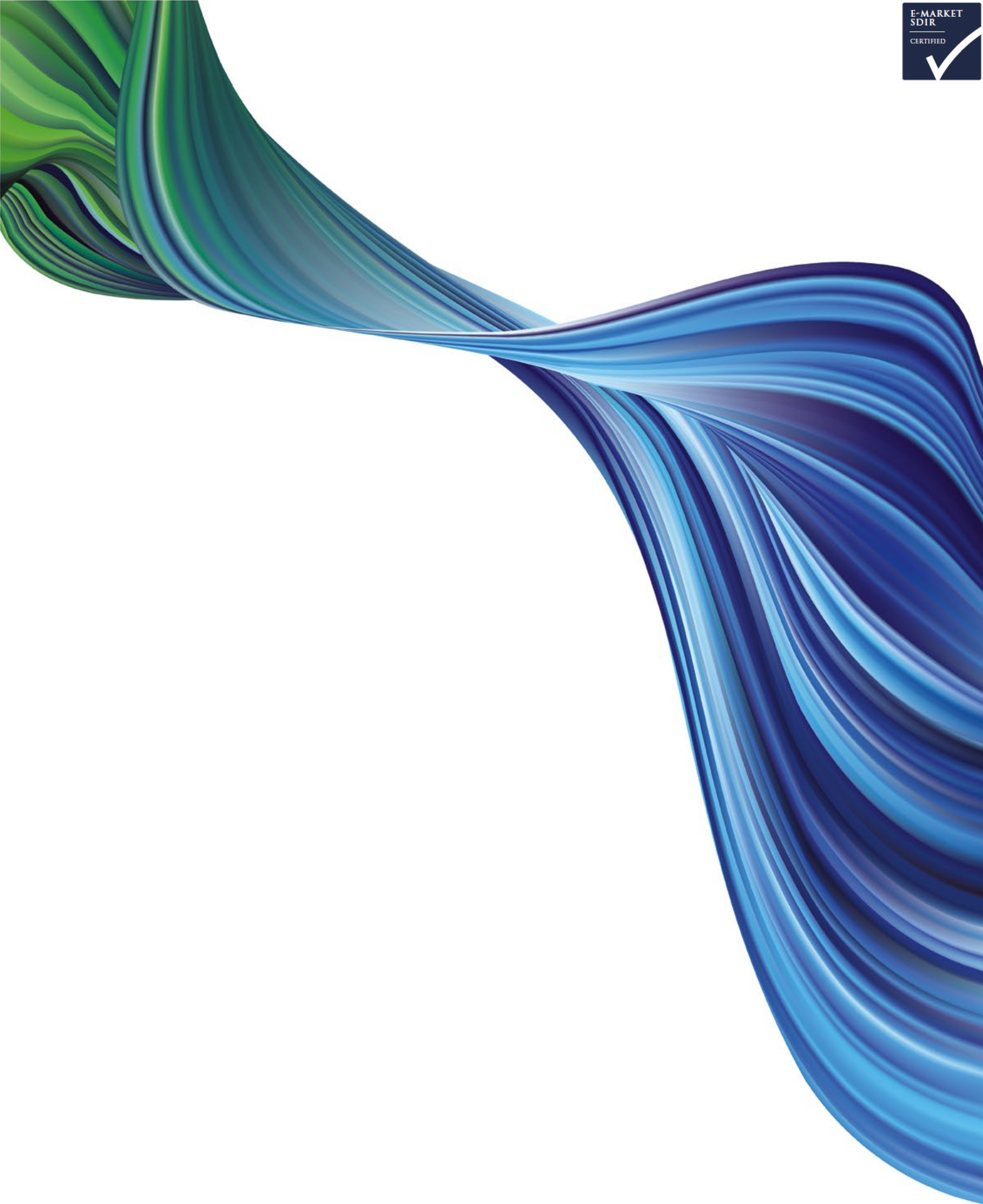


2021

HALF-YEAR REPORT
30 JUNE 2021





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.



Terna's share price

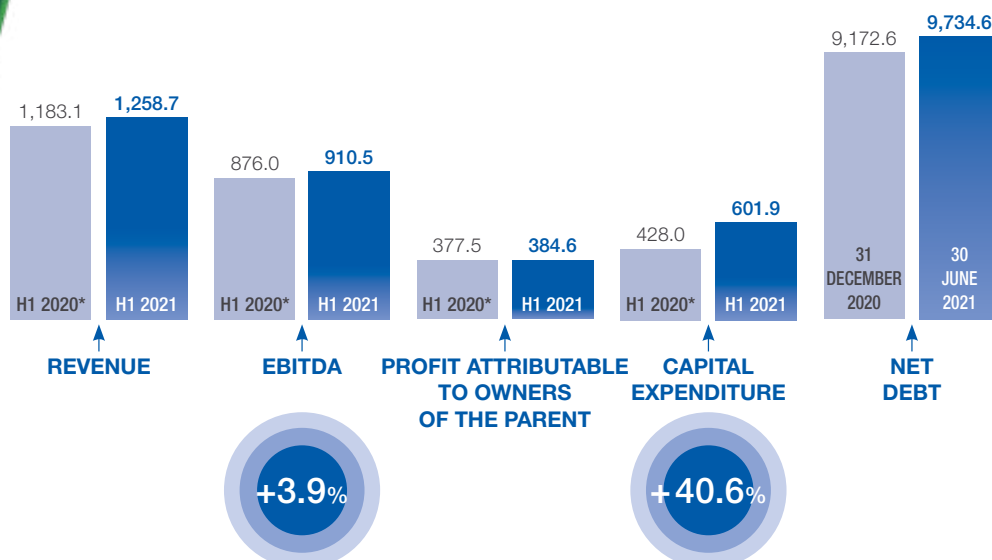
€ **6.284** per share at 30 June 2021
 versus € **6.118** per share at 30 June 2020



4,923
EMPLOYEES
 at 30 June 2021

Financial highlights

(€m)



* Figures published in the Half-year report for 2020.

About Terna

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

In our role as Transmission Operator, we conduct **grid planning, development and maintenance activities**, bringing together expertise, technology and innovation to optimise high-voltage electricity transmission. 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 as a provider of **"dispatching" and fulfilling the role of System Operator for Italy's electricity system**.

We have a public service role, crucial to ensuring the country's power supply and maintaining a balanced and secure electricity system.

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 ecological 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 87% 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

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CROSS-BORDER
INTERCONNECTIONS

~ 75 thousand 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

Terna and the Covid-19 emergency

Seventeen months on from the beginning of the Covid-19 pandemic, despite Italy's ongoing health emergency, there are encouraging signs that the country is on the road to recovery.

A major role in this turnaround in the country's fortunes has been played by the large-scale vaccination programme, launched in January 2021 with the first doses given to healthcare workers. The Government's aim is to achieve herd immunity for 80% of the Italian population by 30 September of this year. At the end of the first half, 31.7% of people over the age of 12 have received two doses of a vaccine, whilst over 85% have received their first dose.

Against this backdrop, marked, on the one hand, by ongoing concerns – above all regarding the spread of different variants of the virus – and, on the other, by realistic hopes that we are coming to the end of the pandemic, Terna is continuing to apply all the measures adopted since February 2020.

During the initial phase of the pandemic, the Company had to act quickly to adapt its operational processes to continue to ensure that we could remain fully operational and able to provide the **essential good represented by continuity of the electricity service** throughout Italy, whilst at the same time doing everything possible to **protect the health and ensure the safety of our operational personnel** and of **everyone who works for us**. This was followed, in the second half of 2020, by the restart of work on the various construction projects halted by the initial lockdown. One year on, Terna is continuing to focus attention on prevention by raising awareness, providing information and through our **“Sicuri Insieme”** campaign. At the same time, with an eye on preparing for the future, the Company is focusing on the adoption of a new way of working in what is commonly referred to as the “new normal”, having embarked on a specific reorganisation plan that we have called **NexTerna**.

During the first half of 2021, all our operating activities were conducted in full compliance with the measures implemented at the beginning of the pandemic. This was accompanied by careful management of the number of people using our offices, with an average 30% of the total coming into work, whilst most of our administrative staff continued to **work from home**. This latter measure has been extended from time to time in line with the measures introduced by the relevant authorities.



The **“Sicuri Insieme”** campaign continues to play a concrete role in supporting efforts to protect the health and safety of all our employees. This enables anyone who wishes to have a free molecular test once a month at their place of work. Approximately 11,000 tests were carried out during the first half.

At the beginning of April, as the vaccination campaign for people under 60 was about to begin, the Company organised a live-streamed event that concluded with a Q&A session with those watching via video link. The speakers at the event, entitled **“Covid-19: perché il vaccino? La parola agli esperti”** (“Covid-19: why have the vaccine? What the experts think”), were leading experts in the field: Nicola Petrosillo (Head of the Department responsible for Clinical Studies and Research into Infectious Diseases at the “Lazzaro Spallanzani” National Institute for Infectious Diseases in Rome) and Marco Marchetti (Psychiatrist and Psychoanalyst, Professor of Forensic Medicine and Forensic Psychology at the University of Molise).

At the same time, work has started on the above-mentioned **NexTerna** initiative, the cultural transformation announced to the market when we presented our “2021-2025 Industrial Plan” last November. The project aims to reshape the way we work by harnessing the potential offered by new technologies and the growing digitalisation of processes in order to boost workforce involvement, enhance employees’ sense of responsibility and ensure a sustainable work-life balance.

Highlights



On **7 July 2021**, Terna presented the **2021 Development Plan** for the national transmission grid. As part of the post-Covid-19 **National Recovery and Resilience Plan (NRRP)**, we will be called on to plan, authorise and deliver an investment programme without precedent in Italy's recent history. It is imperative that we are able to identify rapid and effective solutions in order to meet our decarbonisation targets, which will include making use of the funds made available by the European Union.

This has led Terna to further accelerate investment in projects that are key to the future of the electricity system, with capital expenditure due to **exceed €18 billion** over the next ten years.

Infrastructure entering service

A total of 35 km of new power lines **entered service**, 9 electricity substations were built and/or enlarged and a further 2 substations were purchased in the first half of 2021.

Tyrrhenian Link

Consultation between Terna and the relevant local authorities regarding the Tyrrhenian Link began at the start of May. The new electricity infrastructure will involve the laying of two submarine cables connecting Sicily with Sardinia and the Italian mainland to create a **950-km long connection**, consisting of 1,000 MW direct current power lines and costing a total of approximately €4 billion.

New approach to Resilience 2.0

A **public webinar with ARERA and RSE** was organised on 5 May to discuss the new probability-based method for assessing projects designed to boost the resilience of the grid. The new approach will form the basis for the plan to increase resilience in the coming years.

AWARDS AND SUSTAINABILITY



Terna has been included for the third year in the **Bloomberg Gender Equality Index (GEI)**.

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

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

Terna is acknowledged as one of the **50 most sustainable businesses in the world** at the **2020 Seal Business Sustainability Awards**. **Standard Ethics** has assigned the Company a rating of "EE-" in recognition of Terna's positive long-term vision.

The biannual ITAMS for 2020 judged Terna to be a **global leader in asset management**, setting an example of best practice and performance in recognition of the efficiency and effectiveness of its infrastructure planning and management process.

At the end of May, Terna was also ranked **"Best in Media Communication 2020"** by Fortune Italia in collaboration with Eikon Strategic Consulting, in recognition of the clarity and quality of content and the readily accessible and comprehensive nature of the information provided.

On 8 June, the **Euro Medium Term Note (EMTN) Programme** was renewed and **increased to €9 billion**.

FINANCE

On 16 June, a **new green bond worth €600 million** was issued. The bonds have a term of eight years and pay an effective interest rate of 0.398%.

On 13 July, a new **loan of €300 million was obtained from the European Investment Bank**. The loan has a term of approximately 22 years.

On 16 July, **Terna launched our first Euro Commercial Paper Programme**. The programme has a duration of ten years and aims to raise up to €1 billion.

BUSINESS ENABLERS

188 personnel added in the first half of 2021 in implementation of the investment programme including in the Driving Energy Industrial Plan for the period 2021-2025.

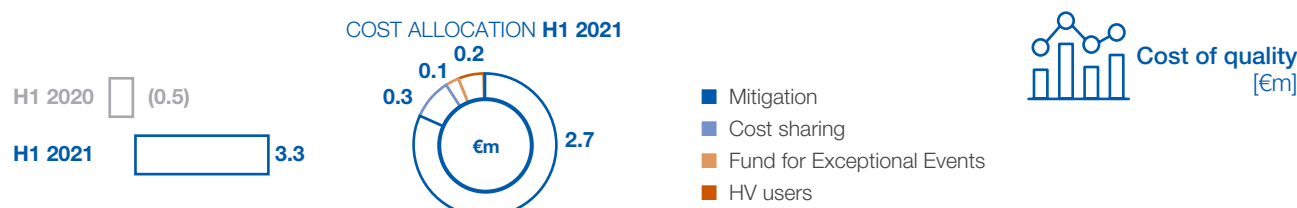
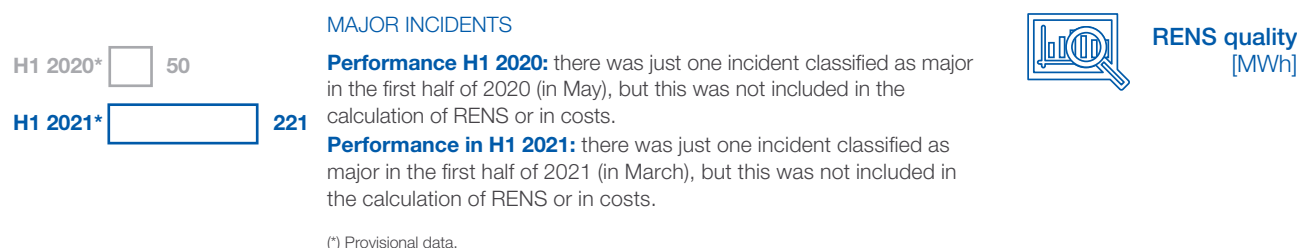
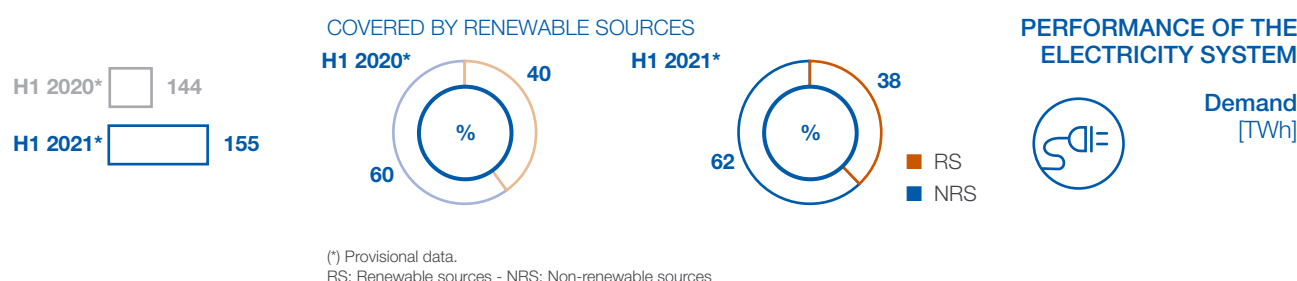


OUR PEOPLE

The Luiss Business School's **Data Girls project** was nominated the winning team in the Energy Efficiency challenge launched by Terna and Avvenia.

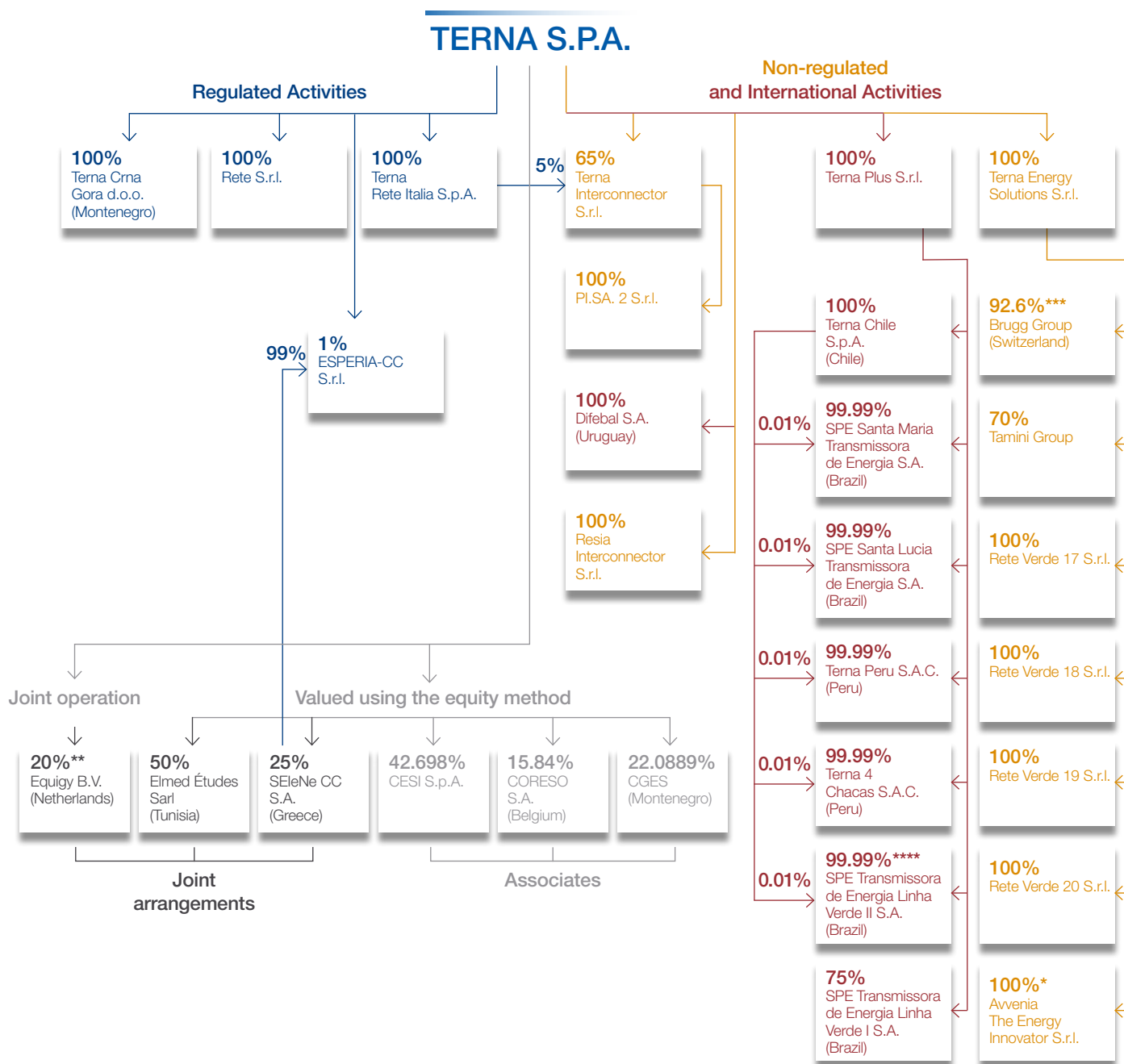


INNOVATION



Structure of the Group

The structure of the Terna Group at 30 June 2021 is shown below.



Compared with 31 December 2020:

* On **26 January 2021**, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the acquisition of the remaining 30% of Avvenia the Energy Innovator S.r.l. from the minority shareholder, Avvenia S.r.l.. Avvenia the Energy Innovator S.r.l. has thus become a "sole shareholder" company wholly owned by Terna.

** On **1 February 2021**, after APG (the Austrian TSO) became the fifth European transmission system operator to enter into partnership with Equigy, Terna S.p.A.'s interest in Equigy decreased from 25% to 20%.

*** The reorganisation of the Brugg Group, designed to take full advantage of the group's distinctive expertise in terrestrial cables and of synergies with the Terna Group's businesses, was completed on **31 March 2021**. As a result, Terna S.p.A.'s interest in the Brugg Group has increased from 90% to 92.6%.

**** On **10 June 2021**, Terna, acting through its subsidiaries, Terna Plus S.r.l. and Terna Chile S.p.A., completed the acquisition of the remaining 25% interest in the Brazilian-registered company, SPE Transmissora de Energia Linha Verde II S.A., held by the minority shareholder, Construtora Quebec. SPE Transmissora de Energia Linha Verde II S.A. is now 99.999994% owned by Terna Plus S.r.l., with the remaining shares held by Terna Chile S.p.A..



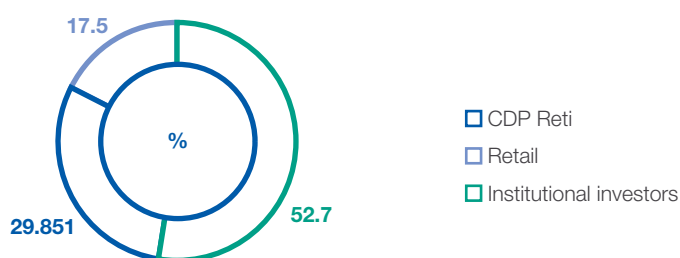
Shareholder structure

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.

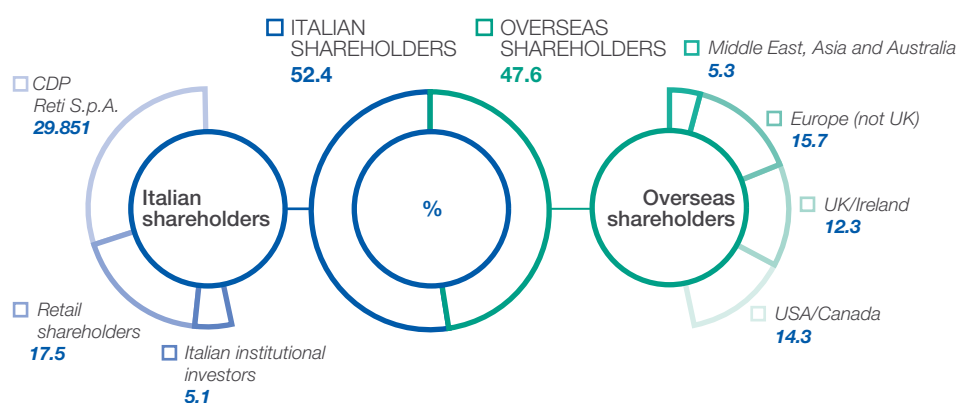
Periodic surveys carried out by the Company show that 52.4% of Terna's shares are held by Italian shareholders, with the remaining 47.6% held by overseas institutional investors, primarily from Europe (excluding the UK) and the USA.

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

SHAREHOLDERS BY CATEGORY



SHAREHOLDERS BY GEOGRAPHICAL AREA AND CATEGORY

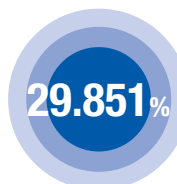


The Parent Company's buy back of **1,569,292 own shares** (equal to 0.078% of the share capital) was completed in June at a total cost of approximately €10 million. The shares have been purchased to service the Performance Share Plan 2021-2025.

Major shareholders¹

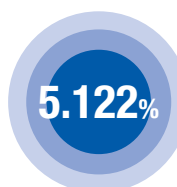
CDP RETI S.p.A.²

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



LAZARD ASSET MANAGEMENT LLC

(as a discretionary asset manager): _____

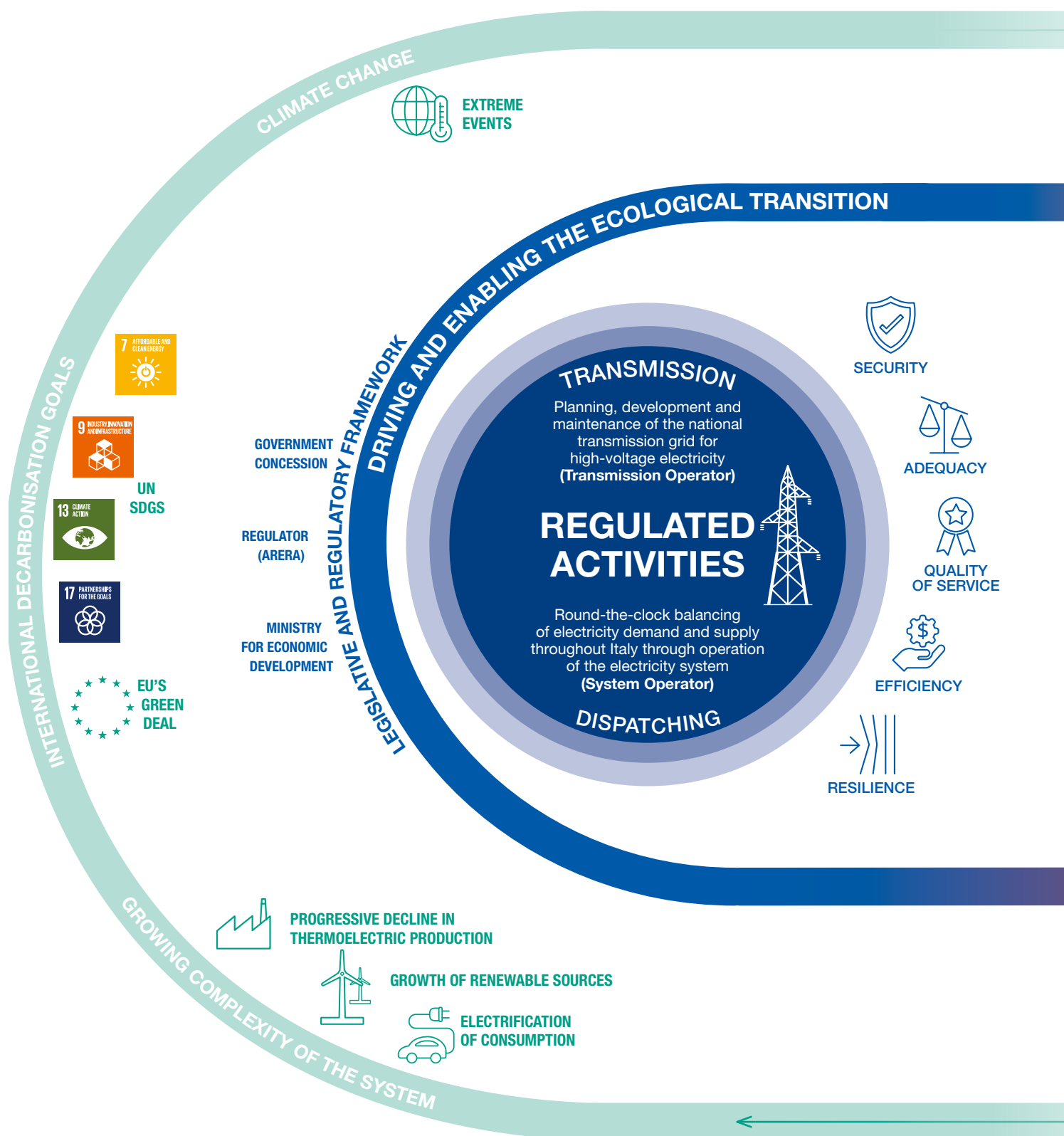


Information on the ownership structure, restrictions on the transfer of shares, securities that grant special rights, and restrictions on voting rights, as well as on shareholder agreements, is provided in the “Report on Corporate Governance and Ownership Structures” for 2020. This is available in the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

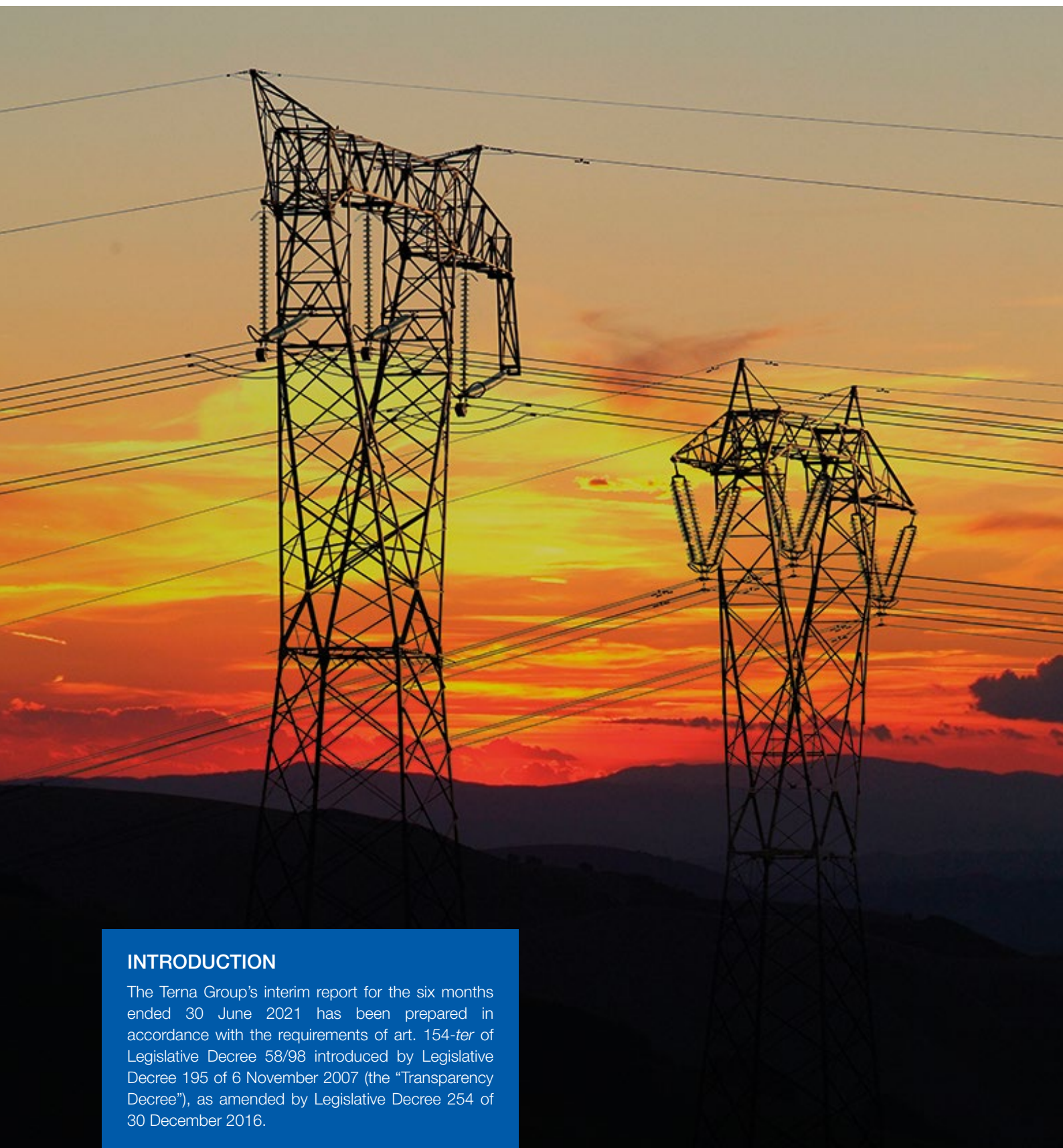
¹ Shareholders who, based on the available information and notifications received from the CONSOB, own interests in Terna S.p.A. that are above the notifiable threshold established by CONSOB Resolution 11971/99 and Legislative Decree 58/98, as amended.

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..

The business model







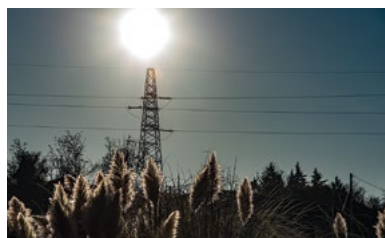
INTRODUCTION

The Terna Group's interim report for the six months ended 30 June 2021 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 254 of 30 December 2016.

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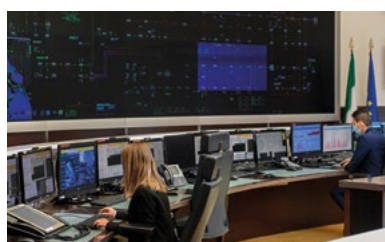
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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT AND FOR THE SIX MONTHS ENDED 30 JUNE 2021

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**INTERIM REPORT ON
OPERATIONS FOR THE SIX
MONTHS ENDED 30 JUNE 2021**

“ We are living through a period of great complexity: the planet is growing at an increasingly rapid rate with an energy model that is no longer sustainable and the world is crying out for a global commitment to progressive decarbonisation, to be achieved as quickly as possible. To meet this challenge means ensuring efficiency across all areas of the economy. The Paris climate accords and international decarbonisation and sustainable development goals form the basis for all our strategic decision-making. ”

#ecologicaltransition #electricitysystem #DrivingEnergy

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1

A continually changing environment

Macroeconomic environment

After the launch of vaccination campaigns at the beginning of this year, the restrictive measures introduced early on in the pandemic have been gradually relaxed. This has led to a steady decline in the number of infections, enabled resumption of many interrupted economic activities, and set the pace for a rapid recovery.

Compared to last year's economic performance, which was seriously hampered by the effects of the Covid-19 pandemic at global level, according to the latest ISTAT data, **2021 is expected to see strong and steady growth (GDP up 4.7%) that will continue in 2022 (GDP up 4.4%)**. These projections have been borne out by the positive figures reported in the first six months of this year. This growth will be accompanied by a substantial rise in employment (up 4.5% in 2021, and up 4.1% in 2022), which was severely affected during the pandemic crisis.

The energy sector

Electricity demand and production in Italy

Demand for electricity in Italy

Demand for electricity in Italy amounted to 154,861 GWh in the first six months of 2021, an **increase of 7.8% compared with the same period of 2020**, and substantially in line with 2019 pre-pandemic values.

ELECTRICITY BALANCE IN ITALY (GWh)*	H1 2021**	H1 2020**	CHANGE	% CHANGE
Net production	134,390	131,026	3,364	2.6%
From overseas suppliers (imports)	23,563	18,815	4,748	25.2%
Sold to overseas customers (exports)	(1,672)	(4,880)	3,208	(65.7%)
For use in pumping***	(1,420)	(1,353)	(67)	5.0%
Total demand in Italy	154,861	143,608	11,253	7.8%

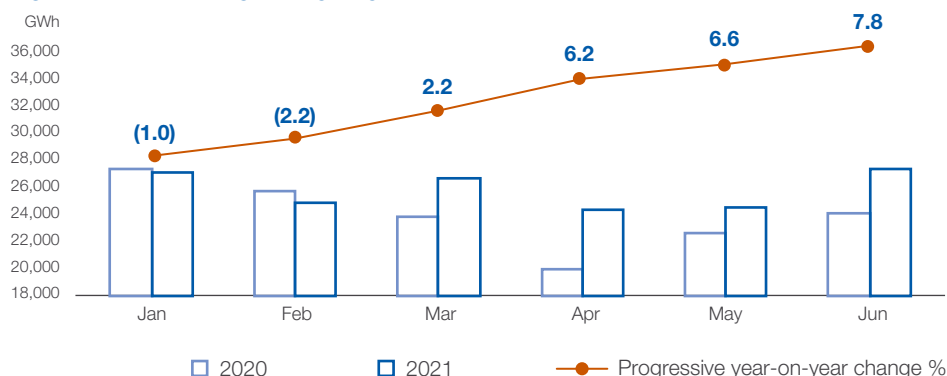
* Does not include demand for energy for ancillary services related to electricity production.

** Provisional data.

*** Electricity used for pumping water for subsequent use in the production of electricity or as a way of immediately balancing excess production.

Monthly demand for electricity in Italy in the first half of 2021 performed differently in the months of January and February with respect to the following months. Despite a slight fall due partly to the calendar effect (fewer working days), monthly demand for electricity in the first two months of the year was comparable to the same period in the previous year. However, from March electricity demand increased considerably compared with the same period of the previous year, reflecting the downturn in demand in 2020 due to the total lockdown and the shutdown of productive activity in response to the Covid-19 emergency last spring.

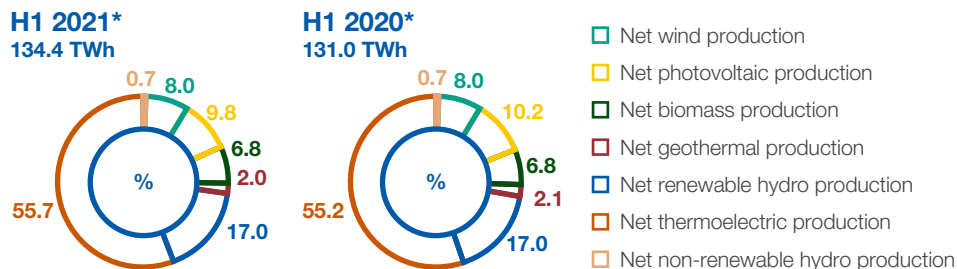
MONTHLY DEMAND FOR ELECTRICITY*



* Provisional data.

Meeting demand and energy production

NET ELECTRICITY PRODUCTION BY SOURCE



* Provisional data.

Electricity production in the first six months of 2021 is up 2.6% compared with the same period of 2020.

In the first half of 2021, approximately **38% of total energy demand was met from renewable energy sources**, down on the same period of 2020 when it reached approximately 40%, partly due to the contraction in demand for industrial use and the resulting fall in production from conventional sources. In terms of individual renewable sources, there were increases in hydro production (up 5%), wind production (up 4%) and biomass production (up 2%), slightly offset by a reduction in geothermal production (down 3%). Photovoltaic production is broadly in line.

European and international relations

The important opportunities for engagement and dialogue among the **principal European and international trade associations**, as well the leading associations connected with sustainability issues, continued.

EUROPEAN RELATIONS

European stakeholders

European Network of Transmission System Operators for Energy	ENTSO-E
European Association for Storage of Energy	EASE
Renewables Grid Initiative	RGI

During the first half of the year, Terna launched the **EUROBAR** initiative in partnership with six other European transmission system operators from Belgium, France, Germany, Norway, Spain and Sweden. The project aims to efficiently and securely integrate offshore wind farms within the European electricity grid. To achieve this, EUROBAR will study the possibility of standardising the interfaces and technology used to connect to the European electricity grid the large number of offshore wind farms that will be built in the coming years, not only in the North Sea but throughout the offshore waters of European Union countries. The partnership was formalised with the signature of a memorandum of understanding and a confidentiality agreement in which the seven partners have committed to widespread cooperation and to the exchange of expertise in the connection of offshore platforms.

As part of the close cooperation between Terna and the seven other leading European grid operators, a joint initiative was launched on 12 July 2021 which highlights and reinforces their key role in the energy transition and provides concrete examples of their enabling activities. The initiative also saw the publication of a paper entitled "**Decarbonising the energy system – The role of Transmission System Operators**", which clarifies the role grid operators play in the process of decarbonising the European economy, highlighting the contribution that TSOs make by reducing and/or limiting the carbon footprint of their activities and supply chains, and above all by enabling integration of renewable resources and electrification of consumption.

International stakeholders

INTERNATIONAL RELATIONS

CIGRE	Conseil International des Grands Réseaux Electriques
CFR	Council on Foreign Relations
GEIDCO	Global Energy Interconnection Development and Cooperation Organization
GO15	Reliable and Sustainable Power Grids
HEPG	Harvard Electricity Policy Group
Med-TSO	Mediterranean Transmission System Operators
RES4MED o RES4FRICA	Renewable Energy Solutions for the Mediterranean & Africa
WEC Italia	World Energy Council/Comitato operativo Italia
CIER	Comision de Integration Energetica Regional

Via **ELMED Etudes SARL³**, work continued on development of the electricity interconnector project between Italy and Tunisia. Regarding feasibility studies, in the first half of the year the contract regarding the survey of the submarine section was awarded to the joint venture consortium, RINA Consulting S.p.A. – Comete Engineering, and the contract regarding surveys for the environmental and social impact assessment was awarded to the joint venture consortium, HPC Italia S.r.l – Idea Consult – Proger S.p.A. – E.L.A.R.D. SAL Ilexus Energy Ltd. The contract regarding surveys for the overland section is expected to be signed by the end of the third quarter of 2021. Work on the above surveys is expected to be completed by the end of the first quarter of 2022.

Funding for the surveys is being provided under two World Bank programmes, the Global Infrastructure Facility (GIF) and the Energy Sector Management Assistance Program (ESMAP), as part of the planned provision of technical assistance for the Tunisia-Italy electricity interconnector. ELMED Etudes has been appointed the implementing agency on behalf of the Tunisian government.

The promoters of the project, Terna and STEG applied to the European Union to have the Tunisia - Italy electricity interconnector included in the fifth list of Projects of Common Interest, which will be published in November.

As part of the institutional initiatives planned for the **G20 Climate and Energy Summit**, during the first half of the year Terna took part in various events attended by high-level institutional representatives and international delegations from G20 countries, in which the Company highlighted the key role played by electricity grid operators as drivers of the energy transition along the path towards the decarbonisation of the economy envisaged by international agreements.

As part of its collaboration with the Ministry of Foreign Affairs and International Cooperation, Terna continues to participate in the **Steering Committees** convened by the Ministry on energy, climate and the environment. At these meetings, as well as reporting on the current state of electricity interconnectors in the Mediterranean area and the commitment of electricity transmission operators to decarbonisation and a sustainable economy, the Company states its views on the opportunities and critical issues affecting the national electricity transmission grid that derive from EU and international policies.

It should also be noted that, since January 2021, Terna's CEO has been **vice-president of the Grid Operators 15 (GO15) association**. The association, which brings together the world's 17 major electricity grid operators, provides a forum for discussion, analysis and sharing of experiences on common issues relating to the safe operation of electricity grids, with particular reference to the energy transition aimed at achieving international decarbonisation targets.

³ 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

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 86% 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 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)⁴. The change will enable operators to recover earlier costs, together with those relating to the Italy-France Interconnector project.

With Resolution 271/2021/R/com, ARERA also began the process of introducing regulation criteria using an approach based on Regulation by Expenditure and Service Targets from the sixth regulatory period (2024), thereby enabling recognition of costs based on overall expenditure incurred (operational/operating costs and investment costs) for regulated infrastructure services in the electricity and gas sectors. ARERA intends to define the general criteria for this aspect of regulation by 31 December 2022.

⁴ 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).

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 Resolution 380/2020/R/com, ARERA also began the procedure for redetermining the allowed WACC for regulated infrastructure services in the electricity and gas sectors with effect from 1 January 2022, identifying the initial general criteria for revising the method for determining the WACC. As part of this procedure, ARERA published consultation document 308/2021/R/com, in which it sets out its initial methodological approach to revising the way the regulator calculates a number of parameters that make up the formula. ARERA expects to publish a second consultation document by the end of October and adopt a final determination at the beginning of December.

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.

Transmission revenue makes up the most significant portion of regulated revenue

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.

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.

“ The ecological transition is an obligatory, irreversible process. Reinforcing our central role in driving and enabling this transition is the aim of our Industrial Plan. Between 2021 and 2025, we will invest a record €8.9 billion in regulated assets in Italy. Our capital expenditure has a major multiplier effect in terms of both GDP growth and job creation, thus making a decisive contribution to Italy's post-Covid-19 recovery. ”

#ecologicaltransition #TernaPlan #DrivingEnergy

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2

The Group's strategy

The Company and our strategy

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, 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 present the electricity system 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 (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), and 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 keep guaranteeing the security of electricity supply.**

Enablers

**NON-REGULATED ACTIVITIES**

Technological, innovative and digital solutions to support the ecological transition

Contributing €**450**m 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

Under Terna's approach, ensuring that the ecological transition provides the necessary security will require **investment in the grid**, 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.

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 **Chiaromonte Gulfi (Ragusa)** and **Ciminna (Palermo)**, improving the quality and continuity of electricity supply in the region; and **SA.CO.I.3**, a crucial interconnector linking Sardinia, Corsica and Tuscany.

As a result of this investment, based on the current projections contained in the Plan, 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) and 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**, in addition to the projects currently underway in Latin America (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.

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.

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.

Outlook

In the second part of the year, with the pandemic expected to ease with respect to the first half, the Group will be even more focused on delivering on our 2021-2025 Industrial Plan, which aims to confirm and strengthen Terna's central role in driving and enabling the Italian energy system and the ecological transition. Of the €9.2 billion to be invested in the period between 2021 and 2025, approximately €1.4 billion is to be invested in the current year.

In line with the recently presented new 2021 National Transmission Grid Development Plan, targeting investment of €18.1 billion over the next ten years (up 25% on the previous plan), expenditure on **Regulated Activities** will be stepped up. Investment will focus on enabling the energy transition and facilitating the development and integration of renewable sources, making a major contribution to achieving the ambitious goals set out in the Green Deal and helping to drive the country's economic recovery.

The principal electricity infrastructure under construction includes the interconnection with France and the planned strengthening of the link between Sardinia, Corsica and the Italian mainland (SA.CO.I.3). In addition, the preliminary marine surveys for the Tyrrhenian Link will continue in the coming months, as will discussions with the various stakeholders involved in readiness for the start of the consents process. Work is also progressing on the main projects that will increase exchange capacity between the various areas of the Italian electricity market, including the Bisaccia-Deliceto and Paternò-Pantano-Priolo power lines.

In terms of the Security Plan, the planned installation of synchronous compensators will continue, with the aim of supporting 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.

Work on the reorganisation of electricity grids in metropolitan areas will also continue in the second half, primarily involving the renewal of existing infrastructure with new technologically advanced connections meeting the highest standards in terms of environmental sustainability (e.g., Naples, Rome and Turin).

Finally, as noted previously, the regulator, ARERA, has begun 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. Brugg's new corporate structure, following a process that began in the initial part of the year and which should be completed in the second half, will enable it to take full advantage of the group's distinctive expertise in terrestrial cables and fully exploit synergies with the Terna Group's other businesses.

International Activities will continue to focus on managing and maintaining the power lines in service in South America and on continuing work on the projects launched in Brazil. Finally, the existing project in Peru was completed in May.

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.

In line with the first half, the second part of the year will see the Group continue to focus on intensifying in innovation and digital solutions as part of the transformation that will enable us to manage the growing complexity of the electricity system. Significant 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 which, early in the year, resulted in the achievement of the first important milestones.

Management of Terna's business will continue to be based on a sustainable approach and respect for the ESGs, ensuring that we are able to minimise our environmental impact, involve local stakeholders and meet the need for integrity, responsibility and transparency.

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, one of the enabling factors in the 2021-2025 Industrial Plan. Each of us brings skills and experience that can help to increase the value of the Company.

	AT 30 JUNE 2021	AT 31 DECEMBER 2020	CHANGE
WORKFORCE			unit
Senior managers	85	80	5
Middle managers	707	672	35
Office staff	2,708	2,587	121
Blue-collar workers	1,423	1,396	27
Total	4,923	4,735	188

The increase in the workforce at 30 June 2021 is primarily linked to the requirements relating to delivery of the challenging investment programme provided for in the 2021-2025 Industrial Plan, and to the need to strengthen the Group's distinctive competencies.

The measures introduced in response to the Covid-19 emergency

In the first half of 2021, Terna continued to apply the **specific organisational measures designed to reduce the risk of infection** from Covid-19 introduced in 2020. As part of the **"Sicuri Insieme"** ("Safe Together") campaign, the offer of molecular testing to anyone making a request proceeded during the first half of the year. The tests conducted at our Rome offices were conducted under the agreement entered into with Rome's Agostino Gemelli Hospital.

Initiatives in the first half of 2021

From the health emergency to New Ways of Working: launch of the “NexTerna” programme.

The scenario imposed by the lengthy Covid-19 health emergency has led to the adoption of Remote Working as a key tool in guaranteeing our ability to remain operational.

The realisation that it was necessary to find new ways of working, heavily focused on the digitalisation of work, resulted in redefinition of the Company's organisational model. The new model ensures the optimal organisation and use of office space in order to guarantee efficiency, productivity, logistical benefits and quality of life.

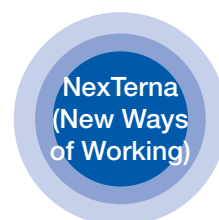
The answer to these new challenges is NexTerna, a multi-year programme designed to facilitate structural change management, based on a radically new approach to organising work and developing people.

Launched in February 2021, **NexTerna** focuses on seven topic areas:

- inclusive leadership;
- people care and skills;
- agile solutions applied to processes;
- sustainability and communication;
- technology and digitalisation;
- virtual and physical spaces;
- a new approach to industrial relations.

Achievements in the first half of 2021 include:

- within the “technology and digitalisation” topic area, which cuts across many of the programme's activities, the “T-Place” app for “physical and virtual spaces” is now up and running. This allows employees to reserve their workstations (as of 30 June, 260 employees work in desk-sharing mode) and take advantage of the company canteen, and also use the Go-Sign digital signature system, which helps to make Terna a paperless company;
- within the “physical and virtual spaces” topic area, the first corporate remote working hub space, which makes 42 workstations exclusively available to Terna staff in Rome, was inaugurated. This service, which can be booked via the “T-Place” app, enables staff to work remotely in an equipped and digitalised location away from their own homes. Another 40 workstations located in the centre of Rome will added on 1 September 2021.





Approximately 63,000 hours of training were provided in the first half of 2021, covering Corporate, Technical and HSE & Compliance matters.

In the **Corporate** sphere, the **Meet-up RUO** project, which aims to prepare the Human Resources and Organisation department to play a central role in helping everyone at Terna adapt to the new ways of working, was launched.

The **Role Model** project, developed together with the ELIS Consortium, saw five colleagues act as role models in a selection of Italian schools. Rollout of the project began in the first six months of 2021, and will continue in the second half of the year. In addition, at the end of March, the **Advanced Digital Bootcamp** initiative took off. This aims to boost knowledge and use of the collaboration tools offered by the Office 365 suite and is one of the initiatives selected to receive funding from the New Skills Fund set up by the National Agency for Active Labour Policies (the *Agenzia Nazionale Politiche Attive per il Lavoro*). Also, with a view to boosting digital readiness, the **“Evoluzione 365”** project was launched with webinars and a support community relating to Office tools.

Soft skills training as part of the training course for Real Time Dispatching and Control Operators was also completed with a module on **Effective Communication**, involving 26 staff members, as well as the launch of the first phase of training on **Agile methodologies** for project management, dedicated to people involved in the NexTerna programme, which saw the participation of 70 staff.

Support was renewed for the **“Valore D”** association during the first half of the year, with a view to fostering a corporate atmosphere geared towards diversity and inclusion issues.

The first half of the year also saw the launch of a fully digital **Language Training** campaign, involving 131 staff, as well as training on **Financial Modelling** for Financial Administration and Control staff.

In terms of **Technical Training**, courses designed to develop basic technical knowledge and skills were held for approximately 260 new hires, as well as refresher courses focusing on regulatory changes for 310 personnel. In addition, the “National Council of Engineers 2020-21” training plan was launched to acquire credits for membership of the association, involving 79 personnel, as well as a new live line working training course *“Lavori Sotto Tensione”*.

HSE & Compliance training included initiatives in the following areas:

- compliance with the requirements imposed by the **Consolidated Act 81/08**;
- updated **climbing procedures and techniques**, developed with the support of in-house tutors from our infrastructure units who obtained specific certification (involving 600 personnel);
- training on the **Provisions for the prevention of electricity risk** (DPRET) (involving 190 personnel);
- training for members of the **Avian Team** with the aim of developing their ability to deal with the problems affecting Terna’s assets caused by birds;
- dedicated training plan on **electromagnetic fields for exposed workers** (involving 370 personnel);
- **compliance with the GDPR**, with a special focus on Terna’s new Privacy Model and remote working (involving 1,000 personnel);
- **231 legislation** in relation to the new regulations covering tax fraud (involving 200 personnel);
- the **“Sicuri in Terna”** workshop, to gain and share knowledge, ideas and suggestions for a new safety culture.

The following courses were also completed during the first half of the year: i) the training course **dedicated to Terna Faculty staff**, who were involved as teachers and tutors in the training activities; ii) the **cascading programme of the Driving Energy 2021-2025 Industrial Plan**, which involved more than 1,000 staff under 30 who had the opportunity to learn more about the key content of the Plan by asking questions that were answered directly by the CEO.

During the first half of 2021, staff recruitment and selection activities focused on acquiring people with **Industry 4.0** expertise, in keeping with the new organisational arrangements. The search for these new skills is taking place alongside our long-standing strategy of attracting engineering graduates and people to fill technical, operational and administrative roles. The Talent Attraction strategy has been expanded to include new partnerships with the STEM departments of leading Italian universities and our participation in masters programmes with major partners. We also take part in career day and employer branding events, a number of which exclusively aimed at women.

In collaboration with Luiss Business School, Terna has joined the **#donne STEM project** regarding funding of a scholarship for a female student on the Data Science and Management masters degree course (academic year 2021-2022) and has sponsored the **Master in Global Energy Management**. During the third quarter, in partnership with the Masters Programme run by MIP, the Business School at the Polytechnic University of Milan, Terna will provide financing for a scholarship in **"Environmental Sustainability and the Circular Economy"**.

 Talent
Acquisition

Work on the **"Sicuri in Terna" project** continued in the first half of 2021. This aims to promote a global approach to safety involving all the Company's staff, as well as people working at Terna's sites in various capacities. Through the definition of improvement and prevention plans, the project aims to ensure that safety becomes nothing less than a way of life. Over the years, this approach has resulted in a significant reduction in accident indicators relating to both Terna's own personnel and among workers employed by contractors.

Our commitment to the Plastic Free (the procurement of drinking fountains and the provision of personalised bottles) and Recycling (the creation of little "internal eco-islands") projects concluded in the first half of 2021. The projects were launched in 2019.

 Health,
Safety &
Environment

On 16 June 2021, the Board of Directors approved the Terms and Conditions of the **Performance Share Plan 2021-2025**, in implementation of the terms established by the Annual General Meeting of shareholders held on 30 April 2021.

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

Further details are provided in the Information Circular on the Performance Share Plan 2021-2025, published on the Company's website (www.terna.it).

On 23 June 2021, the share buyback programme to service the Plan was completed at a total cost of approximately €10 million.

 Performance
Share Plan
2021-2025

Local communities

Engagement with local communities promotes a social environment conducive to timely implementation of the investments envisaged in the Grid Development Plan.

The local communities in areas where new electricity infrastructure projects will be built are stakeholders to whom Terna dedicates many engagement initiatives. The aim is to provide these communities with accurate and comprehensive information about the reasons for choosing their areas for such projects, and the subsequent systemic benefits expected from their implementation.

Terna voluntarily shares grid development requirements with local authorities and listens to local citizens in order to identify the best possible location for the new works, starting with the area's peculiarities and the results of the Geographic Information System (GIS), which contains comprehensive data on the various types of land use and related protection constraints (territorial, natural, cultural, landscape, etc.).

The guidelines for establishing, maintaining and enhancing quality relations are set out in the "Stakeholder Engagement Model", which identifies the tools and operating methods for engaging and monitoring opinions, with a view to increasing the Group's relational capital.

Each year, a specific engagement programme identifies actions to be implemented to optimise current relational methods and to listen to stakeholders on a regular basis.

Regarding relations with local communities, alongside the periodic meetings with government institutions that make up the lion's share of our engagement activities, Terna has been using another method for some time, 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.

During the first half of 2021, due to the ongoing restrictions caused by the Covid-19 pandemic, Terna maintained the digital format, which was created at the beginning of 2020. This combines 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). A total of 8 "**Terna incontra**" events were held in the first six months of 2021, all via digital platforms.

OTHER ENGAGEMENT INITIATIVES

Stakeholder

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

Engagement with investors vitally important for Terna. This takes the form of meetings, presentations and ongoing support activities, in order to ensure the transparency and clarity of the information the Company publishes and to avoid information asymmetries among financial market participants. In this context, **institutional investors have shown greater interest in environmental, social, governance (ESG) aspects**, which has been further awakened by climate change and ecological transition policies. 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.

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

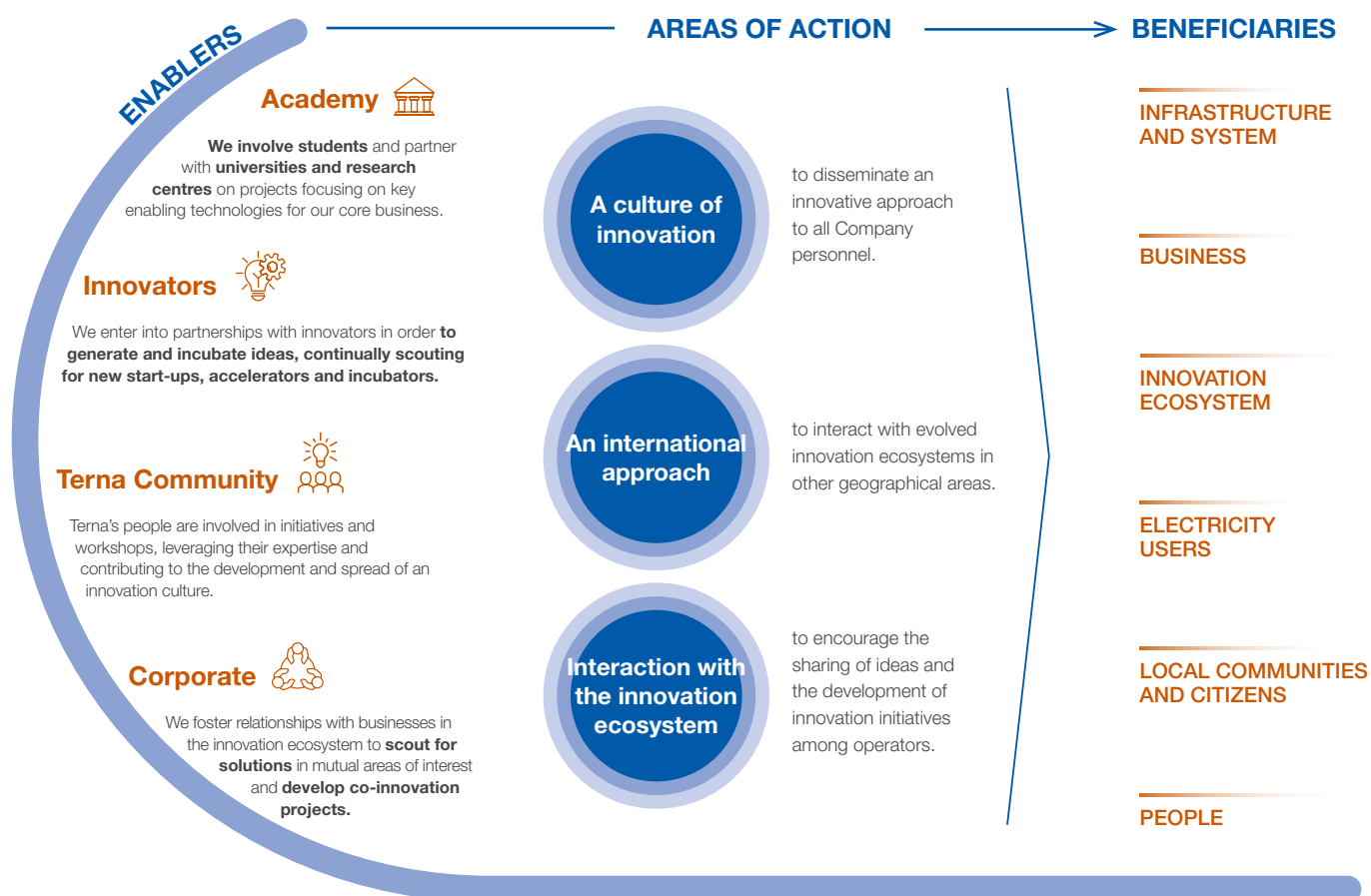
Innovation



Innovation and digital transformation are essential in an increasingly complex energy sector. Our development strategy focuses on the technology trends most relevant to our business.

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**.

2021-2025 INNOVATION PLAN



Our innovation thus takes the form of **Open Innovation** initiatives and **Innovation Projects**.

Open Innovation initiatives

The academic world

- **Agreements with universities**

Our partnerships with universities with whom we have entered into innovation agreements are continuing. These include agreements with the Polytechnic University of Turin, the University of Padua and Naples Federico II University;

- **Start-up Intelligence programme**

Terna is taking part in the seventh edition of the innovative Start-up Intelligence programme of the Polytechnic University of Milan, which is focused on research, scouting and community activities, and will end in September 2021;

- **Data Girls programme**

In the first half of 2021, Terna sponsored the Luiss Business School's "GROW-Generating Real Opportunities for Women" initiative, taking part in the "Data Girls" programme. In April 2021, the team that took up the challenge set by Terna-Avvenia relating to Energy Efficiency was declared the winner;

- **Maker Faire Hackathon**

In April 2021, Terna acted as the corporate partner for the Maker Faire Hackathon organised by the University of Naples and the Apple Developer Academy, by putting forward an HR-related challenge that required participants to develop an application for use in the onboarding process for new hires.

Innovators

- **Digital Scaleup Summit**

In March and April 2021, Terna took part in the Scaleup Summit MENA organized by our partner, Mind The Bridge, which focused on the search for mature Cybersecurity, System Operator, HR Tech and New Ways of Working solutions, via a series of digital meetings with innovative firms selected to meet the Company's needs.

Terna Community

- **Workshop on the Innovation Landscape**

Terna is present within Silicon Valley's innovation ecosystem with an Innovation Antenna hosted by our partner, Mind The Bridge, in San Francisco. In March 2021, the macro-trends emerging from Silicon Valley in relation to the "Future of work" were analysed. The results were then used as the basis for a digital workshop with the Company's HR and ICT departments.

Corporate

- **Open Italy**

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 via concrete innovation projects. Terna has identified four priority areas of innovation (Operational Improvements, Privacy & Cybersecurity, Change Management for New Ways of Working and Digital HR and Urban intelligence & Connections). The programme that began in January and will end in December 2021.

Innovation projects

Innovation clusters

We have tracked changes in the technology scenario and identified emerging trends for the future of the Italian energy system. Based on their potential impact on the business, we have identified a number of clusters on which to focus our innovation efforts:

- **Digital** – The growing need for digital technologies providing intelligent energy and capacity management solutions;
- **Energy Tech** – The future energy market will require more efficient, greener technologies;
- **Advanced Materials** – The need to reduce the system's environmental impact requires eco-compatible materials;
- **Robotics** – Increased automation will enable us to offer services on a mass scale to a growing number of customers.

Project streams

Taking these clusters as the basis, innovation is centred around a number of project streams, consisting of projects developed by the System Operator and Transmission Operator Innovation Factories.

- **System of systems**

Innovation on a number of different fronts in the management of grids and markets will be key to ensuring that we have an increasingly efficient single system of integrated systems.

- **E-mobility lab**

We are committed to developing smart charging and vehicle-to-grid applications with the various e-mobility stakeholders in order to enable the supply of grid services for electric vehicles;

- **Equigy**

Together with other European TSOs, we have developed a new platform based on blockchain technology that aims to facilitate the participation of new flexible resources in the system services market.

- **Sustainable digital assets**

We aim to create sustainable digital assets offering solutions for use in managing the grid as part of efforts to achieve ongoing improvements in the service we provide.

- **Drones**

We use Visual Line Of Sight (VLOS) and Beyond Line of Sight (BVLOS) technologies to perform remote monitoring surveys to enhance the efficiency of power line inspections;

- **Advanced sensors**

We are investigating new solutions for grid monitoring, such as the use of satellite technologies;

- **SF₆ free**

High-voltage electrical equipment with insulation and circuit-breaking fluids offering an alternative to SF₆ is being studied, with a view to reducing SF₆ emissions and increasing the environmental sustainability of the grid, in line with EU directives;

- **Advanced Materials**

In the first half of the year, we completed a study into the use of rice waste to produce non-structural elements, with the aim of improving the energy efficiency and environmental performance of existing or new buildings, and a study on the use of 3D printing for the production of mechanical parts of components.

- **Enhanced system operation**

Ensuring the safe performance of grid operations and improving the operation and interoperability of control centres are essential objectives for Terna. This is why we continually invest in grid management optimisation, using the most advanced energy operations and forecasting techniques.

- **OSMOSE**

We test innovative flexibility services provided by wind farms, batteries, large industrial users and the grid itself; these are subject to coordinated management by central Energy Management System software;

- **Monitoring of distributed generation**

We are putting the finishing touches to a system designed to give real-time estimates of the main electrical data relating to load and to distributed generation, i.e., connected to distributor networks.

- **Safety**

Reviewing processes and innovative technologies (e.g., for personal protective equipment) allows us to constantly improve safety for people doing their normal jobs.

- **New normal**

This topic area involves the development of innovation projects and initiatives to advance the company's New Ways of Working strategy, involving a rethink of how we are going to work after the Covid-19 pandemic has ended.

INTELLECTUAL CAPITAL

We have developed a process for protecting and safeguarding our intellectual property (IP) in its various forms, creating a competitive advantage, as well as new business opportunities. Patent applications, filed both in Italy and overseas, and the granting of patents (including patents and a design model), as well as the assessment of around ten further potential projects qualifying for patent protection, have continued.

CYBERSECURITY AND SECURITY PLATFORMS

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.).

The operational nerve centre for the management of cyber events is the Computer Emergency Readiness Team ("TERNA-CERT"), which from **1 January 2021** has operated 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. On the Security Platform service front, the delivery of central and peripheral cyber solutions and the management of the digital identity lifecycle should be noted.

In 2021, 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 the **Cyber Defence Centre and Computer Emergency Readiness Team** via the boosting of management, monitoring, identification and incident response capabilities, in line with new cyber risk and threat intelligence scenarios, with a special focus on the industrial domain (OT) and the cloud, in line with overall Group strategy;
- **cyber protection of the industrial domain (OT)**, through adoption of organisational models, technologies and new security solutions to strengthen the capabilities of context visibility, active defence and threat identification in the industrial domain, with a special focus on securing substation digital systems;
- **IoT security**, through adoption of technologies to defend against cyber-attacks 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, with a focus on **Cyber Security Assurance and Continuous Monitoring**, and **Security Assessment** solutions relating to vulnerability assessments, penetration tests and red team initiatives.

Risk management

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 as a result of 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).

An important reference for the identification of corporate risks is the framework of corporate objectives, based on strategic objectives and key factors in the creation of corporate value (recurring objectives), to which the various kinds of potential risk event that could affect their achievement are associated.



For further details on the framework, the risk management process and the main business risks, reference should be made to the section "Risk management" in the 2020 Annual Report.

“ With our projects and substantial investment in network infrastructure, we are laying the foundations to promote and support the current ecological transition with a fit-for-purpose electricity system that is safe, efficient and makes increasing use of renewables. Thanks to the unique skills of our people, constant dialogue with local communities and the adoption of innovative solutions, we are contributing to the growth and development of sustainable projects for the benefit of Italy. ”

#sustainability #innovation #DrivingEnergy 

Regulated Activities	50
Non-regulated Activities	65
International Activities	71

3

The Group's
business

Regulated Activities

The National Transmission Grid

Transmission and dispatching

The Terna Group owns 99.8% of the NTG, one of the most modern and technologically advanced in Europe. We are the largest independent electricity transmission network operator in Europe and one of the world's leading operators, with around 75 thousand kilometres of high and very high-voltage lines. The Group is responsible for managing the flow of electricity through the grid in every part of Italy, with the aim of ensuring that there is a constant balance between the quantity of energy injected into the grid and demand, and guaranteeing continuity and accessibility of service for the population as a whole. We are also responsible for planning, construction and maintenance of the grid.

The 2021 Development Plan

The new **2021 National Transmission Grid Development Plan** was presented on 7 July 2021, following its approval by Terna's Board of Directors on 12 May 2021. The Plan envisages investment of €18.1 billion over the next ten years, an increase of 25% compared with the previous plan. Investment will focus on enabling the energy transition and facilitating the development and integration of renewable sources, making a major contribution to achieving the ambitious goals set out in the Green Deal and helping to drive the country's economic recovery. In continuity with the previous Development Plan, the main investment objectives of the 2021 Development Plan are as follows:

CAPITAL EXPENDITURE

- **To boost overall exchange capacity with neighbouring countries** to strengthen Italy's role as an electricity hub serving Europe and Mediterranean area.
- **To resolve congestion between market areas**, increasing transmission capacity by integrating renewables.
- **To reorganise grids in the country's main metropolitan areas**, improving the system's security and resilience.
- **To cut CO₂ emissions** as a result of the production mix and lower grid losses.

1. The electricity system's transition to zero carbon requires use of all the tools necessary in order to fully integrate renewable production plants in order to reduce emissions over the long term.
2. The ecological transition process calls for specific enablers, such as the adoption of new market models, the participation of "new" flexibility resources and the progressive integration of Europe's power markets in order to reduce system costs.
3. Ensuring the security of the national electricity system and quality of service and creating an increasingly resilient system capable of handling critical events external to the system itself.
4. This driver performs a cross-cutting role in view of its importance in the current ecological transition, creating value for the country by enabling more sustainable and efficient electricity generation, whilst at the same time cutting costs for end users, ensuring a quality service to citizens and minimising the impact on local areas.

DRIVERS

DECARBONISATION



MARKET EFFICIENCY

SECURITY, QUALITY
AND RESILIENCE

SUSTAINABILITY

**PROJECT PRIORITISATION**

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

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.

GRID OPERATION

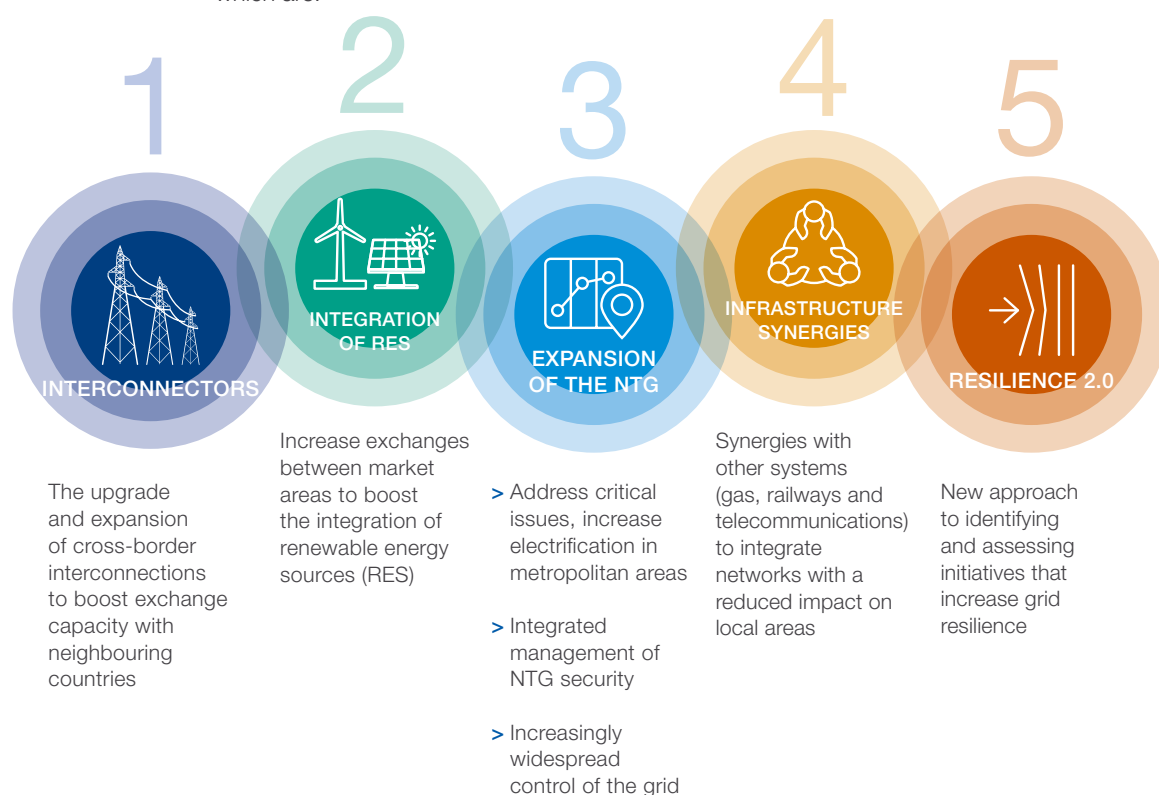
Identify and develop initiatives aimed at improving grid operation, with a particular focus on enhancing quality of service and the system's resilience.

ENVIRONMENTAL SUSTAINABILITY

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

PROJECT GUIDELINES

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

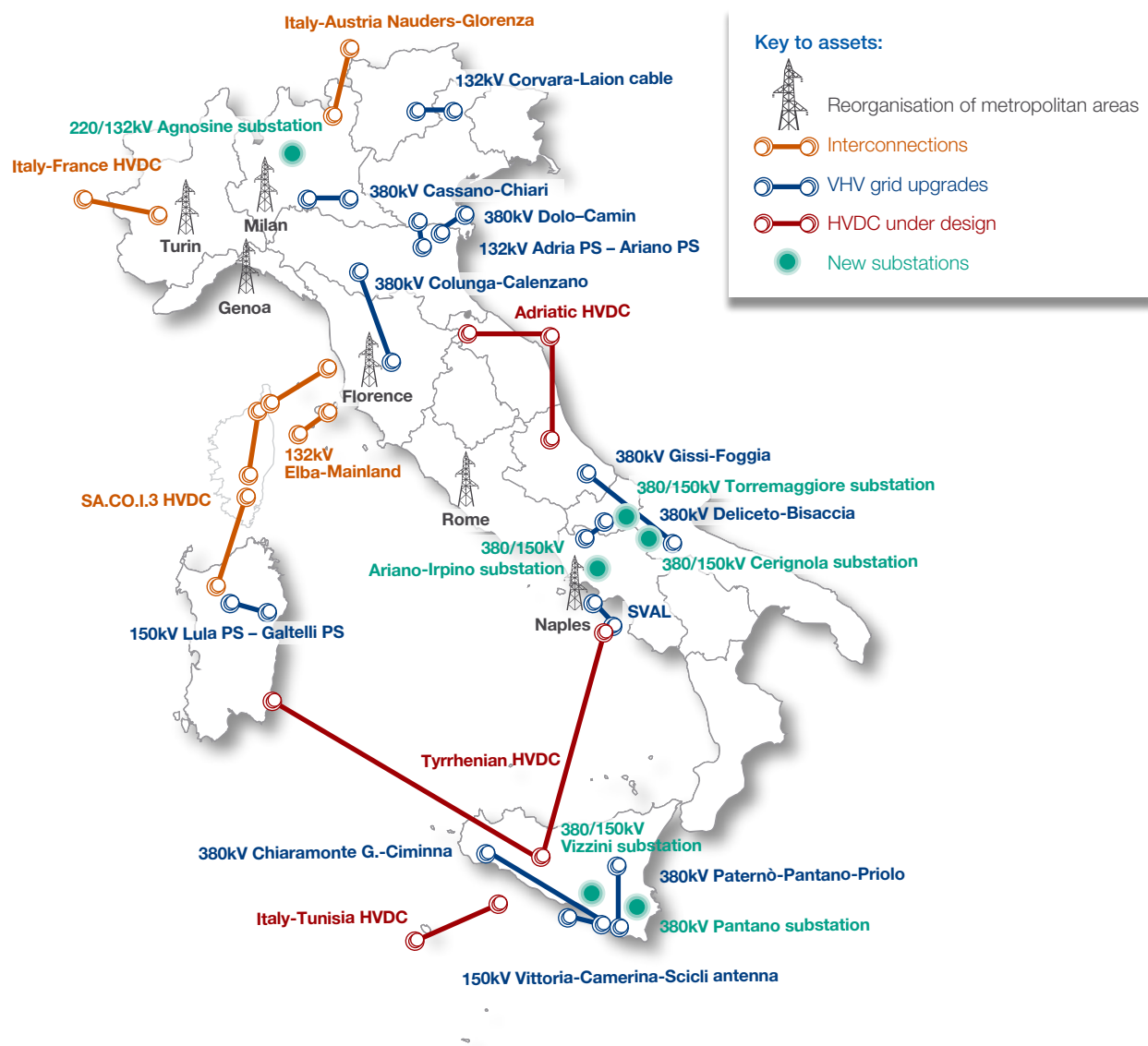


With regard to decarbonisation, in line with Legislative Decree 93/11 and Resolution 627/16, as amended⁵, Terna has included a specific section in the National Development Plan setting out the actions needed in order to make full use of the power produced by renewable plants. The network assessments 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.

⁵ 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 responsible.

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	180		
Italy-Slovenia interconnector	154		
Sardinia-Corsica-Italy interconnector	778		
Centre South-Centre North HVDC	221		
Italy-Tunisia HVDC	200		
Mainland-Sicily-Sardinia HVDC	950		
Reorganisation of metropolitan areas	182		
Chiaromonte-Gulfi-Ciminna	173		
Gissi-Foggia	140		
Substations			
Agnosine substation			
Vizzini substation			
Pantano substation			
Torremaggiore substation			
Cerignola substation			
Ariano Irpino substation			

SECURITY PLAN

Projects	Status	Driver
Fiber for the Grid		
Upgraded resilience to ice, snow and wind✓		
Voltage and dynamic stability 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 the first half of 2021 are shown in the section "Changes in the dimensions of the NTG" in the annexes.

The Group's Capital expenditure

The Terna Group's total capital expenditure in the first half of 2021 amounts to **€601.9 million**, marking a significant increase compared with the €428.0 million of the same period of the previous year (**up 40.6%**). This confirms our major commitment to delivering the infrastructure necessary for a sustainable energy transition.

	(€m)			
	H1 2021	H1 2020	CHANGE	% CHANGE
Development Plan ¹	218.3	140.4	77.9	55.5%
Security Plan ¹	101.4	69.2	32.2	46.5%
Projects to renew electricity assets ¹	211.8	147.1	64.7	44.0%
Other capital expenditure	39.8	44.2	(4.4)	(10.0%)
Total Regulated assets	571.3	400.9	170.4	42.5%
Non-regulated assets²	25.6	22.7	2.9	12.8%
Capitalised financial expenses	5.0	4.4	0.6	13.6%
Total capital expenditure	601.9	428.0	173.9	40.6%

¹ The figures for the first half of 2020 have been restated following changes to the purposes of investments, without modifying the overall value of investment in regulated assets.

² Non-regulated assets primarily regard the private Italy-France interconnector and the re-routing of power lines for third parties.

The following main regulated assets **entered service** in the first six months of 2021:

Power lines:

- Construction of the new 150kV Melilli-Priolo power line (adding 5.9 km);
- Construction of the new 132kV Modena North-Modena East power line (adding 5 km);
- Construction of the new 132kV Figline PS-Pirelli power line (adding 3.9 km);
- Construction of the new 132kV Rivoli-Paracca power line (adding 4.4 km);
- Replacement of the 220kV Arenella-Astroni power line – new section in XLPE cable (adding 1 km).

Cables:

- Purchase of Padriciano Elettra GLT cable (adding 10.3 km);
- Replacement at the Misterbianco-Villabellini PS - new section in XLPE cable (adding 3.6 km).

Substations:

- Enlargement of the Brennero substation (adding 4 bays);
- Enlargement of the Belcastro substation (adding 8 bays);
- Enlargement of the Saluzzo North substation-Sedamyl Connection (adding 4 bays);
- Enlargement of the Porto Torres 1 substation (adding 1 bay);
- Purchase of the 150kV Serra del Vento substation (adding 4 bays);
- Purchase of the 380kV Arvedi substation (adding 5 bays);
- New activation of the Porto Torres 2 substation (adding 5 bays).

Investment in non-regulated assets included the entry into service of the power line in Peru (132 km).

MAIN REGULATED WORKS CARRIED OUT DURING THE PERIOD

Development Plan – €218.3 million

Paternò-Pantano-Priolo
(€15.3 million)

380kV Paternò-Pantano power line: work is continuing on construction of the foundations (33 out of a total of 50) and assembly of the first pylons (18 out of a total of 50).

380kV Paternò-Priolo power line: construction work has begun.

380/220/150kV Pantano substation: excavation work involved in preparation of the site is in progress.

Vizzini substation
(€9.7 million)

Vizzini substation: work began at the end of February and excavation work involved in preparation of the site has started.

Italy-France interconnector
(€9.7 million)

Piovasasco converter station: installation of the command, protection and control systems remains to be completed (and is in progress), as does the FAT (Factory Acceptance Testing) of the same system, expected to take place by the end of 2021.

Cable connection: final testing has taken place following the laying of the cable for bi-poles 1 and 2.

Reorganisation in Turin
(€6.8 million)

Pianezza connections - phase 2: demolition of the section of the line not in service (2.3 km) has been completed. All the foundations (13 in total) have been completed. Excavation for the 1.1-km cable section has been completed (out of a total of 6.3 km) and laying of the first outgoing section for the Pianezza substation has begun.

132kV Rivoli-Paracca and Paracca-Collegno cables: the Rivoli-Paracca connection (4.4 km) has been completed and has entered service. Laying of the pipes and cables along the entire length (2.7 km) of the Paracca-Collegno connection has been completed. Specialist work on the last two couplings is in progress. The connection is due to enter service by the end of 2021.

Pianezza substation - installation of 220kV reactor: the contract for the civil works has been awarded and work is in the process of beginning.

Grid upgrades in the
Foggia-Benevento area
(€6.1 million)

Bisaccia-Deliceto power line: 90% of the foundations (71 out of a total of 77) have been completed, 90% of the pylons (70 out of a total of 77) have been assembled and 25% of the conductors (9 out of a total of 34) have been laid.

Expansion of the Bisaccia electricity substation and the installation of PSTs: following the station's entry into service (in December 2020), permission is awaited from the relevant authorities for transportation of the PSTs and the transformer to the site.

Auronzo substation: the civil works are in progress, with work on the perimeter and retaining walls and on the foundations for the machinery nearing completion. Production of the equipment is in progress.

Reorganisation in the Upper
Bellunese area
(€5.4 million)

220kV Castelluccia-Naples Primary Substation cable: the completion of work is currently restricted by the need for secondary consents (a license for a motorway crossing).

220kV Astroni-Naples Centre cable: the laying of 9.4 km of cable has been completed and work on the final coupling and final terminal is in progress.

Reorganisation in Naples
(€5.1 million)

Security Plan – €101.4 million

Garigliano, Fano, Foggia and Brindisi compensators: the civil works are nearing completion; the foundations for the synchronous compensator have been completed, whilst transportation of the machinery to the site has been completed and assembly is in progress.

Maida and Candia compensators: the construction sites have been opened and the site-layout civil works have begun; permission is awaited from the relevant authorities for transportation of the machinery to the site.

Synchronous compensators
(€46.3 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 16 electricity substations on the NTG (making a total of 492 substations) have been connected and lit at 30 June 2021.

Fiber for the Grid
(€12.0 million)

Renewal Plan – €211.8 million

Delivery of the commitment to carry out works to renew electricity assets in order to improve the reliability and resilience of the NTG has continued.

The renewal of overhead lines and substation equipment continued during the first half of 2021: approximately 1,324 km of conductors and 10 items of equipment were replaced, 3 with “green” equipment, insulated using vegetable esters.

Renewal of electricity assets
(€195.5 million, before
functional separations)

Consents processes

The consents processes for the following new projects or interventions have been initiated and concluded in 2021:

- in progress:
 - the Santa Teresa-Tempio-Buddusò power line, new infrastructure serving northern Sardinia;
 - work on the 132kV grid in the Valle Stura in the province of Cuneo;
 - reorganisation of power lines in the Cepagatti area in the province of Pescara;
 - construction of cable connections for the Naturno electricity substation in the province of Bolzano;
 - a new 132kV Donada-Rosolina-Brondolo underground power line between the provinces of Venice and Rovigo.
- concluded:
 - reorganisation of the electricity grid in Bologna;
 - partial undergrounding and subsequent demolition of the Mercallo-Cameri power line;
 - a new 132kV power line linking Elba with the mainland;
 - a new 132kV underground power line between the Conselice and Voltana primary substations in the province of Ravenna;
 - new 150kV power lines in cable linking the Vittoria, Santa Croce Camerina and Santa Croce Camerina – Scicli primary substations in the province of Ragusa;
 - reorganization of the electricity grid between Malcontenta and Fusina in the province of Venice;
 - reorganisation of the electricity grid in Rimini and Riccione.

Projects initiated

A number of projects have been approved and initiated in 2021. These include:

- work on modernisation of the 132kV Bulciago – Lecco power line;
- a pilot project for the 132kV Quarto – Isola Ridracoli power line that crosses the Apennines between Tuscany and Emilia;
- the new plan for Terna's offices in Tuscany regarding the new site for the Suvereto Infrastructure Unit;
- preparatory work for the laying of submarine fibre cable between Italy and Montenegro;
- modernisation of the old 132kV San Giuseppe – Portoferraio power line on the island of Elba;
- demolition of the 132kV Lizzana-Pista overhead power line.
- the Adriatic Link, the new submarine power line which, at a cost of €1 billion, will link the Abruzzo and Marche regions, and for which Terna has begun the participatory design process;
- work on the demolition of 380kV overhead power lines between Dolo and Camin;
- work on the demolition of the 132kV overhead power lines between Figline and Pirelli in the Municipality of Figline and Incisa Valdarno and of the related foundations;
- work on undergrounding a section of 132 kV power line between P. Malon and Pelos/Somprade in the Municipality of Auronzo di Cadore.

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 the existing **3 GW** to over **4 GW**.

The "Grande Île - Piossasco" project is **190 km long**.

STATE OF PROGRESS



Under construction.
Assembly of the cable duct has been completed and test end-to-end powering up of both bipoles successfully carried out. The Piossasco converter station has been completed, except for the panels for the protection, command and control system.

WORK IN PROGRESS



Assembly of the panels for the protection, command and control system at both sites is underway. FAT (Factory Acceptance Testing) of the protection, command and control system (SPCC) is expected to be completed by the end of the third quarter of 2021.

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.

Grande Île

Piossasco

EXPECTED ENTRY INTO SERVICE



December 2021 – January 2022



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 line will extend for approximately 392 km between Tuscany, Corsica and Sardinia (including around 146 km of submarine cable and approximately 246 km of overhead lines).

STATE OF PROGRESS



The final design process for the new works forming part of SA.CO.I.3 and the technical and environmental marine surveys have been completed. The public consultations in Italy and Corsica have come to an end and the consents process initiated in the two countries.

WORK IN PROGRESS



The process of obtaining the necessary consents is in progress. The national environmental impact assessment for Italy is underway, whilst a public inquiry taking place in Corsica. The process of awarding contracts for the supply of the new converter stations has begun.

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

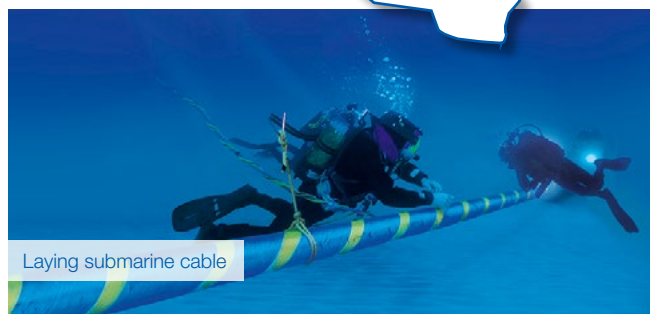


Module 1 Sardinia-Corsica-Tuscany – system to be powered up for the first time by the end of 2025
Module 2 Sardinia-Corsica-Tuscany by the end of 2026

On **10 May 2021**, the architect, Roberto Murgia, and the engineer, Francesco Trudu, with their **Is Lampadas** design, were declared the winners of **Terna's design competition for the new Codrongianos substation**. The competition, conceived in agreement with Codrongianos town council as part of the planned modernisation of SA.CO.I.3, is the result of ongoing dialogue and synergies between the local authorities involved, with the aim of ensuring that the new infrastructure fits in well 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 entire project has been broken down into an East Link (Campania-Sicily) and a West Link (Sicily-Sardinia). The project will consist of **950 km of submarine cable**, some of it to be laid on the seabed at significant depths, establishing a new global benchmark for this type of highly complex infrastructure project.

STATE OF PROGRESS

The project is in the preliminary stages of the consents process. Consultation with local authorities and with the public for the East Link has been completed. The voluntary consultation process for the West Link is in progress.

WORK IN PROGRESS

The following are currently underway:

- working groups with various stakeholders;
- design work in readiness for the consents process (application for the consents for the East Link is expected to be filed in July 2021);
- the preliminary marine survey;
- the award of EPC cable contracts.

Finally, the call for tenders for EPC contracts for the converter stations has been published.

Sardinia**Campania****Sicily****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 at the end of 2025
 Module 2 Sicily-Sardinia at the end of 2026
 Module 4 Sicily-Sardinia at the end of 2027
 Module 3 Sicily-Campania at the end of 2028

Electricity cost trends

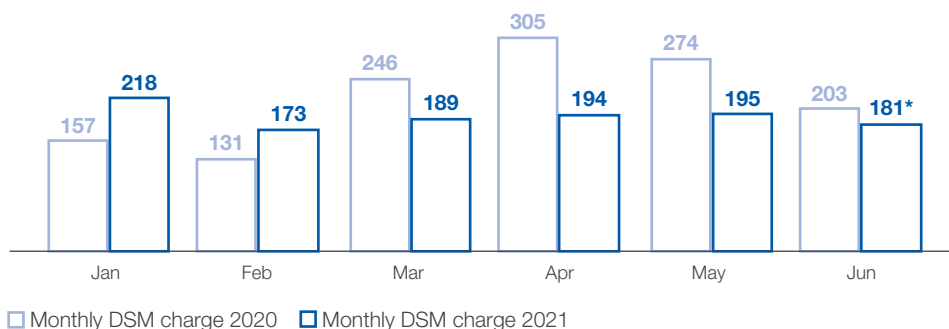
Terna uses the Dispatching Services Market (DSM) to procure dispatching resources to guarantee the security and adequacy of the electricity system.

Dispatching Services Market (DSM)

The net charge for using the DSM was €1,150 million in the first half of 2021 (provisional data), down compared with the same period of the previous year (€1,316 million).

The reduction is primarily due to a decrease in the charge from March onwards compared with the same period of 2020, which was marked by the high costs resulting from the restrictions imposed by the Prime Ministerial Decree of 8 March 2020, as amended, and the emergency conditions caused by Covid-19.

MONTHLY DSM COSTS (€m)

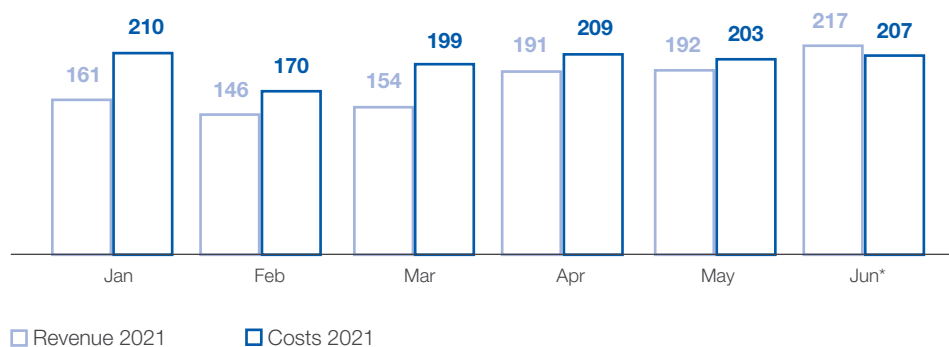


* Provisional data.

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

The total Uplift was €1,198 million in the first half of 2021 (provisional data), down compared with the same period of the previous year (€1,387 million). This reflects an increase in the cost of using the Dispatching Services Market and a reduction in congestion revenue.

MONTHLY PERFORMANCE OF REVENUE AND UPLIFT COSTS (€m)



* Provisional data.

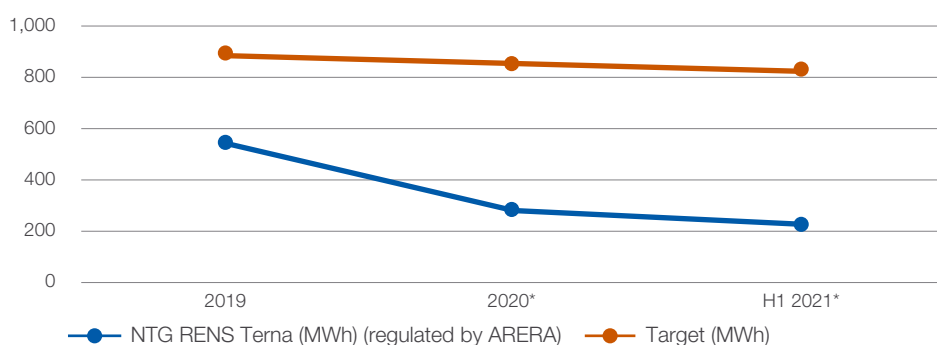
Quality of service

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 the previous three years, a period in which annual targets have not been exceeded, testifying to the high quality of service achieved.

NTG RENS INDICATOR PERFORMANCE⁶



* Provisional data.

The “**NTG RENS**” indicator for the period from January to June 2021 based on preliminary data, amounts to 221 MWh (compared with an annual target of approximately 820 MWh set by ARERA).

As regards the **ASA** indicator, availability was 99.99945% in the first half of 2021, compared with 99.99908% in 2020. 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.

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 events that have occurred, Terna recognised costs of €3.3 million in the first half of 2021 (a positive balance of €0.5 million in the first half of 2020).

⁶ The targets for 2016–2023 have been set as an average of the 2012–2015 RENS indicator, referred to in ARERA Resolution 567/19/R/eel, with a 3.5% improvement in performance required for each year compared with the previous one. Since 2016, Terna's NTG RENS indicator also takes into account the performance of the grid operated by Terna Rete Italia S.r.l. (merged with Terna S.p.A. on 31 March 2017).

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.

Operating results of Regulated Activities

The following table shows a breakdown of the results from the Terna Group's Regulated Activities in the first halves of 2021 and 2020⁷.

	(€m)		
	H1 2021	H1 2020*	CHANGE
Total regulated revenue	1,093.4	1,025.2	68.2
Tariff revenue	1,053.7	992.7	61.0
- Transmission revenue	998.3	939.1	59.2
- Dispatching, metering and other revenue	55.4	53.6	1.8
Other regulated revenue	24.5	24.2	0.3
Revenue from construction services performed under concession in Italy	15.2	8.3	6.9
Total cost of Regulated Activities	211.7	196.5	15.2
Personnel expenses	112.8	114.9	(2.1)
External resources	71.6	65.9	5.7
Other	12.1	7.4	4.7
Cost construction services performed under concession in Italy	15.2	8.3	6.9
EBITDA from Regulated Activities	881.7	828.7	53.0

* Figures published in the Half-year report for 2020.

EBITDA from Regulated Activities amounts to €881.7 million, an increase of €53 million compared with the first half of 2020. This primarily reflects the tariff increase provided for by ARERA Resolution 565/20 and the resulting increase in assets managed.

Regulated Revenue is up €68.2 million, primarily due to the impact on transmission revenue (up €59.2 million) of the increase in the RAB and the accrued amount due as a return on digital substation systems (up €12.9 million in accordance with ARERA Resolution 565/20). The improvement also reflects regulatory incentives (up €7.6 million as a result of ARERA Resolution 579/17 and ARERA Resolution 884/17) and the positive impact of the volume effect. Revenue was also increased by the outcome of the claim for a refund of stamp duty paid on the acquisition of Rete S.r.l. (up €13.4 million). This was offset by the one-off impact of the consolidation of Brugg Cables in the first half of 2020 (down €7 million, calculated on a provisional basis) and recognition, in the first half of 2020, of accrued revenue in the form of the bonus receivable under the RENS (Regulated Energy Not Supplied) incentive mechanism for the 2016-2019 sub-period (€10.1 million), compared with the amount recognised in the first half of 2021 as result of the RENS performance in the 2020-2023 sub-period (€2.9 million).

The **cost of Regulated Activities** is up €15.2 million, primarily reflecting an increase in the cost of maintaining and operating the Group's assets and higher costs for quality of service (up €3.8 million, primarily due to the increased costs incurred in order to mitigate the impact of backfeeds at a number of primary substations due to maintenance work and repairs carried out during the period), as well as the impact of personnel expenses (down €2.1 million) due to an increase in capitalized expenses which more than offset the volume effect resulting the greater size of the average workforce.

⁷ 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 always 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**





INDUSTRIAL TRANSFORMERS – TAMINI GROUP

Order book

Tamini received orders for transformers worth approximately €97.8 million in the first half of 2021, sharply up on the figure for the first half of the previous year (an increase of 72%).

Orders in the Power sector amounted to approximately €75 million, an increase of 66% compared with the first half of 2020. This performance is primarily linked to the award of major contracts in Italy and northern Europe. In addition, Tamini has also been awarded two important framework contracts to produce large transformers in the period 2021-23, worth approximately €60 million.

Orders in the Industrial sector amount to approximately €22 million, sharply up on the figure for the first half of 2020 (an increase of 93%).

Orders for Services in the first half of 2021 amount to approximately €7.4 million, up 46% on the first half of 2020.

The value of factory order books is significantly up compared with the end of 2020 at approximately €130 million.

Results

Revenue for the first half of 2021 is up 16.3% compared with the same period of the previous year. The average volume and size of the transformers being produced and tested have increased significantly. A number of major items of equipment are in the process of being produced and tested, including step-up transformers of between 125 MVA and 290 MVA for compensators, a 400 MVA Power transformer and a phase-shifting transformer for utilities in northern Europe. In addition, a number of 250 MVA ATRs will be produced and tested in 2021.

Vegetable oil transformers

The production of vegetable oil transformers for the Power sector is continuing in 2021. A number of 250 MVA vegetable oil autotransformers are being built at the Legnano plant, one of which was tested during the first half.

TERRESTRIAL CABLES – BRUGG GROUP

The Brugg Group operates in the terrestrial cable sector, producing low through to very high voltage products and specialising in the design, development, construction, installation and maintenance of electrical cables of all voltages and accessories for high and very high-voltage cables.

In line with the Terna Group's strategic objectives, in order to improve the Brugg Group's ability to respond to market needs, limit operational complexity and streamline operations, on 22 January 2021, the board of directors of Brugg Kabel AG launched a new operational framework.

The reorganisation process, which aims to streamline the Brugg Group's activities, consisted of an initial step, on 11 March 2021, involving the establishment of two new companies: Brugg Kabel Services AG and Brugg Kabel Manufacturing AG, both 90%-owned by Terna Energy Solutions S.r.l., to which certain activities of Brugg Kabel AG have been transferred. This was followed by the partial takeover in the Brugg Group and the transfer by Terna Energy Solution S.r.l. of its controlling interests in Brugg Kabel Manufacturing AG and Brugg Kabel AG to Brugg Kabel Services AG. The transaction, completed on 31 March 2021, has further simplified the corporate structure, with Brugg Kabel Services AG now heading the Brugg Group with 100% control of Brugg Kabel Manufacturing AG and a 90% interest in Brugg Kabel AG. Agostino Scornajenchi has been confirmed as the Group's Executive Chairman.

Orders acquired in the first half of 2021 amount to approximately CHF86 million. The High Voltage System segment made a major contribution (CHF55 million), primarily attributable to the Swiss companies, with the remaining orders obtained by overseas subsidiaries. The Low Medium Voltage segment also made a significant contribution (CHF22 million).

CONNECTIVITY FIBRE



Under the framework agreement regarding the provision of fibre infrastructure forming a national and regional backbone, 465 km of fibre was delivered in the first half of 2021. Sections of fibre extending for approximately 1,495 km are due to be delivered by the end of 2021.

An IRU agreement for the use of fibre was entered into with Intercom S.r.l. in the first half of 2021, with 77 km of fibre due to be delivered to the customer in 2021.

An IRU agreement for the use of 952 km of fibre was entered into with Eolo in the first half of 2021, with 645 km to be delivered in 2021. The contract also entails the provision of ancillary services (4 housing sites and fibre maintenance).

Open Fiber project

Intercom S.r.l.

Eolo



ENERGY SOLUTIONS

SMART GRIDS

Sacred Convent of Saint Francis

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.

The system, completed in December 2020, will be powered up by the end of 2021, following the customer's receipt of the necessary permit, which has been applied for.

Avvenia has played an active part 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.

Revamp of photovoltaic plants

The revamp of inverters at a number of plants with total capacity of 16 MW (lot 1), carried out under a contract with the customer, EF Solare, was completed in the first half of 2021. Work on the revamp of a number of units at the Ozieri and Latina 2 plants also began.

The revamp of other inverters for the same customer (lot 2) is also being carried out, with equipment with a capacity of approximately 5 MW due to be completed by the end of 2021 and around a further 10 MW by the end of 2022.

Tratos HV

Preparation and approval of the executive design relating to the turnkey construction contract for a heat recovery cogeneration system, entered into with the customer, Tratos HV, in 2018, was completed in the first half of 2021. Installation work is due to be completed by the end of 2021.

Eni New Energy

A contract to provide engineering services and build an electrochemical storage unit at Assemini (with a capacity of approximately 14 MW) was entered into with Eni New Energy S.p.A. in May 2021.

HIGH VOLTAGE

Acciaierie Venete

With regard to the contract entered into with Acciaierie Venete in February 2021, onsite surveys and procurement were completed in the first half of 2021 and the layout and preliminary design were agreed with the customer. The EPC contract regards the supply of three reactive energy compensation systems (using STATCOM technology). Work on the executive design is in progress.

Energia Emissioni Zero 4 S.r.l. (EDPR Group)

Work began in the first half of 2021 on the contract entered into in January 2021 with Energia Emissioni Zero 4 S.r.l. (an EDPR Group company), regarding the supply of the energy service system for the Monte Mattina HV/MV user to connect the Aquilonia wind farm to the NTG (25.2 MW).

Framework agreement with RFI

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 the first half of 2021, the customer has issued executive contracts for 36 devices, whilst the installation of 10 devices was completed and work began at a further 7 sites.

SMART ISLANDS

In order to take part in the call for tenders for "**Innovative integrated projects for non-interconnected smaller islands**", published by the Ministry for Economic Development on 28 October 2020, Terna Energy Solutions has drawn up preliminary designs for the island of Pantelleria, supporting SMEDE, the island's Electricity Operator, during preparation of the necessary documentation. The outcome of the tender process is due to be announced at the end of September 2021.

PRIVATE INTERCONNECTORS PURSUANT TO LAW 99/2009

Terna is responsible for managing routine and special maintenance activities and operating the interconnector in return for an annual fee. The infrastructure was completed on 28 December 2019 and is owned by Monita Interconnector S.r.l., which was sold to the private backers on 17 December 2019.

Out of a total of approximately 95 km of cable for the Italian end of the interconnection, at 31 March 2021, the laying of cable for the entire section running along the A32 motorway, through the Frejus motorway tunnel and along other roads outside the A32 motorway have been completed. In addition, at 30 June 2021, the laying of fibre has been completed, whilst installation of the monitoring systems is nearing completion. The civil works for the Piosasco converter station and assembly of all the electromechanical equipment has been completed. 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, including 26 km on the Italian side, 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 the special purpose vehicle, Resia, submitting an exemption application to the Ministry for Economic Development. The Ministry then submitted the exemption application to ARERA to enable the regulator to issue its opinion. On 17 November 2020, ARERA granted its approval for the issue of the exemption decree to Resia.

On 17 June 2021, Resia received confirmation of the exemption from the Ministry for Economic Development (for capacity of 150 MW for a period of 10 years), following ARERA's issue of a positive opinion.

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/Beričevó (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.

*Italy-Montenegro
interconnector project*

*Italy-France
interconnector project*

*Italy-Austria
interconnector project*

*Italy-Switzerland
interconnector project*

*Italy-Slovenia interconnector
project*

Operating results of Non-regulated Activities

The following table shows a breakdown of the results from the Terna Group's Non-regulated Activities in the first halves of 2021 and 2020⁸.

	(€m)		
	H1 2021	H1 2020*	CHANGE
Revenue from Non-regulated activities	162.6	145.6	17.0
Industrial	115.1	103.4	11.7
- Brugg	61.6	57.4	4.2
- Tamini	53.5	46.0	7.5
Connectivity	22.6	15.8	6.8
Energy Solutions	17.0	16.1	0.9
- High Voltage	11.6	12.7	(1.1)
- Smart Grids	5.4	3.4	2.0
Private interconnectors	5.8	7.5	(1.7)
Other	2.1	2.8	(0.7)
Cost of Non-regulated Activities	131.1	105.9	25.2
EBITDA from Non-regulated Activities	31.5	39.7	(8.2)

* Figures published in the Half-year report for 2020.

EBITDA from Non-regulated Activities in the first half of 2021 amounts to €31.5 million, a reduction of €8.2 million compared with same period of the previous year. This broadly reflects the one-off revenue recognised in the first half of 2020 as a result of the higher value of the net assets acquired following the acquisition of Brugg Cables compared with the consideration paid (the gain resulting from a bargain purchase, totalling €14.4 million, calculated on a provisional basis), partially offset by an increase in revenue from the provision of Connectivity services (up €6.8 million, primarily revenue from IRU contracts for fibre).

⁸ 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

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; in this area, Terna has acquired specific expertise in managing consents processes, project management and management of the power lines built;

Energy solutions: this includes all high value-added non-traditional activities aimed at exporting the experience Terna has acquired 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.

Latin America continued to witness a worsening of the situation brought about by Covid-19 in the first half 2021. At 30 June 2021, 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.

Construction work is proceeding in Brazil thanks to the implementation of specific health protocols. Operation and maintenance activities are taking place under measures introduced in line with Terna's standards and local requirements.

In Peru, after the suspension of work in response to measures introduced by the government in 2020, onsite activity restarted in line with local regulations and the best practices applied by the Terna Group. The infrastructure was completed and entered service in May 2021.

Initiatives in progress in South America



URUGUAY

Activities connected with the line that has entered service continued in the first half of 2021.



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 the first half of 2021.

Onsite activity and engineering work and the acquisition of rights and easements for the **SPE Transmissora de energia Linha Verde II S.A.** project continued. This is the first of the two concessions covered by the preliminary agreement with Construtora Quebec, regarding the construction of a 160-km 500kV power line in the State of Minas Gerais.

Engineering work and the acquisition of rights and easements for the second concession covered by the above agreement, **SPE Transmissora de Energia Linha Verde I S.A.**, also continued. This project involves 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

The 132-km 138kV power line between Aguaytia and Pucallpa entered commercial service on 16 May 2021.

Construction and commissioning were completed in the first half of 2021, followed by the line's entry into service in May.

Operating results of International Activities

The following table shows a breakdown of the results from the Terna Group's International Activities in the first halves of 2021 and 2020⁹.

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)		
	H1 2021	H1 2020	CHANGE
Revenue from International Activities	2.7	12.3	(9.6)
Cost of International Activities	5.4	4.7	0.7
EBITDA from International Activities	(2.7)	7.6	(10.3)

Negative EBITDA from International Activities, amounting to €2.7 million for the first half of 2021, marks a deterioration of €10.3 million compared with same period of the previous year. This primarily reflects unexpected costs and a slowdown in construction activity in Brazil, caused by the impact of the Covid-19 pandemic, and one-off revenue in the first half of 2020 relating to a penalty applied to a supplier in Uruguay in connection with contract work concluded in October 2019.



⁹ 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.

“ As a major transmission and dispatching operator, we invest in skills, technology and innovation to ensure that we are well equipped to plan, develop and maintain the grid (Transmission Operator), and guarantee an electricity service that is balanced, secure and high quality (System Operator).

Italy and Terna are at the centre of a system that includes 26 interconnections with neighbouring countries: this gives us a leading role to play in energy integration in Europe and the Mediterranean area. This know-how is also applied in our Non-regulated and International activities. ”

#electricitysystem #ecologicaltransition #DrivingEnergy

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Performance

Financial review

for the first half of 2021

In order to report on the Terna Group's operating performance and analyse its financial position, this section includes management accounts prepared in line with industry best practice. These reclassified statements contain alternative performance measures (APMs, as defined in the guidance provided by ESMA/2015/1415), which management considers to be useful in assessing the performance of the Group and representative of the business's operating results and financial position.

The criteria used in constructing these indicators are the same as those used in the Annual Report. Details are provided in the Annex, "Alternative performance measures (APMs)".

Basis of presentation

The measurement and recognition criteria applied in this Half-year Report are consistent with those adopted in the consolidated financial statements for the year ended 31 December 2020. Comparative amounts for the first half of 2020 are the same as those published in the Half-year Report for 2020, without taking into account the impact of completion of the process of accounting for the business combination involving the Brugg Group at the end of 2020. The effects are shown below in the reconciliation between the "published" and "restated" amounts for the first half of 2020.

The Group's reclassified income statement

The Terna Group's operating results for the first half of 2021, compared with those for the same period of the previous year, and for the second quarters of 2021 and 2020 are summarised in the following reclassified income statement, obtained by reclassifying amounts in the statutory consolidated income statement.

Q2					(€m)			
2021	2020	CHANGE	% CHANGE		H1 2021	H1 2020	CHANGE	% CHANGE
636.9	615.6	21.3	3.5%	TOTAL REVENUE	1,258.7	1,183.1	75.6	6.4%
556.7	508.6	48.1	9.5%	- Regulated revenue	1,093.4	1,025.2	68.2	6.7%
8.7	4.1	4.6	112.2%	of which Revenue from construction services performed under concession	15.2	8.3	6.9	83.1%
83.8	101.7	(17.9)	(17.6%)	- Non-Regulated revenue	162.6	145.6	17.0	11.7%
(3.6)	5.3	(8.9)	(167.9%)	- International revenue	2.7	12.3	(9.6)	(78.0%)
180.0	173.8	6.2	3.6%	TOTAL OPERATING COSTS	348.2	307.1	41.1	13.4%
72.4	76.8	(4.4)	(5.7%)	- Personnel expenses	145.1	143.4	1.7	1.2%
44.5	39.6	4.9	12.4%	- Cost of services, leases and rentals	85.2	76.1	9.1	12.0%
46.7	44.3	2.4	5.4%	- Materials	86.1	65.3	20.8	31.9%
5.7	8.8	(3.1)	(35.2%)	- Other costs	13.3	14.5	(1.2)	(8.3%)
2.0	0.2	1.8	-	- Quality of service	3.3	(0.5)	3.8	-
8.7	4.1	4.6	112.2%	- Cost of construction services performed under concession	15.2	8.3	6.9	83.1%
456.9	441.8	15.1	3.4%	GROSS OPERATING PROFIT (EBITDA)	910.5	876.0	34.5	3.9%
162.9	150.1	12.8	8.5%	- Amortisation, depreciation and impairment losses	325.7	302.3	23.4	7.7%
294.0	291.7	2.3	0.8%	OPERATING PROFIT (EBIT)	584.8	573.7	11.1	1.9%
(19.3)	(19.8)	0.5	(2.5%)	- Net financial income/(expenses)	(41.1)	(39.1)	(2.0)	5.1%
274.7	271.9	2.8	1.0%	PROFIT/(LOSS) BEFORE TAX	543.7	534.6	9.1	1.7%
79.4	78.6	0.8	1.0%	- Income tax expense for the period	157.7	155.0	2.7	1.7%
195.3	193.3	2.0	1.0%	PROFIT FOR THE PERIOD	386.0	379.6	6.4	1.7%
1.1	2.4	(1.3)	(54.2%)	- Profit/(Loss) attributable to non-controlling interests	1.4	2.1	(0.7)	(33.3%)
194.2	190.9	3.3	1.7%	PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	384.6	377.5	7.1	1.9%

(€m)			
EBITDA BY OPERATING SEGMENT	H1 2021	H1 2020	CHANGE
Regulated Activities	881.7	828.7	53.0
Non-regulated Activities	31.5	39.7	(8.2)
International Activities	(2.7)	7.6	(10.3)
EBITDA	910.5	876.0	34.5

Gross operating profit (EBITDA) for the first half of 2021 amounts to **€910.5 million**, up €34.5 million on the €876 million of the first half of 2020. This primarily reflects an improvement in EBITDA from Regulated Activities.

Revenue

(€m)

REGULATED ACTIVITIES	H1 2021	H1 2020	CHANGE
Tariff revenue	1,053.7	992.7	61.0
Other regulated revenue	24.5	24.2	0.3
Revenue from construction services performed under concession	15.2	8.3	6.9
TOTAL	1,093.4	1,025.2	68.2

Revenue from **Regulated Activities** is up €68.2 million, primarily reflecting the impact on transmission revenue of the increase in the RAB, the accrued amount due as a return on digital substation systems and the positive impact of the increase in assets managed.

(€m)

NON-REGULATED ACTIVITIES	H1 2021	H1 2020	CHANGE
Industrial (Brugg Group and Tamini Group)	115.1	103.4	11.7
Services for third parties (Connectivity, Energy Solutions, other)	41.7	34.7	7.0
Private interconnectors	5.8	7.5	(1.7)
TOTAL	162.6	145.6	17.0

Revenue from **Non-regulated Activities** is up €17.0 million, primarily reflecting increased contributions from the Tamini Group and the Brugg Group (up €7.5 million and €4.2 million, respectively). The performance reflects the fact that the figure for the first half of 2020 reflected one-off revenue recognised as a result of the higher value of the net assets acquired following the acquisition of Brugg Cables compared with the consideration paid (the gain resulting from a bargain purchase, totalling €14.4 million, calculated on a provisional basis), and an increase in revenue from the provision of Connectivity services (up €6.8 million, primarily revenue from IRU contracts for fibre).

Revenue from **International Activities** is down €9.6 million, due primarily to unexpected costs and the slowdown in activity caused partly by the impact of the Covid-19 pandemic on construction work in Brazil. The performance also reflects one-off revenue relating to a penalty applied to a supplier in Uruguay in connection with contract work concluded in October 2019.

Revenue rose €21.3 million in the second quarter of 2021, compared with the same period of the previous year, primarily due to the items referred to above. It should be noted that, in the first quarter of 2020, Brugg, acquired on 29 February 2020, was valued at cost.

Costs

Operating costs, excluding the cost of construction services performed under concession (up €6.9 million), are up €34.2 million compared with the first half of the previous year. This broadly reflects consolidation of the costs resulting from the operations of the Brugg Group and the Tamini Group (up €18.2 million and €7 million, respectively), an increase in costs for quality of service (up €3.8 million, primarily due to the increased costs incurred in order to mitigate the impact of backfeeds at a number of primary substations due to maintenance work and repairs carried out during the period) and an increase in operation and maintenance (O&M) costs, essentially due to the greater volume of assets managed.

In the second quarter of 2021, **costs** were up on the same period of the previous year (€6.2 million), broadly due to the items referred to above and the fact that, in the first quarter of 2020, Brugg was valued at cost.

Amortisation, depreciation and impairment losses for the period amount to €325.7 million, an increase of €23.4 million compared with the first half of 2020, primarily due to the entry into service of new infrastructure.

Operating profit (**EBIT**), after amortisation, depreciation and impairment losses, amounts to **€584.8 million**, compared with the €573.7 million of the first half of 2020 (an increase of 1.9%).

Net financial expenses for the period total €41.1 million and primarily regard the Parent Company (€33.8 million). The figure is up €2.0 million on the €39.1 million of the first six months of 2020, due primarily to the adjustment to the value of investments in associates.

After net financial expenses, **profit before tax** amounts to **€543.7 million**, an increase of €9.1 million compared with the first half of 2020 (up 1.7%).

Income tax expense for the period totals €157.7 million, an increase of €2.7 million compared with the first half of 2020 (up 1.7%). The tax rate of 29% is thus in line with the rate for the first half of 2020.

Profit for the period amounts to **€386.0 million**, up €6.4 million (1.7%) compared with the €379.6 million of the first half of 2020.

Profit for the period attributable to owners of the Parent (after excluding the share attributable to non-controlling interests) amounts to **€384.6 million**, up €7.1 million (1.9%) compared with the €377.5 million of the first half of 2020.

Reconciliation of the “published” and “restated” amounts for the first half of 2020

	H1 2020 (AS PUBLISHED)	RESTATEMENT	H1 2020 (RESTATED)
TOTAL REVENUE	1,183.1	54.9	1,238.0
TOTAL OPERATING COSTS	307.1	5.7	312.8
GROSS OPERATING PROFIT (EBITDA)	876.0	49.2	925.2
- Amortisation, depreciation and impairment losses	302.3	1.6	303.9
- Net financial income/(expenses)	(39.1)	-	(39.1)
- Income tax expense for the period	155.0	3.4	158.4
PROFIT FOR THE PERIOD	379.6	44.2	423.8
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	377.5	39.4	416.9

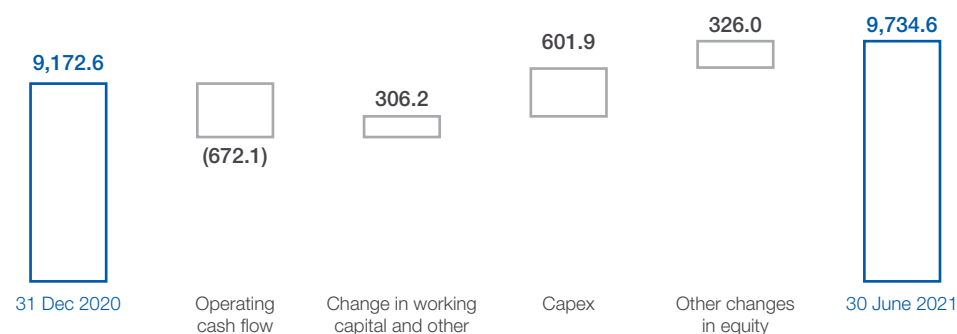
Compared with the “published” amounts, “restated” gross operating profit (EBITDA) and profit attributable to owners of the Parent for the first half of 2020 are €49.2 million and €39.4 million higher. This primarily reflects the impact of the restated amount of the gain resulting from a bargain purchase recognised following the business combination involving the Brugg Group.

Cash flow

Operating cash flow for the first half of 2021 was used entirely to finance investing activities. The impact of movements in trading and tax assets and liabilities with respect to 2020, and payment of the final dividend to shareholders, has resulted in an increase in net debt.

	(€m)	
	CASH FLOW H1 2021	CASH FLOW H1 2020
- Profit for the period	386.0	379.6
- Amortisation, depreciation and impairment losses	325.7	302.3
- Net change in provisions	(30.8)	(48.1)
- Net losses/(gains) on sale of assets	(8.8)	(3.1)
Operating cash flow	672.1	630.7
- Change in net working capital	(296.6)	(405.5)
- Other changes in property, plant and equipment and intangible assets	15.0	(9.1)
- Change in investments	0.4	(2.5)
- Change in financial assets	(25.0)	30.2
Cash flow from operating activities	365.9	243.8
- Total capital expenditure	(601.9)	(428.0)
Free cash flow	(236.0)	(184.2)
- Dividends paid to the Parent Company's shareholders	(359.0)	(332.3)
- Cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent	40.2	(69.5)
- Other movements in equity attributable to non-controlling interests	(7.2)	(1.8)
Change in net debt	(562.0)	(587.8)

CHANGE IN NET DEBT (€m)



The Group's reclassified statement of financial position

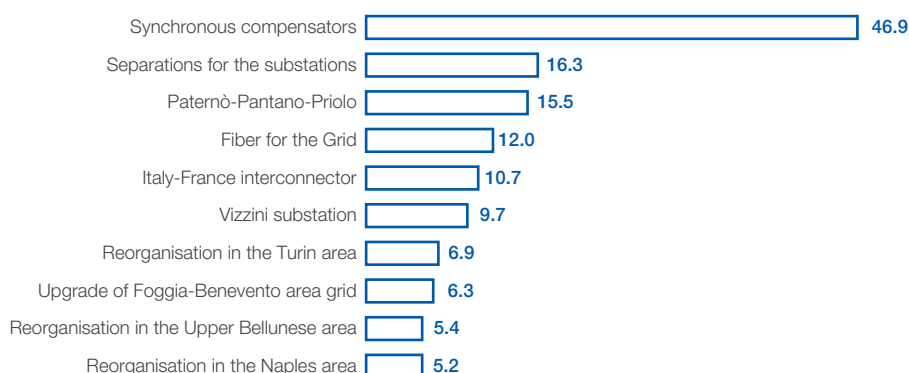
The Terna Group's financial position at 30 June 2021 and 31 December 2020 is summarised below in the reclassified statement of financial position, obtained by reclassifying amounts in the statutory consolidated statement of financial position.

	(€m)		
	AT 30 JUNE 2021	AT 31 DECEMBER 2020	CHANGE
Total net non-current assets	15,939.9	15,645.9	294.0
- Intangible assets and goodwill	582.4	577.9	4.5
- Property, plant and equipment	14,824.6	14,559.7	264.9
- Financial assets	532.9	508.3	24.6
Total net working capital	(1,639.0)	(1,936.2)	297.2
- Net energy-related pass-through payables	(331.0)	(385.0)	54.0
- Net receivables resulting from Regulated Activities	308.0	230.9	77.1
- Net trade payables	(532.2)	(818.0)	285.8
- Net tax liabilities	(82.0)	40.5	(122.5)
- Other net liabilities	(1,001.8)	(1,004.6)	2.8
Gross invested capital	14,300.9	13,709.7	591.2
Sundry provisions	(90.5)	(121.3)	30.8
NET INVESTED CAPITAL	14,210.4	13,588.4	622.0
Equity attributable to owners of the Parent	4,435.6	4,369.8	65.8
Equity attributable to non-controlling interests	40.2	46.0	(5.8)
Net debt	9,734.6	9,172.6	562.0
TOTAL	14,210.4	13,588.4	622.0

The €294.0 million increase in **net non-current assets** compared with 31 December 2020 primarily reflects a combination of the following:

- total capital expenditure of €601.9 million, as described in the section on "Regulated Activities";
- an increase of €24.6 million in financial assets, broadly due to the fees due on infrastructure operated under concession in Brazil (up €15.6 million, reflecting amounts collected and the overall impact of the improvement in the exchange rate between the Brazilian real and euro) and an increase in the Interconnector Guarantee Fund, set up to fund investment in interconnections by art. 32 of Law 99/09 (up €8.6 million);
- amortisation and depreciation for the period, totalling €326.2 million;
- disposals and impairment losses resulting in a reduction of €4.8 million and other changes during the period, amounting a reduction of €1.5 million.

The Terna Group's **total capital expenditure** during the first half of 2021, amounting to **€601.9 million**, is up **40.6%** compared with the €428 million of the same period of 2020.

MAIN CAPITAL EXPENDITURE IN THE NTG* (€m)

* Amounts include financial expenses.

Net working capital (net current liabilities) of €1,639.0 million resulted in a cash outflow of €297.2 million compared with 31 December 2020. This reflects the combined effect of:

Cash outflows

- a reduction of €285.8 million in **net trade payables**, largely reflecting the payment of amounts due as a result of the greater volume of capital expenditure carried out towards the end of the previous year;
- a decrease in **net energy-related pass-through payables** of €54.0 million compared with the end of 2020, primarily reflecting the combined effect of:
 - an increase in the amount receivable for the Uplift component (€237.6 million) which, after the impact of factoring transactions completed at the end of 2020 (€78.7 million), reflects increased costs incurred during the period (€158.9 million);

partially offset by

- an increase in net payables relating to essential plants for the security of the electricity system - *UESS* (€206.1 million), reflecting items collected during the period after payments made in 2021¹⁰;
- an increase of €77.1 million in **net receivables resulting from Regulated Activities**, primarily reflecting an increase in amounts receivable for transmission services as a result of revised tariffs, recognition of the accrued amount due as a return on digital substation systems in accordance with ARERA Resolution 565/20, and the impact of the incentive mechanisms¹¹ provided for in the regulations governing transmission fees. The change also reflects a difference in the volume of receivables assigned during the two periods (up €25.6 million);
- a reduction in **other net liabilities** of €2.8 million, primarily due to the reduction in the amount payable as stamp duty refunded in 2019 (down €13.4 million) and linked to the acquisition of Rete S.r.l. (December 2015), after an increase in the Interconnector Guarantee Fund set up by Terna S.p.A. following the issue of the 2016 Stability Law (up €10.0 million).

¹⁰ ARERA ordered payments to the owners of essential plants via Resolutions 9-20-30-42-52-67-94-95-118-203//2021.

¹¹ Efficiency bonus for I-NPR1 and O-NPR1 works completed by 30 September 2020 (in accordance with Resolution 579/2017), a bonus for work carried out in 2018 and 2019 in preparation for output-based regulation (in accordance with Resolution 884/2017) and the bonus linked to unification of the NTG following the purchase of assets from Arvedi Trasmissione in May 2021 (in accordance with Resolution 567/2019).

Cash inflows

- an increase of €122.5 million in **net tax assets**, broadly due to the increase of €78.9 million in net VAT payable in line with the reduction in trade payables, and an increase in the amount of income tax payable for the period, after payments on account in the first half and the settlement of tax due for the previous year (up €40.4 million).

Gross invested capital thus amounts to €14,300.9 million, an increase of €591.2 million compared with 31 December 2020.

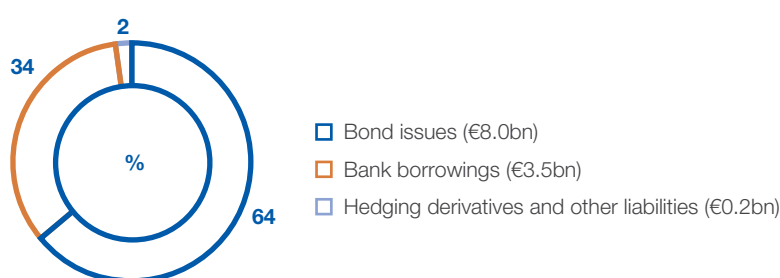
Sundry provisions are down €30.8 million, primarily due to net uses of provisions relating to quality of service (down €6.9 million), early retirement incentives (down €5.3 million), staff incentives plans (down €11.3 million) and to fund urban and environmental redevelopment schemes (down €5.1 million).

Net invested capital of €14,210.4 million is up €622.0 million compared with 31 December 2020 and is financed by equity attributable to owners of the Parent, totalling €4,435.6 million (compared with €4,369.8 million at 31 December 2020), equity attributable to non-controlling interests of €40.2 million (€46.0 million at 31 December 2020) and net debt of €9,734.6 million (up €562.0 million compared with the €9,172.6 million of 31 December 2020).

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 30 June 2021 amounts to approximately **€12 billion**, consisting of approximately €8 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.



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 the first half of 2021. From **January 2021**, Terna in fact became 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 this regard, on **16 June 2021**, Terna launched a **green bond issue** for institutional investors, with a nominal value of **€600 million**. The issue was very popular with investors, with demand topping €2.2 billion and making the bonds around four times oversubscribed. The green bond has a term of eight years, will mature on 23 June 2029 and pays coupon interest of 0.375%. Terna has now issued green bonds worth €2.6 billion. From 13 July 2021, the green bond was also included in Borsa Italiana's ExtraMOT PRO segment.

The **ESG-linked share buyback programme** to service the Performance Share Plan 2021-2025 was completed on **23 June 2021**. Under the programme, Terna has purchased 1,569,292 own shares (equal to 0.078% of its share capital) at a total cost of approximately €10 million. In keeping with Terna's commitment to sustainability and social and environmental responsibility, the programme includes a mechanism based on bonuses and penalties linked to the Company's achievement of specific environmental, social and governance objectives.

On **16 July 2021**, Terna launched a three-year Euro Commercial Paper programme (ECP) worth €1 billion. The commercial papers can be designated "**ESG Notes**" provided that Terna achieves and maintains a ranking equal to or above Bronze Class in the S&P Sustainability Yearbook for the Electric Utilities sector.

In addition, from **February 2020**, Terna's CFO has participated in 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.

Finally, Terna, both individually and as a member of the above Corporate Forum on Sustainable Finance, will continuously monitor developments in European legislation, with particular regard to the impact of the EU's sustainable finance taxonomy.

Key events relating to finance during the first half of 2021 are described below:

- on **8 June 2021**, Terna renewed its **Euro Medium Term Note (EMTN) Programme**. As part of the renewal, the maximum value of the programme was increased to €9,000,000,000;
- on **13 July 2021**, Terna obtained a new **loan of €300 million from the European Investment Bank**. The loan has a term of approximately 22 years and will be used to fund the 2021-2025 "Driving Energy" Industrial Plan. The loan, which was obtained on more competitive terms and has a longer duration than those available in the market, forms part of Terna's strategy designed to optimise its financial structure.

The Group's **net debt** at 30 June 2021 amounts to €9,734.6 million, an increase of €562.0 million compared with 31 December 2020.

	(€m)		
	30 JUNE 2021	31 DECEMBER 2020	CHANGE
NET DEBT (BY TERM TO MATURITY)			
Total medium/long-term debt	9,734.9	10,019.8	(284.9)
- Bond issues	7,013.5	7,485.7	(472.2)
- Borrowings	2,559.2	2,374.5	184.7
- Derivative financial instruments	162.2	159.6	2.6
Total short-term debt/(funds)	(0.3)	(847.2)	846.9
- Bond issues (current portions)	999.9	1,258.8	(258.9)
- Short-term borrowings	702.1	1,002.2	(300.1)
- Borrowings (current portions)	239.5	129.2	110.3
- Other current financial liabilities net	58.5	80.4	(21.9)
- Financial assets	(525.9)	(628.8)	102.9
- Cash and cash equivalents	(1,474.4)	(2,689.0)	1,214.6
Total net debt	9,734.6	9,172.6	562.0
NET DEBT (BY TYPE OF INSTRUMENT)			
- Bond issues	8,013.4	8,744.5	(731.1)
- Borrowings	2,798.7	2,503.7	295.0
- Short-term borrowings	702.1	1,002.2	(300.1)
- Derivative financial instruments	162.2	159.6	2.6
- Other financial liabilities net	58.5	80.4	(21.9)
Gross debt	11,734.9	12,490.4	(755.5)
- Financial assets	(525.9)	(628.8)	102.9
- Cash and cash equivalents	(1,474.4)	(2,689.0)	1,214.6
Total net debt	9,734.6	9,172.6	562.0

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

- a reduction in bond issues (down €731.1 million), primarily following repayment of the bond issue launched by Terna S.p.A. in March 2011, totalling €1,250 million, partially offset by the green bond issue launched by Terna on 16 June 2021, with a nominal value of €600 million;
- an increase in bank borrowings (up €295.0 million), primarily as a result of the drawdown of new bank facilities, amounting to €343.0 million, after repayments of existing borrowings;
- a reduction in short-term borrowings (down €300.1 million), essentially due to the Parent Company's repayment of amounts obtained under short-term credit facilities;
- an increase in the fair value of derivative financial instruments (up €2.6 million), primarily due to movements in market interest rates;
- a reduction in other net financial liabilities (down €21.9 million) following payment, in the first half of 2021, of accrued interest on financial products;
- a reduction in financial assets (down €102.9 million), primarily due to the redemption of Italian government securities reaching maturity (down €100.0 million) and movements in the prices of Italian government securities held by the Group;
- a decrease in cash and cash equivalents (down €1,214.6 million). Cash amounts to €1,474.4 million at 30 June 2021, and includes €1,079.0 million invested in short-term, readily convertible deposits and €395.4 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 the first half of 2021 and the corresponding amounts for the Parent Company is shown below.

(€m)

	PROFIT FOR H1 2021	EQUITY AT 30 JUNE 2021
Parent Company's financial statements	364.6	4,119.3
Profit and equity contributed by Group companies:		
- Group companies – Regulated Activities	34.5	315.1
- Group companies – Non-regulated Activities	(0.7)	58.3
- Group companies – International Activities	(12.0)	(47.6)
Companies accounted for using the equity method	(0.4)	30.7
Total consolidated financial statements	386.0	4,475.8
Share attributable to non-controlling interests – Regulated Activities	-	2.3
Share attributable to non-controlling interests – Non-regulated Activities	1.2	36.9
Share attributable to non-controlling interests – International Activities	0.2	1.0
Terna Group's consolidated financial statements	384.6	4,435.6



Terna's shares

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 June 2021, the share price has risen 270% (a capital gain)**, providing a Total Shareholder Return (TSR¹²) of 832%, ahead of both the Italian market (the FTSE MIB, up 64%) and the relevant European sector index (DJ Stoxx Utilities), which is up 279%.

Europe's leading stock markets ended the first half of 2021 in positive territory, driven by expectations of an economic recovery. Milan rose 12.9% and Paris and Frankfurt were up 17.2% and 10.7%, respectively, whilst Madrid rose 9.3% and London 8.9%.

Performance of Terna's shares

Against this backdrop, Terna's shares closed the half at €6.284 per share, having risen 0.54%. The daily average volume traded during the period amounted to approximately 5.6 million. It should be noted that 21 June was the ex-dividend date for the final dividend for 2020, amounting to 17.86 euro cents per share.

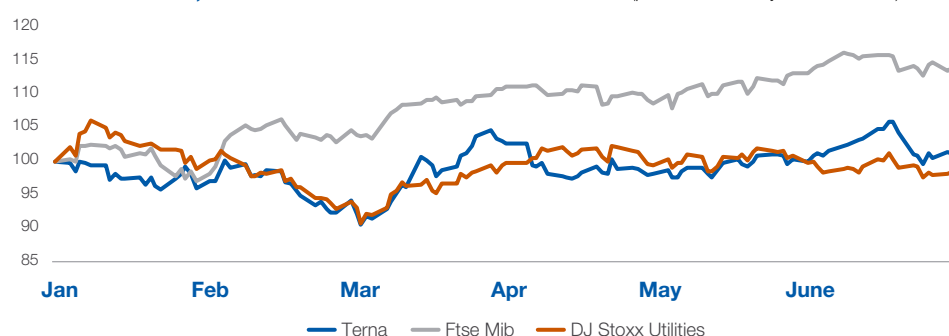
PERFORMANCE OF TERNA'S SHARES (Share price performance from 1 January to 30 June 2021)



Source: Bloomberg

¹² Total Shareholder Return (TSR): total return on an equity investment, calculated as the sum of:

- I. 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;
- II. 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.

TERNA'S SHARES, THE FTSE MIB AND DJ STOXX UTILITIES (price from 1 January to 30 June 2021)


Terna's share price rose 0.54% in the first half of 2021, outperforming the relevant European sector index (DJ Stoxx Utilities), which fell 2.88%. The FTSE MIB, on the other hand, ended the first six months of 2021 up 12.9%.

TOTAL SHAREHOLDER RETURN ON TERNA'S SHARES AND THE FTSE MIB AND DJ STOXX UTILITIES (from the flotation to the end of June 2021)

WEIGHTING OF TERNA'S SHARES

> on the FTSE MIB

H1 2021

H1 2020

2.12%

2.74%

Source: Borsa Italiana

Ratings

	SHORT-TERM	MEDIUM/LONG-TERM	OUTLOOK
Terna S.p.A.			
Standard & Poor's	A-2	BBB+	Stable
Moody's	Prime-2	Baa2	Stable
Scope	S-1	A-	Stable
Repubblica Italiana			
Standard & Poor's	A-2	BBB	Stable
Moody's	Prime-3	Baa3	Stable
Scope	S-2	BBB+	Negative

Terna's ratings were unchanged in the first half 2021 compared with 2020. In addition, the Company's long-term ratings all remained above those assigned to the Italian state.

It should be remembered that, 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 issuer as "BBB+", "Baa2", "BBB+" and "A-", respectively, acknowledging Terna central role in driving and enabling the ecological transition.

As part of efforts to optimise overheads, in December 2020, the Company requested Fitch to cease rating the Group. In response, the agency withdrew its ratings in March 2021.

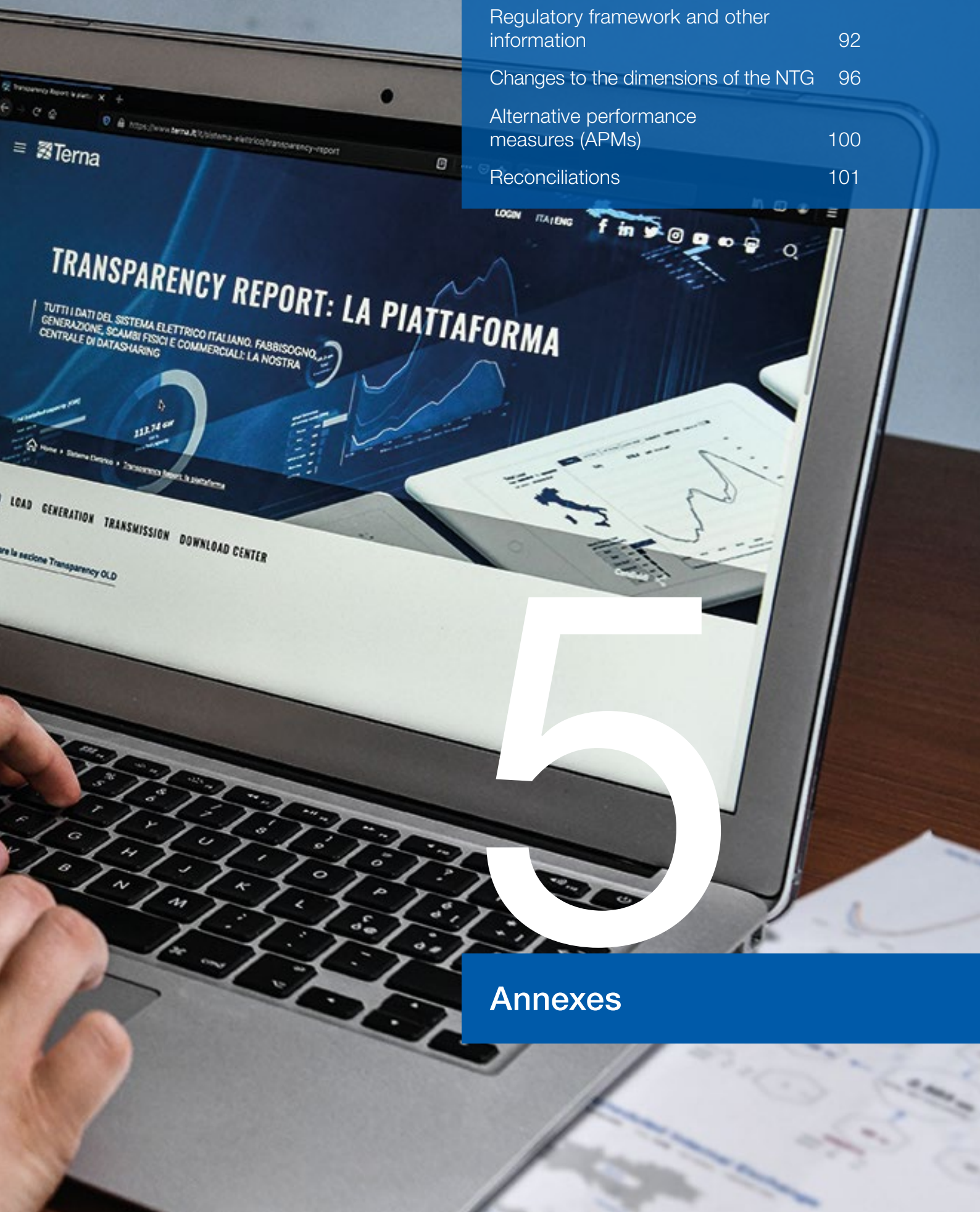


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Regulatory framework and other information

Summary of the principal legislative measures

The most important new legislation introduced in the first half of 2021 includes the so-called *Sostegni I* Law Decree (no. 41/2021), the Law Decree establishing the Complementary Fund for the National Recovery and Resilience Plan or “NRRP” (no. 59/2021) and the European Delegation Law (Law no. 53/2021).

Sostegni I Law Decree

Law Decree 41 of 22 March 2021, containing “Urgent measures concerning support for businesses and economic operators, employment, health and local services connected with the Covid-19 emergency”, converted into Law 69 of 21 May 2021 and published in Official Gazette no. 120 of 21 May 2021, contains a number of provisions of interest relating to a web tax and tax returns, cuts to electricity bills, employment and funding for businesses in temporary financial difficulty.

NRRP Fund

Law Decree 59 of 6 May 2021, containing “Urgent measures concerning the Complementary Fund for the National Recovery and Resilience Plan and other urgent measures on investment”, converted into Law 101 of 1 July 2021 and published in Official Gazette no. 160 of 6 July 2021, has approved the National Plan for Complementary Investment with the aim of providing an additional €30,622.46 million in resources to finance the NRRP between 2021 and 2026. Measures relating to cold ironing and the development and cohesion fund are of interest.

European Delegation Law

Law 53 of 22 April 2021, containing the “Delegation to the Government for the transposition of EU directives and implementation of European legislation – European Delegation Law 2019-2020”, published in Official Gazette no. 97 of 23 April 2021, contains a number of principles and criteria of interest relating to the implementation of EU directives on the internal electricity market and promoting the use of renewable energy.

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 2021 and up to the date of preparation of this Half-year Report.

ARERA determinations relating to the recognition of transmission and dispatching costs

- **Resolution 271/2021/R/com** - Start of the procedure for the adoption of measures concerning an approach based on "Regulation by Expenditure and Service Targets" to establishing the methods and criteria used in determining the allowed cost of regulated infrastructure services in the electricity and gas sectors.

ARERA determinations relating to transmission and dispatching activities

- **Determination 2/2021** - Action plan for implementation of the new tariff regime regarding reactive energy.
- **Resolution 33/2021/R/eel** - The establishment of Regional Coordination Centres (RCCs) for the (SOR) Central Europe region, in accordance with 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 changes to Annex A.18 to the Code for Transmission, Dispatching and Grid Development and Security.
- **Resolution 44/2021/R/eel** - Bonus mechanism for the upgrade of production plants to meet the requirements regarding defence of the electricity system in accordance with Regulation (EU) 2017/2196.
- **Resolution 55/2021/R/eel** - Compliance review of the new version of the national black start plan, as revised following Area Resolution 324/2020/R/eel.
- **Resolution 64/2021/R/eel** - Measures concerning the resilience of the 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/ee.
- **Resolution 109/2021/R/eel** - Provision of the transmission, distribution and dispatching service for electricity withdrawn designed to enable it to be fed back into the grid.
- **Resolution 215/2021/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 service regulating frequency and load using resources not previously enabled.
- **Resolution 217/2021/E/eel** - Start of the process of complying with the Council of State ruling on non-diligent planning strategies for electricity.
- **Resolution 218/2021/R/eel** - Measures implementing single coupling in the intraday electricity market.

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 2021-2025, in the period between 31 May 2021 and 23 June 2021, the Parent Company purchased 1,569,292 own shares (equal to 0.078% of the share capital). These shares are in addition to the 1,525,900 own shares purchased by the Company in 2020. As a result, Terna S.p.A. now holds a total of 3,095,192 treasury shares (equal to 0.154% of the share capital). The Company does not hold any additional treasury shares, including through subsidiaries¹³.

The Parent Company does not directly or indirectly hold any shares in CDP Reti S.p.A. or Cassa Depositi e Prestiti S.p.A., nor has it purchased or sold any such shares during the first half.

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 first half of 2021 include transactions with associates 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").

Related party transactions in the first half of 2021 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 2020¹⁴.

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 CONSOB¹⁵.

¹³ In this regard, see the press release published on 28 June 2021, available at the following link: https://download.terna.it/terna/Terna_operazioni_su_azioni_proprie_conclusione_programma_8d93a651f5f9ffb.pdf

¹⁴ 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.

¹⁵ 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.

No material transactions¹⁶ were carried out in the first half of 2021, nor were any transactions subject to the reporting requirements applicable in the event of exemptions applied in accordance with the relevant regulations¹⁷.

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.

¹⁶ These are related party transactions classified in compliance with Annex 3 to the "Regulations on related party transactions".

¹⁷ 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".

Changes to 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 2020.

DETAILS OF ELECTRICITY SUBSTATIONS OWNED BY THE TERNA GROUP*

	UNIT OF MEASUREMENT	AT 30 JUNE 2021	AT 31 DECEMBER 2020	CHANGE	% CHANGE
380kV					
Substations	no.	167	166	1	0.60%
Power transformed	MVA	119,708	119,458	250	0.21%
220kV					
Substations	no.	146	146	-	-
Power transformed	MVA	32,727	32,397	330	1.02%
Lower voltages (≤ 150kV)					
Substations	no.	579	577	2	0.35%
Power transformed	MVA	4,352	3,972	380	9.57%
Total					
Substations	no.	892	889	3	0.34%
Power transformed	MVA	156,787	155,827	960	0.62%

* 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*

UNIT OF MEASUREMENT		AT 30 JUNE 2021	AT 31 DECEMBER 2020	CHANGE	% CHANGE
380kV					
Length of circuits	km	12,868	12,867	1	0.01%
Length of lines	km	11,686	11,686	-	-
220kV					
Length of circuits	km	11,842	11,847	(5)	(0.04%)
Length of lines	km	9,472	9,477	(5)	(0.05%)
Lower voltages (≤ 150kV)					
Length of circuits	km	49,999	50,009	(10)	(0.02%)
Length of lines	km	46,761	46,790	(29)	(0.06%)
Total					
Length of circuits	km	74,708	74,723	(15)	(0.02%)
overhead	km	70,735	70,780	(45)	(0.06%)
underground cables	km	2,211	2,181	30	1.37%
submarine cables	km	1,762	1,762	-	-
Length of lines	km	67,920	67,954	(34)	(0.05%)
overhead	km	63,947	64,010	(63)	(0.10%)
underground cables	km	2,211	2,181	30	1.37%
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	-	-

* 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

Substations

New infrastructure:

The following substations have **entered service**:

- switching substation at Porto Torres 2 [SS] (5 150kV bays);

and the following have been **purchased**:

- switching substation at Arvedi ST [CR] (5 380kV bays);
- switching substation at Serra del Vento [PA] (4 150kV bays).

In addition:

inclusion, among non-standard infrastructure, of the Sant'Eusanio disconnector [CH] (5 150kV bays);

retirement of the Diano Marina switching substation [IM] (2 66kV bays) and the non-standard Fusina disconnector [VE] (1 220kV bay).

Existing infrastructure:

construction of 9 new line bays for the substations at Presenzano (1 380kV bay), Partanna and Porto Torres 1 (1 150kV bay each), Salvemini and Saluzzo Nord (2 132kV bays each), Arquata RT (1 132kV bay) and Brennero (1 110kV bay);

construction of 4 new machine bays for the substations at Belcastro (1 380kV bay and 1 150kV bay), Salvemini (1 132kV bay) and Brennero (1 110kV bay);

construction of 5 new parallel bays for the substations at Belcastro (1 380kV bay and 1 150kV bay), Pisticci (1 150kV bay), Saluzzo North (1 132kV bay) and Brennero (1 110kV bay);

construction of 6 new available bays for the substations at Belcastro (4 150kV bays), Pisticci (1 150kV bay), Saluzzo North (1 132kV bay) and Brennero (1 110kV bay);

demolition of 3 132kV bays at the South West substation [TO].

Transformers

The following transformers **entered service**:

1 new 132kV 190 MVA phase shifting transformer for the Brennero substation;

1 new 380/150kV 250 MVA autotransformer for the Genzano substation;

1 new 132/110kV 190 MVA autotransformer for the Brennero substation;

and the following **further changes** occurred:

replacement of 2 220/132kV 160 MVA autotransformers with other 250 MVA autotransformers at the Campochiesa and Novara South substations.

Replacement of 1 220/132 kV 100 MVA autotransformer with another 250 MVA autotransformer at the Erzelli substation.

Power lines

construction of the new 150kV Melilli - Priolo PS line (5.9 km in cable);

construction of the new 132kV Modena North – Modena east line (5.0 km in cable);

construction of the new 132kV Rivoli - Paracca line (4.4 km in cable);

construction of the new 132kV Pirelli - Figline line (3.9 km in cable);

construction of the new 132kV Lodi PS - FS Lodi line (0.8 km in cable);

construction of the new short 150kV connection from Porto Torres 2 to Nurra 2 PS (0.1 km overhead);

purchase from Arvedi Trasmissione of the 132kV Padriciano - Elettra GLT line (10.3 km in cable);

construction of 8 in-out derivations with an overall increase of the same number of circuits and 0.5 km of circuit, including: addition of 1 line and 0.2 km at 380kV, 6 lines and 0.1 km at 150kV, 1 line and 0.5 km at 132 kV;

construction of variants, rigid derivations, re-routings and/or changes to grid distribution

removing a total of 2 lines and 6.8 km of circuit, including: the addition of 1 line and 0.2 km at 220 kV and 2.3 km at 150 kV, the removal of 2 lines and 1.7 km of circuit at 132 kV, the addition of 1 line and removal of 1.7 km of circuit at 110 kV, the removal of 1 line at 66kV, 1 line and 9.4 km of circuit at 50kV;

demolition and/or retirement of 7 lines amounting to 19.3 km of circuit: Rivoli - Paracca 132kV (in fibre cable, equal to 4.5 km), Pirelli - Figline 132kV (overhead, equal to 3.4 km), Lucca Ronco - Ospedaletto 132kV (overhead from pylon 6 to pylon 136, equal to 3.3 km), Lizzana - Pista 132kV (overhead, equal to 2.5 km), Lodi PS - FS Lodi 132kV (overhead, equal to 0.8 km), Diano Marina - Albenga RT 66kV (overhead from Diano Marina to pylon 144, equal to 2.4 km), Arma di Taggia RT - Diano Marina 66kV (overhead from pylon 20 to Diano Marina, equal to 2.4 km).

Alternative performance measures (APMs)

In accordance with the guidelines in ESMA/2015/1415, the APMs used in this Half-year 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 Terna Group's reclassified income statement and statement of financial position and net debt and cash flows 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	1,093.4	"Revenue from sales and services", totalling €1,231.5 million, "Other revenue and income", totalling €40.2 million, after the cost of International Activities, "Raw and consumable materials used", totalling €12.8 million, "Services", totalling €0.1 million and "Other operating costs" of €0.1 million
Non-Regulated revenue	162.6	
Revenue from International Activities	2.7	
Personnel expenses	145.1	"Personnel expenses" after the cost of construction services performed under concession in Italy in accordance with IFRIC 12 (€3.0 million)
Cost of services, leases and rentals	85.2	"Services" after the cost of construction services performed under concession in Italy in accordance with IFRIC 12 (€9.8 million) and the cost of International Activities (€0.1 million)
Materials	86.1	"Raw and consumable materials used" after the cost of construction services performed under concession in Italy in accordance with IFRIC 12 (€2.4 million) and the cost of International Activities (€12.8 million)
Other costs	13.3	"Other operating costs" after the cost of International Activities (€0.1 million)
Quality of service	3.3	
Cost of construction services performed under concession	3.0	"Personnel expenses"
	9.8	"Services"
	2.4	"Raw and consumable materials used"
Net financial income/ (expenses)	(41.1)	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	532.9	"Investment accounted for using the equity method", "Other non-current assets" and "Non-current financial assets", after the value of fair value hedges (€42.4 million)
Net energy-related pass-through payables	(331.0)	"Trade receivables" relating to the value of energy-related pass-through receivables (€1,184.1 million) and "Trade payables" relating to the value of energy-related pass-through payables (€1,515.1 million)
Net receivables resulting from Regulated Activities	308.0	"Trade receivables" relating to the value of receivables resulting from Regulated Activities (€319.3 million) and "Trade payables" relating to the value of payables resulting from Regulated Activities (€11.3 million)
Net trade payables	(532.2)	"Trade payables" after the value of energy-related pass-through payables (€1,515.1 million) and payables resulting from Regulated Activities (€11.3 million) and "Trade receivables" after the value of energy-related pass-through receivables (€1,184.1 million) and the value of receivables resulting from Regulated Activities (€319.3 million)
Net tax liabilities	(82.0)	"Tax assets", "Other current assets" relating to the value of other tax assets (€17.9 million), "Other current liabilities" relating to the value of other tax liabilities (€69.2 million) and "Tax liabilities"
Other liabilities, net	(1,001.8)	"Other non-current liabilities", "Other current liabilities" after other tax liabilities (€69.2 million), "Inventories" and "Other current assets" after other tax assets (€17.9 million) and "Discontinued operations held for sale"
Sundry provisions	(90.5)	"Employee benefits", "Provisions for risks and charges" and "Deferred tax assets"
Net debt	9,734.6	"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 (€42.4 million)

THE GROUP'S ANALYSIS OF NET DEBT	€M	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
"Bond issues" and "Borrowings"	10,812.1	Corresponds with "Long-term borrowings" and "Current portions of long-term borrowings"
"Derivative financial instruments" – medium- and long-term	162.2	Corresponds with "Non-current financial liabilities" and "Non-current financial assets" relating to the value of fair value hedges (€42.4 million)
Other financial liabilities, net	58.5	Corresponds with "Current financial assets" relating to the value of accrued financial income (€19.1 million) and "Current financial liabilities"
Financial assets	(525.9)	Corresponds with "Current financial assets" relating to the value of government securities (€504.1 million) and the short-term portion of IFRIC 12 (€21.8 million)

RECONCILIATION OF THE TERNA GROUP'S CASH FLOW

	CASH FLOW H1 2021	RECONCILIATION WITH FINANCIAL STATEMENTS	CASH FLOW H1 2020	RECONCILIATION WITH FINANCIAL STATEMENTS
- Profit for the period	386.0		379.6	
- Amortisation, depreciation and impairment losses	325.7		302.3	
- Net change in provisions	(30.8)		(48.1)	
Employee benefits		(2.8)		0.1
Provisions for risks and charges		(29.7)		(14.2)
Deferred tax assets		1.7		(34.0)
- Net losses/(gains) on sale of assets (1)	(8.8)		(3.1)	
Operating cash flow	672.1		630.7	
- Change in net working capital:	(296.6)		(405.5)	
Inventories		1.6		(25.5)
Trade receivables		(479.5)		(170.0)
Income tax assets		4.2		(2.5)
Other current assets		7.4		(28.8)
Trade payables		63.2		(197.5)
Income tax liabilities		36.2		24.4
Other liabilities		70.3		(5.6)
- Other changes in non-current assets	(9.6)		18.6	
Intangible assets (2)		(0.5)		-
Property, plant and equipment (3)		15.5		(9.1)
Non-current financial assets		(24.5)		30.2
Other non-current assets		(0.5)		-
Investments accounted for using the equity method		0.4		(2.5)
Cash flow from operating activities	365.9		243.8	
Capital expenditure				
- Total Capital expenditure	(601.9)		(428.0)	
Property, plant and equipment (3)		(560.4)		(398.7)
Intangible assets (2)		(41.5)		(29.3)
Total cash flow from (for) investing activities	(601.9)		(428.0)	
Free cash flow	(236.0)		(184.2)	
- Cash flow hedge reserve after taxation and other movements in equity attributable to owners of the Parent (4)	40.2		(69.5)	
- Other movements in equity attributable to non-controlling interests	(7.2)		(1.8)	
- Dividends paid to Parent Company's shareholders (4)	(359.0)		(332.3)	
Change in net debt	(562.0)		(587.8)	
- Change in borrowings	(652.6)		759.5	
Non-current financial assets		51.8		(40.5)
Current financial assets		93.5		(7.5)
Non-current financial liabilities		(49.2)		73.4
Long-term borrowings		(287.5)		(1,181.5)
Short-term borrowings		(300.1)		641.6
Current portion of long-term borrowings		(148.6)		1,276.0
Current financial liabilities		(12.5)		(2.0)
Change in cash and cash equivalents	(1,214.6)		171.7	

(1) Included in "Other revenue and income" and "Other operating costs", respectively, 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.





**CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
AT AND FOR THE SIX MONTHS
ENDED 30 JUNE 2021**



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Consolidated financial statements

Consolidated income statement

		(€m)	
	NOTE	H1 2021	H1 2020
A – REVENUE			
1. Revenue from sales and services	1	1,231.5	1,165.4
<i>of which related parties</i>		879.3	835.7
2. Other revenue and income	2	40.2	85.2
<i>of which related parties</i>		0.5	2.4
Total revenue		1,271.7	1,250.6
B – OPERATING COSTS			
1. Raw and consumable materials used	3	101.3	84.6
<i>of which related parties</i>		-	0.1
2. Services	4	95.1	80.5
<i>of which related parties</i>		4.4	4.4
3. Personnel expenses	5	148.1	146.3
- gross personnel expenses		195.7	183.3
- capitalised personnel expenses		(47.6)	(37.0)
<i>of which related parties</i>		1.6	1.4
4. Amortisation, depreciation and impairment losses	6	325.7	303.9
5. Other operating costs	7	16.7	14.0
<i>of which related parties</i>		0.1	0.1
Total operating costs		686.9	629.3
A-B OPERATING PROFIT/(LOSS)		584.8	621.3
C – FINANCIAL INCOME/(EXPENSES)			
1. Financial income	8	10.6	7.7
2. Financial expenses	8	(51.3)	(49.0)
<i>of which related parties</i>		-	(0.3)
3. Share of profit/(loss) of investees accounted for using the equity method	9	(0.4)	2.2
D – PROFIT/(LOSS) BEFORE TAX		543.7	582.2
E – INCOME TAX EXPENSE FOR THE PERIOD	10	157.7	158.4
F – PROFIT FOR THE PERIOD		386.0	423.8
<i>Profit attributable to owners of the Parent</i>		384.6	416.9
<i>Profit attributable to non-controlling interests</i>		1.4	6.9
Earnings per share	11		
Basic earnings per share		0.192	0.207
Diluted earnings per share		0.192	0.207

Consolidated statement of comprehensive income*

		(€m)	
	NOTE	H1 2021	H1 2020
PROFIT FOR THE PERIOD		386.0	423.8
Other comprehensive income for the period reclassifiable to profit or loss			
- Cash flow hedges	24	39.9	(67.0)
- Financial assets at fair value through other comprehensive income	24	(1.7)	(0.1)
- Gains/(Losses) from translation of financial statements in currencies other than the euro	24	3.8	(18.0)
- Cost of hedges	24	0.2	13.6
Other comprehensive income for the period not reclassifiable to profit or loss			
- Actuarial gains/(losses) on provisions for employee benefits	24	1.6	-
COMPREHENSIVE INCOME FOR THE PERIOD		429.8	352.3
COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Parent		428.3	345.4
Non-controlling interests		1.5	6.9

* Amounts are shown net of tax where applicable.

Consolidated statement of financial position

		(€m)	
	NOTE	AT 30.06.2021	AT 31.12.2020
A – NON-CURRENT ASSETS			
1. Property, plant and equipment	12	14,824.6	14,559.7
<i>of which related parties</i>		21.4	54.4
2. Goodwill	13	230.1	230.1
3. Intangible assets	14	352.3	347.8
4. Deferred tax assets	15	110.1	111.8
5. Investments accounted for using the equity method	16	75.4	75.8
6. Non-current financial assets	17	480.5	507.8
7. Other non-current assets	18	19.4	18.9
Total non-current assets		16,092.4	15,851.9
B – CURRENT ASSETS			
1. Inventories	19	64.8	66.4
2. Trade receivables	20	1,725.3	1,245.2
<i>of which related parties</i>		214.0	234.1
3. Current financial assets	17	545.0	638.5
4. Cash and cash equivalents	21	1,474.4	2,689.0
<i>of which related parties</i>		0.1	0.1
5. Income tax assets	22	5.5	9.7
6. Other current assets	18	120.9	128.3
Total current assets		3,935.9	4,777.1
C – Discontinued operations and assets held for sale	23	1.3	1.3
TOTAL ASSETS		20,029.6	20,630.3

(continues)

(continues)

(€m)

	NOTE	AT 30.06.2021	AT 31.12.2020
D – EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
1. Share capital		442.2	442.2
2. Other reserves		646.3	613.2
3. Retained earnings/(accumulated losses)		2,962.5	2,711.6
4. Interim dividend		-	(182.7)
5. Profit for the period		384.6	785.5
Total equity attributable to owners of the Parent	24	4,435.6	4,369.8
E - EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS			
	24	40.2	46.0
Total equity attributable to owners of the Parent and non-controlling interests		4,475.8	4,415.8
F – NON-CURRENT LIABILITIES			
1. Long-term borrowings	25	9,572.7	9,860.2
2. Employee benefits	26	58.9	61.7
3. Provisions for risks and charges	27	141.7	171.4
4. Non-current financial liabilities	25	204.6	253.8
5. Other non-current liabilities	28	840.7	836.7
Total non-current liabilities		10,818.6	11,183.8
G – CURRENT LIABILITIES			
1. Short-term borrowings	25	702.1	1,002.2
2. Current portion of long-term borrowings	25	1,239.4	1,388.0
3. Trade payables	29	2,280.5	2,217.3
<i>of which related parties</i>		54.0	80.4
4. Income tax liabilities	29	36.2	-
5. Current financial liabilities	25	77.6	90.1
6. Other current liabilities	29	399.4	333.1
<i>of which related parties</i>		16.1	20.3
Total current liabilities		4,735.2	5,030.7
TOTAL LIABILITIES AND EQUITY		20,029.6	20,630.3

Consolidated statement of changes in equity

31 DECEMBER 2020 - 30 JUNE 2021 GROUP'S SHARE CAPITAL AND RESERVES

	SHARE CAPITAL	LEGAL RESERVE	SHARE PREMIUM RESERVE	CASH FLOW HEDGE RESERVE	TREASURY SHARES RESERVE
EQUITY AT 31 DECEMBER 2020	442.2	88.4	20.0	(216.9)	(9.5)
PROFIT FOR THE PERIOD	-	-	-	-	-
OTHER COMPREHENSIVE INCOME:					
- Change in fair value of cash flow hedges	-	-	-	39.9	-
- 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	-	-	-	0.2	-
Total other comprehensive income	-	-	-	40.1	-
COMPREHENSIVE INCOME	-	-	-	40.1	-
TRANSACTIONS WITH SHAREHOLDERS:					
- Appropriation of profit for 2020:					
Retained earnings	-	-	-	-	-
Dividends	-	-	-	-	-
- Purchase of treasury shares	-	-	-	-	(10.0)
Total transactions with shareholders	-	-	-	-	(10.0)
Other changes	-	-	-	-	-
Stock option reserve	-	-	-	-	-
Total other changes	-	-	-	-	-
EQUITY AT 30 JUNE 2021	442.2	88.4	20.0	(176.8)	(19.5)

31 DECEMBER 2019 - 30 JUNE 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 PERIOD	-	-	-	-	-
OTHER COMPREHENSIVE INCOME:					
- Change in fair value of cash flow hedges	-	-	-	(67.0)	-
- 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	-	-	-	13.6	-
Total other comprehensive income	-	-	-	(53.4)	-
COMPREHENSIVE INCOME	-	-	-	(53.4)	-
TRANSACTIONS WITH SHAREHOLDERS:					
- Appropriation of profit for 2019:					
Retained earnings	-	-	-	-	-
Dividends	-	-	-	-	-
- Purchase of treasury shares	-	-	-	-	(0.5)
Total transactions with shareholders	-	-	-	-	(0.5)
Contribution from newly acquired companies	-	-	-	-	-
Other changes	-	-	-	-	-
Total other changes	-	-	-	-	-
EQUITY AT 30 JUNE 2020	442.2	88.4	20.0	(205.3)	(0.5)

(€m)

OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE PERIOD 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
731.2	2,711.6	(182.7)	785.5	4,369.8	46.0	4,415.8
-	-	-	384.6	384.6	1.4	386.0
-	-	-	-	39.9	-	39.9
1.6	-	-	-	1.6	-	1.6
-	3.7	-	-	3.7	0.1	3.8
(1.7)	-	-	-	(1.7)	-	(1.7)
-	-	-	-	0.2	-	0.2
(0.1)	3.7	-	-	43.7	0.1	43.8
(0.1)	3.7	-	384.6	428.3	1.5	429.8
-	243.8	-	(243.8)	-	-	-
-	-	182.7	(541.7)	(359.0)	-	(359.0)
-	-	-	-	(10.0)	-	(10.0)
-	243.8	182.7	(785.5)	(369.0)	-	(369.0)
1.4	3.4	-	-	4.8	(7.3)	(2.5)
1.7	-	-	-	1.7	-	1.7
3.1	3.4	-	-	6.5	(7.3)	(0.8)
734.2	2,962.5	-	384.6	4,435.6	40.2	4,475.8

(€m)

OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	INTERIM DIVIDEND	PROFIT FOR THE PERIOD 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
-	-	-	416.9	416.9	6.9	423.8
-	-	-	-	(67.0)	-	(67.0)
-	-	-	-	-	-	-
-	(18.0)	-	-	(18.0)	-	(18.0)
(0.1)	-	-	-	(0.1)	-	(0.1)
-	-	-	-	13.6	-	13.6
(0.1)	(18.0)	-	-	(71.5)	-	(71.5)
(0.1)	(18.0)	-	416.9	345.4	6.9	352.3
-	255.8	-	(255.8)	-	-	-
-	-	169.2	(501.5)	(332.3)	(4.5)	(336.8)
-	-	-	-	(0.5)	-	(0.5)
-	255.8	169.2	(757.3)	(332.8)	(4.5)	(337.3)
-	-	-	-	-	2.7	2.7
(1.5)	1.4	-	-	(0.1)	-	(0.1)
(1.5)	1.4	-	-	(0.1)	2.7	2.6
723.6	2,717.5	-	416.9	4,202.8	46.7	4,249.5

Consolidated statement of cash flows

		(€m)	
	NOTE	H1 2021	H1 2020
PROFIT FOR THE PERIOD		386.0	423.8
ADJUSTED BY:			
Amortisation, depreciation and impairment losses /(reversals of impairment losses) on non-current property, plant and equipment and intangible assets*	6	322.8	300.5
Accruals to provisions (including provisions for employee benefits) and impairment losses		7.0	12.7
(Gains)/Losses on sale of property, plant and equipment		(8.8)	(3.1)
Financial (income)/expense	8	41.0	40.5
Income tax expense		157.7	158.3
Other non-cash movements		1.7	(73.0)
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN NET WORKING CAPITAL		907.4	859.7
Increase/(decrease) in provisions (including provisions for employee benefits and taxation)		(38.2)	(44.1)
(Increase)/decrease in inventories		1.6	(8.4)
(Increase)/decrease in trade receivables and other current assets		(467.4)	(176.6)
Increase/(decrease) in trade payables and other current liabilities		118.2	(212.9)
Increase/(decrease) in other non-current liabilities		6.8	(1.9)
(Increase)/decrease in other non-current assets		(25.2)	51.2
Interest income, dividends and other financial income received		11.6	8.7
Interest expense and other financial expenses paid		(102.2)	(98.8)
Income tax paid		(124.1)	(143.3)
CASH FLOW FROM OPERATING ACTIVITIES [A]		288.5	233.6
- of which related parties		(10.5)	339.9
Investments in non-current property, plant and equipment after grants received	12	(552.7)	(385.6)
Revenue from sale of non-current property, plant and equipment and intangible assets and other movements		14.3	6.7
Capitalised financial expenses		5.0	4.4
Investments in non-current intangible assets after grants received	14	(41.5)	(29.3)
(Increase)/decrease in investments in associates and joint operations	16	0.4	(2.5)
Movements in long- medium- and short-term financial investments		100.0	(21.2)
Consideration paid for new acquisitions net of cash		-	(4.3)
CASH FLOW FOR INVESTING ACTIVITIES [B]		(474.5)	(431.8)
- of which related parties		33.0	31.1
Movement in the reserve for treasury shares	24	(10.0)	(0.5)
Dividends paid		(343.0)	(330.0)
Movements in short- and medium/long-term financial liabilities (including short-term portion)**		(671.7)	697.7
Increase/(decrease) in retained earnings and accumulated losses	24	3.4	-
Increase/(decrease) in non-controlling interests in equity	24	(7.3)	2.7
CASH FLOW FROM FINANCING ACTIVITIES [C]		(1,028.6)	369.9
INCREASE/(DECREASE) IN CASH AND EQUIVALENTS [A+B+C]		(1,214.6)	171.7
Cash and cash equivalents at beginning of period		2,689.0	1,057.4
Cash and cash equivalents at end of period		1,474.4	1,229.1

* After grants related to assets recognised in the income statement for the period.

** After derivatives and impact of fair value adjustments, including cash movements in right-of-use assets.



Notes

A. Accounting policies and measurement criteria

Introduction

The registered office of Terna S.p.A. (the “Parent Company”) is at Viale Egidio Galbani 70, Rome, Italy. The condensed consolidated interim financial statements at and for the six months ended 30 June 2021 include the Company’s financial statements and those of its subsidiaries (the “Group”), in addition to the Group’s interests in associates and joint ventures. The subsidiaries included within the scope of consolidation are listed below.

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.

Compliance with IAS/IFRS and basis of presentation

The condensed consolidated interim financial statements at and for the six months ended 30 June 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) 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”) at the above date and used in the consolidated financial statements at and for the year ended 31 December 2020, with the exception of new standards or amendments effective from 1 January 2021.

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”).

In particular, the Group’s condensed consolidated interim financial statements for the first half of 2021, prepared in compliance with IAS 34, do not include all the information required in the annual financial statements and should be read in conjunction with the consolidated financial statements at and for the year ended 31 December 2020.

These condensed consolidated interim financial statements contain selected disclosures, whilst the statements are consistent with those included in the annual financial statements.

Certain amounts in the financial statements at and for the six months ended 30 June 2020 have been restated to take into account completion of the process of accounting for the business combination involving the Brugg Group at the end of 2020. The effects (shown in the "Restatement" column) are presented below, showing items in the consolidated income statement and consolidated statement of financial position affected by the restatement and the resulting changes to the amounts reported in the condensed consolidated interim financial statements at and for the six months ended 30 June 2020, included in the "H1 2020 (as published)" column.

CONSOLIDATED INCOME STATEMENT

	(€m)		
	H1 2020 (AS PUBLISHED)	RESTATEMENT	H1 2020 (RESTATE)
A – REVENUE			
1. Revenue from sales and services	1,162.1	3.3	1,165.4
<i>of which related parties</i>	835.7	-	835.7
2. Other revenue and income	33.6	51.6	85.2
<i>of which related parties</i>	2.4	-	2.4
Total revenue	1,195.7	54.9	1,250.6
B – OPERATING COSTS			
1. Raw and consumable materials used	79.1	5.5	84.6
<i>of which related parties</i>	0.1	-	0.1
2. Services	80.5	-	80.5
<i>of which related parties</i>	4.4	-	4.4
3. Personnel expenses	146.1	0.2	146.3
- gross personnel expenses	183.1	0.2	183.3
- capitalised personnel expenses	(37.0)	-	(37.0)
<i>of which related parties</i>	1.4	-	1.4
4. Amortisation, depreciation and impairment losses	302.3	1.6	303.9
5. Other operating costs	14.0	-	14.0
<i>of which related parties</i>	0.1	-	0.1
Total operating costs	622.0	7.3	629.3
A-B OPERATING PROFIT/(LOSS)	573.7	47.6	621.3
C – FINANCIAL INCOME/(EXPENSES)			
1. Financial income	7.7	-	7.7
2. Financial expenses	(49.0)	-	(49.0)
<i>of which related parties</i>	(0.3)	-	(0.3)
3. Share of profit/(loss) of investees accounted for using the equity method	2.2	-	2.2
D – PROFIT/(LOSS) BEFORE TAX	534.6	47.6	582.2
E – INCOME TAX EXPENSE	155.0	3.4	158.4
F – PROFIT FOR THE PERIOD	379.6	44.2	423.8
<i>Profit attributable to owners of the Parent</i>	<i>377.5</i>	<i>39.4</i>	<i>416.9</i>
<i>Profit attributable to non-controlling interests</i>	<i>2.1</i>	<i>4.8</i>	<i>6.9</i>
Earnings per share			
Basic earnings per share	0.188	0.020	0.207
Diluted earnings per share	0.188	0.020	0.207

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(€m)

	30 JUNE 2020 (AS PUBLISHED)	RESTATEMENT	30 JUNE 2020 (RESTATED)
A – NON-CURRENT ASSETS			
1. Property, plant and equipment	14,002.7	52.2	14,054.9
<i>of which related parties</i>	14.2	-	14.2
2. Goodwill	230.1	-	230.1
3. Intangible assets	311.5	9.4	320.9
4. Deferred tax assets	98.0	(6.1)	91.9
5. Investments accounted for using the equity method	81.9	-	81.9
6. Non-current financial assets	461.6	6.1	467.7
7. Other non-current assets	15.9	-	15.9
Total non-current assets	15,201.7	61.6	15,263.3
B – CURRENT ASSETS			
1. Inventories	76.4	4.3	80.7
2. Trade receivables	1,461.2	9.6	1,470.8
<i>of which related parties</i>	52.8	-	52.8
3. Current financial assets	526.8	-	526.8
4. Cash and cash equivalents	1,229.1	-	1,229.1
<i>of which related parties</i>	0.1	-	0.1
5. Income tax assets	7.7	-	7.7
6. Other current assets	91.5	29.0	120.5
Total current assets	3,392.7	42.9	3,435.6
TOTAL ASSETS	18,594.4	104.5	18,698.9

(€m)

	30 JUNE 2020 (AS PUBLISHED)	RESTATEMENT	30 JUNE 2020 (RESTATED)
C – EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
1. Share capital	442.2	-	442.2
2. Other reserves	627.7	(1.5)	626.2
3. Retained earnings/(accumulated losses)	2,718.6	(1.1)	2,717.5
4. Profit for the period	377.5	39.4	416.9
Total equity attributable to owners of the Parent	4,166.0	36.8	4,202.8
D – EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	41.9	4.8	46.7
Total equity attributable to owners of the Parent and non-controlling interests	4,207.9	41.6	4,249.5
E – NON-CURRENT LIABILITIES			
1. Long-term borrowings	8,299.2	22.9	8,322.1
2. Employee benefits	64.0	0.6	64.6
3. Provisions for risks and charges	196.1	(2.2)	193.9
4. Non-current financial liabilities	233.8	-	233.8
5. Other non-current liabilities	829.0	1.6	830.6
Total non-current liabilities	9,622.1	22.9	9,645.0
F – CURRENT LIABILITIES			
1. Short-term borrowings	666.6	-	666.6
2. Current portion of long-term borrowings	1,402.5	2.1	1,404.6
3. Trade payables	2,247.7	3.6	2,251.3
<i>of which related parties</i>	53.1	-	53.1
4. Income tax liabilities	36.2	3.7	39.9
5. Current financial liabilities	85.7	-	85.7
6. Other current liabilities	325.7	30.6	356.3
<i>of which related parties</i>	22.8	-	22.8
Total current liabilities	4,764.4	40.0	4,804.4
TOTAL LIABILITIES AND EQUITY	18,594.4	104.5	18,698.9

Use of estimates

Preparation of condensed consolidated interim financial statements at and for the six months ended 30 June 2021 required management 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.

It should also be noted that certain measurement processes, above all those of a complex nature relating to the estimate of potential impairments of non-current assets, are generally only fully carried out during preparation of the annual financial statements, when all the necessary information is available, unless events or changes in circumstances indicate that there may be an impairment requiring the immediate measurement of a loss. In a similar manner, the actuarial valuations necessary in order to quantify employee benefits are normally carried out at the time of preparation of the annual financial statements.

The estimates and underlying assumptions are reviewed periodically and the effects of any changes are recognised in the income statement if the changes relate solely to that period. In the case that the revision affects both the period in which the revision takes place and future periods, the change is recognised from the reporting period in which the estimate is reviewed and in future periods.

Assessment of the impact of Covid-19

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

This assessment was conducted in view of the provisions of IAS 1, which requires an entity's 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 section, "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, in the second half of 2020, work had already restarted on the various construction projects halted by the initial lockdown. In the current year, Terna is continuing to focus attention on prevention by raising awareness, providing information and through our *Sicuri Insieme* campaign. At the same time, we are focusing on the adoption of a new way of working in what is commonly referred to as the "new normal" post-pandemic, having embarked on a specific reorganisation plan that we have called NexTerna. This plan is described in the sections, "Terna and the Covid-19 emergency" and "Our people".

Assessment of the impact of the Covid-19 pandemic on the presentation and measurement of items in the condensed consolidated interim 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

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".

closely monitored the development of the Covid-19 pandemic and its potential impact on individual items in the Group's condensed consolidated interim financial statements.

Non-financial assets, investments and intangible assets with indefinite useful lives (Goodwill)

Assessment of the impact of the outbreak of the pandemic has not resulted in the need to write down the value of the Group's property, plant and equipment, intangible assets with finite useful lives or goodwill at 30 June 2021. 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 project in Peru, which led to recognition of an impairment loss in 2020.

With regard to the recoverable amount of property, plant and equipment, intangible assets with finite useful lives forming part of the RAB (regulated asset base) and goodwill allocated to the "Transmission" CGU, 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, seen at the beginning of the emergency and already reversed in 2020, 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.

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 been slightly 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.

Financial instruments

The negative effects of the pandemic, which will continue to be seen in 2021, have not, despite the generally poor macroeconomic environment, had a major impact on the Group's financial instruments.

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

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

In terms of recoverable amount, it should be noted that the outbreak of the pandemic did not lead to any deterioration in the receivables due from the Group's main counterparties (dispatching customers for injections or for withdrawals and distributors) in 2020 or in early 2021, given that such counterparties are considered solvent by the market and therefore have 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. In addition, the Company has been assigned Baa2/BBB+/A- ratings by Moody's, S&P and Scope, remaining one notch above Italy's sovereign rating. With regard to financial statement items measured at fair value, none of the borrowings and the related hedges accounted for under hedge accounting have, given their nature, been significantly impacted in view of the existing hedging relationship and the strength of counterparties. Moreover, the pandemic and the related effects have not led to changes in the related hedging relationships or in the underlyings, consisting of both past and future transactions.

Revenue recognition

In 2020, the Group 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. In addition, the significant improvement in our results for the first six months of 2021 and the related volume of demand for energy have confirmed the above assumptions.

Employee benefits

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

Deferred tax assets

Following the assessment of the effects of the Covid-19 pandemic and the related developments, it was not necessary to revise earlier assessments of the recoverability of deferred tax assets, also in view of our results for the first six months of the current year.

Subsidiaries and scope of consolidation

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

The companies included within the scope of consolidation are listed below:

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
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 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%	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. The Company 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; provision of all types of product and service, construction, electrical and civil engineering work; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				
SPE Santa Maria Transmissora de Energia S.A.	Rio de Janeiro (Brazil)	Real	42,474,716	99.99%*	Line-by-line
Business	Provision of public electricity transmission services, including construction, operation and maintenance of transmission infrastructure or any other activity necessary in order to fulfil the above purpose.				
SPE Santa Lucia Transmissora de Energia S.A.	Rio de Janeiro (Brazil)	Real	153,714,431	99.99%*	Line-by-line
Business	Provision of public electricity transmission services, including construction, operation and maintenance of transmission infrastructure or any other activity necessary in order to fulfil the above purpose.				
Terna Peru S.A.C.	Lima (Peru)	Sales	112,063,500	99.99%*	Line-by-line
Business	Design, construction, administration, development, operation and maintenance of any type of electricity system, plant, equipment and infrastructure, including interconnectors; provision of all types of product and service, construction, electrical and civil engineering work; research, consultancy and assistance in matters relating to the core business; any other activity capable of improving the use and development of plant, resources and expertise.				
Terna 4 Chacas S.A.C.	Lima (Peru)	Sales	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 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	129,018,162	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.				

* 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. The Company 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	100%	Line-by-line
Business	Provision of energy efficiency, energy consulting and process engineering services to companies and public and private entities; the application of technology to increase energy end-use efficiency; the design, construction, development and maintenance of plant, equipment and infrastructure for networks and other uses.				
Brugg Kabel Services AG	Brugg (Switzerland)	Swiss franc	1,000,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
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 Trasformatori 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.				

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST	METHOD OF CONSOLIDATION
SUBSIDIARIES CONTROLLED THROUGH BRUGG KABEL SERVICES AG					
Brugg Kabel Manufacturing AG	Brugg (Switzerland)	Swiss franc	7,000,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Kabel AG	Brugg (Switzerland)	Swiss franc	22,000,000	90%***	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
SUBSIDIARIES CONTROLLED THROUGH BRUGG KABEL MANUFACTURING AG					
Brugg Cables Italia S.r.l.	Milan	Euro	10,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
SUBSIDIARIES CONTROLLED THROUGH BRUGG KABEL AG					
Brugg Cables Middle East DMCC	Dubai (UAE)	Dirham	100,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Kabel GmbH	Schwieberdingen (Germany)	Euro	103,000	100%	Line-by-line
Business	Commercialisation of terrestrial cables for use in electricity transmission.				
Brugg Cables (Shanghai) Co. Ltd	Shanghai (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.				

* 30% Holdco TES (controlled by the Xenon Private Equity V fund, Riccardo Reboldi and Giorgio Gussago).

** 21.52% CERB.

*** 10% BRUGG GROUP AG.

**** 0.26% Brugg Kabel GmbH.

Compared with 31 December 2020:

- on 26 January 2021, Terna, acting through its subsidiary, Terna Energy Solutions S.r.l., completed the acquisition of the remaining 30% of Avvenia the Energy Innovator S.r.l. from the minority shareholder, Avvenia S.r.l.. Avvenia the Energy Innovator S.r.l. has thus become a "sole shareholder" company wholly owned by Terna;
- the reorganisation of the Brugg Group, designed to take full advantage of the group's distinctive expertise in terrestrial cables and of synergies with the Terna Group's businesses, was completed on 31 March 2021. As a result, Terna S.p.A.'s interest in the Brugg Group has increased from 90% to 92.6%;
- on 10 June 2021, Terna, acting through its subsidiaries, Terna Plus S.r.l. and Terna Chile S.p.A., completed the acquisition of the remaining 25% interest in the Brazilian-registered company, SPE Transmissora de Energia Linha Verde II S.A., held by the minority shareholder, Construtora Quebec. SPE Transmissora de Energia Linha Verde II S.A. is now 99.9999994% owned by Terna Plus S.r.l., with the remaining shares held by Terna Chile S.p.A..

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, liabilities, costs and revenue of investments representing 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 arrangements is shown below:

NAME	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL*	PROFIT FOR THE PERIOD*	% INTEREST	METHOD OF CONSOLIDATION	CARRYING AMOUNT AT 30 JUNE 2021 (€M)
ASSOCIATES							
Cesi S.p.A.	Milan	Euro	8,550,000	(9,825,614)	42.698%	Equity Method	47.8
Business	Experimental research and provision of services related to electro-technology.						
Coreso S.A.	Brussels (Belgium)	Euro	1,000,000	546,000	15.84%	Equity Method	0.6
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	12,500,000	22.0889%	Equity Method	26.7
Business	Provision of transmission and dispatching services in Montenegro.						
JOINT ARRANGEMENTS							
ELMED Etudes S.a.r.l.	Tunis (Tunisia)	Dinar	2,700,000	(207,553)	50%	Equity Method	0.2
Business	Conduct of preparatory studies for the construction of the infrastructure required to connect the Tunisian and Italian electricity system.						
SEleNe CC S.A.	Thessaloniki (Greece)	Euro	200,000	2,173	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	-	20%	Share of assets-liabilities	-
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.

Compared with 31 December 2020, on 1 February 2021, after APG (the Austrian TSO) became the fifth European transmission system operator to enter into partnership with Equigy, Terna S.p.A.'s interest in Equigy decreased from 25% to 20%.

New accounting standards

The accounting standards used in the preparation of the condensed consolidated interim financial statements at and for the six months ended 30 June 2021 are consistent with those used in the preparation of the consolidated financial statements at and for the year ended 31 December 2020, with the exception of the adoption of new standards and amendments that came into effect from 1 January 2021. The Group has not elected for early adoption of any new standard, interpretation or amendment issued but yet to come into effect. A number of amendments and interpretations are applicable for the first time in 2021.

Accounting standards and amendments effective from 1 January 2021

Amendment to IFRS 4: Extension of the temporary exemption from applying IFRS 9

On 15 December 2020, the European Commission issued Regulation 2020/2097, endorsing the amendment to IFRS 4. The changes have extended the temporary exemption from application of IFRS 9 until 1 January 2023 for insurance. Adoption of this amendment has not had any impact on the Group's consolidated financial statements.

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 amendment addresses the correct accounting treatment of financial instruments are affected by the interest rate benchmark reform, when interest rate benchmarks are replaced by alternative interest rate benchmarks.

With regard to financial instruments directly affected by the reform, the amendments have introduced the following:

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

All of the amendments were effective from 1 January 2021. Given that the Group is party to loan agreements, hedging derivatives and lease contracts that provide for the sole application of EURIBOR and 6-month US dollar LIBOR (the rate applied to the loans and derivatives held through the Uruguayan subsidiary, Difebal), which are not expected to be replaced in 2021, introduction of the new amendment has not had any impact on the Group's consolidated financial statements at 30 June 2021.

International financial reporting standards endorsed but not yet effective

At the date of approval of this document, the following standards, amendments or interpretations have been endorsed but have yet to become effective.

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

- **Amendments to IFRS 3 Business Combinations:** the amendments aim to update the reference in IFRS 3 to the Conceptual Framework in its revised form, without changing the standard's requirements;
- **Amendments to IAS 16 Property, Plant and Equipment:** the amendments aim to prohibit the deduction from the cost of an item of property, plant or equipment any proceeds from the sale of items during the testing of the asset concerned. Any such sale proceeds and the related costs must now be recognised in profit or loss;
- **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets:** the amendment clarifies that in assessing whether a contract is onerous an entity must consider all the costs directly attributable to the contract. As a result, assessment of whether a contract is onerous not only includes the costs, but also all the costs that the entity cannot avoid in meeting its obligations under the contract;
- **Annual Improvements 2018-2020:** the amendments regard IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples of IFRS 16 Leases.

All the amendments will come into effect from 1 January 2022. The Group is assessing the amendments 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, these include:

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 aim of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations deriving from the insurance contracts issued. The IASB has created the standard to remove any inconsistencies and weaknesses in existing accounting standards, providing a single principle-based framework that takes into account all types of insurance contract, including the reinsurance contracts that an insurer may be party to. The new standard also introduces presentation and disclosure requirements to improve comparability between entities belonging to this sector.

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

The IASB published an amendment to IAS 1 on 23 January 2020 with the aim of clarifying how to classify payables and other liabilities as current or non-current.

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

The IASB published amendments to IAS 1 and IAS 8 on 12 February 2021, with the aim of improving accounting policy disclosures so that they provide more useful information to investors and other primary users of the financial statements and help entities distinguish changes in accounting estimates from changes in accounting policies.

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

The new amendment, published by the IASB on 31 March 2021, extends the period of application of the amendment to IFRS 16, issued in 2020 and regarding the accounting for Covid-19-related rent concessions, for a further year.

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

The amendment, published by the IASB on 7 May 2021, clarifies how entities should account for deferred tax on transactions giving rise to assets and liabilities of the same amount, such as leases or decommissioning obligations.

B. Notes to the consolidated income statement

Revenue

1. REVENUE FROM SALES AND SERVICES - €1,231.5 MILLION

	(€m)		
	H1 2021	H1 2020	CHANGE
Transmission charges billed to grid users	998.3	939.1	59.2
Other energy-related revenue and from services performed under concession	85.6	85.0	0.6
Quality of service bonuses/(penalties)	2.9	10.1	(7.2)
Other sales and services	144.7	131.2	13.5
TOTAL	1,231.5	1,165.4	66.1

Transmission charges billed to grid users

Transmission charges billed to grid users regard revenue attributable to the Parent Company (€925.1 million) and the subsidiaries, Rete S.r.l. (€65.2 million) and Terna Crna Gora d.o.o. (€8.0 million) as owners and operators of the national transmission grid (the "NTG").

This increase of €59.2 million in this item in the first half of 2020 primarily reflects the impact on transmission revenue of the increase in the RAB (up €28.6 million) and the accrued amount due as a return on digital substation systems (up €12.9 million in accordance with ARERA Resolution 565/20). The improvement also reflects regulatory incentives (up €7.6 million as a result of ARERA Resolution 579/17 and ARERA Resolution 884/17) and the positive impact of the volume effect (up €10.1 million).

Other energy-related revenue and from services performed under concession

This item regards dispatching and metering revenue (€54.4 million for the dispatching component, €0.1 million for the metering component and other energy-related revenue of €0.9 million) and revenue from infrastructure construction and upgrade services performed under concession, recognised in application of IFRIC 12 (€30.2 million). This includes revenue from activities in South America (€12.6 million in Brazil and €2.4 million in Peru).

The increase in "Other energy-related revenue and from services performed under concession" compared with the first half of 2020, totalling €0.6 million, is linked primarily to increased investment in dispatching infrastructure in Italy compared with the comparative period (up €6.9 million) and an increase in dispatching revenue (up €1.8 million, linked above all to an increase in the tariff and the positive volume effect). These increases were partially offset by reduced revenue from services performed under concession overseas (down €8.1 million), broadly due to unexpected costs and a slowdown in construction activity in Brazil, caused by the impact of the Covid-19 pandemic. These do not constitute impairment indicators requiring the conduct of impairment tests at 30 June 2021.

	(€m)		
OTHER ENERGY-RELATED REVENUE AND FROM SERVICES PERFORMED UNDER CONCESSION	H1 2021	H1 2020	CHANGE
Dispatching, metering and other revenue	55.4	53.6	1.8
Revenue from services performed under concession (IFRIC 12)	30.2	31.4	(1.2)
- of which in Italy	15.2	8.3	6.9
- of which overseas	15.0	23.1	(8.1)
TOTAL OTHER ENERGY-RELATED REVENUE AND FROM SERVICES PERFORMED UNDER CONCESSION	85.6	85.0	0.6

Quality of service bonuses/(penalties)

This item, amounting to €2.9 million, regards the RENS (Regulated Energy Not Supplied) incentive mechanism introduced by Resolution 653/2015/R/eel, calculated on a pro rata basis taking into account the estimated overall results expected in the 2020-2023 regulatory period. The reduction recorded during the period (down €7.2 million) reflects recognition, in the first half of 2020, of accrued revenue in the form of the bonus receivable under the RENS incentive mechanism for the 2016-2019 sub-period (€10.1 million), compared with the amount recognised in the first half of 2021 as result of the RENS performance in the 2020-2023 sub-period (€2.9 million).

Other energy-related items – 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 (Dispatching Services Market), 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)		
	H1 2021	H1 2020	CHANGE
Power Exchange-related revenue items	2,190.0	2,033.3	156.7
Over-the-counter revenue items	886.2	699.4	186.8
TOTAL PASS-THROUGH REVENUE	3,076.2	2,732.7	343.5
Power Exchange-related cost items	2,190.0	2,033.3	156.7
Over-the-counter cost items	886.2	699.4	186.8
TOTAL PASS-THROUGH COSTS	3,076.2	2,732.7	343.5

Other sales and services

The item, “Other sales and services”, amounting to €144.7 million, is up €13.5 million compared with the first half of 2020. This is due primarily to the increase in revenue recorded by the Brugg Group (up €10.7 million, essentially due to contracts to provide cables and accessories to third parties) and an increase in revenue from the provision of Connectivity services (up €2.2 million), primarily revenue from the provision of support and housing services for fibre networks.

2. OTHER REVENUE AND INCOME – €40.2 MILLION

	(€m)		
	H1 2021	H1 2020	CHANGE
Revenue from IRU contracts for fibre	6.9	-	6.9
Sales to third parties	6.7	1.9	4.8
Sundry grants	3.5	4.0	(0.5)
Gains on sale of infrastructure components	2.1	3.3	(1.2)
Insurance proceeds as compensation for damages	1.6	0.3	1.3
Rental income	1.2	1.1	0.1
Contingent assets	14.1	-	14.1
Bargain purchase	-	73.0	(73.0)
Other revenues	4.1	1.6	2.5
TOTAL	40.2	85.2	(45.0)

This item, totalling €40.2 million, is down €45.0 million compared with the first half of the previous year. This primarily reflects recognition, in the comparative period, of the higher value of the net assets acquired following the purchase of the interest in Brugg Cables compared with the consideration paid (the gain resulting from a bargain purchase of €73.0 million, finalised and reflected in the restatement of the comparative period²). The resulting decline was partially offset by the contingent asset resulting from the outcome of the claim for a refund of stamp duty paid on the acquisition of Rete S.r.l. (€13.4 million), increased revenue from Connectivity in the form of IRU contracts for fibre (€6.9 million) and increases in sales to third parties (up €4.8 million, broadly relating to the sale of scrap by the Brugg Group) and in revenue from the private Italy-Montenegro interconnector, totalling €3.2 million.

Operating costs**3. RAW AND CONSUMABLE MATERIALS USED – €101.3 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 €16.7 million compared with the same period of the previous year primarily reflects consolidation of the costs resulting from the operations of the Brugg Group and the Tamini Group (up €12.0 million, including the impact of the restatement of the comparative period², and €3.7 million, respectively), as well as an increase in the costs incurred on the development of dispatching infrastructure, recognised in application of IFRIC 12 (up €1.0 million).

4. SERVICES – €95.1 MILLION

	(€m)		
	H1 2021	H1 2020	CHANGE
Maintenance and sundry services	43.2	37.8	5.4
Tender costs for plant	21.8	19.2	2.6
IT services	11.7	6.9	4.8
Insurance	7.4	7.3	0.1
Lease expense	7.2	5.1	2.1
Remote transmission and telecommunications	3.8	4.2	(0.4)
TOTAL	95.1	80.5	14.6

² Further details are provided in section A, "Accounting policies and measurement criteria".

This item, totalling €95.1 million, is up €14.6 million compared with the first half of 2020 (€80.5 million). This primarily reflects the increased cost of maintenance and sundry services (up €5.4 million) and an increase in tender costs for plant (up €2.6 million), essentially due to the greater volume of assets managed, in addition to an increase in the cost of construction and development of dispatching infrastructure recognised in application of IFRIC 12 (up €5.6 million, including €5.1 million regarding IT services). Lease expense has also increased (up €2.1 million), essentially linked to the new unified form of council tax introduced by Law 160/2019 and effective from 1 January 2021.

5. PERSONNEL EXPENSES – €148.1 MILLION

	(€m)		
	H1 2021	H1 2020	CHANGE
Salaries, wages and other short-term benefits	184.5	173.2	11.3
Directors' remuneration	0.9	0.8	0.1
Termination benefits (TFR) energy discounts and other employee benefits	10.2	9.5	0.7
Early retirement incentives	0.1	(0.2)	0.3
Gross personnel expenses	195.7	183.3	12.4
Capitalised personnel expenses	(47.6)	(37.0)	(10.6)
TOTAL	148.1	146.3	1.8

Personnel expenses in the first half of 2021, totalling €148.1 million, are up €1.8 million on the same period of the previous year (€146.3 million). This is primarily linked to the volume effect resulting from the greater size of the average workforce, partially offset by an increase in capitalised expenses.

The following table shows the Group's average workforce by category for the first half of 2021 and 2020.

UNIT	AVERAGE WORKFORCE		CHANGE
	H1 2021	H1 2020	
Senior managers	83	79	4
Middle managers	693	665	28
Office staff	2,645	2,469	176
Blue-collar workers	1,417	1,321	96
TOTAL	4,838	4,534	304

The above net increase in the Group's average workforce in the first six months of the year, compared with the same period of 2020, amounts to 304 and essentially reflects the requirements relating to delivery of the challenging investment programme provided for in the 2021-2025 Industrial Plan and the need to strengthen the Group's distinctive competencies, and the impact of the acquisition of Brugg Cables, completed on 29 February 2020.

6. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES – €325.7 MILLION

	(€m)		
	H1 2021	H1 2020	CHANGE
Amortisation of intangible assets	37.5	30.6	6.9
- of which rights on infrastructure	12.2	11.8	0.4
Depreciation of property, plant and equipment	288.7	273.7	15.0
Impairment losses on property, plant and equipment	0.1	0.1	-
Impairment losses on trade receivables	(0.6)	(0.5)	(0.1)
TOTAL	325.7	303.9	21.8

This item, totalling €325.7 million (including €5.8 million recognised in application of IFRS 16), is up €21.8 million on the first half of 2020. This is primarily due to the entry into service of infrastructure operated by the Parent Company (up €16.7 million) and by the subsidiaries, Rete S.r.l. (up €3.1 million) and Terna Rete Italia S.p.A. (up €1.3 million).

7. OTHER OPERATING COSTS – €16.7 MILLION

	(€m)		
	H1 2021	H1 2020	CHANGE
Indirect taxes and local taxes and levies	4.9	5.2	(0.3)
Quality of service costs	3.3	(0.5)	3.8
Fees paid to regulators and membership dues	3.8	3.9	(0.1)
Adjustment of provisions for litigation and disputes	0.2	1.1	(0.9)
Losses on sales/disposals of plant and net contingent liabilities	0.1	0.2	(0.1)
Other	4.4	4.1	0.3
TOTAL	16.7	14.0	2.7

This item, totalling €16.7 million, is up €2.7 million on the same period of the previous year, primarily due to an increase in quality of service costs (up €3.8 million, primarily due to the increased costs incurred in order to mitigate the impact of backfeeds at a number of primary substations due to maintenance work and repairs carried out during the period), partially offset by a reduction in the adjustment of provisions for litigation and disputes (down €0.9 million).

8. FINANCIAL INCOME/(EXPENSES) – (€40.7) MILLION

	(€m)		
	H1 2021	H1 2020	CHANGE
FINANCIAL EXPENSES			
Interest expense on medium/long-term borrowings and related hedges	(55.9)	(48.9)	(7.0)
Adjustments to bonds in issue and the related hedges	-	(3.1)	3.1
Capitalised financial expenses	5.0	4.4	0.6
Translation differences	-	(0.8)	0.8
Other financial expenses	(0.4)	(0.6)	0.2
Total expenses	(51.3)	(49.0)	(2.3)
FINANCIAL INCOME			
Interest income and other financial income	8.2	5.1	3.1
Adjustments to bonds in issue and the related hedges	0.8	-	0.8
Discounting of receivables, termination benefits (TFR), operating leases and other liabilities	1.3	2.6	(1.3)
Translation differences	0.3	-	0.3
Total income	10.6	7.7	2.9
TOTAL	(40.7)	(41.3)	0.6

Net financial expenses total €40.7 million. Essentially attributable to the Parent Company (€33.4 million), the balance reflects €51.3 million in financial expenses and €10.6 million in financial income. Net financial expenses are broadly in line with the figure for the same period of 2020.

9. SHARE OF PROFIT/(LOSS) OF INVESTEEs ACCOUNTED FOR USING THE EQUITY METHOD – (€0.4) MILLION

This item, amounting to a loss of €0.4 million, marks a change of €2.6 million compared with the first half of 2020 (a profit of €2.2 million). This broadly reflects the negative impact of the adjustment of the Group's share of equity in CESI, an associate of the Group, at 30 June 2021.

10. INCOME TAX EXPENSE FOR THE PERIOD – €157.7 MILLION

Income tax expense for the period amounts to €157.7 million, a reduction of €0.7 million compared with the first half of 2020.

The tax rate for the period is 29.0%, compared with the rate of 27.2% for the first half of 2020, due to the higher amount of tax-exempt income recognised during the comparative period, above all relating to the gain resulting from the higher value of the net assets acquired following the acquisition of Brugg Cables compared with the consideration paid, as reflected in the restatement of amounts for the first half of 2020³.

	I SEM. 2021	I SEM. 2020	Δ
Current tax expense:			
- IRES (corporate income tax)	142.1	144.8	(2.7)
- IRAP (regional tax on productive activities)	29.0	26.9	2.1
Total current tax expense	171.1	171.7	(0.6)
Temporary differences:			
- deferred tax assets	6.2	5.9	0.3
- deferred tax liabilities	(16.1)	(15.5)	(0.6)
Total deferred tax (income)/expense	(9.9)	(9.6)	(0.3)
Adjustments to taxes for previous years	(3.5)	(3.7)	0.2
TOTAL	157.7	158.4	(0.7)

Current income tax expense of €171.1 million is down €0.6 million compared with the first half of 2020, mainly due the reduction in pre-tax profit.

Net deferred tax expense of €9.9 million is up €0.3 million, reflecting the impact of taxation on depreciation and amortisation and movements in provisions for risks and charges and employee benefits recognised by the Group in the first half.

Adjustments to taxes for previous years, amounting to a reduction of €3.5 million, primarily regard subsidiaries and include contingent assets resulting from recognition of the effective amount payable when filing annual tax returns. This item is €0.2 million lower than in the first half of 2020.

11. EARNINGS PER SHARE

Earnings per share, which also corresponds to diluted earnings per share, amounts to €0.192 (based on profit for the period attributable to owners of the Parent, totalling €384.6 million, divided by the weighted average number of shares outstanding during the first half, totalling 2,008,204,551,33).

³ Further details are provided in section A, "Accounting policies and measurement criteria".

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 Industrial activities, which includes: the operating results of the Tamini Group, relating essentially to the construction and commercialisation of electrical equipment, above all power transformers, and the Brugg Group (which operates in the terrestrial cable sector) specialising in the design, development, construction, installation and maintenance of electrical cables of all voltages and accessories for high-voltage cables. The Non-regulated segment includes 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 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., of the Brazilian companies, SPE Santa Lucia Trasmissora de Energia S.A., SPE Santa Maria Trasmissora de Energia S.A., SPE Transmissora de Energia Linha Verde I S.A., acquired in August 2020, and SPE Transmissora de Energia Linha Verde II S.A., of the Peruvian companies, Terna Peru S.A.C. and Terna 4 Chacas S.A.C., the Uruguayan company, Difebal S.A.C., and the Chilean company, Terna Chile S.p.A..

	(€m)			
	H1 2021	H1 2020	CHANGE	% CHANGE
REGULATED REVENUE	1,093.4	1,040.8	52.6	5.1%
NON-REGULATED REVENUE	162.6	184.9	(22.3)	(12.1%)
INTERNATIONAL REVENUE*	2.7	12.3	(9.6)	(78.0%)
Cost of International Activities	13.0	12.6	0.4	3.2%
TOTAL REVENUE	1,271.7	1,250.6	21.1	1.7%
GROSS OPERATING PROFIT (EBITDA)**	910.5	925.2	(14.7)	(1.6%)
of which Regulated EBITDA ***	881.7	844.3	37.4	4.4%
of which Non-Regulated EBITDA	31.5	73.3	(41.8)	(57.0%)
of which International EBITDA	(2.7)	7.6	(10.3)	(135.5%)
Reconciliation of segment result with Group's pre-tax result				
GROSS OPERATING PROFIT (EBITDA)	910.5	925.2		
Amortisation, depreciation and impairment losses	325.7	303.9		
OPERATING PROFIT/(LOSS) (EBIT)	584.8	621.3		
Financial income/(expenses)	(40.7)	(41.3)		
Share of profit/(loss) of investees accounted for using the equity method	(0.4)	2.2		
Profit/(Loss) before tax	543.7	582.2		

* 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 the first half of 2021 amounts to €1,271.7 million, an increase of €21.1 million (1.7%) on the first half of 2020.

Gross operating profit (EBITDA) of €910.5 million is down €14.7 million (1.6%) compared with the €925.2 million of the first half of 2020.

EBITDA from Regulated Activities amounts to €881.7 million, an increase of €37.4 million compared with the first half of 2020. This primarily reflects the tariff increase provided for by ARERA Resolution 565/20 and the resulting increase in assets managed.

EBITDA from Non-regulated Activities in the first half of 2021 amounts to €31.5 million, a reduction of €41.8 million compared with same period of the previous year. This broadly reflects the one-off revenue recognised in the first half of 2020 as a result of the higher value of the net assets acquired following the acquisition of Brugg Cables compared with the consideration paid (the gain resulting from a bargain purchase, totalling €50.4 million), partially offset by an increase in revenue from the provision of Connectivity services (up €6.8 million, primarily revenue from IRU contracts for fibre).

Negative EBITDA from International Activities, amounting to €2.7 million for the first half of 2021, marks a deterioration of €10.3 million compared with same period of the previous year. This primarily reflects unexpected costs and a slowdown in construction activity in Brazil, caused by the impact of the Covid-19 pandemic, and one-off revenue in the first half of 2020 relating to a penalty applied to a supplier in Uruguay in connection with contract work concluded in October 2019.

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 contributions from the Non-Regulated and International segments are not material. The following table shows this indicator at 30 June 2021 and 31 December 2020.

	(€m)	
	30.06.2021	31.12.2020
Net non-current assets *	15,939.9	15,645.9
<i>of which investments in associates and joint arrangements</i>	75.4	79.4
Net working capital **	(1,639.0)	(1,936.2)
Gross invested capital ***	14,300.9	13,709.7

* 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 (€42.4 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 – €14,824.6 MILLION

(€m)

	LAND	BUILDINGS	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONST. AND PREPAYMENTS	TOTAL
COST AT 1 JANUARY 2020	210.1	2,232.3	19,314.4	198.8	189.6	1,848.2	23,993.4
Investment	-	1.9	0.6	2.1	1.8	554.0	560.4
<i>of which right-of-use assets</i>	-	1.8	-	-	1.2	-	3.0
Assets entering service	0.1	19.7	242.3	0.4	2.3	(264.8)	-
Other purchases	-	-	5.1	-	-	-	5.1
Translation differences	-	(0.6)	-	(1.1)	-	-	(1.7)
Disposals and impairments	-	(4.7)	(28.5)	(0.1)	(0.8)	(0.1)	(34.2)
<i>of which right-of-use assets</i>	-	(2.9)	-	-	(0.6)	-	(3.5)
<i>of which finance leased assets</i>	-	-	(0.4)	-	-	-	(0.4)
Other movements	0.1	(7.3)	(1.6)	0.4	1.3	1.6	(5.5)
<i>of which right-of-use assets</i>	-	(0.1)	-	-	-	(0.3)	(0.4)
COST AT 30 JUNE 2021	210.3	2,241.3	19,532.3	200.5	194.2	2,138.9	24,517.5
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AT 21 DECEMBER 2020	(0.9)	(678.6)	(8,442.5)	(161.9)	(149.8)	-	(9,433.7)
Depreciation for the period	(0.3)	(31.2)	(246.4)	(4.0)	(6.8)	-	(288.7)
<i>of which right-of-use assets</i>	(0.3)	(4.7)	-	-	(0.8)	-	(5.8)
<i>of which finance leased assets</i>	-	-	(1.6)	-	-	-	(1.6)
Translation differences	-	0.1	-	1.0	-	-	1.1
Disposals	-	1.5	27.1	0.1	0.7	-	29.4
<i>of which right-of-use assets</i>	-	0.9	-	-	0.6	-	1.5
<i>of which finance leased assets</i>	-	-	0.3	-	-	-	0.3
Other movements	-	0.9	(1.7)	(0.3)	0.1	-	(1.0)
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AT 30 JUNE 2021	(1.2)	(707.3)	(8,663.5)	(165.1)	(155.8)	-	(9,692.9)
Carrying amount							
AT 30 JUNE 2021	209.1	1,534.0	10,868.8	35.4	38.4	2,138.9	14,824.6
<i>of which right-of-use assets</i>	5.6	53.8	-	-	2.2	(0.3)	61.3
<i>of which finance leased assets</i>	-	0.6	23.4	-	1.5	-	25.5
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
Change	(0.1)	(19.7)	(3.1)	(1.5)	(1.4)	290.7	264.9

The category, "Plant and equipment" at 30 June 2021 includes the electricity transmission grid and transformer substations in Italy.

"Property, plant and equipment" is up €264.9 million compared with 31 December 2020, primarily reflecting movements during the period as a result of:

- investment of €560.4 million during the period, including €537.4 million invested in the Group's regulated assets and €23.0 million in non-regulated assets, primarily with regard to the private Italy-France interconnector and re-routings carried for third parties;
- depreciation for the period, amounting to €288.7 million;
- the purchase of Arvedi Trasmissione's substation, completed in May 2021 (€5.1 million);
- disposals and impairments of €4.8 million and other movements during the period, amounting to a reduction of €7.1 million, including grants related to assets (primarily relating to re-routings for third parties).

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

	(€m)
Investment	
- Power lines	305.3
- Transformer substations	219.4
- Other	35.7
Total investment in property, plant and equipment	560.4
Depreciation for the period	(288.7)
Other purchases	5.1
Other movements	(6.5)
Disposals and impairments	(4.8)
Translation differences	(0.6)
TOTAL	264.9

The following information regards work on the principal projects falling within the scope of Regulated Activities during the period: progress on construction of the Paternò-Pantano-Priolo power line (€15.5 million) and of the cross-border interconnector linking Italy and France (€10.7 million), progress with the "Functional separation" plan (€16.3 million), extension of the fibre network as part of the "Fibre for the Grid" project (€12.0 million), construction of the Vizzini substation (€9.7 million), the grid upgrade in the Foggia-Benevento area (€6.3 million), reorganisation of the Alto Bellunese line (€5.4 million) and in the cities of Turin (€6.9 million) and Naples (€5.2 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 31 December 2020.

No impairment indicators have been identified during the period that would require the conduct of impairment tests at 30 June 2021.

14. INTANGIBLE ASSETS – €352.3 MILLION

(€m)

	INFRASTRUCTURE RIGHTS	CONCESSIONS	OTHER ASSETS	ASSETS UNDER DEVELOPMENT AND PREPAYMENTS	TOTAL
Cost	486.3	135.4	508.4	70.5	1,200.6
Accumulated amortisation	(376.6)	(84.9)	(391.3)	-	(852.8)
BALANCE AT 31 DECEMBER 2020	109.7	50.5	117.1	70.5	347.8
Investment	-	-	0.1	41.4	41.5
Assets entering service	22.4	-	6.9	(29.3)	-
Amortisation for the period	(12.3)	(2.8)	(22.4)	-	(37.5)
Other movements	-	-	-	0.5	0.5
BALANCE AT 30 JUNE 2021	119.8	47.7	101.7	83.1	352.3
Cost	508.7	135.4	515.5	83.1	1,242.7
Accumulated amortisation	(388.9)	(87.7)	(413.8)	-	(890.4)
BALANCE AT 30 JUNE 2021	119.8	47.7	101.7	83.1	352.3
Change	10.1	(2.8)	(15.4)	12.6	4.5

Intangible assets amount to €352.3 million (€347.8 million at 31 December 2020). The change compared with 31 December 2020 (an increase of €4.5 million) is broadly due to the net effect of investment (up €41.5 million, including €17.4 million for infrastructure rights) and amortisation (down €37.5 million).

Investment in intangible assets during the period (€41.5 million, including €39.0 million attributable to the Parent Company and mainly relating to Regulated Activities) included expenditure on the development of software applications for the Remote Management System for Dispatching (€6.5 million), the Power Exchange (€4.3 million), the Metering System (€0.6 million) and for protection of the electricity system (€0.6 million), as well as software applications and generic licences (€23.1 million).

15. DEFERRED TAX ASSETS – €110.1 MILLION

(€m)

	31 DECEMBER 2020	EFFECTS RECOGNISED IN PROFIT OR LOSS AND OTHER MOVEMENTS	EFFECTS RECOGNISED IN COMPREHENSIVE INCOME	30 JUNE 2021	CHANGE
Deferred tax assets	178.0	(3.6)	(12.7)	161.7	(16.3)
Deferred tax liabilities	(66.2)	14.6	-	(51.6)	14.6
NET DEFERRED TAX ASSETS	111.8	11.0	(12.7)	110.1	(1.7)

The balance of this item, amounting to €110.1 million, includes the net impact of movements in the Group's deferred tax assets and liabilities.

Deferred tax assets (€161.7 million) recorded a net reduction of €16.3 million in the first half compared with 31 December 2020 (€178.0 million), reflecting the following movements:

- net uses that do not impact on profit or loss, totalling €12.7 million, reflecting the tax effect of movements in cash flow hedges;
- net uses of provisions for risks and charges and other movements (€3.4 million);
- use of the accrued portion recognised in relation to tax relief on the goodwill resulting from the merger of other companies owning portions of the NTG, acquired and then merged with and into the Group in previous years (€1.5 million);
- provisions recognised by the subsidiary, Rete S.r.l., for the portion of book depreciation recognised by the company (€1.3 million).

Deferred tax liabilities (€51.6 million) are down €14.6 million, essentially due to the use of previous provisions by the Parent Company, Terna, for accelerated depreciation.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – €75.4 MILLION

This item, amounting to €75.4 million, regards the Parent Company's investments in the associate, CESI S.p.A. (€47.8 million), the associate, CORESO S.A. (€0.6 million), the associate, CGES – CrnoGorski Elektroprenosni Sistem AD (€26.7 million) and in the joint operations, ELMED Etudes S.a.r.l. (€0.2 million) and SELENE CC S.A. (€0.1 million).

The reduction of €0.4 million compared with 31 December 2020 is essentially due to the Group's share of equity in the associate, CESI S.p.A., at 30 June 2021 (down €0.4 million).

17. FINANCIAL ASSETS

(€m)

	MEASUREMENT	30.06.2021	31.12.2020	CHANGE
Guarantee Deposit	Amortised cost	229.9	221.8	8.1
Financial assets under concession	Amortised cost	173.8	158.2	15.6
Fair value hedges	FVTPL	42.4	94.2	(51.8)
Government securities	FVTOCI	23.0	22.5	0.5
Financial assets included in employee benefit plan assets	FVTOCI	9.3	9.7	(0.4)
Other non-current financial assets	FVTOCI	2.0	1.3	0.7
Other investments	FVTOCI	0.1	0.1	-
NON-CURRENT FINANCIAL ASSETS		480.5	507.8	(27.3)
Government securities	FVTOCI	504.1	611.4	(107.3)
Guarantee Deposit	Amortised cost	21.8	17.4	4.4
Deferred assets on fair value hedges		15.4	4.5	10.9
Other current financial assets		3.7	5.2	(1.5)
CURRENT FINANCIAL ASSETS		545.0	638.5	(93.5)

“Non-current financial assets” are down €27.3 million, compared with 31 December 2020, reflecting:

- a decrease of €51.8 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;
- increased investment during the year in infrastructure under concession in Brazil, recognised in application of IFRIC 12 (up €15.6 million), essentially reflecting the collection of fees due on infrastructure operated under concession in Brazil, which benefitted from the overall impact of the improvement in the exchange rate between the Brazilian real and euro;
- an increase in the Interconnector Guarantee Fund, set up to fund investment in interconnections by art. 32 of Law 99/09 (up €8.6 million), offset by a reduction in amounts deposited by operators who participate in the capacity market pursuant to Resolution 98/2011/R/eel⁴ (down €0.5 million).

“Current financial assets” are down €93.5 million compared with the previous year, primarily due to the redemption of Italian government securities reaching maturity in April 2021, having a nominal value of €100 million.

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

18. OTHER ASSETS

	(€m)		
	30.06.2021	31.12.2020	CHANGE
Loans and advances to employees	9.8	9.6	0.2
Deposits with third parties	7.7	7.5	0.2
Other non-current assets	1.9	1.8	0.1
OTHER NON-CURRENT ASSETS	19.4	18.9	0.5
Other tax credits	17.9	42.2	(24.3)
Prepayments to suppliers	24.3	24.3	-
Prepayments of operating expenses and accrued operating income	30.2	14.8	15.4
Amounts due from partners selected for Interconnector projects	3.5	3.8	(0.3)
Amounts due from others	45.0	43.2	1.8
OTHER CURRENT ASSETS	120.9	128.3	(7.4)

“Other non-current assets” amount to €19.4 million and are up €0.5 million compared with 31 December 2020. This is primarily due to an increase guarantee deposits paid under contracts with public bodies and authorities.

“Other current assets”, totalling €120.9 million are down €7.4 million compared with 31 December 2020, primarily reflecting:

- other tax credits (down €24.3 million), mainly reflecting a reduction in the Group’s refundable VAT (down €19.7 million) and a rebate of IRAP received from the tax authority (down €6.0 million) following a claim filed by the subsidiary, Terna Rete Italia S.p.A. in its annual tax return for 2016;
- an increase in expenses already paid for but accruing after 30 June 2021 (up €15.4 million), including approximately €13.7 million attributable to personnel;
- amounts due from others (up €1.8 million), broadly relating to the Brugg Group (up €1.9 million, with particular regard to social security items).

19. INVENTORIES – €64.8 MILLION

This item, amounting to €64.8 million, is down €1.6 million compared with the closing balance for the end of the previous year, primarily due to a reduction in materials to be used in contract work by the Tamini Group (down €4.9 million), offset by an increase in materials to be used in contract work by the Brugg Group (up €2.5 million) and Terna Rete Italia S.p.A. (up €0.7 million).

20. TRADE RECEIVABLES – €1,725.3 MILLION

(€m)

	30.06.2021	31.12.2020	CHANGE
Energy-related receivables	1,226.1	844.4	381.7
Transmission charges receivable	277.3	200.6	76.7
Other trade receivables	221.9	200.2	21.7
TOTAL	1,725.3	1,245.2	480.1

Trade receivables amount to €1,725.3 million at 30 June 2021 and are accounted for less any expected credit losses recognised in the allowance for doubtful accounts (€34.3 million for energy-related receivables and €17.1 million for other items in 2021, compared with €34.2 million for energy-related receivables and €17.8 million for other items in 2020, with further details provided in the section, “E. Commitments and risks”); the carrying amount shown broadly approximates to fair value.

Energy-related receivables – €1,226.1 million

This item includes so-called “pass-through items” relating to the Parent Company’s activities in accordance with Resolution 111/06 (€1,184.1 million) and receivables due from the users of dispatching services forming part of Regulated Activities (€25.8 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 (€8.6 million) and the impact of the incentive mechanisms⁵ provided for in the regulations governing transmission fees (€7.6 million).

The balance is up €381.7 million compared with the end of 2020. After the impact of the factoring of receivables that took place in December 2020 (€121.5 million), the increase largely reflects the impact of the amount due in the form of the Uplift (€158.9 million) due to increased costs incurred during the period. The change also reflects the increase in amounts receivable in relation to capacity payments, reflecting ARERA’s decision to increase the related unit charge for 2021 (€67.4 million) and an increase in receivables relating to the Dispatching Services Market (€39.1 million).

Transmission charges receivables – €277.3 million

Transmission charges receivable, amounting to €277.3 million, represent the amount due to the Parent Company and other grid owners from electricity distributors for use of the National Transmission Grid. The receivable is up €76.7 million compared with 31 December 2020, broadly as a result of revised tariffs and recognition of the accrued amount due as a return on digital substation systems in accordance with ARERA Resolution 565/20 (totalling €51.2⁶ million). The change also reflects a difference in the volume of receivables assigned during the two periods (up €25.6 million).

⁵ Efficiency bonus for I-NPR1 and O-NPR1 works completed by 30 September 2020 (in accordance with Resolution 579/2017), a bonus for work carried out in 2018 and 2019 in preparation for output-based regulation (in accordance with Resolution 884/2017) and the bonus linked to unification of the NTG following the purchase of assets from Arvedi Trasmissione in May 2021 (in accordance with Resolution 567/2019).

⁶ This amount also takes into account the fact that, from 2021, a number of counterparties have registered for group VAT, which has resulted in discontinuation of the Split Payment regime when invoicing the related charge.

Other trade receivables – €221.9 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, 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 Brugg Group.

This item is up €21.7 million compared with 31 December 2020, broadly due to contract work carried out by the Brugg Group (up €33.2 million), the Tamini Group's contract work (up €10.5 million) and an increase in amounts receivable by the subsidiary, Terna Rete Italia S.p.A. (up €3.4 million), offset by a reduction in amounts receivable by the Parent Company (down €27.0 million).

The following table shows receivables resulting from contract work in progress (€73.4 million), being carried out by the Group under multi-year contracts with third parties:

(€m)

	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 30 JUNE 2021	PREPAYMENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2020
Receivables resulting from contract work in progress	(390.4)	463.8	73.4	(384.6)	427.5	42.9

The Group's receivables resulting from contract work in progress are up €30.5 million compared with the previous year, broadly due to an increase in the contract work at the Brugg Group (up €24.3 million), an increase in the Tamini Group's contract work (up €4.6 million) and an increase in contract work at the subsidiary, Terna Rete Italia S.p.A. (up €1.7 million).

21. CASH AND CASH EQUIVALENTS – €1,474.4 MILLION

Cash amounts to €1,474.4 million at 30 June 2021, including €1,079.0 million invested in short-term, readily convertible deposits and €395.4 million deposited in bank current accounts and cash in hand.

22. INCOME TAX ASSETS – €5.5 MILLION

Income tax assets, amounting to €5.5 million, are down €4.2 million compared with 31 December 2020, following the use of IRES and IRAP credits when settling the amount due as income tax for the previous year and the income tax assets recognised at 31 December 2020 compared with the liabilities recognised in "Tax liabilities" at 30 June 2021.

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 AND NON-CONTROLLING INTERESTS

Equity attributable to owners of the Parent – €4,435.6 million

Share capital – €442.2 million

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

Legal reserve – €88.4 million

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

Reserve for treasury shares - (€19.5) million

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

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

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

Other reserves – €577.4 million

The other reserves have increased by €43.1 million compared with 31 December 2020, primarily as a result of other comprehensive income. This reflects:

- fair value adjustments to the Parent Company's cash flow hedges (up €40.1 million, including the related hedging costs of €0.2 million, and after taking into account the related tax liability of €12.7 million);
- the recognition of actuarial gains and losses on provisions for employee benefits (up €1.6 million, after taking into account the related tax liability of €0.5 million);
- fair value adjustments to financial assets represented by government securities (down €1.7 million, after taking into account the related tax asset of €0.5 million).

Other reserves also include the reserve for share options (up €1.7 million), relating to the incentive plan for the Group's personnel involving the above share-based payments (the Performance Share Plan 2021-2025⁷).

Retained earnings and accumulated losses – €2,962.5 million

The increase in "Retained earnings and accumulated losses", amounting to €250.9 million, primarily regards the remaining portion of the Group's profit for 2020, following the Parent Company's payment of the dividend for 2020 (totalling €541.7 million).

Payment of the final dividend

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

⁷ The LTI Plan 2021-2025 involves the grant of the right to the award of a certain number of shares in Terna S.p.A. (Performance Shares) free of charge at the end of a performance period, provided that the performance objectives to which the Plan is linked have been achieved.

Equity attributable to non-controlling shareholders – €40.2 million

Equity attributable to non-controlling interests, relating to the non-controlling shareholders of the Tamini Group, Terna Interconnector S.r.l., Pl.SA. 2 S.r.l., SPE Transmissora de energia Linha Verde I S.A., Brugg Cables and ESPERIA-CC S.r.l., amounts to €40.2 million, a reduction of €5.8 million compared with 31 December 2020.

The change primarily reflects the purchase from non-controlling shareholders, on 26 January 2021, of the remaining 30% of Avvenia the Energy Innovator S.r.l. by the subsidiary, Terna Energy Solutions S.r.l. (down €5.0 million) and the Terna Group's exercise of its call option on shares representing the remaining 10% of Brugg HV Cable Manufacturing held by the Brugg Group (down €2.5 million). These reductions were offset by the share of profit for the period attributable to non-controlling shareholders recognised by Terna Interconnector S.r.l. (€1.1 million) and Brugg Cables (€0.3 million).

25. BORROWINGS AND FINANCIAL LIABILITIES

	(€m)		
	30.06.2021	31.12.2020	CHANGE
Bond issues	7,013.5	7,485.7	(472.2)
Bank borrowings	2,559.2	2,374.5	184.7
LONG-TERM BORROWINGS	9,572.7	9,860.2	(287.5)
Cash flow hedges	204.6	253.8	(49.2)
NON-CURRENT FINANCIAL LIABILITIES	204.6	253.8	(49.2)
SHORT-TERM BORROWINGS	702.1	1,002.2	(300.1)
Bond issues	999.9	1,258.8	(258.9)
Bank borrowings	239.5	129.2	110.3
CURRENT PORTION OF LONG-TERM BORROWINGS	1,239.4	1,388.0	(148.6)
CURRENT FINANCIAL LIABILITIES	77.6	90.1	(12.5)
TOTAL	11,796.4	12,594.3	(797.9)

Borrowings and financial liabilities are down €797.9 million compared with 31 December 2020 to €11,796.4 million.

The reduction in bond issues (down €731.1 million) essentially reflects repayment of the bond issue launched by Terna S.p.A. in March 2011, totalling €1,250 million, after taking into account the green bond issue launched by Terna on 16 June 2021, with a nominal value of €600 million. The change also reflects the adjustment of the amortised cost of these financial instruments.

The latest official prices at 30 June 2021 and 31 December 2020 for the bonds listed on the Luxembourg Stock Exchange are detailed below:

	ISIN	(€m)	
		PRICE AT 30 JUNE 2021	PRICE AT 31 DECEMBER 2020
Bond maturity 2021:	XS0605214336	n.a.**	100.96
Bond maturity 2022:	XS1178105851	100.76	101.22
Bond maturity 2023:	XS0328430003	126.76*	124.72*
Bond maturity 2023:	XS1858912915	102.69	103.19
Bond maturity 2024:	XS0203712939	116.68	119.52
Bond maturity 2025:	XS2033351995	100.66	101.19
Bond maturity 2026:	XS1371569978	105.84	107.90
Bond maturity 2026:	XS1980270810	104.55	105.41
Bond maturity 2027:	XS1652866002	106.84	109.14
Bond maturity 2028:	XS1503131713	105.03	107.28
Bond maturity 2029:	XS2357205587	100.02	n.a.**
Bond maturity 2030:	XS2237901355	98.22	101.89
Bond maturity 2032:	XS2209023402	100.14	105.29

* Source: BNP Paribas, in the absence of up-to-date prices sourced from Reuters and Bloomberg.

** Not applicable.

Compared to 31 December 2020, bank borrowings have increased by €295.0 million, primarily due to as a result of the drawdown of new bank facilities, amounting to €343.0 million, after repayments of existing borrowings.

Long-term borrowings

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

(€m)

	31 DECEMBER 2020			REPAYMENTS AND CAPITALISATIONS	DRAW- DOWNS	OTHER	CHANGE IN CARRYING AMOUNT	30 JUNE 2021		
	NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE					NOMINAL DEBT	CARRYING AMOUNT	FAIR VALUE
Bond maturing 2021	1,250.0	1,258.8	1,262.1	(1,250.0)	-	(8.8)	(1,258.8)	-	-	-
Bond maturing 2022	1,000.0	999.1	1,012.2	-	-	0.4	0.4	1,000.0	999.5	1,007.6
IL bond	579.0	636.3	722.1	-	-	(9.6)	(9.6)	579.0	626.7	733.9
Bond maturing 2023	1,000.0	996.4	1,031.9	-	-	0.7	0.7	1,000.0	997.1	1,026.9
Bond maturing 2024	800.0	921.1	956.1	-	-	(15.5)	(15.5)	800.0	905.6	933.5
Bond maturing 2025	500.0	495.7	506.0	-	-	0.4	0.4	500.0	496.1	503.3
Private Placement 2026	80.0	79.2	86.3	-	-	0.1	0.1	80.0	79.3	84.7
Bond maturing 2026	500.0	498.2	527.0	-	-	0.1	0.1	500.0	498.3	522.7
Bond maturing 2027	1,000.0	1,039.0	1,091.4	-	-	(15.1)	(15.1)	1,000.0	1,023.9	1,068.4
Bond maturing 2028	750.0	794.4	804.6	-	-	(18.2)	(18.2)	750.0	776.2	787.7
Bonds maturing 2029	-	-	-	-	600.0	(2.8)	597.2	600.0	597.2	600.1
Bonds maturing 2030	500.0	495.7	509.5	-	-	0.2	0.2	500.0	495.9	491.1
Bonds maturing 2032	500.0	496.2	526.5	-	-	(18.5)	(18.5)	500.0	477.7	500.7
Linha Verde II bond issue	34.4	34.4	35.6	-	-	5.5	5.5	39.9	39.9	41.0
Total bond issues	8,493.4	8,744.5	9,071.3	(1,250.0)	600.0	(81.1)	(731.1)	7,848.9	8,013.4	8,301.6
Borrowings	2,459.1	2,454.8	2,454.8	(59.0)	343.0	16.0	300.0	2,758.4	2,754.8	2,754.9
Lease liabilities	48.9	48.9	48.9	(5.6)	-	0.6	(5.0)	43.9	43.9	43.9
Total borrowings	2,508.0	2,503.7	2,503.7	(64.6)	343.0	16.6	295.0	2,802.3	2,798.7	2,798.8
Total debt	11,001.4	11,248.2	11,575.0	(1,314.6)	943.0	64.5	(436.1)	10,651.2	10,812.1	11,100.4

At 30 June 2021, 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 €936 million and approximately €5 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 accrued interest payable at maturity.

(€m)													
	MATURITY	31 DECEMBER 2020*	30 JUNE 2021*	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS	2022	2023	2024	2025	2026	AFTER	AVERAGE INTEREST RATE AT 30 JUNE 2021	AVERAGE NET INTEREST RATE OF HEDGES AT 30 JUNE 2021
Bonds	2021	1,302.7	1,258.8	1,258.8	-	-	-	-	-	-	-	4.75%	1.22%
	2021	1,258.8	-	-	-	-	-	-	-	-	-	4.75%	1.30%
	2022	999.1	999.5	999.5	-	-	-	-	-	-	-	0.88%	0.96%
	2023	636.3	626.7	-	626.7	626.7	-	-	-	-	-	2.73%	(0.54%)
	2023	996.4	997.1	-	997.1	-	997.1	-	-	-	-	1.00%	1.15%
	2024	921.1	905.6	-	905.6	-	-	905.6	-	-	-	4.90%	0.87%
	2025	495.7	496.1	-	496.1	-	-	-	496.1	-	-	0.13%	0.32%
	2026	498.2	498.3	-	498.3	-	-	-	-	498.3	-	1.00%	1.29%
	2026	79.2	79.3	-	79.3	-	-	-	-	79.3	-	1.60%	0.41%
	2027	1,039.0	1,023.9	-	1,023.9	-	-	-	-	-	1,023.9	1.38%	1.17%
	2028	794.4	776.2	-	776.2	-	-	-	-	-	776.2	1.00%	1.03%
	2029	-	597.2	-	597.2	-	-	-	-	-	597.2	0.38%	0.01%
	2030	495.7	495.9	-	495.9	-	-	-	-	-	495.9	0.38%	0.46%
	2032	496.2	477.7	-	477.7	-	-	-	-	-	477.7	0.75%	0.52%
	2044	34.4	39.9	0.4	39.5	0.8	1.6	1.6	1.6	1.6	32.3	5.33%	9.10%
EIB	2042	515.6	858.6	14.8	843.8	20.5	20.5	24.6	47.7	47.7	682.8	0.55%	0.55%
Terna borrowing	2022	200.0	200.0	-	200.0	200.0	-	-	-	-	-	0.01%	(0.01%)
Difebal borrowing	2034	33.6	34.1	1.6	32.5	1.5	1.7	1.9	2.1	2.3	23.0	4.88%	4.88%
Total fixed rate		9,493.7	9,106.1	1,016.3	8,089.8	849.5	1,020.9	933.7	547.5	629.2	4,109.0		
EIB	2041	1,175.0	1,118.9	112.5	1,006.4	112.4	113.9	115.3	115.3	115.3	434.2	0.14%	0.51%
Terna borrowing	2023	400.0	400.0	100.0	300.0	200.0	100.0	-	-	-	-	0.00%	0.03%
Brazilian companies' borrowings	2042	108.1	119.9	3.5	116.4	36.3	3.4	3.5	3.5	3.6	66.1	12.29%	12.29%
Difebal borrowing	2034	26.8	26.9	1.5	25.4	1.5	1.8	1.9	2.1	2.3	15.8	2.91%	4.75%
Total variable rate		1,709.9	1,665.7	217.5	1,448.2	350.2	219.1	120.7	120.9	121.2	516.1		
TOTAL		11,203.6	10,771.8	1,233.8	9,538.0	1,199.7	1,240.0	1,054.4	668.4	750.4	4,625.1		

* The balance does not include prepaid fees of €3.6 million at 30 June 2021 and €4.3 million at 31 December 2020.

(€m)				
	31.12.2020	30.06.2021	PORTION FALLING DUE WITHIN 12 MONTHS	PORTION FALLING DUE AFTER 12 MONTHS
Finance leases	0.5	0.2	0.1	0.1
Operating leases	48.4	43.7	5.5	38.2
TOTAL	48.9	43.9	5.6	38.3

At 30 June 2021, payments on operating leases recognised in application of IFRS 16 amount to €4.2 million.

The total value of the Terna Group's borrowings at 30 June 2021 is €10,771.8 million (€1,233.8 million falling due within 12 months and €9,538.0 million falling due after 12 months), of which €4,625.1 million maturing after five years.

Non-current financial liabilities – €204.6 million

(€m)

	30.06.2021	31.12.2020	CHANGE
Cash flow hedges	204.6	253.8	(49.2)
TOTAL	204.6	253.8	(49.2)

Non-current financial liabilities, amounting to €204.6 million, reflect the fair value of cash flow hedges at 30 June 2021.

Fair value was measured by discounting the expected cash flows using the market yield curve at the reporting date. The decrease of €49.2 million, compared with 31 December 2020 reflects the change in the market interest rate curve and the change in the notional value of the derivatives portfolio.

Short-term borrowings – €702.1 million

“Short-term borrowings” have decreased by €300.1 million compared with 31 December 2020, reflecting the repayment of short-term borrowings by the Parent Company (down €302 million).

Current financial liabilities – €77.6 million

Current financial liabilities at 30 June 2021 include the value of net interest expense accrued on financial instruments and not yet paid. This item is down €12.5 million compared with the previous year.

(€m)

	30.06.2021	31.12.2020	CHANGE
DEFERRED LIABILITIES ON:			
Hedging derivatives	7.0	2.5	4.5
Bond issues	69.1	86	(16.9)
Borrowings	1.5	1.6	(0.1)
TOTAL	77.6	90.1	(12.5)

Net debt

Pursuant to the CONSOB Communication of 28 July 2006 and in compliance with ESMA Recommendation 32-382-1138 of 2021, the Group's net debt, after deducting non-current financial assets represented by the value of derivatives hedging bond issues, is as follows:

	(€m)
	30.06.2021
A. Cash	395.4
B. Cash equivalents (Term deposits)	1,079.0
C. Other current financial assets*	525.9
D. Cash and cash equivalents (A) + (B) + (C)	2,000.3
E. Current portion of non-current borrowings	1,239.4
F. Current debt (Short-term borrowings)	702.1
G. Other net financial liabilities**	58.5
H. Current debt (D) + (E) + (F) + (G)	2,000.0
I. Current net debt (H) - (D)	(0.3)
J. Non-current debt (Non-current borrowings)	2,559.2
K. Debt instruments (Bonds issues)	7,013.5
L. Derivative financial instruments held in portfolio (CFHs and FVHs)***	162.2
M. Non-current net debt (J) + (K) + (L)	9,734.9
N. Net debt (I) + (M)	9,734.6

* Corresponds with "Current financial assets" relating to the value of government securities (€504.1 million) and the short-term portion of IFRIC 12 (€21.8 million).

** Corresponds with "Current financial assets" relating to the value of accrued financial income (€19.1 million) and "Current financial liabilities".

*** Corresponds with "Non-current financial liabilities" and "Non-current financial assets" relating to the value of fair value hedges (€42.4 million).

26. EMPLOYEE BENEFITS – €58.9 MILLION

	31.12.2020	PROVISIONS	USES AND OTHER MOVEMENTS	ACTUARIAL GAINS/ (LOSSES)	(€m)
					30.06.2021
Benefits during the period of employment					
Loyalty bonuses and other incentives	4.7	-	(0.3)	-	4.4
Total	4.7	-	(0.3)	-	4.4
Termination benefits					
Deferred compensation benefits (TFR)	35.9	-	(0.4)	(0.9)	34.6
Energy discounts	3.6	-	(0.1)	-	3.5
Additional months' pay	5.8	0.1	(0.1)	(0.1)	5.7
Payment in lieu of notice and other similar	0.1	-	-	-	0.1
Total	45.4	0.1	(0.6)	(1.0)	43.9
Post-employment benefits					
ASEM health plan	11.6	0.2	(0.1)	(1.1)	10.6
Total	11.6	0.2	(0.1)	(1.1)	10.6
TOTAL	61.7	0.3	(1.0)	(2.1)	58.9

This item, amounting to €58.9 million at 30 June 2021, is down €2.8 million compared with 31 December 2020, due primarily to the impact of actuarial losses (down €2.1 million) and uses and other movements (down €1 million, above all in relation to deferred compensation benefits and loyalty bonuses).

27. PROVISIONS FOR RISK 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 2020	19.7	121.7	30.0	171.4
Provisions	0.9	5.7	-	6.6
Uses and other movements	(1.1)	(29.9)	(5.3)	(36.3)
Amount at 30 June 2021	19.5	97.5	24.7	141.7

Provisions for litigation and disputes – €19.5 million

These provisions have been set aside to cover outstanding liabilities that, at the end of the period, 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. At 30 June 2021, the balance amounts to €19.5 million and 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. Net uses totalled €0.2 million during the period.

Provisions for sundry risks and charges – €97.5 million

These provisions, amounting to €97.5 million at 30 June 2021, 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 31 December 2020, the provisions are down by a net €24.2 million, reflecting:

- a net decrease of €6.9 million in provisions linked to regulation of the quality of the electricity service (the mitigation and sharing mechanism introduced by ARERA Resolution 653/2015/R/eel) which, after provisions for estimated penalties linked to outages during the period, reflects payments to distribution companies and releases following final determination of the penalties due to previous years;
- net uses of €11.3 million relating to staff incentive plans;
- net uses for urban and environmental redevelopment schemes (€5.1 million).

Provisions for early retirement incentives – €24.7 million

Provisions for early retirement incentives reflects the estimated extraordinary expenses to be incurred in relation to the cost of the scheme for the period, linked to the early retirement of Group employees who have reached pensionable age. This item has decreased by €5.3 million, reflecting payments during the period.

28. OTHER NON-CURRENT LIABILITIES – €840.7 MILLION

This item, amounting to €840.7 million at 30 June 2021, regards accrued grants related to assets receivable by the Parent Company (€77.1 million), in addition to payments on account received in relation to construction of the private Italy-Montenegro and Italy-France Interconnectors (totalling €530.2 million).

This item also includes the guarantee deposits received from operators participating in the capacity market in accordance with Resolution 98/2011/R/eel (€116.2 million), in addition to the Interconnector Guarantee Fund set up by Terna S.p.A. following the issue of the 2016 Stability Law (€117.3 million), in order to fund investment in interconnections by art. 32 of Law 99/09.

The increase in this item compared with 31 December 2020, amounting to €4.0 million, essentially reflects an increase in the Interconnector Guarantee Fund (up €10.0 million), offset by a reduction in the guarantee deposits received from operators participating in the capacity market in accordance

with Resolution 98/2011/R/eel (down €0.4 million), a reduction in deferred income relating to grants related to assets receivable by the Parent Company (down €2.6 million) and in payments on account received from the entities financing the private Italy-Montenegro and Italy-France Interconnectors (a total reduction of €1.5 million).

29. CURRENT LIABILITIES

	30.06.2021	31.12.2020	CHANGE
Short-term borrowings *	702.1	1,002.2	(300.1)
Current portion of long-term borrowings *	1,239.4	1,388.0	(148.6)
Trade payables	2,280.5	2,217.3	63.2
Tax liabilities	36.2	-	36.2
Current financial liabilities *	77.6	90.1	(12.5)
Other current liabilities	399.4	333.1	66.3
TOTALE	4,735.2	5,030.7	(295.5)

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

TRADE PAYABLES – €2,280.5 MILLION

	30.06.2021	31.12.2020	CHANGE
Suppliers:			
- Energy-related payables	1,526.4	1,199.1	327.3
- Non-energy-related payables	715.1	997.1	(282.0)
Amounts due to associates payables	5.7	8.8	(3.1)
Payables resulting from contract work in progress	33.3	12.3	21.0
TOTAL	2,280.5	2,217.3	63.2

Suppliers

Energy-related payables

The increase of €327.3 million in this item compared with the end of 2020 essentially reflects energy-related pass-through payables (€332.4 million), the movement in which is primarily due to:

- an increase in net payables relating to essential plants for the security of the electricity system - UESS (€225.6 million) after payments ordered by ARERA in 2021⁸;
- an increase in amounts payable in the form of capacity payments (€97.5 million), after payments made during 2021⁹.

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 30 June 2021 (€715.1 million) is down €282.0 million compared with 31 December 2020. This largely reflects the higher volume of capital expenditure towards the end of the year, primarily by the subsidiary Terna Rete Italia S.p.A. (down €241.7 million) and a Terna S.p.A. (down €34.8 million).

⁸ ARERA ordered payments to the owners of essential plants via Resolutions 9-20-30-42-52-67-94-95-118-203/2021.

⁹ In Resolution 437/2019, the regulator also ordered the settlement of capacity payments for 2021.

Amounts due to associates payables

This item, amounting to €5.7 million, is down €3.1 million on 31 December 2020, and regards amounts payable to the associate CESI S.p.A., for services provided primarily to the subsidiary, Terna Rete Italia S.p.A. (down €1.0 million), and the Parent Company (down €1.3 million), relating to electro technical studies and research.

Payables resulting from contract work in progress

Payables resulting from contract work in progress, amounting to €33.3 million at 30 June 2021, are up €21.0 million compared with 31 December 2020 (€12.3 million).

This item breaks down as follows.

	PREPAY- MENTS	VALUE OF CONTRACT	BALANCE AT 30 JUNE 2021	PREPAY- MENTS	VALUE OF CONTRACT	BALANCE AT 31 DECEMBER 2020
Payables resulting from contract work in progress	(139.6)	106.3	(33.3)	(118.9)	106.6	(12.3)

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

The commitments assumed by the Group towards suppliers amount to approximately €2,284.9 million and regard purchase commitments linked to the normal “operating cycle” projected for the period 2021-2025.

INCOME TAX LIABILITIES – €36.2 MILLION

This item amounts to €36.2 million at 30 June 2021, reflecting an increase in tax payable for the period after payments on account paid during the first half (mainly due to the increase in pre-tax profit). This compares with the tax assets of the previous year recognized in “Income tax assets”.

OTHER CURRENT LIABILITIES – €399.4 MILLION

	30.06.2021	31.12.2020	Δ
Prepayments	65.9	59.7	6.2
Other tax liabilities	69.2	11.4	57.8
Social security payables	25.7	24.7	1.0
Amounts due to personnel	65.2	47.0	18.2
Other amounts due to third parties	173.4	190.3	(16.9)
TOTAL	399.4	333.1	66.3

Prepayments

This item (€65.9 million) regards grants related to assets collected by the Group (€61.9 million attributable to the Parent Company, €1.8 million to Rete S.r.l. and €2.2 million to Terna Rete Italia S.p.A.) to fund the construction of non-current assets in progress at 30 June 2021.

Compared with the figure at 31 December 2020 (€59.7 million), the increase of €6.2 million essentially reflects the net impact of grants deducted directly from the carrying amount of the related assets, totalling €4.8 million, and new prepayments received from third parties.

Other tax liabilities

Other tax liabilities, amounting to €69.2 million, are up €57.8 million compared with 31 December 2020. This primarily reflects an increase in VAT payable by the Group (up €59.2 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 €25.7 million. The figure is up €1.0 million compared with 31 December 2020, broadly due to increased contributions payable on staff incentives (up €0.4 million). This item also includes the amount payable to the Fondo Previdenza Elettrici – F.P.E. (the Electricity Industry Pension Fund), amounting to €2.9 million.

Amounts due to personnel

Amounts due to personnel, amounting to €65.2 million, essentially regard the Parent Company and the subsidiary Terna Rete Italia S.p.A.. They primarily relate to:

- incentives payable to personnel in the subsequent year (€32.6 million);
- amounts due to employees in the form of accrued and unused annual leave and bank holiday entitlements (€16.1 million).
- accrued amounts payable to staff after 30 June 2021 (up €13.8 million).

This item is up €18.2 million compared with 31 December 2020, primarily due to recognition of accrued amounts payable to staff after 30 June 2021 (up €13.8 million) and an increase in other incentives payable to personnel in the following year (up €3.5 million).

Other payables due to third parties

Other payables due to third parties, amounting to €173.4 million, primarily regard guarantee deposits (€99.5 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 Brugg Group arising during the Purchase Price Allocation process (€33.0 million, covered by an insurance policy) resulting from ongoing litigation regarding a number of contracts with Colombian counterparties, and deferred income (€15.5 million, primarily attributable to the Group's non-regulated business).

This item is down by a total of €16.9 million, essentially due to a reduction in guarantee deposits received during the period (down €21.8 million) and a reduction in payables (down €13.4 million) following the outcome of the claim for a refund of stamp duty connected with the acquisition of Rete S.r.l (December 2015), partially offset by an increase in dividends payable (up €15.2 million).

E. Commitments and risks

Risk management

The Group's financial risks

In the course of its operations, the Terna Group is exposed to different financial risks: market risk (interest rate risk, exchange rate risk and inflation risk), liquidity risk and credit risk.

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 Group's operations.

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.

The Terna Group's exposure to the aforementioned risks is substantially represented by the exposure of the Parent Company. This section provides information on the Terna Group's exposure to each of the above risks, the objectives, policies and processes applied in managing these risks and the methods used in their assessment, including further quantitative disclosures of the Parent Company's exposures at 30 June 2021.

Internal audit and risk management activities relating to the preparation of the Half-year Report for 2021 have taken into account the potential impact of Covid-19 and the significance of such impact on the individual types of risk based on the Company's operations. These activities did not identify the need for specific action.

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

The financial assets and liabilities relating to Terna's outstanding derivative instruments during the period consist of:

- cash flow hedges, hedging the risk of changes in cash flows associated with long-term variable rate borrowings;
- fair value hedges, hedging the risk of a change in the fair value of financial liabilities linked to movements in interest rates (fixed-rate bond issues).

The related reasons are described in the section, "The Group's financial risks", in the Notes to the Terna Group's Annual Report for 2020.

Updated information, at the date of this report, is provided below on interest rate, exchange rate, credit and liquidity risks; information on market and inflation risks is provided in the section, "Risk management", in the Notes to the Annual Report for 2020.

Sensitivity to interest rate risk

The following table reports the amounts recognised through “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 30 June 2021 was assumed:

	PROFIT OR LOSS			COMPREHENSIVE INCOME		
	CURRENT RATES +10%	CURRENT AMOUNTS	CURRENT RATES -10%	CURRENT RATES +10%	CURRENT AMOUNTS	CURRENT RATES -10%
30 June 2021						
Positions sensitive to interest rates variations (FVHs, bond issues, CFHs)	1.0	0.9	0.8	53.3	49.2	45.1
<i>Hypothetical change</i>	<i>0.1</i>	<i>-</i>	<i>(0.1)</i>	<i>4.1</i>	<i>-</i>	<i>(4.1)</i>
31 December 2020						
Positions sensitive to interest rates variations (FVHs, bond issues, CFHs)	(4.0)	(4.1)	(4.2)	(85.1)	(93.4)	(101.7)
<i>Hypothetical change</i>	<i>0.1</i>	<i>-</i>	<i>(0.1)</i>	<i>8.3</i>	<i>-</i>	<i>(8.3)</i>

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 the regulator, ARERA.

The following table summarises the exposure to such risk at the end of the first half:

	30.06.2021	31.12.2020	CHANGE
Fair value hedges	42.4	94.2	(51.8)
Cash and cash equivalents	1,474.4	2,689.0	(1,214.6)
Trade receivables	1,725.3	1,245.2	480.1
TOTAL	3,242.1	4,028.4	(786.3)

The following tables provide qualitative information on trade receivables that are not past due and have not been impaired:

GEOGRAPHICAL DISTRIBUTION

	30.06.2021	31.12.2020
Italy	1,429.5	1,075.2
Euro-area countries	138.0	44.6
Other countries	157.8	125.4
TOTAL	1,725.3	1,245.2

CUSTOMER TYPE

	30.06.2021	31.12.2020
Distributors	276.2	199.4
CSEA	77.8	93.7
Dispatching customers for injections	234.9	173.2
Dispatching customers for withdrawals (non distributors)	897.1	563.9
Parties which have signed virtual import contracts and virtual import services (interconnectors and shippers)	11.6	12.7
Sundry receivables	227.8	202.3
TOTAL	1,725.3	1,245.2

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

	30.06.2021		31.12.2020	
	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS
Current	(0.5)	1,667.2	(0.6)	1,188.9
0-30 days past due	0.1	14.5	-	8.8
31-120 days past due	(0.4)	15.1	(0.3)	6.5
Over 120 days past due	(50.6)	79.9	(51.1)	93.0
TOTAL	(51.4)	1,776.7	(52.0)	1,297.2

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

	30.06.2021	31.12.2020
Balance at 1 January	(52.0)	(42.9)
Release of provisions	0.7	0.1
Impairments for the period	(0.1)	(9.2)
TOTAL	(51.4)	(52.0)

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

	(€m)	
	30.06.2021	31.12.2020
Dispatching - injections	237.1	215.5
Dispatching - withdrawals	1,306.9	1,316.0
Transmission charges due from distributors	330.1	327.9
Virtual imports	143.5	113.4
Capacity market*	148.3	148.3
TOTAL	2,165.9	2,121.1

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

It should be noted that in 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.

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.

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 million issue in 2004 and eleven issues as part of its EMTN Programme (the “€ 9,000,000,000 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 €1,977.7 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.

Bank guarantees

Banks have issued guarantees to third parties on behalf of Group companies which, at 30 June 2021, amount to €327.1 million. This amount breaks down as follows: €96.9 million on behalf of Terna S.p.A., €57.4 million on behalf of Terna Rete Italia S.p.A., €39.2 million on behalf of Terna Interconnector S.r.l., €5.5 million on behalf of Santa Lucia S.A., €1 million on behalf of Santa Maria S.A., €4.3 million on behalf of Difebal S.A., €4.2 million on behalf of Terna Perú S.A.C., €2.4 million on behalf of Terna Energy Solutions S.r.l., €0.1 million on behalf of Terna Cile S.p.A., €0.9 million on behalf of Terna Plus S.r.l., €36.9 million on behalf of Brugg Cables and €78.2 million on behalf of Tamini Trasformatori S.r.l..

Litigation

The main commitments and risks not disclosed in the statement of financial position at 30 June 2021, relating to the Parent Company, Terna, and its subsidiary, Terna Rete Italia S.p.A., are described below. There are no significant commitments or risks for 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 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 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

No business combinations took place during the period.

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 the first half of 2021 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 30 June 2021.

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

REVENUE AND COSTS

(€m)

	REVENUE COMPONENTS		COST COMPONENTS
	TRANSMISSION CHARGE AND OTHER REVENUE FROM REGULATED ACTIVITIES	NON-ENERGY RELATED ITEMS	
De facto parent:			
Cassa Depositi e Prestiti S.p.A.	-	-	0.2
Total de facto parent	-	-	0.2
Associates:			
Cesi S.p.A.	-	0.1	0.2
CORESIO S.A.	-	-	1.9
Total associates	-	0.1	2.1
Other related parties:			
GSE Group	9.3	1.1	0.1
Sogin S.p.A.	-	0.1	-
Enel Group	845.6	9.8	0.1
ENI Group	3.6	0.5	0.1
Ferrovie Group	1.0	0.6	1.5
Fintecna	-	0.1	-
Ansaldo Energia S.p.A.	-	6.0	0.1
Snam Rete Gas S.p.A.	-	-	0.2
Open Fiber S.p.A.	-	1.8	-
Other related parties of MEF	-	0.2	0.1
Total other related parties	859.5	20.2	2.2
Pension funds:			
Fondenel	-	-	0.3
Fopen	-	-	1.3
Total pension funds	-	-	1.6
TOTAL	859.5	20.3	6.1

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.	-	-	1.0	-	-
Total de facto parent	-	-	1.0	-	-
Associates:					
Cesi S.p.A.	4.1	0.3	5.4	-	4.5
CORESIO S.A.	-	-	0.3	-	-
Total associates	4.1	0.3	5.7	-	4.5
Other related parties:					
GSE Group	-	2.8	-	-	-
Enel Group	9.0	196.3	25.3	-	733.1
ENI Group	-	1.4	1.2	-	57.4
Ferrovie Group	0.1	5.5	14.1	-	24.2
ANAS S.p.A.	1.5	0.4	3.5	-	-
Fintecna S.p.A.	0.2	0.1	0.2	-	-
Ansaldo Energia S.p.A.	6.4	5.5	15.4	-	25.5
Open Fiber S.p.A.	-	1.5	1.4	-	-
Poste Italiane Group	-	-	0.1	-	-
Sogin S.p.A.	-	0.1	-	-	-
Other related parties of MEF	0.1	0.1	0.3	0.1	0.1
Total other related parties	17.3	213.7	61.5	0.1	840.3
Pension funds:					
Fopen	-	-	1.9	-	-
Total pension funds	-	-	1.9	-	-
TOTAL	21.4	214.0	70.1	0.1	844.8

* Guarantees regard surety bonds received from contractors.

Related party transactions or exposures as a proportion of amounts in the statement of financial position and the income statement are shown below:

STATEMENT OF FINANCIAL POSITION

(€m)

	30.06.2021			31.12.2020		
	TOTAL	RELATED PARTIES	% PROPORTION	TOTAL	RELATED PARTIES	% PROPORTION
Property, plant and equipment	14,824.6	21.4	0.1%	14,559.7	54.4	0.4%
Trade receivables	1,725.3	214.0	12.4%	1,245.2	234.1	18.8%
Cash and cash equivalents	1,474.4	0.1	-	2,689.0	0.1	-
Trade payables	2,286.5	54.0	2.4%	2,217.3	80.4	3.6%
Other current liabilities	399.4	16.1	4.0%	333.1	20.3	6.1%

INCOME STATEMENT

(€m)

	H1 2021			H1 2020		
	TOTAL	RELATED PARTIES	% PROPORTION	TOTAL	RELATED PARTIES	% PROPORTION
Revenue from sales and services	1,231.5	879.3	71.4%	1,165.4	835.7	71.7%
Other revenue and income	40.2	0.5	1.2%	85.2	2.4	2.8%
Raw and consumable materials used	101.3	-	0.0%	84.6	0.1	0.1%
Services	95.1	4.4	4.6%	80.5	4.4	5.5%
Personnel expenses	148.1	1.6	1.1%	146.3	1.4	1.0%
Other operating costs	16.7	0.1	0.6%	14.0	0.1	0.7%
Financial expenses	(51.3)	-	-	(49.0)	(0.3)	0.6%

The proportional impact of related party cash flows is shown below:

STATEMENT OF CASH FLOWS

(€m)

	H1 2021			H1 2020		
	TOTAL	RELATED PARTIES	% PROPORTION	TOTAL	RELATED PARTIES	% PROPORTION
Cash flow from operating activities	288.5	(10.5)	(3.6%)	233.6	339.9	145.5%
Cash flow for investing activities	(474.5)	33.0	(7.0%)	(431.8)	31.1	(7.2%)
Cash flow from/for financing activities	(1,028.6)	-	-	369.9	-	-

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 the first half of 2021, other than those referred to previously.

I. Notes to the statement of cash flows

Cash flow from **continuing operations** amounts to €288.5 million, with approximately €907.4 million in operating cash flow and an outflow of approximately €618.9 million generated by changes in net working capital.

The cash outflow for **investing activities** totals €474.5 million, and above all regards €552.7 million relating to investment in property, plant and equipment (excluding right-of-use assets in application of IFRS 16) and €41.5 million invested in intangible assets, less the inflow following the redemption of Italian government securities reaching maturity in April, totalling €100 million, and capitalised financial expenses of €5.0 million.

The **net cash** outflow for shareholder transactions amounts to €356.9 million, due primarily to payment of the final dividend for 2020 (an outflow of €343 million) and the buyback of own shares linked to the Performance Share Plan 2021-2025 (an outflow of €10.0 million).

As a result, net cash used in investing activities and to provide a return on equity during the period amounted to €824.1 million, for the most part covered by cash flow from continuing operations of €474.5 million. The remainder was funded through net debt, which over the course of the period rose €562.0 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:

	31.12.2020	CASH FLOW FROM FINANCING ACTIVITIES	CHANGE IN FV AND OTHER	(€m) 30.06.2021
- Long-term borrowings (including current portion)	11,248.2	(371.6)	(64.5)	10,812.1
- Short-term borrowings	1,002.2	(300.1)	-	702.1
Net change deriving from financing activities	12,250.4	(671.7)	(64.5)	11,514.2

L. Events after 30 June 2021

Regulated Activities

Terna presents 2021 Development Plan for national transmission grid

On **7 July 2021**, Terna presented the **2021 Development Plan** for the national transmission grid: **€18.1 billion to be invested in the next 10 years, a 25% increase on the previous ten-year period**, focusing on enabling the energy transition and facilitating the development and integration of renewable sources, making a major contribution to achieving the ambitious goals set out in the Green Deal and helping to drive the country's economic recovery. The Company's new Plan was presented during a press conference attended by the Chairman of ARERA (Italy's Regulatory Authority for Energy, Networks and the Environment Energy), Stefano Besseghini, and the Minister for the Ecological Transition, Roberto Cingolani.

New cable connection linking Melilli and Priolo, in the province of Syracuse, enters service

On **12 July 2021**, the new 150kV “Melilli – Priolo” cable connection went live. The new line has replaced the old overhead line in the municipalities of Priolo Gargallo and Melilli, in the province of Syracuse. The new power line is approximately 6 km long and is completely underground. The new connection, in which Terna invested approximately €10 million, uses innovative devices designed to improve management and monitoring of the infrastructure. The new line forms part of the “Paternò-Pantano-Priolo” project, a 380kV power line currently under construction that will extend for 63 km and connect the Paternò (Catania) and Priolo Gargallo substations.

Belcastro electricity substation, in the province of Catanzaro, enters service

On **13 July 2021**, the new 380/150kV electricity substation at Belcastro, in the province of Catanzaro, entered service, together with approximately 2 km of new overhead lines forming part of the 380kV “Magisano-Scandale” backbone. Terna involved around 40 firms in the project over a number of years, with an average of 35 operatives a day on site, rising on occasion to up to 100. In addition to permitting the integration of renewable sources, the new substation is also needed to increase meshing on the 150kV grid. This is to be followed by construction of the new 150kV “Calusia-Mesoraca-Belcastro-Catanzaro” line, currently awaiting the related consents, which will be approximately 50 km in length. The completed reorganisation will result in the dismantling of approximately 45 km of existing line and the demolition of around 175 pylons. Terna will invest a total of approximately €90 million in the project.

New 132kV Modena North-Modena East and Modena East-Modena Crocetta lines enter service

On **13 July 2021**, the new 132kV “Modena North – Modena East” and “Modena East – Modena Crocetta” power lines, located entirely in the Municipality of Modena, entered service. The project, in which Terna invested over €5 million and which involved 20 local firms and 60 workers, consists of a new 5-km long underground cable and a new overhead line, including 4 pylons, extending for approximately 1 km. The project is designed to connect the national grid with the new Modena East primary substation - currently under construction - and with the existing substations of Modena North and Modena Crocetta, all owned by the INRETE group. The new lines will increase meshing and improve the reliability of the electricity system serving the city of Modena.

Reorganisation of the grid between Malcontenta and Fusina in the Venice area receives approval

On **16 July 2021**, the Ministry for the Ecological Transition gave the go-ahead for Terna’s plan to reorganise the grid between Malcontenta and Fusina in the Venice area. The intervention will help to boost the efficiency and resilience of the electricity transmission service in the Veneto region. The project, in which Terna will invest €190 million, involves the reorganisation of the 132kV, 220kV and 380kV power lines between Enel’s Palladio di Fusina thermoelectric power station and the main Romea highway in the municipalities of Venice and Mira. It will include construction of a new 380kV connection from the Fusina power station to the Fusina 2 electricity substation; the laying of 24 km of underground cable and the resulting removal of over 21 km of overhead lines and 89 pylons; expansion of the Fusina 2 electricity substation; and reconstruction of the Malcontenta electricity substation. In total, the work will vacate over 53 hectares of land between the municipalities of Venice and Mira.

Reorganisation of the grid serving Rimini and Riccione receives approval

On **21 July 2021**, the Ministry for the Ecological Transition gave the go-ahead for the reorganisation of the grid known as the “**132kV Rimini – Riccione Ring**”, which will involve a total of 8 municipalities (Rimini, Riccione, Coriano, Santarcangelo di Romagna, San Mauro Pascoli, Savignano sul Rubicone, Gatteo and Gambettola) in the provinces of Rimini and Forlì-Cesena. The project, in which Terna will invest €50 million, aims to make the area’s electricity system more secure and efficient, above all during the summer season when electricity consumption rises significantly, with the resulting risk of outages. There will also be major benefits for the environment, with the demolition of a total of 41 km of old overhead lines and the retirement of 171 pylons, removing grid infrastructure from over 130 hectares of land.

Consents process for new underground cable connecting between the Donada, Rosolina and Brondolo primary substations begins

On **23 July 2021**, following the Ministry for the Ecological Transition’s **initiation of the consents process for the new underground cable connecting the Donada, Rosolina and Brondolo primary substations**, Terna published the notice containing a list of the parcels of land affected by the infrastructure to be located in the provinces of Venice and Rovigo. The project, in which Terna will invest €20 million, involves the construction of a new 132kV underground cable of 24 km in length: 16 km between the Brondolo and Rosolina primary substations and 8 km between the Rosolina and Donada substations. Once completed, the project will enable the removal of the 17 km of 50kV overhead line that currently connects the three substations, including 89 pylons. The project will result in the removal of grid infrastructure from 25 hectares of land in the Venice and Rovigo areas.

Finance

Chief Executive Officer’s decision on €600 million bond issue published

The decision of the Chief Executive Officer, Stefano Antonio Donnarumma, dated 16 June 2021, approving the public placement of fixed rate bonds amounting to €600 million, was published on 12 July 2021. The decision is available for consultation by the public at the Company’s registered office and on the website at www.terna.it.

The issue was carried out as part of the Euro Medium Term Notes (EMTN) programme previously announced to the market on 8 June 2021. The decision was also published on the website of the authorised “1Info” storage system (www.1info.it) and filed with the company that manages the stock exchange, Borsa Italiana S.p.A. (www.borsaitaliana.it).

Terna’s new green bond included in Borsa Italiana’s ExtraMOT PRO segment

On **12 July 2021**, Terna’s latest green bond issue, launched on 16 June of this year, was included in **Borsa Italiana’s ExtraMOT PRO segment**. The bond has a nominal value of €600 million and a term of eight years, will mature on 23 June 2029 and pays coupon interest of 0.375%. As happened with Terna’s previous green bond issues in September 2020, the new bond has been included in Borsa Italiana’s green and social bond segment, created to offer investors the opportunity to choose instruments whose proceeds are to be used to finance projects providing specific environmental and social benefits or impacts. The proceeds from Terna’s issue are to be used to finance the Company’s eligible green projects, selected or to be selected in accordance with the “Green Bond Principles 2021” published by the ICMA – International Capital Market Association, using European Union taxonomy.

€300 million loan to finance the energy transition obtained from the EIB

On **13 July 2021**, Terna entered into an **agreement with the European Investment Bank (EIB) for a €300 million loan to fund the 2021-2025 “Driving Energy” Industrial Plan**, envisaging total investment of €8.9 billion in the energy transition. Terna’s investment in the next five years, considered 95% sustainable under the European Union taxonomy, aims to integrate non-programmable renewable sources and boost the system’s security and resilience, resolving grid congestion and upgrading the transmission backbones that play an essential role in linking places of production with consumption. This will in turn help to achieve the long-term energy and climate goals of both Italy and the EU. The 22-year loan, which was obtained on more competitive terms and has a longer duration than those available in the market, forms part of Terna’s strategy designed to optimise its financial structure. Following this transaction, the total value of loans to Terna from the EIB has risen to approximately €2.3 billion.

Euro Commercial Paper programme launched

On **16 July 2021**, Terna launched the Company’s first **euro commercial paper and ESG note programme (the “ECP programme”)**. The new ECP programme has a duration of 3 years and is worth up to €1,000,000,000.

The ECP programme has been rated “P-2” by Moody’s and “A-2” by S&P, and has been submitted to the STEP Secretariat in order to obtain the STEP label, so that the commercial papers issued under the ECP programme will be eligible under the STEP Market convention.

The commercial papers will be designated as “ESG Notes” provided that Terna achieves and maintains a ranking equal to or above Bronze Class in the S&P Sustainability Yearbook for the Electric Utilities sector.

Our people

First smart working hub opens in EUR district of Rome

On **2 July 2021**, Terna’s Chief Executive Officer, Stefano Antonio Donnarumma, and the CEO of Phygiwork, Roberto Guida, opened **the first Smart Working Hub** for Terna’s employees inside EUR’s Copernicus hub. The first among the major companies to provide co-working space in Rome, Terna took advantage of Phygiwork’s know-how to embark on a trial, designed to offer the Company’s personnel a new hybrid way of working. This allows people to work remotely, but within a flexible, digitalised hub. The initiative forms part of the NexTerna project, the plan to bring about a cultural transformation launched by Terna in recent months with the aim of reshaping the way we work through the active engagement of our people. The first space, opened in southern Rome, has made approximately 50 workstations available to employees of Terna who, for various reasons, are unable to work remotely from home.

Innovation

Terna to be a partner of the 2021 Rimini Meeting

On **13 July 2021**, Terna acted as a **partner of the 2021 Rimini Meeting**, where this year's theme was "The courage to say 'I'". During the Meeting, which promotes friendship between peoples, Terna used a stand of 75 square metres to present an innovative training project using virtual reality to reproduce the experience of climbing an electricity pylon, enabling visitors to climb their way to the top of a 30-metre-high pylon. Thanks to the use of a VR visor and two controllers, it was possible to simulate maintenance work: from the preparation of personal protection equipment through to working at a height in order to secure the conductors and replace the insulators. The virtual reality climbing project was developed internally by Terna for use alongside traditional on-the-job training.

European and international relations

Terna and leading European transmission system operators join forces to drive decarbonisation of the energy system

On **12 July 2021**, the TSOs from Austria, Belgium, France, Germany, Italy, the Netherlands, Spain and Switzerland launched a **joint initiative highlighting and strengthening their key role in the energy transition** and providing concrete examples of their role as enablers. The initiative aims to analyse and evaluate how the activities of a TSO can contribute to decarbonisation and to making the electricity system carbon neutral. Through a series of grid development projects, the TSOs intend to cut global greenhouse gas emissions, supporting sustainability and benefitting the electricity system as it undergoes the epoch-making shift from a system that primarily uses fossil fuels to one that is increasingly clean and efficient.

Corporate events

Acquisition of 100% interest in the corporate vehicle, EL.I.T.E.

On **27 July 2021**, the Terna Group completed the **acquisition of a 100% interest in EL.I.T.E. S.p.A.**, the corporate vehicle that owns and manages (under a service agreement with Repower) the 4-km long, 150kV merchant line between Tirano and Campocologno that connects Italy and Switzerland. The acquired company currently owns not only the 150kV cable connection from the switching station in Tirano to the border between the two countries, with the related portion located in a tunnel, but also the Tirano switching station itself. This transaction relates to ARERA's Resolution 567/2019, which in December 2019 established an incentive scheme to encourage unification of the NTG, and was in part designed to facilitate Terna's acquisition of a merchant line whose exemption from the need to grant third-party access has expired.

Attestation

of the Group's half-year report pursuant to 81-*ter*
of CONSOB Regulation 11971 of 14 May 1999, as amended



“Half-year attestation”

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 condensed consolidated interim financial statements during the six months ended 30 June 2021.

In this regard, no material aspects have emerged.

We also attest that the condensed consolidated interim financial statements:

- 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;
- 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.

The interim report on operations includes a reliable analysis of key events during the first six months of the year and of their impact on the condensed consolidated interim financial statements, as well as a description of the main risks and uncertainties to which the issuer is exposed in the remaining six months of the year.

The interim report on operations also includes a reliable analysis of related party disclosures.

Rome, 29 July 2021

Chief Executive Officer
Stefano Antonio Donnarumma

(original signed)

Manager responsible for financial reporting
Agostino Scornajenchi

(original signed)

Independent Auditor's

review report on the condensed consolidated interim financial
statements at and for the six months ended 30 June 2021

REPORT ON REVIEW OF THE HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Terna S.p.A.

Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of Terna S.p.A. and subsidiaries (the "Terna Group") as of June 30, 2021, which comprise the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation of the half-yearly condensed consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the half-yearly condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly financial statements under Resolution n° 10867 of July 31, 1997. A review of half-yearly condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly condensed consolidated financial statements of the Terna Group as at June 30, 2021 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Falcone
Partner

Rome, Italy
July 30, 2021

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

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