialogue with entities and third parties regarding the Environmental Monitoring Plan); in order to arrange specialist technical support for environmental matters so as to ensure full compliance with the restrictions imposed prior to and during the works and checks on construction sites to verify compliance with the law.	Operational risk	Conduct of coordinated activities designed to reach agreement with the various parties as part of a structured process for managing the issues in question, with well-defined internal procedures and roles.
CUSTOMERS, SUPPLIERS AND BUSINESS PARTNERS	Suppliers operational capacity reaches saturation point, resulting in delays in the construction and maintenance of infrastructure		
	The risk connected with the ability of suppliers to follow a demanding programme and/or their inability to rapidly adjust their supply chain to meet Terna's increased demands, resulting in delays to the construction of infrastructure included in the Plan.	Counterparty Risk	Steps to boost capacity in key supply chains.
	Changes to the strategy or priorities of major key suppliers, resulting in delays and additional costs in the construction of infrastructure		
	The risk connected with changes in the strategy of key suppliers as they shift their focus to other, more attractive sectors (e.g., renewable energy, industrial automation), geographical markets (e.g., India) and/or changes to priorities resulting in delays / additional costs in the construction of infrastructure included in the Plan.	Counterparty risk	Initiatives designed to pre-empt any such changes (the inclusion of "notices to proceed"), within the limits imposed by the Tenders Code, in order to tie up key suppliers' operational capacity so that they can meet Terna's requirements on time.

Regulated Activities

The National Transmission Grid

We are responsible for planning, development and maintenance of the grid, contributing our expertise, technology and innovation (as the Transmission Operator). We are responsible for the transmission and dispatching of electricity (as the System Operator), with the aim of ensuring access to electricity for everyone with the highest level of quality and at the lowest possible cost.

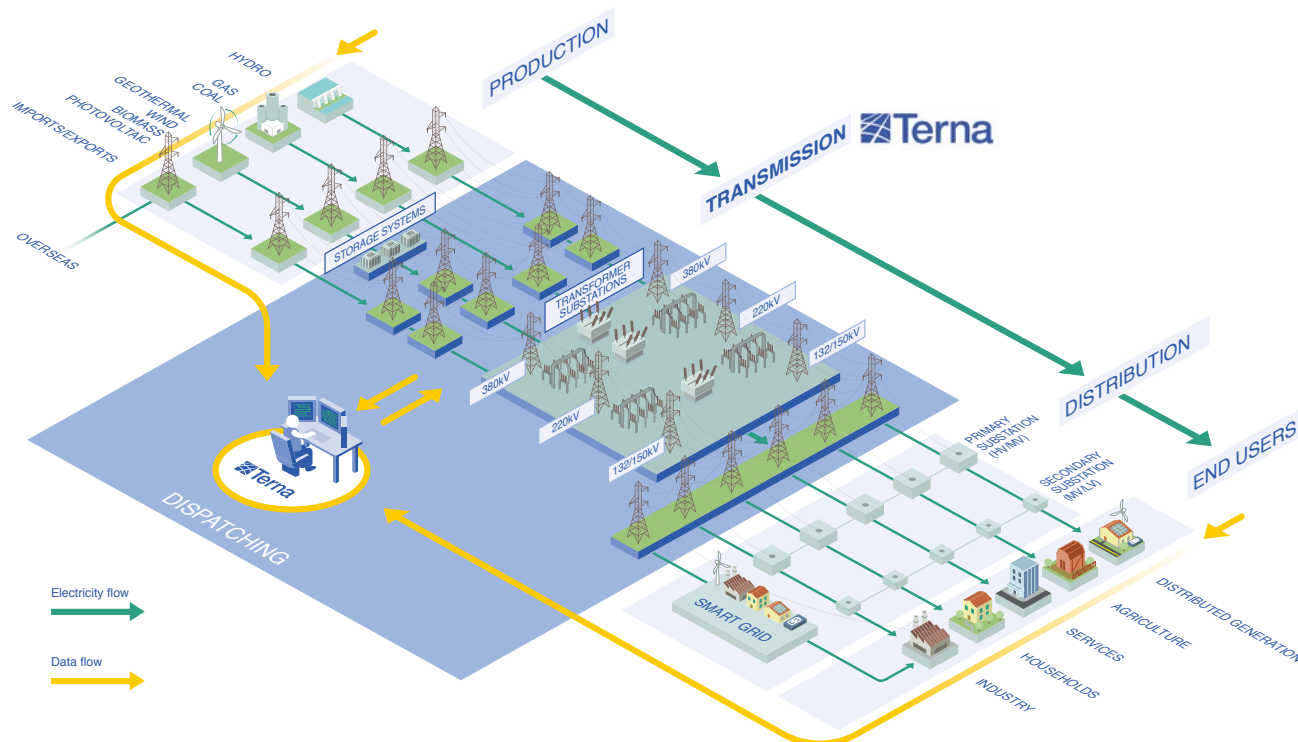
Terna's role in the Italian electricity supply chain

The Italian electricity supply chain consists of four segments: production, transmission, distribution and the sale of electricity.

The Terna Group's main regulated activities are the transmission and dispatching of electricity in Italy.

Terna performs these activities in its role as the Italian TSO (Transmission System Operator) and ISO (Independent System Operator), under a monopoly arrangement and a government concession.

THE NATIONAL ELECTRICITY SYSTEM SUPPLY CHAIN



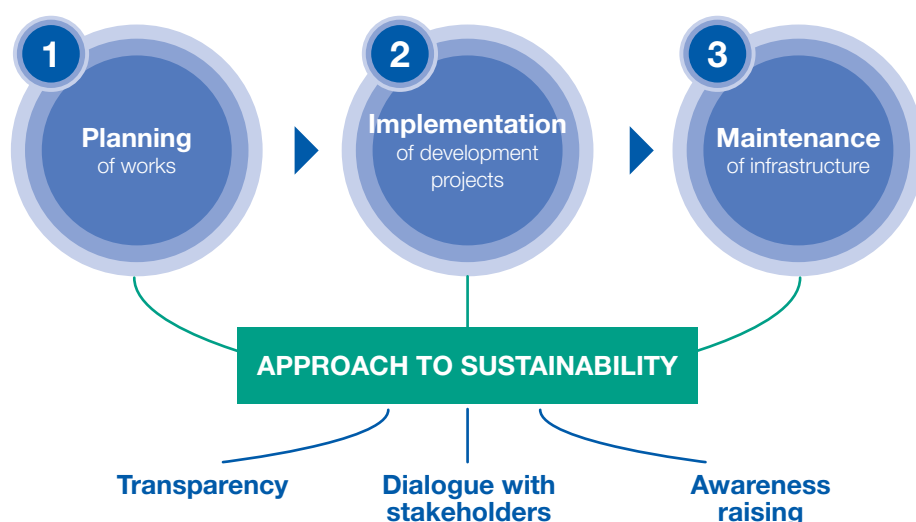
As the Italian System Operator, Terna is responsible for the dispatching service forming part of the National Electricity System.

One of the peculiarities of every electricity system is the need to be able to continuously guarantee that demand for energy from end users (households and businesses) is always balanced by the energy produced by power plants.

Terna has the key and delicate role of guaranteeing this balance through a high-technology system, using a specific market (the dispatching services market or "MSD"), in which it makes daily purchases of the "services" necessary to constantly ensure the continuity and security of electricity supply.

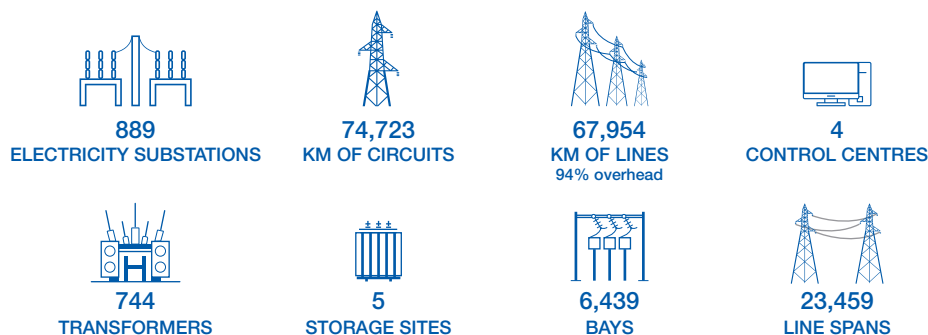
Electricity transmission

Planning for development of the National Transmission Grid, the performance of construction services and the maintenance of electricity infrastructure are the three areas of responsibility included in the regulated electricity transmission business.



The Group adopts a sustainable approach throughout every stage of the process. This takes the form of transparency in managing the Group's social capital through engagement with the stakeholders directly affected by the Group's development initiatives, with a view to building awareness of the importance of delivering the planned new electricity infrastructure.

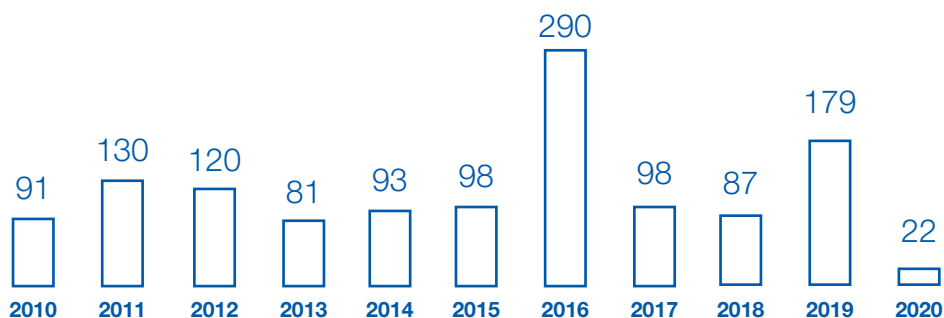
TERNA'S INFRASTRUCTURE*



* Figures updated to 31 December 2020, except for the figure for line spans, which is updated to early 2021.

Risk management permeates each phase of the operational process for regulated transmission activities. Each risk identified by the Group's adopted ERM methodology is assigned a level of importance. For risks that are above the selected acceptance threshold (risk appetite), possible mitigation actions are identified and implementation times estimated.

POWER LINES REMOVED (KM)⁽¹⁾



⁽¹⁾ The figure for 2016 is exceptional due to the fact that over 200 km of obsolete power lines were demolished in Valtellina as a result of work that began in previous year. After adjusting for this event, a total of approximately 80 km of line was demolished, in line with previous years (approximately 100 km a year). The outperformance registered in 2019, due to accelerated implementation of the plans, explains the lower target in 2020.



Key environmental performances

The main initiatives designed to mitigate Terna's environmental impact are described below.

- **Rationalisation:** complex initiatives involving several components of the grid, replacing certain components with others of a superior type, thereby eliminating parts of the grid that are of little use following the installation of new infrastructure or adding new elements of the grid to avoid the upgrade of power lines that have reached saturation point. The demolition of obsolete lines represents one of the most important positive contributions that Terna makes to improving the environment: 22 km of lines were demolished in 2020, freeing up an area equal to 78 hectares. This brings the total number of kilometres of line demolished since 2010 to 1,290. Demolition is defined as the physical removal of overhead lines (or their replacement with underground cable) and does not include downgraded or upgraded lines;
- **Use of pylons with reduced visual impact:** Terna increasingly uses new single-pole pylons with a low environmental impact (occupying only 10 m² of ground, rather than the 150 m² occupied by the traditional pad/pyramid type pylons). Other mitigation measures consist of camouflaging pylons with paint and the use of coloured insulators that enable the new lines to blend in better with the landscape;
- **Use of underground cables:** may eliminate or reduce the typical visual impact of overhead lines. Over 60% of the new power lines entering service during the timeframe of the new Plan will be "invisible", as they will be made of terrestrial or submarine cable; In 2020, 71 km of underground cable lines were laid;
- **Camouflaging electricity substations:** use of natural engineering techniques for habitat reconstruction and the stabilisation of slopes and embankments.

Electricity substations are significant from an environmental viewpoint partly as they are the principal source of the Group's direct greenhouse gas emissions. These consist of leakages of SF₆ (sulphur hexafluoride), a gas used as insulation in certain electrical equipment (circuit breakers, current transformers and armoured equipment). Leakages as a percentage of installed gas capacity in 2020 stood at 0.32%, marking a record performance.

The Group's direct CO₂ equivalent emissions have thus fallen.

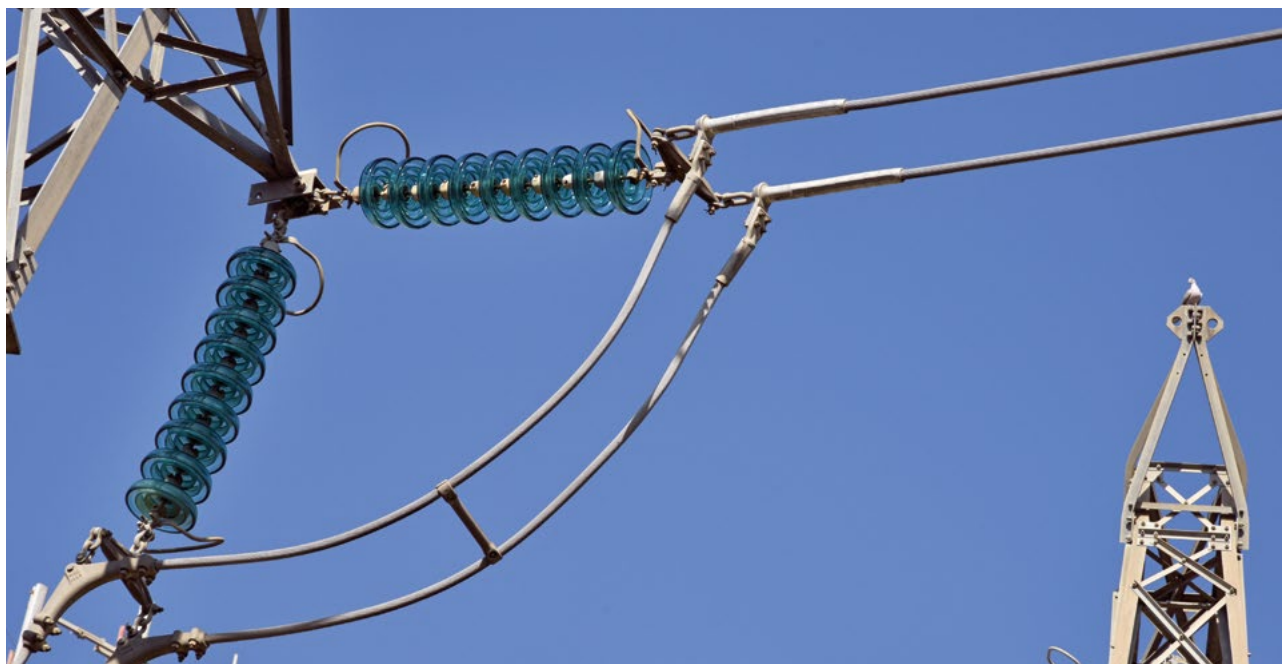


TOTAL DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS - TONNES OF CO ₂ EQUIVALENT	2020	2019	2018
<i>Direct emissions</i>			
Total direct emissions	56,202.6	68,404.4	62,999.2
<i>of which: Leakages of SF₆</i>	<i>49,013.7</i>	<i>60,162.2</i>	<i>54,846.1</i>
<i>Indirect emissions</i>			
Electricity	59,490.7	65,246.9	64,050.5
Total direct and indirect emissions	115,693.3	133,651.3	127,049.7

CARBON INTENSITY - TONNES OF CO ₂ EQUIVALENT / REVENUE (€M)	2020	2019	2018
Total emissions (direct and indirect)	115,693.3	133,651.3	127,049.7
Ratio of total emissions to revenue	46.0	58.2	57.8

At the end of their normal lifecycle, the materials used in electricity infrastructure are recovered for reuse in operations. Only a residual portion is sent to landfill and has an impact on the environment.

The percentage of waste recovered amounted to 95% in 2020 (94% in 2019, 86% in 2018), or 96% including Tamini. The effective amount recovered depends on the materials contained in the waste: some of them are easy to separate out and thus reuse (for example, the iron parts of pylons); in other cases, instead, it is not possible or it is too costly to separate the various parts, above all when dealing with the most obsolete equipment. For this reason, annual changes in the amount of waste generated and the percentage of waste recycled should not be interpreted as indicating a trend.



The 2021 Development Plan

In continuity with the previous Development Plan, the main investment objectives of the 2021 Development Plan are set out below:

- **To boost overall exchange capacity with other countries**
- **To reduce congestion**
- **To cut energy losses**
- **To reduce CO₂ emissions** as a result of the production mix and lower grid losses.

1. The electricity system's transition to complete decarbonisation requires use of all the tools necessary in order to fully integrate renewable production plants in order to reduce emissions over the long term, guaranteeing the system's security.
2. The structure and mix of Europe's generation mix in general and of Italian generation in particular are undergoing a radical transformation, just as transmission lines are being developed in keeping with new European directives regarding Market Design. The adoption of new mechanisms at national level (in particular, the Capacity Market and the reform of the dispatching services market) will have a major impact on development of the electricity system.
3. Security of supply ensures the security of the national electricity system and, at the same time, creates an increasingly resilient system, capable of handling critical events external to the system itself.
4. The ability to conceive, design and implement following rigorous analysis capable of maximising the environmental and economic benefits is the only possible guarantee of sustainability.

PROJECT PRIORITISATION



Reorganise the project mix, focusing on the most useful electricity projects that can guarantee the greatest benefit for Italy.

GRID OPERATION



Identify and develop initiatives aimed at improving grid operation, with a special focus on enhancing the quality of service and the resilience of the system.

INTEGRATION WITH LOCAL PLANNING



Focus on local development needs in response to Italy's new challenges, such as the new electric mobility projects, paying attention to metropolitan areas and reviewing projects in order to make them eco-sustainable.

ENVIRONMENTAL SUSTAINABILITY



Support and guide the ecological transition through the growing connection and integration of new renewable energy plants.

CAPITAL EXPENDITURE

DRIVERS

DECARBONISATION



MARKET EFFICIENCY



SECURITY, QUALITY AND RESILIENCE

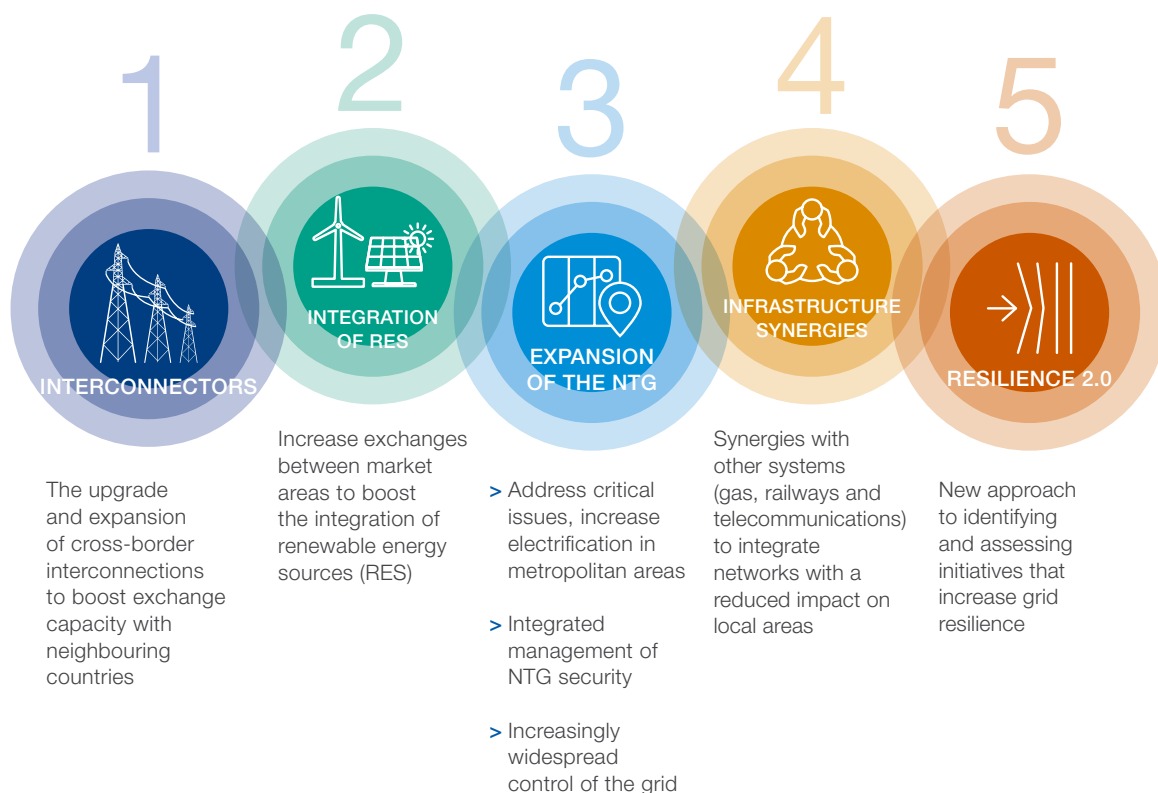


SUSTAINABILITY



PROJECT GUIDELINES

The key project guidelines have been divided into **five areas of action**, the main aspects of which are:

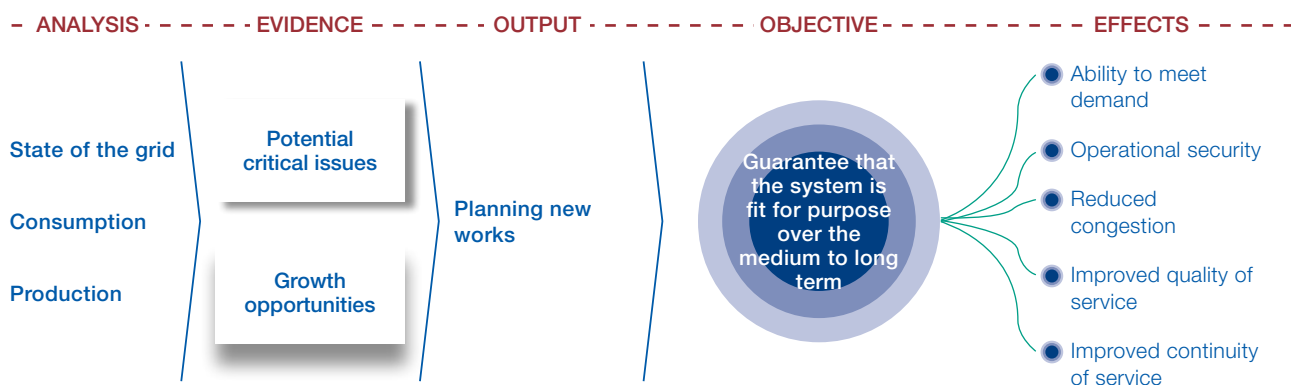


With regard to decarbonisation, in line with Legislative Decree 93/11 and Resolution 627/16, as amended¹¹, Terna has included a specific section in the National Development Plan setting out the actions needed in order to make full use of the power produced by renewable plants. The network assessments conducted with a view to facilitating the use and development of renewable production have led to the identification of the work to be carried out on both the primary 380-220kV transmission grid and on the 150-132kV high-voltage grid.

¹¹ Resolution 627/2016/R/eel, as amended - Provisions for consultation on the ten-year National Transmission Grid Development Plan and approval of the minimum requirements for the Plan, in relation to the assessments for which the regulator is competent.

The national electricity grid planning process

Analysis of the state of the grid (electricity flows through the grid and electricity market trends), and the evolution and distribution of consumption and production, enables Terna to identify critical issues and development opportunities and, consequently, to plan the new works required to ensure that the system is adequate, including in the medium to long term with regard to meeting demand, operational safety, reducing congestion and improving service quality and continuity.



The new works to be carried out are included in the **National Transmission Grid Development Plan**, which is submitted annually to the Ministry of Economic Development for approval. Law Decree no. 76 of 16 July 2020 (article 60, paragraph 3) requires Terna to prepare the National Transmission Grid Development Plan every two years instead of annually. The approval process also includes adoption by the Ministry of the Environment and Protection of Land and Sea (MATTM) in agreement with the Ministry of Cultural Heritage (MIBAC) of the opinion relating to the Strategic Environmental Assessment (SEA) pursuant to Legislative Decree 152/06.

The **NTG Development Plan** sets out the grid development initiatives envisaged over the next ten years, as well as the state of progress of the development works planned in previous years.

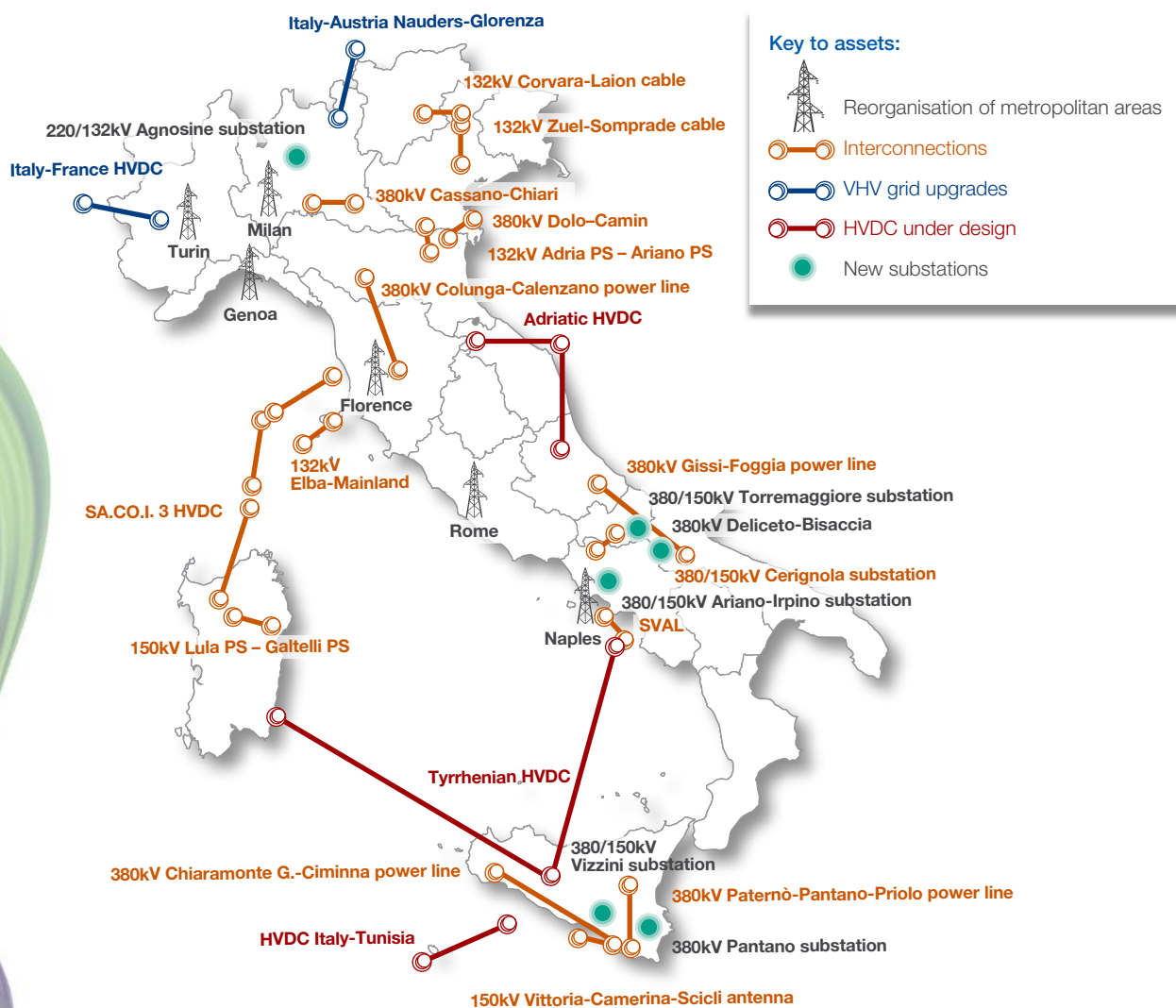
The Plan contains all the investments that Terna is committed to carrying out in order to guarantee the efficiency of the grid, the security of supply and of the service and the integration of production from renewable sources in keeping with the objectives identified in the recent **Proposal for an Integrated National Plan for Energy and Climate (PNIEC)**, provided for by Regulation 2016/0375 of the European Parliament and of the Council on the Governance of the Energy Union.

Any investment in development of the grid amounting to more than €15 million is subject to a prior cost-benefit analysis, comparing the related expenditure with the resulting benefits, expressed in monetary terms, resulting from its implementation.

A positive cost-benefit ratio is an essential requirement for an investment project's inclusion in the Development Plan.

Principal projects for the National Transmission Grid

The Development Plan envisages capital expenditure of over €5 billion in the period 2021-25, which is in addition to expenditure on the Security Plan, the Electricity Asset Renewal Plan and other investment:



DEVELOPMENT PLAN

Interconnectors and lines	Km of circuit	Status	Driver
Italy-France interconnector	190		
Italy-Austria interconnector	24		
Italy-Switzerland Interconnector	100		
Italy-Slovenia interconnector	114		
Sardinia-Corsica-Italy interconnector	540		
HVDC Centre South - Centre North	221		
HVDC Italy-Tunisia	200		
HVDC Mainland Sicily-Sardinia	950		
Reorganisation of metropolitan areas ✓	182		
Chiaromonte-Gulfi-Ciminna	173		
Reorganisation in the Mid Piave Valley ✓	90		
Colunga-Calenzano ✓	85		
Gissi-Foggia	140		
Cassano-Chiari	36		
Deliceto Bisaccia	36		
Upgrade North-Calabria	10		
Paternò-Pantano-Priolo	63		
Elba-Mainland	35		
Substations			
Agnosine substation			
Vizzini substation			
Pantano substation			
Torremaggiore substation			
Cerignola substation			
Ariano Irpino substation			

SECURITY PLAN

Projects	Status	Driver
Fiber for the Grid		
Ice and snow risk mitigation systems ✓		
Control devices		
Cyber security		

RENEWAL PLAN

The Plan to renew electricity assets provides for widespread initiatives across the entire NTG, aimed at improving the reliability of the electricity grid. In the period 2021-2025, we will continue to be committed to boosting service quality through the renewal of line and substation components, environmental quality through the use of equipment offering a high degree of environmental compatibility (e.g., the replacement of fluid-oil cables and the installation of equipment with insulation using vegetable esters) and the quality of our processes by digitalising our electricity assets (e.g., overhead lines, cables and substations).

Legenda Resilience and Status *

✓ Resilience Plan	Completed/ in service	Under construction	Awaiting consents	Consultation	Under design	Planned
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Legenda Driver *

De-carbonisation	Market efficiency	Security of supply	Systemic sustainability
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* The other initiatives completed in 2020 are shown in the section "Changes in the dimensions of the NTG " in the annexes.

Capital expenditure 2020
+6.9%
compared to 2019

The Group's capital expenditure

The **Terna Group's total capital expenditure** in 2020 amounts to **€1,351.1 million**, compared with €1,264.1 million in the previous year (**up 6.9%**), thus confirming Terna's great capacity to pursue its objectives despite the difficulties arising from the Covid-19 pandemic.

	2020	2019	CHANGE	% CHANGE
Development Plan	484.9	488.1	(3.2)	(0.7%)
Security Plan	228.0	188.1	39.9	21.2%
Projects to renew electricity assets	409.7	372.4	37.3	10.0%
- of which electricity assets	343.9	312.7	31.2	10.0%
- of which functional separations	65.8	59.7	6.1	10.2%
Other capital expenditure	110.8	99.0	11.8	11.9%
Total regulated assets	1,233.4	1,147.6	85.8	7.5%
Non-regulated assets ⁽¹⁾	107.6	104.4	3.2	3.1%
Capitalised financial expenses	10.1	12.1	(2.0)	(16.5%)
TOTAL CAPITAL EXPENDITURE	1,351.1	1,264.1	87.0	6.9%

(€m)

(1) Non-regulated assets primarily regards private interconnectors, the Brugg group (mainly contracts that fall within the scope of IFRS 16), the re-routing of power lines for third parties and activities in Peru.

MAIN REGULATED WORKS CARRIED OUT DURING THE YEAR

Due to the restrictive conditions connected with the Covid-19 emergency, the main construction sites were suspended from 13 to 20 March. Operations were gradually resumed from 20 April in full compliance with the new agreements to prevent infection, which had been drawn up in the meantime in coordination with the trade associations and contractors (e.g., the agreement between Terna and ANIE - National Federation of Electrotechnical and Electronic Companies). The agreements identify measures to prevent infection (e.g., new access procedures, body temperature scanning, site preparation, social distancing) and new PPE.

With the gradual resumption of activities from the end of April 2020, works were gradually restarted as soon as practically possible, in compliance with the current regulations applied through implementation of the above-mentioned new working methods and procedures.

Development Plan – €484.9 million

Paternò-Pantano-Priolo
(€43.9 million)

380kV Paternò-Pantano power line: Preliminary activities relating to removal of unexploded war-time bombs, geological and archaeological surveys, preparation of the executive design and the related approval process have been completed. Construction work began at the end of September, with building of the first foundations.

380kV Paternò-Priolo power line: the removal of unexploded war-time bombs and geological and archaeological surveys are in progress; the executive design of the various lots is nearing completion.

380/220/150kV Pantano substation: Following completion of the executive design, the contract was awarded for civil works. Work began at the end of September, and site preparation excavations are in progress.

The procurement of materials is in progress.

Piossasco converter station: all the activities in the station have been completed, except for the command, protection and control system that is due to be completed by the beginning of 2021.

Cable connection: cables have been laid over a 95-km section. The remaining work on completion of the power line, including the laying of fibre cable and the installation of monitoring systems, will take until mid-June 2021.

132kV Zuel-Somprade cable: the connection was completed, energised and handed over at the end of December.

Garaguso substation: the connection was completed, energised and handed over in December.

220kV Castelluccia-Naples Primary Substation cable: construction work is in progress, with 3.1 km of cable laid out of 3.6 km.

220kV Astroni-Naples Centre cable: construction work is in progress, with 7.5 km of cable laid out of 9.4 km.

220kV Castelluccia-San Sebastiano power line: once construction work has been completed; the new cable will enter service from December 2020. Removal of the old oil-filled cable has begun.

Agnosine substation: the site is being prepared with excavation and earthworks and construction of the perimeter wall in progress.

Bisaccia-Deliceto power line: construction work is in progress, with 60% of the foundations completed, and 10% of the pylons assembled.

Expansion of the Bisaccia electricity substation and the installation of PSTs: the extension of the existing substation was energised and handed over in December; transportation of PSTs is in progress.

Pianezza connections - phase 2: demolition of the section of the line not in service (2.3 km) has begun. The executive design has been completed and materials procured for construction of the Grugliasco-Pianezza cable connection (6.5 km). Civil works are scheduled in 2021.

Reconstruction of 132kV Rivoli-Paracca and Paracca-Collegno cables: construction in progress, including pipe laying on 2.3 out of 4.4 km for the first connection, and on 1.7 out of 2.7 km for the second connection.

SE Pianezza - installation of 220kV reactor: the executive design has been completed and the 220kV reactor supplied. Award of the contract for the civil works is in progress.

Vizzini substation: the procurement of materials is in progress, whilst the executive design and the related checks have been completed; the contract for civil works has been awarded. The start of construction works is subject to compliance with the regulations regarding site activities laid down by the Ministry of the Environment.

150kV Sorrento substation: on completion of the works, all the bays were energised and handed over in December.

Italy-France interconnector
(€36.3 million)

Reorganisation in Alto
Bellunese
(€29.0 million)

Garaguso substation
(€15.6 million)

Reorganisation in Naples
(€15.0 million)

Reorganisation in Valle Sabbia
(€13.7 million)

Grid upgrades in the
Foggia-Benevento area
(€12.6 million)

Reorganisation in Turin
(€11.4 million)

Vizzini substation
(€11.1 million)

Sorrento Peninsula
interconnector
(€7.7 million)

Security Plan – €228.0 million

Synchronous compensators (€114.2 million)

The planned installation of 16 synchronous compensators in Sardinia and central and southern Italy, under the 2021-2025 Plan, is being carried out. This will support the regulation of short-circuit voltage and power in areas of the country characterised by a high level of production from renewable sources and a significant reduction in traditional production.

Selargius and Matera compensators: the equipment was completed, energised and handed over in December.

Garigliano and Foggia compensators: the civil works are nearing completion and transportation of machinery to the site is in progress.

Maida, Candia, Fano and Brindisi compensators: the construction sites have been opened and the site-layout civil works have begun; production of the related supplies is in progress.

Fiber for the Grid (€32.9 million)

This project aims to boost the availability of data on the grid in order to make it easier to monitor and manage the security of the electricity system, by increasing and expanding the fibre network.

A further 40 electricity substations on the NTG (making a total of 476 substations) were connected and lit in December 2020.

Brindisi Pignicelle – Brindisi EniPower 380 kV cable (€15.6 million)

The new connection was completed, energised and handed over at the end of December.



Renewal plan – €409.7 Million

The commitment to carry out works to renew electricity assets in order to improve the reliability and resilience of the NTG has been confirmed.

The renewal of overhead lines and substation equipment continued during 2020: approximately 2,300 km of conductors and 22 pieces of equipment were replaced, 4 with “green” pieces of equipment, insulated using vegetable esters.

Renewal of electricity assets
(€343.9 million, before
functional separations)

Work continued on the project involving the separation of Rete S.r.l.'s substations, aimed at progressive integration into the grid of the HV substations acquired from FSI S.p.A.. Separation of the substations is nearing completion.

Separation of Rete
S.r.l.'s substations
(€65.8 million)

Consent processes in progress

Various consents processes for new works or projects were initiated in 2020. These include those for:

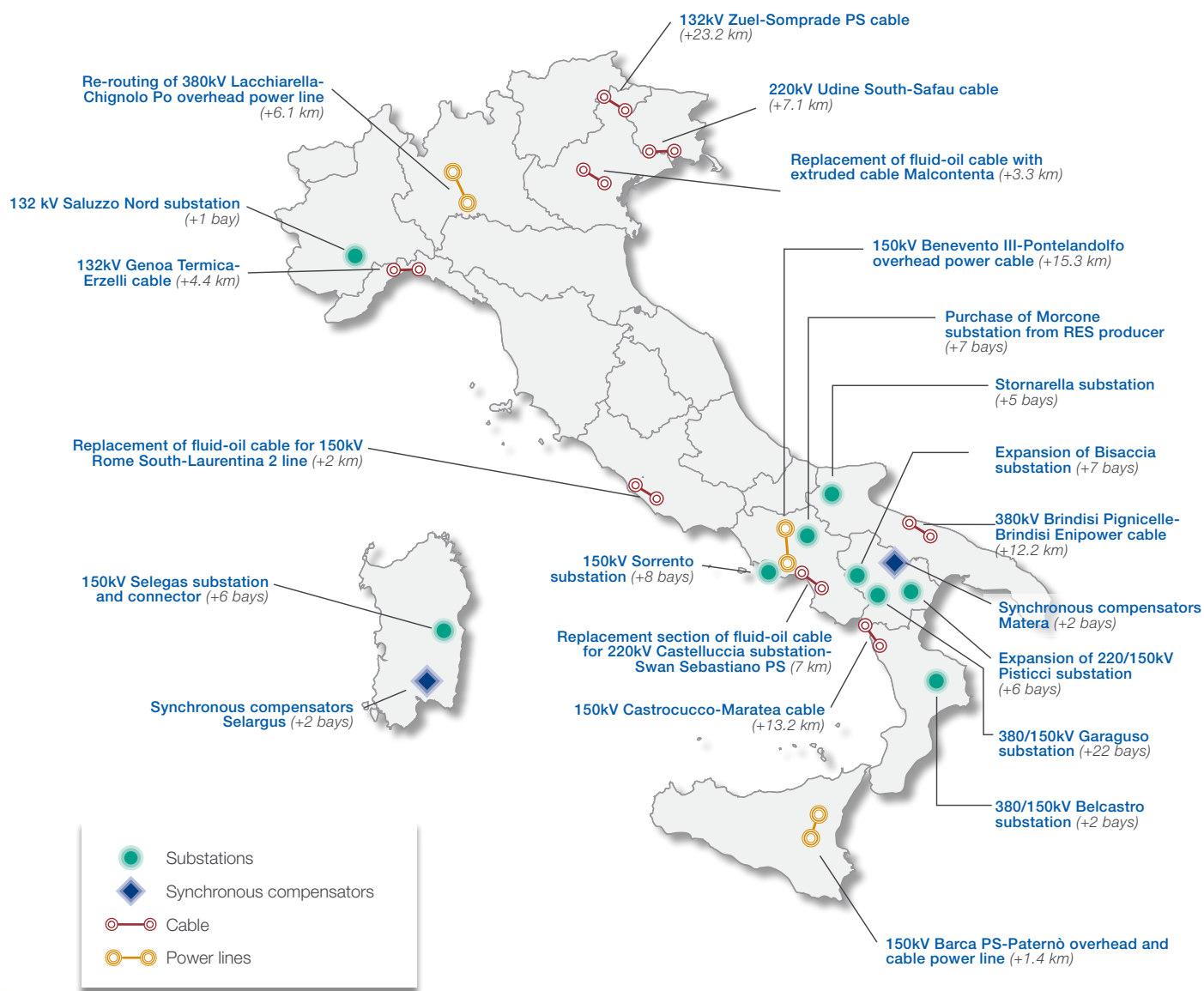
- Reorganisation of the grid between Dolo and Camin;
- Partial undergrounding and subsequent demolition of the Mercallo–Cameri power line;
- Reorganisation of the grid serving towns in the Novara area;
- Reorganisation of the grid between Catanzaro and Calusia;
- Construction of the grid between Malcontenta and Fusina;
- Reorganisation of the grid in Teramo and Pescara;
- Reorganisation of the HV grid in the Bologna area.

Projects initiated during 2020

A number of projects were approved and initiated in the during 2020. These include:

- the start-up of work on the reorganisation of 5 132kV power lines in the Magenta area;
- approval of final design for the construction of the 150kV underground Pettino–Torrione line;
- the start-up of work on new chromatic experimentation on pylons located close to the San Bellino electricity substation, in the province of Rovigo;
- the start-up of work on removing reinforced concrete foundations in the Venetian Lagoon;
- the signature of an agreement with the Municipality of Foiano for the implementation of public utility works, linked to construction of a new substation at Ariano Irpino and of a power line approximately 20 km long.

PRINCIPAL PROJECTS CARRIED OUT IN 2020



On **14 October 2020**, in the presence of the Prime Minister, Giuseppe Conte, local dignitaries and Terna's CEO, Stefano Antonio Donnarumma, the **new power line that connects Capri to the mainland was inaugurated**. This technologically advanced project will enable Capri to be supplied with renewable energy and the elimination of polluting emissions, thanks to decommissioning of the current oil-fired power station, while at the same time increasing the island's security. The new "Capri-Sorrento" submarine power line built by Terna is 19 km long and completes the 160 MW electricity ring of which the first section between Capri and Torre Annunziata was completed in 2017.

The following projects also entered service in early 2021: to coincide with the 2021 FISU World Alpine Ski Championship, organised by the Federazione Italiana Sport Invernale, the new 23,2 km-long "invisible" power line linking Cortina d'Ampezzo with Auronzo di Cadore, in Veneto, was energized on 4 February 2021; the new 150 kV power station at Porto Torres 2 (Sassari), in north-western Sardinia, entered service on 10 February.



FOCUS

Special projects

1

Interconnector Italy-France

The new direct current interconnection between Piossasco (IT) and Grande Île (FR) will increase interconnection capacity between Italy and France by **1,200 MW**, raising it from approximately the existing **3 GW** to over **4 GW**. The “Grande Île - Piossasco” project is **190 km** long.

STATE OF PROGRESS



Under construction.
The cable duct has been completed and the converter station built, except for the command, protection and control.

WORK IN PROGRESS



The factory acceptance test for the protection, command and control system and commissioning tests for the system are in progress.

BENEFITS OF THE PROJECT



- **Increased exchange capacity** with the rest of Europe, especially with France;
- **Greater capacity for mutual assistance** between the Italian and French systems;
- **Full integration of the two markets**, resulting in increased security and adequate demand coverage;
- Increased possibility for Italy to be supplied from **more affordable power plants**.

ENTRY INTO SERVICE



Q4 2021



San Valeriano viaduct



Pantographs under the Borgone viaduct



>> continued **SPECIAL PROJECTS FOCUS**

2

HVDC connection

Sardinia - Corsica - Italian mainland (SA.CO.I.3)

The new tri-terminal high-voltage direct current (HVDC) connection consists of **renovation and modernisation** of the existing electricity connection between Sardinia, Corsica and the Italian mainland. It will enable the use of total transport capacity of up to **400 MW**.

The project will be **540 km** long.

STATE OF PROGRESS

The SA.CO.I.3 project is awaiting consents.

WORK IN PROGRESS

The final design in Corsica, the preliminary marine survey and the tender for the converter stations are in progress.

BENEFITS OF THE PROJECT

- **Reduced costs** for procurement of resources for the Dispatching Services Market (DSM);
- **Increased fitness for purpose** of the electricity system in Sardinia;
- Greater contribution to **Sardinia's reserve requirements**;
- Greater **benefit in terms of energy not supplied**, especially taking into account the scenarios envisaged for the evolution of the electricity system (PNIEC).

ENTRY INTO SERVICE

- Module 1 Sardinia-Corsica-Tuscany 2025
- Module 2 Sardinia-Corsica-Tuscany 2026

On **3 February 2020**, the Fiorentino Pierattelli Architecture firm won the **contract to design the new converter station for Suvereto**, which Terna was keen to deliver as part of the Sa.Co.I.3 modernisation project. The contest was conceived in agreement with Suvereto Town Council with the aim of ensuring that the infrastructure would blend in with the surrounding landscape.



SA.CO.I.3 - Suvereto Converter Station
(Beauty Contest)



Laying submarine cable

>>

>> continued SPECIAL PROJECTS FOCUS

3

HVDC connection

Mainland-Sicily-Sardinia (Tyrrhenian Link)

The new submarine interconnection is a state-of-the-art project that will connect **Campania - Sicily - Sardinia** via two submarine, **1,000 MW**, direct current power lines.

The project will be **950 km** long.

STATE OF PROGRESS

The Tyrrhenian Link project is in the preliminary stages of the consents process.

WORK IN PROGRESS

Technical working groups involving stakeholders, planning for the consents process and procurement of converter systems and cables (EPC contracts) and a preliminary marine survey are in progress.

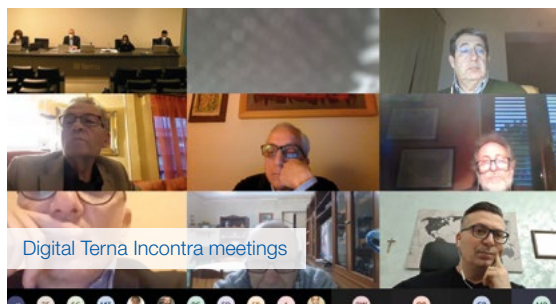
BENEFITS OF THE PROJECT

- Increased **stability and security** of the grid;
- Full **integration of existing and scheduled renewable power generation** on the island;
- Greater **fitness for purpose** of the island's electricity system, partly in anticipation of the phase-out of coal.

ENTRY INTO SERVICE

Module 1 Sicily-Campania 2025
Module 2 Sicily-Sardinia 2026
Module 3 Sicily-Campania 2027
Module 4 Sicily-Sardinia 2028

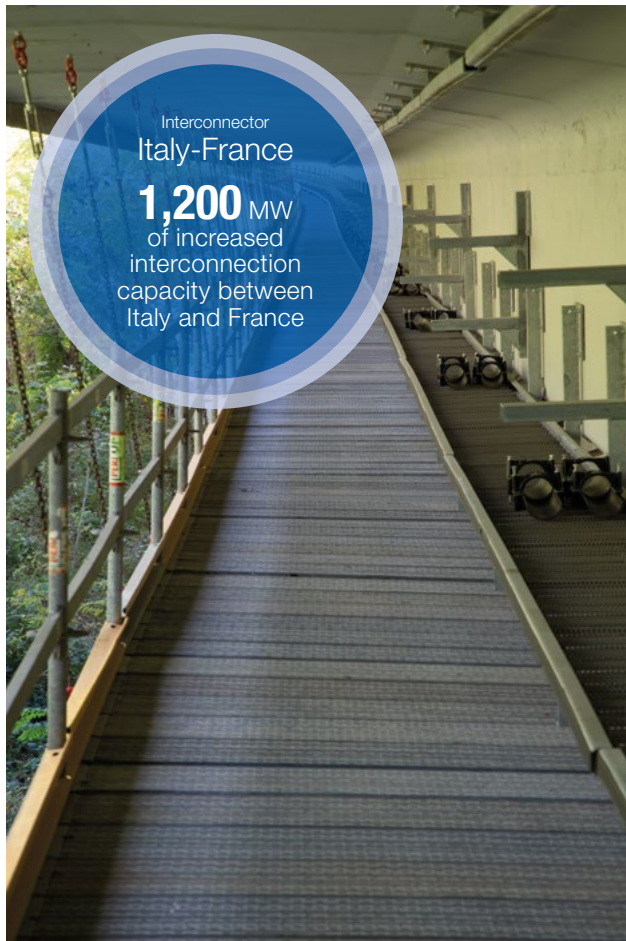
In February, Terna launched the **public consultation on the Tyrrhenian Link**, organizing two *Terna Incontra* events for the public. During the events, held in digital format, Terna presented the project and provided all the related information. The Company illustrated the two different locations for the converter station in the Municipality of Eboli, both situated on farmland adjacent to the existing overhead line. The outcome of the public consultation will then be passed on to the relevant ministries in order to initiate the consents process.



Digital Terna Incontra meetings



Terna Incontra Banner on Terna's website



Interconnector
Italy-France
1,200 MW
of increased
interconnection
capacity between
Italy and France



HVDC connection
Sardinia-Corsica-
Italy (SA.CO.I.3)
total transmission
capacity of up to
400 MW



HVDC connection
Mainland-Sicily-
Sardinia
(Tyrrhenian Link)
1.000 MW
direct current
submarine cable

Infrastructure maintenance

Giving priority to quality and security

Maintenance of electricity grid infrastructure is essential in order to guarantee quality of service, the security of the assets managed and the performance of power line and substation components. These operations are carried out on the basis of a predictive and conditional approach. **The tools used to support maintenance activities are subject to continuous innovation.** In particular, the maintenance engineering “engine” is the expert decision support system (DSS) called **MBI (Monitoring and Business Intelligence)** whose engineering models are continuously updated. For scheduling and execution of operations, **WFM (Work Force Management)** software is used. Terna has, for many years, participated in international benchmarking for the sector, with the aim of sharing best maintenance practices. It has consistently ranked as one of the best TSOs in terms of fault rates and the efficiency of its maintenance process.

INFRASTRUCTURE MONITORING AND CONTROL



37,353

substation checks for various voltage levels



1.7

average number of inspections per year for each line



118,280 km

inspections with visual checks



64,764 km

area covered by inspections of underground cable lines



79,350 km

area covered by helicopter for inspections and visual checks



34

average number of inspections per year per underground cable line

ROUTINE MAINTENANCE

Repairs are carried out when signs of deterioration are identified as a result of the monitoring process or by on-line sensors. These indications and any problems identified are processed by the expert system used to support decision-making (MBI- Monitoring and Business Intelligence). This system draws up the maintenance plan on the basis of engineering models developed by the Asset Management department.

VEGETATION MANAGEMENT



~24,000 km

of power lines on which vegetation was cut back to ensure their correct and safe operation

LIVE-LINE WORKING



1,922

monitoring checks and maintenance work carried out using live-line working

The Renewal Plan is based on an analytical method that, starting from consistent, objective technical criteria, identifies and evaluates extraordinary maintenance works ("renewal"), assessing the state of repair and technical status of line components and substation equipment, using a priority clustering approach with the aim of improving the quality of the electricity service and prolonging the useful lives of assets.

Renewal work is associated with the following benefits:

- **Sustainability**, resulting from the use of more eco-friendly components, the replacement of fluid-oil cables and improvements to the reliability of assets;
- **Innovation and digitalisation**, reflecting the adoption of monitoring systems for existing assets using digital and innovative solutions;
- **Resilience**: work on strengthening the NTG in order to increase the resilience of the infrastructure.

The main renewal initiatives ("extraordinary maintenance") are described below:

RENEWAL PLAN

POWER LINES

2,303 km
of conductors
replaced

3,178 km
of ground wires
replaced

258
pylons replaced



EXTRAORDINARY MAINTENANCE

SUBSTATIONS

32
static machines
replaced

177
circuit breakers
replaced

406
disconnectors replaced



601
current
transformers

1,198
voltage
transformers

Quality of service

Each segment of the electricity system - generation, transmission and distribution - plays a role in ensuring the availability of electricity in Italy, guaranteeing adequate quality standards and keeping the number of outages below pre-set thresholds.

Terna monitors service continuity through various indicators defined by ARERA (Resolution 567/19) and in Terna's Grid Code.

These continuity indicators are significant for the system, as they monitor the frequency and impact of events that have occurred on the electricity grid as a result of faults or due to external factors, such as weather events. In all cases, the period of observation is four years, a period in which there have been no significant changes, testifying to the high quality of service achieved.

CONTINUITY INDICATORS

RENS*

What it measures

Energy not supplied following events affecting the relevant grid.**

How it is calculated

The sum of the energy not supplied to users connected to the NTG (following events affecting the relevant grid, as defined in the ARERA regulations governing quality of service).

* Regulated Energy Not Supplied.

** The "relevant grid" refers to all of the high-voltage and very high-voltage network.

ASA***

What it measures

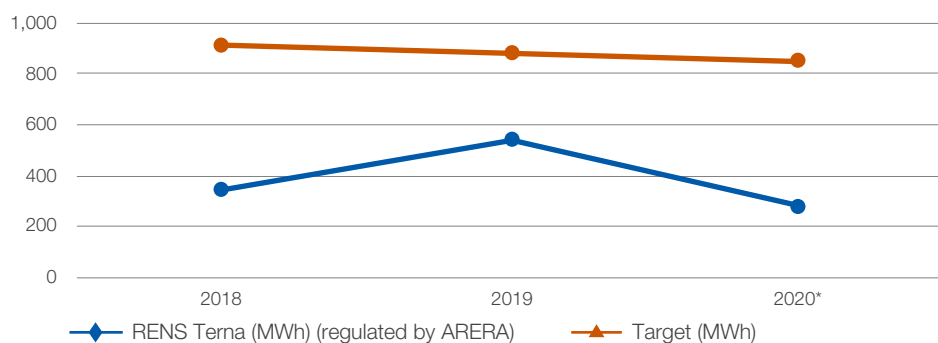
Availability of the service provided by the NTG.

How it is calculated

Based on the ratio of the sum of energy not supplied to users connected to the NTG (ENS) and energy fed into the grid.

*** Average Service Availability.

RENS INDICATOR PERFORMANCE¹² 2018-2020



* Provisional data

The "NTG RENS" indicator for the period from January to December 2020, based on preliminary data, amounts to approximately 275 MWh (compared with an annual target of approximately 850 MWh set by ARERA).

As regards the ASA indicator, availability was 99.99908% in 2020 (provisional data), compared with 99.99982% in the previous year. The operating performance shows that ASA has remained stable at a high level over the years (the higher the indicator, the better the performance). This indicator shows that the energy not supplied following a fault on the owned grid represents a minimal part of the total quantity of energy supplied to users of the grid.

¹² The targets for 2016–2023 have been set as an average of the 2012–2015 RENS indicator, referred to in ARERA Resolution 653/15/R/eel, with a 3.5% improvement in performance required for each year compared with the previous one. Since 2016, Terna's bonus/penalty mechanism also includes the performance of the grid operated by Terna Rete Italia S.r.l. (merged with Terna S.p.A. on 31 March 2017).

Existing regulations (set out in Resolution 567/2019/R/eel) envisage a series of mechanisms designed to regulate and encourage improvements in the quality of service provided by Terna. The overall economic effects of these mechanisms are accounted for at year end (including RENS). With regard to costs, which are determined periodically on the basis of occurring events, Terna registered a balance of €8.3 million in 2020, compared to €0.6 million in 2019. The overall economic effects of the bonus/penalty mechanisms related to quality of service for 2020, compared with 2019, are shown below.

	(€m)		
QUALITY OF SERVICE	2020	2019	CHANGE
RENS bonuses/(penalties)	29.4	20.2	9.2
Revenue	29.4	20.2	9.2
Mitigation and sharing mechanisms	10.4	4.3	6.1
Contributions to the Fund for Exceptional Events	0.8	0.6	0.2
Compensation mechanisms for HV users	0.3	0.6	(0.3)
Contingent assets	(3.2)	(4.9)	1.7
Costs	8.3	0.6	7.7
TOTAL	21.1	19.6	1.5



Dispatching of electricity

“Dispatching” is the set of activities necessary to ensure that there is a balance between supply and demand in the country’s electricity system. The high degree of complexity and coordination necessary to guarantee the correct operation of the system require the presence of a central coordinator, the provider of the dispatching service. This coordinator has control over a high number of both supply-side and demand-side players, and in the last few years also over production from non-programmable renewable sources.

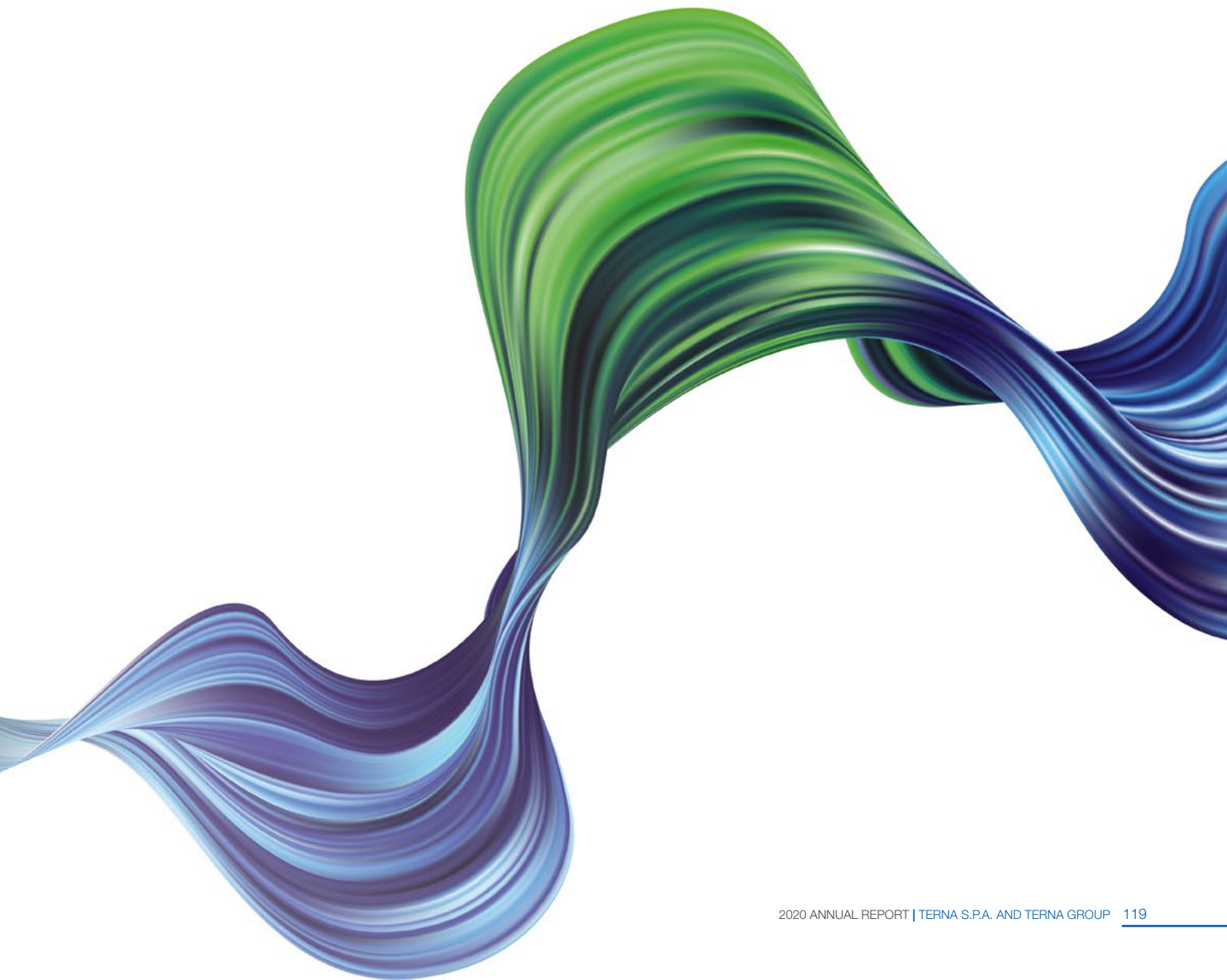


Dispatching includes planning for the unavailability of the grid and of production plants over different time-scales, forecasting national demand for electricity, comparing demand for consistency with planned production in the free energy market (the Power Exchange and over-the-counter contracts), the acquisition of resources for dispatching and monitoring power transfers for all the power lines that make up the grid.

This area of operation also includes management of the **Dispatching Services Market (DSM)**, through which the resources for dispatching services are procured.

In particular, “real-time” control of the National Electricity System is ensured by the **National Control Centre**, the nerve centre for Italy's National Electricity System, which coordinates the other centres around the country, monitors the system and dispatches electricity. The Centre intervenes, by issuing instructions to producers and Remote Centres, in order to modify supply and capacity on the grid. To avoid the risk of prolonged power outages, it may also intervene in an emergency to reduce demand.

The following key events in relation to efficient management of the grid took place in 2020.



KEY EVENTS IN 2020

Safe management of the electricity system during the Covid-19 health emergency

From mid-March, the National Electricity System registered a sharp load reduction, due to the measures introduced by the Government to contain the pandemic. These extraordinary operating conditions were determined by: a reduction in demand for power at a time of year (spring) when the load is already low and renewable production is high. This made it difficult to regulate voltage, partly due to the lower number of available thermoelectric plants and an uneven load variation across the various regions of Italy. (The reduction was initially very sharp in the northern regions most affected by the epidemic, where demand is highest).

In this situation, the Dispatching unit implemented a series of effective **countermeasures to ensure continuity of the national electricity service at all times**.

Black start simulations

Black start simulations are needed to check that the electricity system is working properly and to improve its efficiency by ensuring a rapid reboot of the system in the event of a blackout. In 2020, three live tests **were successfully conducted**, followed by the related black starts. Black start testing was carried out in Trentino-Alto Adige in September, in Sicily in October, and in Tuscany and Emilia-Romagna in November.

Opening up of the DSM to new types of resources

In accordance with ARERA Resolution 300/2017/R/EEL (which set up pilot projects as part of the progressive opening up of the dispatching services market to new types of resources, including storage systems and distributed demand and generation), on 20 November 2019, Terna published a document, to be consulted on with entities interested in making use of the **Fast Reserve** service, in the "Pilot Projects" section of its website. These projects aim to increase the resources available to provide grid services, try out new forms of revenue and test new kinds of fixed-term procurement of resources, partly in view of the future scenarios described in the proposed National Integrated Plan for Energy and Climate (PNIEC). The Fast Reserve service can thus contribute to system security by improving the speed of response to frequency changes, a service up to now provided by traditional generating plants, which provide a slower response.

The auction for provision of this service was held on **10 December 2020**. A high number of bidders participated in the auction: 53 operators and 117 Fast Reserve Units, with allocation of power totalling approximately 249.9 MW.

The TERRE (Trans-European Replacement Reserve Exchange) project began in 2013 as an early implementation of the Electricity Balancing Guidelines regarding the design, development, implementation and management of a **platform to share balancing resources among European countries**.

The project involves 11 countries of which nine are full members (France, the UK, Switzerland, the Czech Republic, Poland, Spain, Portugal, Romania and Italy) and two are observers (Bulgaria and Hungary).

The platform successfully went live on 13 January 2021. Italy is connected to "Region 1", which also includes France, Switzerland, Spain and Portugal.

TERRE project

On 15 December 2020, all operations relating to the **coupling of the Greek and Italian electricity markets** were successfully completed for the first time.

Market coupling enables integration of electricity markets and ensures energy flows from the lower-price country to the higher-price country. This benefits end-consumers by helping to reduce price differentials with neighbouring markets, optimising the use of transport capacity on the interconnector and improving the overall efficiency of the Day-Ahead Market. In particular, market coupling enables use of interconnection capacity without the need to explicitly acquire physical transmission rights prior to importing or exporting electricity, via an implicit auction mechanism whereby capacity is allocated and priced on the Day-Ahead Market, at the same time as the electricity.

Coupling with Greece

ELECTRICITY COST TRENDS

Electricity prices

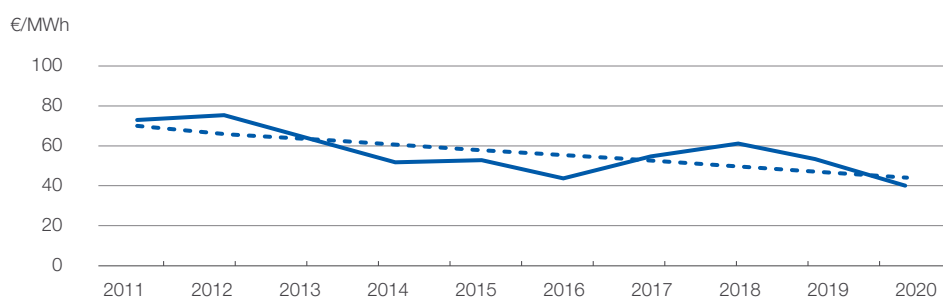
-26%
SNP 2020

The average hourly price on the Italian Power Exchange (IPEX /SNP¹³–Single National Price) for 2020 is €39 per MWh, down 26% compared with 2019, reflecting a sharp reduction in energy demand due to the Covid-19 health emergency and a reduction in commodity prices (especially the price of gas).

The Day Ahead Market, which sets the SNP, is based on supply and demand, although Italy must, by necessity, also take account of its particular geography, with the physical nature of the electricity grid, the widespread nature of its infrastructure and the location of consumption, and the resulting grid congestion. This means that there are a number of “bottlenecks” on the transmission grid, which have made it necessary to identify “market zones” and set transmission limits. Eliminating these bottlenecks is one of Terna’s tasks, above all through development of the grid.

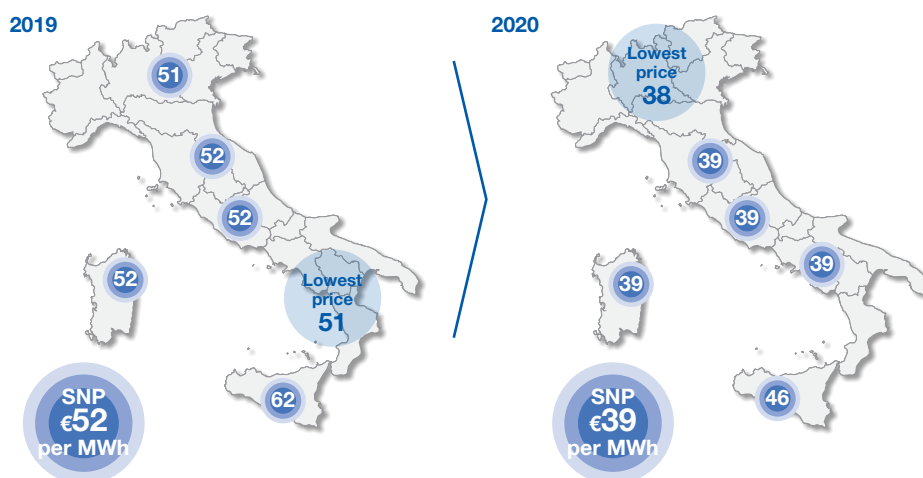
The following chart shows the performance of the SNP from 2011 to 2020, highlighting a declining trend.

PERFORMANCE OF THE SINGLE NATIONAL PRICE (SNP) FROM 2011



Over the years, prices in the principal zones that make up the Italian electricity market and the Single National Price (SNP) have fallen into line.

PERFORMANCE OF ITALY’S SNP AND ZONAL PRICES



¹³ IPEX: Italian Power Exchange.

Trade with other countries

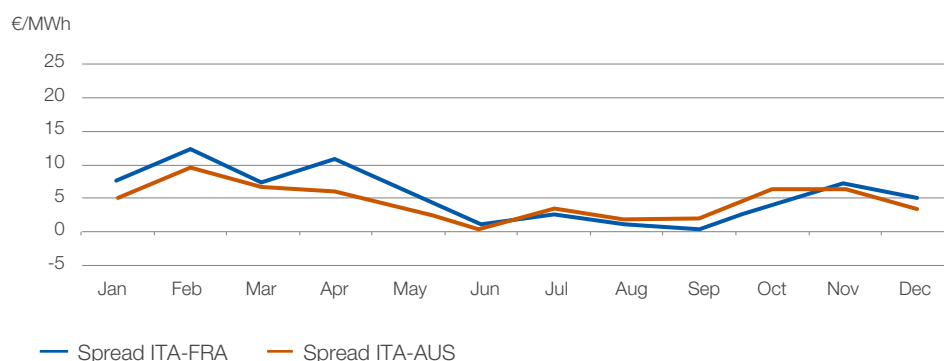
Trade with other countries across the northern border in 2020 resulted in a reduction in net imports, which are down approximately 6 TWh (14%) compared with the previous year.

-6 TWh
net imports

In 2020, the reduction derives from the Covid-19 health emergency, which strongly affected electricity demand.

Prices on the French (PNX) and Austrian (EEX) exchanges fell year on year in line with the reduction in demand and the decline in commodity prices (especially the price of gas).

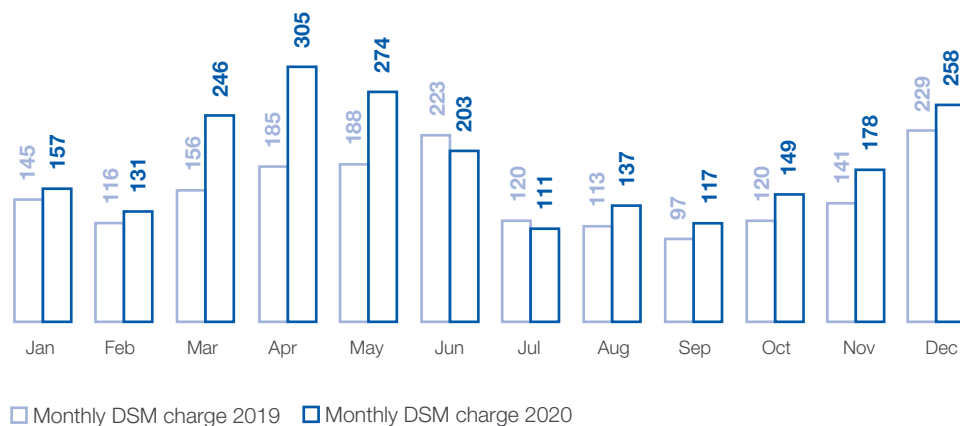
MONTHLY SPREAD FOR ENERGY PRICES COMPARED WITH FRANCE (PNX) AND GERMANY/AUSTRIA (EEX)



In particular:

- The Powernext (French price) registered an average increase in the cold months of the year during which, traditionally, energy demand in France rises sharply, whilst recording lower average prices in the summer. The average annual price was €32 per MWh (down €7 per MWh or 18% compared with the previous year).
- The Austrian price (EEX) registered the same trend as the French price. The average annual price was €33 per MWh (down €7 per MWh or 17% compared with the previous year).

ANNUAL AND MONTHLY DSM COSTS (€M)



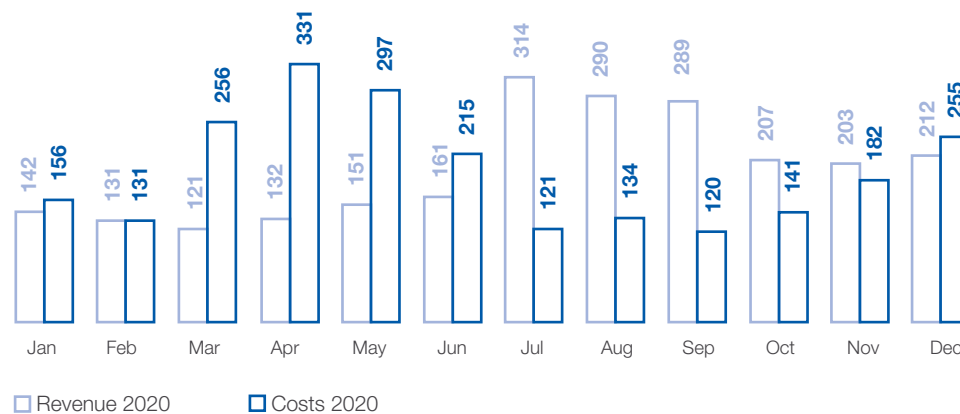
Net DSM charge up in 2020

Dispatching Services Market (DSM)

The net charge for using the DSM was €2,266 million in 2020, up on the same period of the previous year (€1,833 million). The increase is primarily due to an increase in the cost of selection to aid in resolving local technical constraints throughout the year, especially in the period from March to June, as well as to the Covid-19 health emergency and the sharp reduction in demand.

Terna procures dispatching resources on the Dispatching Service Market (DSM) to ensure the security and adequacy of the electricity system.

PERFORMANCE OF REVENUE AND UPLIFT COSTS IN 2020 (€M)



Cost of procuring resources on the Dispatching Services Market (Uplift)

In 2020, the total Uplift was €2,339¹⁴ million, up 22% on the previous year. The rise was primarily due to the increased cost of procuring services on the DSM, relating in particular to the Services component (reflecting the increase in black starts), in terms of both volumes and prices, and a reduction in congestion revenue.

+22%
UPLIFT
in 2020

Uplift payments are the tool used by the system to recover the net costs deriving from energy-related items from the end user, including the supply of services and energy to cover system imbalances in the DSM, imbalance costs, congestion revenue and the related coverage (CCT, CCC, CCP and DCT¹⁵) and the cost of the virtual interconnection (the Interconnector).

ARERA Resolution 111/06 (TITLE 4) regulates charges for dispatching services and the connected guarantees. Dispatching charges include the cost of procuring resources on the Dispatching Services Market (known as the Uplift), pursuant to article 44, as amended.

The charge is invoiced pro-rata to dispatching users based on energy withdrawn, to cover the expected accrued monthly cost and any prior differences.

OBJECTIVE

- > Continuity and quality of service;
- > Development of the National Electricity Grid;
- > Customers, suppliers and business partners.

ACTIONS

Steps taken to mitigate and control
the identified risks > page 88



¹⁴ The Uplift includes the virtual interconnection, amounting to approximately €150 million in 2020 (compared with approximately €232 million in 2019).

¹⁵ CCT - Fees for Assignment of Rights of Use of Transmission Capacity;
CCC - Contract Covering the Risk of Volatility of the Fee for Assignment of Rights of Use of Transmission Capacity (between zones);
CCP - Contract Covering the Risk of Volatility of the Fee for Assignment of Rights of Use of Transmission Capacity (between industrial centres);
DCT - Contract Covering the Fee for Assignment of Rights of Use of Transmission Capacity on Foreign Interconnections.

Operating results of Regulated Activities

The following table shows a breakdown of the results from the Terna Group's Regulated Activities in 2020 and 2019¹⁶.

	(€m)		
	2020	2019	CHANGE
Total regulated revenue	2,148.9	2,055.0	93.9
Tariff revenue	2,047.8	1,973.1	74.7
- Transmission revenue	1,938.5	1,860.2	78.3
- Dispatching, metering and other revenue	109.3	112.9	(3.6)
Other regulated revenue	72.6	54.3	18.3
Revenue from construction services performed under concession in Italy	28.5	27.6	0.9
Total cost of Regulated Activities	428.2	397.5	30.7
Personnel expenses	221.3	213.1	8.2
External resources	149.2	150.6	(1.4)
Other	29.2	6.2	23.0
Cost of construction services performed under concession in Italy	28.5	27.6	0.9
EBITDA from Regulated Activities	1,720.7	1,657.5	63.2

€63.2_m
the increase of
EBITDA from
Regulated Activities

EBITDA from Regulated Activities amounts to €1,720.7 million, an increase of €63.2 million compared with the previous year. This primarily reflects the tariff increase provided for by ARERA Resolution 568/19 and recognition in the regulated activities segment of part of the revenue relating to the acquisition of Brugg Cables.

Regulated revenue is up €93.9 million, primarily due to the impact on transmission revenue (up €78.3 million) following an increase in the RAB, the accrued amount due as a return on digital substation systems (up €29.3 million, reflecting systems entering service through to 2018, in accordance with ARERA Resolution 565/2020) and the release of provisions following settlement of a liability with an operator (up €10.6 million), partly offset by the negative impact of the volume effect.

There was also an increase in revenue in the form of the bonus receivable under the RENS (Regulated Energy Not Supplied) incentive mechanism (up €9.2 million), primarily due to the pro-rata valuation of the 2020 RENS performance (given the estimated overall results expected in the 2020-2023 regulatory period) and definition of the RENS performance for 2019 (as per ARERA Resolution 540/2020), as well as recognition of revenue resulting from the higher value of the net assets acquired following the acquisition of Brugg Cables compared with the consideration paid (the gain resulting from a bargain purchase, totalling €22.6 million), offset by the impact of greater revenue in the form of insurance proceeds (down €8.4 million) and other non-recurring items recognised in 2019.

The **cost of Regulated Activities** is up €30.7 million, primarily reflecting the impact on personnel expenses (up €8.2 million) of provisions relating to bonuses, higher costs relating to quality of service (up €7.7 million, primarily due to the impact of outages at the end of 2020) and the adjustment of the Group's provisions for taxation recognised in 2019 (up approximately €15.1 million), linked to prior provisions made in relation to Land Registry Circular 6/2012.

¹⁶ The Terna Group's operating segments are consistent with the internal control system adopted by the Parent Company, in line with the 2021-2025 Industrial Plan.

Non-regulated Activities

Energy market solutions

Using our distinctive competences, we develop value added services as an Energy Solutions Provider for businesses. Our Non-regulated Activities are designed to support the ecological transition, in keeping with our core business.

The main areas of business in this segment are:

- **INDUSTRIAL**
 - TRANSFORMERS – TAMINI GROUP
 - TERRESTRIAL CABLES – BRUGG GROUP
- **CONNECTIVITY**
- **ENERGY SOLUTIONS**
- **PRIVATE INTERCONNECTORS PURSUANT TO LAW 99/2009**



Acquisition of Brugg Cables

On 29 February 2020, in implementation of the preliminary agreement signed on 20 December 2019, Terna acquired a 90% interest in Brugg Kabel AG (Brugg Group), one of the leading European operators in the terrestrial cable sector, specialising in the design, development, construction, installation and maintenance of electrical cables of all voltages and accessories for high-voltage cables.

The acquisition, which Terna financed with its own funds, was finalised through the subsidiary Terna Energy Solutions S.r.l.. The preliminary amount paid for acquisition of the equity interest is CHF25.8 million.

The acquisition of Brugg Kabel provides Terna with a centre of excellence for research, development and testing in one of the core technologies for the TSO, such as terrestrial cable technology.

In particular, the transaction gives Terna the opportunity to rapidly integrate core competencies, by acquiring a company featuring:

- specialisation in 150kV cables with standards in line with those Terna requires;
- HV cable production capacity in line with Terna S.p.A.'s requirements;
- expertise consolidated over 120 years, which has been widely verified by Terna;
- significant potential synergies with the Group's Non-regulated Activities.

It should be noted that Terna's Development Plan, in line with the objectives of greater sustainability and resilience for the NTG, envisages doubling the number of terrestrial cables over the next 10 years. Consequently, the development of distinctive expertise in the underground cable sector to support cable design and construction activities, as well as O&M, may well have a key role to play in Terna's future.

From an organisational point of view, Samuel Ansorge has been confirmed in the role of COO, while Agostino Scornajenchi has been appointed Executive Chairman.



INDUSTRIAL TRANSFORMERS – TAMINI GROUP

Tamini operates in the electromechanical sector and is a leader in the design, production, commercialisation and repair of power transformers for electricity transmission and distribution grids, of industrial transformers for the steel and metals industry and of special transformers for convertors used in electrochemical production.

With over a hundred years of experience, Tamini has a well-established name in Italy and overseas, thanks to its technological and engineering capabilities, combined with the degree of customisation and production flexibility it can offer.

Tamini has five production plants in northern Italy - at Legnano, Ospitaletto, Valdagno, Novara and Rodengo - and two trading companies in the United States and India. The Rodengo plant specialises in services, whilst the Novara production plant continues to manufacture coils, operating as a service centre for all the production sites that manufacture for both the Power and Industrial sectors.

The Tamini Group in 2020

Tamini received orders for transformers worth approximately €108 million in 2020, down 11% on the previous year.

Orders in the Power sector amounted to approximately €66 million, a reduction of 15%, primarily due to delays in the award of major contracts in Italy and Europe until 2021. At the beginning of 2021, Tamini won an important framework contract to produce large transformers in the period 2021-23, worth over €40 million.

Orders in the Industrial sector amounted to approximately €41 million, in line with 2019, with business picking up significantly in the second half of the year.

Orders for Services in 2020 amounted to approximately €10 million, a decline of 24% compared with 2019. Services suffered most in 2020 due to the restrictions introduced in response to the Covid-19 pandemic.

The value of factory order books is, in any event, in line with the end of 2019 at approximately €75 million.

Order book

Revenue for 2020 is down compared with the previous year (a decline of 5.7%), reflecting the fact that production at plants slowed in March and April due to Covid-19. Six 290 MVA step-up transformers for compensators and a Phase Shifting Transformer (PST) are currently being produced, whilst work for industrial customers includes a furnace transformer that uses smart technology, designed and produced as a result of research carried out by Tamini.

Results for 2020

Strong growth in the volume of vegetable oil transformers for the Power sector continued in 2020. Seven 250 MVA and 400 MVA vegetable oil transformers, built at the Legnano plant, were produced and successfully tested. In addition, Tamini also produced and tested two vegetable oil transformers for industrial use.

Vegetable oil transformers

TERRESTRIAL CABLES – BRUGG GROUP

The Brugg group operates in the terrestrial cable sector, specialising in the design, development, construction, installation and maintenance of electrical cables of all voltages and accessories for high-voltage cables.

Orders acquired in 2020 amounted to approximately CHF150 million (approximately €140 million), marking a significant increase with respect to 2019 (CHF127 million, equal to approximately €119 million). The High Voltage System segment made a major contribution, primarily due to contracts awarded by the Swiss company, Brugg Kabel AG, with the remaining order obtained from overseas subsidiaries. The Low Medium Voltage segment also made a significant contribution.



CONNECTIVITY

FIBRE

OPEN FIBER PROJECT

The plan to make available long-distance fibre infrastructure (regional rings) for Open Fiber S.p.A. was substantially completed in 2020. With respect to the terms of the related agreement, which call for a total of 21,000 km of long-distance fibre, at 31 December 2020 a total of approximately 21,157 km has been delivered. Following the halt to work at a number of sites due to the Covid-19 emergency and the planned shutdown of the electricity service to enable the installation of certain sections, the delivery of further sections amounting to a total of around 1,013 km was rescheduled for 2021.

Customers can acquire new infrastructure, which performs better than standard underground cables in terms of both reliability (much lower number of faults per km per year) and quality (low attenuation), with significant savings in terms of length compared with terrestrial connections (> 20% over long distances).

HOUSING SERVICES

FWA PYLONS

By relying on Terna infrastructure (NTG pylons) and taking advantage of its nationwide reach, Open Fiber and Eolo will be able to achieve Fixed Wireless Access coverage in rural areas. The plan is to install antennae on Terna's pylons to cover remote areas with Open Fiber (a contract for up to 500 pylons in the three-year period 2020-2022) and with Eolo (for up to a further 500 pylons in the three-year period 2020-2022). In the future, the design of software-defined radio solutions could prove to be a strategic enabler in rolling out new technologies, above all 5G, in geographies where there is a lack of infrastructure.

Survey, design and authorisation activities began in 2020 under the agreements with Open Fiber and Eolo, having been in part delayed until 2021 due to the Covid-19 emergency.



ENERGY SOLUTIONS

SMART GRIDS



On 14 September 2020, Terna, FCA and Engie Eps presented their pilot Vehicle-to-Grid (V2G) project at FCA's Mirafiori complex in Turin. Joint trials of sustainable mobility technologies and services were launched following the signature, on 25 March 2020, of a contract between the investee, Avvenia, and FCA regarding the identification of possible areas of efficiency recovery, white certificate management and improved sustainability performance, to be partly achieved through the design and installation of monitoring plans.

The preliminary design for a roof-mounted photovoltaic plant providing capacity of around 9 MWp, to serve the car park at the Mirafiori production plant, was carried out. In addition to cutting CO₂ emissions by approximately 115 million tonnes over its life, the plant will also be equipped with fibre infrastructure that will enable electric vehicles to provide grid services, whilst also allowing, thanks to IoT applications, the customer to optimise management of its fleet of electric vehicles from a technical and financial viewpoint. The procedure for FCA's award of the contract to install the plant is being drawn up.

In relation to the energy efficiency initiatives covered by the Memorandum of Understanding, signed on 30 September 2019, a number of proposals for boosting efficiency and enabling flexibility services have been put forward. A response to the data request made in order to ensure that the initiatives to be carried out are of the right scale is awaited, in part due to delays caused by the current health emergency.

Avvenia is the Terna Group company that plays an active role regarding energy efficiency issues by providing specific technical support, in the identification of possible areas of efficiency recovery, and in extracting value from services and any ad hoc initiatives.

This memorandum of understanding regards collaboration between the General Custody of the Sacred Convent of Saint Francis of the Friars Minor Conventual, with the aim of implementing sustainability initiatives meeting shared needs.

On 18 December 2020, work on the projects aimed at improving energy efficiency and cutting CO₂ emissions at the convent, as envisaged in the contract signed in April 2020, was completed. This involved conducting a feasibility study, preparing the preliminary and final designs and the working drawings, carrying out all the project management activities and the supply of 2 working recharging stations, a 50 kW gas-fuelled cogeneration plant and an absorption refrigeration unit. The system will be powered up in 2021, following the customer's receipt of the necessary permit. The plant will avoid 35 tonnes of CO₂ emissions a year and save the Convent approximately €45,000 per annum.

Avvenia took an active role in installation of the DIANA platform, which plays a key role in enabling the assessment designed to detect any malfunctions and, therefore, areas for improvement, and provide quantitative analysis of the performance of the Convent's electricity consumption and heating needs.

The revamp of the units that make up the Ferrara Focomorto 2 photovoltaic plant was begun and completed in 2020. The plant in question, which was constantly underperforming due to the age and poor state of most of the panels, is part of the portfolio of plants owned by EF Solare, for which Terna already provides Operation & Maintenance services. The project involved the replacement (and rewiring where necessary) of around 3 MW of installed capacity. Revamping work for the same customer, EF Solare, under an EPC contract for the supply and replacement of inverters at a number of plants, with a total capacity of approximately 16 MW, also began.

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*MEMORANDUM OF
UNDERSTANDING
BETWEEN TERNA AND
FCA*

*MEMORANDUM OF
UNDERSTANDING
BETWEEN TERNA AND
ANSALDO ENERGIA*

*SACRED CONVENT OF
SAINT FRANCIS*

*REVAMP OF
PHOTOVOLTAIC PLANTS*

SMART ISLANDS

“GIANNUTRI PROJECT”

The Giannutri project was handed over to the island's electricity operator on 21 February 2020. Once it enters service, the new arrangement will contribute to meeting the island's energy needs. During the middle of the day (when loads are low and the sun is at its hottest), the island's grid will be able to function without the need for traditional generation, allowing Giannutri to become 100% renewable.

PANTELLERIA

An agreement between Terna and the island's Electricity Operator, S.Med.E. Pantelleria, regarding a contract for the design and support during the application for consents for photovoltaic plants (with capacities of up to 5 MW) and electrochemical storage systems was signed on 27 April 2020. Once the related consents have been obtained, Terna may be commissioned to build the above plants.

Following the signature of the contract, a feasibility study was conducted with regard to the construction of a ground-based photovoltaic plant with capacity of approximately 2.2 MWp. The plant will be located in the island's industrial area and will help to reduce the island's dependence on diesel for its power by generating around 3.5 GWh per year.

GIGLIO

In accordance with the guidelines set out in the memorandum of understanding signed in 2015 by Terna Plus with the Municipality of the Island of Giglio, the Tuscan Archipelago National Park Authority and SIE, the concessionaire for the production and distribution of electricity on the island, all the necessary preparatory activities for the development of renewable power generation were carried out. Work continued on development of an innovative photovoltaic plant at the island's landfill site, which is necessary to achieve the challenging objectives set by the Ministerial Decree of 14 February 2017, in the relation to meeting the energy needs of smaller islands.

On 28 October 2020, the Ministry for Economic Development published a call for tenders for **“Innovative integrated projects for non-interconnected smaller islands”**. This is in implementation of the Ministerial Decree of 14 February 2017, which permits the use of the total amount of €10 million allocated to fund government grants for Smart projects that contribute to achievement of the targets for progressive development of the islands' ability to meet their energy needs from renewable sources.

Following publication of the call, work began on preparing the documentation necessary in order to take part in the tender process for Innovative Projects for Giglio and Pantelleria. Studies looking at the development of renewable energy production that will meet the requirements for participation in the project (at least 20% of annual consumption to be met by renewable production) are currently underway.

HIGH VOLTAGE

Changes to the electricity substation connected with the Mercure production plant (the voltage level has been modified from 220 kV to 150 kV) were completed in 2020. The work was carried out under an EPC contract with the customer, San Marco Bioenergie (Mercure S.r.l.).

Under the Framework Agreement entered into with RFI in December 2018, relating to the "Design, supply, installation, certification and entry into service of metering devices", in 2020, the customer issued executive contracts for 55 devices that, once suitably finalised, enabled the Terna Group to complete work on the related designs (24 of which have been formally approved by RFI, with 31 awaiting approval) and begin planning for their installation.

The customer has also made a formal commitment with an attached request to bring forward the procurement of a further 91 devices. Terna has initiated all the necessary steps in the procurement process, completing most of the process by the end of the year.

The installation of 5 devices was completed in 2020.

ELECTRICITY SUBSTATIONS

FRAMEWORK AGREEMENT WITH RFI

Other projects

FTV control and monitoring centre - Myleaf for Non-Regulated Activities

This project regards implementation of the platform for gathering and processing data from the assets managed by Terna as part of our Energy Solutions, optimising performance and maintenance processes.

The MyLEaf platform, available for remote use by all the personnel involved in the plant O&M process from December 2020, is the only system in operation for monitoring and operating FTV plants by Terna.

Testing and debugging of all the functions of the MyLEaf platform was carried out in 2020.

The system will permit constant remote monitoring of the status of plants, with diagnostics and synthetic KPIs. It will provide the possibility to carry out optimised planning of maintenance interventions and implement purpose-built algorithms for the predictive maintenance of assets, including an advanced reporting system. In addition to ensuring contract compliance, the system will optimise performance and maintenance processes.

PRIVATE INTERCONNECTORS PURSUANT TO LAW 99/2009

In order to develop a single electricity market by expanding cross-border interconnection capacity, EU legislation has set out guidelines for the creation of interconnections with other countries by entities other than grid operators.

The European guidelines have been introduced into Italian legislation by [Law 99/2009](#), which assigned Terna responsibility for selecting undertakings (the “selected undertakings”), on the basis of public tenders, willing to finance specific interconnectors in exchange for the benefits resulting from a decree granting a third-party access exemption with regard to the transmission capacity provided by the new infrastructure.

The law states that these private backers, in exchange for a commitment to finance such projects, are required to commission Terna to build and operate the interconnectors.

The cross-border interconnectors with Montenegro (completed in December 2019), France (at an advanced stage of completion), Austria (preliminary work has begun), Switzerland and Slovenia (currently awaiting the necessary consents) are part of this overall project.

ITALY-MONTENEGRO INTERCONNECTOR PROJECT

On 28 December 2019, the first module of the 500kV direct current interconnector between the substations of Villanova (Italy) and Lastva (Montenegro) entered commercial operation. The line, part in submarine cable and part in terrestrial cable, extends for approximately 445 km and provides interconnection capacity of 600 MW between the two countries, including 200 MW available under the exemption to the private backers pursuant to Law 99/09.

The private portion of the project is owned by Monita Interconnector S.r.l., which the Terna Group sold to private backers on 17 December 2019. From the date of entry into commercial operation of the asset until the end of the exemption period, Terna will manage routine and special maintenance activities and operate the interconnector for an annual fee to be paid by Monita.

ITALY-FRANCE INTERCONNECTOR PROJECT

In implementation of Law 99/2009, the Terna Group has continued work on construction of the private line (corresponding with the Italian portion of one of the two direct current lines forming the interconnector) on behalf of Piemonte Savoia S.r.l. (Pi.Sa.), which was transferred to the private backers selected under the same law on 4 July 2017, following the issue of the exemption decree for 350 MW of capacity.

With regard to work in progress, out of a total of approximately 95 km of cable for the Italian end of the interconnection, at December 2020, the laying of cable for the entire section running along the A32 motorway and through the Frejus motorway tunnel had been completed. The remaining work on completion of the power line, including the laying of fibre cable and the installation of monitoring systems, will take until mid-June 2021. The civil works for the Piosasco converter station and assembly of all the electromechanical equipment had been completed by December 2020. Preparation and testing of the protection system and checks of the functioning of the converter are, on the other hand, still in progress.

Given the delays to work on both the Italian and French sides in 2020, as a result of the Covid-19 emergency, the interconnector's entry into service is currently expected to take place in the fourth quarter of 2021.

The Italy-Austria interconnector (the Reschenpass project) involves construction of a new 220kV AC interconnection between the Glorenza (Italy) and Nauders (Austria) substations. This will consist of 28 km of underground cable and the necessary upgrade of the domestic grid. The project will increase cross-border interconnection capacity between Italy and Austria by around 300 MW, practically doubling the currently available capacity. The cost of the project is expected to be approximately €85 million.

On 16 March 2020, the exemption process formally began with Resia submitting an exemption application to the Ministry for Economic Development. The Ministry for Economic Development subsequently submitted the exemption application to ARERA to enable the regulator to issue its opinion. On 6 May 2020, Resia submitted the application for exemption, translated into English and German, to the Austrian regulator, E-Control. On 17 November 2020, ARERA granted its approval for the issue of the exemption decree to Resia.

On 16 July 2018, the Terna Group had set up the special purpose vehicle, Resia Interconnector S.r.l., to prepare and submit, on behalf of the private backers, a request for exemption from the right of third parties to access capacity of 150 MW, for a period of 10 years, and to build the interconnector.

On 18 April 2019, Terna received clearance for the laying and operation of the 220kV cable for the Italian section between the Glorenza substation and Passo Resia, which, together with enlargement of the Glorenza substation and the related works, comprises the Italy-Austria interconnector envisaged pursuant to Law 99/2009. Similarly, the Austrian grid operator has obtained the consents needed for its part of the project.

In addition, on 1 October 2019, the Ministry for Economic Development issued the decree transferring the consents for the interconnector to Resia.

The project involves the development of new transmission lines between Italy and Switzerland, with the aim of increasing interconnection capacity between the two countries.

The creation of a direct current line is planned, partly in undersea cable, between the substations of Salgareda (IT) and Divača/Beričevo (SL), together with work on upgrading the domestic grids in Italy and in Slovenia. The project is currently awaiting the necessary consents on the Italian side. The expected increase in cross-border capacity of approximately 1 GW will raise the interconnection capacity to more than double the current level.

PROGETTO INTERCONNECTOR ITALIA – AUSTRIA

ITALY-SWITZERLAND INTERCONNECTOR PROJECT

ITALY-SLOVENIA INTERCONNECTOR PROJECT

Operating results of Non-regulated Activities

A breakdown of the Terna Group's results from its Non-regulated Activities for 2020 and 2019 is shown below¹⁷.

	(€m)		
	2020	2019	CHANGE
Revenue from Non-regulated activities	341.0	211.7	129.3
Industrial	253.8	110.2	143.6
- Brugg	149.9	-	149.9
- Tamini	103.9	110.2	(6.3)
Connectivity	33.4	39.9	(6.5)
Energy Solutions	39.1	41.2	(2.1)
- High Voltage	28.8	29.5	(0.7)
- Smart Grids	8.7	10.5	(1.8)
- Digital Services	1.6	1.2	0.4
Private interconnectors	11.4	18.4	(7.0)
Other	3.3	2.0	1.3
Cost of Non-regulated Activities	244.1	141.7	102.4
EBITDA from Non-regulated Activities	96.9	70.0	26.9

EBITDA from Non-regulated Activities amounts to €96.9 million for 2020, an increase of €26.9 million compared with the previous year. This primarily reflects recognition of the segment's share of the revenue resulting from the higher value of the net assets acquired following the acquisition of Brugg Cables compared with the consideration paid (the gain resulting from a bargain purchase, totalling €48.1 million) and the reduced contribution from private interconnector project pursuant to Law 99/2009 (down €6.8 million), following the entry into service of the Italy-Montenegro interconnector at the end of 2019 and the different rate of progress on the Italy-France interconnector. The result also reflects a reduction in the contribution from services for third parties (down €8.5 million), due primarily to the postponement of many activities relating to Connectivity until 2021 and the lower contribution from Tamini (down €4.5 million), linked to the impact of the Covid-19 pandemic on its operations.

¹⁷ The Terna Group's operating segments are consistent with the internal control system adopted by the Parent Company, in line with the 2021-2025 Industrial Plan.

International Activities

International markets offer opportunities to leverage the expertise developed in Italy in our role as a TSO, including the integration of renewables and development of electricity grids. For many years, our Group has offered technical support to TSOs and energy companies in developing countries, also in relation to multilateral projects and programmes.

Overseas investment focuses on countries with stable political and regulatory regimes and a need to develop their electricity infrastructure, with a view to transferring the expertise acquired in our Italian operations, on occasion in collaboration with international energy companies.

International markets offer opportunities in terms of the development of transmission infrastructure, driven by growing demand for electricity and a regulatory system that offers access to external operators.

Terna's strategic priorities with regard to its overseas operations include:

- **Europe:** to strengthen our presence, with the aim of enabling Italy to become an energy hub serving the Mediterranean area.
- **Latin America:** to consolidate our position in countries of interest by acquiring further concessions, developing projects already in progress in Brazil and Peru and operating the lines that have entered service in Brazil and Uruguay; to integrate our value proposition with services for third parties falling within the scope of both regulated and non-regulated activities.
- **Other geographical areas:** to develop services supporting the ecological transition, and that involve a low level of risk and absorb a limited amount of capital.

Overseas initiatives of interest to the Terna Group are:

- **Development and operation of concessions:** this model envisages the acquisition and operation of transmission systems abroad by taking part in international concession and/or secondary market awards, leveraging the core competencies and experience developed in the international arena;
- **Energy solutions:** this includes all high value-added non-traditional activities aimed at exporting the experience Terna has in Italy in the fields of energy storage and smart solutions;
- **Technical assistance:** this involves the provision of consulting and technical assistance services regarding a TSO's core activities, as well as the definition and implementation of regulatory and market frameworks in the local energy context, with a view to exporting and taking advantage of the distinctive expertise acquired in Italy;
- **Project management:** Project Management (EPCM) activities enable the Group to leverage its expertise in managing overseas projects and in infrastructure management.

Initiatives in progress in South America

In common with the rest of the world, Latin America witnessed a gradual worsening of the situation brought about by Covid-19 during 2020 and, at 31 December 2020, a number of countries are still in the throes of a full-blown health emergency.

Progress on projects in Brazil and Peru has been affected by the emergency. In Peru, after suspending work in response to measures introduced by the government, onsite activity restarted in line with local regulations and the best practices applied by the Terna Group. In Brazil, both operation & maintenance and construction activities have restarted thanks to the implementation of health protocols specifically designed for the kind of work carried out.



URUGUAY

Activities connected with the line that has entered service continued in 2020.



BRAZIL

Operation and maintenance of the **Santa Maria Transmissora de Energia (SMTE)** power line in the State of Rio Grande do Sul and the **Santa Lucia Transmissora de Energia (SLTE)** power line in the State of Mato Grosso continued in 2020.

In addition, onsite activity began and engineering work and the acquisition of rights and easements for the **SPE Transmissora de energia Linha Verde II S.A.** project began. This is the first of the two concessions covered by the preliminary agreement with Construtora Quebec, regarding the construction of a 150-km 500kV power line in the State of Minas Gerais.

Acquisition of the second concession covered by the above agreement was completed in August. This regards the **SPE Transmissora de Energia Linha Verde I S.A.** project, involving the construction of a 150-km long 500kV power line dubbed the "Governador Valadares-Mutum" in the State of Minas Gerais. The consents process and related design engineering work is underway.



PERU

Work, which began in 2017, on construction of 132 km of new 138kV lines between Aguaytia and Pucallpa is continuing.

Construction, which was temporarily interrupted in March by the lockdown imposed by the government in response to the Covid-19 pandemic, resumed in July 2020.

In the meantime, the procurement of transmission line materials and the related civil engineering works have been completed and the project is expected to reach completion in the first half of 2021.

Operating results of International Activities

A breakdown of the Terna Group's results from International Activities for 2020 and 2019 is shown below¹⁸.

It should be noted that "Revenue from International Activities" directly includes the margin earned on work in progress on overseas concessions. Operating costs and maintenance expenses associated with infrastructure now in operation, together with other operating costs, are classified in the "Cost of International Activities".

	(€m)		
	2020	2019	CHANGE
Revenue from International Activities	23.6	28.4	(4.8)
Cost of International Activities	10.8	14.7	(3.9)
EBITDA from International Activities	12.8	13.7	(0.9)

EBITDA from International Activities amounts to €12.8 million for 2020, marking a reduction of €0.9 million compared with the previous year. The reduced contribution from activities carried out under concession in Brazil, due to the recognition, in 2019, of penalties applied to suppliers, after additional provisions for risks and charges and a deterioration in the exchange rate between the Brazilian real and the euro, was broadly offset by the expansion of operations linked to development of the new lines in Minas Gerais and a reduction in the costs incurred by central departments in order to support overseas initiatives, linked above all to the postponement of certain activities.



¹⁸ The Terna Group's operating segments are consistent with the internal control system adopted by the Parent Company, in line with the 2021-2025 Industrial Plan.

Financial resources

Our financial management is based on an approach that aims to maximise efficiency and achieve and maintain a solid financial structure, whilst adopting a highly prudent stance towards mitigation of the potential risks.

The key aspects of the resulting financial strategy are:

- **diversification** of the sources of financing, raising funds on both the capital markets and in the form of borrowings from major banks and supranational financial institutions;
- a **balance** between short and medium-term instruments, in keeping with the composition of assets;
- the **proactive management** of debt in order to take advantage of the opportunities offered by the capital markets;
- a commitment to maintaining **high credit ratings**, based on a strong financial position;
- **active management of the financial risks** to which the Company is exposed, as set out in more detail in the section, “Risk management”.

Sustainable finance

Fully in line with Terna's strategy, which aims to combine investment and sustainability to drive growth and value creation, it is Terna's ambition to play a leading role in the sustainable finance market. This strategy was confirmed in 2020: on **17 July 2020, Terna launched a green bond issue for institutional investors**, with a nominal value of €500 million. The issue, which forms part of Terna's €8 billion Euro Medium Term Notes (EMTN) Programme, was very popular with investors, with a request of more than €2 billion, the bonds being four times oversubscribed, and was notable for the high quality and wide geographical diversification of investors. The green bond has a term of twelve years and will mature on 24 July 2032. The issue was priced at 99.623%, with a spread of 90 basis points with respect to the midswap rate. The bond pays a coupon of 0.75% and an effective coupon of 0.78%.

Terna has now issued green bonds worth €2 billion: in July 2018, Terna successfully issued its first green bond worth €750 million, whilst two issues with a total value of €750 million were launched in 2019.

These green issues are to be used to finance or refinance “Eligible Green Projects”. These are projects producing environmental benefits that meet certain criteria (the use of the issue proceeds, the process of selecting and assessing projects, management of the issue proceeds and reporting) listed in the “Green Bond Framework”, published by Terna in compliance with the “Green Bond Principles 2018” drawn up by the ICMA (International Capital Market Association).

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Specifically, the net proceeds from the issues will be used to finance:

- projects that aim to increase renewable energy production – for example, infrastructure enabling renewable energy plants to be connected to the national grid or that allow for a larger volume of renewable energy to be injected into the grid;
- projects designed to cut carbon emissions by reducing grid losses – for example, infrastructure designed to boost the efficiency of the electricity transmission grid;
- projects that aim to reduce land use and protect biodiversity.

On **30 September 2020**, Terna's three green bond issues were admitted to listing in **Borsa Italiana's ExtraMOT PRO segment**, created to offer institutional and retail investors the opportunity of investing their capital where the proceeds will be applied to environmental and social projects.

Terna also has access to two **ESG-linked Revolving Credit Facilities**: these facilities, amounting to €2.65 billion, apply a mechanism based on a series of bonuses and penalties linked to the achievement of specific ESG objectives.

On **28 October** and **6 and 3 August 2020**, Terna also agreed three **bilateral ESG-linked Term Loans**, amounting to €200 million, €100 million and €200 million, respectively, and having terms of 2, 3 and 2 years. The interest rates for both loans are indexed to EURIBOR, with a margin linked to Terna's performance with respect to specific environmental, social and governance ("ESG") indices.

On **6 August 2020**, the **ESG-linked share buyback programme** to service the Performance Share Plan 2020-2023 was completed. Under the programme, Terna has acquired 1,525,900 own shares (equal to 0.076% of its share capital) at a total cost of approximately €9.5 million. The programme includes a mechanism based on bonuses and penalties linked to the Company's achievement of specific environmental, social and governance objectives. This mechanism will enable the Company to support reforestation projects and the creation of green spaces around Italy, consolidating the key role played by sustainability in driving the creation of value for all our stakeholders.

From **January 2021**, Terna is the first Italian electric utility to join the **Nasdaq Sustainable Bond Network**, the sustainable finance platform operated by Nasdaq that brings together investors, issuers, investment banks and specialist organisations. Terna's leadership in sustainable finance is widely acknowledged by the market which, since 2018, has given a warm welcome to the green bonds issued by Italy's national grid operator.

In addition, from **February 2020**, Terna forms part of the **CFO Taskforce for the SDGs**, an initiative launched by the UN Global Compact to develop sustainable finance. Through the implementation of standards and guidelines, the Taskforce aims to align corporate finance and investment with the sustainable development goals promoted by the United Nations.

Further confirmation of our commitment to playing an active role in developing sustainable finance, Terna is taking part in the **Corporate Forum for Sustainable Finance**, a network of major European businesses committed to the development of sustainable finance as a means to promote a more sustainable and responsible society.

Key events relating to finance during 2020 are described below:

- on **18 September 2020**, Terna S.p.A. successfully launched a €500 million **bond issue** for institutional investors. The issue, which was popular with investors, being three times oversubscribed, forms part of Terna's €8,000,000,000 Euro Medium Term Notes (EMTN) Programme. The bonds have a term of ten years and will mature on 25 September 2030, paying a coupon of 0.375%. At the time of the issue, this was the lowest coupon ever payable on a bond with the same term to maturity issued by an Italian corporate issuer. The bonds were issued at a price of 99.502, with a spread of 65 basis points with respect to the midswap rate and an indicative spread approximately 50 basis points below Italian treasury bills (BTPs) with the same term. The effective cost of the issue to Terna is 0.426%;
- on **9 June 2020**, Terna renewed its €8,000,000,000 Euro Medium Term Notes (EMTN) Programme. The programme has been assigned ratings of "BBB+/A-2" by S&P, "(P) Baa2 /(P)P-2" by Moody's, "BBB+" by Fitch and "A-/S-1" by Scope.

Debt is described in detail in the section, "The Terna Group's financial review".



Terna adopts a dynamic approach to managing the various forms of financial risk, including market risk (interest rate, exchange rate and inflation risk), liquidity risk and credit risk. This approach includes constant monitoring of the financial markets, in order to carry out planned hedging operations under favourable market conditions, but also to take advantage of opportunities to improve existing hedges, when changes in market conditions make previous hedges unsuitable or excessively costly.

Further details are provided in the notes to the consolidated financial statements and to the Parent Company's separate financial statements.

[Market, liquidity
and credit risk](#)

Ratings

	SHORT-TERM	MEDIUM/LONG-TERM	OUTLOOK
Terna S.p.A.			
Standard & Poor's	A-2	BBB+	Stable
Moody's	Prime-2	Baa2	Stable
Fitch*	F2	BBB+	Stable
Scope	S-1	A-	Stable
Italian state			
Standard & Poor's	A-2	BBB	Stable
Moody's	Prime-3	Baa3	Stable
Fitch	F3	BBB-	Stable
Scope	S-2	BBB+	Negative

* Rating valid until 31 December 2020.

On 27 October 2020, Standard & Poor's again confirmed Terna S.p.A. long-term rating as "BBB+" and, following the change to the outlook for the rating of Italian government bonds, revised Terna's outlook, upgrading it from negative to stable.

In November 2020, following the presentation of the 2021-2025 Industrial Plan, which targets a significant acceleration in investment, the rating agencies, Standard & Poor's (S&P), Moody's, Fitch Ratings (Fitch) and Scope Rating (Scope) confirmed their long-term ratings of the issue as "BBB+", "Baa2", "BBB+" and "A-", respectively, acknowledging Terna central role in driving and enabling the ecological transition.

It should be noted that, in December 2020, Terna requested Fitch Ratings to withdraw all its ratings of the Group and to cease rating the Group in the future. The decision, effective as of 1 January 2021, is part of the Group's long-term strategy designed to rationalise as much as possible the resources allocated to this activity in order to make it more efficient.

The Company's long-term ratings are all one notch above those assigned to the Italian state.



“ Before the pandemic the teams in our **control rooms** switched places every day. Our colleagues changed daily to ensure consistency in operations and relationships. Now teams are permanent, so as to reduce unnecessary contacts, and alternate between the various locations. For this reason, **the handover from one team to another takes place remotely**: a solution that initially raised concerns, but that has taught us how to use new digital tools, and to share our work thanks to technology. It's a shame that we can no longer meet up with our colleagues, but we have come to feel at home with this new way of working. ”

#TernaPeople #Covid_19 #DispatchingOfElectricity



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Performance

The Terna Group's financial review for 2020

Introduction

The Annual Report for 2020 has been prepared in accordance with the requirements of art. 154-ter of Legislative Decree 58/98 introduced by Legislative Decree 195 of 6 November 2007 (the “Transparency Decree”), as amended by Legislative Decree 27 of 27 January 2010.

As required by Legislative Decree 38 of 28 February 2005 and EEC Regulation 1606/2002, the financial statements of the parent company Terna S.p.A. and the consolidated financial statements of the Terna Group for the year ended 31 December 2020 were prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Commission (hereinafter “EU-IFRS”).

In compliance with the provisions of art. 2364 of the Italian Civil Code and art. 9.2 of the Company’s Articles of Association, the Board of Directors has decided to call an Annual General Meeting of shareholders within 180 days of the end of the annual reporting period, given that Terna S.p.A. is a company required to prepare consolidated financial statements.

Basis of presentation

The accounting standard and the measurement and recognition criteria applied in this Annual Report are consistent with those adopted in the consolidated financial statements for the year ended 31 December 2019.

In order to present the performance of the Terna Group and Terna S.p.A. and to analyse the financial positions, separate reclassified statements have been prepared. These differ from the statements required by the EU-IFRS adopted and described in the consolidated and separate financial statements for the year ended 31 December 2020.

These reclassified statements contain alternative performance indicators, which differ from those resulting directly from the separate and consolidated financial statements. Management considers these indicators to be useful in assessing the performances of the Group and of Terna S.p.A. and representative of the business’s operating results and financial position.

In line with the guidance provided by ESMA/2015/1415, the criteria used in constructing these indicators are described in specific notes, reconciling them with the amounts presented in the consolidated and separate financial statements. The notes are contained in an annex to this Integrated Report.

Scope of consolidation

The following changes in the structure of the Group have taken place with respect to 31 December 2019:

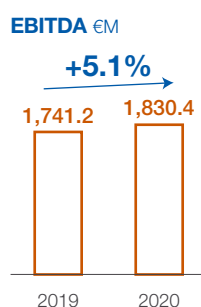
- the acquisition, on 29 February, of a 90% interest in Brugg Kabel AG through the subsidiary, Terna Energy Solutions S.r.l., as part of the Company's growth strategy;
- the establishment, on 22 May, with another three European TSOs, of SEleNe CC S.A., a joint venture 25%-owned by the Group. The company will operate as a Regional Security Coordinator, in accordance with European Regulation 2017/1485, for the TSOs who own shares in it;
- the acquisition of control of the Brazilian-registered company, SPE Transmissora de energia Linha Verde I S.A. on 11 August, with the acquisition of a 51% interest from Construtora Quebec, rising to 75% on 9 September;
- the establishment with SEleNe CC S.A., on 20 November, of ESPERIA-CC S.r.l., in which Terna holds a 1% interest (compared with the 99% owned by the Greek partner), and which is a wholly owned subsidiary as a result of its corporate governance structure;
- Terna's acquisition, on 1 December, of a 25% stake in Equigy B.V., a limited liability company registered in the Netherlands and jointly controlled by Terna and the other TSOs who hold its shares. The investment represents a joint operation under IFRS 11 – *Joint Arrangements*.



The Group's reclassified income statement

The Terna Group's operating results for the year 2020, compared with those for the previous year, are summarised in the following reclassified income statement, obtained by reclassifying amounts in the statutory consolidated income statement.

	(€m)			
	2020	2019	CHANGE	% CHANGE
TOTAL REVENUE	2,513.5	2,295.1	218.4	9.5%
- Regulated revenue	2,148.9	2,055.0	93.9	4.6%
<i>of which Revenue from construction services performed under concession</i>	28.5	27.6	0.9	3.3%
- Non-Regulated revenue	341.0	211.7	129.3	61.1%
- International revenue	23.6	28.4	(4.8)	(16.9%)
TOTAL OPERATING COSTS	683.1	553.9	129.2	23.3%
- Personnel expenses	282.9	251.6	31.3	12.4%
- Cost of services, leases and rentals	174.0	171.8	2.2	1.3%
- Materials	155.6	86.2	69.4	80.5%
- Other costs	33.8	16.1	17.7	109.9%
- Quality of service	8.3	0.6	7.7	-
- Cost of construction services performed under concession	28.5	27.6	0.9	3.3%
GROSS OPERATING PROFIT (EBITDA)	1,830.4	1,741.2	89.2	5.1%
- Amortisation, depreciation and impairment losses	643.8	586.1	57.7	9.8%
OPERATING PROFIT (EBIT)	1,186.6	1,155.1	31.5	2.7%
- Net financial income/(expenses)	(93.5)	(77.7)	(15.8)	20.3%
PROFIT/(LOSS) BEFORE TAX	1,093.1	1,077.4	15.7	1.5%
- Income tax expense for the year	297.8	313.5	(15.7)	(5.0%)
PROFIT FOR THE YEAR	795.3	763.9	31.4	4.1%
- Profit/(Loss) attributable to non-controlling interests	9.8	6.6	3.2	48.5%
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	785.5	757.3	28.2	3.7%



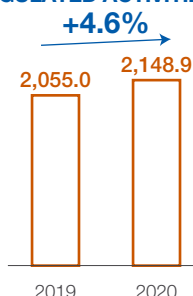
	(€m)	
	2020	2019
EBITDA BY OPERATING SEGMENT		
Regulated Activities	1,720.7	1,657.5
Non-regulated Activities	96.9	70.0
International Activities	12.8	13.7
EBITDA	1,830.4	1,741.2

Gross operating profit (EBITDA) for the year amounts to **€1,830.4 million**, up €89.2 million compared with the €1,741.2 million of 2019. This primarily reflects the improved result from Regulated Activities and the recognition of revenue resulting from the bargain purchase gain recognised following the acquisition of Brugg Cables.

Revenue

	2020	2019	CHANGE
REGULATED ACTIVITIES			
Tariff revenue	2,047.8	1,973.1	74.7
Other regulated revenue	72.6	54.3	18.3
Revenue from construction services performed under concession in Italy	28.5	27.6	0.9
TOTAL	2,148.9	2,055.0	93.9

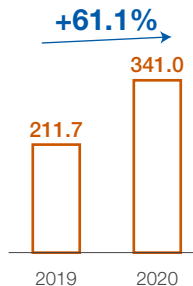
REVENUE FROM REGULATED ACTIVITIES €M



Revenue from **Regulated Activities** is up €93.9 million, primarily reflecting the tariff adjustment provided for in ARERA Resolution 568/19 that has increased the RAB, increased revenue generated by quality of service incentives in the form of the RENS (Regulated Energy Not Supplied) bonus (essentially following the pro-rata assessment of the performance in 2020 and final assessment of the performance in 2019) and recognition of the segment's share of the revenue resulting from the higher value of the net assets acquired following the acquisition of Brugg Cables compared with the consideration paid.

	2020	2019	CHANGE
NON-REGULATED ACTIVITIES			
Industrial (Tamini and Brugg)	253.8	110.2	143.6
Services for third parties (Connectivity, Energy Solutions, other)	75.8	83.1	(7.3)
Private interconnectors	11.4	18.4	(7.0)
TOTAL	341.0	211.7	129.3

REVENUE FROM NON-REGULATED ACTIVITIES €M



The increase in revenue from **Non-Regulated Activities**, totalling €129.3 million, primarily reflects the overall contribution resulting from the integration of Brugg Cables, partly offset by a decline in revenue at Tamini and from services for third parties linked to the Covid-19 health emergency, as well as reduced revenue from private interconnector projects pursuant to Law 99/2009, compared with the previous year.

Revenue from **International Activities** is down €4.8 million, essentially reflecting the higher penalties applied to suppliers in the previous year in connection with contract work in Brazil and Uruguay.

Costs

After stripping out the contribution from Brugg (up €100.9 million), **operating costs** are up €28.3 million compared with the previous year. This primarily reflects increased provisions for staff incentives (up €7.7 million), an increase in costs for quality of service (up €7.7 million) and an addition to the provisions for risks and charges to cover the Group's potential tax liabilities recognised in 2019 (up €15.1 million).

Amortisation, depreciation and impairment losses for the year amount to €643.8 million, an increase of €57.7 million compared with 2019. This primarily reflects the entry into service of new infrastructure (with particular regard to the Italy-Montenegro interconnector) and an increase in impairment losses on assets recognised during the year (up €15.2 million, including €9.2 million relating to assets in Peru).

Operating profit (**EBIT**), after amortisation, depreciation and impairment losses, amounts to **€1,186.6 million**, compared with €1,155.1 million for 2019 (up 2.7%).

Net financial expenses for the year total €93.5 million, an increase of €15.8 million compared with the €77.7 million of 2019. This primarily reflects interest expense on the debt of the overseas companies and the reduced value of investments in associates.

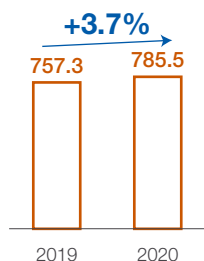
After net financial expenses, **profit before tax** amounts to **€1,093.1 million**, up €15.7 million compared with the previous year (up 1.5%).

Income tax expense for the year totals €297.8 million, a decline of €15.7 million (5.0%) compared with the previous year, essentially due to the increase in tax-exempt income recognised during the year. As a result, the tax rate is 27.2%, compared with the 29.1% of 2019.

Profit for the year amounts to **€795.3 million**, an increase of €31.4 million (4.1%) compared with the €763.9 million of 2019.

Profit for the year attributable to owners of the Parent (after excluding the share attributable to non-controlling interests) amounts to **€785.5 million**, up €28.2 million (3.7%) compared with the €757.3 million of 2019.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT €M

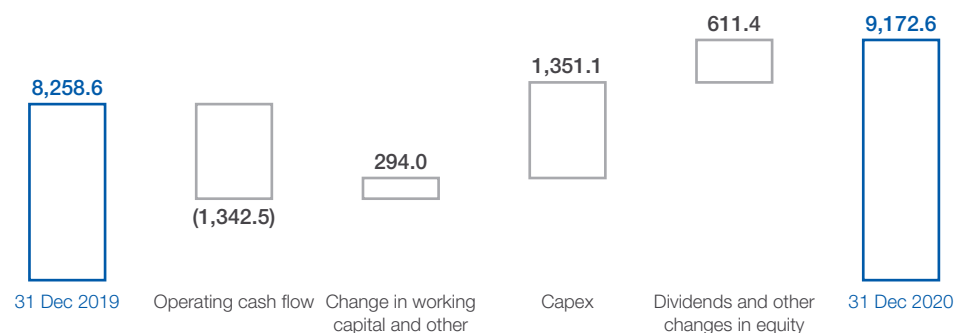


Cash flow

The above performance, combined with non-cash items and other cash flows from and for operating activities, has resulted in a cash inflow of €1,048.5 million, enabling the Group to finance a part of its investing activities (€1,351.1 million) and movements in equity (€611.4 million, including €515.0 million in the form of dividends paid to shareholders). The remainder was financed by net debt, which totals €9,172.6 million compared with the €8,258.6 million of 2019 (up €914 million).

	(€m)	
	CASH FLOW 2020	CASH FLOW 2019
- Profit for the year	795.3	763.9
- Amortisation, depreciation and impairment losses	643.8	586.1
- Net change in provisions	(88.9)	(97.3)
<i>of which contributed by Brugg Cables</i>	10.4	-
- Net losses/(gains) on sale of assets	(7.7)	(12.9)
Operating cash flow	1,342.5	1,239.8
- Change in net working capital	(272.0)	386.2
<i>of which contributed by Brugg Cables</i>	21.1	-
- Other changes in property, plant and equipment and intangible assets	(15.3)	46.8
<i>of which contributed by Brugg Cables</i>	(62.4)	-
- Change in investments	3.6	(3.3)
- Change in financial assets	(10.3)	(178.4)
Cash flow from operating activities	1,048.5	1,491.1
- Total capital expenditure	(1,351.1)	(1,264.1)
Free cash flow	(302.6)	227.0
- Dividends paid to the Parent Company's shareholders	(515.0)	(479.7)
- Cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent	(91.0)	(106.5)
- Other movements in equity attributable to non-controlling interests	(5.4)	-
Change in net debt	(914.0)	(359.2)

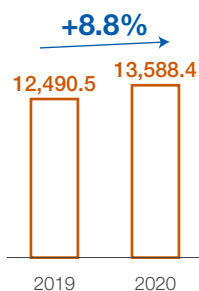
CHANGE IN NET DEBT (€m)



The Group's reclassified statement of financial position

The Terna Group's financial position at 31 December 2020 and 31 December 2019 is summarised below in the reclassified statement of financial position, obtained by reclassifying amounts in the statutory consolidated statement of financial position.

NET INVESTED CAPITAL €M



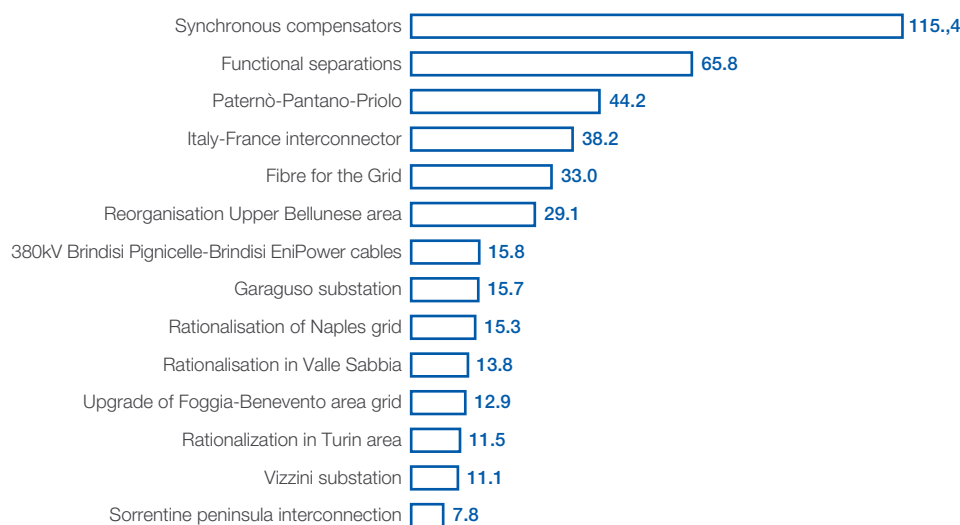
	AT 31 DECEMBER 2020	AT 31 DECEMBER 2019	CHANGE
Total net non-current assets	15,645.9	14,908.5	737.4
- Intangible assets and goodwill	577.9	542.7	35.2
- Property, plant and equipment	14,559.7	13,864.2	695.5
- Financial assets	508.3	501.6	6.7
Total net working capital	(1,936.2)	(2,207.8)	271.6
- Net energy-related pass-through payables	(385.0)	(575.8)	190.8
- Net receivables resulting from Regulated Activities	230.9	320.4	(89.5)
- Net trade payables	(818.0)	(899.1)	81.1
- Net tax assets	40.5	(5.3)	45.8
- Other net liabilities	(1,004.6)	(1,048.0)	43.4
Gross invested capital	13,709.7	12,700.7	1,009.0
Sundry provisions	(121.3)	(210.2)	88.9
NET INVESTED CAPITAL	13,588.4	12,490.5	1,097.9
Equity attributable to owners of the Parent	4,369.8	4,190.3	179.5
Equity attributable to non-controlling interests	46.0	41.6	4.4
Net debt	9,172.6	8,258.6	914.0
TOTAL	13,588.4	12,490.5	1,097.9

The €737.4 million increase in **net non-current assets** compared with 31 December 2019 primarily reflects a combination of the following:

- total capital expenditure of €1,351.1 million, as described in the section on “Regulated Activities”;
- an increase of €6.7 million in financial assets, primarily reflecting the purchase, in May 2020, of Italian government bonds (“BTP”) with a notional value of €21.2 million, maturing in May 2025 and paying interest at a rate of 1.4% (€22.5 million at 31 December 2020), an increase in the Interconnector Guarantee Fund, set up to fund investment in interconnections by art. 32 of Law 99/09 (up €22.0 million) and the recognition of benefit plan assets attributable to the employees of Brugg Cables (€9.7 million), partially offset by the fees collected on infrastructure under concession in Brazil (down €22.2 million) and a reduction in the amounts deposited by operators who participate in the capacity market pursuant to Resolution 98/2011/R/ee¹⁹, as amended, after definition of each party's committed capacity following the auctions held in November 2019 (down €26.0 million);
- amortisation and depreciation for the year, totalling €625.9 million;
- the previously mentioned contribution of assets resulting from the acquisition of Brugg Cables (up €62.3 million at the acquisition date);
- other movements during the year, resulting in a decrease of €29.2 million, including grants related to assets (primarily in relation to the re-routing of power lines at the request of third parties); disposals and impairment losses amount to €25.3 million (including €18 million relating to the impairment of assets).

The Terna Group's **total capital expenditure** during 2020, amounting to **€1,351.1 million**, is up **6.9%** compared with the €1,264.1 million of 2019.

¹⁹ 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.

MAIN INVESTMENT in the NTG* (€m)

* Amounts include financial expenses.

Net working capital (net current liabilities) of -€1,936.2 million resulted in a cash outflow of €271.6 million compared with 31 December 2019. This reflects the combined effect of:

Cash outflows

- a decrease in **net energy-related pass-through payables** of €190.8 million, primarily reflecting the combined effect of:
 - a decrease in net payables relating to essential plants for the security of the electricity system - UESS (€241.4 million), reflecting the impact of increased payments made during the year and an increase in amounts receivable as a result of the increase in the unit charge determined for 2020;

partially offset by

 - an increase in net amounts payable due to an increase in the costs linked to the need to meet localised technical limitations and an increase in selections in relation to the Dispatching Service Market – DSM (€77.1 million) and an increase in balancing costs (€59.7 million); the upward trend in costs over recent months incorporates the recovery of DSM costs;
- a reduction of €81.1 million in **net trade payables**, largely due to the different performance of payments to suppliers;
- an increase of €45.8 million in **net tax assets**, primarily due to an increase in net refundable VAT as a result of increased investment (up €31.7 million) and net tax assets (up €16.3 million), reflecting an increase in payments on account made to cover tax expense for the previous year net of the recognition of tax for the year;
- the reduction in **other net liabilities** of €43.4 million, primarily due to the contribution from Brugg Cables (down €22.4 million, essentially consisting of inventories), the change in guarantee deposits received from operators participating in the capacity market and electricity market operators to guarantee the obligations undertaken regarding dispatching and virtual interconnection contracts (down €26 million and €14 million, respectively), and an increase in prepayments to suppliers in relation to work taking place in South America (down €8.3 million).

Cash inflows

- a reduction in **net receivables resulting from Regulated Activities** of €89.5 million, broadly reflecting the collection of receivables in the form of transmission and dispatching service charges (originally falling due in January 2021) factored on a non-recourse basis (a total of €152.7 million); this movement was partially offset by recognition of amounts due in relation to the annual RENS bonus (up €29.4 million) and an increase in receivables represented by the last two transmission service charges for the year, which reflect both the tariff adjustment and the impact of ARERA Resolution 565/2020 regarding digital substation systems (amounting to an increase of €38.6 million).

Gross invested capital thus amounts to €13,709.7 million, marking an increase of €1,009.0 million compared with the previous year.

Sundry provisions are down €88.9 million, primarily due to:

- net provisions for net deferred tax assets (up €47.8 million), primarily due to the effect on taxation of movements in derivative financial instruments held by the Group, amortisation and depreciation and movements in provisions for risks and charges;
- net uses of provisions for amounts payable to personnel (down €19.1 million), to fund urban and environmental redevelopment schemes (down €6.3 million) and settlement of a liability with an operator (down €10.6 million).

Net invested capital of €13,588.4 million is up €1,097.9 million compared with 31 December 2019 and is financed by equity attributable to owners of the Parent, totalling €4,369.8 million (compared with €4,190.3 million at 31 December 2019), equity attributable to non-controlling interests of €46.0 million (€41.6 million at 31 December 2019) and net debt of €9,172.6 million (up €914 million compared with the €8,258.6 million of 31 December 2019).

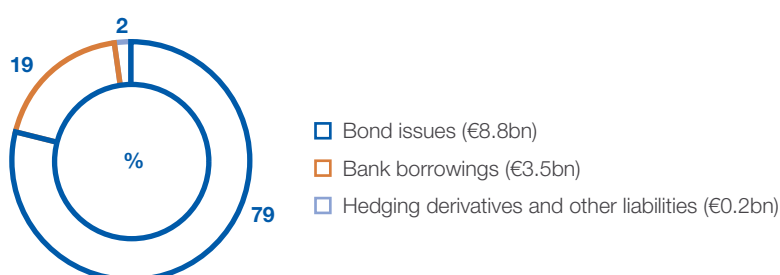


Net debt

The Group's financial policy and gross debt

The Terna Group's financial management is based on an approach that aims to maximise efficiency and achieve and maintain a solid financial structure, whilst adopting a highly prudent stance towards mitigation of the potential financial risks. The key aspects of the Group's financial policy are diversification of the sources of funding, a balance between short- and medium/long-term forms of debt and the proactive management of debt.

Gross debt at 31 December 2020 amounts to approximately **€13 billion**, consisting of approximately €9 billion in the form of bond issues and approximately €4 billion in bank borrowings. The average term to maturity of debt, which is almost all fixed rate, is approximately 5 years.



Bonds have been issued in the form of both public and private placements under the €8 billion Euro Medium Term Notes (EMTN) Programme (in which a large number of Italian and overseas banks participate), in addition to a stand-alone issue of €800 million dating back to 2004. Focused specifically on qualified investors and listed on the Luxembourg Stock Exchange, Terna's bonds have a very diverse investor base, in terms of both sector and geographical profile.

The main provider of Terna's bank loans is the European Investment Bank (EIB). Total borrowings from the EIB at 31 December 2020 amount to approximately €2 billion (including €343 million yet to be drawn on). Thanks to its strong credit ratings, Terna is able to obtain financing from banks on extremely good terms, as shown by the two bond issues launched in 2020, amounting to a total of €1 billion, and the arrangement and disbursement, in 2020, of bank loans totalling €600 million. The Group also has two committed revolving credit facilities, amounting to approximately €2.7 billion.

Net debt

The Group's net debt at 31 December 2020 amounts to €9,172.6 million, marking an increase of €914,0 million compared with 31 December 2019.

	(€m)		
NET DEBT (BY TERM TO MATURITY)	31.12.2020	31.12.2019	CHANGE
Total medium/long-term debt	10,019.8	9,596.1	423.7
- Bond issues	7,485.7	7,757.3	(271.6)
- Borrowings	2,374.5	1,723.4	651.1
- Derivative financial instruments	159.6	115.4	44.2
Total short-term debt/ (funds)	(847.2)	(1,337.5)	490.3
- Bond issues (current portions)	1,258.8	-	1,258.8
- Short-term borrowings	1,002.2	25.0	977.2
- Borrowings (current portions)	129.2	126.5	2.7
- Other current financial liabilities net	80.4	81.8	(1.4)
- Derivative financial instruments	-	(0.1)	0.1
- Financial assets	(628.8)	(513.3)	(115.5)
- Cash and cash equivalents	(2,689.0)	(1,057.4)	(1,631.6)
Total net debt	9,172.6	8,258.6	914.0
NET DEBT (BY TYPE OF INSTRUMENT)			
- Bond issues	8,744.5	7,757.3	987.2
- Borrowings	2,503.7	1,849.9	653.8
- Short-term borrowings	1,002.2	25.0	977.2
- Derivative financial instruments	159.6	115.3	44.3
- Other financial liabilities net	80.4	81.8	(1.4)
GROSS DEBT	12,490.4	9,829.3	2,661.1
- Financial assets	(628.8)	(513.3)	(115.5)
- Cash and cash equivalents	(2,689.0)	(1,057.4)	(1,631.6)
Total net debt	9,172.6	8,258.6	914.0

Changes in the **Group's net debt** are as follows:

- an increase in bond issues (up €987.2 million), primarily due to the two issues, totalling €1,000 million, carried out by Terna S.p.A. in July and September 2020;
- an increase in borrowings (up €653.8 million), primarily due to the drawdown of new bank facilities, amounting to €747.0 million, after repayments of existing borrowings;
- an increase in short-term borrowings (up €977.2 million) primarily due to the Parent Company's use of short-term credit facilities;
- an increase in the fair value of derivative financial instruments (up €44.3 million), primarily due to movements in market interest rates;
- an increase in financial assets (up €115.5 million), reflecting an increase in Italian government securities held by the Group and recognition of the short-term portion of investment in infrastructure operated under concession in Brazil, recognised in application of IFRIC 12;
- an increase in cash and cash equivalents (up €1,631.6 million). Cash amounts to €2,689.0 million at 31 December 2020, including €1,380.8 million invested in short-term, readily convertible deposits and €1,308.2 million held in bank current accounts and in the form of cash in hand.

Reconciliation of the Group's profit for the period and equity with the corresponding amounts for the Parent Company

The reconciliation of consolidated equity and consolidated profit for 2020 and the corresponding amounts for the Parent Company is shown below.

	(€m)	
	PROFIT FOR FY 2020	EQUITY AT 31 DECEMBER 2020
Parent Company's financial statements	687.6	4,083.6
Profit and equity contributed by Group companies:		
- Group companies – Regulated Activities	102.5	277.4
- Group companies – Non-regulated Activities*	12.2	63.4
- Group companies – International Activities**	(3.1)	(39.7)
Companies accounted for using the equity method	(3.9)	31.1
Total consolidated financial statements	795.3	4,415.8
Share attributable to non-controlling interests – Regulated Activities	2.3	2.3
Share attributable to non-controlling interests – Non-regulated Activities	7.9	43.1
Share attributable to non-controlling interests – International Activities	(0.4)	0.6
Terna Group's consolidated financial statements	785.5	4,369.8

* includes the segment's share of the higher value of the net assets acquired following the purchase of the interest in Brugg Cables compared with the consideration paid, offset by payment of the dividend by Terna Interconnector S.r.l. and a different presentation of the interconnector transaction compared with the Parent Company's results.

** includes the impairment of assets in Peru and the overheads incurred by Terna Plus S.r.l..



Terna's shares

Terna and the financial markets

Terna S.p.A. has been listed on Borsa Italiana's screen-based trading system (*Mercato Telematico Azionario*) since 23 June 2004. **From the date of floatation to the end of 2020, the share price has risen 268% (a capital gain)**, providing a Total Shareholder Return (TSR²⁰) of 802%, ahead of both the Italian market (the FTSE MIB, up 43%) and the relevant European sector index (DJ Stoxx Utilities), which is up 280%.

Europe's leading stock markets registered negative performances in 2020 due to the health emergency linked to the spread of Covid-19, with the exclusion of Frankfurt, which ended the year up 0.43%. Milan fell 5.4%, Madrid and Paris registered falls of 15.2% and 6.4%, respectively, whilst London closed 2020 having lost 13.6%.

Performance of Terna's shares

In contrast to the leading European stock markets, Terna's shares ended the period in positive territory at €6.250 per share, marking an increase of 4.97% for the year. The daily average volume traded during the year amounted to approximately 5.7 million. The share price registered an all-time high of €6.786 on 19 February 2020. It should also be noted that the ex-dividend date for the interim dividend for 2020, amounting to 9.09 euro cents per share, was 23 November.

KEY INDICATORS PER SHARE

	2020	2019	2018	2017	2016	2015
Number of shares (in millions)*	2,010	2,010	2,010	2,010	2,010	2,010
Price at year end (€ per share)	6.25	5.95	4.95	4.84	4.35	4.76
Market capitalisation** (€m)	12,142	11,273	9,507	9,668	9,367	8,482
Average price for year (€ per share)	6.04	5.61	4.73	4.81	4.66	4.22
Earnings per share (€)	0.391	0.377	0.352	0.339	0.315	0.296
Dividend per share (€)	0.270	0.250	0.233	0.220	0.206	0.200
Payout ratio***	68.98%	66.22%	66.34%	64.24%	65.40%	67.51%
Dividend yield****	4.3%	4.2%	4.7%	4.5%	4.7%	4.2%
Total shareholder return	9.4%	25.1%	7.3%	15.9%	(4.3%)	32.5%

* The total number of shares representing the share capital. The number of shares in circulation amount to 2,008 million, following the buyback of own shares to service the Performance Share Plan 2020-2023.

** Based on the average price for the year.

*** The ratio of the total dividend to profit attributable to owners of the Parent

**** Dividend per share for the year as a percentage of the share price at year end.

²⁰ Total Shareholder Return (TSR): total return on an equity investment, calculated as the sum of:

- capital gain: the change in the share price (difference between the price at the end and at the beginning of the relevant period) as a percentage of the price at the beginning of the period;
- reinvested dividends: the ratio between dividends per share paid out during the period and the share price at the beginning of the period. Dividends are assumed to have been reinvested in the shares.

At the centre of the ecological transition | A continually changing environment | The Group's strategy | **Performance** | Annexes

WEIGHTING OF TERNA'S SHARES

> on the FTSE MIB index

2020

2019

2.44%

2.27%

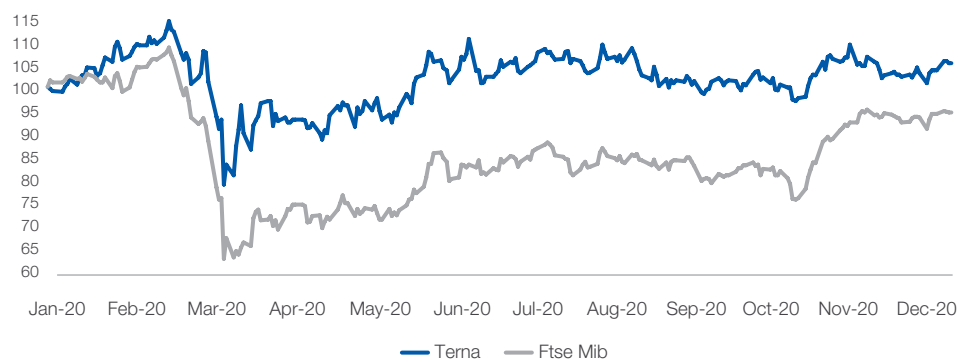
Fonte: Borsa Italiana

PERFORMANCE OF TERNA'S SHARES - (Price from 1 January to 31 December 2020)



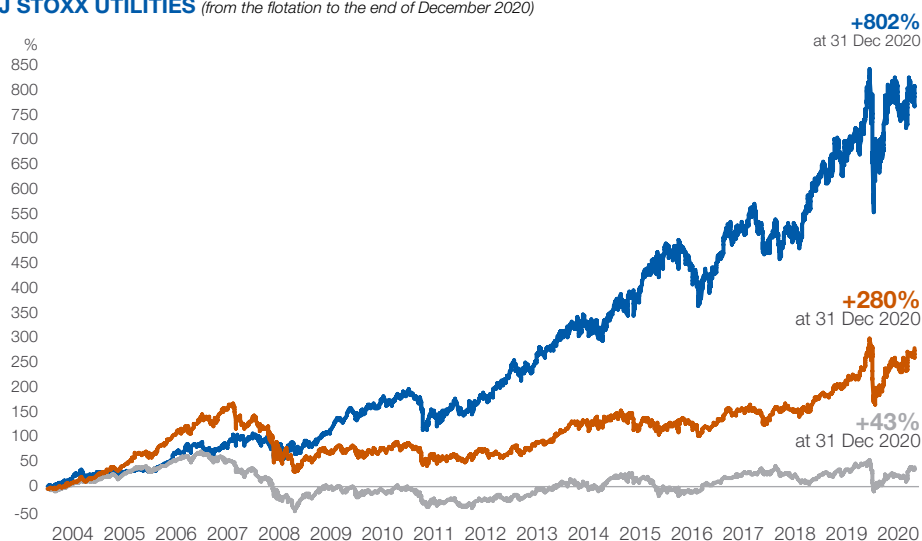
Source: Bloomberg

TERNA'S SHARES AND THE FTSE MIB (Price between 1 January and 31 December 2020)



Source: Bloomberg

TOTAL SHAREHOLDER RETURN ON TERNA'S SHARES AND THE FTSE MIB AND DJ STOXX UTILITIES (from the flotation to the end of December 2020)



Source: Bloomberg

— Terna — Ftse Mib — Dj Stoxx Utilities

Inclusion in stock exchange sustainability indices

Terna's commitment to measuring and improving its ESG (Environmental, Social and Governance) performance is reflected positively in sustainability ratings.

Terna's inclusion in all the leading international stock exchange sustainability indices was confirmed in and the Company was, for the third year running, named **Industry Leader in the Electric Utilities segment** of the Dow Jones Sustainability Index World.

INDEX	TERNA
BLOOMBERG GENDER EQUALITY INDEX	Included since 2019
DOW JONES SUSTAINABILITY INDEX	Included since 2009
ECPI	Included since 2007
ETHIBEL SUSTAINABILITY INDEX (ESI)	Included since 2009
EURONEXT VIGEO	Included in the World 120, Eurozone 120 and Europe 120 baskets since 2012
FTSE ECPI	Included since 2010
FTSE4Good	Included in the index (Global and Europe baskets) every year since 2005
MSCI GLOBAL SUSTAINABILITY	Included regularly in the index since 2007
STOXX® ESG	Included in the index since 2011
STOXX® LOW CARBON	Included in the index since February 2016, the date the index was launched
UNITED NATIONS GLOBAL COMPACT ("GC100")	Included in the index since 2013

In recognition of its ranking as **Industry Leader in the Electric Utilities** segment, Terna was included in the Gold Class in SAM's **"Sustainability Yearbook 2021"**, published in February 2021.

Terna S.p.A.

A review of the operating performance and financial position of the Parent Company, Terna S.p.A., is provided below.

Terna S.p.A.'s reclassified income statement

Terna S.p.A.'s operating results for the years 2020 and 2019 are summarised in the following reclassified income statement, obtained by reclassifying amounts in the statutory income statement.

	(€m)			
	2020	2019	CHANGE	% CHANGE
TOTAL REVENUE	2,086.8	2,054.5	32.3	1.6%
- Tariff revenue	1,906.2	1,838.5	67.7	3.7%
<i>of which transmission revenue</i>	<i>1,796.9</i>	<i>1,725.6</i>	<i>71.3</i>	<i>4.1%</i>
<i>of which dispatching, metering and other revenue</i>	<i>109.3</i>	<i>112.9</i>	<i>(3.6)</i>	<i>(3.2%)</i>
- Other operating income	152.1	188.4	(36.3)	(19.3%)
- Revenue from construction services performed under concession*	28.5	27.6	0.9	3.3%
TOTAL OPERATING COSTS	499.7	451.0	48.7	10.8%
- Personnel expenses	70.8	60.0	10.8	18.0%
- Cost of services, leases and rentals	369.2	354.5	14.7	4.1%
- Materials	0.7	1.2	(0.5)	(41.7%)
- Other costs	22.2	7.1	15.1	212.7%
- Quality of service	8.3	0.6	7.7	-
- Cost of construction services performed under Concession*	28.5	27.6	0.9	3.3%
GROSS OPERATING PROFIT (EBITDA)	1,587.1	1,603.5	(16.4)	(1.0%)
- Amortisation, depreciation and impairment losses	571.2	540.7	30.5	5.6%
OPERATING PROFIT/(LOSS) (EBIT)	1,015.9	1,062.8	(46.9)	(4.4%)
- Net financial income/(expenses)	(59.0)	(63.6)	4.6	(7.2%)
PROFIT/(LOSS) BEFORE TAX	956.9	999.2	(42.3)	(4.2%)
- Income tax expense	269.3	285.7	(16.4)	(5.7%)
PROFIT FOR THE YEAR	687.6	713.5	(25.9)	(3.6%)

* Recognised in application of interpretation IFRIC 12 – Service Concession Arrangements.

Gross operating profit (EBITDA) for the year is **€1,587.1 million**, a reduction of €16.4 million compared with the €1,603.5 million of 2019, primarily reflecting the impact of a number of non-recurring events in 2019.

Revenue of €2,086.8 million is up €32.3 million compared with the previous year, due primarily to the impact of transmission revenue (up €71.3 million) following an increase in the RAB, the accrued amount due as a return on digital substation systems (up €29.3 million, reflecting systems entering service through to 2018, in accordance with ARERA Resolution 565/2020) and the release of provisions following settlement of a liability with an operator (up €10.6 million), partly offset by the negative impact of the volume effect.

There was also an increase in revenue in the form of the bonus receivable under the RENS (Regulated Energy Not Supplied) incentive mechanism (up €9.2 million, essentially following the pro-rata assessment of the performance in 2020 and final assessment of the performance in 2019), offset by the following:

- recognition, in 2019, of revenue resulting from the sale of the private Italy-Montenegro Interconnector (on 17 December 2019), amounting to €25.8 million, and greater revenue in the form of insurance proceeds (down €8.4 million);
- a reduction in revenue resulting from the adjustment, in 2020, to the amount payable by Terna Rete Italia S.p.A. for the business unit leased to it as a result of the reduced volume of activity²¹ (down €12.8 million).

Operating costs for the year, amounting to **€499.7 million**, are up €48.7 million on the previous year. This essentially reflects an increase in personnel expenses (up €10.8 million), primarily due to provisions for staff incentive schemes, an addition to the provisions for risks and charges to cover the Group's potential tax liabilities recognized in 2019 (up €15.1 million), an increase in costs for quality of service (up €7.7 million, essentially reflecting the outages that occurred at the end of 2020) and the cost of work on private interconnector projects in progress.

Amortisation, depreciation and impairment losses for the year amount to €571.2 million, an increase of €30.5 million compared with 2019. This primarily reflects the entry into service of new infrastructure, with particular regard to the Italy-Montenegro interconnector, and an increase in impairment losses on assets (up €7.2 million).

EBIT (operating profit) of €1,015.9 million is down €46.9 million compared with 2019 (down 4.4%).

Net financial expenses for the year total €59 million, a reduction of €4.6 million compared with the €63.6 million of 2019. This primarily reflects an increase in net income from subsidiaries, partially offset by a decline in capitalised costs and impairment loss on the Uruguayan subsidiary.

Income tax expense for the year amounts to €269.3 million, a reduction of €16.4 million compared with the previous year. This essentially reflects the reduction in pre-tax profit and an increase in tax-exempt income recognised during the year. The resulting tax rate is 28.1%, compared with the 28.6% of 2019.

Profit for the year thus amounts to €687.6 million, compared with the €713.5 million of 2019.

²¹ The lease agreement for the business unit was adjusted to reflect the volume of activity on the basis of a specific independent appraisal, set out in the deed of acknowledgement of 11 March 2020, and subsequently updated by a deed of acknowledgement dated 29 September 2020.

Cash flow

The above performance, combined with non-cash items and other cash flows from and for operating activities, has resulted in a cash inflow of €943.8 million, enabling the Parent Company to finance a part of its investing activities (€1,134.3 million) and movements in equity (€585.1 million, including €515 million in the form of dividends paid to shareholders). The balance is financed by net debt, which totals €9,137.2 million compared with €8,361.6 million at the end of 2019 (up €775.6 million).

	(€m)	
	CASH FLOW 2020	CASH FLOW 2019
- Profit for the year	687.6	713.5
- Amortisation, depreciation and impairment losses	571.2	540.7
- Net change in provisions	(75.6)	(86.3)
- Net losses/(gains) on sale of assets	(5.5)	(11.2)
Operating cash flow	1,177.7	1,156.7
- Change in net working capital	(152.1)	130.5
- Change in investments	(102.9)	(29.2)
- Other movements in property, plant and equipment and intangible assets	40.1	275.6
- Change in financial assets	(19.0)	(164.5)
Cash flow from operating activities	943.8	1,369.1
- Total capital expenditure	(1,134.3)	(1,045.6)
Free cash flow	(190.5)	323.5
- Dividends paid to shareholders	(515.0)	(479.7)
- Cash flow hedge reserve after taxation and other movements in equity	(70.1)	(103.6)
Change in net debt	(775.6)	(259.8)

Terna S.p.A.'s reclassified statement of financial position

Terna S.p.A.'s financial position at 31 December 2020 and 2019 is summarised in the following statement, obtained by reclassifying amounts in the statutory statement of financial position.

	(€m)		
	AT 31 DECEMBER 2020	AT 31 DECEMBER 2019	CHANGE
Total net non-current assets	14,632.1	13,981.2	650.9
- Intangible assets and goodwill	475.9	443.8	32.1
- Property, plant and equipment	12,755.2	12,258.3	496.9
- Financial assets	1,401.0	1,279.1	121.9
Total net working capital	(1,365.8)	(1,517.4)	151.6
- Net energy-related pass-through payables	(408.9)	(598.6)	189.7
- Net receivables resulting from regulated activities	230.9	320.4	(89.5)
- Net trade payables	(615.4)	(592.5)	(22.9)
- Net tax assets	(25.6)	(79.3)	53.7
- Other liabilities net	(546.8)	(567.4)	20.6
Gross invested capital	13,266.3	12,463.8	802.5
Sundry provisions	(45.5)	(121.1)	75.6
NET INVESTED CAPITAL	13,220.8	12,342.7	878.1
Equity	4,083.6	3,981.1	102.5
Net debt	9,137.2	8,361.6	775.6
TOTAL	13,220.8	12,342.7	878.1

The principal changes with respect to 31 December 2019 are described below.

Net invested capital amounts to €13,220.8 million at 31 December 2020, an increase of €878.1 million compared with the previous year. This reflects an increase in **net non-current assets** (€650.9 million), cash used for **net working capital** (up €151.6 million) and a reduction in sundry provisions (€75.6 million).

Net non-current assets are up €650.9 million, primarily due to the Company's capital expenditure (€1,134.3 million, including €1,041.9 million in Regulated Activities), after amortisation and depreciation for the year (€563.0 million) and disposals, impairments and other movements (a total reduction of €42.3 million, including €28.4 million in grants related to assets), the capital contribution paid to Terna Plus S.r.l. (up €70 million) and the capital increase carried out by Terna Crna Gora d.o.o. (up €35 million) and the purchase, in May 2020, of Italian treasury bills (BTPs) (up €22.5 million).

The change in **net working capital**, represented by an increase of €151.6 million, is primarily due to reductions in net trade payables, VAT and income tax payable, guarantee deposits received from electricity market operators and accrued grants related to assets.

Sundry provisions are down €75.6 million, primarily due to an adjustment to provisions for potential tax liabilities, mainly reflecting the impact on taxation of movements in derivative instruments held by the Company, of amortisation and depreciation and of movements in provisions for risks and charges (up €40.2 million), net uses of provisions for amounts payable to personnel (down €17.2 million), provisions to fund urban and environmental redevelopment schemes (down €6.3 million) and settlement of a liability with an operator (down €10.6 million).

Net debt of €9,137.2 million is up €775.6 million.

	(€m)		
NET DEBT (BY TYPE OF INSTRUMENT)	AT 31 DECEMBER 2020	AT 31 DECEMBER 2019	CHANGE
- Bond issues	8,710.1	7,757.3	952.8
- Borrowings	2,298.5	1,665.5	633.0
- Short-term borrowings	977.1	-	977.1
- Other financial liabilities net	80.1	81.4	(1.3)
- Derivative financial instruments	157.2	114.0	43.2
Gross debt	12,223.0	9,618.2	2,604.8
- Long-term loans to subsidiaries	(22.5)	(24.1)	1.6
- Financial assets	(611.4)	(513.3)	(98.1)
- Cash and cash equivalents (including the net balance on intercompany current accounts)	(2,451.9)	(719.2)	(1,732.7)
Total net debt	9,137.2	8,361.6	775.6

Given that the change in the Company's net debt is broadly in line with the change in the Group's net debt, reference should be made to the above description of changes in the Group's debt. In particular, there was an increase in cash and cash equivalents, totalling €1,732.7 million (including an increase of €115.3 million due to a reduction in the net amount payable on intercompany current accounts held by the Company on behalf of its subsidiaries) and a reduction in the long-term loan granted by Terna S.p.A. to the subsidiary in Uruguay (down €1.6 million).

Proposal for the Annual General Meeting regarding the distribution of Terna S.p.A.'s profit for the year

Terna S.p.A.'s Board of Directors proposes to pay a total dividend of €541,692,844.00 for 2020, equal to €0.2695 per share, of which €0.0909 per share was declared in the form of an interim dividend on 11 November 2020.

The Board of Directors thus proposes to appropriate Terna S.p.A.'s profit for 2020, amounting to €687,571,266.41, as follows:

- €182,708,272.80 to cover payment of the interim dividend payable from 25 November 2020 to the holders of each of the ordinary shares outstanding after adjusting for the treasury shares held at the "record date" of 24 November 2020 (with the relevant amount of €138,704.31 taken to retained earnings);
- €358,984,571.20 to pay a final dividend of €0.1786 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 23 June 2021, with an ex-dividend date for coupon 34 of 21 June 2021 (a record date, as defined by art.83-terdecies of Legislative Decree 58 of 24 February 1998, the Consolidated Law on Finance, of 22 June 2021). The treasury shares held as of the above record date will not participate in the distribution. The final dividend for 2020 attributable to the treasury shares held by the Company at the record date will be taken to retained earnings;
- €145,878,422.41 to be taken to retained earnings.



“

The heads of our operational units around the country have been equipped with **satellite phones**, and everyone most exposed to critical situations has been provided with a **backup SIM** from another operator with respect to the one they normally use. The average number of connections each day shot up in the first 15 days of March 2020 to 3,400, with large numbers of meetings held remotely at the same time, via video and audio: **3.5 Terabytes of data traffic** per day, a volume of text that would require the paper from around two thousand trees if we were to print it out.

”

#TernaPeople #Covid_19 #digitaltransformation

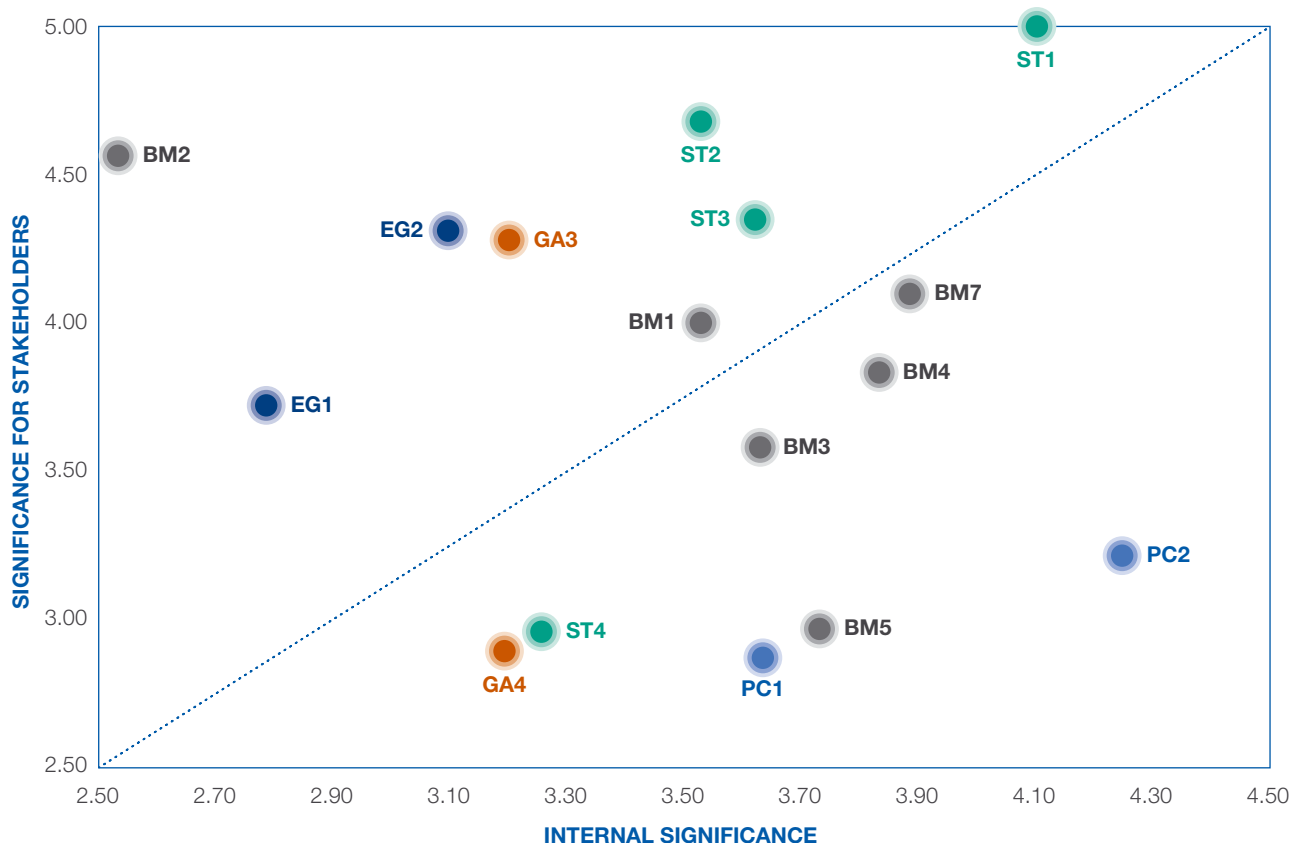
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Annexes

Materiality analysis

PROSPECTIVE MATERIALITY MATRIX



KEY	MATERIAL TOPIC	KEY	MATERIAL TOPIC
ETHICS AND GOVERNANCE MODEL	EG1: Governance model effectiveness	TRANSMISSION SERVICE	ST1: Delivering the ecological transition
	EG2: Business integrity		ST2: Ensuring the quality, security and continuity of the electricity service
BUSINESS MANAGEMENT	BM1: Strategic approach to stakeholder management		ST3: Grid resilience
	BM2: Delivering on financial and performance goals		ST4: Economic impacts on the community
	BM3: Information security	MANAGEMENT OF ENVIRONMENTAL IMPACTS	GA1: Mitigating the impact of infrastructure*
	BM4: Optimal management of relations with local stakeholders		GA2: Protecting biodiversity*
	BM5: Growing and diversifying the business		GA3: Reducing the Group's CO ₂ emissions
	BM6: Sustainable supply chains*		GA4: Reuse and recycling of materials
	BM7: Innovation and digitalisation	PEOPLE AND COMMUNITIES	PC1: Workplace health and safety and workers' rights
			PC2: HR development
			PC3: Promoting wellbeing within the workforce*
			PC4: Advancement of diversity and equal opportunities*
			PC5: Social responsibility initiatives*

(*) This topic is below the materiality threshold and does not, therefore, appear in the Materiality Matrix.

The matters covered in the Integrated Report for 2020 are consistent with the materiality matrix on the previous page. Construction of the prospective materiality matrix also played a part in the materiality analysis carried out during preparation of the Sustainability Report, which for the last four years also has the role of "Consolidated Non-financial Statement", now obligatory in accordance with Legislative Decree 254/2016 and also based on the materiality principle. Key steps in this process are as follows.

Selection of key topics: the selection was conducted in 2016 on the basis of an in-depth analysis of internal and external documents and revised in 2019 to take into account changes in Terna's strategic guidelines. 22 topics, belonging to 5 areas, were identified: ethics and the governance model; the transmission service; the management of environmental impacts; business management; people and communities.

Determination of the significance for Terna: the selected topics were then classified according to their importance for Terna, also in the light of the guidelines in the new 2021-2025 Industrial Plan. The assessment was conducted with the involvement of Terna's senior management, who took part in a series of in-depth interviews, followed by compilation of a questionnaire. The aim was to take a snapshot of the company's perspective following the re-election of governance bodies and presentation of the new 2021-2025 Industrial Plan, as well as to evaluate the impact of Covid-19 on the significance of the topics explored. The outcomes were then weighted against the assessments completed in 2019, involving a survey completed by managers (on two levels starting from the Group Parent's Chief Executive Officer) in order to determine the significance of each topic. The results were then submitted to and validated by the Chairman and Chief Executive Officer via an interview.

Determination of the significance for stakeholders: each topic was ranked by combining the significance of the topic for each category of stakeholder with the weighting assigned to that category in Terna's stakeholder map. The significance of each topic for a given category of stakeholder was assessed on the basis of a desk review designed to identify new external sustainability trends. In addition, the results obtained in 2019 were taken into account, via completion of a questionnaire by over 40 external stakeholders, including institutional equity investors, distributors, national and local media, national and international opinion groups, non-regulated customers, core suppliers and representatives of local business groups.

Further details are provided in the section on materiality in the Sustainability Report/Non-financial Statement for 2020.

The materiality matrix used for the Integrated Report differs from the one used for the Sustainability Report/Non-financial Statement as regards the following key aspects:

- in determining the significance for Terna, only the opinions of senior management on **prospective significance** were taken into account, focusing on the need for investment – in terms of boosting operational capacity – in order to achieve the objectives in the 2021-2025 Industrial Plan;
- in determining significance for **stakeholders** only the opinions of those belonging to the **financial category**, meaning “shareholders” (including financial analysts and institutional investors) and “credit providers” (e.g., banks), were taken into account;
- the topics placed in the matrix (16) are those for which, in the set of sources analysed, it was possible to identify the information of significance to financial stakeholders.

In the matrix, the most significant topics are those furthest away from the origin, for both axes.

To complete the analysis of prospective materiality, partly in view of the presence of institutional investors from North America among Terna’s overseas shareholders, a comparison was made between the topics deemed significant for Terna and the categories established by the **Sustainability Accounting Standards Board (“SASB”)**.

The **SASB** is an independent non-profit organization, founded in 2011, that sets and maintains specific standards for each sector, to guide the disclosure of financially material sustainability information by companies to their investors. The standards, adopted above all in the USA, use the Materiality Map²² as a tool for identifying sustainability-related issues that can influence the financial and operating performances of companies within a certain sector.

For the “**Electric utilities & Power generators**” sector, the SASB has identified nine topics that may be material for companies operating in this sector. Of these nine topics, considering the scope of Terna’s business with respect to the definition of the sector used by the SASB (e.g., the absence of any relationship with final consumers, the fact that Terna does not operate as power generator), the related metrics were analysed and the degree to which Terna is aligned with the standards was assessed. The results, summarised in the following table, reveal good coverage on the part of Terna in terms of the disclosures provided to its stakeholders, after taking into account the categories that do not apply²³. The nine topics identified by the SASB were put into two groups: the **first group** includes four topics for which Terna reports at least one of the quantitative indicators required by the standard; the **second group**, on the other hand, includes three topics whose metrics regard the generation and sale of electricity (e.g., indicators relating to the number of nuclear plants owned, the disposal of coal ash) and therefore not applicable to Terna. Despite this, it is possible to link these topics to aspects that are material for Terna’s business, and these are reported on in the Non-financial Statement or in the Integrated Report (see the references in the following table).

²² <https://materiality.sasb.org/>

²³ The topics excluded from the comparison are Air Quality and Water and Wastewater Management, as they do not apply to Terna’s business. In terms of the SASB, these topics relate solely to power generation companies.

GROUPS	GENERAL CATEGORY OF SASB TOPIC	TERNA TOPIC	REF. DISCLOSURE BY TERNA
Group 1	GHG emissions The category addresses direct (Scope 1) greenhouse gas (GHG) emissions that a company generates through its operations. This includes GHG emissions from stationary (e.g., factories, power plants, etc.) and mobile sources (e.g., trucks, delivery vehicles, planes, etc.), whether a result of combustion of fuel or non-combusted direct releases during activities such as natural resource extraction, power generation, land use or biogenic processes. The category further includes management of regulatory risks, environmental compliance and reputational risks and opportunities, as they relate to direct GHG emissions. The seven GHGs covered under the Kyoto Protocol are included within the category – carbon dioxide (CO ₂), methane (CH ₄), nitrous oxide (N ₂ O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF ₆) and nitrogen trifluoride (NF ₃).	Reducing the Group's CO ₂ emissions	Page 221 of the Sustainability Report
	Employee health and safety The category addresses the company's ability to create and maintain a safe and healthy workplace environment that is free of injuries, fatalities and illness (both chronic and acute). It is traditionally accomplished through implementing safety management plans, developing training requirements for employees and contractors and conducting regular audits of their own practices as well as those of their subcontractors. The category further captures how companies ensure physical and mental health of their workforce through technology, training, corporate culture, regulatory compliance, monitoring and testing and personal protective equipment.	Workplace health and safety	Page 245 of the Sustainability Report
	Business model resilience The category addresses an industry's capacity to manage risks and opportunities associated with incorporating social, environmental and political transitions into long-term business model planning. This includes responsiveness to the transition to a low-carbon and climate-restrained economy, as well as growth and creation of new markets among unserved and underserved socio-economic populations. The category highlights industries in which evolving environmental and social realities may challenge companies to fundamentally adapt or may put their business models at risk.	Innovation and digitalisation Delivering the ecological transition	Respectively page 194 and page 174 of the Sustainability Report
	Systematic risk management The category addresses the company's contributions to or management of systemic risks resulting from large-scale weakening or collapse of systems upon which the economy and society depend. This includes financial systems, natural resource systems and technological systems. It addresses the mechanisms a company has in place to reduce its contributions to systemic risks and to improve safeguards that may mitigate the impacts of systemic failure. For financial institutions, the category also captures the company's ability to absorb shocks arising from financial and economic stress and meet stricter regulatory requirements related to the complexity and interconnectedness of companies within the industry.	Information security Ensuring the quality, security and continuity of the electricity service Delivering on financial and performance goals	Respectively page 192, page 168 and page 73 of the Sustainability Report
Group 2	Waste and hazardous materials management The category addresses environmental issues associated with hazardous and non-hazardous waste generated by companies. It addresses a company's management of solid wastes in manufacturing, agriculture and other industrial processes. It covers treatment, handling, storage, disposal and regulatory compliance. The category does not cover emissions to air or wastewater, nor does it cover waste from end-of-life products.	Reuse and recycling of materials	Page 212 of the Sustainability Report
	Access and affordability The category addresses a company's ability to ensure broad access to its products and services, specifically in the context of underserved markets and/or population groups. It includes the management of issues related to universal needs, such as the accessibility and affordability of health care, financial services, utilities, education and telecommunications.	Strategic approach to stakeholder management Economic impacts on the community Innovation and digitalisation	Respectively page 129, page 88 and page 194 of the Sustainability Report
	Critical incident risk management The category addresses the company's use of management systems and scenario planning to identify, understand and prevent or minimise the occurrence of low-probability, high-impact accidents and emergencies with significant potential environmental and social externalities. It relates to the culture of safety at a company, its relevant safety management systems and technological controls, the potential human, environmental and social implications of such events occurring, and the long-term effects to an organisation, its workers and society should these events occur.	Business integrity Ensuring the quality, security and continuity of the electricity service Delivering on financial and performance goals Strategic approach to stakeholder management	Respectively page 107 and 114, page 168, page 73 and page 129 of the Sustainability Report

Regulatory framework and other information

Summary of the principal legislative measures

A brief description is provided below of the principal legislation of interest to the Group issued during 2020 and, subsequently, up to the date of preparation of this Annual Report.

- **Law 178 of 30 December 2020, containing the Budget Law for the 2021 financial year and the long-term budget for the three-year period 2021-2023, published in Official Gazette no. 322 of 30 December 2020 (Budget law).**

The Budget Law contains, among other things, measures regarding: the establishment by the Ministry of the Economy and Finance of a fund for the tax reform (€8 million for 2022 and €7 million for 2023); the stabilisation of tax deductions for income from employment; youth employment incentives and a contributions holiday for employers who hire women; an increase in the fund to finance company's family policies; extension of the revaluation of business assets to include intangible assets without legal protection; contributions relief for employment in deprived areas; the extension of tax relief for investment in southern Italy; tax benefits for companies that invest in Special Economic Zones; measures to support businesses' liquidity; incentives for business combinations; extension of the so-called "women's option" to encourage early retirement; extension of the *Ape Sociale* and *Isopensione* early retirement schemes; the establishment of an infrastructure equalization fund; changes to the application criteria for the fee for permanent occupation of public space; extension of the regulations governing tax relief on investment in capital assets; tax relief on changes to workplaces; simplification of the VAT regulations; increase in the fund for the internationalisation of businesses.

- **Law Decree 3 of 5 February 2020, containing "Urgent measures to reduce employment taxes", converted into Law 21 of 2 April 2020, published in Official Gazette no. 90 of 4 April 2020 (the Tax Wedge Decree).**

This legislation provides for payment, in return for service provided by workers between 1 July and 31 December, of an additional sum of €600 not to be included in taxable income if the worker's total annual pay does not exceed €28 thousand. In the case of income above this threshold, the legislation provides for a different method of deduction.

- **Law Decree 23 of 8 April 2020, containing "Urgent measures on access to credit and tax obligations for businesses, special powers in strategic sectors, and measures regarding workplace health, extensions to deadlines for administrative and court proceedings", converted into Law 40 of 5 June 2020, published in Official Gazette no. 143 of 6 June 2020 (the Liquidity Decree).**

This has introduced the following tax-related measures:

- Payments on account: provisions concerning the sanctions and interest applicable in the case of non-payment or payment of an insufficient amount in relation to payments on account for personal income tax, corporation tax and regional tax on businesses do not apply in the event of payment of an insufficient amount if the sum paid is not less than 80% of the amount that would have been due in the form of a payment on account based on the tax return for the tax period in progress;

- Deferral of deadlines for payments to the Public Administration: payments due to public entities, including pension and social security contributions and mandatory insurance premiums, falling due by 16 March 2020, extended until 20 March 2020 by Law Decree 18/20, will be considered timely if made by 16 April 2020;
- Certificate of Income for 2020: for 2020, the deadline for withholding agents to send taxpayers certificates of income from employment or similar and income from self-employment was extended until 30 April;
- Withholding tax in tenders: the validity of the certificates issued by the tax authority, attesting to satisfaction of the requirements for the non-application of the obligations provided for in Law Decree 124/19, regarding the submission to the principal of payment authorisations for withholdings on amounts paid for work carried out under contract was extended until 30 June 2020.

- **Law Decree 34 of 19 May 2020, containing “Urgent measures regarding health, support for employment and the economy, and social policies connected with the Covid-19 health emergency”, converted in to Law 77 of 17 July 2020, published in Official Gazette no. 180 of 18 July 2020 (the Restart Decree).**

This provides for an increase in tax relief on investment in research and development by businesses located in the south of Italy; exempts businesses with revenue of up to €250 million in 2019 from payment of the balance due as IRAP for the 2019 tax year, provided that the payment on account for the same period has been made, and from payment of the first instalment of the payment on account of IRAP for the 2020 tax year, which will be excluded from the calculation of the balance to be paid; an increase in tax relief on expenses incurred by businesses in 2020 in order to sanitise places of work and the tools used, and to purchase personal protective equipment and other equipment designed to safeguard the health of employees; an increase from €700 thousand to €1 million in the annual limit for credits offsetable against tax payable pursuant to art. 17 of Legislative Decree 241/97; repeal of the legislation providing for an increase in VAT from 2021; extension until 30 June 2020 of the deadline for completing the purchase of new capital assets qualifying for depreciation at a rate of 130%.

- **Legislative Decree 84 of 14 July 2020, concerning “Implementation of article 7 of Law 117 of 4 October 2019 regarding incentives for shareholders to assume a long-term commitment and corporate governance systems, published in Official Gazette no. 190 of 30 July 2020.**

This Decree alters the legislation regarding the sanctions introduced in Legislative Decree 58/1998 (the Consolidated Law on Finance), increasing the sanctions for listed companies and persons with administrative, management and oversight responsibilities: in the event a breach of the regulations requiring the preparation and publication of the report on corporate governance and ownership structures and in the event of the failure to comply with the legislation regarding related party transactions.

- **Legislative Decree 75 of 14 July 2020, concerning “Implementation of Directive (EU) 2017/1371, regarding efforts to combat fraud damaging the Union's financial interests by means of criminal law, published in Official Gazette no. 177 of 15 July 2020.**

This Decree has amended Legislative Decree 231/2001, containing provisions regarding the administrative liability of legal persons, companies and associations, including those without legal personality; with regard to tax fraud governed by Legislative Decree 74/2000, it introduces fines in the event of cross-border fraud and where there is an intention to evade VAT amounting to no less than €10 million; it amends the criminal code with regard to the offence of embezzlement, the misappropriation of funds to the detriment of the state, improper inducements to give or promise benefits when this regards the financial

interests of the EU; makes even attempts to defraud through the use of false invoices or other documents for non-existent transactions, false statements by other means and false statements made in another member state in order to evade VAT amounting to no less than €10 million punishable by law.

- **Law Decree 76 of 16 July 2020, containing “Urgent measures on simplification and digital innovation”, converted into Law 120 of 11 September 2020, published in Official Gazette no. 228 of 14 September 2020 (the Simplification Decree).**

Among other things, this legislation addresses the issue of tenders: exemptions from the provisions of the current Tenders Code applicable to procedures relating to which the decision to enter into a contract or to initiate an equivalent arrangement is taken by 31 December 2021; the possibility for companies of strategic importance for the country's economy and trade associations to agree compliance protocols with the Ministry of Internal Affairs extending the use of anti-mafia documentation and enabling private parties to request its issue; the possibility to suspend the performance of public works beyond the threshold through to 31 December 2021; an extension of the integrated tender; in the event of single proof of compliance with contributions obligations, the provisions regarding an extension of the deadline until 31 July 2020 of the validity of such documents expiring between 31 January 2020 and 31 July 2020, and documents whose validity was extended under such provision shall no longer be effective (art. 103, Law Decree 18/2020); in addition to single proof of compliance with contributions obligations, the legislation has added a document certifying that the proportionate use of labour with regard to specific interventions.

- **Law Decree 104 of 14 August 2020, containing “Urgent measures to support and restart the economy, converted into Law 126 of 13 October 2020, published in Official Gazette no. 253 of 13 October 2020 (the August Decree).**

This legislation provides for, among other things, contributions holidays for new jobs created; contributions relief for employees whose place of work is located in the south; the option of making use of income support for employers who have reduced their volume of work.

Resolutions of the Italian Regulatory Authority for Energy, Networks and the Environment

A summary is provided below of the principal resolutions adopted by Italy's Regulatory Authority for Energy, Networks and the Environment (ARERA) during 2020 and, subsequently, up to the date of preparation of this Annual Report.

ARERA determinations to recognise transmission and dispatching costs

- **Resolution 152/2020/R/eel** - Recognition of the costs incurred by Terna S.p.A. in 2019 in carrying out the activities involved in managing and developing the unique database of production plants (GAUDI).
- **Resolution 176/2020/R/eel** - Decision pursuant to Regulation (EU) 347/2013 regarding the allocation of the investment costs for project of common interest 3.27, the interconnector between Sicily and Tunisia.
- **Resolution 190/2020/R/eel** - Urgent measures regarding electricity tariffs in implementation of article 30 of Law Decree 34 of 19 May 2020.
- **Resolution 206/2020/R/eel** - Measures applicable to Terna S.p.A. in relation to receivables that are non-collectible due to the insolvency of dispatching users.
- **Resolution 380/2020/R/com** - Launch of procedure for adopting provisions regarding the methods and criteria to be used in determining and revising the rate of return on invested capital in the electricity and gas sectors for the second regulatory period.
- **Resolution 524/2020/R/eel** - Individual settlement of micro-outages for final HV and VHV customers.
- **Opinion 574/2020/I/eel** - Assessment of the outline ten-year development plan for the national transmission grid in 2019 and 2020.
- **Resolution 540/2020/R/eel** - Determination of the quality-of-service bonuses and penalties for electricity transmission for 2019.
- **Resolution 565/2020/R/eel** - Revision of tariffs for provision of the electricity transmission service for 2021.
- **Resolution 580/2020/R/eel** - Recognition of the final costs for 2018 and the estimated costs for 2020 incurred by Terna S.p.A. in carrying out its market monitoring activities.
- **Resolution 599/2020/R/eel** - Revision of dispatching fees from 1 January 2021.

ARERA determinations to recognise transmission and dispatching activities

- **Resolution 36/2020/R/eel** - Compliance review of proposed changes to the Code for Transmission, Dispatching and Grid Development and Security for the purposes of implementing measures regarding data exchange, assessment of adequacy and unavailability planning introduced by Regulation (EU) 2017/1485.
- **Resolution 37/2020/R/eel** - Measures relating to changes to the process of terminating dispatching and transmission agreements and activating supplier of last resort services in the electricity sector.

- **Resolution 99/2020/R/eel** - Revision of the fee covering the cost of paying for the load interruptibility service.
- **Resolution 153/2020/R/eel** - Approval of the changes, drawn up by Terna S.p.A., to the regulation governing the pilot project for the participation of mixed virtual power plants in the dispatching services market (DSM), in accordance with ARERA Resolution 300/2017/R/eel.
- **Resolution 200/2020/R/eel** - Approval of the regulation, drawn up by Terna S.p.A., in accordance with ARERA Resolution 300/2017/R/eel, in relation to the pilot project for provision of the fast reserve service.
- **Resolution 271/2020/R/eel** - Approval of the method for coordinating the activities involved in maintaining the security of the grid for the (CCR) GRIT region, in accordance with article 76 of Regulation (EU) 2017/1485 (SO GL).
- **Resolution 282/2020/E/com** - Monitoring report on the dispatching services market and survey of the conduct of dispatching customers who own production plants capable of acting as reactive reserve providers and located in areas of southern Italy subject to voltage restrictions.
- **Resolution 322/2020/R/eel** - Approval of the method for coordinating the activities involved in maintaining the security of the grid for the (CCR) Italy North region, in accordance with article 76 of Regulation (EU) 2017/1485 (SO GL).
- **Resolution 324/2020/R/eel** - Bonus mechanism for the upgrade of production plants to meet the requirements regarding restoration of the electricity system in accordance with Regulation (EU) 2017/2196.
- **Resolution 344/2020/R/eel** - Compliance review of proposed changes to the Code for Transmission, Dispatching and Grid Development and Security with regard to aspects relating to dispatching and connections of electricity producers, partly in implementation of the EU regulation on electricity balancing.
- **Resolution 428/2020/R/eel** - Determinations regarding essential plants. Amendments to the related regulations.
- **Resolution 468/2020/R/eel** - Approval of Terna S.p.A.'s proposal for the implementation of auctions for the assignment of hedging instruments protecting against the risk of volatility of the fee for using transmission capacity for 2021.
- **Resolution 473/2020/R/eel** - Approval of the document "Glorenza (IT) – Nauders (AT)" exemption application - Opinion of the Italian Regulatory Authority for Energy, Networks and the Environment.
- **Resolution 492/2020/R/eel** - Approval of the draft contract for the virtual import service and of the regulation governing the auction to award the related contract for 2021.
- **Resolution 509/2020/R/eel** - Measures regarding essential plants for 2021. Amendments to the regulator's Resolution 111/06.
- **Resolution 558/2020/R/eel** - Revision, for the three-year period 2021-2023, of the regulations governing the procedures for the forward procurement of interruptible electricity resources. Approval of the new regulation for the procedures and the new standard contract for providing these services.
- **Resolution 33/2021/R/eel** - Establishment of Regional Coordination Centres (RCCs) for the Central Europe region (SOR), pursuant to article 35 of Regulation (EU) 2019/943.
- **Resolution 37/2021/R/eel** - Approval of the document, "Somplago (IT) – Würmlach (AT)" Exemption application – Joint opinion of the National Regulatory Authorities ARERA and E-control".

- **Resolution 40/2021/R/eel** - Approval of the proposed amendment of Annex A.18 to the Transmission, Dispatching, Development and Grid Security Code.
- **Resolution 55/2021/R/eel** - Compliance review of the new version of the national black start plan, as amended following ARERA Resolution 324/2020/R/eel.
- **Resolution 64/2021/R/eel** - Measures regarding the resilience of the national electricity transmission grid.
- **Resolution 70/2021/R/eel** - Approval of the changes, drawn up by Terna S.p.A., to the pilot project for the participation of mixed virtual power plants in the dispatching services market (DSM), in accordance with ARERA Resolution 300/2017/R/eel.

ARERA determinations relating to Covid-19 health emergency

- **Resolution 60/2020/R/com** - Initial urgent measures and establishment of an extraordinary management account for the Covid-19 epidemic.
- **Resolution 75/2020/R/com** - Urgent measures regarding the electricity, gas, water and integrated waste management and recycling services for urban and similar waste, for the municipalities of Bertonico, Casalpusterlengo, Castelgerundo, Castiglione D'Adda, Codogno, Fombio, Maleo, San Fiorano, Somaglia, Terranova dei Passerini and Vò.
- **Resolution 116/2020/R/com** - Urgent measures linked to the Covid-19 emergency, regarding the provision of electricity transmission and natural gas distribution services.
- **Resolution 148/2020/R/com** - Further extension of the urgent measures linked to the Covid-19 emergency to protect customers and end users: amendments to the regulator's Resolution 60/2020/R/com.
- **Resolution 149/2020/R/com** - Extension of the urgent measures linked to the Covid-19 emergency, regarding the provision of electricity transmission and natural gas distribution services: amendments to the regulator's Resolution 116/2020/R/com.
- **Resolution 192/2020/R/com** - Further extension of the urgent measures linked to the Covid-19 emergency regarding the provision of electricity transmission and natural gas distribution services and launch of the process for revising such measures.
- **Resolution 207/2020/R/eel** - Confirmation of the temporary evaluation of effective imbalances due to the Covid-19 emergency.
- **Resolution 248/2020/R/com** - Determinations regarding urgent measures linked to the Covid-19 emergency: procedure for compensating for amounts not paid by users of the electricity transmission and natural gas distribution services and the general system costs not paid to the CSEA and the GSE.
- **Resolution 436/2020/R/eel** - Extraordinary measures regarding regulation of the infrastructure used to provide the electricity transmission service in relation to the Covid-19 emergency and additional measures regarding output-based regulation of the transmission service.

Further details of the above resolutions, and information of further resolutions adopted by the regulator (ARERA), can be found on the regulator's website at www.arera.it.

Other information

Additional information is presented below in accordance with specific statutory or industry requirements.

Treasury shares

In implementation of the buyback programme linked to the Performance Share Plan 2020-2023, in the period between 29 June 2020 and 6 August 2020, the Parent Company purchased 1,525,900 own shares (equal to 0.076% of the share capital). The Company does not hold any additional treasury shares with respect to those purchased under the above programme, including through subsidiaries²⁴.

The Parent Company does not directly or indirectly hold any of its own shares or the shares of CDP Reti S.p.A. or Cassa Depositi e Prestiti S.p.A., nor has it purchased or sold any such shares during the reporting period.

Related party transactions

Given that Terna S.p.A. is subject to the de facto control of Cassa Depositi e Prestiti S.p.A., a situation ascertained in 2007, related party transactions entered into by Terna during 2020 include transactions with associates and employee pension funds (Fondenei 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").

Related party transactions in 2020 primarily regard services forming part of its ordinary activities and provided under normal market conditions, as described in greater detail in the consolidated financial statements for the year ended 31 December 2020²⁵.

The Parent Company's corporate governance rules ensure that such transactions are conducted in accordance with the rules governing procedural and substantial correctness and on an arm's length basis, and in keeping with the regulations for transparent reporting to the market and in implementation of the regulations issued by the Consob²⁶.

No material transactions²⁷ were carried out in 2020, nor were any transactions subject to the reporting requirements applicable in the event of exemptions applied in accordance with the relevant regulations²⁸.

²⁴ In this regard, see the press release published on 10 August 2020, available at the following link https://download.terna.it/terna/2020.08.10_CS%20TERNA%20operazioni%20su%20azioni%20proprie%20CHIUSURA%20ITA__8d83d42cfd43cb6.pdf

²⁵ Relations with members of the Parent Company's Board of Statutory Auditors, with particular regard to their remuneration, are described in the notes to the item, "Services" in the notes to the consolidated and separate financial statements for the year ended 31 December 2020. In addition, in implementation of CONSOB Resolutions 18049 of 23 December 2011 and 21623 of 10 December 2020, disclosures regarding the remuneration of "members of management and supervisory bodies and general managers", and their shareholdings in the Company and those of the other persons referred to in the above article, are included in the annual Report on the Remuneration Policy and Remuneration Paid published in accordance with the law.

²⁶ The Regulation containing provisions regarding related party transactions adopted in CONSOB Resolution 17221 of 12 March 2010, as amended. The Regulation was last amended by Resolution 21624 of 10 December 2020, the provisions of which come into effect from 1 July 2021.

²⁷ These are related party transactions classified in compliance with Annex 3 to the "Regulations on related party transactions".

²⁸ As "transactions falling within the scope of the ordinary activities of the Company or its subsidiaries or associates or of financing activities related thereto, provided that the transactions are conducted on equivalent to market or standard terms and conditions".

Information on ownership structures

The disclosures required by art. 123-bis "Report on Corporate Governance and ownership structures" of the Consolidated Law on Financial Intermediation (Legislative Decree 58 of 24 February 1998) are provided in a separate document approved by Terna's Board of Directors ("Report on Corporate Governance and Ownership Structures" for 2020, available on Terna S.p.A.'s website (www.terna.it – in the section, "Corporate governance system/Governance Report").

Attestations pursuant to article 2.6.2, paragraphs 7 and 8 of the Regulations for the markets organised and managed by Borsa Italiana S.p.A., relating to the conditions described in articles 15 and 16 of the Consob's Markets Regulation (no. 20249 of 28 December 2017 in Official Gazette no.1 of 2 January 2018)

With reference to the provisions of article 15, paragraph one, letters a), b) and c) point i) of the Consob Markets Regulation, under the title *conditions for listing the shares of companies controlling companies incorporated and regulated under the laws of countries not belonging to the European Union*, we declare that Terna S.p.A. does not hold any significant controlling interests, as defined in Title VI, Chapter II of Consob Regulation 11971 of 1999, in companies incorporated and regulated under the laws of countries not belonging to the European Union. With reference to the provisions of article 16 of the Consob Markets Regulation, under the title *conditions prohibiting the listing of the shares of subsidiaries subject to management and coordination by another company*, we declare that Terna S.p.A. is subject to the de facto control of Cassa Depositi e Prestiti S.p.A., exercised through CDP Reti S.p.A. (a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A.), which holds a 29.851% interest in the Parent Company. The checks, providing confirmation of the above situation of control, were conducted by Cassa Depositi e Prestiti and notified to the Company and the Consob with effect from 19 April 2007 and, subsequently, by letter dated 30 October 2014 and 2 December 2014. At this time, there are no formal arrangements for the management and coordination of the Company, nor have any such rights been exercised. Terna S.p.A. conducts its business either directly or through its subsidiaries in conditions of operational and contractual independence.

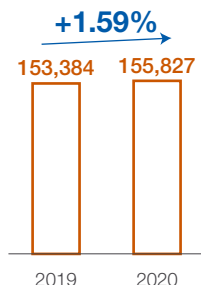
Participation in the regulatory simplification process introduced by Consob Resolution 18079 of 20 January 2012

Pursuant to art. 3 of Consob Resolution 18079 of 20 January 2012, Terna has elected to adopt the simplified regime provided for in articles 70, paragraph 8, and 71, paragraph 1-bis of Consob Regulation 11971 of 14 May 1999, as amended (the Consob Regulations for Issuers). As a result, Terna exercises the exemption from disclosure requirements provided for in the above Regulations in respect of transactions of a significant nature involving mergers, spin-offs, capital increases involving contributions in kind, acquisitions and disposals.

Changes in the dimensions of the NTG

Below are details of changes in the dimensions of the infrastructure available for use and in service with respect to the situation at 31 December 2019.

POWER TRANSFORMED MVA



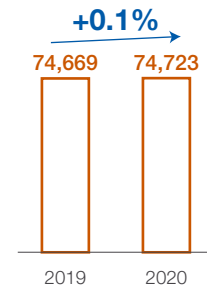
DETAILS OF ELECTRICITY SUBSTATIONS OWNED BY THE TERNA GROUP*

(AT 31 DECEMBER)	UNIT OF MEASUREMENT	2020	2019	CHANGE	% CHANGE
380kV					
Substations	no.	166	165	1	0.61
Power transformed	MVA	119,458	117,504	1,954	1.66
220kV					
Substations	no.	146	149	(3)	(2.01)
Power transformed	MVA	32,397	31,996	401	1.25
Lower voltages (≤ 150kV)					
Substations	no.	577	574	3	0.52
Power transformed	MVA	3,972	3,884	88	2.27
Total					
Substations	no.	889	888	1	0.11
Power transformed	MVA	155,827	153,384	2,443	1.59

* MVA calculated to the third decimal place and rounded to a whole number. Percentages calculated to the fifth decimal place and rounded to the second decimal place.

DETAILS OF POWER LINES OWNED BY THE TERNA GROUP*

(AT 31 DECEMBER)	UNIT OF MEASUREMENT	2020	2019	CHANGE	% CHANGE
380kV					
Length of circuits	km	12,867	12,854	13	0.10
Length of lines	km	11,686	11,673	13	0.11
220kV					
Length of circuits	km	11,847	11,845	2	0.02
Length of lines	km	9,477	9,473	4	0.04
Lower voltages (≤ 150kV)					
Length of circuits	km	50,009	49,969	40	0.08
Length of lines	km	46,790	46,761	29	0.06
Total					
Length of circuits	km	74,723	74,669	54	0.07
overhead	km	70,780	70,815	(35)	(0.05)
underground cables	km	2,181	2,091	90	4.30
submarine cables	km	1,762	1,762	-	-
Length of lines	km	67,954	67,907	47	0.07
overhead	km	64,010	64,053	(43)	(0.07)
underground cables	km	2,181	2,091	90	4.30
submarine cables	km	1,762	1,762	-	-
Incidence of direct current connections (200 - 380 - 500kV)					
Circuits	km	2,435	2,435	-	-
% of total	%	3,26	3,26	-	-
Lines	km	2,115	2,115	-	-
% of total	%	3,11	3,11	-	-

LENGTH OF CIRCUITS
KM

* Km calculated to the third decimal place and rounded to a whole number. Percentages calculated to the fifth decimal place.

PRINCIPAL CHANGES IN THE SIZE OF THE TERNA GROUP'S INFRASTRUCTURE

Substations²⁹

New infrastructure:

The following substations have **entered service**:

- transformer substation at Garaguso [MT] (6 380kV bays, 7 150kV bays);
- switching substation at Selegas [SU] (6 150kV bays);
- switching substation at Sorrento [SA] (6 150kV bays);
- transformer substation at Saluzzo North [CN] (1 132kV bay);

and **the purchase** of the switching substation at Morcone [BN] (4 150kV bays).

In addition:

- **inclusion** of synchronous compensators at Matera and Selargius (2 380kV bays each), of pylon control devices installed in the Turin Transmission Operating Area (2 220kV bays) and the shunt reactor at Zuel (1 132kV bay);
- **retirement** of the substations at Rotonda [PZ] (1 220kV bay, 4 150kV bays), Tavazzano Ovest [LO] (1 220kV bay), Sarmato 220kV [PC] and Livorno Marzocco [LI] (9 150kV bays).

Existing infrastructure:

- **commissioning** of 23 new line bays for the substations at Piosasco (2 380kV bays), Bisaccia 380 (1 380kV bay, 5 150kV bays), Belcastro 380 (1 380kV bay), Santa Valburga (1 220kV bay), Rotonda 150 and Stornarella (2 150kV bays each), Rome North, Benevento III, Troia 380, Pontelandolfo, Valle, Chiaramonte Gulfi, Ragusa and Nuraminis (1 150kV bay each), Genoa Termica (1 132kV bay);
- **commissioning** of 8 new machine bays for the substations at Ragusa (1 220kV bay and 1 150kV bay), Rome North and Bisaccia 380 (1 150kV bay each), Genoa Termica, Varna, Udine RT and Vipiteno (1 132kV bay);
- **commissioning** of 4 new parallel bays for the substations at Corriolo (1 220kV bay), Stornarella, Matera and Chiaramonte Gulfi (1 150kV bay each);
- **demolition** of 1 132kV connector bay at the Varna substation.

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²⁹ The number of bays shown for each substation refers only to bays "in technical operation".

Transformers

The following transformers **entered service**:

- 2 new 380/150kV 250 MVA autotransformers for the Garaguso substation;
- 2 new 380/20kV 290 MVA transformers associated with the synchronous compensators at Selargius;
- 2 new 380/20kV 200 MVA transformers associated with the synchronous compensators at Matera;
- 1 new 220/150kV 250 MVA autotransformer for the Ragusa substation;
- 1 new 150/20kV 40 MVA transformer for the Rome North substation;
- 1 new 132/15kV 40 MVA transformer for the Genoa Termica substation;

and the following **further changes** occurred:

- replacement of 1 380/150kV 250 MVA autotransformer with another 400 MVA autotransformer at the Rossano substation;
- replacement of 2 220/132kV 160 MVA autotransformers with other 250 MVA autotransformers at the Biella East and Arezzo C substations;
- replacement of 1 220/60 kV 75 MVA transformer with another 100 MVA autotransformer at the Vicenza Monteviale substation;
- replacement of 1 220/20 kV 63 MVA transformer with another with the same voltage at the Grugliasco substation;
- replacement of 2 220/20kV 40 MVA transformers with other 63 MVA transformers at the Conegliano and Verona Borgo Milano substations;
- replacement of 1 220/15kV 63 MVA transformer with another with the same voltage at the Biella East substation;
- replacement of 1 132/66kV 25 MVA transformer with another with the same voltage at the Nichelino substation;
- replacement of 1 132/20kV 25 MVA transformer with another with the same voltage at the San Floriano substation;
- replacement of 1 132/15kV 32 MVA transformer with another 40 MVA transformer at the Erzelli substation;
- demolition of 1 220/150kV 100 MVA autotransformer to coincide with retirement of the Rotonda substation.

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Power lines

- **construction** of new 380kV Piosasco GIS - Piosasco HVDC connections (2 lines totalling 0.9 km in cable);
 - **construction** of the new 220kV Udine South - Acciaierie Bertoli SAFAU line (7.1 km in cable);
 - **construction** of the new 220kV Castelluccia - San Sebastiano line (7.0 km in cable);
 - **construction** of the new 220kV Dalmine 1 - Tenaris connection (0.1 km overhead);
 - **construction** of the new 150kV Benevento III - Pontelandolfo line (15.3 km overhead);
 - **construction** of the new 150kV Castrocucco - Maratea line (13.2 km in cable);
 - **construction** of the new 150kV Uditore - Cusmano line (2.8 km in cable);
 - **construction** of the new 150kV Castellamare - Fincantieri line (2.6 km in cable);
 - **construction** of the new 132kV Zuel - Somprade line (23.2 km in cable);
 - **construction** of the new 132kV Erzelli - Genoa Termica line (4.4 km in cable);
 - **commissioning** of the Chiaramonte Gulfi - Ragusa 1 line (22.5 km overhead), previously combined with another line in operation;
 - **acquisition from third parties** of connections with the Morcone substation on the 150kV Castelpagano - Morcone and Morcone - Pontelandolfo lines (1.6 km overhead);
 - **sale to third parties** of the Cardano - Bolzano Steelworks line, so-called Cons. HV Colle 60kV (5.5 km overhead);
 - **construction** of 10 in-out derivations with an overall increase of the same number of circuits and 8.3 km of circuit, including: addition of 1 line and 1.8 km at 380kV, addition of 1 line and 0.2 km at 220kV, addition of 4 lines and 0.3 km at 150kV, addition of 4 lines and 5.9 km at 132kV;
 - **construction of variants, rigid derivations, re-routings and/or changes to grid distribution** removing a total of 2 lines and adding 1.3 km of circuit, including: addition of 12.9 km at 380kV, removal of 1 lines and 3.6 km at 220kV, addition of 3.6 km at 150kV, removal of 1 line and 11.6 km of 132kV circuit;
 - **downgrade** from 220kV to 150kV of 1 overhead line amounting to 1.5 km;
 - **demolition and/or retirement** of 4 lines amounting to 10.9 km of circuit: 220kV Casalnuovo – Casoria 2 (limited to the overhead section from pylon 18/5A to pylon 21/A1, amounting to 4.1 km), 220kV Sarmato - La Spezia (limited to the overhead Sarmato - pylon 256 section, amounting to 3.0 km), 150kV Uditore - Cusmano (in cable, amounting to 2.8 km) and 132kV Sesto Fiorentino - Pontassieve (limited to the overhead Sesto Fiorentino - pylon 59 section, amounting to 1.1 km).
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Alternative performance measures (APMs)

In accordance with the guidelines in ESMA/2015/1415, the alternative performance measures used in this Integrated Report are described below.

MEASURE	DESCRIPTION
OPERATING RESULTS	
Operating profit/(loss) - EBIT	is an indicator of operating performance obtained by adding Net financial income/(expenses) to Profit/(Loss) before tax .
Gross operating profit/(loss) – EBITDA	is an indicator of operating performance obtained by adding “Amortisation, depreciation and impairment losses” to Operating profit/(loss) (EBIT) .
TAX RATE	is the amount of tax paid as a proportion of pre-tax profit and is based on the ratio of “Income tax expense” to “Profit/(Loss) before tax” .
FINANCIAL POSITION	
Net working capital	is an indicator of financial position, showing the Group's liquidity position; it is based on the difference between Current assets and Current liabilities of a non-financial nature, as presented in the statement of financial position.
Gross invested capital	is an indicator of financial position, showing the Group's total assets and is obtained by adding Net non-current assets and Net working capital .
Net invested capital	is calculated by deducting Sundry provisions from Gross invested capital .
CASH FLOW	
Net debt	is an indicator of the Group's financial structure and is obtained by deducting Cash and cash equivalents and Financial assets from Short- and long-term financial liabilities and the related derivative instruments .
Free cash flow	is the cash generated by operating activities less capital expenditure and is the difference between Cash flow from operating activities and Cash flow for investing activities .

Reconciliations

In accordance with the guidelines in ESMA/2015/1415, reconciliations of the reclassified income statement and statement of financial position and of net debt and cash flow of the Terna Group and Terna S.p.A. with the related statutory income statement and statement of financial position are shown below.

RECONCILIATION OF THE TERNA GROUP'S RECLASSIFIED INCOME STATEMENT AND STATEMENT OF FINANCIAL POSITION AND NET DEBT

THE GROUP'S RECLASSIFIED INCOME STATEMENT	€M	CONSOLIDATED INCOME STATEMENT
Regulated revenue	2,148.9	"Revenue from sales and services", totalling €2,461.9 million, "Other revenue and income", totalling €113.8 million, after the cost of International Activities, "Raw and consumable materials used", totalling €61.3 million, "Services", totalling €0.8 million, and "Other operating costs" of €0.1 million
Non-regulated revenue	341.0	
Revenue from International Activities	23.6	
Personnel expenses	282.9	"Personnel expenses" after the cost of construction services performed under concession in Italy in accordance with IFRIC 12 (€5.8 million)
Cost of services, leases and rentals	174.0	"Services" after the cost of construction services performed under concession in Italy in accordance with IFRIC 12 (17.0 million) and the cost of International Activities (€0.8 million)
Materials	155.6	"Raw and consumable materials used" after the cost of construction services performed under concession in Italy in accordance with IFRIC 12 (€5.7 million) and the cost of International Activities (€61.3 million)
Other costs	33.8	Other operating costs after the cost of International Activities (€0.1 million)
Quality of service	8.3	
Cost of construction services performed under concession	5.8	"Personnel expenses"
	17.0	"Services"
	5.7	"Raw and consumable materials used"
Net financial income/ (expenses)	(93.5)	Points 1, 2 and 3 of letter C - "Financial income and expenses"

THE GROUP'S RECLASSIFIED STATEMENT OF FINANCIAL POSITION	€M	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Financial assets	508.3	"Investment accounted for using the equity method", "Other non-current assets" and "Non-current financial assets", after the value of fair value hedges (€94.2 million)
Net energy-related pass-through payables	(385.0)	"Trade receivables" relating to the value of energy-related pass-through receivables (€797.7 million) and "Trade payables" relating to the value of energy-related pass-through payables (€1,182.7 million)
Net receivables resulting from Regulated Activities	230.9	"Trade receivables" relating to the value of receivables resulting from Regulated Activities (€247.3 million) and "Trade payables" relating to the value of payables resulting from Regulated Activities (€16.4 million)
Net trade payables	(818.0)	"Trade payables" after the value of energy-related pass-through payables (€1,182.7 million) and payables resulting from Regulated Activities (€16.4 million) and "Trade receivables" after the value of energy-related pass-through receivables (€797.7 million) and the value of receivables resulting from Regulated Activities (€247.3 million)
Net tax assets	40.5	"Tax assets", "Other current assets" relating to the value of other tax assets (€42.2 million), "Other current liabilities" relating to the value of other tax liabilities (€11.4 million) and "Tax liabilities"
Other liabilities net	(1,004.6)	"Other non-current liabilities", "Other current liabilities" after other tax liabilities (€11.4 million), "Inventories", "Other current assets" after other tax assets (€42.2 million) and "Discontinued operations and assets held for sale"
Sundry provisions	(121.3)	"Employee benefits", "Provisions for risks and charges" and "Deferred tax assets"
Net debt	9,172.6	"Long-term borrowings", "Current portion of long-term borrowings", "Non-current financial liabilities", "Short-term borrowings", "Cash and cash equivalents", "Current financial assets" and "Current financial liabilities" and "Non-current financial assets" relating to the value of fair value hedges (€94.2 million)

THE GROUP'S ANALYSIS OF NET DEBT	€M	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
"Bond issues" and "Borrowings"	11,248.2	Corresponds with "Long-term borrowings" and "Current portions of long-term borrowings"
"Derivative financial instruments" – short- and medium/long-term	159.6	Corresponds with "Non-current financial liabilities" and "Non-current financial assets" relating to the value of fair value hedges (€94.2 million)
Other financial liabilities, net	80.4	Corresponds with "Current financial assets" relating to the value of accrued financial income (€9.7 million) and "Current financial liabilities"
Financial assets	(628.8)	Corresponds with "Current financial assets" relating to the value of government securities (€611.4 million) and the short-term portion of IFRIC 12 (€17.4 million)

RECONCILIATION OF THE TERNA GROUP'S CASH FLOW

(€m)

	CASH FLOW 2020	RECONCILIATION WITH FINANCIAL STATEMENTS	CASH FLOW 2019	RECONCILIATION WITH FINANCIAL STATEMENTS
- Profit for the year	795.3		763.9	
- Amortisation, depreciation and impairment losses	643.8		586.1	
- Net change in provisions	(88.9)		(97.3)	
Employee benefits		(2.2)		(5.5)
Provisions for risks and charges		(38.9)		(31.1)
Deferred tax assets		(47.8)		(60.7)
- Net losses/(gains) on sale of assets ⁽¹⁾	(7.7)		(12.9)	
Operating cash flow	1,342.5		1,239.8	
- Change in net working capital:	(272.0)		386.2	
Inventories		(15.5)		12.5
Trade receivables		45.1		(122.8)
Income tax assets		(4.5)		14.1
Other current assets		(65.6)		(33.3)
Discontinued operations and assets held for sale		(1.3)		-
Trade payables		(227.9)		(94.4)
Tax liabilities		(11.8)		6.7
Other liabilities		9.5		603.4
- Other changes in non-current assets	(22.0)		(134.9)	
Intangible assets ⁽²⁾		(8.7)		0.5
Property, plant and equipment ⁽³⁾		(6.6)		46.3
Non-current financial assets		(7.3)		(177.3)
Other non-current assets		(3.0)		(1.1)
Investments accounted for using the equity method		3.6		(3.3)
Cash flow from operating activities	1,048.5		1,491.1	
Capital expenditure				
- Total Capital expenditure	(1,351.1)		(1,264.1)	
Property, plant and equipment ⁽³⁾		(1,249.5)		(1,182.9)
Intangible assets ⁽²⁾		(101.6)		(81.2)
Total cash flow from (for) investing activities	(1,351.1)		(1,264.1)	
Free cash flow	(302.6)		227.0	
- Cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent ⁽⁴⁾	(91.0)		(106.5)	
- Other movements in equity attributable to non-controlling interests	(5.4)		-	
- Dividends paid to Parent Company's shareholders ⁽⁴⁾	(515.0)		(479.7)	
Change in net debt	(914.0)		(359.2)	
- Change in borrowings	2,545.6		87.7	
Non-current financial assets		(49.2)		(45.0)
Current financial assets		(119.2)		(114.8)
Non-current financial liabilities		93.4		101.2
Long-term borrowings		379.5		1,253.1
Short-term borrowings		977.2		-
Current portion of long-term borrowings		1,261.5		(1,104.1)
Current financial liabilities		2.4		(2.7)
CHANGE IN CASH AND CASH EQUIVALENTS	1,631.6		(271.5)	

(1) Included in "Other revenue and income" and "Other operating costs" in the consolidated financial statements

(2) See note 14 to the financial statements

(3) See note 12 to the financial statements

(4) See the consolidated statement of changes in equity

RECONCILIATION OF TERNA S.P.A.'S RECLASSIFIED INCOME STATEMENT AND STATEMENT OF FINANCIAL POSITION AND NET DEBT

TERNA'S RECLASSIFIED INCOME STATEMENT	€M	INCOME STATEMENT
Tariff revenue	1,906.2	"Revenue from sales and services"
Revenue from construction services performed under concession	28.5	"Revenue from sales and services"
Other operating income	152.1	"Revenue from sales and services", totalling €102.4 million, and "Other revenue and income"
Personnel expenses	70.8	"Personnel expenses" after the cost of construction services performed under concession in accordance with IFRIC 12 (€0.3 million)
Cost of services, leases and rentals	369.2	"Services" after the cost of construction services performed under concession in accordance with IFRIC 12 (€25.9 million)
Materials	0.7	"Raw and consumable materials used" after the cost of construction services performed under concession in accordance with IFRIC 12 (€2.3 million)
Other costs	22.2	Other operating costs
Quality of service	8.3	
Cost of construction services performed under concession	0.3	"Personnel expenses"
	25.9	"Services"
	2.3	"Raw and consumable materials used"
Net financial income/(expenses)	(59.0)	Points 1 and 2 of letter C - "Financial income and expenses"

TERNA'S RECLASSIFIED STATEMENT OF FINANCIAL POSITION	€M	STATEMENT OF FINANCIAL POSITION
Financial assets	1,401.0	"Non-current financial assets" after loans to subsidiaries (€22.5 million) and the value of fair value hedges (€94.2 million) and "Other non-current assets" after amounts due from subsidiaries in relation to staff incentive plans (€0.3 million)
Net energy-related pass-through payables	(408.9)	"Trade receivables" relating to the value of energy-related pass-through receivables (€797.7 million) and "Trade payables" relating to the value of energy-related pass-through payables (€1,206.6 million)
Net receivables resulting from Regulated Activities	230.9	"Trade receivables" relating to the value of receivables resulting from Regulated Activities (€247.3 million) and "Trade payables" relating to the value of payables resulting from Regulated Activities (€16.4 million)
Net trade payables	(615.4)	"Trade payables" after the value of energy-related pass-through payables (€1,206.6 million) and payables resulting from Regulated Activities (€16.4 million) and "Trade receivables" after the value of energy-related pass-through receivables (€797.7 million) and the value of receivables resulting from Regulated Activities (€247.3 million)
Net tax liabilities	(25.6)	"Tax assets", "Other current assets" relating to the value of other tax assets (€14.3 million), "Other current liabilities" relating to the value of other tax liabilities (€43.1 million) and "Tax liabilities"
Other liabilities, net	(546.8)	"Other non-current liabilities", "Other current liabilities" after other tax liabilities (€43.1 million), "Inventories", "Other current assets" after other tax assets (€14.3 million) and "Other non-current assets" relating to amounts due from subsidiaries in relation to staff incentive plans (€0.3 million)
Sundry provisions	(45.5)	"Employee benefits", "Provisions for risks and charges" and "Deferred tax assets"
Net debt	9,137.2	"Long-term borrowings", "Current portion of long-term borrowings", "Non-current financial liabilities", "Short-term borrowings", "Cash and cash equivalents", "Non-current financial assets" relating to the value of fair value hedges (€94.2 million) and loans to subsidiaries (€22.5 million), "Current financial assets" and "Current financial liabilities"

TERNA'S ANALYSIS OF NET DEBT	€M	STATEMENT OF FINANCIAL POSITION
"Bond issues" and "Borrowings"	11,008.6	Corresponds with "Long-term borrowings" and "Current portions of long-term borrowings"
"Derivative financial instruments"	157.2	Corresponds with "Non-current financial liabilities" after the value of fair value hedges (€94.2 million)
"Short-term borrowings" and "Other financial liabilities, net"	1,057.2	Corresponds, respectively, with "Short-term borrowings" and "Current financial liabilities" relating to the value of deferred liabilities (€89.7 million) and "Current financial assets" relating to the value of accrued income (€9.6 million)
"Cash and cash equivalents (including the net balance on intercompany current accounts)"	(2,451.9)	Corresponds with "Cash and cash equivalents"
"Long-term loans to subsidiaries"	(22.5)	Included in the item "Non-current financial assets"
"Financial assets"	(611.4)	Corresponds with "Current financial assets" relating to the value of government securities

RECONCILIATION OF TERNA S.P.A.'S CASH FLOW

(€m)

	CASH FLOW 2020	RECONCILIATION WITH FINANCIAL STATEMENTS	CASH FLOW 2019	RECONCILIATION WITH FINANCIAL STATEMENTS
- Profit for the year	687.6		713.5	
- Amortisation, depreciation and impairment losses	571.2		540.7	
- Net change in provisions	(75.6)		(86.3)	
Employee benefits		1.9		(0.1)
Provisions for risks and charges		(37.3)		(34.8)
Deferred tax assets		(40.2)		(51.4)
- Net losses/(gains) on sale of assets(1)	(5.5)		(11.2)	
Operating cash flow	1,177.7		1,156.7	
- Change in net working capital:	(152.1)		130.5	
Trade receivables		68.7		(69.2)
Income tax assets		0.3		12.5
Other current assets		(8.6)		(5.8)
Other non-current assets		(0.3)		-
Trade payables		(146.5)		(82.4)
Tax liabilities		(17.4)		9.3
Other liabilities		(48.3)		266.1
- Other changes in non-current assets	(81.8)		81.9	
Property, plant and equipment(2)		40.1		275.4
Intangible assets(3)		-		0.2
Non-current financial assets		(121.4)		(193.9)
Other non-current assets		(0.5)		0.2
Cash flow from operating activities	943.8		1,369.1	
Capital expenditure				
- Total Capital expenditure	(1,134.3)		(1,045.6)	
Property, plant and equipment(2)		(1,041.9)		(976.9)
Intangible assets(3)		(92.4)		(68.7)
Total cash flow from (for) investing activities	(1,134.3)		(1,045.6)	
Free cash flow	(190.5)		323.5	
- Dividends(4)	(515.0)		(479.7)	
- Cash flow hedge reserve after taxation and other movements in equity(4)	(70.1)		(103.6)	
Change in net debt	(775.6)		(259.8)	
- Change in borrowings	2,508.3		33.9	
Current financial assets		(101.8)		(25.2)
Non-current financial assets		(47.6)		(59.1)
Non-current financial liabilities		92.4		99.9
Long-term borrowings		325.4		1,133.5
Short-term borrowings		977.1		-
Current portion of long-term borrowings		1,260.4		(1,112.4)
Current financial liabilities		2.4		(2.8)
- Change in cash and cash equivalents	1,732.7		(225.9)	

(1) Included in "Other revenue" and "Other operating costs" in the financial statements.

(2) See note 10 to the financial statements.

(3) See note 12 to the financial statements.

(4) See the statement of changes in equity.





CONSOLIDATED FINANCIAL STATEMENTS



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Consolidated financial statements

Consolidated income statement

		(€m)	
	NOTE	2020	2019
A - REVENUE			
1. Revenue from sales and services	1	2,461.9	2,287.9
<i>of which related parties</i>		1,685.3	1,632.8
2. Other revenue and income	2	113.8	56.9
<i>of which related parties</i>		1.5	4.9
Total revenue		2,575.7	2,344.8
B - OPERATING COSTS			
1. Raw and consumable materials used	3	222.6	142.8
<i>of which related parties</i>		1.3	0.3
2. Services	4	191.8	187.3
<i>of which related parties</i>		12.7	17.1
3. Personnel expenses	5	288.7	256.7
- gross personnel expenses		372.9	334.2
- capitalised personnel expenses		(84.2)	(77.5)
<i>of which related parties</i>		3.1	2.9
4. Amortisation, depreciation and impairment losses	6	643.8	586.1
5. Other operating costs	7	42.2	16.8
<i>of which related parties</i>		0.2	0.1
Total operating costs		1,389.1	1,189.7
A-B OPERATING PROFIT/(LOSS)		1,186.6	1,155.1
C - FINANCIAL INCOME/(EXPENSES)			
1. Financial income	8	13.0	11.3
2. Financial expenses	8	(102.6)	(92.3)
<i>of which related parties</i>		-	(0.3)
3. Share of profit/(loss) of investees accounted for using the equity method	9	(3.9)	3.3
D - PROFIT/(LOSS) BEFORE TAX		1,093.1	1,077.4
E - INCOME TAX EXPENSE	10	297.8	313.5
F - PROFIT FOR THE YEAR		795.3	763.9
<i>Profit for the year attributable to owners of the Parent</i>		785.5	757.3
<i>Profit for the year attributable to non-controlling interests</i>		9.8	6.6
Earnings per share	11		
Basic earnings per share		0.391	0.377
Diluted earnings per share		0.391	0.377

Consolidated statement of comprehensive income*

		(€m)	
	NOTE	2020	2019
PROFIT FOR THE YEAR		795.3	763.9
Other comprehensive income for the year reclassifiable to profit or loss			
- Cash flow hedges	24	(78.7)	(93.7)
- Financial assets at fair value through other comprehensive income	24	2.5	0.6
- Gains/(Losses) from translation of financial statements in currencies other than the euro	24	(22.7)	(0.6)
- Cost of hedges	24	13.7	(11.6)
Other comprehensive income for the year not reclassifiable to profit or loss			
- Actuarial gains/(losses) on provisions for employee benefits	24	3.1	(2.1)
COMPREHENSIVE INCOME FOR THE YEAR		713.2	656.5
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Parent		703.4	649.9
Non-controlling interests		9.8	6.6

* Amounts are shown net of tax where applicable.

Consolidated statement of financial position

		(€m)	
	NOTE	31 DECEMBER 2020	31 DECEMBER 2019
A – NON-CURRENT ASSETS			
1. Property, plant and equipment	12	14,559.7	13,864.2
<i>of which related parties</i>		54.4	45.3
2. Goodwill	13	230.1	230.1
3. Intangible assets	14	347.8	312.6
4. Deferred tax assets	15	111.8	64.0
5. Investments accounted for using the equity method	16	75.8	79.4
6. Non-current financial assets	17	507.8	451.3
7. Other non-current assets	18	18.9	15.9
Total non-current assets		15,851.9	15,017.5
B – CURRENT ASSETS			
1. Inventories	19	66.4	50.9
2. Trade receivables	20	1,245.2	1,290.7
<i>of which related parties</i>		234.1	423.2
3. Current financial assets	17	638.5	519.3
4. Cash and cash equivalents	21	2,689.0	1,057.4
<i>of which related parties</i>		0.1	0.1
5. Income tax assets	22	9.7	5.2
6. Other current assets	18	128.3	62.7
Total current assets		4,777.1	2,986.2
C – Discontinued operations and assets held for sale	23	1.3	-
TOTAL ASSETS		20,630.3	18,003.7

(continues)

(continues)

(€m)

	NOTE	31 DECEMBER 2020	31 DECEMBER 2019
C – EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
1. Share capital		442.2	442.2
2. Other reserves		613.2	681.7
3. Retained earnings/(accumulated losses)		2,711.6	2,478.3
4. Interim dividend		(182.7)	(169.2)
5. Profit for the year attributable to owners of the Parent		785.5	757.3
Total equity attributable to owners of the Parent	24	4,369.8	4,190.3
D – EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS			
	24	46.0	41.6
Total equity attributable to owners of the Parent and non-controlling interests		4,415.8	4,231.9
E – NON-CURRENT LIABILITIES			
1. Long-term borrowings	25	9,860.2	9,480.7
2. Employee benefits	26	61.7	63.9
3. Provisions for risks and charges	27	171.4	210.3
4. Non-current financial liabilities	25	253.8	160.4
5. Other non-current liabilities	28	836.7	834.9
Total non-current liabilities		11,183.8	10,750.2
F – CURRENT LIABILITIES			
1. Short-term borrowings	25	1,002.2	25.0
2. Current portion of long-term borrowings	25	1,388.0	126.5
3. Trade payables	29	2,217.3	2,445.2
<i>of which related parties</i>		80.4	85.5
4. Tax expense	29	-	11.8
5. Current financial liabilities	25	90.1	87.7
6. Other current liabilities	29	333.1	325.4
<i>of which related parties</i>		20.3	20.9
Total current liabilities		5,030.7	3,021.6
TOTAL LIABILITIES AND EQUITY		20,630.3	18,003.7

Consolidated statement of changes in equity

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

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE	TREASURY SHARES RESERVE
EQUITY AT 31 DECEMBER 2019	442.2	88.4	20.0	(151.9)	-
PROFIT FOR THE YEAR					
OTHER COMPREHENSIVE INCOME:					
- Change in fair value of cash flow hedges				(78.7)	
- Actuarial gains/(losses) on employee benefits					
- Gains/(Losses) from translation of financial statements in currencies other than the euro					
- Financial assets at fair value through other comprehensive income					
- Cost of hedges				13.7	
Total other comprehensive income	-	-	-	(65.0)	-
COMPREHENSIVE INCOME	-	-	-	(65.0)	-
TRANSACTIONS WITH SHAREHOLDERS:					
- Appropriation of profit for 2019:					
Retained earnings					
Dividends					
- Interim dividend 2020					
- Purchase of treasury shares					(9.5)
Total transactions with shareholders	-	-	-	-	(9.5)
Contribution from newly acquired companies					
Stock option reserve					
Other changes					
Total other changes	-	-	-	-	
EQUITY AT 31 DECEMBER 2020	442.2	88.4	20.0	(216.9)	9.5

31 DECEMBER 2018 - 31 DECEMBER 2019 GROUP'S SHARE CAPITAL AND RESERVES

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESERVES
EQUITY AT 31 DECEMBER 2018	442.2	88.4	20.0	(46.6)	726.7
PROFIT FOR THE YEAR	-	-	-	-	-
OTHER COMPREHENSIVE INCOME:					
- Change in fair value of cash flow hedges	-	-	-	(93.7)	-
- Actuarial gains/(losses) on employee benefits	-	-	-	-	(2.1)
- Gains/(Losses) from translation of financial statements in currencies other than the euro	-	-	-	-	-
- Financial assets at fair value through other comprehensive income	-	-	-	-	0.6
- Cost of hedges	-	-	-	(11.6)	-
Total other comprehensive income	-	-	-	(105.3)	(1.5)
COMPREHENSIVE INCOME	-	-	-	(105.3)	(1.5)
TRANSACTIONS WITH SHAREHOLDERS:					
- Appropriation of profit for 2018:					
Retained earnings	-	-	-	-	-
Dividends	-	-	-	-	-
- Interim dividend 2019	-	-	-	-	-
Total transactions with shareholders	-	-	-	-	-
Other changes	-	-	-	-	-
Total other changes	-	-	-	-	-
EQUITY AT 31 DECEMBER 2019	442.2	88.4	20.0	(151.9)	725.2

(€m)

OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT AND NON-CONTROLLING INTERESTS
725.2	2,478.3	(169.2)	757.3	4,190.3	41.6	4,231.9
			785.5	785.5	9.8	795.3
				(78.7)		(78.7)
3.1				3.1		3.1
	(22.7)			(22.7)		(22.7)
2.5				2.5		2.5
				13.7		13.7
5.6	(22.7)	-	-	(82.1)	-	(82.1)
5.6	(22.7)	-	785.5	703.4	9.8	713.2
						-
						-
	255.8		(255.8)	-		-
		169.2	(501.5)	(332.3)	(9.0)	(341.3)
		(182.7)		(182.7)		(182.7)
				(9.5)		(9.5)
-	255.8	(13.5)	(757.3)	(524.5)	(9.0)	(533.5)
				-	3.6	3.6
1.2				1.2		1.2
(0.8)	0.2			(0.6)		(0.6)
0.4	0.2	-	-	0.6	3.6	4.2
731.2	2,711.6	(182.7)	785.5	4,369.8	46.0	4,415.8

(€m)

RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT AND NON-CONTROLLING INTERESTS
2,240.1	(158.2)	706.6	4,019.2	35.0	4,054.2
-	-	757.3	757.3	6.6	763.9
-	-	-	(93.7)	-	(93.7)
-	-	-	(2.1)	-	(2.1)
(0.6)	-	-	(0.6)	-	(0.6)
-	-	-	0.6	-	0.6
-	-	-	(11.6)	-	(11.6)
(0.6)	-	-	(107.4)	-	(107.4)
(0.6)	-	757.3	649.9	6.6	656.5
237.9	-	(237.9)	-	-	-
-	158.2	(468.7)	(310.5)	-	(310.5)
-	(169.2)	-	(169.2)	-	(169.2)
237.9	(11.0)	(706.6)	(479.7)	-	(479.7)
0.9	-	-	0.9	-	0.9
0.9	-	-	0.9	-	0.9
2,478.3	(169.2)	757.3	4,190.3	41.6	4,231.9

Consolidated statement of cash flows

		(€m)	
	NOTE	2020	2019
PROFIT FOR THE YEAR		795.3	763.9
ADJUSTED BY:			
Amortisation, depreciation and impairment losses /(reversals of impairment losses) on non-current property, plant and equipment and intangible assets*	6	635.2	577.6
Accruals to provisions (including provisions for employee benefits) and impairment losses		49.0	30.3
(Gains)/Losses on sale of property, plant and equipment		(7.7)	(12.9)
Financial (income)/expense	8	85.6	75.2
Income tax expense		299.4	311.9
Other non-cash movements		(71.8)	-
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN NET WORKING CAPITAL		1,785.0	1,746.0
Increase/(decrease) in provisions (including provisions for employee benefits and taxation)		(96.2)	(69.5)
(Increase)/decrease in inventories		5.8	12.5
(Increase)/decrease in trade receivables and other current assets		3.3	(111.9)
Increase/(decrease) in trade payables and other current liabilities		(274.2)	(10.5)
Increase/(decrease) in other non-current liabilities		4.5	427.5
(Increase)/decrease in other non-current assets		21.0	(178.6)
Interest income, dividends and other financial income received		32.8	24.1
Interest expense and other financial expenses paid		(201.2)	(225.3)
Income tax paid		(339.4)	(318.9)
CASH FLOW FROM OPERATING ACTIVITIES [A]		941.4	1,295.4
- of which related parties		183.4	14.3
Investments in non-current property, plant and equipment after grants received	12	(1,186.6)	(1,121.0)
Revenue from sale of non-current property, plant and equipment and intangible assets and other movements		10.5	19.2
Capitalised financial expenses		10.1	12.1
Investments in non-current intangible assets after grants received	14	(101.6)	(81.2)
(Increase)/decrease in investments in associates and joint arrangements	16	3.6	(3.3)
Movements in long-, medium- and short-term financial investments		(121.3)	(109.5)
Consideration paid for new acquisitions net of cash		(4.3)	-
CASH FLOW FOR INVESTING ACTIVITIES [B]		(1,389.6)	(1,283.7)
- of which related parties		(9.1)	(4.4)
Recognition of reserve for treasury shares	24	(9.5)	-
Dividends paid		(526.1)	(475.2)
Movements in short- and medium/long-term financial liabilities (including short-term portion)**		2,611.8	192.0
Recognition of non-controlling interests in equity of newly acquired companies		3.6	-
CASH FLOW FROM FINANCING ACTIVITIES [C]		2,079.8	(283.2)
- of which related parties		-	(500.0)
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS [A+B+C]		1,631.6	(271.5)
Cash and cash equivalents at beginning of year		1,057.4	1,328.9
Cash and cash equivalents at end of year		2,689.0	1,057.4
- of which Cash and cash equivalents from acquisitions		28.1	-

* After grants related to assets recognised in the income statement for the year.

** After derivatives and impact of fair value adjustments, including cash movements in right-of-use assets.



Notes

A. Accounting policies and measurement criteria

Introduction

Terna S.p.A.'s registered office is at Viale Egidio Galbani 70, Rome, Italy. The consolidated financial statements at and for the year ended 31 December 2020 include the Company's financial statements and those of its subsidiaries (the "Group"). The subsidiaries included within the scope of consolidation are listed below.

Publication of the consolidated financial statements was authorised by the Board of Directors on 24 March 2021.

The consolidated financial statements at and for the year ended 31 December 2020 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 also authorised the Chairwoman and the Chief Executive Officer to make any formal alterations to the consolidated financial statements as may be necessary during preparation of the final text to be submitted to the Annual General Meeting for approval, and any additions and adjustments to the sections concerning significant events after the end of the reporting period.

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

Compliance with IAS/IFRS

The consolidated financial statements at and for the year ended 31 December 2020 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 ("EU-IFRS").

This document has also been prepared taking into account the provisions of Legislative Decree 38 of 28 February 2005, of the Italian Civil Code and CONSOB Resolutions 15519 ("Provisions governing financial statements in implementation of art. 9, paragraph 3 of Legislative Decree 38/2005") and 15520 ("Amendments to the implementing rules for Legislative Decree 58/1998"), as well as CONSOB Communication DEM/6064293 ("Disclosure requirements for listed issuers and issuers of financial instruments that are widely held among the public pursuant to art. 116 of the Consolidated Law on Finance").

Basis of presentation

The consolidated financial statements consist of the statement of financial position, the income statement, and the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the notes thereto.

In the statement of financial position, assets and liabilities are classified on a “current/non-current” basis, with separate reporting of assets and liabilities held for sale. Current assets, which include cash and cash equivalents, are those held for realisation, sale or consumption in the Group’s normal operating cycle; current liabilities are those expected to be settled in the Group’s normal operating cycle or within one year of the end of the financial year.

The income statement is classified on the basis of the nature of costs. The income statement is presented as two statements, the first of which (the income statement) presents revenue and expense items for the year; the second (the statement of comprehensive income) starts with the result for the year and then presents the revenue and expense items (including reclassification adjustments) that are recognised in equity rather than profit or loss for the year. The statement of cash flows has been prepared using the indirect method.

The consolidated financial statements are accompanied by the Integrated Report for Terna S.p.A. and the Group, which as from financial year 2008 has been prepared as a single document, exercising the option granted by Legislative Decree 32 of 2 February 2007, which amended art. 40 (Integrated Report) of Legislative Decree 127 of 9 April 1991.

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

Certain amounts in the financial statements for the year ended 31 December 2019 have been restated to provide an improved basis for comparison, without however modifying the amounts recognised in equity at 31 December 2019, or in the income statement or statement of comprehensive income for 2019.

Use of estimates

Preparation of the consolidated financial statements requires the Group to use estimates and assumptions that affect the carrying amounts of assets and liabilities and the related disclosures, in addition to contingent assets and liabilities at the reporting date. These estimates and the associated assumptions are based on previous experience and various factors that are believed to be reasonable under the circumstances. The resulting estimates form the basis for making the judgements about the carrying amounts of assets and liabilities that are not readily apparent from other objective sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed periodically and the effects of any changes are recognised in the income statement for the year, if they relate solely to that period. In the case that the revision affects both current and future years, the change is recorded in the year in which the estimate is reviewed as well as in the relevant future years.

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

Impairment losses

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

The recoverable amount of goodwill and intangible assets with indefinite useful lives, where present, as well as intangible assets not yet available for use, is estimated at least annually. The recoverable amount is equal to the greater of the fair value less costs to sell and value in use.

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

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

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

Allowance for doubtful accounts

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

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

Provisions for risks and charges

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

Liabilities that may be associated with legal and tax disputes, early retirement incentives, liabilities associated with urban and environmental restoration projects and other sundry charges are estimated by the Group.

The measurement of provisions for legal disputes is based on the probability of incurring an expense, including through the use of external legal advisors supporting the Group companies; the estimate of provisions to be set aside for urban and environmental restoration projects, the "offsets" aimed at compensating for the environmental impact of the construction of new plant, is based on an analysis of the agreements entered into with the local authorities concerned and the progress of work on construction of the new plant.

Employee benefits

Post-employment benefit plans, including informal arrangements, are classified as either “defined benefit” or “defined contribution” plans depending on the nature of the plan. 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. The liability is recognised on an accruals basis during the employment period required to obtain the benefits.

Changes in the value of the net liability (revaluations) resulting from actuarial gains and losses, due to variations in the actuarial assumptions used or adjustments based on past experience, are recognized in other comprehensive income in the accounting period in which they occur. In the event of modification, curtailment or extinguishment of a plan, the related effects are recognised in profit or loss.

Net financial expenses include the return on plan assets and the interest cost to be recognised in profit and loss, and are measured applying to the liability, net of any plan assets, the discount rate used to calculate the present value of the liability; net interest on defined benefit plans is recognised in “Finance income (expenses)”.

The actuarial valuations used to quantify employee benefits (of all plans except termination benefits or *TFR*) are based on “vested benefits”, applying the projected unit credit method. These valuations are based on economic and demographic assumptions: the discount rate (used to determine the current value of the obligation, determined considering returns on high quality bonds in line with the duration of the group of workers measured), the inflation rate, the rate at which future salary levels are expected to rise, the rate of increase for average health reimbursements, rate of increase for electricity prices and demographic factors, such as mortality and invalidity, retirement, resignation, advances and household composition. With regard to *TFR*, the method of calculation is based on the present value, at the measurement date, of the estimated obligation to each employee, projected through to the estimated period in which payment of the benefits will occur.

In defined contribution plans, the Group’s obligation, limited to the payment of contributions to the state or to a fund or a legally separate entity, is measured on the basis of the contributions payable. The cost of these plans is recognised in profit or loss based on the contribution paid during the period.

Assessment of the impact of Covid-19

Based on the Group’s performance and the impact of the Covid-19 pandemic, as revealed by the specific assessments conducted, there are 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 Company’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. As more fully described in the Management Report in the sections “Outlook” and “Terna and the Covid-19 emergency”, the Group took immediate steps to ensure the continuity of the country’s electricity service, putting in place the necessary safeguards to guarantee the security of our operations as a Transmission System Operator (TSO) and the related supply chains. This was done whilst also focusing on efforts to ensure the health and safety of operational personnel and, in general, all the people who work for the Group. In addition, despite the fact that the spread of the health emergency caused by Covid-19 led to slowdown in activity, the Group has drawn up an action plan designed to make up for any delays, confirming the strategies and targets previously announced to the market.

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

In line with the ESMA recommendations published in 2020¹ and in accordance with the requirements set out in CONSOB Warning 1/2021 dated 16 February 2021, the Group has closely monitored the development of the Covid-19 pandemic and its potential impact on individual items in the Group's consolidated financial statements.

Non-financial assets and investments

Assessment of the impact of the outbreak of the pandemic has not resulted in the need to write down the value of the property, plant and equipment owned by the Group or of intangible assets with finite useful lives. The pandemic has had a marginal impact on expected cash flows, given that cash flows are for the most part linked to concessions in Italy and overseas, except for the initiative in Peru. 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), it should be noted that the assessment of estimated future cash flows generated by these assets has shown that the slowdown in operating activities, and the macroeconomic effects of the outbreak of the pandemic, have not given rise to impacts constituting triggering events requiring the Group to test for impairment. The same conclusions also apply to the recoverable amount of investments accounted for using the equity method, relating to companies for which the impact of the pandemic has been marginally contained.

Intangible assets with indefinite useful lives (Goodwill)

Measurement of the recoverable amount of the goodwill allocated to the Group's "Transmission" CGU was based on the fair value less costs of disposal. This was determined taking into account Terna's share price, appropriately adjusted for the estimated fair value of assets and liabilities not attributable to the CGU that includes transmission activities. The recoverable value measured during the impairment test is higher than the carrying amount in the financial statements inclusive of goodwill.

The same conclusion also applies to the value of goodwill allocated to the CGU relating to the "production and commercialisation of transformers", where cash flows have only marginally been affected by the negative impact of the pandemic.

Loan agreements and leases

The loan agreements and leases to which the Terna Group is party have not, to date, been subject to contractual amendments concerning either repayments to be made or the related deadlines as a result of the Covid-19 pandemic. The sole exception regards the Brazilian companies, Santa Maria and Santa Lucia, where financing is provided by the BNDES development bank. These companies are participating in a programme devised by the BNDES itself in response to the Covid-19 crisis, which grants borrowers a 6-month repayment holiday from May 2020. The principal and interest accruing during this period will be capitalised to the outstanding debt and distributed over future instalments without modifying the loan tenor. The transaction will further improve the two operators' liquidity and boost their financial leverage.

Financial instruments

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

¹ Above all: the ESMA Statement of 25 March 2020, "Public Statement. Accounting implications of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9"; the ESMA Statement of 20 May 2020, "Implications of the Covid-19 outbreak on the half-yearly financial reports"; and the ESMA Statement of 28 October 2020, "European common enforcement priorities for 2020 annual financial reports".

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

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

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

As described in greater detail in the section on credit risk in the Integrated Report for 2020, management of this risk is also driven by the provisions of ARERA Resolution 111/06, which introduced instruments designed to limit the risks related to the insolvency of dispatching customers, both on a preventive basis and in the event of an actual insolvency. The assessment conducted has, moreover, not provided evidence of the need to modify the model used following an evaluation of the impact of the pandemic.

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

As described in the section, "Default risk and debt covenants", long-term borrowings do not contain covenants linked to financial ratios, but rather consisting of "negative pledge" and "*pari passu*" provisions and other standard provisions applied to investment grade companies. With regard to this aspect, Fitch, Moody's, S&P and Scope have confirmed Terna's rating. The Company's rating is 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 has not led to changes in the relate hedging relationships or in the underlyings, consisting of both past and future transactions.

Revenue recognition

The Group has assessed the potential impact of the Covid-19 pandemic on movements in the income generated by its activities. Given that the most significant portion of the Group's income consists of revenue from Regulated Activities, and in view of the basis on which revenue is determined, management has not identified a need to modify the value of revenue accounted for by the Group.

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.

Subsidiaries and scope of consolidation

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

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROLLED DIRECTLY BY TERNA S.P.A.					
Terna Rete Italia S.p.A.	Rome	Euro	300,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance of power lines and grid infrastructure and other grid-related infrastructure, plant and equipment used in the above electricity transmission and dispatching activities and in similar, related and connected sectors.				
Terna Crna Gora d.o.o.	Podgorica (Montenegro)	Euro	208,000,000	100%	Line-by-line
Business	Authorisation, construction and operation of the transmission infrastructure forming the Italy-Montenegro interconnector on Montenegrin territory.				
Terna Plus S.r.l.	Rome	Euro	16,050,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance of plant, equipment and infrastructure for grids and systems, including distributed storage and pumping and/or storage systems.				
Terna Interconnector S.r.l.	Rome	Euro	10,000	65%*	Line-by-line
Business	Responsible for construction and operation of the private section of the Italy-France interconnector and civil works on the public section.				
Rete S.r.l.	Rome	Euro	387,267.082	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance of high-voltage power lines.				
Difebal S.A.	Montevideo (Uruguay)	Uruguayan peso	140,000	100%	Line-by-line
Business	Design, construction and maintenance of electricity infrastructure in Uruguay.				
Terna Energy Solutions S.r.l.	Rome	Euro	2,000,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance of distributed energy storage systems, pumping and/or storage systems, plant, equipment and infrastructure, including grids; research, consultancy and assistance in the above sectors; any other activity capable of improving the use and development of plant, resources and expertise.				
Resia Interconnector S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance, including on behalf of third parties, of power lines and grid infrastructure and other infrastructure connected to such grids, plant and equipment for use in electricity transmission operations, or in similar, related or connected sectors, and has been established to fulfil the obligations assumed by the energy-intensive companies in relation to implementation of the interconnection with Austria.				
ESPERIA-CC S.r.l.	Rome	Euro	10,000	1%**	Line-by-line
Business	A technical centre owned by a number of transmission system operators, which acts as the regional security coordinator for the TSOs, with the aim of improving and upgrading the security and coordination of the electricity system in south-eastern Europe.				

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

** 99% is held by Selene CC S.A..

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROLLED THROUGH TERNA PLUS S.R.L.					
Terna Chile S.p.A.	Santiago (Chile)	Chilean peso	2,030,800,000	100%	Line-by-line
Business	Design, construction, administration, development, operation and maintenance of any type of electricity system, plant, equipment and infrastructure, including interconnectors; the production of all types of product and service, construction, electrical and civil engineering work; research, consultancy and assistance in the above sectors; any other activity capable of improving the use and development of plant, resources and expertise.				
SPE Santa Maria Transmissora de Energia S.A.	Rio de Janeiro (Brazil)	Real	42,474,716	99.99%*	Line-by-line
Business	Provision of public electricity transmission services, including construction, operation and maintenance of transmission infrastructure or any other activity necessary in order to fulfil the above purpose.				
SPE Santa Lucia Transmissora de Energia S.A.	Rio de Janeiro (Brazil)	Real	153,714,431	99.99%*	Line-by-line
Business	Provision of public electricity transmission services, including construction, operation and maintenance of transmission infrastructure or any other activity necessary in order to fulfil the above purpose.				
Terna Peru S.A.C.	Lima (Peru)	Sales	106,548,000	99.99%*	Line-by-line
Business	Design, construction, administration, development, operation and maintenance of any type of electricity system, plant, equipment and infrastructure, including interconnectors; the production of all types of product and service, construction, electrical and civil engineering work; research, consultancy and assistance in the above sectors; any other activity capable of improving the use and development of plant, resources and expertise.				
Terna 4 Chacas S.A.C.	Lima (Peru)	Sales	1,000	99.99%*	Line-by-line
Business	Responsible for construction of a new 16 km power line in Peru.				
SPE Transmissora de energia Linha Verde I S.A.	Belo Horizonte (Brazil)	Real	74,999,313	75%**	Line-by-line
Business	Provision of public electricity transmission services, including construction, operation and maintenance of electricity transmission infrastructure or any other activity necessary in order to fulfil the above purpose.				
SPE Transmissora de energia Linha Verde II S.A.	Belo Horizonte (Brazil)	Real	53,729,548	75%**	Line-by-line
Business	Provision of public electricity transmission services, including construction, operation and maintenance of electricity transmission infrastructure or any other activity necessary in order to fulfil the above purpose.				

* 0.01% Terna Chile S.p.A..

** 25% Quebec Holding Eireli.

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROLLED THROUGH TERNA INTERCONNECTOR S.R.L.					
PI.SA. 2 S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Design, construction, management, development, operation and maintenance, including on behalf of third parties, of power lines and grid infrastructure and other infrastructure connected to such grids, plant and equipment for use in electricity transmission operations, or in similar, related or connected sectors, and has been established to fulfil the obligations assumed by the energy-intensive companies in relation to implementation of the Italy-France Interconnector.				
SUBSIDIARIES CONTROLLED THROUGH TERNA ENERGY SOLUTIONS S.R.L.					
Tamini Trasformatori S.r.l.	Legnano (MI)	Euro	4,285,714	70%*	Line-by-line
Business	Construction, repair and trading in electrical equipment.				
Rete Verde 17 S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Implementation and development of renewable energy projects.				
Rete Verde 18 S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Implementation and development of renewable energy projects.				
Rete Verde 19 S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Implementation and development of renewable energy projects.				
Rete Verde 20 S.r.l.	Rome	Euro	10,000	100%	Line-by-line
Business	Implementation and development of renewable energy projects.				
Avvenia The Energy Innovator S.r.l.	Rome	Euro	10,000	70%**	Line-by-line
Business	Provision of energy efficiency, energy consulting and process engineering services to companies and public and private entities; the application of technology to increase energy end-use efficiency; the design, construction, development and maintenance of plant, equipment and infrastructure for networks and other uses.				
Brugg Kabel AG	Brugg (Switzerland)	Swiss franc	30,000,000	90%***	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
SUBSIDIARIES CONTROLLED THROUGH TAMINI TRASFORMATORE S.R.L.					
Tamini Transformers USA LLC	Sewickley - Pennsylvania	US dollar	52,089	100%	Line-by-line
Business	Commercialisation of industrial-grade and high-power electricity transformers.				
Tamini Trasformatore India Private Limited	Maharashtra (India)	Indian rupee	13,175,000	100%	Line-by-line
Business	Commercialisation of industrial-grade and high-power electricity transformers.				
Consorzio Tamini - CERB	Bulgaria	Lev	-	78,48%****	Line-by-line
Business	Commercialisation of industrial-grade and high-power electricity transformers.				

* 30% Holdco TES (controlled by the Xenon Private Equity V fund, Riccardo Reboldi and Giorgio Gussago).

** 30% Avvenia S.r.l..

*** 10% BRUGG GROUP AG.

**** 21.52% CERB.

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROLLED THROUGH BRUGG KABEL AG					
Brugg Cables Middle East DMCC	Dubai (UAE)	Dirham	100,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Kabel GmbH	Schwieberdingen (Germany)	Euro	103,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Cables Italia S.r.l.	Milan	Euro	10,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Cables (Shanghai) Co. Ltd	Shanghai (China)	US dollar	1,600,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Cables (India) Pvt. Ltd	Haryana (India)	Indian rupee	48,000,000	99.74%****	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
SUBSIDIARIES CONTROLLED THROUGH BRUGG CABLES (SHANGHAI) CO. LTD					
Brugg Cables (Suzhou) Co. Ltd	Suzhou (China)	Chinese renminbi	32,000,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				

**** 0.26% Brugg Kabel GmbH.

The following changes in the structure of the Group have taken place with respect to 31 December 2019:

- on 29 February 2020, Terna S.p.A., acting through its subsidiary, Terna Energy Solutions S.r.l., completed the acquisition of a 90% interest in Brugg Kabel AG (a Brugg Group company). The transaction forms part of the Company's growth strategy for Non-regulated Activities;
- on 22 May 2020, the Company established SEleNe CC S.A., a joint venture 25%-owned by Terna, with the remaining shares held by three other European TSOs. The company will operate as a Regional Security Coordinator, in accordance with European Regulation 2017/1485, for the TSOs who own shares in it;
- on 11 August 2020, Terna, acting through its subsidiary, Terna Plus S.r.l., completed the transaction with Construtora Quebec that has led to the acquisition of a 51% interest in the Brazilian-registered company, SPE Transmissora de Energia Linha Verde I S.A.. On 9 September 2020, a further interest was acquired, increasing the Group's interest to 75%;
- on 20 November 2020, Terna S.p.A. and the joint venture, SEleNe CC S.A., established ESPERIA-CC S.r.l., a wholly owned subsidiary as a result of its corporate governance structure, despite Terna holding a 1% interest and SEleNe CC S.A. a 99% interest. The company provides support services for dispatching activities (in accordance with European Regulations 2017/1485, 2015/1222 and 2019/943), but is not included among companies that carry out regulated activities which are, therefore, regulated by ARERA;
- on 1 December 2020, Terna S.p.A. acquired a 25% interest in Equigy B.V., a limited liability company registered in the Netherlands and jointly controlled by Terna and the other TSOs who hold its shares. The investment represents a joint operation under IFRS 11 – *Joint Arrangements*.

Associates

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

Joint arrangements

Investments in joint arrangements, in which the Group exercises joint control with other entities, are recognised initially at cost and subsequently measured using the equity method. The profits or losses attributable to the Group are recognised in the consolidated financial statements when joint control begins and until that control ceases. The Group recognises its share of the assets and liabilities of joint arrangements in accordance with IFRS 11.

In assessing the existence of joint control, it is ascertained whether the parties are bound by a contractual agreement and whether this agreement attributes to the parties the joint control of the agreement itself. Joint control exists when an entity has control over an arrangement on a contractual basis, and only when decisions relating to the relevant activities require the unanimous consent of all parties that jointly control the arrangement.

The list of associates and joint ventures is shown below:

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL*	PROFIT FOR THE YEAR*	% INTEREST	METHOD OF CONSOLIDATION	CARRYING AMOUNT AT 31 DECEMBER 2020 (€M)
ASSOCIATES							
Cesi S.p.A.	Milan	Euro	8,550,000	8,277,695	42.698%	Equity Method	48.3
Business	Experimental research and provision of services related to electro-technology.						
Coreso S.A.	Brussels (Belgium)	Euro	1,000,000	430,400	15.84%	Equity Method	0.6
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	3,628,779	22.0889%	Equity Method	26.7
Business	Provision of transmission and dispatching services in Montenegro.						
JOINT ARRANGEMENT							
ELMED Etudes S.a.r.l.	Tunis (Tunisia)	Tunisian dinar	2,700,000	(1,065,873)	50%	Equity Method	0.1
Business	Conduct of preparatory studies for the construction of the infrastructure required to connect the Tunisian and Italian electricity system.						
SEleNe CC S.A.	Thessaloniki (Greece)	Euro	200,000	-	25%	Equity Method	0.1
Business	A technical centre owned by a number of transmission system operators, which acts as the regional security coordinator for the TSOs, with the aim of improving and upgrading the security and coordination of the electricity system in south-eastern Europe.						
Equigy B.V.	Arnhem (Netherlands)	Euro	40,000	-	25%	Joint Operation	-
Business	Provisions of support for electricity balancing by TSOs through the development and implementation of blockchain technology.						

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

Basis of consolidation

All the separate financial statements of the investees used to prepare the consolidated financial statements were drafted as of 31 December 2020 and have been approved by their respective Boards of Directors and shareholders' meetings; they have been adjusted, where necessary, to align them with the Parent Company's accounting policies.

During preparation of the consolidated financial statements, intercompany balances, transactions, revenue and costs are fully eliminated, net of the related tax effect, where material ("consolidation on a line-by-line basis").

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

Translation of foreign currency items

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

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

Property, plant and equipment

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

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

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

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

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

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

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

RATES OF DEPRECIATION

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

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

This item also includes right-of-use assets arising from lease arrangements relating to the use of property, plant and equipment, as recognised under IFRS 16. A lease arrangement is, or contains, a lease, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Applying this standard, the lessee recognises: (i) a right-of-use asset in its statement of financial position and a liability representing its obligation to make the payments provided for under the arrangement, for all leases with terms in excess of twelve months where the asset cannot be considered of low value (Terna has elected to apply the practical expedient provided for in the standard, recognising payments relating to this type of lease in the income statement); (ii) depreciation of the recognised assets and interest expense on the lease liability separately in the income statement.

In determining the lease term, the Group considers the non-cancellable period of the lease and the additional periods resulting from any options to extend the lease, or from the decision not to exercise the option to terminate the lease early (where there is reasonable certainty that such options will be exercised).

The lease liability is initially recognised at the present value of the remaining lease payments at the commencement date: (i) fixed payments; (ii) variable lease payments that depend on an index or a rate; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and finally (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. The present value of the payments is determined using a discount rate equal to the Group's incremental borrowing rate, bearing in mind the frequency and duration of the payments provided for in the lease contract. Following initial recognition, the lease liability is accounted for at amortised cost and remeasured, with a matching change in the value of the related right-of-use asset, when there is a change in future lease payments as a result of: (i) a renegotiation of the contract; (ii) changes in the index or rate; or (iii) changes in the assessment of whether or not the options contained in the contract will be exercised (e.g., the purchase of the leased asset, extension or termination of the lease). The right-of-use asset is initially recognised at cost, measured as the sum of the following components: (i) the amount of the initial measurement of the lease liability; (ii) any initial direct costs incurred by the lessee; (iii) any lease payments made at or before the commencement date, less any lease incentives received; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located (or restoring the underlying asset to the condition required by the terms and conditions of the lease). Following initial recognition, the right-of-use asset is adjusted to take into account (i) any accumulated depreciation, (ii) any accumulated impairment losses, and (iii) the effects of any remeasurement of the lease liability.

Intangible assets

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

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

Development costs are capitalised by the Terna Group only if they can be reliably estimated and there is the technical possibility and intention to complete the intangible asset so that it will be available for use, and the asset can be used and it is possible to demonstrate that it will generate probable future economic benefits.

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

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

Infrastructure rights

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

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

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

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

Goodwill

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

Inventories

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

Financial instruments

Financial assets

The new standard, IFRS 9 – Financial Instruments, effective from 1 January 2018, is divided into the following phases: classification and measurement, derecognition, impairment and hedge accounting.

In order to classify and measure financial instruments, the Group recognises financial assets at fair value inclusive of transaction costs.

Financial assets represented by debt instruments, and falling within the scope of application of the standard, may be measured at amortised cost, at fair value through other comprehensive

income or at fair value through profit or loss, depending on the business model adopted to manage the financial assets and the characteristics of the contractual cash flows.

In accordance with the provisions of IFRS 9, the Group correctly classifies these assets based on the results of so-called SSPI ("solely payments of principal and interest") tests. Under this test, assets may be recognised at amortised cost or fair value through other comprehensive income if 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 Group measures financial assets:

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

Infrastructure rights

These include the property, plant and equipment and intangible assets employed in Brazil under concession arrangements falling within the scope of application of IFRIC 12, since the services provided are regulated and control exists over the residual interest. More specifically, infrastructure rights have been recognised in financial assets, as valued on the basis of the Financial Asset model, given the return generated by the activities. This derives from an unconditional contractual right to receive cash or another financial asset from, or at the direction of, the grantor and the fact that the grantor cannot avoid payment.

The revenue and costs relating to investment are recognised with reference to the contracts concerned on a stage-of-completion basis; revenue recognised during the construction phase includes a profit margin on the work performed.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method. Receivables with due dates that reflect normal commercial terms are not discounted.

In accordance with the provisions of IFRS 9, the Group's trade receivables fall within the held to collect business model, as these assets are held with the objective of collecting the cash flows primarily by collecting the contractual cash flows, the receivables primarily fall due within 12 months and do not include a significant financial component, and the Group does not intend to sell such receivables.

Trade receivables are recognised net of any losses recognised in a specific allowance for doubtful accounts (identified on the basis described in the paragraph, "Allowance for doubtful accounts"). IFRS 9 has introduced application of a model based on expected credit losses. This requires the Group to assess expected credit losses, and the related changes, at each reporting date. Specifically, the Group has applied the simplified approach permitted by IFRS 9 to trade receivables, finance lease receivables and assets deriving from contracts with customers, in order to measure the allowance for doubtful accounts based on expected losses over the life

of the receivable. The Group has thus determined the amount of expected credit losses using a provisioning matrix, based on information regarding historical credit losses for similar past due exposures, adjusted to take into account current conditions and forward-looking elements.

Cash and cash equivalents

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

Trade payables

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

Financial liabilities

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

Derivative financial instruments

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

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

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

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

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

When derivatives cover the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the portion of changes in the fair value qualifying as effective is initially recognised in "Other comprehensive income" (accumulated in equity) and subsequently in profit or loss, as the cash flows from the hedged item affects profit or loss. The portion of the fair value of the hedging instrument that does not qualify as effective is recognised in profit or loss.

When hedging derivatives cover the risk of changes in the fair value of hedged instruments (fair value hedges), they are recognised at fair value in profit or loss. Accordingly, the hedged items are adjusted to reflect changes in the fair value associated with the hedged risk.

Changes in the fair value of derivatives that do not meet hedge accounting requirements in accordance with the EU-IFRS are recognised in profit or loss.

Fair value is measured on the basis of official quotations for instruments traded in regulated markets. The fair value of instruments not traded in regulated markets is measured by discounting projected cash flows along a yield curve prevailing in the market at the reporting date, and by translating amounts in currencies other than the euro at closing exchange rates. Financial and non-financial contracts (which are not already measured at fair value) are also analysed to identify any embedded derivatives, which must be separated and measured at fair value.

This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that produces a material change in the original associated cash flows.

Non-current assets held for sale

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

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

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

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

Employee benefits

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

Share-based payments

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

Provisions for risks and charges

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

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

Government grants

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

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

Revenue

The Group's revenue can be categorised as follows:

- *Revenue from sales and services*, including revenue from contracts with customers and therefore falling within the scope of IFRS 15.

In accordance with the provisions of IFRS 15, revenue from contracts with customers is recognised when the performance obligations identified in the contract are satisfied and control over the goods or services is transferred to the customer for an amount that reflects the consideration that the Group expects to receive in exchange for the goods or services.

The standard envisages two methods for identifying the correct time at which to recognise the revenue attributable to each performance obligation: at contract inception, the Group determines if the goods or services covered by the performance obligation will be transferred to the customer over a period of time or at a point in time:

- *Revenue from the sale of goods* is recognised when control of the goods is transferred to the customer (at a point in time). The Group determines if there are other promises in the contract representing a performance obligation to which a part of the transaction consideration must be allocated. In determining the sale price, the Group takes into account the effects of a variable consideration, significant financial components, non-monetary components and amounts to be paid to the customer (if present);

- *Revenue from services* is recognised with reference to the stage of completion of the activity, in accordance with the provisions of IFRS 15 (over a period of time).

- *Other revenue and income*, which includes revenue from lease arrangements and other residual forms of revenue, included within the scope of application of IFRS 15, deriving from sales of goods not forming part of the Group's ordinary activities.

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 2020 is approximately 0.81% (1.9% for 2019).

Financial income and expenses other than capitalised amounts are recognised on an accruals basis in respect of the interest on the net value of the related financial assets and liabilities, using the effective interest rate.

Treasury shares

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

Dividends

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

Earnings per share

Basic earnings per share is calculated by dividing the profit or loss for the year attributable to holders of the ordinary shares by the weighted average of ordinary shares outstanding during the year, excluding treasury shares.

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

Income taxes

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

Deferred tax assets are recognised when their recovery is considered probable, i.e., when future taxable income will be available against which the asset can be used. The recoverability of deferred tax assets is reviewed at the end of each year.

Deferred tax liabilities are recognised in any case if they exist. Taxes relating to items recognised directly in equity are also allocated to equity.

New accounting standards

International financial reporting standards effective as of 1 January 2020

A number of new amendments to standards already applied, which have not had a significant impact, came into effect from 1 January 2020. The relevant standards are as follows:

Amendment to IFRS 16: Leases Covid-19-Related Rent Concessions

On 9 October 2020, the European Commission issued Regulation 2020/1434, endorsing the amendment to IFRS 16. This aims to enable lessees to account for Covid-related rent concessions in the income statement rather than as a lease modification, at the effective date of the reduction.

This change applies to accounting periods beginning on or after 1 June 2020, but the Company has elected for early adoption of the amendment from 1 January 2020. The amendment has not had any impact on the Group.

Amendment to IFRS 3: Definition of a Business

On 21 April 2020, the European Commission issued Regulation 2020/551, endorsing the amendment to IFRS 3. This provides a clearer definition of a business, with guidelines and examples to identify when a set of activities and assets constitutes a business, thus falling within the scope of IFRS 3. The amendment also introduces a concentration test to assess whether or not a transaction is a business combination.

These new provisions have not had a significant impact.

Amendment to IAS 1 and IAS 8: Definition of Material

On 29 November 2019, the European Commission issued Regulation 2019/2104, endorsing the amendment to IAS 1 and IAS 8, which provides a new definition of material so as to standardise and clarify the definitions now contained in the standards and the Conceptual Framework. The new definition of material establishes that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements. These new provisions have not had a significant impact.

References to the Conceptual framework in IFRS Standards

On 29 November 2019, the European Commission issued Regulation 2019/2075, endorsing the amendment to the Conceptual Framework for Financial Reporting. The main changes regard a new section on measurement, improved definitions and guidance, above all with regard to the definition of liabilities and the clarification of concepts such as prudence and measurement uncertainty. These new provisions have not had a significant impact.

International financial reporting standards 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 4: Insurance Contracts - deferral of 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. These changes will be effective from 1 January 2021.

Amendment to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform – Phase 2

On 14 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 amendments will come into effect from 1 January 2021.

The Group is assessing the standards and interpretations indicated, where applicable, in order to assess whether or not their adoption will have a significant impact on the financial statements.

International financial reporting standards awaiting endorsement

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

IFRS 17: Insurance Contracts

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 defines the new principles for the recognition, measurement, presentation and disclosure of insurance contracts. The General Model of reference is based on the discounting of expected cash flows, with the indication of a risk adjustment and upfront profits through the “contractual service margin”, which cannot be negative.

Improvement to IFRSs (2018-2020 Cycle)

Published by the IASB on 14 May 2020, the annual improvements for the 2018-2020 cycle contain amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.

Amendments to IFRS 3, IAS 16, IAS 37

Published on 14 May 2020, these amendments regard IFRS 3, IAS 16 and IAS 37.

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

Amendments to IAS 1 were published on 23 January 2020 and 15 July 2020, respectively. These propose to alter the classification of a liability as ‘non-current’ when an entity expects to refinance or renew an obligation at least twelve months after the reporting period, under an existing financing agreement with the same creditor and on conditions that the same or similar.

Amendment to IFRS 17: Insurance Contracts

This amendment to IFRS 17 was published on 25 June 2020 and aims to simplify and clarify various aspects of accounting for insurance and reinsurance contracts. One of the key changes is a two-year deferral of the date on which the application of IFRS 17 becomes obligatory, which has been postponed until the accounting period beginning on 1 January 2023.



B. Notes to the consolidated income statement

Revenue

1. REVENUE FROM SALES AND SERVICES - €2,461.9 MILLION

	(€m)		
	2020	2019	CHANGE
Transmission charges billed to grid users	1,938.1	1,859.5	78.6
Back-billing of transmission charges for previous years	0.4	0.7	(0.3)
Other energy-related revenue and from services performed under concession	221.7	172.8	48.9
Quality of service bonuses/(penalties)	29.4	20.2	9.2
Other sales and services	272.3	234.7	37.6
TOTAL	2,461.9	2,287.9	174.0

Transmission charges

The charges for use of the NTG and back-billing regard the revenue attributable to the Parent (1,796.9 million) and the subsidiaries Rete S.r.l. (€131.0 million) and Terna Crna Gora d.o.o. (€10.6 million) as owners and operators of the grid.

The increase in revenue from the transmission service (up €78.3 million) broadly reflects the impact of the increase in RAB, the accrued amount due as a return on digital substation systems (€29.3 million, reflecting systems entering service through to 2018, in accordance with ARERA Resolution 565/2020) and the release of provisions following settlement of a liability with an operator (up €10.6 million), partly offset by the negative impact of the volume effect.

Other energy-related revenue and from services performed under concession

This item regards dispatching and metering revenue (essentially relating to €106.3 million, for the dispatching component, €0.2 million for the metering component and other energy-related revenue of €2.8 million) and revenue from infrastructure construction and upgrade services performed under concession, recognised in application of IFRIC 12 (€112.4 million). This includes revenue from activities in South America (€66.3 million in Brazil and €17.6 million in Peru).

The increase in "Other energy-related revenue and from services performed under concession" compared with 2019, totalling €48.9 million, is linked primarily to increased investment in assets held under concession in Brazil (up €38.4 million), essentially in relation to the lines under construction by Linha Verde II, acquired towards the end of 2019 (up €27.0 million) and the new company, Linha Verde I, a company acquired in August 2020 (up €15.1 million). These increases were partially offset by a reduction in activity relating to the lines operated by Santa Lucia and Santa Maria, which entered service in previous year (down €3.7 million). There was also an increase in investment in construction of the line nearing completion in Peru, totalling €13.2 million.

	(€m)		
OTHER ENERGY-RELATED REVENUE AND FROM SERVICES PERFORMED UNDER CONCESSION	2020	2019	CHANGE
Dispatching and metering revenue and other energy-related revenue	109.3	112.9	(3.6)
Revenue from services performed under concession (IFRIC 12)	112.4	59.9	52.5
- of which in Italy	28.5	27.6	0.9
- of which overseas	83.9	32.3	51.6
TOTAL ENERGY-RELATED REVENUE AND FROM SERVICES PERFORMED UNDER CONCESSION	221.7	172.8	48.9

Quality of service bonuses/(penalties)

This item, amounting to €29.4 million, regards the RENS (Regulated Energy Not Supplied) incentive mechanism introduced by Resolution 653/2015/r/eel, which takes into account both the RENS performance for 2019, obtained by linearizing the overall effects of the regulation spread throughout the semi-period from 2016 to 2019, and the bonus calculated on the estimated performance for 2020, corresponding with the average of the expected results for the semi-period from 2020 to 2023.

The item is up €9.2 million compared with the previous year, primarily due to the pro-rata valuation of the 2020 RENS performance and definition of the RENS performance for 2019 (as per ARERA Resolution 540/2020).

Other sales and services

The item, "Other sales and services", amounting to €272.3 million, mainly regards revenue from Non-regulated Activities, regarding:

- revenue contributed by Brugg Cables since its acquisition (€94.3 million, essentially relating to contracts with third parties);
- the sale of transformers by the subsidiary, Tamini (€102.1 million);
- Energy Solutions (€35.9 million), above all HV services, totalling €25.6 million and Smart Grids, totalling €8.7 million, including the energy efficiency services provided by the subsidiary, Avvenia The Energy Innovator S.r.l., in addition to the cluster relating to digital services, amounting to €1.6 million;
- Connectivity (€25.7 million) with specific regard to support and housing services for fibre networks.

This item also includes revenue from NTG connection services (€4.4 million) and revenue from the private Italy-France Interconnector (€3.6 million), representing the accrued portion of the revenue attributable to the Group for services provided during construction.

This item is up €37.6 million compared with 2019, primarily due to the contribution from the acquired company, Brugg Cables (€94.3 million), partially offset by a €37.5 million reduction in revenue following the completion of work on construction of the "Melo - Tacuarembò" line in Uruguay in October 2019 and the reduced contribution from Connectivity (down €1.8 million), primarily due to the postponement of many activities until 2021 and a reduced contribution from Tamini (down €4.0 million), linked to the impact of the Covid-19 pandemic on operations.

Pass-through revenue/expenses

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

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

	(€m)		
	2020	2019	CHANGE
Power Exchange-related revenue items	4,081.5	3,957.9	123.6
- Uplift	2,430.8	1,963.4	467.4
- Electricity sales	348.5	538.8	(190.3)
- Imbalances	447.7	485.7	(38.0)
- Congestion revenue	226.9	295.8	(68.9)
- Charges for right to use transmission capacity and Market Coupling	209.0	353.0	(144.0)
- Interconnectors/shippers	68.2	75.3	(7.1)
- Load Profiling for public lighting	149.6	81.1	68.5
- Other Power Exchange-related pass-through revenue items	200.8	164.8	36.0
Total over-the counter revenue items	1,422.9	1,362.2	60.7
- Coverage of wind farm costs	24.2	-	24.2
- Transmission revenue passed on to other NTG owners	5.0	5.0	-
- Charge to cover cost of essential plants	526.6	412.4	114.2
- Charge to cover cost of energy delivery capacity	195.3	206.7	(11.4)
- Charge to cover cost of interruptibility service	305.0	306.0	(1.0)
- Charge to cover cost of LV capacity and protection service	299.5	340.0	(40.5)
- Other pass-through revenue for over-the-counter trades	67.3	92.1	(24.8)
TOTAL PASS-THROUGH REVENUE	5,504.4	5,320.1	184.3
Total Power Exchange-related cost items	4,081.5	3,957.9	123.6
- Electricity purchases	2,893.3	2,609.7	283.6
- Imbalances	370.5	425.6	(55.1)
- Congestion revenue	138.7	209.4	(70.7)
- Charges for right to use transmission capacity and Market Coupling	82.4	152.0	(69.6)
- Interconnectors/Shippers	216.8	307.3	(90.5)
- Load Profiling for public lighting	176.4	100.9	75.5
- Other Power Exchange-related pass-through cost items	203.4	153.0	50.4
Total over-the-counter cost items	1,422.9	1,362.2	60.7
- Shortfall in wind production	24.2	-	24.2
- Transmission costs passed on to other NTG owners	5.0	5.0	-
- Fees paid for essential units	526.6	412.4	114.2
- Fees paid for energy delivery capacity	195.3	206.7	(11.4)
- Fees paid for interruptibility service	305.0	306.0	(1.0)
- Fees paid for LV capacity and protection service	299.5	340.0	(40.5)
- Other pass-through costs for over-the-counter trades	67.3	92.1	(24.8)
TOTAL PASS-THROUGH COSTS	5,504.4	5,320.1	184.3

The total uplift cost in 2020, amounting to €2,430.8 million, is up €467.4 million, on the figure for the previous year, primarily reflecting the increased cost of procuring services on the DSM, relating in particular to the Services component (reflecting the increase in black starts), in terms of both volumes and prices, and a reduction in congestion revenue.

2. OTHER REVENUE AND INCOME – €113.8 MILLION

	(€m)		
	2020	2019	CHANGE
Sundry grants	8.2	9.4	(1.2)
Sales to third parties	8.2	3.5	4.7
Gains on sale of infrastructure components	6.2	5.6	0.6
Revenue from IRU contracts for fibre	1.9	7.8	(5.9)
Insurance proceeds as compensation for damages	1.4	12.5	(11.1)
Rental income	2.9	2.3	0.6
Bargain purchase	73.0	-	73.0
Other revenues	12.0	15.8	(3.8)
TOTAL	113.8	56.9	56.9

“Other revenue and income” includes revenue resulting from the higher value of the net assets acquired following the acquisition of Brugg Cables compared with the consideration paid (the gain resulting from a bargain purchase, totalling €73.0 million, further details are provided in the section, “Business combinations”), as well as other significant items relating to sundry grants and sales to third parties (both equal to €8.2 million), gains on the sale of infrastructure components (€6.2 million) and other revenue of €12.0 million, primarily generated by the private Italy-Montenegro interconnector, totalling €6.4 million.

This item, totalling €113.8 million, is up €56.9 compared with the previous year, primarily due to the higher value of the net assets acquired following the acquisition of Brugg Cables compared with the consideration paid (up €73.0 million), partially offset by greater revenue in the form of insurance proceeds in 2019 (down €11.1 million) and a reduction in revenue from other revenues (down €3.8 million), above the penalty recognised in the previous year by the Brazilian subsidiary, Santa Lucia, in relation to the delay to the entry into service of the power line caused by a supplier, totalling €6.2 million.

Operating costs**3. RAW AND CONSUMABLE MATERIALS USED – €222.6 MILLION**

This item includes the value of the various materials and equipment used in the ordinary operation and maintenance of the plant belonging to the Group and third parties, and the materials consumed in the performance of contract work by the Tamini Group, in the production of cables and accessories by the Brugg Group and in South America.

The increase of €79.8 million compared with the previous year primarily reflects the cost of materials incurred by Brugg Cables (up €62.3 million), acquired in early 2020, the increase in costs relating to the development of operations in South America, recognised in application of IFRIC 12 (up €51.1 million, linked primarily to the activities of Linha Verde II, the start-up of operations by Linha Verde I, acquired in August 2020, and an increase in work carried out in Peru, partially offset by reduced costs incurred in Brazil following the entry into service of the line built by the subsidiary, Santa Lucia, in early 2019). These increases were partially offset by reduced costs incurred on construction of the line in Uruguay after it entered service in October 2019 (down €38.4 million). The Tamini Group's business also registered an increase in costs (up €1.9 million).

4. SERVICES – €191.8 MILLION

			(€m)
	2020	2019	CHANGE
Maintenance and sundry services	104.7	102.3	2.4
Tender costs for plant	32.0	35.9	(3.9)
IT services	18.2	12.9	5.3
Insurance	14.6	13.9	0.7
Lease expense	13.2	11.2	2.0
Remote transmission and telecommunications	9.1	11.1	(2.0)
TOTAL	191.8	187.3	4.5

This item, totalling €191.8 million is up €4.5 million compared with 2019 (€187.3 million). This primarily reflects the contribution from Brugg Cables (up €9.6 million), increased costs linked to the construction and development of infrastructure under concession, recognised in application of IFRIC 12 (up €2.0 million, in particular reflecting the net effect of a €4.2 million increase in the cost of IT services and a €2.3 million reduction in maintenance costs), partially offset by a reduction in travel expenses and in the cost of training as a result of the Covid-19 pandemic (down €7.6 million).

Service costs include the fees payable to members of the Board of Statutory Auditors (€0.4 million) and the Supervisory Board established in compliance with Legislative Decree 231/2001 (€0.7 million).

5. PERSONNEL EXPENSES – € 288.7 MILLION

			(€m)
	2020	2019	CHANGE
Salaries, wages and other short-term benefits	344.2	315.1	29.1
Directors' remuneration	1.7	1.9	(0.2)
Termination benefits (<i>TFR</i>), energy discounts and other employee benefits	24.1	17.5	6.6
Early retirement benefits	2.9	(0.3)	3.2
Gross personnel expenses	372.9	334.2	38.7
Capitalised personnel expenses	(84.2)	(77.5)	(6.7)
TOTAL	288.7	256.7	32.0

Personnel expenses, amounting to €288.7 million in 2020, are up €32.0 million compared with the previous year (€256.7 million). This is due to an increase in the workforce following the acquisition of Brugg Cables (up €24.4 million) and provisions for staff incentive plans (up €7.7 million).

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

NUMBER	AVERAGE WORKFORCE		WORKFORCE AT	
	2020	2019	31 DECEMBER 2020	31 DECEMBER 2019
Senior managers	83	77	80	72
Middle managers	669	638	672	617
Office staff	2,516	2,373	2,587	2,382
Blue-collar workers	1,356	1,256	1,396	1,219
TOTAL	4,624	4,344	4,735	4,290

The net increase in the average workforce compared with 2019 is 280, essentially due to the impact of the acquisition of Brugg Cables.

At 31 December 2020, the Terna Group's workforce breaks down as follows:

	TERNA S.P.A.	TERNA RETE ITALIA S.P.A.	TERNA ENERGY SOLUTIONS S.R.L.	TERNA PLUS S.R.L.	AVVENIA THE ENERGY INNOVATOR S.R.L.	TAMINI GROUP	BRUGG GROUP
Number	767	3,094	39	35	18	346	381

	TERNA CRNA GORA D.O.O.	SPE SANTA MARIA TRANSMISSORA DE ENERGIA S.A.	SPE SANTA LUCIA TRANSMISSORA DE ENERGIA S.A.	SPE TRANSMISSORA DE ENERGIA LINHA VERDE I S.A.	SPE TRANSMISSORA DE ENERGIA LINHA VERDE II S.A.	TERNA PERU S.A.C.	DIFEBAL S.A.
Number	11	4	19	1	11	7	2

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES – €643.8 MILLION

	(€m)		
	2020	2019	CHANGE
Amortisation of intangible assets	65.9	57.4	8.5
<i>of which on infrastructure</i>	23.9	22.5	1.4
Depreciation of property, plant and equipment	560.0	527.3	32.7
Impairment losses on property, plant and equipment	17.5	2.3	15.2
Impairment losses on current assets	1.0	-	1.0
Impairment losses on trade receivables	(0.6)	(0.9)	0.3
TOTAL	643.8	586.1	57.7

Amortisation, depreciation and impairment losses, amounting to €643.8 million (including €8.8 million recognised in application of IFRS16), are up €57.7 million compared with 2020. This primarily reflects the entry into service of infrastructure operated by the Parent Company (up €32.9 million) and the Montenegrin subsidiary, Terna Crna Gora d.o.o. (up €5.0 million, reflecting the entry into service of the Italy-Montenegro interconnector), in addition to the contribution from the subsidiary, Brugg Cables (€7.9 million) and the impact of impairment losses of the Peruvian assets tested for impairment during the year (€9.2 million).

7. OTHER OPERATING COSTS - €42.2 MILLION

			(€m)
	2020	2019	CHANGE
Indirect taxes and local taxes and levies	12.4	(3.4)	15.8
Quality of service costs	8.3	0.6	7.7
<i>of which mitigation and sharing mechanisms</i>	7.6	0.3	7.3
<i>of which the Fund for Exceptional Events</i>	0.9	(0.1)	1.0
<i>of which compensation mechanisms for HV users</i>	(0.2)	0.4	(0.6)
Fees paid to regulators and membership dues	7.2	6.8	0.4
Adjustment of provisions for litigation and disputes	0.4	1.7	(1.3)
Losses on sales/disposals of plant and net contingent liabilities	(0.5)	0.8	(1.3)
Other	14.4	10.3	4.1
TOTAL	42.2	16.8	25.4

The Group's other operating costs, amounting to €42.2 million, are primarily attributable to the Parent Company (€30.5 million), the subsidiary, Terna Rete Italia S.p.A. (€3.1 million) and the Tamini Group (€2.6 million). They include the contribution linked to the acquisition of Brugg Cables (€4.6 million) and indirect taxes, local taxes and levies (€12.4 million), membership dues and fees paid to trade bodies and associations relating to the Group's activities (€7.2 million), quality of service costs (€8.3 million) and other costs (€14.4 million), including provisions for risks and charges connected with the activities of the subsidiary, Tamini (€2.4 million), and other operating costs contributed by the subsidiary, Brugg Cables, relating to the cost of scrapping waste materials, donations and other expenses.

The increase of €25.4 million primarily reflects increases in indirect taxes, local taxes and levies (up €15.8 million) broadly due to the adjustment, in 2019, of provisions for taxation (up €15.1 million as a result of prior provisions made in relation to Land Registry Circular 6/2012), as well as increased costs relating to quality of service (up €7.7 million), essentially due to outages that occurred at the end of 2020.

8. FINANCIAL INCOME/(EXPENSES) – (€89.6) MILLION

(€m)

	2020	2019	CHANGE
FINANCIAL EXPENSES			
Financial expenses paid to Cassa Depositi e Prestiti	-	(0.3)	0.3
Interest expense on medium/long-term borrowings and related hedges	(103.2)	(96.3)	(6.9)
Adjustments to bonds in issue and the related hedges	(4.1)	-	(4.1)
Discounting of receivables, employee benefits, operating leases and other liabilities	-	(0.4)	0.4
Capitalised financial expenses	10.1	12.1	(2.0)
Translation differences	(4.0)	(5.8)	1.8
Other financial expenses	(1.4)	(1.6)	0.2
Total expenses	(102.6)	(92.3)	(10.3)
FINANCIAL INCOME			
Interest income and other financial income	10.5	10.0	0.5
Restructuring of bond issues and related hedges	-	1.3	(1.3)
Discounting of receivables, employee benefits, operating leases and other liabilities	2.5	-	2.5
Total income	13.0	11.3	1.7
TOTAL	(89.6)	(81.0)	(8.6)

Net financial expenses of €89.6 million are essentially attributable to the Parent Company (€79.6 million) and reflect €102.6 million in financial expenses and €13.0 million in financial income. The increase in net financial expenses compared with 2019, amounting to €8.6 million, primarily reflects the following:

- an increase in financial expenses on medium/long-term borrowings and the related hedges (€6.9 million) primarily due to interest expense on the debt of overseas companies;
- a decrease in capitalised financial expenses (€2.0 million), linked to the above-noted fall in interest rates during the year.

9. SHARE OF PROFIT/(LOSS) OF INVESTEEs ACCOUNTED FOR USING THE EQUITY METHOD – (€3.9) MILLION

This item, amounting to a loss of €3.9 million, reflects a deterioration of €7.2 million compared with the previous year (€3.3 million), broadly due to the negative impact of the adjustment of the Group's share of equity at the end of the year in CESI, an associate of the Group.

10. INCOME TAX EXPENSE – €297.8 MILLION

	2020	2019	CHANGE
Income tax for the year			
Current tax expense:			
- IRES (corporate income tax)	274.1	282.6	(8.5)
- IRAP (regional tax on productive activities)	58.5	59.4	(0.9)
Total current tax expense	332.6	342.0	(9.4)
New temporary differences:			
- deferred tax assets	(22.1)	(21.9)	(0.2)
Reversal of temporary differences:			
- deferred tax assets	23.8	22.3	1.5
- deferred tax liabilities	(28.8)	(29.3)	0.5
Adjustment of IRES rate			
Total deferred tax (income)/expense	(27.1)	(28.9)	1.8
Adjustments to taxes for previous years	(6.1)	(1.2)	(4.9)
Other one-off changes	(1.6)	1.6	(3.2)
TOTAL	297.8	313.5	(15.7)

Current income tax expense of €332.6 million is down €9.4 million compared with the previous year, essentially due an increase in tax-exempt income recognised during the year.

Net deferred tax expense of €27.1 million is down €1.8 million compared with the figure for the previous year (€28.9 million).

Adjustments to taxes for previous years, amounting to -€6.1 million, reflect the overpayment of current tax expense in previous years. The change compared with the previous year (an increase of €4.9 million) is primarily attributable to the Parent Company. Other one-off changes (a reduction of €1.6 million) regard the release of provisions for tax expense made by the subsidiary, Rete S.r.l., in the previous year.

The effective tax charge for the year (€297.8 million) results in a tax rate of 27.2% compared with 29.1% for 2019.

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

	2020	2019
Profit before tax	1,093.1	1,077.4
THEORETICAL TAX CHARGE IRES	262.3	258.6
IRAP	58.5	59.4
Permanent differences	(15.3)	(3.3)
TAX (after adjustment for previous years and one-off changes)	305.5	313.1
TAX RATE	27.9%	29.1%
Adjustments to taxes for previous years	(6.1)	(1.2)
Other one-off changes	(1.6)	1.6
INCOME TAX EXPENSE FOR THE YEAR	297.8	313.5
EFFECTIVE TAX RATE	27.2%	29.1%

11. EARNINGS PER SHARE

Earnings per share, which corresponds to diluted earnings per share, amounts to €0.391 (based on profit for the year attributable to owners of the Parent, totalling €785.5 million, divided by the number of shares outstanding, totalling 2,009,359,667.0. This number is the weighted average number of shares outstanding during the year).

C. Operating segments

In line with the Business Plan 2021-2025, and in compliance with IFRS 8, the Terna Group's identified operating segments are described below:

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

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

The Non-regulated segment includes deregulated activities and specific business initiatives, above all relating to the provision of services to third parties in the areas of Energy Solutions, consisting of the development of technical solutions and the supply of innovative services, including EPC (Engineering, Procurement and Construction) services, operation and maintenance of high-voltage and very high-voltage infrastructure, and the supply of energy efficiency services, broadly attributable to the subsidiary, Avvenia The Energy Innovator S.r.l.. This segment also includes Connectivity (support and housing services for fibre networks and IRU contracts for fibre. This segment also includes the activities carried out in relation to the private interconnectors launched by Law 99/2009, legislation that assigned Terna responsibility for selecting undertakings (the "selected undertakings"), on the basis of public tenders, willing to finance specific interconnectors in exchange for the benefits resulting from a decree granting a third-party access exemption with regard to the transmission capacity provided by the new infrastructure. The Non-regulated segment also includes the operations of the Tamini Group, relating essentially to the construction and commercialisation of electrical equipment, above all power transformers, and the Brugg Group, which operates in the terrestrial cable sector, specialising in the design, development, construction, installation and maintenance of electrical cables of all voltages and accessories for high-voltage cables. This latter company was acquired in February 2020.

On the other hand, the International segment includes the results deriving from opportunities for international expansion, which the Group aims to exploit by leveraging its core competencies developed in Italy as a TSO, where such competencies are of significant importance in its home country. Overseas investment focuses on countries with stable political and regulatory regimes and a need to develop their electricity infrastructure. This segment includes the results of the subsidiary, Terna Plus S.r.l., and of the two Brazilian companies, SPE Santa Lucia Trasmisora de Energia S.A., SPE Santa Maria Trasmisora de Energia S.A., SPE Trasmisora de Energia Linha Verde I S.A. acquired in August 2020 and SPE Trasmisora de Energia Linha Verde II S.A. acquired in November 2019, the Peruvian companies, Terna Peru S.A.C. and Terna 4 Chacas S.A.C., established in August 2019, the Uruguayan company, Difebal S.A., and the Chilean company, Terna Chile S.p.A..

	(€m)			
	2020	2019	CHANGE	% CHANGE
REGULATED REVENUE	2,148.9	2,055.0	93.9	4.6%
NON-REGULATED REVENUE	341.0	211.7	129.3	61.1%
INTERNATIONAL REVENUE*	23.6	28.4	(4.8)	(16.9%)
Cost of international activities	62.2	49.7	12.5	25.2%
TOTAL REVENUE	2,575.7	2,344.8	230.9	9.8%
GROSS OPERATING PROFIT (EBITDA)**	1,830.4	1,741.2	89.2	5.1%
of which Regulated EBITDA ***	1,720.7	1,657.5	63.2	3.8%
of which Non-Regulated EBITDA	96.9	70.0	26.9	38.4%
of which International EBITDA	12.8	13.7	(0.9)	(6.6%)
Reconciliation of segment result with Group's pre-tax result				
GROSS OPERATING PROFIT (EBITDA)	1,830.4	1,741.2		
Amortisation, depreciation and impairment losses	643.8	586.1		
OPERATING PROFIT/(LOSS) (EBIT)	1,186.6	1,155.1		
Financial income/(expenses)	(89.6)	(81.0)		
Share of profit/(loss) of investees accounted for using the equity method	(3.9)	3.3		
Profit/(Loss) before tax	1,093.1	1,077.4		

* Directly includes the margin earned on overseas concessions.

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

*** EBITDA including indirect costs.

The Group's revenue for 2020 amounts to €2,575.7 million, an increase of €230.9 million (9.8%) compared with 2019.

Gross operating profit (EBITDA) of €1,830.4 million is up €89.2 million (5.1%) on the €1,741.2 million of 2019.

EBITDA from Regulated Activities amounts to €1,720.7 million, an increase of €63.2 million compared with the previous year. This primarily reflects the tariff increase provided for by ARERA Resolution 568/19 and recognition in the regulated activities segment of part of the revenue relating to the acquisition of Brugg Cables (€22.6 million).

EBITDA from Non-Regulated Activities for 2020 amounts to €96.9 million, an increase of €26.9 million compared with the previous year. This primarily reflects recognition of the segment's share of the revenue resulting from the higher value of the net assets acquired following the acquisition of Brugg Cables compared with the consideration paid (revenue from a bargain purchase, amounting to €50.4 million, net of the related costs of €2.3 million) and the reduced contribution from private interconnector project pursuant to Law 99/2009 (down €6.8 million), following the entry into service of the Italy-Montenegro interconnector at the end of 2019 and the different rate of progress on the Italy-France interconnector. The result also reflects a reduction in the contribution from services for third parties (down €8.5 million), due primarily to the postponement of many activities relating to Connectivity until 2021 and the lower contribution from Tamini (down €4.5 million), linked to the impact of the Covid-19 pandemic on its operations.

International EBITDA for 2020 amounts to €12.8 million, a decrease of €0.9 million compared with the previous year. The reduced contribution from activities carried out under concession in Brazil, due to the recognition, in 2019, of penalties applied to suppliers, after additional provisions for risks and charges and a deterioration in the exchange rate between the Brazilian real and the euro, was broadly offset by the expansion of operations linked to development of the new lines in Minas Gerais and a reduction in the costs incurred by central departments in order to support overseas initiatives, linked above all to the postponement of certain activities.

Information on the financial position periodically reported to senior management is not provided directly on the basis of each individual segment, but based on the measurement and presentation of gross invested capital as a whole, given that the contribution from Non-regulated and International Activities is not material. The following table shows this indicator at 31 December 2020 and 31 December 2019.

	(€m)	
	31 DECEMBER 2020	31 DECEMBER 2019
Net non-current assets *	15,645.9	14,908.5
of which investments in associates and joint ventures	75.8	79.4
Net working capital **	(1,936.2)	(2,207.8)
Gross invested capital ***	13,709.7	12,700.7

* Net non-current assets include the value of "Property, plant and equipment", "Goodwill", "Intangible assets", "Investments accounted for using the equity method", "Other non-current assets" and "Non-current financial assets", excluding the value of prepaid fees on credit facilities (€94.2 million).

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

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



D. Notes to the consolidated statement of financial position

Assets

12. PROPERTY, PLANT AND EQUIPMENT – €14,559.7 MILLION

(€m)

	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONST. AND PREPAYMENTS	TOTAL
COST AT 31 DECEMBER 2019	209.8	2,065.7	18,623.1	117.4	169.5	1,555.7	22,741.2
Cost reclassified to discontinued operations and assets held for sale	-	(5.2)	(4.0)	(2.6)	-	-	(11.8)
Investment	0.6	32.7	3.0	4.9	2.9	1,205.4	1,249.5
<i>of which right-of-use assets</i>	0.6	32.1	-	-	1.4	-	34.1
<i>of which finance leased assets</i>	-	-	2.1	-	-	-	2.1
Assets entering service	1.7	123.1	776.4	5.2	14.4	(920.8)	-
Contribution from newly acquired companies	-	27.7	19.7	74.2	7.2	-	128.8
<i>of which right-of-use assets</i>	-	16.3	-	-	-	-	16.3
Translation differences	-	-	-	-	(0.3)	-	(0.3)
Disposals and impairments	(2.0)	(7.8)	(67.2)	(0.7)	(2.1)	(5.0)	(84.8)
<i>of which right-of-use assets</i>	(2.0)	(1.2)	-	-	(0.3)	-	(3.5)
<i>of which finance leased assets</i>	-	-	(1.4)	-	-	-	(1.4)
Other movements	-	(3.9)	(36.6)	0.4	(2.0)	12.9	(29.2)
<i>of which right-of-use assets</i>	-	-	-	-	(0.2)	-	(0.2)
COST AT 31 DECEMBER 2020	210.1	2,232.3	19,314.4	198.8	189.6	1,848.2	23,993.4
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AT 31 DECEMBER 2019	(1.0)	(623.8)	(8,028.0)	(91.7)	(132.5)	-	(8,877.0)
Accumulated depreciation and impairment losses reclassified to discontinued operations and assets held for sale	-	4.2	3.7	2.6	-	-	10.5
Depreciation for the year	(0.6)	(57.7)	(480.7)	(7.5)	(13.5)	-	(560.0)
<i>of which right-of-use assets</i>	(0.6)	(6.7)	-	-	(1.5)	-	(8.8)
<i>of which finance leased assets</i>	-	-	(3.5)	-	-	-	(3.5)
Contribution from newly acquired companies	-	(4.3)	-	(65.9)	(5.9)	-	(76.1)
Translation differences	-	-	-	-	0.1	-	0.1
Disposals	0.7	3.0	62.3	0.7	2.0	-	68.7
<i>of which right-of-use assets</i>	0.7	0.4	-	-	0.1	-	1.2
<i>of which finance leased assets</i>	-	-	0.4	-	-	-	0.4
Other movements	-	-	0.2	(0.1)	-	-	0.1
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AT 31 DECEMBER 2020	(0.9)	(678.6)	(8,442.5)	(161.9)	(149.8)	-	(9,433.7)
Carrying amount							
AT 31 DECEMBER 2020	209.2	1,553.7	10,871.9	36.9	39.8	1,848.2	14,559.7
<i>of which right-of-use assets</i>	5.9	58.8	-	-	1.8	-	66.5
<i>of which finance leased assets</i>	-	0.6	25.1	-	1.5	-	27.2
AT 31 DECEMBER 2019	208.8	1,441.9	10,595.1	25.7	37.0	1,555.7	13,864.2
<i>of which right-of-use assets</i>	7.2	17.9	-	-	2.3	-	27.4
<i>of which finance leased assets</i>	-	0.6	27.5	-	1.5	-	29.6
Change	0.4	111.8	276.8	11.2	2.8	292.5	695.5

The category, "Plant and equipment" at 31 December 2020 includes the electricity transmission grid and transformer substations in Italy.

"Property, plant and equipment" is up €695.5 million, compared with the previous year, reflecting ordinary movements during the year as a result of:

- investment of €1,249.5 million during the year (including €34.1 million relating to right-of-use assets recognised in application of the new accounting standard, IFRS 16), of which €1,151.4 million in the Group's Regulated Activities and €98.1 million in Non-regulated Activities, primarily with regard to the private interconnectors, the Brugg Group (primarily in application of IFRS 16), the re-routing of power lines at the request of third parties and operations in Peru;
- the contribution resulting from the above acquisition of Brugg Cables (€52.7 million at the acquisition date);
- depreciation for the year of -€560.0 million;
- other changes during the year, resulting in a reduction of €29.1 million, including grants related to assets (primarily for the re-routing of power lines at the request of third parties); disposals and impairments of €16.1 million (including €8.3 million relating to impairment losses on assets); the reclassification of certain of the Tamini Group's assets to "Discontinued operations and assets held for sale" (down €1.3 million).

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

	(€m)
Investment	
- Power lines	616.7
- Transformer substations	498.5
- Storage systems	0.7
- Other	133.6
Total investment in property, plant and equipment	1,249.5
Contribution from newly acquired companies	52.7
Depreciation for the year	(560.0)
Other changes	(29.1)
Disposals and impairments	(16.1)
Translation differences	(0.2)
Assets reclassified to "Discontinued operations and assets held for sale"	(1.3)
TOTAL	695.5

The following information regards work on the principal projects during the year in relation to Regulated Activities: progress on construction of the Paternò-Pantano-Priolo power line (€44.2 million) and progress on construction of the various cross-border interconnections, consisting of the power lines linking Italy and France (€38.2 million), progress with the "Functional separation" plan (€65.8 million), extension of the fibre network as part of the "Fibre for the Grid" project (€33.0 million), reorganization of the Alto Bellunese line (€29.1 million, entering service at year end), construction of the Brindisi Pignicelle – BR Eni Power Pignatelli line (€15.8 million, entering service at year end), construction of substations at Garaguso (€15.7 million, entering service at year end), Vizzini (€11.1 million, entering service at year end), the Sorrento Peninsula interconnector (€7.8 million, entering service at year end), reorganisation of the grids serving the city of Naples (€15.3 million), Valle Sabbia (€13.8 million) and the city of Turin (€11.5 million), and the grid upgrade in the Foggia-Benevento area (€12.9 million).

13. GOODWILL – 230.1 MILLION

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

There are no changes in this item compared with the previous year.

Impairment test

For the purposes of impairment testing, goodwill has been allocated to two cash generating units (CGUs): the first consisting of "Transmission activities" within the Group's Regulated Activities, amounting to €216.5 million, and the second relating to the "production and commercialisation of transformers", forming part of the Group's Non-regulated Activities, totalling €13.6 million.

Disclosures regarding the impairment testing of the goodwill allocated to the Group's "Transmission" CGU is provided below. Measurement of the recoverable value of the Group's "Transmission" CGU was based on the fair value less costs of disposal. Measurement of the carrying amount of the CGU represented by the NTG was based on the Terna Group's net invested capital at 31 December 2020, appropriately adjusted to take into account the assets and liabilities not falling within the scope of Transmission activities (e.g., Dispatching, Non-regulated and International activities).

The recoverable value was based on fair value after applying a multiple of EBITDA to the CGU's operating profit. The above multiple was calculated at Group level as the ratio of the enterprise value (the sum of stock market capitalization and net debt) to the Terna Group's EBITDA. The resulting value is significantly higher than the carrying amount inclusive of goodwill.

The impairment test relating to the CGU consisting of the "production and commercialisation of transformers" was based on fair value less costs of disposal, determined on the basis of the average multiple of EBITDA for the sector. The recoverable value was based on estimated fair value applying the multiple of EBITDA for 2022, the year in which the impact of the Covid-19 pandemic is expected to have completely died down. This multiple is approximately 12 times, the average for a sample of companies operating in the sector. The resulting fair value was then appropriately discounted at the end of 2020. The resulting value is higher than the carrying amount inclusive of goodwill.

14. INTANGIBLE ASSETS – €347.8 MILLION

(€m)

	INFRASTRUCTURE RIGHTS	CONCESSIONS	OTHER ASSETS	ASSETS UNDER DEVELOPMENT AND PREPAYMENTS	TOTAL
Cost	462.8	135.4	441.5	54.2	1,093.9
Accumulated amortisation	(352.7)	(79.3)	(349.3)	-	(781.3)
BALANCE AT 31 DECEMBER 2019	110.1	56.1	92.2	54.2	312.6
Investment	-	-	1.1	100.5	101.6
Assets entering service	30.3	-	50.7	(81.0)	-
Contribution from newly acquired companies	-	-	9.6	-	9.6
Disposals and impairments	-	-	-	(9.2)	(9.2)
Amortisation for the year	(23.9)	(5.6)	(36.4)	-	(65.9)
Other movements	(6.2)	-	(0.1)	6.2	(0.1)
Translation differences	(0.6)	-	-	(0.2)	(0.8)
BALANCE AT 31 DECEMBER 2020	109.7	50.5	117.1	70.5	347.8
Cost	486.3	135.4	508.4	70.5	1,200.6
Accumulated amortisation	(376.6)	(84.9)	(391.3)	-	(852.8)
BALANCE AT 31 DECEMBER 2020	109.7	50.5	117.1	70.5	347.8
Change	(0.4)	(5.6)	24.9	16.3	35.2

Intangible assets amount to €347.8 million (€312.6 million at 31 December 2019); this item includes:

- the infrastructure used in provision of the dispatching service in Italy and in operations in Peru, carried out under concession and accounted for in accordance with "IFRIC 12 – Service Concession Arrangements". The carrying amount of the former, at 31 December 2020, is €109.7 million, whilst the carrying amount of infrastructure under construction, included in the category "Assets under development and prepayments", is €38.1 million (at 31 December 2019, €110.1 million and €35.0 million, respectively);
- the concession for electricity transmission and dispatching activities in Italy (with a carrying amount of €50.5 million at 31 December 2020); this 25-year concession was recognised in 2005, initially at fair value and subsequently at cost.

Other intangible assets primarily include software applications, either produced internally or purchased as part of systems development programmes, and the contract to provide support services for fibre networks acquired with Rete S.r.l. in 2015 (measured as part of the process of allocating the goodwill acquired by the Terna Group). Investment in these assets during the year, primarily attributable to the Parent Company (€63.8 million), essentially regard internal development programmes.

The increase compared with the previous year (up €35.2 million) broadly reflects the net effect of investment (up €101.6 million, including €36.5 million in infrastructure rights), recognition of the intangible assets resulting from the above acquisition of Brugg Cables (up €9.6 million, measured during the process of allocating the higher value of the net assets acquired with respect to the consideration paid by the Terna Group), amortisation (down €65.9 million) and impairment losses recognised during the year on operations in Peru (down €9.2 million).

Investment in intangible assets during the year (€101.6 million, including €92.4 million attributable to the Parent Company's Regulated Activities) included expenditure on the development of software applications for the Remote Management System for Dispatching (€12.8 million), the Power Exchange (€5.9 million), the Metering System (€0.8 million) and for protection of the electricity system (€4.9 million), as well as software applications and generic licences (€58.8 million).

15. DEFERRED TAX ASSETS – €111.8 MILLION

(€m)

	31 DECEMBER 2019	CONTRIBUTION OF NEWLY ACQUIRED COMPANIES	PROVISIONS	USES AND OTHER MOVEMENTS	EFFECTS RECOGNISED IN COMPREHENSIVE INCOME	31 DECEMBER 2020
DEFERRED TAX LIABILITIES						
Property, plant and equipment	(51.2)	(1.1)	-	31.7	-	(20.6)
Other	(27.7)	(2.5)	-	(10.5)	-	(40.7)
Employee benefits and financial instruments	(3.1)	(1.1)	-	0.1	(0.8)	(4.9)
TOTAL DEFERRED TAX LIABILITIES	(82.0)	(4.7)	-	21.3	(0.8)	(66.2)
DEFERRED TAX ASSETS						
Provisions for risks and charges	32.0	-	5.7	(14.5)	-	23.2
Allowance for doubtful accounts	3.8	-	0.8	-	-	4.6
Employee benefits	13.2	0.1	2.6	(3.7)	0.1	12.3
Cash flow hedges and financial assets	47.9	-	-	-	19.8	67.7
Tax relief on goodwill	23.4	-	0.3	(2.9)	-	20.8
Other	25.7	3.9	12.7	7.1	-	49.4
TOTAL DEFERRED TAX ASSETS	146.0	4.0	22.1	(14.1)	19.9	178.0
NET DEFERRED TAX ASSETS	64.0	(0.7)	22.1	7.3	19.1	111.8

The balance of this item, amounting to €111.8 million, includes the net impact of movements in the Group's deferred tax assets and liabilities.

Deferred tax assets (€178.0 million) are up by a net €32 million compared with 31 December 2019 (€146 million). These assets underwent the following movements during the year:

- net provisions that impact profit or loss, totalling €19.9 million, primarily reflecting the tax effect of movements in cash flow hedges and employee benefits;
- provisions recognised by the subsidiary Rete S.r.l., for the non-deductible portion of book depreciation recognised by the subsidiary (€2.7 million);
- use of the accrued portion recognised in relation to tax relief on the goodwill resulting from the merger of Terna Rete Italia S.r.l. with the Parent Company (€2.9 million);
- net uses of provisions for risks and charges (€8.8 million), primarily reflecting the impact on taxation of releases of provisions relating to the absence of transmission revenue from investment in the former public interconnection with France, for which no exemption has been granted and which has been restored to the NTG (€2.7 million), uses for early retirement incentives (€3.9 million) and the impact on taxation of the release of provisions following settlement of a liability with an operator (€3.1 million);
- net provisions and other movements, totalling €19.8 million, primarily regarding the recognition of deferred tax assets on other items recognized by the overseas companies.

Deferred tax liabilities (€66.2 million) are down by a net amount of €15.8 million, essentially due to:

- the use of previous provisions for accelerated depreciation at the Parent Company, Terna (down €30.5 million);
- net provisions and other movements of €14.8 million, primarily following the recognition of deferred tax liabilities on the South American contracts and accumulated losses of the Swiss group.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – €75.8 MILLION

This item, amounting to €75.8 million, regards the Parent Company's investments in the associate Cesi S.p.A. (€48.3 million), the associate CORESO S.A. (€0.6 million), the associate CGES – CrnoGorski Elektroprenosni Sistem AD (€26.7 million) and in the joint ventures, ELMED Etudes S.a.r.l. (€0.1 million) and SEleNe CC S.A. (€0.1 million), established on 22 May 2020, which are both 25%-owned by Terna, with the remaining shares held by another three European TSOs.

The reduction compared with the previous year, amounting to €3.6 million, essentially reflects the adjustment of the Group's share of equity in the associate, Cesi S.p.A., at 31 December 2020 (down €4.0 million) and Terna's share of the rights issues carried out by the joint ventures, ELMED Etudes S.a.r.l. (up €0.1 million) and SEleNe CC S.A. (up €0.1 million).

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

	AT 31 DECEMBER 2020				EQUITY
	NON-CURRENT ASSETS	CURRENT ASSETS	NON-CURRENT LIABILITIES	CURRENT LIABILITIES	
CESI	202	25.4 (*)	17	(*)	118
CORESO	9	4	-	10	4

(*) The pre-closing figure for 2020 does not envisage a breakdown of working capital.

(€m)

	2020		
	REVENUE	PRE-TAX PROFIT/ (LOSS)	PROFIT/(LOSS) FOR THE YEAR
CESI	122	(14)	(16)
CORESO	20	1	1

17. FINANCIAL ASSETS

(€m)

	MEASUREMENT	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Guarantee Deposits	Amortised cost	221.8	225.8	(4.0)
Financial assets under concession	Amortised cost	158.2	180.4	(22.2)
Fair value hedges	FVTPL	94.2	45.0	49.2
Government securities	FVTOCI	22.5	-	22.5
Financial assets included in employee benefit plan assets	FVTOCI	9.7	-	9.7
Other non-current financial assets	FVTOCI	1.3	-	1.3
Other investments	FVTOCI	0.1	0.1	-
NON-CURRENT FINANCIAL ASSETS		507.8	451.3	56.5
Government securities	FVTOCI	611.4	513.3	98.1
Financial assets deriving from concession rights	Amortised cost	17.4	-	17.4
Deferred assets on fair value hedges		4.5	4.2	0.3
Cash flow hedges	FVTPL	-	0.1	(0.1)
Other current financial assets		5.2	1.7	3.5
CURRENT FINANCIAL ASSETS		638.5	519.3	119.2

“Non-current financial assets” are up €56.5 million, compared with the previous year, reflecting:

- an increase of €49.2 million in fair value hedges used to hedge bond issues. The value of the hedges is measured by discounting expected cash flows using market interest rates at the measurement date;
- the recognition of €22.5 million in Italian government bonds (“BTP”) 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%;
- the recognition of benefit plan assets attributable to the employees of Brugg Cables (up €9.7 million);
- reduced investment during the year in infrastructure under concession in Brazil, recognised in application of IFRIC 12 (down €22.2 million), essentially reflecting the collection of fees due on infrastructure operated under concession in Brazil following its entry into service;
- a reduction in the amounts deposited by operators who participate in the capacity market pursuant to Resolution 98/2011/R/eel, as amended, after definition of each party’s committed capacity following the auctions held in November 2019 (down €26.0 million), offset by an increase in the Interconnector Guarantee Fund, set up to fund investment in interconnections by art. 32 of Law 99/09 (up €22.0 million).

“Current financial assets” are up €119.2 million compared with the previous year, primarily following the purchase, of Italian government securities totalling €100 million (up €98.1 million at 31 December 2020) and recognition of the short-term portion of investment during the year in infrastructure operated under concession in Brazil, recognized in application of IFRIC 12 (up €17.4 million).

18. OTHER ASSETS

	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Loans and advances to employees	9.6	9.8	(0.2)
Deposits with third parties	7.5	6.1	1.4
Other non-current assets	1.8	-	1.8
OTHER NON-CURRENT ASSETS	18.9	15.9	3.0
Other tax credits	42.2	23.2	19.0
Prepayments to suppliers	24.3	10.2	14.1
Prepayments of operating expenses and accrued operating income	14.8	10.3	4.5
Amounts due from partners selected for Interconnector projects	3.8	3.7	0.1
Amounts due from others	43.2	15.3	27.9
OTHER CURRENT ASSETS	128.3	62.7	65.6

“Other non-current assets” amount to €18.9 million and are up €3.0 million compared with the previous year. This is primarily due to an increase guarantee deposits paid under contracts with public bodies and authorities (up €1.4 million).

“Other current assets”, totalling €128.3 million are up €65.6 million rispetto compared with 31 December 2019, primarily reflecting:

- other tax credits (up €19.0 million), primarily reflecting the Group’s refundable VAT (up €20.6 million);
- an increase in prepayments to suppliers (up €14.1 million), broadly relating to the subsidiary, Brugg Cables (up €3.5 million) and due to the prepayments made for work being carried out in South America (up €8.3 million);
- an increase in prepaid expenses accruing after 31 December 2020 (up €4.5 million), including €4.4 million in the form of insurance premiums;
- amounts due from others (up €27.9 million), primarily attributable to the recognition of an indemnity due to the subsidiary, Brugg Cables (up €33.0 million) arising under the previous ownership.

19. INVENTORIES – €66.4 MILLION

This item, amounting to €66.4 million, is up €15.5 million compared with the previous year. This primarily reflects materials to be used in contract work by the subsidiary, Brugg Cables (up €22.4 million), offset by a reduction in materials for use in contract work by the Tamini Group (down €7.2 million).

20. TRADE RECEIVABLES – €1,245.2 MILLION

	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Energy-related receivables	844.4	788.8	55.6
Transmission charges receivables	200.6	314.6	(114.0)
Other trade receivables	200.2	187.3	12.9
TOTAL	1,245.2	1,290.7	(45.5)

(€m)

Trade receivables amount to €1,245.2 million at 31 December 2020 and are accounted for less any expected credit losses recognised in the allowance for doubtful accounts (€34.2 million for energy-related receivables and €17.8 million for other items in 2020, compared with €25.2 million for energy-related items and €17.7 million for other items in 2019, further details are provided in the section “E. Commitments and risks”). The carrying amount shown broadly approximates to fair value.

Information on the measurement of impairment losses is provided in the section “A. Accounting policies and measurement criteria”.

Energy-related/regulated receivables – €844.4 million

This item includes so-called “pass-through items” relating to the Parent Company’s activities in accordance with Resolution 111/06 (€797.7 million) and receivables due from the users of dispatching services forming part of Regulated Activities (€27.3 million). It also includes the amount due from the Fund for Energy and Environmental Services (*Cassa per i Servizi Energetici e Ambientali* - CSEA), based on the RENS performance for the year (€19.4 million). The balance is up €55.6 million compared with the end of 2019. This increase, after the impact of the factoring of receivables that took place in December 2020 (resulting in an increase in cash inflows of €121.5 million), largely reflects the impact of the amount due in the form of the Uplift (up €169.3 million), reflecting the increased cost incurred during the period for Dispatching Services Market (DSM) services linked to an increase in selections to meet localised technical limitations and imbalances (the related receivables are down by a total of €44.2 million). The change also reflects an increase in amounts due in relation to essential plants for the security of the electricity system - UESS, as a result of the increase in the unit charge determined for 2020 (€53.6 million).

Transmission charges receivables – €200.6 million

Transmission charges receivable, amounting to €200.6 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 down €114 million compared with 31 December 2019, broadly reflecting the impact of factoring transactions that took place in December, which resulted in the collection of receivables, at 31 December 2020, originally falling due in January 2021 (€149.6 million). This reduction was partially offset by the tariff adjustment and the impact of ARERA Resolution 565/2020 regarding digital substation systems (amounting to €38.6 million).

Other trade receivables – €200.2 million

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

This item is up €12.9 million compared with the previous year, broadly due to the recognition of amounts attributable to the new subsidiary, Brugg Cables (up €20.8 million) and the Tamini Group's contract work (up €14.6 million), offset by a reduction in receivables attributable to the Parent Company (down approximately €24.7 million).

The following table shows receivables resulting from contract work in progress (€118.2 million), being carried out by the Group under multi-year contracts with third parties:

	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2020	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2019
Receivables resulting from contract work in progress	(384.6)	502.8	118.2	(1.8)	136.0	134.2

(€m)

The Group's receivables resulting from contract work in progress are down €16.0 million on the previous year, primarily in relation to a reduction in such work at the Tamini Group (down €22.4 million) and in Uruguay (down €8.0 million) and increased contract work carried out by the subsidiary, Terna Rete Italia S.p.A. (up €14.6 million).

21. CASH AND CASH EQUIVALENTS – €2,689.0 MILLION

Cash amounts to €2,689.0 million, at 31 December 2020, including €1,380.8 million invested short-term. Readily convertible deposits and €1,308.2 million deposited in bank current accounts and cash in hand.

22. INCOME TAX ASSETS – €9.7 MILLION

Income tax assets, amounting to €9.7 million, are up €4.5 million compared with the previous year, broadly reflecting an increase in payments on account made to cover tax expense for the previous year net of the recognition of tax for the year. This compares with the net tax liability recognised at 31 December 2019 (€11.8 million) in "Tax liabilities".

23. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE – €1.3 MILLION

Discontinued operations and assets held for sale, totalling €1.3 million, consist of the Tamini Group's Melegnano plant (MI), which is due to be sold together with the plant, machinery and industrial and business equipment located at the site.

Equity and liabilities

24. EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT – €4,369.8 MILLION

Share capital – €442.2 million

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

Legal reserve – €88.4 million

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

Reserve for treasury shares - (€9.5) million

In implementation of the buyback programme linked to the Performance Share Plan 2020-2023, in the period between 29 June 2020 and 6 August 2020, the Parent Company purchased 1,525,900 own shares (equal to 0.076% of the share capital) at a cost of €9.5 million, reducing other reserves by this amount.

Other reserves – €534.3 million

The other reserves have decreased by €59.0 million compared with the previous year, primarily as a result of other comprehensive income. This reflects:

- fair value adjustments to the Parent Company's cash flow hedges (down €65.0 million, which includes the €13.7 million increase in the cost of hedges, taking into account the related tax asset of €20.5 million);
- the recognition of actuarial gains and losses on provisions for employee benefits (up €3.1 million, taking into account the related tax expense of €0.7 million);
- fair value adjustments to the value of financial assets represented by government securities (up €2.5 million, taking into account the related tax liability of €0.7 million).

These reserves also include the reserve for stock options (up €1.2 million) relating to the incentive plan for the Group's personnel involving the above share-based payments (Performance Share Plan 2020-2023²).

Retained earnings and accumulated losses – €2,711.6 million

The increase in "Retained earnings and accumulated losses", amounting to €233.3 million, primarily regards the remaining portion of the Group's profit for 2019, following the Parent Company's payment of the dividend for 2019 (totalling €501.5 million). This item includes gains and losses from the translation of financial statements in currencies other than the euro.

Interim dividend for 2020 and final dividend for 2019

On 11 November 2020, the Parent 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 €0.0909 per share, amounting to a total payout of €182.7 million. The dividend was payable from 25 November 2020, with an ex-dividend date for coupon 33 on 23 November 2020, payable to the holders of each of the ordinary shares outstanding after adjusting for the treasury shares held at the "record date" of 24 November 2020 (amounting to €138,704.31 and taken to retained earnings).

The Annual General Meeting of shareholders held on 18 May 2020 approved the payment of a final dividend for 2019, amounting to €332.3 million and equivalent to €0.1653 per share, payable from 24 June 2020.

² The LTI Plan 2020-2023 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.

Equity attributable to non-controlling interests

Equity attributable to non-controlling interests, relating to the non-controlling shareholders of the Tamini Group, Terna Interconnector S.r.l., Avvenia The Energy Innovator S.r.l., SPE Transmissora de energia Linha Verde II S.A. and SPE Transmissora de energia Linha Verde I S.A. and Brugg Cables, consolidated for the first time during the year, amounts to €46.0 million, an increase of €4.4 million compared with 31 December 2019.

This change primarily reflects the share of the profits reported by Terna Interconnector S.r.l. (€4.2 million) and Brugg Cables (€6.9 million), the contribution to equity attributable to non-controlling interests resulting from the new acquisitions (up €3.6 million, including €2.6 million attributable to Brugg Cables), partly offset by dividends paid to non-controlling shareholders by the subsidiary, Terna Interconnector S.r.l. (down €9 million).

25. BORROWINGS AND FINANCIAL LIABILITIES

(€m)

	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Bond issues	7,485.7	7,757.3	(271.6)
Bank borrowings	2,374.5	1,723.4	651.1
LONG-TERM BORROWINGS	9,860.2	9,480.7	379.5
Cash flow hedges	253.8	160.4	93.4
NON-CURRENT FINANCIAL LIABILITIES	253.8	160.4	93.4
SHORT-TERM BORROWINGS	1,002.2	25.0	977.2
Bond issues	1,258.8	-	1,258.8
Bank borrowings	129.2	126.5	2.7
CURRENT PORTION OF LONG-TERM BORROWINGS	1,388.0	126.5	1,261.5
CURRENT FINANCIAL LIABILITIES	90.1	87.7	2.4
TOTAL	12,594.3	9,880.3	2,714.0

Borrowings and financial liabilities are up €2,714.0 million compared with the previous year to €12,594.3 million.

The increase in bond issues (up €987.2 million) essentially reflects two issues of fixed-rate bonds in 2020, amounting to a total of €1,000 million and described in the section "Financial resources", in the Integrated Report. The change also reflects the adjustment of the amortised cost of the same financial instruments. The increase also includes the bonds issued in March 2020 by the Brazilian subsidiary, Linha Verde II, amounting to €210 million Brazilian reals, maturing in July 2044 and paying coupon interest linked to inflation (IPCA plus 5.33%).

The latest official prices at 31 December 2020 and 31 December 2019 for the bonds listed on the Luxembourg Stock Exchange are detailed below:

(€m)

	ISIN	PRICE AT 31 DECEMBER 2020	PRICE AT 31 DECEMBER 2019
bond maturity 2021:	XS0605214336	100.96	105.93
bond maturity 2022:	XS1178105851	101.22	101.90
bond maturity 2023:	XS0328430003	124.72*	128.94*
bond maturity 2023:	XS1858912915	103.19	103.11
bond maturity 2024:	XS0203712939	119.52	122.79
bond maturity 2025:	XS2033351995	101.19	98.86
bond maturity 2026:	XS1371569978	107.90	107.08
bond maturity 2026:	XS1980270810	105.41	103.18
bond maturity 2027:	XS1652866002	109.14	105.83
bond maturity 2028:	XS1503131713	107.28	102.87
bond maturity 2030:	XS2237901355	101.89	n.a.**
bond maturity 2032:	XS2209023402	105.29	n.a.**

* Source: BNP Paribas and Bloomberg.

** Not applicable.

Compared to the previous year, bank borrowings have increased by €653.8 million due mainly to the following:

- new loans, totalling €747.0 million;
- repayments of principal on existing EIB loans (down €116.1 million);
- new loans obtained by the Brazilian subsidiaries, totalling €29.9 million.

Long-term borrowings

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

(€m)

	31 DECEMBER 2019			REPAYMENTS AND CAPITALISATIONS	DRAW- DOWNS	OTHER	CHANGE IN CARRYING AMOUNT	31 DECEMBER 2020		
	NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE					NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE
Bond maturing 2021	1,250.0	1,302.7	1,324.1	-	-	(43.9)	(43.9)	1,250.0	1,258.8	1,262.1
Bond maturing 2022	1,000.0	998.3	1,019.0	-	-	0.8	0.8	1,000.0	999.1	1,012.2
IL bond	579.0	659.1	746.5	-	-	(22.8)	(22.8)	579.0	636.3	722.1
Bond maturing 2023	1,000.0	995.0	1,031.1	-	-	1.4	1.4	1,000.0	996.4	1,031.9
Bond maturing 2024	800.0	952.1	982.3	-	-	(31.0)	(31.0)	800.0	921.1	956.1
Bond maturing 2025	500.0	494.7	494.3	-	-	1.0	1.0	500.0	495.7	506.0
Private Placement 2026	80.0	79.1	85.7	-	-	0.1	0.1	80.0	79.2	86.3
Bond maturing 2026	500.0	497.8	515.9	-	-	0.4	0.4	500.0	498.2	527.0
Bond maturing 2027	1,000.0	1,013.6	1,058.3	-	-	25.4	25.4	1,000.0	1,039.0	1,091.4
Bond maturing 2028	750.0	764.9	771.5	-	-	29.5	29.5	750.0	794.4	804.6
Bonds maturing 2030	-	-	-	-	500.0	(4.3)	495.7	500.0	495.7	509.5
Bonds maturing 2032	-	-	-	-	500.0	(3.8)	496.2	500.0	496.2	526.5
Linha Verde II bond issue	-	-	-	-	39.8	(5.4)	34.4	34.4	34.4	35.6
Total bond issues	7,459.0	7,757.3	8,028.7	-	1,039.8	(52.6)	987.2	8,493.4	8,744.5	9,071.3
Borrowings	1,806.2	1,824.9	1,853.3	(113.1)	776.9	(33.9)	629.9	2,459.1	2,454.8	2,454.8
Lease liabilities	25.0	25.0	25.0	(6.5)	-	30.4	23.9	48.9	48.9	48.9
Total borrowings	1,831.2	1,849.9	1,878.3	(119.6)	776.9	(3.5)	653.8	2,508.0	2,503.7	2,503.7
Total debt	9,290.2	9,607.2	9,907.0	(119.6)	1,816.7	(56.1)	1,641.0	11,001.4	11,248.2	11,575.0

At 31 December 2020, the Terna Group's has access to additional financing of €2,650.0 million, represented by two revolving credit facilities entered into in September 2018 and April 2019. In addition, the Group has uncommitted bank credit lines totalling approximately €619 million and approximately €347 million in loans agreed but not yet disbursed.

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

The following table shows an analysis of bond issues and other borrowings by maturity, showing the related short-term portions, which do not include the interest payable at maturity.

(€m)

	MATURITY	31 DECEMBER 2019*	31 DECEMBER 2020*	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS	2022	2023	2024	2025	2026	AFTER	AVERAGE INTEREST RATE AT 31 DEC 2020	AVERAGE NET INTEREST RATE OF HEDGES AT 31 DEC 2020
Bonds	2021	1,302.7	1,258.8	1,258.8	-	-	-	-	-	-	-	4.75%	1.22%
	2022	998.3	999.1	-	999.1	999.1	-	-	-	-	-	0.88%	0.96%
	2023	659.1	636.3	-	636.3	-	636.3	-	-	-	-	2.73%	(1.07%)
	2023	995.0	996.4	-	996.4	-	996.4	-	-	-	-	1.00%	1.15%
	2024	952.1	921.1	-	921.1	-	-	921.1	-	-	-	4.90%	0.87%
	2025	494.7	495.7	-	495.7	-	-	-	495.7	-	-	0.13%	0.32%
	2026	497.8	498.2	-	498.2	-	-	-	-	498.2	-	1.00%	1.29%
	2026	79.1	79.2	-	79.2	-	-	-	-	79.2	-	1.60%	0.41%
	2027	1,013.6	1,039.0	-	1,039.0	-	-	-	-	-	1,039.0	1.38%	1.09%
	2028	764.9	794.4	-	794.4	-	-	-	-	-	794.4	1.00%	0.83%
	2032	-	496.2	-	496.2	-	-	-	-	-	496.2	0.75%	0.82%
	2030	-	495.7	-	495.7	-	-	-	-	-	495.7	0.38%	0.46%
	2044	-	34.4	-	34.4	0.7	1.4	1.4	1.4	1.4	28.1	5.33%	9.85%
EIB	2042	368.6	515.6	4.6	511.0	20.5	20.5	28.7	28.7	28.7	383.9	1.32%	1.32%
Terna borrowing	2022	-	200.0	-	200.0	200.0	-	-	-	-	-	0.01%	(0.01%)
Difebal borrowing	2034	38.2	33.6	1.5	32.1	1.4	1.7	1.9	2.0	2.2	22.9	4.88%	4.88%
Total fixed rate		8,164.1	9,493.7	1,264.9	8,228.8	1,221.7	1,656.3	953.1	527.8	609.7	3,260.2		
EIB	2041	1,291.1	1,175.0	112.1	1,062.9	112.8	114.0	115.3	115.3	115.3	490.2	0.13%	0.91%
Terna borrowing	2023	-	400.0	-	400.0	300.0	100.0	-	-	-	-	0.05%	0.07%
Brazilian companies' borrowings	2042	102.0	108.1	3.0	105.1	32.7	2.9	3.0	3.1	3.1	60.3	7.50%	7.50%
Difebal borrowing	2034	30.7	26.8	1.5	25.3	1.5	1.7	1.9	2.0	2.2	16.0	0.33%	0.42%
Total variable rate		1,423.8	1,709.9	116.6	1,593.3	447.0	218.6	120.2	120.4	120.6	566.5		
TOTAL		9,587.9	11,203.6	1,381.5	9,822.1	1,668.7	1,874.9	1,073.3	648.2	730.3	3,826.7		

* The balance does not include prepaid fees of €4.3 million at 31 December 2020 and €5.7 million at 31 December 2019.

(€m)

	31 DECEMBER 2019	31 DECEMBER 2020	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS
Finance leases	0.5	0.5	0.3	0.2
Operating leases	24.5	48.4	6.2	42.2
TOTAL	25.0	48.9	6.5	42.4

At 31 December 2020, payments on operating leases recognised in application of IFRS 16 amount to €6.5 million.

The total value of the Terna Group's borrowings at 31 December 2020 is €11,203.6 million (€1,381.5 million falling due within 12 months and €9,822.1 million falling due after 12 months), of which €3,826.7 million maturing after five years.

Non-current financial liabilities – €253.8 million

(€m)

	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Cash flow hedges	253.8	160.4	93.4
TOTAL	253.8	160.4	93.4

Non-current financial liabilities, amounting to €253.8 million, reflect the fair value of cash flow hedges at 31 December 2020.

Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The increase of €93.4 million, compared with 31 December 2019 reflects the change in the market interest rate curve and the change in the notional value of the derivatives portfolio.

Short-term borrowings – €1,002.2 million

“Short-term borrowings” have increased €977.2 million compared with the previous year, due to short-term loans disbursed to the Parent Company.

Current financial liabilities – €90.1 million

Current financial liabilities at 31 December 2020 include the value of net interest expense accrued on financial instruments and not yet paid. This item is up €2.4 million compared with the previous year.

	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
DEFERRED LIABILITIES ON:			
Hedging derivatives	2.5	2.6	(0.1)
Bond issues	86.0	83.6	2.4
Borrowings	1.6	1.5	0.1
TOTAL	90.1	87.7	2.4

Net debt

Pursuant to the CONSOB Communication of 28 July 2006 and in compliance with Recommendation ESMA no. 319 of 2013, the Group's net debt is as follows:

	31 DECEMBER 2020
A. Cash	1,308.2
B. Term deposits	1,380.8
C. Cash and cash equivalents (A) + (B)	2,689.0
D. Current portion of non-current borrowings	1,388.0
E. Short-term borrowings	1,002.2
F. Other net financial liabilities	80.4
G. Current financial assets	628.8
H. Current debt (D+E+F+G)	1,841.8
I. Current net debt (H) - (C)	(847.2)
J. Non-current borrowings	2,374.5
K. Bond issues	7,485.7
L. Derivative financial instruments held in portfolio	159.6
M. Non-current net debt (J) + (K) + (L)	10,019.8
N. Net debt (I) + (M)	9,172.6

Default risk and debt covenants

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

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

- the Company's bond issues, which consist of an €800.0 million issue in 2004 and nine issues as part of its EMTN Programme (the "€ 8,000,000,000 Euro Medium Term Notes Programme");
- bank borrowings, consisting of revolving lines of credit and bilateral term loans ("bank debt");
- a series of loans to the Company from the European Investment Bank (EIB), amounting to a total of €1,690.6 million.

The main covenants relating to the bond issues and the EMTN Programme involve clauses regarding i) "negative pledges", on the basis of which the Issuer or its Relevant Subsidiaries undertake not to create or maintain mortgages, pledges or other encumbrances on their assets or revenue, to guarantee listed bonds (with the exception of certain "permitted guarantees"); ii) "*pari passu*", on the basis of which the securities constitute a direct, unconditional and unsecured obligation by the Issuer, ranking equally among them and with at least the same level of seniority as other present and future unsecured and non- subordinated borrowings of the Issuer; iii) "event of default", on the basis of which if certain predetermined events occur (e.g., failure to make a repayment, the liquidation of the Issuer, the breach of contractual obligations, a cross-default, etc.) a situation of default is established and the loan is immediately called in.

The main covenants relating to bank borrowings involve clauses related to i) negative pledges, on the basis of which the Issuer or the Relevant Subsidiaries undertake not to create or maintain guarantees on their assets to secure borrowings, with the exception of "permitted guarantees"; ii) *pari passu* on the basis of which the Borrower's payment obligations in relation to the loan agreements in question are not subordinated to any obligation related to other unsecured and non-subordinated creditors, without prejudice to privileges under the law; iii) "event of default", on the basis of which if certain predetermined events occur (e.g. failure to make a repayment, serious inaccuracies in documents and/or declarations, insolvency, business discontinuation, substantially prejudicial effects, the breach of contractual obligations, including *pari passu* conditions, a cross-default, etc.) a situation of default is established and the loan is immediately called in; iv) accelerated repayment should the rating fall below investment grade (BBB-) for the majority of rating agencies or should the Company cease to be rated by at least one agency.

The main covenants related to the EIB loans involve clauses related to i) negative pledges, on the basis of which the Company cannot create encumbrances, with the exception of encumbrances granted in relation to borrowings below given amounts and under contractually specified circumstances; ii) the provision to the Bank, at its request, of new guarantees should ratings below BBB+/Baa1 be assigned by two ratings agencies out of three, or in the event that all of the agencies cease to publish ratings; iii) *pari passu*, on the basis of which the Company ensures that payment obligations rank equally with those related to all other unsecured, non-subordinated creditors; iv) cases of contract termination/application of the call provision/withdrawal (e.g. failure to make a repayment, serious inaccuracies in documents and/or declarations, insolvency, events that have a negative impact on financial commitments made by the Company, extraordinary administration, liquidation, substantial prejudicial changes, the breach of contractual commitments, etc.); v) accelerated loan payment following the occurrence of given events (e.g. change of control over the Company,

loss of the concession, extraordinary corporate events, etc.). To date, none of the above covenants has been breached.

26. EMPLOYEE BENEFITS – €61.7 MILLION

The Group provides its employees with benefits during their period of employment (loyalty bonuses), on termination of employment (*TFR*, additional months' pay and payment in lieu of notice) and after termination in the form of post-employment benefits (ASEM health cover). Loyalty bonuses are payable to the Group's employees and senior managers once certain requirements have been met regarding length of service (on completing 25 and 35 years of service).

Termination benefits (*TFR*) are payable to all employees, whilst employees hired by 30 June 1996 receive energy discounts, senior managers recruited or appointed before 28 February 1999 receive payment in lieu of notice and employees (blue-collar workers, office staff and middle managers) employed prior to 24 July 2001 are due additional months' pay on termination.

Post-employment benefits consist of a form of supplementary health cover in addition to that provided by the Italian national health service, as provided for in the national collective contract for industrial managers (the ASEM health plan).

The following table shows the composition of provisions for *TFR* and other employee benefits and movements during the year ended 31 December 2020:

(€m)

	31 DECEMBER 2019	CONTRIBUTION FROM NEWLY ACQUIRED COMPANIES	PROVISIONS	INTEREST COST	USES AND OTHER MOVEMENTS	ACTUARIAL GAINS/ (LOSSES)	31 DECEMBER 2020
Benefits during the period of employment							
Loyalty bonuses and other incentives	4.3	0.6	0.2	-	(0.4)	-	4.7
Total	4.3	0.6	0.2	-	(0.4)	-	4.7
Termination benefits							
Deferred compensation benefits (<i>TFR</i>)	39.0	-	-	0.2	(2.8)	(0.5)	35.9
Energy discounts	3.7	-	-	-	(0.2)	0.1	3.6
Additional months' pay	6.2	-	0.2	-	(1.0)	0.4	5.8
Payment in lieu of notice and other similar	0.1	-	-	-	-	-	0.1
Total	49.0	-	0.2	0.2	(4.0)	-	45.4
Post-employment benefits							
ASEM health plan	10.6	-	0.7	0.1	(0.3)	0.5	11.6
Total	10.6	-	0.7	0.1	(0.3)	0.5	11.6
TOTAL	63.9	0.6	1.1	0.3	(4.7)	0.5	61.7

This item, amounting to €61.7 million at 31 December 2020, is down €2.2 million compared with notices the previous year. This is primarily attributable to net uses and other movements (down €4.7 million, above all for *TFR* and the additional months' pay), relating essentially to employees who have opted to take part in the generational turnover plan launched in 2019. The above reduction was partially offset by provisions for the year (up €1.1 million) and the recognition of bonuses payable to employees of the Brugg Group (€0.6 million).

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

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	TFR	ADDITIONAL MONTHS' PAY	ASEM	TOTAL
Net impact recognised in profit or loss					
- current service cost	0.2	-	0.2	0.7	1.1
- curtailment (revenue) and other costs	-	-	(0.6)	-	(0.6)
- interest income and expense	-	0.2	-	0.1	0.3
TOTAL RECOGNISED IN PROFIT OR LOSS	0.2	0.2	(0.4)	0.8	0.8

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

(€m)

	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
Actuarial gain/losses					
- based on past experience	(0.8)	0.3	-	(0.3)	(0.8)
- due to changes in discount rate	0.3	0.1	0.1	0.8	1.3
TOTAL IMPACT ON COMPREHENSIVE INCOME	(0.5)	0.4	0.1	0.5	0.5

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 2019, the interest rate used to determine the present value of the obligation was calculated on the basis of the yield on the Iboxx Eurozone Corporates AA index at 31 December 2020, matching the duration of the relevant group of plan participants.

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	TFR	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER
Discount rate	0.34%	0.34%	0.02%	(0.08%)	(0.02%)	0.34%
Inflation rate	0.80%	0.80%	0.00%	2.70%	0.00%	2.70%
Duration (in years)	15.8-20.1	9.3-25.5	2.5-5.8	3.50	7.3-7.8	14.6-21.7

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	TFR	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
Discount rate +0.25%	4.1	35.4	5.5	0.1	3.6	10.8	59.5
Discount rate -0.25%	4.1	37.0	5.6	0.1	3.6	11.9	62.3
Inflation rate +0.25%	4.2	36.8	n/a	n/a	n/a	n/a	41.0
Inflation rate -0.25%	4.1	35.6	n/a	n/a	n/a	n/a	39.7
Annual rate of increase in health costs +3%	n/a	n/a	n/a	n/a	n/a	20.0	20.0
Annual rate of increase in health costs -3%	n/a	n/a	n/a	n/a	n/a	7.0	7.0

(€m)

	LOYALTY BONUSES AND OTHER INCENTIVES	TFR	ADDITIONAL MONTHS' PAY	PAYMENT IN LIEU OF NOTICE AND OTHER SIMILAR	ENERGY DISCOUNTS	ASEM HEALTH COVER	TOTAL
By the end of 2021	0.5	2.4	1.6	-	0.5	0.3	5.3
By the end of 2022	0.3	2.1	0.5	-	0.3	0.3	3.5
By the end of 2023	0.1	1.8	0.5	-	0.2	0.3	2.9
By the end of 2024	0.4	2.1	0.4	0.1	0.2	0.3	3.5
By the end of 2025	0.3	2.2	0.4	-	0.2	0.4	3.5
After 5 years	3.1	25.3	2.4	-	2.2	10.0	43.0
TOTAL	4.7	35.9	5.8	0.1	3.6	11.6	61.7

27 – PROVISIONS FOR RISK AND CHARGES – €171.4 MILLION

(€m)

	PROVISIONS FOR LITIGATION AND DISPUTES	PROVISIONS FOR SUNDRY RISKS AND CHARGES	PROVISIONS FOR EARLY RETIREMENT INCENTIVES	TOTAL
Amount at 31 December 2019	19.6	147.4	43.3	210.3
Contribution from newly acquired companies	-	2.1	-	2.1
Provisions	2.4	31.1	5.5	39.0
Uses and other movements	(2.3)	(58.9)	(18.8)	(80.0)
Amount at 31 December 2020	19.7	121.7	30.0	171.4

Provisions for litigation and disputes – €19.7 million

These provisions are 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 2020, amounting to €19.7 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. The provisions are up €0.1 million compared with the previous year, reflecting higher net provisions during the year.

Provisions for sundry risks and charges – €121.7 million

The provisions, amounting to €121.7 million at 31 December 2020, 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 €25.7 million as a result of the following:

- a reduction of €10.6 million following the release of provisions following settlement of a liability with an operator;
- the net use of €6.3 million in provisions for urban and environmental restoration projects;
- a net reduction of €5.7 million relating to staff incentive plans;
- a reduction of €9.4 million in provisions linked to the refund of the return on investment in construction of the portion of the interconnection with France that became private, but for which the related exemption was not granted in October 2020, with the asset restored to the NTG;
- a net increase of €5.2 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.

Provisions for early retirement incentives – €30.0 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 to whom the Group has an obligation. This item has recorded a net reduction of €13.3 million, primarily reflecting payments in relation to the existing plan for generational turnover.

28. OTHER NON-CURRENT LIABILITIES – €836.7 MILLION

This item, amounting to €836.7 million at 31 December 2020, regards accrued grants related to assets receivable by the Parent Company (€79.7 million), in addition to payments on account received in relation to construction of the private Italy-Montenegro and Italy-France Interconnectors (totalling €531.7 million).

This item also includes the guarantee deposits received from operators participating in the capacity market in accordance with Resolution 98/2011/R/eel (€116.6 million), in addition to the Interconnector Guarantee Fund set up by Terna S.p.A. following the issue of the 2016 Stability Law (€107.3 million), in order to fund investment in interconnections by art. 32 of Law 99/09.

The increase in this item compared with the previous year, amounting to €1.8 million, essentially reflects the reduction in the guarantee deposits received from operators participating in the capacity market in accordance with Resolution 98/2011/R/eel, as amended, after definition of each party's committed capacity following the auctions held in November 2019 (down €26 million), and a reduction in deferred income relating to grants related to assets receivable by the Parent Company (down €5.1 million), offset by an increase in the Interconnector Guarantee Fund (up €20.2 million) and in payments on account received from the entities financing the private Italy-Montenegro and Italy-France Interconnectors (a total increase of €11.3 million).

29. CURRENT LIABILITIES

	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Short-term borrowings *	1,002.2	25.0	977.2
Current portion of long-term borrowings *	1,388.0	126.5	1,261.5
Trade payables	2,217.3	2,445.2	(227.9)
Tax liabilities	-	11.8	(11.8)
Current financial liabilities *	90.1	87.7	2.4
Other current liabilities	333.1	325.4	7.7
TOTAL	5,030.7	3,021.6	2,009.1

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

TRADE PAYABLES – €2,217.3 MILLION

	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Suppliers:			
- Energy-related payables	1,199.1	1,358.8	(159.7)
- Non-energy-related payables	997.1	1,054.9	(57.8)
Amounts due to associates	8.8	8.6	0.2
Payables resulting from contract work in progress	12.3	22.9	(10.6)
TOTAL	2,217.3	2,445.2	(227.9)

Suppliers

Energy-related/regulated payables – €1,199.1 million

The reduction of €159.7 million in this item compared with the end of 2019 essentially reflects energy-related pass-through payables (€151.5 million). This is primarily due to:

- a decrease in payables linked to plants that are essential for the security of the electricity system – UESS (€210.7 million) as a result of an increase in payments ordered by ARERA in 2020³;
partly offset by
- an increase in payables linked to Dispatching Services Market - DSM transactions and services (€61.7 million).

Non-energy related payables

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

The balance at 31 December 2020 (€997.1 million) is down €57.8 million on the previous year, largely due to increased capital expenditure towards the end of the year (primarily by the subsidiary, Terna Rete Italia S.p.A., down €93.3 million), offset by an increase in payables at the Tamini Group (up €10.8 million) and the recognition of payables attributable to the new subsidiary, Brugg Cables (up €24.4 million).

Amounts due to associates

This item, amounting to €8.8 million, is up €0.2 million on the previous year, and regards amounts payable to the associate CESI S.p.A., for services provided primarily to the Parent Company (€1.8 million) and to the subsidiary Terna Rete Italia S.p.A. (€5.7 million), relating to electro technical studies and research.

Payables resulting from contract work in progress

Payables resulting from contract work in progress, amounting to €12.3 million at 31 December 2020, are down €10.6 on the figure for 31 December 2019 (€22.9 million), essentially reflecting the Tamini Group's contract work in progress (down €9.2 million).

This item breaks down as follows.

(€m)						
	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2020	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2019
Payables resulting from contract work in progress	(118.9)	106.6	(12.3)	(40.5)	17.6	(22.9)

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

³ ARERA ordered payments to the owners of essential plants in the following resolutions: 563/2019 and 35-44-108-109-120-133-146-154-260-281-314-381-422-439-440-441-450-451-452-465-466-467-487-488-489-505-506-527-528-529-530/2020.

The commitments assumed by the Group towards suppliers amount to approximately €2,074.6 million and regard purchase commitments linked to the normal “operating cycle” projected for the period 2021-2025.

TAX LIABILITIES – €0.0 MILLION

At 31 December 2020, this item amounts to zero, reflecting the recognition in “Income tax assets” of excess payments on account to cover tax expense for the previous year, net of the recognition of tax for the current year, compared with a net tax liability at 31 December 2019 (€11.8 million), accounted for in this item.

OTHER CURRENT LIABILITIES – €333.1 MILLION

	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Prepayments	59.7	66.9	(7.2)
Other tax liabilities	11.4	21.9	(10.5)
Social security payables	24.7	25.5	(0.8)
Amounts due to personnel	47.0	51.2	(4.2)
Other amounts due to third parties	190.3	159.9	30.4
TOTAL	333.1	325.4	7.7

(€m)

Prepayments

This item (€59.7 million) regards grants related to assets collected by the Group (€57.3 million attributable to the Parent Company, €0.8 million to Rete S.r.l. and €1.6 million to Terna Rete Italia S.p.A.) to fund the construction of non-current assets in progress at 31 December 2020. Compared with the balance at 31 December 2019 (€66.9 million), this item is down €7.2 million, essentially due to the net impact of grants deducted directly from the carrying amount of the related assets, totalling €28.8 million, and new prepayments received from third parties.

Other tax liabilities

Other tax liabilities, amounting to €11.4 million, are down €10.5 million compared with the previous year. This primarily reflects a reduction in VAT payable by the Group (down €11.1 million).

Social security payables

Social security payables, essentially relating to contributions payable to INPS (the National Institute of Social Security) by the Parent Company and the subsidiary, Terna Rete Italia S.p.A., amount to €24.7 million. The figure is down compared with the previous year, broadly due to reduced contributions payable on staff incentives (down €0.8 million). This item also included the amount payable to the *Fondo Previdenza Elettrici* – F.P.E. (the Electricity Industry Pension Fund), amounting to €2.9 million (€3.4 million at 31 December 2019).

Amounts due to personnel

Amounts due to personnel, amounting to €47.0 million, essentially regard the Parent Company and the subsidiary Terna Rete Italia S.p.A.. They primarily relate to:

- incentives payable in the subsequent year (€29.1 million);

- amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements (€13.5 million);
- benefits payable to personnel leaving the Company by 31 December 2020 (€2.3 million).

The item is down €4.2 million, primarily due to a decrease in amounts payable to personnel who have opted to take part in the current generational turnover plan launched by the Company in the previous year (down €9.6 million), partially offset by a decrease in other incentives payable to personnel in the following year (up €5.9 million).

Other payables due to third parties

Other payables due to third parties, amounting to €190.3 million, primarily regard guarantee deposits (€121.3 million) received from electricity market operators to guarantee their contractual obligations under dispatching and virtual interconnection contracts. This item also includes the potential liabilities attributable to the subsidiary, Brugg Cables arising during the Purchase Price Allocation (€33.0 million, covered by an insurance policy) resulting from ongoing litigation regarding a number of contracts with Colombian counterparties, and deferred income (€15.9 million, primarily attributable to the Group's non-regulated business).

This item is up by a total of €30.4 million, essentially due to an increase in guarantee deposits collected during the year, totalling €14.0 million and the recognition of potential liabilities attributable to the new subsidiary, Brugg Cables (up €33.0 million). This was partially offset by the payment to RFI of the refund received from the tax authority in 2019 (down €13.4 million) in connection with the acquisition of Rete S.r.l (December 2015).

E. Commitments and risks

Risk management

The Group's financial risk

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

This section provides information regarding the Terna Group's exposure to all the above risks, along with a presentation of the objectives, policies and processes for managing those risks and the methods used to assess them, with further quantitative disclosures concerning the separate financial statements for 2020.

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

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

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

(€m)

	31 DECEMBER 2020			31 DECEMBER 2019		
	AMORTISED COST	FAIR VALUE	TOTAL	AMORTISED COST	FAIR VALUE	TOTAL
Assets						
Derivative financial instruments	-	94.2	94.2	-	45.1	45.1
Cash on hand and government securities	2,689.0	611.4	3,300.4	1,057.4	513.3	1,570.7
Trade receivables	1,245.2	-	1,245.2	1,290.7	-	1,290.7
TOTAL	3,934.2	705.6	4,639.8	2,348.1	558.4	2,906.5

(€m)

	31 DECEMBER 2020			31 DECEMBER 2019		
	AMORTISED COST	FAIR VALUE	TOTAL	AMORTISED COST	FAIR VALUE	TOTAL
Liabilities						
Borrowings	11,248.2	-	11,248.2	9,607.2	-	9,607.2
Derivative financial instruments	-	253.8	253.8	-	160.4	160.4
Trade payables	2,217.3	-	2,217.3	2,445.2	-	2,445.2
TOTAL	13,465.5	253.8	13,719.3	12,052.4	160.4	12,212.8

Market risk

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

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

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

The fair value of financial instruments is determined in accordance with the fair value hierarchy envisaged under IFRS 7 (Level 2), by means of appropriate valuation techniques for each category of financial instrument, using market data at the closing date (such as interest rates,

exchange rates and volatility) and discounting projected cash flows on the basis of the market yield curve at the reporting date.

Interest rate risk

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

In the course of its operations, the Group is exposed to the risk of fluctuations in interest rates. Its main source of interest rate risk is associated with its borrowings and the related hedges in the form of derivative instruments that generate financial expenses. The borrowing strategy focuses on long-term borrowings, whose term reflects the useful life of the Group's assets. It pursues an interest rate risk hedging policy that aims to guarantee that percentage of debt represented by fixed rate liabilities is at least 40%, as provided for in the relevant policies. At the end of 2020, 85% of the Group's is fixed rate.

At 31 December 2020, interest rate risk is hedged by cash flow hedges, which hedge the risk connected with movements in interest rates relating to long-term borrowings.

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

	(€m)					
	31 DECEMBER 2020		31 DECEMBER 2019		CHANGE	
	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE
Fair value hedges	1,600.0	94.2	1,600.0	45.0	-	49.2
Cash flow hedges	4,079.9	(253.8)	3,794.0	(160.4)	285.9	(93.4)

The notional amount of outstanding cash flow hedges at 31 December 2020, amounting to €4,079.9 million, breaks down as follows:

- €1,111.9 million (fair value loss of €6.4 million) maturing 2021;
- €300.0 million (fair value loss of €0.3 million) maturing 2022;
- €100.0 million (fair value loss of €0.2 million) maturing 2023;
- €1,250.0 million (fair value loss of €114.1 million) maturing 2027;
- €1,300.0 million (fair value loss of €130.2 million) maturing 2028;
- €18.0 million (fair value loss of €2.6 million), relating to the subsidiary, Difebal, maturing 2032.

The notional amount of fair value hedges at 31 December 2020, amounting to €1,600.0 million, breaks down as follows:

- €850.0 million (fair value gain of €43.7 million) maturing 2027;
- €750.0 million (fair value gain of €50.5 million) maturing 2028.

Sensitivity to interest rate risk

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

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

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

	PROFIT OR LOSS			COMPREHENSIVE INCOME		
	CURRENT RATES +10%	CURRENT AMOUNTS	CURRENT RATES -10%	CURRENT RATES +10%	CURRENT AMOUNTS	CURRENT RATES -10%
31 December 2020						
Positions sensitive to interest rate variations (FVHs, bond issues, CFHs)	(4.0)	(4.1)	(4.2)	(85.1)	(93.4)	(101.7)
<i>Hypothetical change</i>	0.1	-	(0.1)	8.3	-	(8.3)
31 December 2019						
Positions sensitive to interest rate variations (FVHs, bond issues, CFHs)	2.4	5.4	8.4	(98.8)	(101.2)	(103.7)
<i>Hypothetical change</i>	(3.0)	-	3.0	2.4	-	(2.4)

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

Inflation risk

As regards inflation risk, the rates established by the regulator to provide a return on Terna S.p.A.'s activities are determined so as to cover the allowed costs. Such cost components are updated on an annual basis to take into account the impact of inflation. Having used an inflation-

linked bond issue in 2007, the Company has put in place an effective hedge of net income; in fact, any decrease in expected revenue due to a decrease in the inflation rate would be offset by lower financial expenses.

Exchange rate risk

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

At 31 December 2020, the Group's exposure to the impact of exchange rate risk on its profit or loss is residual and linked to foreign currency cash flows from the subsidiary Tamini and Brugg.

Liquidity risk

Liquidity risk is the risk that the Terna Group might encounter difficulty in discharging its obligations in respect of its financial liabilities and operating cycle. Liquidity risk management seeks to ensure adequate coverage of borrowing requirements by obtaining adequate credit lines and appropriate management of any surplus liquidity.

At 31 December 2020, the Terna Group has available short-term credit facilities of approximately €619 million (out of total facilities of approximately €1,243 million), revolving credit facilities of €2,650 million and facilities agreed but yet to be disbursed, totalling approximately €347 million.

Credit risk

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

The credit risk originated by open positions on transactions in derivatives is considered to be marginal since the counterparties, in compliance with the financial risk management policies adopted, are leading international banks with high ratings.

Terna provides its services essentially to counterparties considered solvent by the market, and therefore with a high credit standing, and does not have high concentrations of credit risk.

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

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

	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Fair value hedges	94.2	45.0	49.2
Cash and cash equivalents	2,689.0	1,057.4	1,631.6
Trade receivables	1,245.2	1,290.7	(45.5)
TOTAL	4,028.4	2,393.1	1,635.3

The total value of the exposure to credit rate risk at 31 December 2020 is represented by the carrying amount of trade receivables, cash and cash equivalents and investments.

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

GEOGRAPHICAL DISTRIBUTION

	31 DECEMBER 2020	31 DECEMBER 2019
Italy	1,075.2	1,146.7
Euro-area countries	44.6	27.6
Other countries	125.4	116.4
Total	1,245.2	1,290.7

CUSTOMER TYPE

	31 DECEMBER 2020	31 DECEMBER 2019
Distributors	199.4	313.5
CSEA	93.7	88.9
Dispatching customers for injections	173.2	169.9
Dispatching customers for withdrawals (non distributors)	563.9	517.8
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	12.7	12.8
Sundry receivables	202.3	187.8
Total	1,245.2	1,290.7

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

	31 DECEMBER 2020		31 DECEMBER 2019	
	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS
Current	(0.6)	1,188.9	(0.7)	1,149.6
0-30 days past due	-	8.8	-	13.5
31-120 days past due	(0.3)	6.5	(0.1)	9.6
Over 120 days past due	(51.1)	93.0	(42.1)	160.9
Total	(52.0)	1,297.2	(42.9)	1,333.6

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

	(€m)	
	31 DECEMBER 2020	31 DECEMBER 2019
Balance at 1 January	(42.9)	(44.1)
Release of provisions	0.1	2.3
Impairments for the year	(9.2)	(1.1)
Total	(52.0)	(42.9)

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

	(€m)	
	31 DECEMBER 2020	31 DECEMBER 2019
Dispatching - injections	215.5	236.1
Dispatching - withdrawals	1,316.0	1,109.4
Transmission charges due from distributors	327.9	313.7
Virtual imports	113.4	104.3
Capacity market (*)	148.3	-
Total	2,121.1	1,763.5

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

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

Default risk and debt covenants

This risk is associated with the possibility that the loan agreements or bond terms and conditions to which the Parent Company is a party may contain provisions authorising counterparties to call in such loans immediately upon the occurrence of certain events, thereby generating liquidity risk. More information on the contractual provisions of outstanding borrowings at 31 December 2020 is provided in the section, "Borrowings and financial liabilities" in the notes to the Terna Group's consolidated financial statements.

Bank guarantees

Banks have issued guarantees to third parties on behalf of Group companies which, at 31 December 2020, amount to €265.3 million. This amount breaks down as follows: €86.0 million on behalf of Terna S.p.A., €60.9 million on behalf of Tamini Trasformatori S.r.l., €59.4 million on behalf of Terna Rete Italia S.p.A., €39.2 million on behalf of Terna Interconnector S.r.l., €6.1 million on behalf of Terna Plus S.r.l., €5.1 million on behalf of Santa Lucia S.A., €4.1 million on behalf of Difebal S.A., €2.4 million on behalf of Terna Perù SAC, €1.0 million on behalf of Santa Maria SA, €0.7 million on behalf of Terna Energy Solutions S.r.l., €0.3 million on behalf of Avvenia The Energy Innovator S.r.l. and €0.1 million on behalf of Terna Cile 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 2020, relating to the Parent Company Terna, its subsidiary Terna Rete Italia S.p.A. and the Tamini Group companies, are described below. There are no significant commitments or risks for the other subsidiaries at that date.

Environmental and urban planning litigation

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

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

A legal action is pending with regard to the new 380 kV "Udine West – Redipuglia" power line and the related works, which entered service two years ago. If the legal challenges brought by local councils and/or private parties were to be successful, and the related consents cancelled, this could have an impact on operation of the infrastructure.

Litigation regarding the legitimacy of construction permits and plant operations

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

Litigation relating to activities carried out under concession

As the operator of transmission and dispatching activities since 1 November 2005, the Parent Company has been a party in a number of court cases, most of which have contested determinations adopted by ARERA (Italy's Regulatory Authority for Energy, Networks and the Environment), and/or the Ministry for Economic Development, 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

Acquisition of BRUGG CABLE

In implementation of the preliminary agreement signed on 20 December 2019, on 29 February 2020, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the acquisition of a 90% interest in Brugg Kabel AG (Brugg Group), one of the leading European operators in the terrestrial cable sector, specialising in the design, development, construction, installation and maintenance of electrical cables of all voltages and accessories for high-voltage cables.

The acquisition of Brugg Kabel provides Terna with a centre of excellence for research, development and testing in one of the core technologies for the TSO, such as terrestrial cable technology.

In particular, the transaction gives Terna the opportunity to rapidly integrate core competencies, by acquiring a company featuring:

- specialisation in 150kV cables with standards in line with those Terna requires;
- HV cable production capacity in line with Terna S.p.A.'s requirements;
- expertise consolidated over 120 years, which has been widely verified by Terna;
- significant potential synergies with the Group's Non-regulated Activities.

It should be noted that Terna's Development Plan, in line with the objectives of greater sustainability and resilience for the NTG, envisages doubling the number of terrestrial cables over the next 10 years. Consequently, the development of distinctive expertise in the underground cable sector to support cable design and construction activities, as well as O&M, is likely to play a key role in Terna's future.

The acquired company's workforce at 31 December 2020 totals 381.

The acquisition, which Terna financed with its own funds, was finalised through the subsidiary, Terna Energy Solutions S.r.l.. The final consideration for the acquisition of the 90% interest was CHF24.9 million net of the Purchase Price Adjustment of approximately CHF1 million and payment of a further CHF0.5 million within two years of the acquisition date.

IFRS 3 requires the acquirer of a business combination to measure the cost of the acquisition on the basis of the consideration paid to obtain control of the acquired entity. The accounting standard establishes that the acquisition date is the date on which the acquirer obtains control. In this case, the date is 29 February 2020. The adjusted acquisition cost for a 100% stake in the company is CHF27.8 million. The excess/defect purchase price represents the difference between the acquisition cost, measured in accordance with IFRS 3, and the pre-transaction value of the acquiree's net assets.

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

VALUE OF THE ASSETS ACQUIRED AND LIABILITIES ASSUMED AT 29 FEBRUARY 2020

(€000)

	CARRYING AMOUNT	ADJ.	FAIR VALUE
ASSETS			
Non-current assets			
Property, plant and equipment	55,721	22,527	78,248
Intangible assets	-	9,665	9,665
Non-current financial assets	6,043	-	6,043
Deferred tax assets	4,082	5,935	10,017
Total non-current assets	65,846	38,127	103,973
Current assets			
Trade receivables	65,987	-	65,987
Inventories	21,309	-	21,309
Other assets	1,275	-	1,275
Cash	21,849	-	21,849
Total current assets	110,420	-	110,420
TOTAL ASSETS	176,266	38,127	214,393
EQUITY AND LIABILITIES			
Non-current liabilities			
Employee benefits	579	-	579
Provisions for risks and charges	6,972	-	6,972
Non-current financial liabilities	54,228	-	54,228
Deferred tax liabilities	4,720	11,730	16,450
Total non-current liabilities	66,499	11,730	78,229
Current liabilities			
Trade payables	31,381	-	31,381
Tax liabilities	50	-	50
Current financial liabilities	2,052	-	2,052
Other liabilities	3,496	-	3,496
Total current liabilities	36,979	-	36,979
TOTAL EQUITY AND LIABILITIES	103,478	11,730	115,208
NET ASSETS ACQUIRED	72,788	26,397	99,185

(€000)

	CARRYING AMOUNT	ADJ.	FAIR VALUE
CONSIDERATION AND SHARE ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(26,196)	-	(26,196)
NET ASSETS ACQUIRED	72,788	26,397	99,185
BARGAIN	46,592	26,397	72,989

IFRS 3 requires the acquirer to allocate the cost of the business combination in its accounts by recognising all the assets, liabilities and potential liabilities meeting specific recognition criteria at their fair value at the acquisition date. Measurement of the fair value of the assets and liabilities has resulted in adjustments primarily to the value of property, plant and equipment and of the Brugg Cable brand, with the related impact on taxation amounting to approximately €26.4 million.

The expected consideration is below the value of net assets at the acquisition date, leading to a gain resulting from a bargain purchase of approximately €73.0 million, recognised in "Other revenue and income" in the income statement for 2020.

The Shareholder Agreement also grants the Terna Group a call option, to be exercised within 36 months of closing, on the remaining 10% of Brugg HV Cable Manufacturing held by the Brugg Group at a cost of approximately 1.6 million Swiss francs.

Acquisition of SPE Transmissora de energia Linha Verde I S.A.

On 11 August 2020, Terna, acting through its subsidiary, Terna Plus S.r.l., acquired a 51% interest in the Brazilian company, SPE Transmissora de Energia Linha Verde I S.A., following the subscription for new shares amounting to €10,329,962. The interest then increased to 75% via the purchase of a further 24% from the non-controlling shareholder on 29 September 2020 at a cost of €623,302.

The transaction relates to the second concession covered by the preliminary agreement with Construtora Quebec, involving the construction of a 152-km long 500kV power line known as the “Governador Valadares-Mutum” in the State of Minas Gerais.

The new infrastructure will boost the efficiency, security and sustainability of the Brazilian electricity grid and better exploit the potential offered by the production of renewable energy. The value of the transaction is approximately US\$50 million and will be largely financed through project financing.

IFRS 3 requires the acquirer of a business combination to measure the cost of the acquisition on the basis of the consideration paid to obtain control of the acquired entity. The accounting standard establishes that the acquisition date is the date on which the acquirer obtains control. In this case, the date is 11 August 2020. The agreement entered into by the parties involved the issue by the seller of new shares reserved to the acquirer and corresponding with a 51% interest at a cost of €10.3 million. At the acquisition date, the non-controlling interest is 49%, based on the fair value of the net assets acquired.

The accounting effects of the business combination, in compliance with IFRS 3 – Business Combinations, are shown in the following table, which summarises the value of the assets acquired and liabilities assumed, as recognized at the acquisition date:

VALUE OF THE ASSETS ACQUIRED AND LIABILITIES ASSUMED AT 11 AUGUST 2020

(€)

	FAIR VALUE
ASSETS	
Non-current assets	
Non-current financial assets	1,465,553
Other non-current assets	55,342
Total non-current assets	1,520,895
Current assets	
Other assets	24,476
Cash	10,336,847
Total current assets	10,361,323
TOTAL ASSETS	11,882,218
LIABILITIES	
Non-current liabilities	
Deferred tax liabilities	125,651
Total non-current liabilities	125,651
Current liabilities	
Trade payables	12,969
Total current liabilities	12,969
TOTAL LIABILITIES	138,620
NET ASSETS ACQUIRED	11,743,598
Net asset contributed	11,743,598
NON-CONTROLLING INTEREST AT FAIR VALUE	1,413,636
ISSUE OF NEW SHARES RESERVED TO ACQUIRER	10,329,962

As provided for in the underlying agreements with the seller, on 29 September 2020, Terna Plus acquired a further 24% interest in Linha Verde I through the purchase of the corresponding number of shares from the non-controlling shareholder for a consideration of €623,302.

The transaction has been accounted for on a provisional basis, as provided for in IFRS 3, with recognition of the final amounts within 12 months of the acquisition date.

G. Related party transactions

Given that Terna S.p.A. is subject to the *de facto* control of Cassa Depositi e Prestiti S.p.A., a situation ascertained in 2007, related party transactions entered into by Terna during the year include transactions with the associates (Cesi S.p.A., Coreso S.A. and CGES) and employee pension funds (Fondenel and Fopen), as well as transactions with Cassa Depositi e Prestiti itself, with CDP Reti S.p.A. and with the companies directly or indirectly controlled by the Ministry of the Economy and Finance ("MEF").

Given that Terna Group companies and the companies directly or indirectly controlled by the Ministry of the Economy and Finance meet the definition for classification as "government-related entities", in accordance with IAS 24 – Related Party Disclosures, the Group has elected to adopt the partial exemption – permitted by the standard – from the disclosure requirements in respect of other companies controlled, influenced or jointly controlled by the same government entity. The remainder of this section provides qualitative and quantitative disclosures on transactions with government-related entities having a significant impact on the Group's results. Amounts relating to pass-through items are not included in these disclosures. Related party transactions in 2020 broadly regard the provision of services in the course of ordinary activities and conducted on an arm's length basis.

The nature of sales to and purchases from related parties by the Terna Group is shown below, followed by details of the revenue and costs resulting from such transactions during the year and the related assets and liabilities outstanding at 31 December 2020.

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

REVENUE AND COSTS

(€m)

	REVENUE COMPONENTS		COST COMPONENTS	
	TRANSMISSION CHARGE AND OTHER REVENUE FROM REGULATED ACTIVITIES	NON-ENERGY-RELATED ITEMS		
De facto parent:				
Cassa Depositi e Prestiti S.p.A.	-	-	-	0.1
Total de facto parent	-	-	-	0.1
Associates:				
Cesi S.p.A.	-	0.2	-	1.7
CORESIO S.A.	-	-	-	2.9
Total associates	-	0.2	-	4.6
Other related parties:				
GSE Group	15.6	1.9	-	0.1
Enel Group	1,646.7	7.4	-	0.6
ENI Group	7.2	1.1	-	0.3
Ferrovie Group	1.9	1.1	-	6.1
Anas S.p.A.	-	-	-	1.6
Fintecna	-	0.1	-	-
Ansaldo Energia S.p.A.	-	0.1	-	0.7
Snam Rete Gas S.p.A.	-	0.1	-	-
Open Fiber S.p.A.	-	3.2	-	-
Other related parties of MEF	-	0.2	-	0.1
Totale other related parties	1,671.4	15.2	-	9.5
Pension funds:				
Fondenel	-	-	-	0.7
Fopen	-	-	-	2.4
Total pension funds	-	-	-	3.1
TOTAL	1,671.4	15.4	-	17.3

ASSETS AND LIABILITIES

(€m)

	PROPERTY, PLANT AND EQUIPMENT	RECEIVABLES AND OTHER ASSETS	PAYABLES AND OTHER LIABILITIES	CASH	GUARANTEES*
	CAPITALISED COSTS	OTHER	OTHER		
De facto parent:					
Cassa Depositi e Prestiti S.p.A.	-	-	0.1	-	-
Total de facto parent	-	-	0.1	-	-
Associates:					
Cesi S.p.A.	11.9	0.1	8.5	-	-
CORESIO S.A.	-	-	0.3	-	-
Total associates	11.9	0.1	8.8	-	-
Other related parties:					
GSE Group	0.4	1.6	0.3	-	-
Enel Group	15.8	220.6	31.7	-	733.0
Eni Group	-	2.8	1.6	-	56.8
Ferrovie Group	0.2	3.0	16.0	-	24.5
ANAS S.p.A.	4.4	0.1	3.6	-	-
Fintecna S.p.A.	0.6	-	0.4	-	-
Ansaldo Energia S.p.A.	20.7	2.3	29.0	-	0.9
Open Fiber S.p.A.	-	3.5	6.9	-	-
Other related parties of MEF	0.4	0.1	0.2	0.1	-
Total other related parties	42.5	234.0	89.7	0.1	815.2
Pension funds:					
Fopen	-	-	2.1	-	-
Total pension funds	-	-	2.1	-	-
TOTAL	54.4	234.1	100.7	0.1	815.2

* Guarantees regard surety bonds received from contractors.

The impact of related-party transactions or positions on the balance sheet and income statement is summarised in the following table:

STATEMENT OF FINANCIAL POSITION

(€m)

	31 DECEMBER 2020			31 DECEMBER 2019		
	TOTAL	RELATED PARTIES	SHARE %	TOTAL	RELATED PARTIES	SHARE %
Property, plant and equipment	14,559.7	54.4	0.4%	13,864.2	45.3	0.3%
Trade receivables	1,245.2	234.1	18.8%	1,290.7	423.2	32.8%
Cash and cash equivalents	2,689.0	0.1	-	1,057.4	0.1	-
Trade payables	2,217.3	80.4	3.6%	2,445.2	85.5	3.5%
Other current liabilities	333.1	20.3	6.1%	325.4	20.9	6.4%

INCOME STATEMENT

(€m)

	2020			2019		
	TOTAL	RELATED PARTIES	SHARE %	TOTAL	RELATED PARTIES	SHARE %
Revenue from sales and services	2,461.9	1,685.3	68.5%	2,287.9	1,632.8	71.4%
Other revenue and income	113.8	1.5	1.3%	56.9	4.9	8.6%
Raw and consumable materials used	222.6	1.3	0.6%	142.8	0.3	0.2%
Services	191.8	12.7	6.6%	187.3	17.1	9.1%
Personnel expenses	288.7	3.1	1.1%	256.7	2.9	1.1%
Other operating costs	42.2	0.2	0.5%	16.8	0.1	0.6%
Financial expenses	(102.6)	-	-	(92.3)	(0.3)	0.3%

The effect of cash flows with related parties is shown in the following table:

STATEMENT OF CASH FLOW

(€m)

	2020			2019		
	TOTAL	RELATED PARTIES	SHARE %	TOTAL	RELATED PARTIES	SHARE %
Cash flow from operating activities	941.4	183.4	19.5%	1,295.4	14.3	1.1%
Cash flow for investing activities	(1,389.6)	(9.1)	0.7%	(1,283.7)	(4.4)	0.3%
Cash flow from financing activities	2,079.8	-	-	(283.2)	(500.0)	176.6%

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 2020.

I. Notes to the statement of cash flows

Cash flow from **continuing operations** amounts to €941.4 million, with approximately €1,785.0 million in operating cash flow and an outflow of approximately -€843.6 million generated by changes in net working capital.

The cash outflow for **investing activities** totals €1,389.6 million, and above all regards €1,186.6 million relating to investment in property, plant and equipment (excluding right-of-use assets recognized in application of IFRS 16), €101.6 million invested in intangible assets, with €121.2 million relating to the increase in Italian government securities held, after capitalised financial expenses of €10.1 million.

The **net change in equity** is represented by a reduction of €532.0 million, due primarily to payment to the Parent Company's shareholders of the final dividend for 2019 and the interim dividend for 2020 (totalling €517.1 million), payment of the dividend due to non-controlling shareholders (€9.0 million) and the contribution to equity attributable to non-controlling interests resulting from the new acquisitions (€3.6 million).

As a result, net cash used in investing activities and to provide a return on equity during the year amounted to €1,921.6 million, for the most part covered by cash flow from continuing operations of €941.4 million. The remainder was funded through net debt, which over the course of the year rose €914 million compared with the previous year.

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

	31 DECEMBER 2019	CASH FLOW FROM FINANCING ACTIVITIES	CHANGE IN FV AND OTHER	(€m) 31 DECEMBER 2020
- Long-term borrowings (including current portion)	9,607.2	1,697.2	(56.2)	11,248.2
- Short-term borrowings	25.0	977.2	-	1,002.2
- Other changes due to new acquisitions	-	(62.6)	-	(62.6)
Net change deriving from financing activities	9,632.2	2,611.8	(56.2)	12,187.8

L. Government grants

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

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

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

In line with the above, the following table shows government grants collected/disbursed by the Group in 2020:

GRANTS RECEIVED (PARAGRAPH 125-BIS)

BENEFICIARY ENTITY	GRANTOR			TYPE OF TRANSACTION	AMOUNT (€)	NOTE
	NAME	TAX CODE	VAT NUMBER			
TERNA S.P.A.	Sicily Regional Authority	80012000826	02711070827	State aid	1,650,334.48	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

GRANTS DISBURSED (PARAGRAPH 126)

GRANTOR	BENEFICIARY			AMOUNT (€)	NOTE
	NAME	VAT NUMBER	TYPE OF TRANSACTION		
TERNA S.P.A.	Cabinet Office	IT97018720587	DONATION	20,000	Donation to the Civil Protection Agency to fund the response to the Covid-19 emergency
TERNA S.P.A.	Cabinet Office	IT97018720587	DONATION	160,000	Terna for the Civil Protection Agency – Donation to fund the purchase of ventilators
TERNA S.P.A.	Palazzo Strozzi	IT04963330487	DONATION	30,000	Donation to Palazzo Strozzi - Committee 2020
TERNA S.P.A.	Save the Children Italia Onlus	IT07354071008	DONATION	20,000	Donation to Save The Children
TERNA S.P.A.	Fond.Pol. Univ.A.GEMELLI IRCCS	IT13109681000	DONATION	50,000	Creation of 50 new beds for ordinary Covid-19 patients
TERNA S.P.A.	Fond.Pol. Univ.A.GEMELLI IRCCS	IT13109681000	DONATION	30,000	Donation to fund 20 extra intensive care beds
TERNA S.P.A.	Fondaz. Accademia Naz. Santa Cecilia	IT05662271005	GIVING	10,000	Donation to Accademia Nazionale Santa Cecilia la Roma di Tosca
TERNA S.P.A.	Fondaz. Accademia Naz. Santa Cecilia	IT05662271005	GIVING	160,000	Gift in 2020 as a Founder member of the Fondazione Accademia Nazionale di Santa Cecilia
TERNA S.P.A.	Fondaz. Accademia Naz. Santa Cecilia	IT05662271005	GIVING	165,000	Gift in 2019 as a Founder member of the Fondazione Accademia Nazionale di Santa Cecilia
TERNA S.P.A.	Il Gazzettino SPA	IT02742610278	DONATION	10,000	Donation to Padua Hospital as part of the Il Gazzettino fundraising initiative
TERNA S.P.A.	Cabinet Office	IT97018720587	DONATION	61,064	Sum collected as a result of employees' donation of one hour's pay to fund the response to the Covid-19 emergency
TERNA S.P.A.	Ass.ne Comunità Papa Giovanni XXIII	IT01433850409	DONATION	10,000	Donation to fund the Christmas project
TERNA S.P.A.	Cepagatti Town Council	IT00221110687	DONATION	10,000	Support for the response to the socio-economic difficulties caused by the spread of Covid-19
Total				736,064	

M. Events after 31 December 2020

More accurate, up-to-date and detailed data on Italian electricity consumption

On **5 January 2021**, after a year of working in close collaboration with all the electricity distributors, Terna completed the new **classification of Italian electricity consumption**, which is in line with the system adopted by ISTAT and the one defined at EU level. The national electricity consumption data published by Terna are broken down by economic activity and include province-level details. For the first time, the data has been reclassified by associating distributors' customers with the new ATECO2007 product code as opposed to the previous Atecue95 one.

Partnership between the Carabinieri police force and Terna to ensure the security of the national electricity grid

On **7 January 2021**, in the presence of the Commander General of the Carabinieri, General Giovanni Nistri, and Terna's Chief Executive Officer, Stefano Antonio Donnarumma, **an agreement was signed between the Carabinieri and Terna**, aimed at further **boosting physical protection of Italy's strategic electricity infrastructure**. Terna will supply an additional 675 state-of-the-art devices to the units directly involved in monitoring the infrastructure.

The new 150 kV Castrocucco - Maratea underground power line enters service

On **12 January 2021**, the **new 150kV Castrocucco - Maratea underground power line** in the province of Potenza entered service. Terna invested €15 million in the construction of the project, which involved around 20 companies, with a view to increasing the efficiency and reliability of the area's electricity system. Implementation of the project will ensure continuity of the electricity service in the area, even when some power lines are out of service due to maintenance or failure. The fruitful collaboration between Terna and local authorities, especially at provincial and municipal level, enabled optimum management of all phases of construction. The works, which began in August 2018 and were completed in December 2020, had no repercussions on the road network and traffic, which is particularly heavy during the summer.

Partnership between Terna and ENEA to develop new technologies for the electricity grid

On **14 January 2021**, Terna and ENEA, the Italian agency for new technologies, energy and sustainable economic development, launched a **partnership for research aimed at boosting the security and resilience of the high-voltage grid**. Via the use of innovative technologies, including artificial intelligence, sensors and IoT data analytics, Terna and ENEA will collaborate on the development of models and tools for the prevention and management of emergencies that affect infrastructure. These "capital-light" solutions work in synergy with grid development initiatives to ensure maximum effectiveness in managing potential critical situations linked to extreme weather events, air pollution and geological events.

Europe's electricity system secured thanks to Terna's swift intervention

On **15 January 2021**, Europe's electricity system was secured thanks to **Terna's swift intervention**. The Italian electricity grid managed by Terna reacted promptly to a sudden drop in frequency that affected the transmission systems of all the countries in continental Europe, thereby rapidly contributing to the gradual restoration of secure service and continuity of supply, without any consequences for users. With its world leading protection system in terms of performance, promptness and effectiveness, Terna activated the first level of system protection by disconnecting around 400 MW of consumption by so-called interruptible industrial customers from the grid. This action, in coordination with action taken by other European grid operators, enabled a rebalancing of continent-wide electricity frequency, thus preventing possible power cuts and widespread power outages.

Terna acquires the remaining 30% of the investee Avvenia the Energy Innovator S.r.l.

On **26 January 2021**, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., **completed the acquisition of the remaining 30% of Avvenia the Energy Innovator S.r.l.** from the minority shareholder, Avvenia S.r.l. for a consideration of €3,600,000. Avvenia has thus become a "sole shareholder" company wholly owned by Terna.

Terna included for the third year running in the Gender Equality Index 2021

On **27 January 2021**, Terna was **included for the third 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. Terna registered an above-average performance for the companies included in the index, as well as the subset of companies in the Utilities sector. With particular regard to disclosure, we scored 100/100, reflecting the focus on transparency and quality in our reporting. We also achieved excellent results in the assessments of the "Equal Pay and Gender Pay Parity" and "Inclusive Culture" categories.

Terna is the first Italian electric utility to join the Nasdaq Sustainable Bond Network

On **28 January 2021**, Terna was **the first Italian electric utility to join the Nasdaq Sustainable Bond Network**, the sustainable finance platform managed by Nasdaq that brings together investors, issuers, investment banks and specialised organisations. The projection of the Terna Driving Energy logo on the Nasdaq Tower in Times Square, New York, recognises Terna's firm commitment as the ecologic transition enabler of a grid that is increasingly reliable, efficient, technology-driven and, above all, green. "Terna is the director of the Italian energy system: sustainability is naturally at the heart of our mission, we were pioneers in the green bond market, and today we are delighted to join the Nasdaq network" says Stefano Antonio Donnarumma, Chief Executive Officer of Terna.

Equigy welcomes Austrian Power Grid as fifth shareholder

On **1 February 2021**, after APG (Austrian TSO) became the fifth European transmission system operator to take a stake in Equigy, **Terna S.p.A.'s interest in Equigy decreased from 25% to 20%.**

Terna is the number one Electric Utility in the Dow Jones Sustainability Index World

For the third year running, on **2 February 2021**, Terna was ranked **number one Electric Utility in the Dow Jones Sustainability World Index for sustainability performance**. This is the outcome of the recent review conducted by the sustainability rating agency, SAM - S&P Global, on which the update of the Dow Jones Sustainability indices is based. Overall, Terna scored 90/100, the highest score among electricity utilities (sector average: 43/100). This ranking is confirmed in 10 of the 23 assessment criteria applicable to the Company: Terna came first in the economic criteria for Materiality, Policy Influence, Innovation Management, and Privacy Protection; in the environmental criteria for Environmental Reporting, Transmission and Distribution; and in the social criteria for Social Reporting, Human Capital Development, Talent Attraction and Retention, and Corporate Citizenship and Philanthropy.

Winner of the architectural competition for the future Suvereto power station announced

On **3 February 2021**, the Florentine firm, Pierattelli Architetture, was **declared winner of the architectural competition for the future Suvereto power station**, which is part of the project to modernise Sa.Co.I.3, the electricity link between Sardinia, Corsica and the Italian mainland. The contest was devised in consultation with Suvereto Town Council, with the aim of making the infrastructure blend in harmoniously with the landscape. The architectural proposals were examined and evaluated by a panel of experts on the basis of several criteria, including minimising environmental impact, innovation, originality and aesthetic character, restoration of vegetation, construction time and ease of maintenance of the project. The winning project was deemed to be in keeping with and harmoniously blended into the landscape.

Terna launches public consultation on the Tyrrhenian Link

On **2, 3 and 4 February**, a public consultation **was held on the Tyrrhenian Link** - the undersea power line that will link Campania to Sicily and Sicily to Sardinia - via a virtual Terna Incontra meeting dedicated to the citizens of Battipaglia, Eboli and Termini Imerese. In particular, the various locations of the electricity converter substation in the Municipality of Eboli and the converter station were presented. The Tyrrhenian Link is a strategic project for the Italian electricity system, in which Terna will invest around €3.7 billion over the next few years and that will involve 250 companies. By increasing the electricity exchange capacity between Sicily, Sardinia and Campania, the new infrastructure will facilitate full integration between the different market areas, and will bring important benefits in terms of efficiency. It will also enable optimum use of the ever-growing flows of energy from renewable sources, and improve the reliability of the grid and the entire system. The new interconnection is a state-of-the-art project involving the construction of two undersea power lines (one from Campania to Sicily, and the other from Sicily to Sardinia), with a total of 950 km of 1000 MW direct current connection.

Terna energised the new “invisible” power line between Cortina and Auronzo

On **4 February 2021**, Terna energised **the new 24-km “invisible” power line that connects Cortina d’Ampezzo with Auronzo di Cadore**, in Veneto. The high-tech, completely underground infrastructure is part of a wider plan to modernise and reorganise the electricity grid in the Upper Belluno area, for which Terna has invested €60 million. Completed in record time - just 13 months - the project will benefit the national electricity system and ensure secure operation of the World Ski Championships in Cortina d’Ampezzo from 7 to 21 February, a sporting event of global importance. The power line runs for 15 km in the Municipality of Cortina d’Ampezzo and 9 km in the Municipality of Auronzo di Cadore, between the Zuel and Somprade electricity substations, respectively, and is strategically important for a large area of north-eastern Italy. Together with the new Auronzo di Cadore substation (at Cima Gogna), which is currently under construction, and the upgrade of the existing 132kV and 220kV grid, the new cable will help to increase the mesh and improve the efficiency, reliability and resilience of the local electricity grid, which is vulnerable to outages and has been subjected to severe stress caused by the extreme weather conditions experienced in recent years.

Reorganisation of power lines in the Municipality of Cepagatti underway

On **5 February 2021**, Terna completed the planning phase for the first phase of the **reorganisation of power lines in the Cepagatti area**, in the province of Pescara. This initiative will enable the demolition of 2.6 km of existing high-voltage overhead lines that emerge from the Villanova di Cepagatti electricity substation, and removal of 11 pylons which will be replaced with underground cable connections over a distance of approximately 1.5 km. The project will now be sent to the Ministry for Economic Development as part of the consents process. The reorganisation project is part of a broader plan for the Piano Marino area, which is the outcome of ongoing dialogue and discussion between Terna and Cepagatti Town Council. Over the next few months, Terna will also request authorisation from the Ministry for Economic Development to relocate the 380kV “Villanova-Gissi” line built in the 1970s.

Terna included in the global sustainability Gold Class for the seventh year running

On **8 February 2021**, Terna was **included in the global sustainability Gold Class**. Included in the Gold Class for the seventh time, with an overall score of 90/100, Terna is among the top-ranking electricity utilities (average score for the sector: 43/100) in the Sustainability Yearbook 2021, the leading publication produced by S&P Global, an international rating agency that has assessed the sustainability performance of over 7,000 of the world’s major companies for the Dow Jones Sustainability Index.

The new 150kV Porto Torres 2 power plant in the province of Sassari enters service

On **10 February 2021**, the **new 150kV Porto Torres 2 power plant (Sassari)**, in north-west Sardinia, entered service. The new plant, in which Terna has invested over €6 million, was linked to the high-voltage grid via two overhead connections inserted into the existing Fiume Santo - Porto Torres 1 line. The power plant is located in a particularly windy area, which therefore features several wind farms. It will be possible to immediately connect some of these, with a capacity of less than 10 MW, to the Nurra 2 primary substation via the new plant. Moreover, in the future, the power plant will enable connection of the 42.5 MW wind farm that is already authorised and soon to be built in the Porto Torres area.

Terna launches the Adriatic Link: over €1 billion in investment for the new undersea cable between Abruzzo and Marche

On **17 February 2021**, Terna launched a participatory design process for **the Adriatic Link, the new undersea cable between Abruzzo and Marche**, in which the national electricity grid operator will invest over €1 billion, involving around 120 companies either directly involved in the project or in the supply chain. The new interconnector, which is approximately 285 km long and completely “invisible”, will comprise an undersea cable, two underground cables - which therefore have no environmental impact - and two converter stations located close to the respective existing electricity substations at Cepagatti (Abruzzo) and Fano (Marche). This strategic project for the national electricity system is at the cutting edge of technology and environmental sustainability. The infrastructure will promote the development and integration of renewable energy sources, thereby contributing to decarbonisation of the Italian energy system, in line with the objectives set out in the National Integrated Energy and Climate Plan. It will also improve capacity for exchanging electricity between different parts of Italy, especially between Centre-South and Centre-North, by increasing the efficiency, reliability and resilience of the electricity transmission grid by approximately 1000 MW.

Completion of the new San Giuseppe - Portoferraio underground power line on the island of Elba begins

On **18 February 2021**, completion of the **new San Giuseppe - Portoferraio underground power line** on the island of Elba began. Work has begun on modernising the old 132kV San Giuseppe - Portoferraio power line on the island of Elba. In particular, after building the first part of the 6-km cable link, Terna started work on completion of the second 9-km section, which is also underground. On completion of these works, involving investment by Terna of more than €13 million, clear benefits will ensue in terms of the security and reliability of the electricity system in the area and on the entire island of Elba, which registers high electricity consumption during the summer. Construction of the new power line will also have a positive impact on the landscape, by enabling demolition of 10 km of old overhead power lines and 49 pylons in the two municipalities involved, including 40 in Portoferraio and 9 in Rio.

Terna is one of the 50 most sustainable companies in the world

On **18 February 2021**, Terna was **recognised as one of the 50 most sustainable companies in the world at the 2020 Seal Business Sustainability Awards**. In particular, the award recognises Terna's overall corporate sustainability performance with regard to leadership, transparency and sustainable business practices. Specifically, Terna was included in the 2020 Seal Organisational Impact Award category, which recognises overall corporate sustainability performance and selects the best 50 companies worldwide. The winners were selected by combining two types of ESG (Environmental, Social and Governance) data: Corporate Sustainability Assessment (CSA, now included in the S&P Global ESG Scores) and the CDP A-List (formerly Carbon Disclosure Project). The CSA thus registered Terna's excellent performance in the Dow Jones Sustainability Index which, for the third year running, ranked the Company number one in the Electric Utilities sector of the Dow Jones Sustainability World Index, with a score of 90/100, and the consequent award of the S&P Gold Class for the seventh year running. The A-List figure, on the other hand, assessed the increase in the score awarded to Terna by CDP, which rose to A-/A in the latest edition.

Terna and E-Distribuzione partnership regarding the security of the power grid on the Amalfi Coast

On **25 February 2021**, work on **extraordinary maintenance of the 60kV** power line connecting the Lettere primary substation and the Agerola substation, which provides power to the **Amalfi Coast**, was completed in just 10 days by Terna and **E-Distribuzione**. This intervention was needed to ensure the continuity and security of the electricity supply to the municipalities of Agerola, Pimonte, Amalfi, Atrani, Conca dei Marini, Furore, Minori, Positano, Praiano, Ravello and Scala. The work, which involved around 80 technical and operational staff, was completed with the total replacement of the infrastructure (including the installation of anti-salt insulators) and conductors (which date back around 50 years), as well as the ground wires along the 13-km line.

Process of obtaining consents from the Ministry for Economic Development for the planned “Rationalisation of power lines in the Municipality of San Giovanni Teatino” begins

On **4 March 2021**, it was announced that **the process of obtaining consent from the Ministry for Economic Development for the planned “Rationalisation of power lines in the Municipality of San Giovanni Teatino” will begin** by the end of 2021. The project is linked to the entry into service of the Italy–Montenegro interconnector. In implementation of the Memorandum of Understanding of 16 September 2011 and the Agreement of 16 October 2015 entered into by the Town Council and Terna, the work will involve putting approximately 2.4 km of the “132kV FS Pescara-FS Roseto” power line under ground, thereby permitting removal of approximately 2 km of the existing overhead line and 9 pylons. The demolition of 2 km of overhead line in the Municipality of San Giovanni Teatino is part of a wider rationalisation plan linked to the Italy–Montenegro interconnector, which envisages the removal of 2.6 km of power line and 11 pylons in the Municipality of Cepagatti (PE).

Terna and CONOU form partnership to promote environmental sustainability and the circular economy

On **5 March 2021**, **Terna and CONOU**, the National Consortium for the Management, Collection and Processing of Waste Mineral Oils, launched a **partnership to promote environmental sustainability and the circular economy**. Under a memorandum of Understanding, Terna and CONOU will work together to develop a joint action plan for a more efficient and effective way to collect and treat waste mineral and synthetic oils used by the electricity company at its various sites. The aim is to guarantee and encourage their collection by companies with specialist expertise in environmental protection. In line with its strategic objectives, the agreement will enable Terna to strengthen its commitment to the correct disposal of industrial waste, helping to further improve the way in which the mineral and synthetic oils used in managing the electricity grid at various sites throughout the country, are handled by ensuring their collection by companies selected and certified by CONOU.

Ministry for Economic Development issues consents for new 150kV Pontecorvo electricity substation

On **5 March 2021**, the **Ministry for Economic Development issued the consents for the new 150kV Pontecorvo electricity substation** in the province of Frosinone, designed to improve the flexibility and efficiency of the local grid. The project, in which Terna expects to invest approximately €8.5 million, will provide work for 25 companies and workers and will occupy an area of approximately 14,000 square metres. The substation will then be connected to the existing grid via connectors of about 1.5 km in length, designed in such a way as not to interfere with the area's environmental and natural heritage. Once the infrastructure has been completed, it will be possible to demolish approximately 1 km of existing power line. During design and construction of the substation, which will last approximately 20 months, Terna will use a series of social and environmental indicators that will enable it to assess the impact on the local area, in keeping with the objectives of protecting the environment and making rational use of natural resources.

Terna recognised as a global leader in asset management

On **11 March 2021**, it was announced that **Terna had been recognised as a global leader in asset management**. The biannual ITAMS (International Transmission Asset Management Study) for 2020, conducted by the consulting firm, UMS Group Europe, looked at a number of the world's foremost grid operators (in Europe, Asia and the Middle East), judging Terna to be an example of **best practice and performance for the efficiency and effectiveness of its infrastructure planning and management process**. The qualitative and quantitative assessment carried out by ITAMS is in line with international guidelines and the ISO 55001:2014 standard, which sets the requirements for optimal asset management system within an organisation. Terna, the grid operator with the largest number of assets among the companies assessed, achieved the highest overall score, confirming the ongoing improvement achieved with respect to previous studies. Terna's asset management performance was also ranked above average in all the areas assessed.

Reorganisation of the Brugg Group

As part of the reorganisation of the Brugg Group, on **11 March 2021**, the **demerger of Brugg Kabel AG was completed with the establishment of Brugg Kabel Services AG and Brugg Kabel Manufacturing AG**, both subsidiaries of Terna S.p.A. through its subsidiary, Terna Energy Solutions S.r.l..

Terna: Standard Ethics upgrades rating to “EE-” from “E+”

On **29 March 2021**, **Standard Ethics upgraded Terna's corporate rating to “EE-” from the previous “E+”**, with a “positive” long-term vision. Terna S.p.A. is focused on the challenge of voluntarily aligning itself with the international ESG (Environmental, Social and Governance) indications provided by the UN, OECD and European Union, noted Standard Ethics.

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 to the independent auditors for audit and other services provided by the Parent Company's auditors and by the network of the Parent Company's auditors to the Terna Group in 2020.

(€)

ENTITY PROVIDING SERVICE		FEES DUE FOR THE YEAR
Audit of the accounts and financial statements	Parent Company's auditors	396,836
Attestation and other services ⁴	Parent Company's auditors	66,335
Audit of the accounts and financial statements	Network of Parent Company's auditors	109,097
Total		572,268

⁴ Attestation and other services include services linked to the review of the regulatory accounts, limited assurance of the Non-financial Statement, the opinion on the payment of interim dividends and comfort letters for bonds.

Attestation

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

“Terna Group”

1. The undersigned, Stefano Antonio Donnarumma, as Chief Executive Officer, and Agostino Scornajenchi, as Manager responsible for Terna SpA's financial reporting, having also taken account of the provisions of art. 154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, attest to:
 - the adequacy with regard to the nature of the Company, and
 - the effective application of the administrative and accounting procedures adopted in preparation of the consolidated financial statements during the year ended 31 December 2020.
2. The administrative and accounting procedures adopted in preparation of the consolidated financial statements for the year ended 31 December 2020 were drawn up, and their adequacy assessed, on the basis of the regulations and methods adopted by Terna SpA in accordance with the Internal Control-Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission. This Commission has established a body of general principles providing a standard for internal control and risk management systems that is generally accepted at international level.
3. We also attest that:
 - 3.1 the consolidated financial statements for the year ended 31 December 2020:
 - a. have been prepared in compliance with the International Financial Reporting Standards endorsed by the European Union through EC Regulation 1606/2002, issued by the European Parliament and by the Council on 19 July 2002 and the statutory requirements implementing the provisions of art. 9 of Legislative Decree 38/2005;
 - b. are consistent with the underlying accounting books and records;
 - c. provide a true and fair view of the financial position and results of operations of the issuer and the companies included in the scope of consolidation.
 - 3.2 the Directors' report on operations includes a reliable analysis of the operating and financial performance and situation of the issuer and the companies included in the scope of consolidation, as well as a description of the main risks and uncertainties to which they are exposed.

Rome, 24 March 2021

Chief Executive Officer
Stefano Antonio Donnarumma

(original signed)

Manager responsible for financial reporting
Agostino Scornajenchi

(original signed)



Independent auditor's report

pursuant to article 14 of Legislative Decree 39 of 27
January 2010 and article 10 of the Regulations (EU)
537/2014 - Consolidated financial statements
for the year ended 31 December 2020

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

**To the Shareholders of
Terna S.p.A.**

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Terna group (the "Group"), which comprise the statement of financial position as at 31 December 2020, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

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

Investments for the operation and development of the electricity transmission grid, relevant for the purposes of determining the transmission and dispatching activities charges

Description of the key audit matter

As of 31 December 2020, the Group accounts in “Property, Plant, and Equipment” and “Intangible Assets”, respectively equal to Euro 14.560 million and Euro 348 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 1.351 million.

The Group operates as a natural monopoly and within a market regulated by the Italian Regulatory Authority for Energy, Networks and Environment (Autorità di Regolazione per Energia Reti e Ambiente, “ARERA”), which defines, among the others, the rules for the remuneration of the transmission and dispatching services. In particular, the regulated revenues for these services are determined annually by ARERA and provide for recognition of a predefined return on the regulatory net invested capital recognized (RAB – Regulated Asset Base), of the relative depreciation and of some operating expenses. The RAB value is determined by ARERA mainly through the revalued historical cost method.

We believe that investments for the operation and development of the electricity transmission grid represent a key audit matter for the Group's consolidated financial statements as of 31 December 2020 due to: (i) the relevance of the tangible and intangible assets related to operation and development of the electricity transmission grid compared to the Group's total assets, (ii) the relevance of the investments made during the year, (iii) their impact in determining the fees for the transmission and dispatching services.

Notes “12. Property, Plant, and Equipment “ and “14. Intangible Assets” of the consolidated financial statements include the disclosure on the investments for the operation and development of the electricity transmission grid.

Audit procedures performed

With reference to investments for the operation and development of the electricity transmission grid, our audit procedures included, among the others, the following:

- understand the processes for recognition of such investments in the financial statements;
- understand the relevant controls implemented by the Group in relation to these processes;
- 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 assets under development, even through the analysis of their aging;
- test the correct application of the depreciation rate with respect to the asset category and recalculation of the amortisation and depreciation for the year.

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

Other aspects

The consolidated financial statements of the Group for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those statements on 16 April 2020.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

The Shareholders' Meeting of Terna S.p.A. has appointed us on 8 May 2019 as auditors of the Company for the years from 1 January 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 pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Terna S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Terna Group as at 31 December 2020, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Terna Group as at 31 December 2020 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Terna Group as at 31 December 2020 and are prepared in accordance with the law.

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

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

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

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

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

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Falcone
Partner

Rome, Italy
8 April 2021

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





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STATEMENTS**



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Separate financial statements

Income statement of Terna S.p.A.

(€)

	NOTE	2020	2019
A - REVENUE			
1. Revenue from sales and services	1	2,037,100,265	1,973,340,968
<i>of which related parties</i>		1,713,712,766	1,668,632,968
2. Other revenue and income	2	49,664,896	81,191,540
<i>of which related parties</i>		27,859,221	45,257,533
Total revenue		2,086,765,161	2,054,532,508
B - OPERATING COSTS			
1. Raw and consumable materials used	3	2,934,602	4,700,629
<i>of which related parties</i>		87,966	350,779
2. Services	4	395,060,854	378,293,290
<i>of which related parties</i>		348,096,223	329,488,649
3. Personnel expenses	5	71,128,754	60,317,427
- gross personnel expenses		76,418,183	64,357,879
- capitalised personnel expenses		(5,289,429)	(4,040,452)
<i>of which related parties</i>		909,882	722,902
4. Amortisation, depreciation and impairment losses	6	571,171,050	540,735,053
5. Other operating costs	7	30,520,691	7,652,919
<i>of which related parties</i>		198,961	75,845
Total operating costs		1,070,815,951	991,699,318
A-B OPERATING PROFIT/(LOSS)		1,015,949,210	1,062,833,190
C - FINANCIAL INCOME/(EXPENSES)			
1. Financial income	8	29,861,804	19,214,181
<i>of which related parties</i>		20,455,672	8,973,188
2. Financial expenses	8	(88,900,345)	(82,812,923)
<i>of which related parties</i>		(2,299,442)	(314,851)
D - PROFIT/(LOSS) BEFORE TAX		956,910,669	999,234,448
E - INCOME TAX EXPENSE	9	269,339,403	285,720,901
F - PROFIT FOR THE YEAR		687,571,266	713,513,547

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

		(€)	
	NOTE	2020	2019
PROFIT FOR THE YEAR		687,571,266	713,513,547
Other comprehensive income for the year reclassifiable to profit or loss			
- Cash flow hedge	19	(77,891,323)	(92,777,473)
- Financial assets at fair value through other comprehensive income	19	2,445,211	623,683
- Cost of hedges	19	13,705,891	(11,640,758)
Other comprehensive income for the year not reclassifiable to profit or loss			
- Actuarial gains/(losses) on provisions for employee benefits	19	(405,488)	(649,112)
COMPREHENSIVE INCOME FOR THE YEAR		625,425,557	609,069,887

* Amounts are shown net of tax where applicable.

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

		(€)	
	NOTE	31 DECEMBER 2020	31 DECEMBER 2019
A – NON-CURRENT ASSETS			
1. Property, plant and equipment	10	12,755,221,891	12,258,315,189
<i>of which related parties</i>		116,552,050	95,914,264
2. Goodwill	11	190,228,231	190,228,231
3. Intangible assets	12	285,659,821	253,508,637
4. Deferred tax assets	13	109,825,683	69,630,282
5. Non-current financial assets	14	1,513,097,841	1,344,149,926
<i>of which related parties</i>		22,422,935	24,025,199
6. Other non-current assets	15	4,918,651	4,096,261
<i>of which related parties</i>		349,352	-
Total non-current assets		14,858,952,118	14,119,928,526
B – CURRENT ASSETS			
1. Trade receivables	16	1,091,087,665	1,160,279,675
<i>of which related parties</i>		263,061,089	434,004,989
2. Current financial assets	13	621,024,841	519,195,615
3. Cash and cash equivalents	17	2,451,843,285	719,227,717
<i>of which related parties</i>		(58,704,126)	(174,012,553)
4. Income tax assets	18	3,220,794	3,494,278
<i>of which related parties</i>		24,312,747	-
5. Other current assets	14	34,894,879	26,226,584
<i>of which related parties</i>		265,883	-
Total current assets		4,202,071,464	2,428,423,869
TOTAL ASSETS		19,061,023,582	16,548,352,395

(continues)

(continues)

(€)

	NOTE	31 DECEMBER 2020	31 DECEMBER 2019
C – EQUITY			
1. Share capital		442,198,240	442,198,240
2. Other reserves		617,660,889	688,088,173
3. Retained earnings/(accumulated losses)		2,518,877,167	2,306,586,049
4. Interim dividend		(182,708,272)	(169,241,326)
5. Profit for the year		687,571,266	713,513,547
Total equity	19	4,083,599,290	3,981,144,683
D – NON-CURRENT LIABILITIES			
1. Long-term borrowings	20	9,630,770,331	9,305,362,828
2. Employee benefits	21	13,578,290	11,678,307
3. Provisions for risks and charges	22	141,691,759	179,020,206
4. Non-current financial liabilities	20	251,373,591	159,017,636
5. Other non-current liabilities	23	332,823,592	347,454,770
<i>of which related parties</i>		<i>29,231,349</i>	<i>32,941,295</i>
Total non-current liabilities		10,370,237,563	10,002,533,747
E – CURRENT LIABILITIES			
1. Short-term borrowings	20	977,134,397	-
2. Current portion of long-term borrowings	20	1,377,753,541	117,360,983
3. Trade payables	24	1,884,552,822	2,030,988,890
<i>of which related parties</i>		<i>578,009,833</i>	<i>576,326,166</i>
4. Tax expense	24	-	17,391,300
<i>of which related parties</i>		<i>-</i>	<i>(21,022,843)</i>
5. Current financial liabilities	20	89,726,277	87,312,392
6. Other current liabilities	24	278,019,692	311,620,400
<i>of which related parties</i>		<i>26,158,919</i>	<i>22,865,152</i>
Total current liabilities		4,607,186,729	2,564,673,965
TOTAL LIABILITIES AND EQUITY		19,061,023,582	16,548,352,395

Statement of changes in equity

31 DECEMBER 2019 - 31 DECEMBER 2020

SHARE CAPITAL AND RESERVES OF TERNA S.P.A.

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE
EQUITY AT 31 DECEMBER 2019	442.2	88.4	20.0	(150.9)
PROFIT FOR THE YEAR				
OTHER COMPREHENSIVE INCOME:				
- Change in fair value of cash flow hedges	-	-	-	(77.9)
- Financial assets at fair value through other comprehensive income	-	-	-	-
- Cost of hedges	-	-	-	13.7
- Actuarial gains/(losses) on employee benefits	-	-	-	-
Total other comprehensive income	-	-	-	(64.2)
COMPREHENSIVE INCOME	-	-	-	(64.2)
TRANSACTIONS WITH SHAREHOLDERS:				
Appropriation of profit for 2019:				
- Retained earnings	-	-	-	-
- Dividends	-	-	-	-
Interim dividend 2020	-	-	-	-
Purchase of treasury shares	-	-	-	-
Total transactions with shareholders and other transactions	-	-	-	-
Stock option reserve	-	-	-	-
Other changes	-	-	-	-
EQUITY AT 31 DECEMBER 2020	442.2	88.4	20.0	(215.1)

31 DECEMBER 2018 - 31 DECEMBER 2019

SHARE CAPITAL AND RESERVES OF TERNA S.P.A.

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE
EQUITY AT 31 DECEMBER 2018	442.2	88.4	20.0	(46.5)
PROFIT FOR THE YEAR				
OTHER COMPREHENSIVE INCOME:				
- Change in fair value of cash flow hedges	-	-	-	(92.8)
- Financial assets at fair value through other comprehensive income	-	-	-	-
- Cost of hedges	-	-	-	(11.6)
- Actuarial gains/(losses) on employee benefits	-	-	-	-
Total other comprehensive income	-	-	-	(104.4)
COMPREHENSIVE INCOME	-	-	-	(104.4)
TRANSACTIONS WITH SHAREHOLDERS:				
Appropriation of profit for 2018:				
- Retained earnings	-	-	-	-
- Dividends	-	-	-	-
Interim dividend 2019	-	-	-	-
Total transactions with shareholders	-	-	-	-
Other changes	-	-	-	-
EQUITY AT 31 DECEMBER 2019	442.2	88.4	20.0	(150.9)

(€m)					
TREASURY SHARES RESERVE	OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR	EQUITY
-	730.5	2,306.6	(169.2)	713.5	3,981.1
				687.6	687.6
	-	-	-	-	(77.9)
	2.5	-	-	-	2.5
	-	-	-	-	13.7
	(0.4)	-	-	-	(0.4)
	2.1	-	-	-	(62.1)
	2.1	-	-	687.6	625.5
					-
	-	212.0	-	(212.0)	-
	-	-	169.2	(501.5)	(332.3)
	-	-	(182.7)	-	(182.7)
(9.5)	-	-	-	-	(9.5)
(9.5)	-	212.0	(13.5)	(713.5)	(524.5)
-	1.2	-	-	-	1.2
-	-	0.3	-	-	0.3
(9.5)	733.8	2,518.9	(182.7)	687.6	4,083.6

(€m)				
OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE YEAR	EQUITY
730.6	2,113.1	(158.2)	661.3	3,850.9
			713.5	713.5
-	-	-	-	(92.8)
0.6	-	-	-	0.6
-	-	-	-	(11.6)
(0.7)	-	-	-	(0.7)
(0.1)	-	-	-	(104.5)
(0.1)	-	-	713.5	609.0
				-
-	192.6	-	(192.6)	-
-	-	158.2	(468.7)	(310.5)
-	-	(169.2)	-	(169.2)
-	192.6	(11.0)	(661.3)	(479.7)
-	0.9	-	-	0.9
730.5	2,306.6	(169.2)	713.5	3,981.1

Statement of cash flows

		(€m)	
	NOTE	2020	2019
PROFIT FOR THE YEAR		687.6	713.5
ADJUSTED BY:			
Amortisation, depreciation and impairment losses /(reversals of impairment losses) on non-current property, plant and equipment and intangible assets*		562.6	532.5
Accruals to provisions (including provisions for employee benefits) and impairment losses		39.8	17.1
(Gains)/Losses on sale of property, plant and equipment		(5.5)	(11.2)
Financial (income)/expense	8	54.7	60.4
Income tax expense	9	269.3	285.7
Other non-cash movements	19	1.2	-
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN NET WORKING CAPITAL		1,609.7	1,598.0
Increase/(decrease) in provisions (including provisions for employee benefits and taxation)		(66.1)	(54.5)
(Increase)/decrease in trade receivables and other current assets		47.7	(78.4)
Increase/(decrease) in trade payables and other current liabilities		(175.1)	31.0
(Increase)/decrease in other non-current assets		4.6	(164.7)
Increase/(decrease) in other non-current liabilities		(9.5)	117.7
Interest income and other financial income received		26.4	31.3
Dividends collected	8	19.5	-
Interest expense and other financial expenses paid		(195.2)	(216.0)
Income tax paid		(303.1)	(280.4)
CASH FLOW FROM OPERATING ACTIVITIES [A]		958.9	984.0
- of which related parties		53.0	62.5
Investments in non-current property, plant and equipment after grants received	10	(1,010.5)	(937.3)
Revenue from sale of non-current property, plant and equipment and other movements		10.5	17.1
Investments in non-current intangible assets	12	(92.4)	(68.7)
(Increase)/decrease in investments in associates and joint arrangements		0.9	231.3
Capitalised financial expenses		10.1	12.1
(Increase)/decrease in investments		(102.9)	(29.2)
Movements in long-, medium- and short-term financial investments		(121.2)	(109.5)
CASH FLOW FOR INVESTING ACTIVITIES [B]		(1,305.5)	(884.2)
- of which related parties		(20.6)	(22.6)
Recognition of reserve for treasury shares	19	(9.5)	-
Dividends paid		(517.1)	(475.2)
Movements in short- and medium/long-term financial liabilities (including short-term portion)**		2,605.9	81.3
Movement in short-, medium- and long-term loans		-	68.2
CASH FLOW FROM FINANCING ACTIVITIES [C]		2,079.3	(325.7)
- of which related parties		-	(424.6)
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS [A+B+C]		1,732.7	(225.9)
Cash and cash equivalents at beginning of year		719.2	945.1
Cash and cash equivalents at end of year		2,451.9	719.2

* 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 24 March 2021.

The separate financial statements at and for the year ended 31 December 2020 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 also authorised the Chairwoman and the Chief Executive Officer to make any formal alterations to the consolidated financial statements as may be necessary during preparation of the final text to be submitted to the Annual General Meeting for approval, and any additions and adjustments to the sections concerning significant events after the end of the reporting period.

Compliance with IAS/IFRS

The separate financial statements at and for the year ended 31 December 2019 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 ("EU-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 cash flows, the statement of changes in equity and the notes thereto.

In the statement of financial position, assets and liabilities are classified on a "current/non-current" basis, with separate reporting of assets and liabilities held for sale. Current assets,

which include cash and cash equivalents, are those held for realisation, sale or consumption in the 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 (including reclassification adjustments) 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.

The separate financial statements are presented in euros, whilst amounts in the 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 EU-IFRS, are recognised at fair value, as indicated in the measurement criteria for individual items.

Certain amounts in the financial statements for the year ended 31 December 2019 have been restated to provide an improved basis for comparison, without however modifying the amounts recognised in equity at 31 December 2019, or in the income statement or statement of comprehensive income for 2019.

Use of estimates

In application of EU-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. 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 may be associated with legal and tax disputes, early retirement incentives, liabilities associated with 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 plant, is based on an analysis of the agreements entered into with the local authorities concerned and the progress of work on construction of the new plant.

Employee benefits

Post-employment benefit plans, including informal arrangements, are classified as either “defined benefit” or “defined contribution” plans depending on the nature of the plan.

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. The liability is recognised on an accruals basis during the employment period required to obtain the benefits.

Changes in the value of the net liability (revaluations) resulting from actuarial gains and losses, due to variations in the actuarial assumptions used or adjustments based on past experience, are recognized in other comprehensive income in the accounting period in which they occur. In the event of modification, curtailment or extinguishment of a plan, the related effects are recognised in profit or loss.

Net financial expenses include the return on plan assets and the interest cost to be recognised in profit and loss, and are measured applying to the liability, net of any plan assets, the discount rate used to calculate the present value of the liability; net interest on defined benefit plans is recognised in “Finance 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 current value of the obligation, determined considering returns on high quality bonds in line with the duration of the group of workers measured), the inflation rate, the rate at which future salary levels are expected to rise, the rate of increase for average health reimbursements, rate of increase for electricity prices and demographic factors, such as mortality and invalidity, retirement, resignation, advances and household composition.

With regard to *TFR*, the method of calculation is based on the present value, at the measurement date, of the estimated obligation to each employee, projected through to the estimated period in which payment of the benefits will occur.

In defined contribution plans, the Company’s obligation, limited to the payment of contributions to the state or to a fund or a legally separate entity, is measured on the basis of the contributions payable. The cost of these plans is recognised in profit or loss based on the contribution paid during the period.

Assessment of the impact of Covid-19

Based on the Company’s performance and the impact of the Covid-19 pandemic, as revealed by the specific assessments conducted, there are 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 Company’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. As more fully described in the Management report in the sections “Outlook” and “Terna and the Covid-19 emergency”, the Company took immediate steps to ensure the continuity of the country’s electricity service, putting in place the necessary safeguards to guarantee the security of our operations as a Transmission System Operator (TSO) and the related supply chains. This was done whilst also focusing on efforts to ensure the health and safety of operational personnel and, in general, all the people who work for the Company. In addition, despite the fact that the spread of the health emergency caused by Covid-19 led to slowdown in activity, the Group has drawn up an action plan designed to make up for any delays, confirming the strategies and targets previously announced to the market.

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 2020¹ 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 Group's consolidated financial statements.

Non-financial assets and investments

Assessment of the impact of the outbreak of the pandemic has not resulted in the need to write down the value of the property, plant and equipment owned by the Company or of intangible assets with finite useful lives. The pandemic has had a marginal impact on expected cash flows, given that cash flows are for the most part linked to concessions in Italy and overseas.

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), it should be noted that the assessment of estimated future cash flows generated by these assets has shown that the slowdown in operating activities, 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 value measured during the impairment test is higher than the carrying amount in the financial statements inclusive of goodwill.

The same conclusion also applies to the value of goodwill allocated to the CGU relating to the "production and commercialisation of transformers", where cash flows have only marginally been affected by the negative impact of the pandemic.

Loan agreements and leases

The loan agreements and leases to which the 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. The sole exception regards the Brazilian companies, Santa Maria and Santa Lucia, where financing is provided by the BNDES development bank. These companies are participating in a programme devised by the BNDES itself in response to the Covid-19 crisis, which grants borrowers a 6-month repayment holiday from May 2020. The principal and interest accruing during this period will be capitalised to the outstanding debt and distributed over future instalments without modifying the loan tenor. The transaction will further improve the two operators' liquidity and boost their financial leverage.

Financial instruments

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

¹ Above all: the ESMA Statement of 25 March 2020, "Public Statement. Accounting implications of the COVID 19 outbreak on the calculation of expected credit losses in accordance with IFRS 9"; the ESMA Statement of 20 May 2020, "Implications of the COVID-19 outbreak on the half-yearly financial reports"; and the ESMA Statement of 28 October 2020, "European common enforcement priorities for 2020 annual financial reports".

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 has, therefore, had any impact, including with regard to the identified business model for financial instruments, not resulting in any changes to the chosen classification.

In addition, fair value measurement of the financial assets and liabilities held by the 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 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 with a high credit standing.

As described in greater detail in the section on credit risk in the Integrated Report for 2020, 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. With regard to this aspect, Fitch, Moody's, S&P and Scope have confirmed Terna's rating. The Company's rating is 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 has not led to changes in the relate hedging relationships or in the underlyings, consisting of both past and future transactions.

Revenue recognition

The Company has 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.

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.

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 Company 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 of the joint arrangement 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.

In determining the lease term and the non-cancellable period of the lease, the Company has taken into account the terms of the arrangements and assessed the period of time in which contracts are enforceable.

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 item also includes right-of-use assets arising from lease arrangements relating to the use of property, plant and equipment, as recognised under IFRS 16. A lease arrangement is, or contains, a lease, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Applying this standard, the lessee recognises: (i) a right-of-use asset in its statement of financial position and a liability representing its obligation to make the payments provided for under the arrangement, for all leases with terms in excess of twelve months where the asset cannot be considered of low value (Terna has elected to apply the practical expedient provided for in the standard, recognising payments relating to this type of lease in the income statement); (ii) depreciation of the recognised assets and interest expense on the lease liability separately in the income statement.

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

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

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

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

Goodwill

Goodwill, deriving from the acquisition of subsidiaries, is allocated to each of the identified cash generating units (CGU) or groups of CGUs, coinciding with Group companies that own electricity transmission grids. Goodwill is not amortised after initial recognition but is adjusted to reflect impairment losses, measured as described above. On the acquisition of investments in associates or joint arrangements, any goodwill that emerges is included in the carrying amount of the acquired companies; in the event of negative goodwill, this is recognised in the income statement at the time of the acquisition.

Financial instruments

Financial assets

The new standard, IFRS 9 – Financial Instruments, effective from 1 January 2018, is divided into the following phases: classification and measurement, derecognition, impairment and hedge accounting.

In order to classify and measure financial instruments, the Company recognises financial assets at fair value inclusive of transaction costs.

Financial assets represented by debt instruments, and falling within the scope of application of the standard, may be measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss, depending on the business model adopted to manage the financial assets and the characteristics of the contractual cash flows.

In accordance with the provisions of IFRS 9, the 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"), if 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 held 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 intend 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"). The new standard, 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 the EU-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 liabilities associated with employee benefits payable on or after termination of employment relate to defined benefit plans (deferred compensation benefits, additional months' pay, payment in lieu of notice, energy discounts, ASEM health cover and other benefits) or other long-term employee benefits (loyalty bonuses) and are recognised net of any plan assets. The liabilities are 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.

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 2020 is approximately 0.81% (0.9% for 2019).

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.

New accounting standards

International financial reporting standards effective as of 1 January 2020

A number of new amendments to standards already applied, which have not had a significant impact, came into effect from 1 January 2020. The relevant standards are as follows:

Amendment to IFRS 16: Leases Covid-19-Related Rent Concessions

On 9 October 2020, the European Commission issued Regulation 2020/1434, endorsing the amendment to IFRS 16. This aims to enable lessees to account for Covid-related rent concessions in the income statement rather than as a lease modification, at the effective date of the reduction.

This change applies to accounting periods beginning on or after 1 June 2020, but the Company has elected for early adoption of the amendment from 1 January 2020. The amendment has not had any impact on the Company.

Amendment to IFRS 3: Definition of a Business

On 21 April 2020, the European Commission issued Regulation 2020/551, endorsing the amendment to IFRS 3. This provides a clearer definition of a business, with guidelines and examples to identify when a set of activities and assets constitutes a business, thus falling within the scope of IFRS 3. The amendment also introduces a concentration test to assess whether or not a transaction is a business combination. These new provisions have not had a significant impact.

Amendment to IAS 1 and IAS 8: Definition of Material

On 29 November 2019, the European Commission issued Regulation 2019/2104, endorsing the amendment to IAS 1 and IAS 8, which provides a new definition of material so as to standardise and clarify the definitions now contained in the standards and the Conceptual Framework. The new definition of material establishes that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements. These new provisions have not had a significant impact.

References to the Conceptual framework in IFRS Standards

On 29 November 2019, the European Commission issued Regulation 2019/2075, endorsing the amendment to the Conceptual Framework for Financial Reporting. The main changes regard a new section on measurement, improved definitions and guidance, above all with regard to the definition of liabilities and the clarification of concepts such as prudence and measurement uncertainty. These new provisions have not had a significant impact.

International financial reporting standards 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 4: Insurance Contracts - deferral of 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. These changes will be effective from 1 January 2021.

Amendment to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform – Phase 2

On 14 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 amendments will come into effect from 1 January 2021.

Terna is assessing the standards and interpretations indicated, where applicable, in order to assess whether or not their adoption will have a significant impact on the financial statements.

International financial reporting standards awaiting endorsement

For newly-issued amendments, standards and interpretations that have not yet been endorsed by the EU, but which address issues that affect or could affect the Company, 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:

IFRS 17 - Insurance Contracts

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 defines the new principles for the recognition, measurement, presentation and disclosure of insurance contracts. The General Model of reference is based on the discounting of expected cash flows, with the indication of a risk adjustment and upfront profits through the “contractual service margin”, which cannot be negative.

Improvement to IFRSs (2018-2020 Cycle)

Published by the IASB on 14 May 2020, the annual improvements for the 2018-2020 cycle contain amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.

Amendments to IFRS 3, IAS 16, IAS 37

Published on 14 May 2020, these amendments regard IFRS 3, IAS 16 and IAS 37.

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

Amendments to IAS 1 were published on 23 January 2020 and 15 July 2020, respectively. These propose to alter the classification of a liability as ‘non-current’ when an entity expects to refinance or renew an obligation at least twelve months after the reporting period, under an existing financing agreement with the same creditor and on conditions that the same or similar.

Amendment to IFRS 17: Insurance Contracts

This amendment to IFRS 17 was published on 25 June 2020 and aims to simplify and clarify various aspects of accounting for insurance and reinsurance contracts. One of the key changes is a two-year deferral of the date on which the application of IFRS 17 becomes obligatory, which has been postponed until the accounting period beginning on 1 January 2023.

B. Notes to the income statements

Revenue

1. REVENUE FROM SALES AND SERVICES – €2,037.1 MILLION

	(€m)		
	2020	2019	CHANGE
Transmission charges billed to grid users	1,795.2	1,725.0	70.2
Back-billing of transmission charges for previous years	1.7	0.6	1.1
Quality of service bonuses/(penalties)	29.4	20.2	9.2
Other energy-related revenue	137.8	140.5	(2.7)
Other sales and services	73.0	87.0	(14.0)
TOTAL	2,037.1	1,973.3	63.8

Transmission charges

This item, amounting to €1,795.2 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 from the transmission service and related back-billing (up €71.3 million) primarily reflects the impact of the increase in RAB, the accrued amount due as a return on digital substation systems (€29.3 million, reflecting systems entering service through to 2018, in accordance with ARERA Resolution 565/2020) and the release of provisions following settlement of a liability with an operator (up €10.6 million), partly offset by the negative impact of the volume effect.

Quality of service bonuses/(penalties)

This item, amounting to €29.4 million, regards the RENS (Regulated Energy Not Supplied) incentive mechanism introduced by Resolution 653/2015/r/eel, which takes into account both the RENS performance for 2019, obtained by linearizing the overall effects of the regulation spread throughout the semi-period from 2016 to 2019, and the bonus calculated on the estimated performance for 2020, corresponding with the average of the expected results for the semi-period from 2020 to 2023.

The item is up €9.2 million compared with the previous year, primarily due to the pro-rata valuation of the 2020 RENS performance and definition of the RENS performance for 2019 (as per ARERA Resolution 540/2020).

Other energy-related revenue

This item regards dispatching and metering revenue (€106.3 million for the dispatching component, €0.2 million for the metering component and other energy-related revenue of €2.8 million) and revenue from infrastructure construction and upgrade services performed under concession, recognised in application of IFRIC 12 (€28.5 million).

The decrease of €2.7 million compared with the previous year is primarily linked to a reduction in the dispatching component, the tariff for which mirrors the adjustment to permitted costs (down €4.7 million), partially offset by increased revenue from infrastructure construction and upgrade services recognised in application of IFRIC 12 (up €0.9 million) and other energy-related revenue of €1 million.

Other sales and services

The item, "Other sales and services", amounting to €73.0 million mainly regards revenue from administrative, support and consultancy services provided to subsidiaries (€20.9 million, including €17.0 million from services rendered to Terna Rete Italia S.p.A.), from connections to the NTG (€4.4 million) and from Non-regulated Activities (€47.5 million), primarily support and housing services for fibre networks (€20.1 million) and progress on construction of the private Italy-Austria interconnector (€16.5 million).

The decrease (down €14.0 million) compared with the previous year primarily reflects revenue linked to the sale of the Italy-Montenegro Interconnector in 2019 (17 December 2019), amounting to €25.8 million, and a reduction in other revenue from Non-regulated Activities (down €4.2 million), above all in revenue from support and housing services for fibre networks (€1.8 million), partially offset by progress on construction of the private Italy-Austria interconnector (€15.7 million).

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)		
	2020	2019	CHANGE
Power Exchange-related revenue items	4,081.5	3,957.9	123.6
- Uplift	2,430.8	1,963.4	467.4
- Electricity sales	348.5	538.8	(190.3)
- Imbalances	447.7	485.7	(38.0)
- Congestion revenue	226.9	295.8	(68.9)
- Load Profiling for public lighting	149.6	81.1	68.5
- Charges for right to use transmission capacity and Market Coupling	209.0	353.0	(144.0)
- Interconnectors/shippers	68.2	75.3	(7.1)
- Other Power Exchange-related pass-through revenue items	200.8	164.8	36.0
Total over-the-counter revenue items	1,567.1	1,498.0	69.1
- Coverage of wind farm costs	24.2	-	24.2
- Transmission revenue passed on to other NTG owners	149.2	140.8	8.4
- Charge to cover cost of essential plants	526.6	412.4	114.2
- Charge to cover cost of energy delivery capacity	195.3	206.7	(11.4)
- Charge to cover cost of interruptibility service	305.0	306.0	(1.0)
- Charge to cover cost of LV capacity and protection service	299.5	340.0	(40.5)
- Other pass-through revenue for over-the-counter trades	67.3	92.1	(24.8)
TOTAL PASS-THROUGH REVENUE	5,648.6	5,455.9	192.7
Total Power Exchange-related cost items	4,081.5	3,957.9	123.6
- Electricity purchases	2,893.3	2,609.7	283.6
- Imbalances	370.5	425.6	(55.1)
- Congestion revenue	138.7	209.4	(70.7)
- Load Profiling for public lighting	176.4	100.9	75.5
- Charges for right to use transmission capacity and Market Coupling	82.4	152.0	(69.6)
- Interconnectors/Shippers	216.8	307.3	(90.5)
- Other Power Exchange-related pass-through cost items	203.4	153.0	50.4
Total over-the-counter cost items	1,567.1	1,498.0	69.1
- Shortfall in wind production	24.2	-	24.2
- Transmission costs passed on to other NTG owners	149.2	140.8	8.4
- Fees paid for essential units	526.6	412.4	114.2
- Fees paid for energy delivery capacity	195.3	206.7	(11.4)
- Fees paid for interruptibility service	305.0	306.0	(1.0)
- Fees paid for LV capacity and protection service	299.5	340.0	(40.5)
- Other pass-through costs for over-the-counter trades	67.3	92.1	(24.8)
TOTAL PASS-THROUGH COSTS	5,648.6	5,455.9	192.7

The total uplift cost in 2020 amounting to €2,430.8 million, is up €467.4 million, on the figure for the previous year, primarily reflecting the increased cost of procuring services on the DSM, relating in particular to the Services component (reflecting the increase in black starts), in terms of both volumes and prices, and a reduction in congestion revenue.

2. OTHER REVENUE AND INCOME – €49.7 MILLION

	(€m)		
	2020	2019	CHANGE
Payment for lease of operations	22.2	35.0	(12.8)
Sundry grants	8.1	9.3	(1.2)
Gains on sale of infrastructure components	3.8	4.2	(0.4)
Rental income	3.7	4.8	(1.1)
Sales to third parties	2.4	2.5	(0.1)
Revenue from IRU contracts for fibre	1.8	7.4	(5.6)
Insurance proceeds as compensation for damages	0.7	9.1	(8.4)
Other revenues	7.0	8.9	(1.9)
TOTAL	49.7	81.2	(31.5)

The most significant components of “Other revenue and income” primarily regard the revenue received from the subsidiary Terna Rete Italia S.p.A., under the agreement for the lease of certain operations (€22.2 million), sundry grants (€8.1 million) in relation to the re-routing of lines for third parties, gains on the sale of infrastructure components (€3.8 million), rental income (€3.7 million) and other revenues of €7.0 million, including €3.0 million from subsidiaries for services rendered under existing intercompany agreements.

The reduction of €31.5 million compared with the previous year is primarily due to the recognition of greater revenue in the form of insurance proceeds in 2019 (down €8.4 million), in addition to a reduction in revenue resulting from the adjustment, in 2020, to the amount payable by Terna Rete Italia S.p.A. for the business unit leased to it as a result of the reduced volume of activity² (down €12.8 million) and in revenue from IRU contracts for fibre (down €5.6 million).

Operating costs**3. RAW AND CONSUMABLE MATERIALS USED – €3.0 MILLION**

This item, amounting to €3.0 million, includes the value of the various materials and supplies, including fuel for the vehicle fleet. This item is down €1.7 million compared with the previous year, broadly due to reduced purchases of telecommunications equipment.

4. SERVICES – €395.1 MILLION

	(€m)		
	2020	2019	CHANGE
Intercompany services, including technical and administrative services	344.4	325.9	18.5
Maintenance and sundry services	31.4	33.2	(1.8)
Insurance	8.6	8.0	0.6
Lease expense	7.2	6.0	1.2
IT services	2.3	3.3	(1.0)
Tender costs for plant	0.9	1.4	(0.5)
Remote transmission and telecommunications	0.3	0.5	(0.2)
TOTAL	395.1	378.3	16.8

² The lease agreement for the business unit was adjusted to reflect the volume of activity on the basis of a specific independent appraisal, set out in the deed of acknowledgement of 11 March 2020, and subsequently updated by a deed of acknowledgement dated 29 September 2020.

The item, "Intercompany services, including technical and administrative services" regards the accrued costs incurred under specific intercompany contracts (€344.4 million), largely regarding the subsidiary Terna Rete Italia S.p.A., which maintains and operates the infrastructure owned by the Company (€270.7 million), to investment in the development of the Company's transmission and dispatching infrastructure (€27.7 million) and activities and services relating to plant owned by third parties (€21.9 million). This item also includes bonuses relating to the quality of the transmission service attributable to Terna Rete Italia S.p.A. (up €10.0 million).

Service costs include the fees payable to members of the Board of Statutory Auditors (€0.2 million) and the Supervisory Board established in compliance with Legislative Decree 231/2001 (€0.1 million).

After the costs recognised in application of IFRIC 12 for the development of dispatching infrastructure (up €2.0 million), the increase in "Services" is €14.8 million and primarily regards intercompany services provided under specific intercompany agreements (up €16.3 million, including an increase of €16.8 million relating to work and services provided to third parties by the subsidiary, Terna Rete Italia S.p.A.). This was partially offset by a reduction in travel expenses and in the cost of training as a result of the Covid-19 pandemic (down €2.0 million).

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)		
	2020	2019	CHANGE
IT services	0.5	0.3	0.2
Tender costs for plant	-	0.4	(0.4)
Maintenance and sundry services	1.2	1.2	-
Cost of services relating to investment in dispatching infrastructure (IFRIC 12)	1.7	1.9	(0.2)
Cost of services recognised in application of IFRIC 12 – Services from Terna Rete Italia S.p.A.	24.1	21.9	2.2
Total cost of services relating to investment in dispatching infrastructure (IFRIC 12)	25.8	23.8	2.0

5. PERSONNEL EXPENSES - €71.1 MILLION

	(€m)		
	2020	2019	CHANGE
Salaries, wages and other short-term benefits	62.4	59.3	3.1
Directors' remuneration	1.6	1.7	(0.1)
Termination benefits (TFR), energy discounts and other employee benefits	9.6	3.7	5.9
Early retirement incentives	2.8	(0.3)	3.1
Gross personnel expenses	76.4	64.4	12.0
Capitalised personnel expenses	(5.3)	(4.1)	(1.20)
TOTAL	71.1	60.3	10.8

Personnel expenses are up €10.8 million, primarily linked to provisions for staff incentive plans.

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

NUMBER	AVERAGE WORKFORCE		WORKFORCE AT	
	2020	2019	31 DECEMBER 2020	31 DECEMBER 2019
Senior managers	41	36	41	34
Middle managers	220	199	250	194
Office staff	400	374	476	379
TOTAL	661	609	767	607

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES – €571.2 MILLION

	2020	2019	CHANGE
Amortisation of intangible assets	60.3	52.4	7.9
<i>of which rights on infrastructure</i>	23.9	22.5	1.4
Depreciation of property, plant and equipment	502.7	488.9	13.8
Impairment losses on property, plant and equipment	7.7	0.5	7.2
Impairment losses on other current assets	1.0	-	1.0
Impairment losses on trade receivables	(0.5)	(1.1)	0.6
TOTAL	571.2	540.7	30.5

The increase of €30.5 million primarily reflects the entry into service of new infrastructure (with particular regard to the Italy-Montenegro interconnector) and an increase in impairment losses on assets recognised during the year (up €8.8 million).

7. OTHER OPERATING COSTS - €30.5 MILLION

	2020	2019	CHANGE
Indirect taxes and local taxes and levies	10.8	(1.0)	11.8
Quality of service costs	8.3	0.6	7.7
<i>of which mitigation and sharing mechanisms</i>	7.6	0.2	7.4
<i>of which Fund for Exceptional Events</i>	0.9	(0.1)	1.0
<i>of which compensation mechanisms for HV users</i>	(0.2)	0.4	(0.6)
Adjustment of provisions for litigation and disputes	(0.4)	1.7	(2.1)
Losses on sales/disposal of plant	0.1	0.4	(0.3)
Other	11.7	6.0	5.7
TOTAL	30.5	7.7	22.8

The most significant components of this item regard indirect taxes, local taxes and levies (€10.8 million, including €6.7 million in council tax) and other costs (€11.7 million) which include membership dues and contributions to trade bodies and associations, donations and other expenses.

The increase of €22.8 million in this item primarily reflects the increase in indirect taxes, local taxes and levies (up €11.8 million), reflecting the adjustment, in 2019, of provisions for taxation and increased costs relating to quality of service (up €7.7 million), essentially due to outages that occurred at the end of 2020.

8. FINANCIAL INCOME/(EXPENSES) – (€59.0) MILLION

	(€m)		
	2020	2019	CHANGE
FINANCIAL EXPENSES			
Financial expenses paid to Cassa Depositi e Prestiti	-	(0.3)	0.3
Interest expense on medium/long-term borrowings and related hedges	(89.1)	(90.1)	1.0
Adjustments to bonds in issue and the related hedges	(4.1)	-	(4.1)
Discounting of employee benefits and operating leases	(0.4)	(0.5)	0.1
Capitalised financial expenses	10.1	12.1	(2.0)
Other financial expenses	(1.1)	(0.8)	(0.3)
Translation differences	(2.0)	(3.2)	1.2
Impairment loss on investment in subsidiary	(2.3)	-	(2.3)
Total expenses	(88.9)	(82.8)	(6.1)
FINANCIAL INCOME			
Dividends from subsidiaries	19.5	-	19.5
Financial income from subsidiaries	1.0	9.0	(8.0)
Restructuring of bond issues and related hedges	-	1.3	(1.3)
Interest income and other financial income	9.4	8.9	0.5
Total INCOME	29.9	19.2	10.7
TOTAL	(59.0)	(63.6)	4.6

Net financial expenses for the year amount to €59.0 million, reflecting €88.9 million in financial expenses and €29.9 million in financial income. The reduction in net financial expenses compared with the previous year, amounting to €4.6 million, primarily reflects the following:

- a decrease in capitalised financial expenses (€2.0 million) linked to the fall in interest rates during the year;
- the impairment loss on the investment in the subsidiary in Uruguay (€2.3 million);
- the collection of dividends from the subsidiary, Terna Interconnector, amounting to €19.5 million;
- a reduction in financial income linked to the loans granted by the Parent Company to its Brazilian subsidiaries (€7.9 million).

9. INCOME TAX FOR THE YEAR – €269.3 MILLION

	(€m)		
	2020	2019	CHANGE
Income tax for the year			
Current tax expense:			
- IRES (corporate income tax)	241.1	251.4	(10.3)
- IRAP (regional tax on productive activities)	52.1	53.0	(0.9)
Total current tax expense	293.2	304.4	(11.2)
New temporary differences:			
- deferred tax assets	(9.8)	(4.5)	(5.3)
Reversal of temporary differences:			
- deferred tax assets	19.9	16.9	3.0
- deferred tax liabilities	(30.5)	(30.6)	0.1
Total deferred tax (income)/expense	(20.4)	(18.2)	(2.2)
Adjustments of taxes for previous years	(3.5)	(0.5)	(3.0)
TOTAL	269.3	285.7	(16.4)

Current income tax expense for the year of €269.3 million, is down €16.4 million compared with the previous year, essentially reflecting the reduction in pre-tax profit and an increase in tax-exempt income recognised during the year.

Net deferred tax expense of €20.4 million is down €2.2 million, primarily due to the increased amount of deferred tax assets used in relation to movements in provisions for risks and charges.

Adjustments to taxes for previous years, amounting to a reduction of €3.5 million, reflect the overpayment of current tax expense in previous years and have increased by €3.0 million.

The effective tax charge for the year (€269.3 million) results in a tax rate of 28.1%, down on the 28.6% of 2019. 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	TAX	% CHANGE
Profit before tax	956.9		
IRES – Theoretical tax charge (rate of 24.0%)		229.7	
IRAP – theoretical tax charge (rate of 5.10% on the operating profit of €1,015.9 million)		51.8	
		281.5	
THEORETICAL TAX RATE			29.4%
<i>Permanent differences in IRES</i>			
Impairments		1.1	0.1%
Non-deductible remuneration		0.8	0.1%
Translation differences		0.4	-
Contingent assets and liabilities		0.2	-
Membership dues		0.2	-
Other increases		0.6	0.1%
Single council tax (Imposta Municipale Unica, IMU)		0.5	0.1%
Accelerated depreciation		(4.7)	(0.5%)
Dividend		(4.4)	(0.5%)
Tax relief (ACE – Aiuto alla Crescita Economica)		(4.4)	(0.5%)
IRAP – art. 6 of Law 28/01/2009 (10%)		(1.3)	(0.1%)
<i>Permanent differences in IRAP</i>			
Capitalised financial expenses		0.5	0.1%
Provisions for Italy's Development and Cohesion Fund		0.5	0.1%
Personnel expenses		0.1	-
Other increases		0.1	-
Effective tax rate after adjustments of taxes for previous years and other one-off changes			28.3%
Income tax for previous years		(3.5)	(0.4%)
One-off recovery of deferred tax assets from previous years		1.1	0.1%
Total income tax expense for the year		269.3	
EFFECTIVE TAX RATE			28.1%

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

10. PROPERTY, PLANT AND EQUIPMENT – €12,755.2 MILLION

(€m)

	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION AND PREPAYMENTS	TOTAL
COST AT 31 DECEMBER 2019	129.6	1,956.7	17,308.1	103.6	161.4	1,273.9	20,933.3
Investments	-	2.6	2.1	3.9	1.0	1,032.3	1,041.9
of which right-of-use assets	-	2.6	-	-	0.3	-	2.9
of which finance leased assets	-	-	2.1	-	-	-	2.1
Assets entering service	1.3	107.8	677.8	4.9	14.2	(806.0)	-
Intercompany sales	-	-	(0.9)	-	-	(0.4)	(1.3)
Disposals and impairments	-	(5.2)	(64.8)	-	(1.3)	(5.0)	(76.3)
of which right-of-use assets	-	(0.2)	-	-	(0.2)	-	(0.4)
of which finance leased assets	-	-	(1.4)	-	-	-	(1.4)
Other changes	-	(4.2)	(37.8)	0.4	-	13.1	(28.5)
COST AT 31 DECEMBER 2020	130.9	2,057.7	17,884.5	112.8	175.3	1,507.9	21,869.1
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31 DECEMBER 2019	(0.3)	(597.3)	(7,870.8)	(79.7)	(126.9)	-	(8,675.0)
Depreciation for the year	(0.3)	(49.0)	(436.2)	(5.3)	(11.9)	-	(502.7)
of which right-of-use assets	(0.3)	(1.2)	-	-	(0.5)	-	(2.0)
of which finance leased assets	-	-	(3.3)	-	-	-	(3.3)
Intercompany sales	-	-	0.4	-	-	-	0.4
Disposals	-	1.5	60.7	-	1.2	-	63.4
of which right-of-use assets	-	0.1	-	-	0.1	-	0.2
of which finance leased assets	-	-	0.4	-	-	-	0.4
Other changes	-	-	0.1	(0.1)	-	-	-
ACCUMULATED DEPRECIATION AND IMPAIRMENT AT 31 DECEMBER 2020	(0.6)	(644.8)	(8,245.8)	(85.1)	(137.6)	-	(9,113.9)
Carrying amount 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
AT 31 DECEMBER 2019	129.3	1,359.4	9,437.3	23.9	34.5	1,273.9	12,258.3
of which right-of-use assets	5.6	4.3	-	-	0.9	-	10.8
of which finance leased assets	-	0.6	26.2	-	-	-	26.8
Change	1.0	53.5	201.4	3.8	3.2	234.0	496.9

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

"Property, plant and equipment" is up €496.9 million, compared with the previous year, broadly due to the following movements:

- investment of €1,041.9 million during the year;
- depreciation for the year (down €502.7 million), other changes (a reduction of €28.5 million) regarding grants related to assets (primarily for the re-routing of power lines at the request of third parties) and disposals and impairments (down €12.9 million, including €8.3 million relating to impairment losses on assets).

The following information regards work on the principal projects during the year in relation to Regulated Activities: progress on construction of the Paternò-Pantano-Priolo power line (€44.2 million) and of the Italy-France interconnector (€38.2 million), extension of the fibre network as part of the “Fibre for the Grid” project (€30.1 million), reorganization of the Alto Bellunese line (€29.1 million, entering service at year end), construction of the Brindisi Pignicelle – BR Eni Power Pignatelli line (€15.8 million, entering service at year end), construction of substations at Garaguso (€15.7 million, entering service at year end), Vizzini (€11.1 million, entering service at year end), the Sorrento Peninsula interconnector (€7.8 million, entering service at year end), reorganisation of the grids serving the city of Naples (€15.3 million), Valle Sabbia (€13.8 million) and the city of Turin (€11.5 million), and the grid upgrade in the Foggia-Benevento area (€12.9 million).

11. 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. Measurement of the carrying amount of the CGU represented by the NTG was based on the Company's net invested capital at 31 December 2020, appropriately adjusted to take into account the assets and liabilities not falling within the scope of Transmission activities (e.g., Dispatching, Non-regulated and International activities). The recoverable value was based on fair value after applying a multiple of EBITDA to the CGU's operating profit. The above multiple was calculated at Company level as the ratio of the enterprise value (the sum of stock market capitalization and net debt) to the Company's EBITDA. The resulting value is significantly higher than the carrying amount inclusive of goodwill.

12. INTANGIBLE ASSETS – €285.7 MILLION

(€m)

	INFRASTRUCTURE RIGHTS	CONCESSIONS	OTHER ASSETS	ASSETS UNDER DEVELOPMENT AND PREPAYMENTS	TOTAL
Cost	456.0	135.4	284.5	43.5	919.4
Accumulated amortisation	(352.7)	(79.3)	(233.8)	-	(665.8)
BALANCE AT 31 DECEMBER 2019	103.3	56.1	50.7	43.5	253.6
Investments	-	-	-	92.4	92.4
Assets entering service	30.3	-	49.2	(79.5)	-
Amortisation for the year	(23.9)	(5.6)	(30.8)	-	(60.3)
BALANCE AT 31 DECEMBER 2020	109.7	50.5	69.1	56.4	285.7
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
Change	6.4	(5.6)	18.4	12.9	32.1

Intangible assets amount to €285.7 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 2020 of infrastructure entering service during the year amounting to €109.7 million and of infrastructure under construction, included in the category “Assets under development and prepayments”, amounting to €23.9 million (at 31 December 2019, the matching figures were €103.3 million and €25.6 million, respectively);
- the concession for electricity transmission and dispatching activities in Italy (with a carrying amount of €50.5 million at 31 December 2020). 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 (€63.8 million) essentially regards internal development programmes.

The increase compared with the previous year (up €32.1 million) reflects the net effect of investment (€92.4 million including €28.6 million in infrastructure rights) and amortisation (€60.3 million).

Investment in intangible assets during the year (€92.4 million), included expenditure on the development of software applications for the Remote Management System for Dispatching (€12.8 million), the Power Exchange (€5.9 million), the Metering System (€0.8 million) and for protection of the electricity system (€4.9 million), as well as software applications and generic licences (€58.8 million).

13. DEFERRED TAX ASSETS – €109.8 MILLION

(€m)

	31 DECEMBER 2019	PROVISIONS	USES AND OTHER MOVEMENTS	EFFECTS RECOGNISED IN COMPRE- HENSIVE INCOME	31 DECEMBER 2020
DEFERRED TAX ASSETS					
Provisions for risks and charges	30.3	4.4	(13.4)	-	21.3
Allowance for doubtful accounts	3.5	0.8	-	-	4.3
Amounts due to employees	4.2	2.2	(3.4)	0.1	3.1
Cash flow hedges and financial assets	47.2	-	-	19.5	66.7
Tax relief on goodwill	23.5	0.3	(2.9)	-	20.9
Other	3.2	2.1	-	-	5.3
TOTAL DEFERRED TAX ASSETS	111.9	9.8	(19.7)	19.6	121.6
DEFERRED TAX LIABILITIES					
Property, plant and equipment	(39.2)	-	30.5	-	(8.7)
Employee benefits and financial instruments	(3.1)	-	-	-	(3.1)
TOTAL DEFERRED TAX LIABILITIES	(42.3)	-	30.5	-	(11.8)
NET DEFERRED TAX ASSETS	69.6	9.8	10.8	19.6	109.8

The balance of this item, amounting to €109.8 million, includes the net impact of movements in the Company's deferred tax assets and liabilities.

Deferred tax assets (€121.6 million) are up by a net €9.7 million compared with the previous year, reflecting the following movements:

- provisions totalling €19.6 million, reflecting the tax effect recognised in the statement of comprehensive income, primarily as a result of movements in cash flow hedges;
- net uses of €9.0 million, relating to movements during the year in provisions for risks and charges, primarily reflecting the return of revenue generated by investment in construction of the portion of the interconnection with France that became private, but for which no exemption was granted in October 2020 and which has been restored to the NTG (down €2.7 million) uses for staff incentives (down €1.5 million) and the impact on taxation of the release of provisions following settlement of a liability with an operator (€3.1 million);
- use of the accrued portion recognised in relation to tax relief on the goodwill resulting from the merger of Terna Rete Italia S.r.l. with the Company (€2.9 million).

Deferred tax liabilities (€11.8 million) are down €30.5 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.

14. FINANCIAL ASSETS

(€m)

	MEASUREMENT	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Investments in subsidiaries	at cost	1,107.4	1,004.7	102.7
Investments in associates	at cost	44.7	44.5	0.2
Guarantee deposits	Amortised cost	221.8	225.8	(4.0)
Fair value hedges	FVTPL	94.2	45.0	49.2
Loan to subsidiaries	Amortised cost	22.5	24.1	(1.6)
Government securities	FVTOCI	22.5	-	22.5
NON-CURRENT FINANCIAL ASSETS		1,513.1	1,344.1	169.0
Government securities	FVTOCI	611.4	513.3	98.1
Other current financial assets		5.2	1.7	3.5
Deferred assets on fair value hedges		4.4	4.2	0.2
CURRENT FINANCIAL ASSETS		621.0	519.2	101.8

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

The value of "Investments in subsidiaries" (€1,107.4 million) regards investments in Terna S.p.A.'s direct subsidiaries and is up €102.7 million compared with 31 December 2019, primarily reflecting the capital contribution paid to Terna Plus S.r.l. (up €70 million) and the capital increase carried out by Terna Crna Gora d.o.o. (up €35 million).

The value of "Investments in associates" (€44.7 million) primarily regards the investments in CGES – CrnoGorski Elektroprenosni Sistem AD (€26.7 million), CESI S.p.A. (€17.6 million), CORESO S.A. (€0.2 million) and the joint venture ELMED Etudes S.a.r.l. (€0.2 million). The increase compared with the previous year, amounting to €0.2 million, is essentially due to recognition of the joint venture, ELMED Etudes S.a.r.l..

The following table shows key information on investments in subsidiaries, associates and joint ventures owned directly by Terna S.p.A. at 31 December 2020. Amounts relate to the latest approved financial statements.

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	CARRYING AMOUNT (€)
SUBSIDIARIES CONTROLLED DIRECTLY BY TERNA S.P.A.					
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%	770,214,773.0
Business	Design, construction, management, development, operation and maintenance of high-voltage power lines.				
Difebal S.A.	Montevideo (Uruguay)	Uruguayan peso	140,000	100%	8,519,312.7
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.				
Resia Interconnector S.r.l.	Rome	Euro	10,000	100%	30,000.0
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 interconnection with Austria.				
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 ARRANGEMENT					
ELMED Etudes S.a.r.l.	Tunis (Tunisia)	Tunisian dinar	2,700,000	50%	200,000
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	40,000	25%	-
Business	Provisions of support for electricity balancing by TSOs through the development and implementation of blockchain technology.				

* Amounts relate to the latest financial statements approved at the date of this document.

This item also includes:

- guarantee deposits (€221.8 million), including the Interconnector Guarantee Fund (€105.2 million) set up to fund investment in interconnections by art. 32 of Law 99/09 and up €22.0 million compared with the previous year. Guarantee deposits also include €116.6 million received from operators participating in the capacity market in accordance with Resolution Del.98/2011/R/eel³, as amended, registering a decline of €26 million compared with the previous year after definition of each party's committed capacity following the auctions held in November 2019;
- fair value hedges, amounting to €94.2 million, hedging bond issues and up €49.2 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;
- includes the financing provided by Terna S.p.A. to the subsidiary in Uruguay, totalling €22.5 million, and down €1.6 million compared with the previous year (included in the calculation of net debt);
- the recognition of €22.5 million in Italian government bonds ("BTP") 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 €101.8 million with the previous year, primarily due to the purchase of government securities totalling €100 million (up €98.1 million at 31 December 2020).

³ 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.

15. OTHER ASSETS

	(€m)		
	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Loans and advances to employees	3.6	3.2	0.4
Deposits with third parties	1.0	0.9	0.1
Non-current receivables due from subsidiaries	0.3	-	0.3
OTHER NON-CURRENT ASSETS	4.9	4.1	0.8
Current receivables due from subsidiaries	0.2	-	0.2
Other tax credits	14.3	6.5	7.8
Other current assets – Interconnector Guarantee Fund	3.8	3.7	0.1
Prepayments to suppliers	3.3	1.4	1.9
Prepayments of operating expenses and accrued operating income	8.4	6.0	2.4
Amounts due from others	4.9	8.7	(3.8)
OTHER CURRENT ASSETS	34.9	26.3	8.6

“Other non-current assets” amount to €4.9 million, an increase of €0.8 million compared with the previous year, essentially due to loans and advances to employees (up €0.4 million) and amounts due from subsidiaries recognised in relation to the new Performance Share Plan 2020-2023 (up €0.3 million).

“Other current assets” of €34.9 million, are up €8.6 di euro million compared with 31 December 2019, essentially reflecting:

- increase in “other tax credits” (up 7.8 million), primarily reflecting refundable VAT (up €9.4 million), partially offset by a reduction in tax credits following the payment of tax overseas (down €2.2 million) by the South American companies;
- an increase in prepayments of items accruing after the year ended 31 December 2020 (up €2.4 million);
- a reduction in “amounts due from others” (down €3.8 million), mainly reflecting insurance proceeds recognised in the previous year and collected in early 2020 (down €1.9 million) and a reduction in other items to be settled in the following year (down €1.5 million);

16. TRADE RECEIVABLES – €1,091.1 MILLION

	(€m)		
	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Energy-related receivables	844.4	788.8	55.6
Transmission charges receivables	200.6	314.6	(114.0)
Other trade receivables	10.7	35.4	(24.7)
Amounts due from subsidiaries	35.4	21.5	13.9
TOTAL	1,091.1	1,160.3	(69.2)

Trade receivables amount to €1,091.1 million and are accounted for less any losses on items deemed not to be recoverable and recognised in the allowance for doubtful accounts (€34.2 million for energy-related receivables and €11.0 million for other items in 2020, compared with €25.2 million for energy-related items and €11.7 million for other items in 2019, further details are provided in the section, “E. Commitments and risks”). The carrying amount shown broadly approximates to fair value.

Information on the measurement of impairment losses is provided in the section, “A. Accounting policies and measurement criteria”.

Energy-related/regulated receivables – €844.4 million

This item includes so-called “pass-through items” relating to the Parent Company’s activities in accordance with Resolution 111/06 (€797.7 million) and receivables due from the users of dispatching services forming part of Regulated Activities (€27.3 million). It also includes the amount due from the Fund for Energy and Environmental Services (Cassa per i Servizi Energetici e Ambientali - CSEA), based on the RENS performance for the year (€19.4 million). The balance is up €55.6 million compared with the end of 2019. This increase, after the impact of the factoring of receivables that took place in December 2020 (resulting in an increase in cash inflows of €121.5 million), largely reflects the impact of the amount due in the form of the Uplift (€169.3 million), reflecting the increased cost incurred during the period for Dispatching Services Market (DSM) services linked to an increase in selections to meet localised technical limitations and imbalances (the related receivables are down by a total of €44.2 million). The change also reflects an increase in amounts due in relation to essential plants for the security of the electricity system - UESS, as a result of the increase in the unit charge determined for 2020 (€53.6 million).

Transmission charges receivable – €200.6 million

Transmission charges receivable, amounting to €200.6 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 down €114 million compared with 31 December 2019, broadly reflecting the impact of factoring transactions that took place in December, which resulted in the collection of receivables, at 31 December 2020, originally falling due in January 2021 (€149.6 million). This reduction was partially offset by the tariff adjustment and the impact of ARERA Resolution 565/2020 regarding digital substation systems (amounting to €38.6 million).

Other trade receivables – €10.7 million

Other trade receivables, totalling €10.7 million, are down €24.7 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 – €35.4 million

This item, totalling €35.4 million, primarily regards the amount receivable from the subsidiary, Terna Rete Italia S.p.A. (€14.5 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 (€6.2 million), and administrative services (€3.3 million). This item also includes the amount due from the subsidiary, Resia Interconnector S.r.l. (€13.4 million), relating to the activities involved in preparing the final design and starting construction of the “Italy-Austria” interconnector. The item is up compared with the previous year (€13.9 million), broadly due to an increase in amounts due from the subsidiary, Resia Interconnector S.r.l. (€12.6 million) following the start of work on laying the cable during the year, and an increase in amounts due from the subsidiary, Terna Energy Solutions S.r.l. (€3.5 million) relating to recovery of the due diligence costs incurred by the Parent Company in relation to acquisition of the subsidiary, Brugg Cables. These increases are partially offset by a reduction in amounts due from the subsidiary, Terna Rete Italia S.p.A. (€3.3 million), reflecting a decrease in the amount due on the business unit leased to this company (down €3.8 million, due to adjustment of the fees to reflect the scope of the activities carried out through to the end of 2020).

17. CASH AND CASH EQUIVALENTS – €2,451.9 MILLION

Cash amounts to €2,451.9 million at 31 December 2020, including €1,314.2 million in liquidity invested in readily convertible short-term deposits and €1,137.7 million in net deposits in bank current accounts (including a net debit balance of €58.8 million on intercompany treasury accounts).

18. INCOME TAX ASSETS – €3.2 MILLION

Income tax assets, amounting to €3.2 million, are down €0.3 million compared with the previous year. This reflects payments on account of IRES and IRAP 2019 to cover taxation for the year.

Equity and liabilities**19. EQUITY – €4,083.6 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 - (€9.5) million

In implementation of the buyback programme linked to the Performance Share Plan 2020-2023, approved by the Annual General Meeting of 18 May 2020 and the Board of Directors on 17 June 2020, in the period between 29 June 2020 and 6 August 2020, the Company purchased 1,525,900 own shares (equal to 0.076% of the share capital) at a cost of €9.5 million, reducing other reserves by this amount.

Other reserves – €538.7 million

Other reserves are down €60.9 million, broadly due to other comprehensive income. This reflects:

- fair value adjustments to the Company's cash flow hedges hedging its variable rate borrowings (down €64.2 million, including the cost of the hedges, increasing the reserve by €13.7 million, and after taking into account the related tax asset of €20.2 million);
- fair value adjustments to the value of financial assets represented by government securities (up €2.5 million, taking into account the related tax liability of €0.7 million).

These reserves also include the reserve for stock options (up €1.2 million) relating to the incentive plan for the Group's personnel involving the above share-based payments (Performance Share Plan 2020-2023⁴).

Retained earnings and accumulated losses – €2,518.9 million

The increase in "Retained earnings and accumulated losses", amounting to €212.3 million, primarily regards the remaining portion of profit for 2019, following payment of the dividend for that year (totalling €501.5 million).

Interim dividend for 2020 and final dividend for 2019

Having obtained the opinion from the Independent Auditors required by article 2433-bis of the Italian Civil Code, on 11 November 2020, the Company's Board of Directors approved payment of an interim dividend totalling €182.7 million, equivalent to €0.0909 per share. The interim dividend was payable from 25 November 2020, with an ex dividend date for coupon number

⁴ The LTI Plan 2020-2023 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.

33 of 23 November 2020, to the holders of each of the ordinary shares outstanding after adjusting for the treasury shares held at the “record date” of 24 November 2020 (amounting to €138,704.31 and taken to retained earnings). The Annual General Meeting of shareholders held on 18 May 2020 approved the payment of a final dividend for 2019, amounting to €332.3 million and equivalent to €0.1653 per share, payable from 24 June 2020.

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

	31 DECEMBER 2020	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	(210.8)	-	-
- revenue reserves	324.0	A, B, C	324.0
Retained earnings	2,518.9	A, B, C	2,518.9
Interim dividend	(182.7)	A, B, C	-
TOTAL	3,396.1		

Key:

A – for capital increases

B – to cover losses

C – for distribution to shareholders

The available amount includes €533.8 million in untaxed revenue reserves.

20. BORROWINGS AND FINANCIAL LIABILITIES

	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Bond issues	7,451.3	7,757.3	(306.0)
Bank borrowings	2,179.5	1,548.1	631.4
LONG-TERM BORROWINGS	9,630.8	9,305.4	325.4
Cash flow hedges	251.4	159.0	92.4
NON-CURRENT FINANCIAL LIABILITIES	251.4	159.0	92.4
SHORT-TERM BORROWINGS	977.1	-	977.1
Bond issues	1,258.8	-	1,258.8
Bank borrowings	119.0	117.4	1.6
CURRENT PORTION OF LONG-TERM BORROWINGS	1,377.8	117.4	1,260.4
CURRENT FINANCIAL LIABILITIES	89.7	87.3	2.4
TOTAL	12,326.8	9,669.1	2,657.7

Borrowings and financial liabilities have increased by €2,657.7 million compared with the previous year to €12,326.8 million.

The increase in bond issues (up €952.8 million) is due to two fixed-rate euro-denominated bond issues launched in 2020, amounting to €1,000 million and described in the section, “Financial resources”, in the Integrated Report.

The latest official prices at 31 December 2020 and 31 December 2019 for the bonds listed on the Luxembourg Stock Exchange are detailed below:

		(€m)	
	ISIN	PRICE AT 31 DECEMBER 2020	PRICE AT 31 DECEMBER 2019
bond maturity 2021:	XS0605214336	100.96	105.93
bond maturity 2022:	XS1178105851	101.22	101.90
bond maturity 2023:	XS0328430003	124.72*	128.94*
bond maturity 2023:	XS1858912915	103.19	103.11
bond maturity 2024:	XS0203712939	119.52	122.79
bond maturity 2025:	XS2033351995	101.19	98.86
bond maturity 2026:	XS1371569978	107.90	107.08
bond maturity 2026:	XS1980270810	105.41	103.18
bond maturity 2027:	XS1652866002	109.14	105.83
bond maturity 2028:	XS1503131713	107.28	102.87
bond maturity 2030:	XS2237901355	101.89	n.a.**
bond maturity 2032:	XS2209023402	105.29	n.a.**

* Source: BNP Paribas and Bloomberg.

** Not applicable.

Compared to the previous year, bank borrowings are up €633.0 million, due primarily to:

- new borrowings of €747.0 million;
- repayments of principal on existing EIB loans (down €116.1 million).

Long-term borrowings

The table below shows movements in long-term debt during the year, including also the nominal amount:

								(€m)		
	31 DECEMBER 2019			REOAYMENTS AND CAPITALISATIONS	DRAWDOWNS	OTHER	CHANGE IN CARRYING AMOUNT	31 DECEMBER 2020		
	NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE					NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE
Bond maturing 2021	1,250.0	1,302.7	1,324.1	-	-	(43.9)	(43.9)	1,250.0	1,258.8	1,262.1
Bond maturing 2022	1,000.0	998.3	1,019.0	-	-	0.8	0.8	1,000.0	999.1	1,012.2
IL bond	579.0	659.1	746.5	-	-	(22.8)	(22.8)	579.0	636.3	722.1
Bond maturing 2023	1,000.0	995.0	1,031.1	-	-	1.4	1.4	1,000.0	996.4	1,031.9
Bond maturing 2024	800.0	952.1	982.3	-	-	(31.0)	(31.0)	800.0	921.1	956.1
Bond maturing 2025	500.0	494.7	494.3	-	-	1.0	1.0	500.0	495.7	506.0
Private Placement 2026	80.0	79.1	85.7	-	-	0.1	0.1	80.0	79.2	86.3
Bond maturing 2026	500.0	497.8	515.9	-	-	0.4	0.4	500.0	498.2	527.0
Bond maturing 2027	1,000.0	1,013.6	1,058.3	-	-	25.4	25.4	1,000.0	1,039.0	1,091.4
Bond maturing 2028	750.0	764.9	771.5	-	-	29.5	29.5	750.0	794.4	804.6
Bonds maturing 2030	-	-	-	-	500.0	(4.3)	495.7	500.0	495.7	509.5
Bonds maturing 2032	-	-	-	-	500.0	(3.8)	496.2	500.0	496.2	526.5
Total bond issues	7,459.0	7,757.3	8,028.7	-	1,000.0	(47.2)	952.8	7,209.0	8,710.1	7,773.6
Borrowings	1,648.4	1,654.0	(891.4)	(116.1)	747.0	1.4	632.3	2,290.6	2,286.3	2,286.3
Lease liabilities	11.5	11.5	11.5	(2.1)	-	2.8	0.7	12.2	12.2	12.2
Total borrowings	1,659.9	1,665.5	(879.9)	(118.2)	747.0	4.2	633.0	2,302.8	2,298.5	2,298.5
Total debt	9,118.9	9,422.8	7,148.8	(118.2)	1,747.0	(43.0)	1,585.8	9,511.8	11,008.6	10,072.1

At 31 December 2020, Terna has access to additional financing of €2,650.0 million, represented by two revolving credit facilities entered into in September 2018 and April 2019. In addition, the Company has uncommitted bank credit lines totalling approximately €601.8 million and approximately €343.0 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.

The following table shows an analysis of bond issues and other borrowings by maturity, showing the related short-term portions, which do not include the interest payable at maturity.

(€m)

	MATURITY	31 DECEMBER 2019	31 DECEMBER 2020*	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS	2022	2023	2024	2025	2026	AFTER	AVERAGE INTEREST RATE AT 31 DEC 2020	AVERAGE NET INTEREST RATE OF HEDGES AT 31 DEC 2020
Bonds	2021	1,302.7	1,258.8	1,258.8	-	-	-	-	-	-	-	4.75%	1.22%
	2022	998.3	999.1	-	999.1	999.1	-	-	-	-	-	0.88%	0.96%
	2023	659.1	636.3	-	636.3	-	636.3	-	-	-	-	2.73%	(1.07%)
	2023	995.0	996.4	-	996.4	-	996.4	-	-	-	-	1.00%	1.15%
	2024	952.1	921.1	-	921.1	-	-	921.1	-	-	-	4.90%	0.87%
	2025	494.7	495.7	-	495.7	-	-	-	495.7	-	-	0.13%	0.32%
	2026	497.8	498.2	-	498.2	-	-	-	-	498.2	-	1.00%	1.29%
	2026	79.1	79.2	-	79.2	-	-	-	-	79.2	-	1.60%	0.41%
	2027	1,013.6	1,039.0	-	1,039.0	-	-	-	-	-	1,039.0	1.38%	1.09%
	2028	764.9	794.4	-	794.4	-	-	-	-	-	794.4	1.00%	0.83%
	2032	-	496.2	-	496.2	-	-	-	-	-	496.2	0.75%	0.82%
	2030	-	495.7	-	495.7	-	-	-	-	-	495.7	0.38%	0.46%
EIB	2042	368.6	515.6	4.6	511.0	20.5	20.5	28.7	28.7	28.7	383.9	1.32%	1.32%
Terna's borrowing	2022	-	200.0	-	200.0	200.0	-	-	-	-	-	0.01%	(0.01%)
Total fixed rate		8,125.9	9,425.7	1,263.4	8,162.3	1,219.6	1,653.2	949.8	524.4	606.1	3,209.2		
EIB	2041	1,291.1	1,175.0	112.1	1,062.9	112.8	114.0	115.3	115.3	115.3	490.2	0.13%	0.91%
Terna's borrowing	2023	-	400.0	-	400.0	300.0	100.0	-	-	-	-	0.05%	0.07%
Total variable rate		1,291.1	1,575.0	112.1	1,462.9	412.8	214.0	115.3	115.3	115.3	490.2		
TOTAL		9,417.0	11,000.7	1,375.5	9,625.2	1,632.4	1,867.2	1,065.1	639.7	721.4	3,699.4		

* The balance does not include prepaid fees of €4.3 million at 31 December 2020 and €5.7 million at 31 December 2019.

(€m)

	31 DECEMBER 2019	31 DECEMBER 2020	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS
Finance leases	0.2	0.1	0.1	-
Operating leases	11.3	12.1	2.2	9.9
TOTAL	11.5	12.2	2.3	9.9

At 31 December 2020, payments on operating leases recognised in application of IFRS 16 amount to €2.1 million.

The total value of Terna's borrowings at 31 December 2020 is €11,000.7 million (€1,375.5 million falling due within 12 months and €9,625.2 million falling due after 12 months), of which €3,699.4 million maturing after five years.

Non-current financial liabilities – €251.4 million

	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Cash flow hedges	251.4	159.0	92.4
TOTAL	251.4	159.0	92.4

(€m)

Non-current financial liabilities, amounting to €251.4 million at 31 December 2020, 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 €92.4 million, compared with 31 December 2019 reflects the change in the market interest rate curve and the change in the notional value of the derivatives portfolio.

Short-term borrowings – €977.1 million

“Short-term borrowings” amounting to €977.1 million reflect the short-term loans disbursed to the Company.

Current financial liabilities – €89.7 million

Current financial liabilities at 31 December 2020 include the value of net interest expense accrued on financial instruments and not yet paid. This item is up €2.4 million compared with the previous year.

	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
DEFERRED LIABILITIES ON:			
Hedging derivatives	2.5	2.6	(0.1)
Bond issues	86.0	83.6	2.4
Borrowings	1.2	1.1	0.1
TOTAL	89.7	87.3	2.4

(€m)

Net debt

Pursuant to the CONSOB Communication of 28 July 2006 and in compliance with ESMA Recommendation no. 319 of 2013, the Company's net debt is as follows:

	31 DECEMBER 2020
A. Cash	1,137.7
B. Term deposits	1,314.2
C. Cash and cash equivalents (A) + (B)	2,451.9
D. Current portion of non-current borrowings	1,377.8
E. Short-term borrowings	977.1
F. Other net financial liabilities	80.1
G. Current financial assets	611.4
H. Current debt (D+E+F-G)	1,823.6
I. Current net debt (H) - (C)	(628.3)
J. Non-current borrowings	2,179.5
K. Bond issues	7,451.3
L. Derivative financial instruments held in portfolio	157.2
M. Long-term loan to subsidiaries	22.5
N. Non-current net debt (J) + (K) + (L) - (M)	9,765.5
O. Net debt (I) + (N)	9,137.2

(€m)

Information on the provisions in outstanding loan agreements at 31 December 2020 is provided in the notes to the consolidated financial statements.

21. EMPLOYEE BENEFITS – €13.6 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, senior managers recruited or appointed before 28 February 1999 receive payment in lieu of notice and employees (blue-collar workers, office staff and middle managers) employed prior to 24 July 2001 are due additional months' pay on termination.

Post-employment benefits consist of a form of supplementary health cover in addition to that provided by the Italian national health service, as provided for in the national collective contract for industrial managers (the ASEM health plan).

The following table shows the composition of provisions for TFR and other employee benefits and movements during the year ended 31 December 2020.

(€m)

	31 DECEMBER 2019	PROVISIONS	INTEREST COST	USES AND OTHER MOVEMENTS	ACTUARIAL GAINS/ (LOSSES)	31 DECEMBER 2020
Benefits during the period of employment						
Loyalty bonuses	0.6	0.1	-	0.1	-	0.8
Total	0.6	0.1	-	0.1	-	0.8
Termination benefits						
Deferred compensation benefits (TFR)	3.6	-	-	0.4	0.2	4.2
Energy discounts	0.2	-	-	0.1	0.1	0.4
Additional month pay	0.4	-	-	0.1	0.1	0.6
Total	4.2	-	-	0.6	0.4	5.2
Post-employment benefits						
ASEM health cover	6.9	0.5	0.1	-	0.1	7.6
Total	6.9	0.5	0.1	-	0.1	7.6
TOTAL	11.7	0.6	0.1	0.7	0.5	13.6

This item, amounting to €13.6 million, is up €1.9 million compared with the previous year. This primarily reflects net uses and other movements (up €0.7 million, above all for TFR), relating essentially to employees who have opted to take part in the generational turnover plan launched in 2019, provisions for the year (up €0.6 million) and actuarial gains and losses (up €0.5 million).

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

(€m)

	LOYALTY BONUS	ASEM HEALTH PLAN	TOTAL
Net impact recognised in profit or loss			
- current service cost	0.1	0.5	0.6
- interest income and expense	-	0.1	0.1
TOTAL RECOGNISED IN PROFIT OR LOSS	0.1	0.6	0.7

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

(€m)

	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH PLAN	TOTAL
Actuarial gain/(losses)					
- based on past experience	0.2	0.1	0.1	(0.3)	0.1
- due to changes in discount rate	-	-	-	0.4	0.4
TOTAL INCOME ON COMPREHENSIVE INCOME	0.2	0.1	0.1	0.1	0.5

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 2019, 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 2020, matching the duration of the relevant group of plan participants.

(€m)

	LOYALTY BONUSES	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH PLAN
Discount rate	0.34%	0.34%	(0.02%)	(0.02%)	0.34%
Inflation rate	0.80%	0.80%	-	-	2.70%
Duration (in years)	17.21	9.27	5.66	7.80	14.57

(€m)

	LOYALTY BONUSES	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH PLAN	TOTAL
Discount rate +0.25%	0.8	4.2	0.4	0.4	6.6	12.4
Discount rate -0.25%	0.8	4.4	0.4	0.4	7.2	13.2
Inflation rate +0.25%	0.8	4.3	n/a	n/a	n/a	5.1
Inflation rate -0.25%	0.8	4.2	n/a	n/a	n/a	5.0
Annual rate of increase in health costs +3%	n/a	n/a	n/a	n/a	11.6	11.6
Annual rate of increase in health costs -3%	n/a	n/a	n/a	n/a	4.5	4.5

(€m)

	LOYALTY BONUSES	TFR	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNTS	ASEM HEALTH PLAN	TOTAL
By the end of 2021	0.1	0.2	0.1	0.5	0.2	1.1
By the end of 2022	-	0.2	0.1	0.3	0.2	0.8
By the end of 2023	-	0.1	0.1	0.2	0.3	0.7
By the end of 2024	0.1	0.2	-	0.2	0.3	0.8
By the end of 2025	-	0.3	-	0.2	0.3	0.8
After 5 years	0.6	3.2	0.3	(1.0)	6.3	9.4
TOTAL	0.8	4.2	0.6	0.4	7.6	13.6

22. - PROVISIONS FOR RISKS AND CHARGES – €141.7 MILLION

(€m)

	PROVISIONS FOR LITIGATION AND DISPUTES	PROVISIONS FOR SUNDRY RISKS AND CHARGES	PROVISIONS FOR EARLY RETIREMENT INCENTIVES	TOTAL
Amount at 31 December 2019	18.9	116.8	43.3	179.0
New provisions	1.6	23.5	5.5	30.6
Uses and other movements	(2.2)	(46.8)	(18.9)	(67.9)
Amount at 31 December 2020	18.3	93.5	29.9	141.7

Provisions for litigation and disputes – €18.3 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 2020, amounting to €18.3 million, primarily regards disputes involving the Company in relation to the payment of damages relating to operation and maintenance, requests for compensation for easements and labour and social security disputes. The balance is down €0.6 million compared with the previous year as a result of net uses during the year.

Provisions for sundry risks and charges – €93.5 million

The provisions, amounting to €93.5 million at 31 December 2020, 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 €23.3 million as a result of the following:

- net uses for staff incentive plans, totalling €3.9 million;
- a reduction of €10.6 million following the release of provisions following settlement of a liability with an operator;
- a reduction of €9.4 million in provisions linked to the refund of the return on investment in construction of the portion of the interconnection with France that became private, but for which the related exemption was not granted in October 2020, with the asset restored to the NTG;
- the net use of €6.3 million in provisions for urban and environmental restoration projects;
- a net increase of €5.3 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.

Provisions for early retirement incentives – €29.9 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 to whom the Company has an obligation. This item has recorded a net reduction of €13.4 million, primarily reflecting payments in relation to the existing plan for generational turnover.

23. OTHER NON-CURRENT LIABILITIES – €332.8 MILLION

This item, amounting to €332.8 million at 31 December 2020, 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 (€29.2 million), accrued grants related to assets receivable (€79.7 million) and the Interconnector Guarantee Fund (€107.3 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 (€116.6 million).

The reduction of €14.7 million compared with the previous year essentially reflects a decrease in guarantee deposits received from operators participating in the capacity market after definition of each party's committed capacity following the auctions held in November 2019 (down €26.0 million), by the settlement of a part of the liabilities included in the leased business unit (down €3.7 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), partially offset by an increase in the Interconnector Guarantee Fund (up €20.2 million).

24. CURRENT LIABILITIES

	(€m)		
	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Short-term borrowings*	977.1	-	977.1
Current portion of long-term borrowings*	1,377.8	117.4	1,260.4
Trade payables	1,884.5	2,031.0	(146.5)
Tax liabilities	-	17.4	(17.4)
Current financial liabilities*	89.7	87.3	2.4
Other current liabilities	278.0	311.6	(33.6)
TOTAL	4,607.1	2,564.7	2,042.4

* Information on these items is provided in note 20, "Borrowings and financial liabilities".

TRADE PAYABLES – €1,884.5 MILLION

	(€m)		
	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Suppliers:			
- Energy-related payables	1,223.1	1,381.6	(158.5)
- Non-energy-related payables	111.9	103.9	8.0
Non-energy-related payables due to subsidiaries	546.9	542.3	4.6
Amounts due to associates	2.0	2.4	(0.4)
Payables resulting from contract work in progress	0.6	0.8	(0.2)
TOTAL	1,884.5	2,031.0	(146.5)

Suppliers**Energy-related/regulated payables – €1,223.1 million**

The reduction of €158.5 million in this item compared with the end of 2019 essentially reflects energy-related pass-through payables (€150.3 million). The reduction in these payable is primarily due to:

- a reduction in net payables linked to plants that are essential for the security of the electricity system – UESS (€210.7 million) as a result of an increase in payments ordered by ARERA in 2020⁵;

partly offset by:

- an increase in payables linked to linked to Dispatching Services Market - DSM transactions and services (€61.7 million).

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 €8.0 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 €546.9 million, is up €4.6 million compared with the previous year, primarily due to the increased amount payable to Terna Rete Italia S.p.A. (up €11.1 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 2019, offset by a reduction in amounts payable to Terna Energy Solutions S.r.l. (down €7.0 million) as a result of the greater volume of business registered by the Non-regulated Activities segment towards the end of the previous year.

Amounts due to associates

This item, amounting to €2.0 million, is down €0.4 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 €268.8 million and regard purchase commitments linked to the normal “operating cycle” projected for the period 2021-2025.

TAX LIABILITIES – €0 MILLION

This item has been reduced to zero at 31 December 2020, having decreased by €17.4 million compared with the figure for the previous year. This essentially reflects a decrease in tax payable for the year after payments on account paid during the period (essentially due to the reduction in pre-tax profit).

OTHER CURRENT LIABILITIES – €278.0 MILLION

	(€m)		
	31 DECEMBER 2020	31 DECEMBER 2019	CHANGE
Prepayments	57.3	61.6	(4.3)
Other tax liabilities	43.1	72.0	(28.9)
Social security payables	6.4	7.1	(0.7)
Amounts due to personnel	13.9	15.4	(1.5)
Amounts due to subsidiaries	9.5	6.6	2.9
Other amounts due to third parties	147.8	148.9	(1.1)
TOTAL	278.0	311.6	(33.6)

⁵ ARERA ordered payments to the owners of essential plants in the following resolutions: 563/2019 and 35-44-108-109-120-133-146-154-260-281-314-381-422-439-440-441-450-451-452-465-466-467-487-488-489-505-506-527-528-529-530/2020.

Prepayments

This item (€57.3 million) regards grants related to assets collected by the Company to fund the construction of non-current assets in progress at 31 December 2020.

Compared with the balance at 31 December 2019 (€61.6 million), the balance is down €4.3 million, essentially due to the impact of grants deducted directly from the carrying amount of the related assets, totalling €28.5 million, and new prepayments from third parties.

Other tax liabilities

Other tax liabilities, amounting to €43.1 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 2019 (€72.0 million), the balance is down €28.9 million due primarily to decrease in VAT payable (down €28.3 million).

Social security payables

Social security payables, essentially relating to employee contributions payable to INPS (the National Institute of Social Security), amount to €6.4 million. This is broadly in line with the figure for the previous year.

Amounts due to personnel

Amounts due to personnel, amounting to €13.9 million, primarily regard:

- staff incentives and early retirement incentives payable in the subsequent year (€10.8 million);
- amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements (€2.6 million).

The decrease compared with the previous year (€1.5 million) is primarily due to the net impact of reduced amounts payable to personnel who have opted to take part in the current generational turnover plan launched by the Company (down €3.4 million) and an increase in other incentives payable to personnel (up €2.4 million).

Other amounts due to subsidiaries

Amounts due to subsidiaries, totalling €9.5 million, regard the amount payable to Terna Interconnector S.r.l., primarily in the form of VAT payable by the Company (€8.4 million) under the Group's VAT arrangements.

This item is up €2.9 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 €147.8 million, essentially relate to guarantee deposits (€121.3 million) received from electricity market operators to guarantee their contractual obligations under dispatching and virtual interconnection contracts. This item also includes deferred income (€9.2 million, primarily attributable to Non-regulated Activities) and a refund received from the tax authority in 2019, amounting to €13.4 million (€26.7 million in 2019), linked to the acquisition of Rete S.r.l. (December 2015).

The decrease of €1.1 million in this item compared with the previous year essentially reflects payment to RFI of the refund received from the tax authority in 2019 (down €13.4 million) and a reduction in incentives awarded for unification of the NTG (down €1.6 million), offset by the greater amount of guarantee deposits collected during the previous year (€14.4 million).

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 2020.

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 2020			31 DECEMBER 2019		
	RECEIVABLES AT AMORTISED COST	FAIR VALUE	TOTAL	RECEIVABLES AT AMORTISED COST	FAIR VALUE	TOTAL
Assets						
Derivative financial instruments	-	94.2	94.2	-	45.0	45.0
Cash on hand and government securities	2,451.9	611.4	3,063.3	719.2	513.3	1,232.5
Trade receivables	1,091.1	-	1,091.1	1,160.3	-	1,160.3
TOTAL	3,543.0	705.6	4,248.6	1,879.5	558.3	2,437.8

(€m)

	31 DECEMBER 2020			31 DECEMBER 2019		
	PAYABLES AT AMORTISED COST	FAIR VALUE	TOTAL	PAYABLES AT AMORTISED COST	FAIR VALUE	TOTAL
Liabilities						
Long-term debt	11,008.6	-	11,008.6	9,422.8	-	9,422.8
Derivative financial instruments	-	251.4	251.4	-	159.0	159.0
Trade payables	1,884.5	-	1,884.5	2,031.0	-	2,031.0
TOTAL	12,893.1	251.4	13,144.5	11,453.8	159.0	11,612.8

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 2020, 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 2020		31 DECEMBER 2019		CHANGE	
	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE	NOTIONAL	FAIR VALUE
Fair value hedges	1,600.0	94.2	1,600.0	45.0	-	49.2
Cash flow hedges	4,061.9	(251.4)	3,773.5	(159.0)	288.4	(92.4)

The notional amount of outstanding cash flow hedges at 31 December 2020, amounting to €4,061.9 million, breaks down as follows:

- €1,111.9 million (fair value loss of €6.4 million) maturing 2021;
- €300.0 million (fair value loss of €0.3 million) maturing 2022;
- €100.0 million (fair value loss of €0.2 million) maturing 2023;
- €1,250.0 million (fair value loss of €114.1 million) maturing 2027;
- €1,300.0 million (fair value loss of €130.2 million) maturing 2028.

The notional amount of outstanding fair value hedges at 31 December 2020, amounting to €1,600.0 million, breaks down as follows:

- €850.0 million (fair value gain of €20.3 million) maturing 2027;
- €750.0 million (fair value gain of €24.7 million) maturing 2028.

Sensitivity to interest rate risk

As regards the management of interest rate risk, Terna has fixed-to-floating interest rate swaps (fair value hedges) in place to hedge fair value risk associated with its fixed-rate bond issues, and floating-to-fixed interest rate swaps (cash flow hedges) in place to hedge the risk associated with expected future cash flows.

Since the hedging relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, as verified initially and periodically over its life, is high, the Company has elected to use hedge accounting to ensure a perfect match between the maturities of the hedge and the hedged item. The aim of hedge accounting is to recognise the effects of the hedges and the hedged items in profit or loss at the same time.

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			COMPREHENSIVE INCOME		
	CURRENT RATES +10%	CURRENT VALUES	CURRENT RATES -10%	CURRENT RATES +10%	CURRENT VALUES	CURRENT RATES -10%
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)
<i>Hypothetical change</i>	0.1	-	(0.1)	8.2	-	(8.2)
31 December 2019						
Positions sensitive to interest rate variations (FVHs, bond issues, CFHs)	2.4	5.4	8.4	(97.5)	(99.9)	(102.3)
<i>Hypothetical change</i>	(3.0)	-	3.0	2.4	-	(2.4)

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 2020, 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 2020, Terna has available short-term credit facilities of approximately €602 million (out of total facilities of approximately €1,200 million), revolving credit facilities of €2,650 million and facilities agreed but yet to be disbursed, totalling approximately €343 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 2020	31 DECEMBER 2019	CHANGE
Fair value hedges	94.2	45.0	49.2
Cash and cash equivalents	2,451.9	719.2	1,732.7
Trade receivables	1,091.1	1,160.3	(69.2)
TOTAL	3,637.2	1,924.5	1,712.7

The total value of the exposure to credit rate risk at 31 December 2020 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 2020	31 DECEMBER 2019
Italy	1,032.1	1,119.7
Euro-area countries	35.6	20.1
Other countries	23.4	20.5
Total	1,091.1	1,160.3

CUSTOMER TYPE

(€m)

	31 DECEMBER 2020	31 DECEMBER 2019
Distributors	199.4	313.5
CSEA	93.7	88.9
Dispatching customers for injections	173.2	169.9
Dispatching customers for withdrawals	563.9	517.8
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	12.7	12.8
Sundry receivables	48.2	57.4
Total	1,091.1	1,160.3

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

(€m)

	31 DECEMBER 2020		31 DECEMBER 2019	
	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS
Current	(0.4)	1,049.5	(0.5)	1,031.5
0-30 days past due	0.1	1.8	-	7.3
31-120 days past due	(0.1)	4.6	(0.1)	5.9
Over 120 days past due	(44.8)	80.4	(36.3)	152.5
Total	(45.2)	1,136.3	(36.9)	1,197.2

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

(€m)

	31 DECEMBER 2020	31 DECEMBER 2019
Balance at 1 January	(37.0)	(38.2)
Release of provisions	0.7	2.2
Impairments for the year	(8.9)	(0.9)
Total	(45.2)	(36.9)

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

	(€m)	
	31 DECEMBER 2020	31 DECEMBER 2019
Dispatching - injections	215.5	236.1
Dispatching – withdrawals	1,316.0	1,109.4
Transmission charges due from distributors	327.9	313.7
Virtual imports	113.4	104.3
Capacity market (*)	148.3	-
Total	2,121.1	1,763.5

(*) 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 2020, 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 2020 amounting to €994.1 million. This breaks down as follows: €294 million on its own behalf, €135.7 million for Terna Interconnector S.r.l., €375.1 million for Terna Rete Italia S.p.A., €13.7 million for Difebal S.A., €55.6 million for Rete S.r.l., €29.1 million for Santa Lucia S.A., €12.3 million for Terna Perú SAC, €0.9 million for Terna Energy Solutions S.r.l., €0.6 million for Terna Plus S.r.l., €43.9 million for Linha Verde II, €32.9 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

Banks have issued guarantees to third parties on behalf of Group companies which, at 31 December 2020, amount to €265.3 million. This amount breaks down as follows: €86.0 million on behalf of Terna S.p.A., €60.9 million on behalf of Tamini Trasformatori S.r.l., €59.4 million on behalf of Terna Rete Italia S.p.A., €39.2 million on behalf of Terna Interconnector S.r.l., €6.1 million on behalf of Terna Plus S.r.l., €5.1 million on behalf of Santa Lucia S.A., €4.1 million

on behalf of Difebal S.A., €2.4 million on behalf of Terna Perù SAC, €1.0 million on behalf of Santa Maria S.A., €0.7 million on behalf of Terna Energy Solutions S.r.l., €0.3 million on behalf of Avvenia The Energy Innovator S.r.l. and €0.1 million on behalf of Terna Cile 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 2020, 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.

A legal action is pending with regard to the new 380kV "Udine West – Redipuglia" power line and the related works, which entered service two years ago. If the legal challenges brought by local councils and/or private parties were to be successful, and the related consents cancelled, this could have an impact on operation of the 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, 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 2020.

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., 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 Group's results. Amounts relating to pass-through items are not included in these disclosures. Related party transactions in 2020 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%
Resia Interconnector S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Monita Interconnector 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%
Rete Verde 17 S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Rete Verde 18 S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Rete Verde 19 S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%
Rete Verde 20 S.r.l.	monthly average 1-month Euribor +0.30%	monthly average 1-month Euribor +0.80%

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

Existing intercompany agreements at 31 December 2020 are summarised below.

COUNTERPARTY	TYPE	ANNUAL FEE
Terna Rete Italia S.p.A.	Service agreement:	
	<i>Operation & Maintenance</i>	€270,655,072
	<i>Upgrade and development</i>	equal to costs incurred + allowed margin on personal expenses incurred
	<i>Administrative, support and consultancy services</i>	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (revenue-generating)	€17,008,879
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (cost-generating)	€5,021,165
	Rental of workstations for staff	
	- from Terna S.p.A. to Terna Rete Italia S.p.A. (revenue-generating)	€710,312
	- from Terna Rete Italia S.p.A. to Terna S.p.A. (cost-generating)	€171,514
	Lease of operations	€22,190,000
Rete S.r.l.	Service agreement:	
	<i>Upgrade and development</i>	equal to costs incurred + 5.82% of personnel expenses incurred
	Admin. Support and consultancy service agreement (revenue-generating)	€1,147,629
Terna Plus S.r.l.	Service agreement:	
	<i>Management fee (revenue-generating)</i>	€256,197
	Rental of workstations for staff (revenue-generating)	€59,411
Terna Energy Solutions S.r.l.	Service agreement:	
	<i>Terna's Non-regulated Activities (cost-generating)</i>	€8,859,681
	<i>Management fee (revenue-generating)</i>	€761,698
	Rental of workstations for staff (revenue-generating)	€136,296
Tamini Group	Service agreement	
	<i>Administrative service (revenue-generating)</i>	€510,381
	<i>Technical services</i>	equal to costs incurred + 5.82%
Brugg Group	Administrative Service agreement (revenue-generating)	€80,555
Terna Interconnector S.r.l.	Administrative Service agreement (revenue-generating)	€501,502
	<i>Management and coordination of civil works for Italy-France Interconnector (cost-generating)</i>	equal to costs incurred + 5.82% of personnel expenses incurred
Terna Crna Gora d.o.o.	Service agreement:	
	<i>Technical services</i>	equal to costs incurred + 5.82%
	<i>Administrative services</i>	€36,032
Avvenia The Energy Innovator S.r.l.	Administrative service agreement (revenue-generating)	€191,368
Resia Interconnector S.r.l.	Administrative service agreement (revenue-generating)	€53,539
Rete Verde 17 S.r.l.		
Rete Verde 18 S.r.l.		
Rete Verde 19 S.r.l.	<i>Management fee (revenue-generating)</i>	€4,686 for each counterparty company
Rete Verde 20 S.r.l.		

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 parties⁶ 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 2020.

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
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
Tamini Group	Administrative and other services	
Terna Perú S.A.C.	Financial services	
Brugg Group	Administrative and other services	
Terna Interconnector 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 II S.A. (Brazil)	Financial services	
Santa Maria Transmissora de Energia S.A. (Brazil)	Financial services	Loans
Santa Lucia Transmissora de Energia S.A. (Brazil)	Financial services	Loans
Avvenia The Energy Innovator S.r.l.	Administrative and other services	
Difebal S.A.	Administrative and legal services	
Rete Verde 17 S.r.l.	Administrative services	
Rete Verde 18 S.r.l.		
Rete Verde 19 S.r.l.		
Rete Verde 20 S.r.l.		
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.
CORESIO S.A.		Technical coordination service for the TSO.

⁶ The nature of the items related to centralised treasury management and the tax consolidation already described above are excluded from the table.

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	DIVIDENDS	NON-ENERGY-RELATED ITEMS
Subsidiaries:				
Terna Rete Italia S.p.A.	-	42.4	-	335.5
SPE Transmissora de energia Linha Verde II S.A. (Brazil)	-	0.1	-	-
Terna Perù S.A.C.	-	0.1	-	-
Terna Plus S.r.l.	-	0.6	-	-
Tamini Group	-	0.6	-	-
Terna Energy Solutions S.r.l.	-	1.3	-	8.9
Rete S.r.l.	-	1.6	-	-
Terna Interconnector S.r.l.	-	0.6	19.5	-
Avvenia The Energy Innovator S.r.l.	-	0.3	-	-
Brugg Group	-	0.3	-	-
Difebal S.A.	-	0.7	-	2.3
Resia Interconnector S.r.l.	-	16.6	-	-
Total subsidiaries	-	65.2	19.5	346.7
De facto parent:				
Cassa Depositi e Prestiti S.p.A.	-	-	-	0.1
Total de facto parent	-	-	-	0.1
Associates:				
Cesi S.p.A.	-	0.1	-	0.1
CORESO S.A.	-	-	-	2.9
Total associates	-	0.1	-	3.0
Altre società correlate:				
GSE Group	15.6	0.2	-	0.1
Open Fiber S.p.A.	-	2.7	-	-
Enel Group	1,646.7	2.2	-	-
Eni Group	7.2	-	-	0.2
Ferrovie Group	1.9	0.7	-	0.2
ANAS S.p.A.	-	-	-	0.3
Other related parties of the MEF	-	-	-	0.1
Total other related parties	1,671.4	5.8	-	0.9
Pension funds:				
Fondenel	-	-	-	0.5
Fopen	-	-	-	0.4
Total pension funds	-	-	-	0.9
TOTAL	1,671.4	71.1	19.5	351.6

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	FINANCIAL	OTHER		
Subsidiaries:						
Terna Rete Italia S.p.A.*	70.0	23.0	-	573.1	(195.6)	-
Santa Maria Transmissora de Energia S.A. (Brazil)	-	0.1	-	-	-	-
Santa Lucia Transmissora de Energia S.A. (Brazil)	-	0.2	-	-	-	-
SPE Transmissora de Energia Linha Verde II S.A. (Brazil)	-	0.1	-	-	-	-
Terna Perú S.A.C.	-	0.3	-	-	-	-
Terna Crna Gora d.o.o.	-	-	-	1.8	-	-
Terna Plus S.r.l.*	-	(4.1)	-	-	4.6	-
Tamini Group*	26.1	0.6	-	-	-	-
Terna Energy Solutions S.r.l.*	-	4.5	-	2.2	79.5	-
Rete S.r.l.*	-	21.2	-	22.2	46.5	-
Terna Interconnector S.r.l.	1.3	0.2	-	10.3	-	-
Avvenia The Energy Innovator S.r.l.*	-	0.1	-	-	-	-
Brugg Group	14.30	0.1	-	-	-	-
Difebal S.A.	-	0.5	22.4	-	-	-
Rete Verde 17 S.r.l.	-	-	-	-	0.2	-
Rete Verde 18 S.r.l.	-	-	-	-	0.1	-
Rete Verde 19 S.r.l.	-	-	-	-	0.5	-
Rete Verde 20 S.r.l.	-	-	-	-	0.4	-
RESIA Interconnector S.r.l.	-	13.5	-	-	5.0	-
Total subsidiaries	111.7	60.3	22.4	609.6	(58.8)	-
De facto parent:						
Cassa Depositi e Prestiti S.p.A.	-	-	-	0.1	-	-
Total de facto parent	-	-	-	0.1	-	-
Associates:						
Cesi S.p.A.	3.7	0.1	-	1.8	-	-
CORESO S.A.	-	0.0	-	0.2	-	-
Total associates	3.7	0.1	-	2.0	-	-
Other related parties:						
GSE Group	0.3	1.5	-	0.1	-	-
Open Fiber S.p.A.	-	3.0	-	6.8	-	-
Enel Group	0.3	218.8	-	6.5	-	731.7
Eni Group	-	1.6	-	1.0	-	56.8
Ferrovie Group	-	2.6	-	4.6	-	24.2
ANAS S.p.A.	0.2	0.1	-	2.3	-	-
Other related parties of MEF	0.4	-	-	-	0.1	-
Total other related parties	1.2	227.6	-	21.3	0.1	812.7
Pension funds:						
Fopen	-	-	-	0.4	-	-
Total pension funds	-	-	-	0.4	-	-
TOTAL	116.6	288.0	22.4	633.4	(58.7)	812.7

* 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.

The impact of related-party transactions or positions on the balance sheet and income statement is summarised in the following table:

STATEMENT OF FINANCIAL POSITION

(€m)

	31 DECEMBER 2020			31 DECEMBER 2019		
	TOTAL	RELATED PARTIES	SHARE %	TOTAL	RELATED PARTIES	SHARE %
Property, plant and equipment	12,755.2	116.6	0.9%	12,258.3	95.9	0.8%
Non-current financial assets	1,513.1	22.4	1.5%	1,344.1	24.0	1.8%
Other non-current assets	4.9	0.3	6.1%	4.1	-	-
Trade receivables	1,091.1	263.1	24.1%	1,160.3	434.0	37.4%
Cash and cash equivalents	2,451.9	(58.7)	(2.4%)	719.2	(174.0)	(24.2%)
Income tax assets*	3.2	24.3	759.4%	3.5	-	-
Other current assets	34.9	0.3	0.9%	26.3	-	-
Other non-current liabilities	332.8	29.2	8.8%	347.5	32.9	9.5%
Trade payables	1,884.5	578.0	30.7%	2,031.0	576.3	28.4%
Tax expense*	-	-	-	17.4	(21.0)	(120.7%)
Other current liabilities	278.0	26.2	9.4%	311.6	22.9	7.3%

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

INCOME STATEMENT

(€m)

	2020			2019		
	TOTAL	RELATED PARTIES	SHARE %	TOTAL	RELATED PARTIES	SHARE %
Revenue from sales and services	2,037.1	1,713.7	84.1%	1,973.3	1,668.6	84.6%
Other revenue and income	49.7	27.9	56.1%	81.2	45.3	55.8%
Raw and consumable materials used	3.0	0.1	3.3%	4.7	0.4	8.5%
Services	395.1	348.1	88.1%	378.3	329.5	87.1%
Personnel expenses	71.1	0.9	1.3%	60.3	0.7	1.2%
Other operating costs	30.5	0.2	0.7%	7.7	0.1	1.3%
Financial income	29.9	20.4	68.2%	19.2	9.0	46.9%
Financial expenses	(88.9)	(2.3)	2.6%	(82.8)	(0.3)	0.4%

The effect of cash flows with related parties is shown in the following table:

STATEMENT OF CASH FLOW

(€m)

	2020			2019		
	TOTAL	RELATED PARTIES	SHARE %	TOTAL	RELATED PARTIES	SHARE %
Cash flow from operating activities	958.9	53.0	5.5%	984.0	62.5	6.4%
Cash flow for investing activities	(1,305.5)	(20.6)	1.6%	(884.2)	(22.6)	2.6%
Cash flow from financing activities	2,079.3	-	-	(325.7)	(424.6)	130.4%

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 2020.

I. Notes to the statement of cash flows

Cash flow from **continuing operations** amounts to €958.9 million, with approximately €1,609.7 million in operating cash flow and an outflow of approximately €650.8 million generated by changes in net working capital.

The cash outflow for **investing activities** totals approximately €1,305.5 million and regards €1,010.5 million relating to investment in property, plant and equipment (excluding the right-of-use assets recognized in application of IFRS 16), €92.4 million invested in intangible assets, €121.2 million regarding the increase in government securities held and €102.9 million relating to the change in the value of investments, primarily reflecting the capital contribution paid to Terna Plus S.r.l. (up €70 million) and the capital increase carried out by Terna Crna Gora d.o.o. (up €35 million), after capitalised financial expenses of €10.1 million.

The net cash outflow for **shareholder transactions** amounts to €526.6 million, due primarily to payment of the final dividend for 2019 and the interim dividend for 2020 (totalling €517.1 million). As a result, net cash used in investing activities and to provide a return on equity during the year amounted to €1,832.1 million, partly covered by cash flow from continuing operations of €958.9 million. The remainder was funded through net debt, which over the course of the year rose €775.6 million compared with the previous year.

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

	31 DECEMBER 2019	CASH FLOW FROM FINANCING ACTIVITIES	CHANGE IN FV AND OTHER	(€m) 31 DECEMBER 2020
- Long-term borrowings (including current portion)	9,422.8	1,628.8	(43.0)	11,008.6
Net change deriving from financing activities	9,422.8	1,628.8	(43.0)	11,008.6

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, the first Circular 5 of 22 February 2019 “Transparency in the government grants system: an assessment of the regulations and interpretation guidance” and a second Circular 32 of 23 December 2019 “Enterprise and competition”, Terna has adopted the following basis of reporting for government grants:

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

In line with the above, the following table shows government grants collected/dispensed by Terna 2020:

GRANTS RECEIVED (PARAGRAPH 125-BIS)

BENEFICIARY ENTITY	GRANTOR			TYPE OF TRANSACTION	AMOUNT (€)	NOTE
	NAME	TAX CODE	VAT NUMBER			
TERNA S.p.A.	Sicily Regional Authority	80012000826	02711070827	STATE AID	1,650,334.48	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

GRANTS DISBURSED (PARAGRAPH 126)

GRANTOR	BENEFICIARY			AMOUNT (€)	NOTE
	NAME	VAT NUMBER	TYPE OF TRANSACTION		
TERNA S.P.A.	Cabinet Office	IT97018720587	DONATION	20,000	Donation to the Civil Protection Agency to fund the response to the Covid-19 emergency
TERNA S.P.A.	Cabinet Office	IT97018720587	DONATION	160,000	Terna for the Civil Protection Agency – Donation to fund the purchase of ventilators
TERNA S.P.A.	Palazzo Strozzi	IT04963330487	DONATION	30,000	Donation to Palazzo Strozzi - Committee 2020
TERNA S.P.A.	Save the Children Italia Onlus	IT07354071008	DONATION	20,000	Donation to Save The Children
TERNA S.P.A.	Fond.Pol. Univ.A.GEMELLI IRCCS	IT13109681000	DONATION	50,000	Creation of 50 new beds for ordinary Covid-19 patients
TERNA S.P.A.	Fond.Pol. Univ.A.GEMELLI IRCCS	IT13109681000	DONATION	30,000	Donation to fund 20 extra intensive care beds
TERNA S.P.A.	Fondaz. Accademia Naz. Santa Cecilia	IT05662271005	GIVING	10,000	Donation to Accademia Nazionale Santa Cecilia la Roma di Tosca
TERNA S.P.A.	Fondaz. Accademia Naz. Santa Cecilia	IT05662271005	GIVING	160,000	Gift in 2020 as a Founder member of the Fondazione Accademia Nazionale di Santa Cecilia
TERNA S.P.A.	Fondaz. Accademia Naz. Santa Cecilia	IT05662271005	GIVING	165,000	Gift in 2019 as a Founder member of the Fondazione Accademia Nazionale di Santa Cecilia
TERNA S.P.A.	Il Gazzettino SPA	IT02742610278	DONATION	10,000	Donation to Padua Hospital as part of the Il Gazzettino fundraising initiative
TERNA S.P.A.	Cabinet Office	IT97018720587	DONATION	61,064	Sum collected as a result of employees' donation of one hour's pay to fund the response to the Covid-19 emergency
TERNA S.P.A.	Ass.ne Comunità Papa Giovanni XXIII	IT01433850409	DONATION	10,000	Donation to fund the Christmas project
TERNA S.P.A.	Cepagatti Town Council	IT00221110687	DONATION	10,000	Support for the response to the socio-economic difficulties caused by the spread of Covid-19
Total				736,064	

M. Proposal for appropriation of profit for the year

Terna S.p.A.'s Board of Directors proposes to pay a total dividend of €541,692,844.00 for 2020, equal to €0.2695 per share, of which €0,0909 per share was declared in the form of an interim dividend on 11 November 2020.

The Board of Directors thus proposes to appropriate Terna S.p.A.'s profit for 2020, amounting to €687,571,266.41, as follows:

- €182,708,272.80 to cover payment of the interim dividend payable from 25 November 2020 to the holders of each of the ordinary shares outstanding after adjusting for the treasury shares held at the "record date" of 24 November 2020 (€138,704.31 was taken to retained earnings);
- €358,984,571.20 to pay a final dividend of €0.1786 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 23 June 2021, with an ex-dividend date for coupon 34 of 21 June 2021 (a record date, as defined by art.83-terdecies of Legislative Decree 58 of 24 February 1998, the Consolidated Law on Finance, of 22 June 2021). The treasury shares held as of the above record date will not participate in the distribution. The final dividend for 2020 attributable to the treasury shares held by the Company at the record date will be taken to retained earnings;
- €145,878,422.41 to be taken to retained earnings.

N. Events after 31 December 2020

More accurate, up-to-date and detailed data on Italian electricity consumption

On **5 January 2021**, after a year of working in close collaboration with all the electricity distributors, Terna completed the new **classification of Italian electricity consumption**, which is in line with the system adopted by ISTAT and the one defined at EU level. The national electricity consumption data published by Terna are broken down by economic activity and include province-level details. For the first time, the data has been reclassified by associating distributors' customers with the new ATECO2007 product code as opposed to the previous Atecue95 one.

Partnership between the Carabinieri police force and Terna to ensure the security of the national electricity grid

On **7 January 2021**, in the presence of the Commander General of the Carabinieri, General Giovanni Nistri, and Terna's Chief Executive Officer, Stefano Antonio Donnarumma, **an agreement was signed between the Carabinieri and Terna**, aimed at further **boosting physical protection of Italy's strategic electricity infrastructure**. Terna will supply an additional 675 state-of-the-art devices to the units directly involved in monitoring the infrastructure.

The new 150 kV Castrocucco - Maratea underground power line enters service

On **12 January 2021**, the **new 150kV Castrocucco - Maratea underground power line** in the province of Potenza entered service. Terna invested €15 million in the construction of the project, which involved around 20 companies, with a view to increasing the efficiency and reliability of the area's electricity system. Implementation of the project will ensure continuity of the electricity service in the area, even when some power lines are out of service due to maintenance or failure. The fruitful collaboration between Terna and local authorities, especially at provincial and municipal level, enabled optimum management of all phases of construction. The works, which began in August 2018 and were completed in December 2020, had no repercussions on the road network and traffic, which is particularly heavy during the summer.

Partnership between Terna and ENEA to develop new technologies for the electricity grid

On **14 January 2021**, Terna and ENEA, the Italian agency for new technologies, energy and sustainable economic development, launched a **partnership for research aimed at boosting the security and resilience of the high-voltage grid**. Via the use of innovative technologies, including artificial intelligence, sensors and IoT data analytics, Terna and ENEA will collaborate on the development of models and tools for the prevention and management of emergencies that affect infrastructure. These "capital-light" solutions work in synergy with grid development initiatives to ensure maximum effectiveness in managing potential critical situations linked to extreme weather events, air pollution and geological events.

Europe's electricity system secured thanks to Terna's swift intervention

On **15 January 2021**, Europe's electricity system was secured thanks to **Terna's swift intervention**. The Italian electricity grid managed by Terna reacted promptly to a sudden drop in frequency that affected the transmission systems of all the countries in continental Europe, thereby rapidly contributing to the gradual restoration of secure service and continuity of supply, without any consequences for users. With its world leading protection system in terms of performance, promptness and effectiveness, Terna activated the first level of system protection by disconnecting around 400 MW of consumption by so-called interruptible industrial customers from the grid. This action, in coordination with action taken by other European grid operators, enabled a rebalancing of continent-wide electricity frequency, thus preventing possible power cuts and widespread power outages.

Terna acquires the remaining 30% of the investee Avvenia the Energy Innovator S.r.l.

On **26 January 2021**, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., **completed the acquisition of the remaining 30% of Avvenia the Energy Innovator S.r.l.** from the minority shareholder, Avvenia S.r.l. for a consideration of €3,600,000. Avvenia has thus become a "sole shareholder" company wholly owned by Terna.

Terna included for the third year running in the Gender Equality Index 2021

On **27 January 2021**, Terna was **included for the third 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. Terna registered an above-average performance for the companies included in the index, as well as the subset of companies in the Utilities sector. With particular regard to disclosure, we scored 100/100, reflecting the focus on transparency and quality in our reporting. We also achieved excellent results in the assessments of the "Equal Pay and Gender Pay Parity" and "Inclusive Culture" categories.

Terna is the first Italian electric utility to join the Nasdaq Sustainable Bond Network

On **28 January 2021**, Terna was the **first Italian electric utility to join the Nasdaq Sustainable Bond Network**, the sustainable finance platform managed by Nasdaq that brings together investors, issuers, investment banks and specialised organisations. The projection of the Terna Driving Energy logo on the Nasdaq Tower in Times Square, New York, recognises Terna's firm commitment as the ecologic transition enabler of a grid that is increasingly reliable, efficient, technology-driven and, above all, green. "Terna is the director of the Italian energy system: sustainability is naturally at the heart of our mission, we were pioneers in the green bond market, and today we are delighted to join the Nasdaq network" says Stefano Antonio Donnarumma, Chief Executive Officer of Terna.

Equigy welcomes Austrian Power Grid as fifth shareholder

On **1 February 2021**, after APG (Austrian TSO) became the fifth European transmission system operator to take a stake in Equigy, **Terna S.p.A.'s interest in Equigy decreased from 25% to 20%**.

Terna is the number one Electric Utility in the Dow Jones Sustainability Index World

For the third year running, on **2 February 2021**, Terna was ranked **number one Electric Utility in the Dow Jones Sustainability World Index for sustainability performance**. This is the outcome of the recent review conducted by the sustainability rating agency, SAM - S&P Global, on which the update of the Dow Jones Sustainability indices is based. Overall, Terna scored 90/100, the highest score among electricity utilities (sector average: 43/100). This ranking is confirmed in 10 of the 23 assessment criteria applicable to the Company: Terna came first in the economic criteria for Materiality, Policy Influence, Innovation Management, and Privacy Protection; in the environmental criteria for Environmental Reporting, Transmission and Distribution and in the social criteria for Social Reporting, Human Capital Development, Talent Attraction and Retention, and Corporate Citizenship and Philanthropy.

Winner of the architectural competition for the future Suvereto power station announced

On **3 February 2021**, the Florentine firm, Pierattelli Architetture, was **declared winner of the architectural competition for the future Suvereto power station**, which is part of the project to modernise Sa.Co.I.3, the electricity link between Sardinia, Corsica and the Italian mainland. The contest was devised in consultation with Suvereto Town Council, with the aim of making the infrastructure blend in harmoniously with the landscape. The architectural proposals were examined and evaluated by a panel of experts on the basis of several criteria, including minimising environmental impact, innovation, originality and aesthetic character, restoration of vegetation, construction time and ease of maintenance of the project. The winning project was deemed to be in keeping with and harmoniously blended into the landscape.

Terna launches public consultation on the Tyrrhenian Link

On **2, 3 and 4 February**, a public consultation **was held on the Tyrrhenian Link** - the undersea power line that will link Campania to Sicily and Sicily to Sardinia - via a virtual Terna Incontra meeting dedicated to the citizens of Battipaglia, Eboli and Termini Imerese. In particular, the various locations of the electricity converter substation in the Municipality of Eboli and the converter station were presented. The Tyrrhenian Link is a strategic project for the Italian electricity system, in which Terna will invest around €3.7 billion over the next few years and that will involve 250 companies. By increasing the electricity exchange capacity between Sicily, Sardinia and Campania, the new infrastructure will facilitate full integration between the different market areas, and will bring important benefits in terms of efficiency. It will also enable optimum use of the ever-growing flows of energy from renewable sources, and improve the reliability of the grid and the entire system. The new interconnection is a state-of-the-art project involving the construction of two undersea power lines (one from Campania to Sicily, and the other from Sicily to Sardinia), with a total of 950 km of 1000 MW direct current connection.

Terna energised the new “invisible” power line between Cortina and Auronzo

On **4 February 2021**, Terna energised **the new 24-km “invisible” power line that connects Cortina d’Ampezzo with Auronzo di Cadore**, in Veneto. The high-tech, completely underground infrastructure is part of a wider plan to modernise and reorganise the electricity grid in the Upper Belluno area, for which Terna has invested €60 million. Completed in record time - just 13 months - the project will benefit the national electricity system and ensure secure operation of the World Ski Championships in Cortina d’Ampezzo from 7 to 21 February, a sporting event of global importance. The power line runs for 15 km in the Municipality of Cortina d’Ampezzo and 9 km in the Municipality of Auronzo di Cadore, between the Zuel and Somprade electricity substations, respectively, and is strategically important for a large area of north-eastern Italy. Together with the new Auronzo di Cadore substation (at Cima Gogna), which is currently under construction, and the upgrade of the existing 132kV and 220kV grid, the new cable will help to increase the mesh and improve the efficiency, reliability and resilience of the local electricity grid, which is vulnerable to outages and has been subjected to severe stress caused by the extreme weather conditions experienced in recent years.

Reorganisation of power lines in the Municipality of Cepagatti underway

On **5 February 2021**, Terna completed the planning phase for the first phase of the **reorganisation of power lines in the Cepagatti area**, in the province of Pescara. This initiative will enable the demolition of 2.6 km of existing high-voltage overhead lines that emerge from the Villanova di Cepagatti electricity substation, and removal of 11 pylons which will be replaced with underground cable connections over a distance of approximately 1.5 km. The project will now be sent to the Ministry for Economic Development as part of the consents process. The reorganisation project is part of a broader plan for the Piano Marino area, which is the outcome of ongoing dialogue and discussion between Terna and Cepagatti Town Council. Over the next few months, Terna will also request authorisation from the Ministry for Economic Development to relocate the 380kV "Villanova-Gissi" line built in the 1970s.

Terna included in the global sustainability Gold Class for the seventh year running

On **8 February 2021**, Terna was **included in the global sustainability Gold Class**. Included in the Gold Class for the seventh time, with an overall score of 90/100, Terna is among the top-ranking electricity utilities (average score for the sector: 43/100) in the Sustainability Yearbook 2021, the leading publication produced by S&P Global, an international rating agency that has assessed the sustainability performance of over 7,000 of the world's major companies for the Dow Jones Sustainability Index.

The new 150kV Porto Torres 2 power plant in the province of Sassari enters service

On **10 February 2021**, the **new 150kV Porto Torres 2 power plant (Sassari)**, in north-west Sardinia, entered service. The new plant, in which Terna has invested over €6 million, was linked to the high-voltage grid via two overhead connections inserted into the existing Fiume Santo - Porto Torres 1 line. The power plant is located in a particularly windy area, which therefore features several wind farms. It will be possible to immediately connect some of these, with a capacity of less than 10 MW, to the Nurra 2 primary substation via the new plant. Moreover, in the future, the power plant will enable connection of the 42.5 MW wind farm that is already authorised and soon to be built in the Porto Torres area.

Terna launches the Adriatic Link: over €1 billion in investment for the new undersea cable between Abruzzo and Marche

On **17 February 2021**, Terna launched a participatory design process for **the Adriatic Link, the new undersea cable between Abruzzo and Marche**, in which the national electricity grid operator will invest over €1 billion, involving around 120 companies either directly involved in the project or in the supply chain. The new interconnector, which is approximately 285 km long and completely "invisible", will comprise an undersea cable, two underground cables - which therefore have no environmental impact - and two converter stations located close to the respective existing electricity substations at Cepagatti (Abruzzo) and Fano (Marche). This strategic project for the national electricity system is at the cutting edge of technology and environmental sustainability. The infrastructure will promote the development and integration of renewable energy sources, thereby contributing to decarbonisation of the Italian energy system, in line with the objectives set out in the National Integrated Energy and Climate Plan. It will also improve capacity for exchanging electricity between different parts of Italy, especially between Centre-South and Centre-North, by increasing the efficiency, reliability and resilience of the electricity transmission grid by approximately 1000 MW.

Completion of the new San Giuseppe - Portoferraio underground power line on the island of Elba begins

On **18 February 2021**, completion of the **new San Giuseppe - Portoferraio underground power line** on the island of Elba began. Work has begun on modernising the old 132kV San Giuseppe - Portoferraio power line on the island of Elba. In particular, after building the first part of the 6-km cable link, Terna started work on completion of the second 9-km section, which is also underground. On completion of these works, involving investment by Terna of more than €13 million, clear benefits will ensue in terms of the security and reliability of the electricity system in the area and on the entire island of Elba, which registers high electricity consumption during the summer. Construction of the new power line will also have a positive impact on the landscape, by enabling demolition of 10 km of old overhead power lines and 49 pylons in the two municipalities involved, including 40 in Portoferraio and 9 in Rio.

Terna is one of the 50 most sustainable companies in the world

On **18 February 2021**, Terna was **recognised as one of the 50 most sustainable companies in the world at the 2020 Seal Business Sustainability Awards**. In particular, the award recognises Terna's overall corporate sustainability performance with regard to leadership, transparency and sustainable business practices. Specifically, Terna was included in the 2020 Seal Organisational Impact Award category, which recognises overall corporate sustainability performance and selects the best 50 companies worldwide. The winners were selected by combining two types of ESG (Environmental, Social and Governance) data: Corporate Sustainability Assessment (CSA, now included in the S&P Global ESG Scores) and the CDP A-List (formerly Carbon Disclosure Project). The CSA thus registered Terna's excellent performance in the Dow Jones Sustainability Index which, for the third year running, ranked the Company number one in the Electric Utilities sector of the Dow Jones Sustainability World Index, with a score of 90/100, and the consequent award of the S&P Gold Class for the seventh year running. The A-List figure, on the other hand, assessed the increase in the score awarded to Terna by CDP, which rose to A-/A in the latest edition.

Terna and E-Distribuzione partnership regarding the security of the power grid on the Amalfi Coast

On **25 February 2021**, work on **extraordinary maintenance of the 60kV power line** connecting the Lettere primary substation and the Agerola substation, which provides power to the **Amalfi Coast**, was completed in just 10 days by Terna and **E-Distribuzione**. This intervention was needed to ensure the continuity and security of the electricity supply to the municipalities of Agerola, Pimonte, Amalfi, Atrani, Conca dei Marini, Furore, Minori, Positano, Praiano, Ravello and Scala. The work, which involved around 80 technical and operational staff, was completed with the total replacement of the infrastructure (including the installation of anti-salt insulators) and conductors (which date back around 50 years), as well as the ground wires along the 13-km line.

Process of obtaining consents from the Ministry for Economic Development for the planned “Rationalisation of power lines in the Municipality of San Giovanni Teatino” begins

On **4 March 2021**, it was announced that [the process of obtaining consent from the Ministry for Economic Development for the planned “Rationalisation of power lines in the Municipality of San Giovanni Teatino”](#) will begin by the end of 2021. The project is linked to the entry into service of the Italy–Montenegro interconnector. In implementation of the Memorandum of Understanding of 16 September 2011 and the Agreement of 16 October 2015 entered into by the Town Council and Terna, the work will involve putting approximately 2.4 km of the “132kV FS Pescara-FS Roseto” power line under ground, thereby permitting removal of approximately 2 km of the existing overhead line and 9 pylons. The demolition of 2 km of overhead line in the Municipality of San Giovanni Teatino is part of a wider rationalisation plan linked to the Italy-Montenegro interconnector, which envisages the removal of 2.6 km of power line and 11 pylons in the Municipality of Cepagatti (PE).

Terna and CONOU form partnership to promote environmental sustainability and the circular economy

On **5 March 2021**, [Terna and CONOU](#), the National Consortium for the Management, Collection and Processing of Waste Mineral Oils, launched a [partnership to promote environmental sustainability and the circular economy](#). Under a memorandum of Understanding, Terna and CONOU will work together to develop a joint action plan for a more efficient and effective way to collect and treat waste mineral and synthetic oils used by the electricity company at its various sites. The aim is to guarantee and encourage their collection by companies with specialist expertise in environmental protection. In line with its strategic objectives, the agreement will enable Terna to strengthen its commitment to the correct disposal of industrial waste, helping to further improve the way in which the mineral and synthetic oils used in managing the electricity grid at various sites throughout the country, are handled by ensuring their collection by companies selected and certified by CONOU.

Ministry for Economic Development issues consents for new 150kV Pontecorvo electricity substation

On **5 March 2021**, [the Ministry for Economic Development issued the consents for the new 150kV Pontecorvo electricity substation](#) in the province of Frosinone, designed to improve the flexibility and efficiency of the local grid. The project, in which Terna expects to invest approximately €8.5 million, will provide work for 25 companies and workers and will occupy an area of approximately 14,000 square metres. The substation will then be connected to the existing grid via connectors of about 1.5 km in length, designed in such a way as not to interfere with the area’s environmental and natural heritage. Once the infrastructure has been completed, it will be possible to demolish approximately 1 km of existing power line. During design and construction of the substation, which will last approximately 20 months, Terna will use a series of social and environmental indicators that will enable it to assess the impact on the local area, in keeping with the objectives of protecting the environment and making rational use of natural resources.

Terna recognised as a global leader in asset management

On **11 March 2021**, it was announced that **Terna had been recognised as a global leader in asset management**. The biannual ITAMS (International Transmission Asset Management Study) for 2020, conducted by the consulting firm, UMS Group Europe, looked at a number of the world's foremost grid operators (in Europe, Asia and the Middle East), judging Terna to be an example of **best practice and performance for the efficiency and effectiveness of its infrastructure planning and management process**. The qualitative and quantitative assessment carried out by ITAMS is in line with international guidelines and the ISO 55001:2014 standard, which sets the requirements for optimal asset management system within an organisation. Terna, the grid operator with the largest number of assets among the companies assessed, achieved the highest overall score, confirming the ongoing improvement achieved with respect to previous studies. Terna's asset management performance was also ranked above average in all the areas assessed.

Terna: Standard Ethics upgrades rating to “EE-” from “E+”

On **29 March 2021**, **Standard Ethics upgraded Terna's corporate rating to “EE-” from the previous “E+”**, with a “positive” long-term vision. Terna S.p.A. is focused on the challenge of voluntarily aligning itself with the international ESG (Environmental, Social and Governance) indications provided by the UN, OECD and European Union, noted Standard Ethics.

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 2020.

(€)

	ENTITY PROVIDING SERVICE	FEES DUE FOR THE YEAR
Audit of the accounts and financial statements	Deloitte & Touche S.p.A.	161,981
Attestation services and other services ⁷	Deloitte & Touche S.p.A.	59,816
Total		221,797

⁷ Attestation and other services include services linked to the review of the regulatory accounts, limited assurance of the Non-financial Statement, the opinion on the payment of interim dividends 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

"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 2020.
2. The administrative and accounting procedures adopted in preparation of the separate financial statements for the year ended 31 December 2020 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 2020:
 - 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, 24 March 2021

Chief Executive Officer
Stefano Antonio Donnarumma

(original signed)

Manager responsible for financial reporting
Agostino Scornajenchi

(original signed)



Report

of the Board of Statutory Auditors to the
Annual General Meeting of Terna S.p.A.'s shareholders

BOARD OF STATUTORY AUDITORS' REPORT TO THE ANNUAL GENERAL MEETING
OF TERNA S.P.A.'S SHAREHOLDERS pursuant to article 153 Legislative Decree 58 of
24 February 1998 and article 2429 of the Italian Civil Code

Dear Shareholders,

This report, prepared pursuant to art. 153 of Legislative Decree 58/1998 (the "CLF") and art. 2429 of the Italian Civil Code, describes the activities carried out by the Board of Statutory Auditors of Terna S.p.A. ("Terna" or also the "Company") during the year ended 31 December 2020. The report has been prepared in compliance with the related 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 the CONSOB (the *Commissione 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 the statutory audit, as provided for 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's 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 2020, the current and previous Board of Statutory Auditors performed its responsibilities, holding 10 meetings. During the year, the Chairman of the Board of Statutory Auditors or its members also attended 13 meetings of the Board of Directors, 6 meetings of the Audit, Risk, Corporate Governance and Sustainability Committee (hereinafter the "Audit and Risk Committee"), 1 meeting of the Nominations Committee, 6 meetings of the Remuneration Committee and 1 meeting of the Related Party Transactions Committee, in addition to the Annual General Meeting of shareholders held on 18 May 2020.

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 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.

Among key events during the year, the Board of Statutory Auditors believes it appropriate, in view of their significance, to note the following, referring readers to the Report on Operations for more detailed information:

- The 2021-2025 Industrial Plan: approved by the Board of Directors on 19 November 2020;

- Bond issues: two bond issues amounting to €500 million each in July 2020 and September 2020, with terms to maturity of 12 and 10 years, respectively, and both fixed-rate;
- ESG-linked Term Loans: Terna has obtained three ESG-linked term loans amounting to €500 million;
- Brugg Kabel: on 29 February 2020, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the acquisition of a 90% interest in Brugg Kabel AG (a Brugg group company), one of the leading European operators in the terrestrial cable sector;
- The entry into service of new power lines: a total of 112 km of new lines entered service in 2020;
- Interim dividend: on 11 November 2020, the Company's Board of Directors, having obtained the Independent Auditors' opinion required by article 2433-bis of the Italian Civil Code, decided to pay an interim dividend of €0.0909 per share, amounting to a total payout of €182.7 million. The dividend was payable from 25 November 2020, with an ex-dividend date for coupon 33 on 23 November 2020;
- 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.

Among events occurring after the end of the reporting period, the Board of Statutory Auditors believes it appropriate to note:

- the appointment of the Head of Internal Audit: approved by the Board of Directors on 17 February 2021 with effect from 1 April 2021;
- further developments in the Brugg transaction: 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 SpA.

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 of its workers, intensifying the exchange of information on this aspect with the

Company's management and the Independent Auditors, as required by Warning Notice 1/21 issued by the 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 article 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 in recent months 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.

The integrated report prepared by the Directors (the report on operations), 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 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 Nominations 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.

On 1 December 2020, the Head of Internal Audit left the Company and was replaced on an interim basis, given that there was no succession plan, by the Chairwoman of the Board of Directors, as the Director with responsibility for the internal control system, whilst awaiting the arrival of the new Head of Internal Audit, appointed by the Board of Directors on 17 February 2021. The new Head took up their position from 1 April 2021.

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 24 March 2021.

On 24 March 2021, 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 2020.

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

Intragroup or related party transactions are shown in the notes to the financial statements for 2020, under "Related party transactions", showing transactions with the parent, subsidiaries and associates.

The Board of Statutory Auditors oversaw compliance of the Procedure for Related Party Transactions with the legislation in force and its correct application, and the procedure for its revision, as approved by the Board of Directors on 16 December 2020, in line with the new regulations due to come into effect in 2021.

2. INTERNAL CONTROL AND AUDIT COMMITTEE

Pursuant to art. 19 of Legislative Decree 39/2010, the Board of Statutory Auditors is also assigned the role of Internal Control and Audit Committee and, in this role, we 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 our 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 2020 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, also with regard to the operational difficulties arising during the final stages of the audit, due to the worsening health emergency caused by Covid-19. 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) began an in-depth examination of the Audit Quality Indicators.

The financial statements for the year ended 31 December 2020, 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 24 March 2021, were at the same time made available to the Board of Statutory Auditors in view of the Annual General Meeting of shareholders called for 30 April 2021. On 24 March 2021, 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 8 April 2021, the Independent Auditors issued their audit reports, pursuant to art. 14 of Legislative Decree 39/2010 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 2020, prepared in compliance with the International Financial Reporting Standards - IFRS adopted by the European Union.

In terms of opinions and attestations, in their audit report on the 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

position of the Company and the Group at 31 December 2020 and of the results of operations and cash flows for the year then ended, in compliance with the International Financial Reporting Standards adopted by the European Union, and the measures introduced in implementation of art. 9 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 2020 and the 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 documents that make up the financial statements and its 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 the related environment acquired during their audit activities, they had nothing to report;
- confirmed the Directors’ approval of the Non-financial Statement.

On 8 April 2021, 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 2020, as described in the Annual Report for 2020, prepared in accordance with art. 149-*duodecies* of the Regulations for Issuers.

The fees for these engagements amount to €59,816 and break down as follows (in €):

- | | |
|--|--------|
| - audit of the unbundling for ARERA | 8,055 |
| - opinion on payment of the interim dividend | 16,370 |

- assurance of the sustainability report/non-financial statement	15,747
- issue of EMTN comfort letters and other documents	19,644

3. OTHER ACTIVITIES

3.1 Method for effective implementation of corporate governance rules

In carrying out our 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) the procedures for General Meetings of shareholders; (v) shareholder rights and how they are exercised; (vi) the 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 24 March 2021.

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.

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 24 March 2021 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 key management personnel, providing, where required by law, the related opinions. On 24 March 2021, the Board of Directors, on the recommendation of the Remuneration Committee,

approved the “Annual Remuneration Report”, prepared pursuant to art. 123-ter of the CLF and in compliance with art. 6 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 2020.

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

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 our 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 24 March 2021, as a separate document with respect to the report on operations for the year ended 31 December 2020.

The Independent Auditors issued their report on the NFS pursuant to art. 3, paragraph 10 of Legislative Decree 254/2016 on 8 April 2021. 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 2020 has not been prepared, in all material aspects, in compliance with the requirements of articles 3 and 4 of the above decree 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 our 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 24 March 2021. 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 on the whole.

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 2020 and on the appropriation of profit for the year of €687,571,266.41 as proposed by the Board of Directors.

Rome, 8 April 2021

The Board of Statutory Auditors

Mario M. Busso (Chairman)

Raffaella Fantini (Standing Auditor)

Vincenzo Simone (Standing Auditor)

Independent auditor's report

pursuant to article 14 of Legislative Decree 39 of 27
January 2010 and article 10 of the Regulations (EU)
537/2014 - Separate financial statements for the year
ended 31 December 2020

**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 2020, 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union 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.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.

Codice Fiscale/Registro delle Imprese di Milano Monza Brianza Lodi n. 03049560166 - R.E.A. n. MI-1720239 | Partita IVA: IT 03049560166

Il nome Deloitte si riferisce a una o più delle seguenti entità: Deloitte Touche Tohmatsu Limited, una società inglese a responsabilità limitata ("DTTL"), le member firm aderenti al suo network e le entità a esse correlate. DTTL e ciascuna delle sue member firm sono entità giuridicamente separate e indipendenti tra loro. DTTL (denominata anche "Deloitte Global") non fornisce servizi ai clienti. Si invita a leggere l'informativa completa relativa alla descrizione della struttura legale di Deloitte Touche Tohmatsu Limited e delle sue member firm all'indirizzo www.deloitte.com/about.

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 2020, the Company accounts in “Property, Plant, and Equipment” and “Intangible Assets”, respectively equal to Euro 12.755 million and Euro 286 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 1.134 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 2020 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 “10. Property, Plant, and Equipment “ and “12 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;
- 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 assets 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.

Other aspects

The financial statements of Terna S.p.A. for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those statements on 16 April 2020.

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 1 January 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 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 2020, 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 2020 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 2020 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
8 April 2021

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

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www.terna.it

Mercurio GP
Milan

Strategic advisory

Creative concept

Graphic design

Layout

Editing

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