Tirreno Power S.p.A.

Financial statements as at December 31, 2021

Independent auditor’s report pursuant to article 14
of Legislative Decree n. 39, dated 27 January 2010

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
Tirreno Power S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Tirreno Power S.p.A. (the Company), which comprise the balance sheet as at December 31, 2021, and the income statement, the statement of comprehensive income/(loss), statement of changes in shareholders' equity and statement of cash flows for the year then ended, and explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Emphasis of matters

We draw the attention to the paragraph "Information regarding the criminal proceedings of the Vado Ligure site" of the Management Report and to the explanatory note "Contingent assets and liabilities" which describe the events and the Directors' assessments on the criminal proceeding started by the Prosecutor's Office of Savona, concerning the plant of Vado Ligure, in which, during 2018, the Company was cited as the civil liable party.

Our opinion is not modified in respect of this matter.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Building a better working world

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Tirreno Power S.p.A. are responsible for the preparation of the Report on Operations of Tirreno Power S.p.A. as at December 31, 2021, including its consistency with the related financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the financial statements of Tirreno Power S.p.A. as at December 31, 2021 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the financial statements of Tirreno Power S.p.A. as at December 31, 2021 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Rome, March 14, 2022

EY S.p.A.
Signed by: Beatrice Amaturo, Auditor

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

TIRRENO POWER SPA -

FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2021

TIRRENO POWER SPA

Registered office: Via Barberini 47, Rome
Share Capital Euro 60,516,142.00 fully paid
VAT no., Fiscal Code and Business Register of Rome no. 07242841000
Administrative Business Registry no. 1019536
Administrative office and Naples facility: Stradone Vigliena 39, Naples
Torrevaldaliga facility: Via Aurelia 2, Civitavecchia (Rome)
Vado Ligure facility: Via A. Diaz 128, Valleggia di Quiliano (Savona)
Renewable Sources Sector: Corso Torino 1, Genoa

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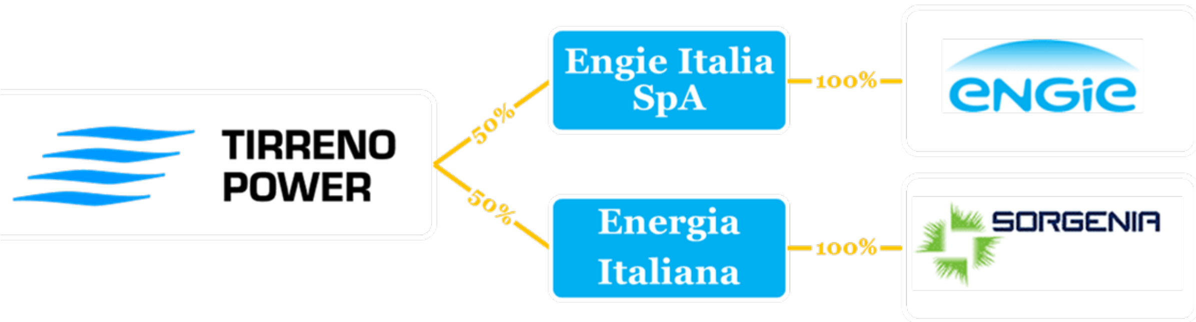
MANAGEMENT REPORT

INTRODUCTION

Ownership structure

The Company, as at December 31, 2021, is jointly owned by Energia Italiana S.p.A. and Engie Italia S.p.A.



Corporate bodies

Board of Directors	
Chairman	Alberto Bigi
Directors	Giuseppe Gatti Giovanni Chiura Charles Hertoghe Angelica Orlando Jurgen Fryges Antonio Cardani * Roberto Garbati *

** Independent directors, as set forth in the Company's Articles of Association*

Board of Statutory Auditors	
Chairman	Gianluca Marini
Statutory Auditors	Riccardo Zingales Maurizio Lauri
Alternate Auditors	Goffredo Hinna Danesi Giuseppe Panagia

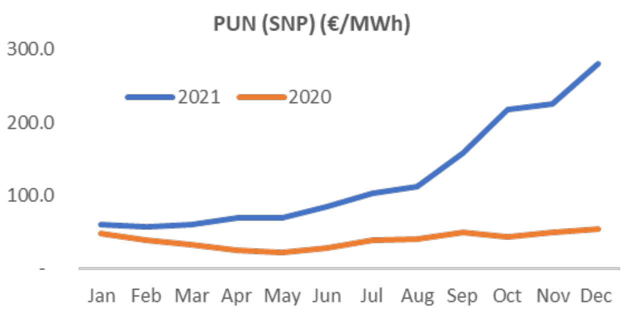
Independent Auditors
EY SpA

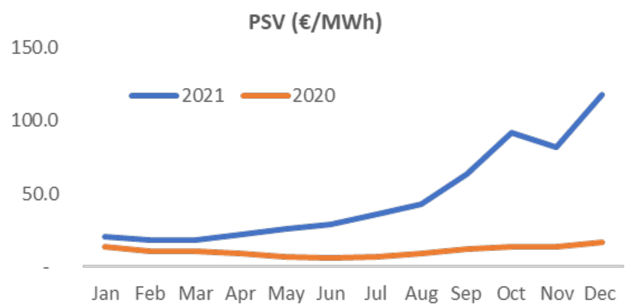
FOCUS ON RESULTS

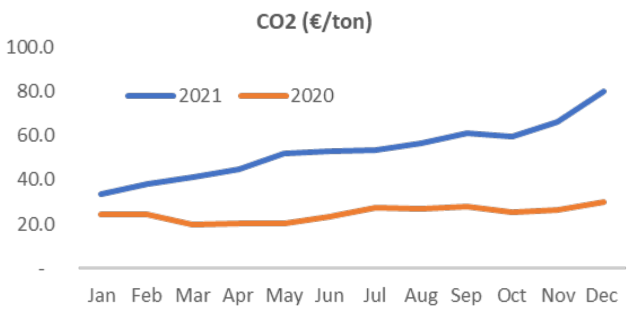
The Company achieved a net profit of Euro 47,003 thousand and a Gross Operating Margin of Euro 120,532 thousand, compared to the amount of Euro 255,601 thousand realised in 2020. The operating profit achieved amounted to Euro 63,690 thousand compared to Euro 169,951 thousand realised in 2020.

The results for the year were heavily influenced by the significant increase in the price of commodities. In particular, from July to October, the energy commodity market recorded a rapid increase to record prices, while also showing extreme price volatility during the same day. The price of gas, for the variable component alone, recorded an increase of 346% and that of CO2 an increase of 116%. The PUN also recorded a significant increase (+221%), but not always sufficient to cover the variable production costs. In addition, the increase in gas led to a significant rise in some production cost items which, in times of market stability, are actually predictable and controllable, such as the cost of auxiliary services and start-up costs. Only starting from November did the decrease in the price of gas accompanied by stable sales prices allow for healthy Clean Spark Spread levels.

The margins obtained in the Dispatching Services Market, on the other hand, were heavily affected by the increase in the price of commodities, as sales prices remained substantially unchanged compared to 2020. The low margins were also accompanied by a significant decrease in volumes (about 25%) compared to 2020, when the combination of the two factors (low energy demand and consequent higher share of requirements covered by renewable sources) had led to more movements by Terna on the MSD market to establish an adequate flexible generation reserve margin.







The results achieved, in any event, made it possible to generate a positive cash flow that made it possible to repay Tranche B of the loan in advance for Euro 37,543 thousand during the year, and to close the year with cash availability of Euro 49,910 thousand, as such to allow the full repayment of Tranche B and the related PIK interest (Euro 35,155 thousand) in the first few months of 2022 through the *cash sweep mechanism*.

Following the results of 2021, Tirreno Power received from Cerved Rating Agency the confirmation of the public rating B1.2, which reflects the improvement in economic performance and the maintenance of the ability to generate operating cash flows as such to allow the coverage of investments and, in particular, the significant reduction in financial debt, with a net financial position tending to zero.

COVID-19 EMERGENCY

On January 31, 2020, the Council of Ministers declared a state of health emergency, while on March 11, 2020, the World Health Organisation declared Covid-19 a pandemic, following the spread of the SARS-CoV2 coronavirus virus on a global scale.

Following this declaration, the Italian Government, through specific Decree Laws and Decrees of the President of the Council of Ministers, issued a series of measures, which involved limits on production activities. The suspension of activities imposed by the provisions did not include the services deemed essential, including the production of electricity.

From the onset of the health emergency, the Company immediately took action, consistent with government and health authority guidelines, in some cases anticipating their implementation. The first communication to all staff was issued as early as February 22, 2020.

Following the issuance of the first government measure, Tirreno Power established the Crisis Committee for the coordination of the management of the health emergency and an operational Task Force, coordinated by the General Manager, dedicated to overseeing emergency management.

The Company has implemented all the necessary measures to guarantee the health of its employees on the one hand and the continuity of the operation of its plants in safe conditions on the other. This took place through the adoption of specific procedures that identified appropriate guarantee and prevention measures in compliance with the provisions of current legislation and, in particular, the “Shared protocol regulating measures to combat and contain the spread of the Covid-19 virus in the workplace” signed on April 24, 2020, and updated on April 6, 2021, between the Government and the social partners.

Tirreno Power has continuously updated its procedures with the goal of the counteracting the pandemic, monitoring its development and ensuring normal operations at the same time, in observance of the necessary safety and prevention measures. The latest revision was updated and forwarded to all personnel on November 25, 2021.

The DPCM (Decree of the President of the Council of Ministers) of March 2, 2021 and the DPCM of October 12, 2021 are currently in force, confirming the division of the national territory into zones and introducing the obligation to show the green pass for accessing workplaces.

A vaccination campaign is under way nationwide, which could enable the country to exit the emergency situation. By means of the Italian Law Decree no. 1 of January 7, 2022, mandatory vaccinations to prevent SARS-CoV-2 infection were also extended to over-fifties starting from January 8, 2022, with the relevant sanctions imposed from February 15, 2022.

From an operational perspective, in light of the pandemic scenario and its development, the shutdowns planned for 2021 were not shifted due to the pandemic.

During 2021, in order to avoid the spread of the infection, the initiatives introduced were maintained, including:

- the use of Personal Protective Equipment;
- the use of agile work mode (smart working) for all non-essential personnel;
- the compilation of a self-declaration upon entry to the sites and the measurement of body temperature upon entry to the site;
- regulation of access to the control rooms, safety procedures and shift lines;
- periodic cleaning and sanitisation;
- the correct management of air conditioning and extraction systems;
- the continuation of health surveillance, including exceptional;
- the regulation of maintenance activities, both accidental and scheduled;
- the regulation of in-person meetings, business trips and training
- the verification (systematic and sample-based) of the green pass for access to workplaces.

In addition, at the warehouse management level (supply chain) all the actions were implemented to ensure the operational continuity of the production plants, also thanks to the definition of supply plans and the identification of back-up suppliers for all the main components.

Tirreno Power has taken out specific supplementary insurance for all employees, active from March 12, 2020 to cover healthcare costs connected to the COVID-19 disease. The policy taken out consists of insurance coverage of an economic nature and a package of post-hospital assistance services. The policy was also renewed for the entire year 2021.

In addition, Tirreno Power has also taken out an insurance policy for smart working accidents in order to protect the company population from domestic and/or occupational accidents, which occur during remote working days.

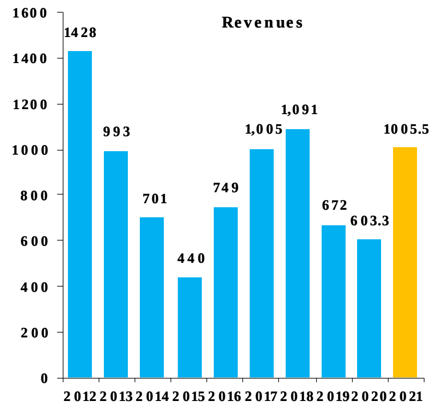
To date, no business interruptions have been recorded, confirming the effectiveness of the measures adopted.

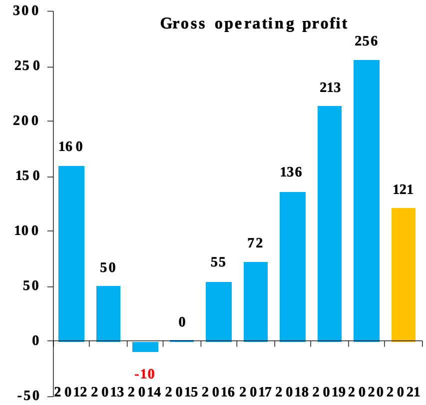
Highlights of the Company

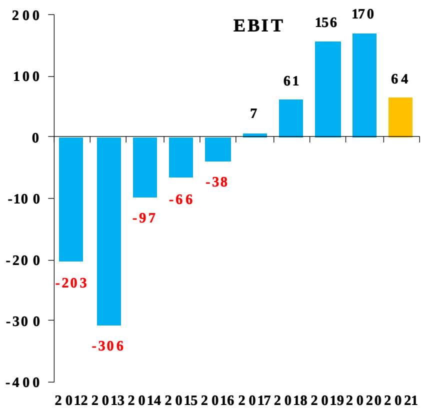
With the objective of presenting the results and analysing the financial structure, the tables below contain some "alternative performance indicators", which management feels are most representative of the economic and financial results that are contained in the reclassified statements that differ from those set forth in the international accounting standards adopted. The section "Operating performance during the year" outlines the criteria used to calculate these indicators. The data, unless otherwise specified, may be directly deduced from the financial statements.

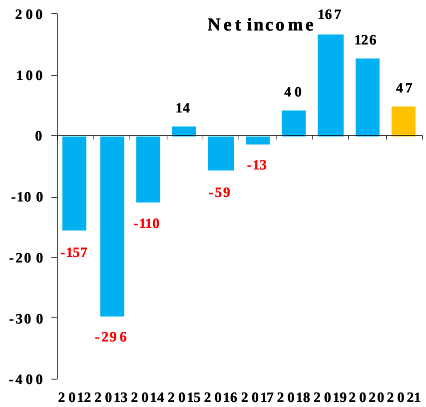
	12.31.2021	12.31.2020	difference
Income statement data (millions of Euro)			
Total revenues	1,005.5	603.3	402.2
-of which revenues from energy sales	*989.4*	*599.3*	*390.0*
Gross operating profit	120.5	255.6	(135.1)
EBITDA (including commodity derivatives)	114.6	228.1	(113.5)
EBIT	63.7	170.0	(106.3)
Net income for the period	47.0	125.5	(78.5)
Equity and financial data (millions of Euro)			
Investments in fixed assets	37.9	43.2	(5.3)
Cash flow from operating activities	116.8	263.6	(146.8)
Shareholders' equity	565.5	518.6	46.9
Net capital employed	570.8	602.7	(31.9)
Net financial debt	5.2	84.1	(78.9)
Debt/Equity	0.0	0.2	(0.2)
Operating data			
Energy sold (GWh)	5,929	7,000	(1,071)
Energy injected (GWh)	3,800	4,313	(514)
Average amount (units)	246.9	233.5	13.4
Economic/financial indicators			
Unit revenue from energy sale (€/MWh)	166.9	85.6	81.3
ROS (Return on Sales)	6.3%	28.2%	-21.8%
ROI (Return on Investment)	10.9%	26.1%	-15.3%
Market indicators (annual averages)			
PUN (SNP) (€/MWh)	125.04	38.90	86.14
PSV index (€/MWh) *(source: "Heren" PSV index)*	46.04	10.35	35.69
Emission rights (€/ton) *(source: "ICE" EUA Futures index)*	53.31	24.78	28.53
Price of Brent crude oil ($/barrel) *(source "Platt's")*	70.64	43.37	27.27
US Dollar/Euro exchange rate *(source UIC)*	1.184	1.141	0.04
1-month Euribor @ 365 average *(source Il Sole 24 Ore)*	-0.566%	-0.495%	-0.1%

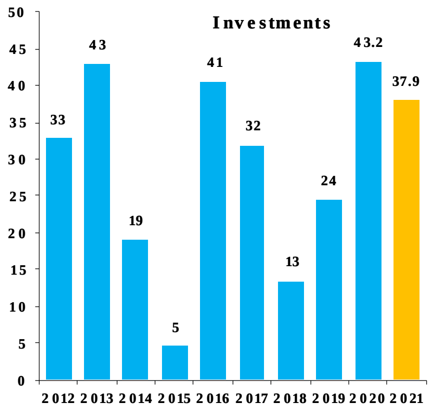
The trend in the main profit indicators of the last 10 years is indicated below:

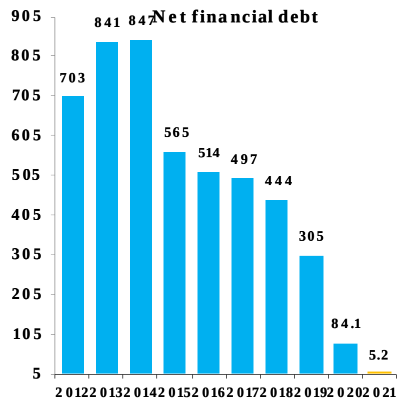












Operating structure

The Company is active in the production and sale of electricity through the management, in Italy, of some thermoelectric and renewable plants along the Tyrrhenian Sea area.

The following table summarises the main characteristics of such facilities:

Production Units	Gross reference capacity commercial operation (MW) as at 12.31.2021	Region
Vado Ligure plant	793	Liguria
Torrevaldaliga plant	1,176	Lazio
Naples plant	401	Campania
Thermoelectric total	**2,370**	
Total - Renewable Sources	**75 ***	Primarily in Liguria
** including 15 MW currently unavailable due to flood damage in October 2020*		
Total	**2,445**	

With its diversified production plants, the Company is able to generate electricity with high flexibility and competitiveness:

- the thermoelectric production units consist of 4 gas-powered combined-cycle plants;
- the renewable sources include 18 hydroelectric plants (divided equally between “run-of-river” and “power regulation” stations) located along the entire Ligurian Apennines.

As already reported in previous financial statements, following the definitive cessation of the activities of the Vado Ligure coal plants, the Company launched an initiative to reindustrialise the site no longer needed for energy production activities, aimed at encouraging the installation of new companies with the objective of contributing to the economic and employment development of the local area.

As part of the reindustrialisation project, in 2020 the Company Vernazza Autogru had purchased an area of approximately 27 hectares and the company Autoliguria had purchased an additional lot of the Vado Ligure plant with an area of approximately 1.8 hectares. In addition, the smoke ducts relating to the decommissioned coal-fired units VL3 and VL4 were subject to insulation removal and subsequent demolition operations, and at the same time, the contract for the demolition and insulation removal of the VL3 and VL4 units was awarded.

Lastly, on June 30, 2021, the areas and plants were delivered to the Contractor and, in November, the last section of the coal conveyor belt was dismantled.

In 2021, the activities set out in the three-year investment plan launched in 2019 for the optimisation of plant performance continued following an in-depth assessment and benchmarking activity. The main activities carried out in 2021 included were the upgrade and/or replacement of the DCS of the plants that will also provide greater functionality for predictive diagnostics and alarm management as well as guaranteeing functionality and availability of spare parts in future years. In addition, the company launched the revamping of the electrical protection mechanisms, the replacement of the gas turbine static starters, as well as the creation of a crossover that allows the start-up of each TG with the starter of another, exponentially increasing the reliability of the starting system. These investments are aimed at overcoming the obsolescence of components and the gradual shortage of spare parts, guaranteeing greater availability of plants starting from 2022, the year of the launch of the Capacity Market mechanism, a new market which requires maximum and constant plant availability and reliability.

In July, the Business Continuity Plan project was launched, an initiative whose fundamental objective is to provide Tirreno Power with tools to identify and prevent risks and threats that could affect the company, analyse their extent and the possible impact on activities and define the actions to be implemented to return to normality.

The adoption of the Business Continuity Plan will make it possible to provide the company with a genuine manual to promptly identify the appropriate measures to be adopted, to prevent or to deal with critical moments and restore the Company's operations as soon as possible, in all circumstances.

The project will be carried out over a period of one year, and after an initial phase of mapping the risks and defining the strategies for their management, the first operating procedures will be tested as already as the first quarter of 2022. A task that will involve all areas of the Company and that will lead to the completion of the plan, which will in any case be subject to periodic monitoring for continuous improvement.

Lastly, the restoration of the hydroelectric plants damaged during the floods of 2020 continued. In this regard, it should be noted that, in 2021, the reconstruction activities of the Argentina plant were completed (2 units of 0.5 MW each). On November 12, 2021, the plant returned to normal operation, while the activities to restore the Airole and Bevera plants are still under way.

Information regarding the criminal proceedings of the Vado Ligure site

It should be noted that criminal proceedings were opened in 2013 by the Public Prosecutor's Office of Savona due to an environmental disaster, which saw some senior management and employees of Tirreno Power as suspects, for the offences set out in article 434, paragraph 2 and article 449 of the Italian Criminal Code. Tirreno Power was served notice, on November 15, 2018, of the court summons as the civilly liable party in the criminal proceedings. Some of the main phases of said proceedings are reported hereunder.

- On March 11, 2014 the G.I.P. (Preliminary Judge) of the Court of Savona had ordered the preventive seizure of the VL3 and VL4 coal-powered units.
- On June 18, 2015 Tirreno Power was informed of the notice of conclusion of preliminary investigations, pursuant to art. 415 bis of the Italian Code of Criminal Procedure. In fact, on October 26, 2016, the Public Prosecutors filed a request to the Office of the Preliminary Judge to postpone the proceedings for 26 defendants charged with culpable disaster pursuant to article 434, paragraph 2 and article 449 of the Italian Criminal Code. With respect to the previous notice of conclusion of the preliminary investigations, notified on June 17, 2015, inter alia, the charge of multiple manslaughter was removed, with the formation of new proceedings no. 1753/16- 21 R.G.N.R. (General Criminal Records Registry). For the latter proceedings, on October 27, 2018, the Preliminary Judge ordered the dismissal of the case pursuant to art. 409 of the Italian Code of Criminal Procedure.
- On January 28, 2017, the Preliminary Judge of the Court of Rome issued a judgment of dismissal pursuant to articles 409 and 410 of the Italian Code of Criminal Procedure, upholding the request from the Public Prosecutor at the Court of Rome, in relation to the offence of abuse of office contested in the notice of closing of the preliminary investigations of July 20, 2016 vis-a-vis institutional and technical top management of the Liguria Region, the Province of Savona and the Municipalities concerned, as well as against an executive of Tirreno Power, abuse allegedly committed in order to obtain the AIA (Integrated Environmental Authorisation) for the VL3 and VL4 coal-powered plants.
- At the preliminary hearing on January 25, 2018, the Preliminary Judge admitted as civil parties in the proceedings the Environmental Associations (Medicina Democratica-Movimento per la Salute, Greenpeace Onlus, Associazione Uniti per la Salute, Legambiente Associazione Onlus, Associazione WWF-O.N.G. Onlus, ANPANA Association), who had filed an appearance on October 26, 2017 and the Italian Ministry of Environment and Land and Sea Protection (later also MATTM), established on November 30, 2017, while it excluded the appearance of three private citizens whose deed of appearance was filed on January 25, 2018.
- Tirreno Power was served notice, on November 15, 2018, of the court summons as the civilly liable party in criminal proceedings no. 5917/13. This provision of the Preliminary Judge upholds the request of the MATTM (Italian Ministry of Environment and Land and Sea Protection) for the summons of the civilly liable party of July 2, 2018. By means of said summons, Tirreno Power was

therefore called, independent of its appearance in the proceedings, in the case of sentencing with a definitive judgment, to be jointly and severally liable with the defendants for the damages caused to the civil parties as a result of the culpable disaster (environmental and health) they are charged with. Subsequently, by means of deed of November 21, 2018, filed at the Court on December 18, 2018, Tirreno Power appeared at the proceedings as the civilly liable party in order to present its defence in the criminal proceedings and oppose the effects that any sentencing would have in the separate civil proceedings pursuant to articles 651 et seq. of the Italian Code of Criminal Procedure. It should be noted that the Public Prosecutor has not challenged any of the predicate offences set forth in Italian Legislative Decree no. 231/2001, therefore, no pecuniary sanction or ban can be imposed on Tirreno Power, based on the current charge.

- At the hearing on December 11, 2018, the Judge, having ascertained the completion of the notification of a decree of committal for trial, therefore ordered a renewal of the summons, adjourning the proceedings to January 31, 2019. At the same hearing, some defence lawyers present in the courtroom pre-announced and subsequently formalised the appearance of the new civil parties, namely the ADOC (consumer protection association) associations, Art. 32, Codacons, the Italian Ministry of Health, and 48 natural persons. As things stand, they have submitted a claim for compensation: Associazione Uniti per la Salute for a sum of no less than Euro 120 thousand, Cittadinanza Attiva for a sum of no less than Euro 50 thousand, Medicina Democratica for a sum of no less than Euro 250 thousand and 48 natural persons for a total sum of no less than Euro 1,160 thousand. It should be noted that the summons received from the MATTM (Ministry of Environment and Land and Sea Protection) and the Italian Ministry of Health do not contain an indication of a specific request for compensation, but a reserve for quantification of the damages to be defined following the discussion by the civil parties.

- On May 20, 2019, the preliminary hearing phase began. In particular, during the hearings held in 2020, the witness evidence of the witnesses indicated in the related list presented by the Public Prosecutor and the civil parties appearing in court was examined, with the exception of the court-appointed experts. The hearings scheduled from February to June 2020 have been postponed due to the health emergency following the spread of COVID-19. Subsequently, seven hearings were held up to December 2020, dedicated to the questioning of the witnesses of the Civil Parties.

- During the year 2021, a total of 16 hearings were held. From February to May, the witnesses indicated by the civil parties and the first witnesses of the defence lawyers of the defendants were examined, in relation to circumstances concerning not strictly technical aspects of the charges, such as those concerning the subjective position of individual defendants.

- The hearing of June 8, 2021 marked the start of the examination of the court-appointed experts of the Public Prosecutor and continued until the hearing of November 8, 2021. At the subsequent hearings, on November 9, 2021 and December 14, 2021, respectively, the examination of the court-appointed experts of the Civil Parties began.

- Therefore, fifteen hearings have been scheduled until July 2022, which will initially be dedicated to the examination and cross-examination of the court-appointed experts of the Civil Parties and the defence of the defendants. However, it is presumed that the investigation will require further hearings to be set, at least until the end of 2022.

Indeed because the proceedings have still not completed the examination of all the relevant court-appointed experts for the purposes of the charge, and in particular, as the contribution of the defence court-appointed experts of the civilly liable party and the defendants has still not been acquired, the risk of losing the case must be considered possible and the compensatory consequences for the Company stemming from the pending criminal proceedings cannot be predicted.

MARKET SCENARIO

The energy product markets

In 2021, there was a significant increase in the prices of all energy commodities compared to 2020.

The gas price trend throughout Europe was influenced by various events, including:

- Low level of stocks at storage sites
- Reductions in gas transit from Norway and Russia
- Increase in prices of CO2 certificates
- Political tensions between Russia and Ukraine
- Authorisation delays related to Nord Stream 2 operations

The average price of natural gas recorded an increase compared to 2020, rising from 10.35 €/MWh to 46.04 €/MWh in 2021, reaching a high in December (113.42 €/MWh). *(source: "Heren" PSV index).*

The price of Brent crude oil (ARA Spot Average) recorded an increase compared to 2020, from 43.37 $/barrel in 2020 to 70.64 $/barrel in 2021, with a high of 83.35 $/barrel reached in October *(source: "Platt's Crude Oil Marketwire").*

The average price of coal increased compared to 2020, rising from 51.62 $/ton to 116.02 $/ton in 2021 *(source: “Argus” API # 2 Northwest Europe Cif ARA).*

The average price of CO2 recorded an increase compared to 2020, rising from 24.78 €/ton to 53.31 €/ton in 2021, reaching a maximum value of 79.43 €/ton in December. *(Source: “ICE” EUA Futures index).*

The average exchange rate of the US dollar against the euro in 2021 was €/$ 1.18304, up (+3.67%) compared to €/$ 1.14113 in 2020 *(Source: Italian Exchange Office).*

Production and demand for electricity in Italy

In 2021, the cumulative value of net production (278.1 TWh) was up (+2.4%) compared to 2020, as was the value of electricity demand (318.1 TWh), which increased by 5.6% compared to 2020.

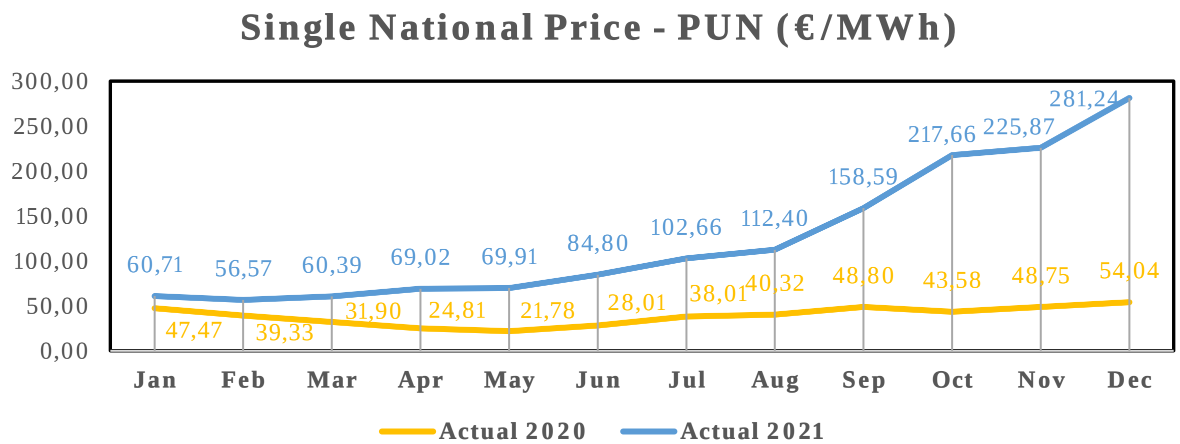
Note the drop in hydroelectric production (-2.6 TWh, equal to -5.4%), as opposed to the increase in pumping (+1.11 TWh, equal to +6.0%); the foreign balance also grew by 10.6 TWh (+32.9%), together with wind power (+2.0 TWh equal to +10.8%) and thermoelectric power (+6.7 TWh equal to +3.8%); photovoltaic production also followed the same increasing trend. (+0.5 TWh equal to +2.1%).

(source: Terna - Monthly report on the electricity system - final December 2021).

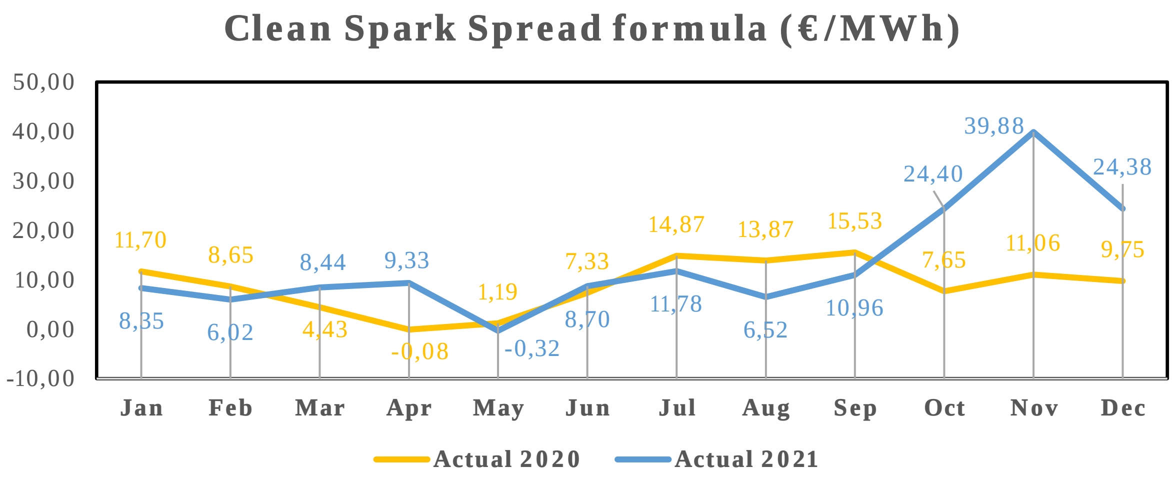
Trend in energy sales prices

In 2021, the purchase price of energy (PUN) on the Day-Ahead Market (MGP) rose to its all-time high of 125.46 €/MWh, up by 221% compared to the price of 38.90 €/MWh recorded in 2020 (source: GME), a record achieved in the presence of a marked increase that, during the year, brought prices from 60.71 €/MWh in January to 281.24 €/MWh in December.

This trend has affected all the main European power exchanges and is rooted in the rapid increase in thermoelectric generation costs, fuelled by record prices of gas and CO_2, especially in the last quarter of the year.



The record increase of all Commodities, especially in the last quarter, determined an average annual Clean Spark Spread higher than 2020 (+4.39 €/MWh on average).



The Clean Spark Spread represents the electricity sale margin including variable costs (gas and CO_2).

The presence of a considerable installed power of photovoltaic, equal to 22.4 GW (source: TERNA), contributed to creating a price compression in the central hours; the hourly price profile has an average trend that shows a first peak between 08.00 and 11.00 and a second more evident peak between the 18.00 and 22.00.

LEGISLATIVE AND REGULATORY FRAMEWORK

The following notes report the main legislative and regulatory events of 2021 that impact on the reference markets of Tirreno Power.

National Integrated Energy and Climate Plan

In January 2020, the Italian Ministry of Economic Development (MiSE) published the text for the National Integrated Energy and Climate Plan (PNIEC) of Italy prepared with the MATTM (Italian Ministry of Environment and Land and Sea Protection) and the Italian Ministry of Infrastructures and Transport. In implementation of the relevant European regulations, the PNIEC was sent to the EU Commission. The PNIEC establishes the national objectives for 2030 regarding the reduction of CO2 emissions, the development of energy efficiency and renewable sources (RES) as well as the objectives relating to energy security and the single energy market, defining the measures necessary to achieve each objective. As regards the electricity sector, the PNIEC envisages a target of 55% of consumption covered by RES by 2030, the phase out of coal production by 2025 and the use of the capacity market as a tool for defining long-term price signals on the electricity market. In October 2020, the EU Commission published the final assessment on the Italian PNIEC, defining a series of actions for its improvement and more effective implementation.

In September 2020, the EU Commission proposed raising the greenhouse gas reduction target to at least 55% compared to 1990 levels (previous target 40%). In December 2020, the European Council confirmed said proposal which took concrete shape in June 2021 when the European Parliament and the EU Member States approved the Climate Law, which sanctions the commitment to achieve carbon neutrality by 2050, with the interim objective of cutting net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels. In addition, the new EU climate law transforms the political commitment of the European Green Deal for EU climate neutrality by 2050 to a binding obligation. In mid-2021, the European Council formally approved European climate legislation. The new challenging targets set by the EU require the previous proposal of the PNIEC to be updated. For this reason, the document is currently under review.

Launch of the capacity market

In 2017, the new mechanism for the remuneration of electricity production capacity (already set forth in ARERA resolution ARG/elt 98/11) was formally notified by the Italian Ministry of Economic Development (MiSE), with the involvement of the Authority, at the Directorate-General for Competition of the European Commission. In February 2018, the Commission approved the Italian mechanism (and that of the other 5 countries) for 10 years, deeming it necessary for the adequacy and safety of the system. The decision (published in the middle of April 2018), among the many guidelines, required our country to make provision for participation in the foreign capacity and demand mechanism. It also provided guidelines for the price cap ranges for the auction offers (expressed in MW/year): Euro 25k-45k for existing plants and Euro 75k-95k for new entrant plants.

Following the approval, in March 2018, Terna put a new regulation framework up for consultation, which supplements the modifications requested by the Commission and provides a new regulation for scheduled plant maintenance, for guarantees and for the calculation of the unforced capacity (UCAP), as well as the new regulations for the participation of consumption units and foreign resources.

Subsequently, in adjustment and acknowledgement of the European Commission's decision, ARERA published resolution 261/2018/R/eel, which updates the resolution that established the capacity market (ARG/elt 98/2011). The resolution acknowledges both the guidelines of the Commission, and those of the Italian Ministry and also supplements the regulation based on the consultations that took place during 2017 (713/2016/R/eel and 592/2017/R/eel). More specifically, the resolution makes provision for: the start of the phase of first implementation with the possibility of also establishing planning periods of less than one year, the abolition of the minimum premium that can be recognised on existing capacity, the introduction of the minimum investment threshold requested by the Commission for new entrant plants, the opening of the capacity market to active participation of demand, of non-programmable renewable generation and foreign resources.

In March 2019, as set out in the National Integrated Energy and Climate Plan, the MiSE notified the Directorate-General for Competition of the European Commission of some changes to the capacity market scheme, with reference to the environmental and authorisation requirements for the participation in auctions. On June 14, 2019, the Commission authorised the aforementioned changes, deeming them to be compatible with EU rules on State aid.

By means of Italian Ministerial Decree of June 28, 2019, the MiSE formally launched the mechanism by approving a new version of the regulation, which acknowledges the emissions limits notified and approved by the Commission. The Italian Decree established the performance of auctions by 2019, with expected delivery in 2022 and 2023.

In September of the same year, by means of resolution 363/2019/R/eel, the ARERA defined the economic parameters of the auctions, setting the maximum value of the premium (cap), which can be recognised on new productive capacity at 75,000 €/MW/year and 33,000 €/MW/year for existing capacity. The minimum investment amount was also set at Euro 209,000/MW and the method of calculating the strike price was defined.

The auctions, for the delivery years 2022 and 2023 were held in November 2019, and Tirreno Power was awarded all the capacity offered, equal to 1,875 MW for each year, at the starting auction price envisaged for existing capacity.

The capacity market mechanism presents some significant critical issues for the management of cases of plant unavailability, both in cases of accidental out-of-service situations, and of scheduled maintenance that extends beyond the periods of exemption envisaged by the mechanism.

In such cases, the producer may incur suspension of the payment of the premium and cancellation of the premiums received during the entire year, if the condition is repeated for three months, including non-consecutive.

At the end of June 2020, Italy presented to the Directorate-General for Energy of the European Commission the so-called Implementation Plan (IP), document required by the new EU Regulation on the electricity market in 2019: this step is necessary in order to be able to start the new auctions of the mechanism (delivery starting from 2024). The consultation document illustrates the functioning of the capacity market within the overall Italian electricity market. At the end of October, Directorate-General for Energy sent its opinion on the IP, highlighting some necessary changes to be made to the regulatory structure of the market. In February 2021, the update of the Plan was published, which supplements the requests for clarification made by the Commission.

Again with regard to the capacity market, on the basis of the new EU regulations, which require Member States that intend to apply capacity mechanisms to define adequacy standards, ARERA, with Resolution 507/2020/R/eel, informs the MiSE that it requested Terna to develop the necessary adjustments. The new calculation method was put up for consultation by Terna at the start of June 2021 and reported the analysis carried out by Terna in application of the European methodologies, Decision ACER 23/2020, in relation to a series of technical parameters.

At the end of January 2021, Terna informed the operators of both the new plants and the new plants not yet authorised, with assigned capacity in the auctions held in 2019, of a possible extension of 6 months for the delivery of the authorisation titles for the market years 2022 and 2023; the extension is connected with the delays in obtaining authorisations resulting from the COVID-19 emergency. For the same category of plants, on June 30, 2021, the MiTE (Ministry of Ecological Transition) published a memorandum containing the extension, until October 31, 2021, of the term for obtaining the authorisation titles for the new plants still not authorised. In resuming the memorandum, Terna also confirmed the possibility, for the new capacity with start of the delivery period in January 2023, to postpone the start of the contract by up to 6 months.

It should be noted that this case does not apply to Tirreno Power, which, as mentioned above, participated in the 2019 auctions exclusively with existing plants.

In addition, at the end of April 2021, the Terna regulation on the capacity market for the delivery years 2024/2025 was put up for consultation. The regulation put up for consultation maintains the general set-up of the previous scheme essentially unchanged. A significant change to the new scheme regards the possibility for the assignors of new capacity or unauthorised repowering to inform Terna, by June 30 of the year prior to the delivery period, of the intention to delay the start of said period until December 31 of the first contract year, with the subsequent postponement of the final term of said period.

Following the consultation of the new capacity remuneration regulation, Terna also put up for consultation the Technical Provisions for Operation (DTF) which contain the methodologies for defining the demand curve, the rules for default and the relevant fees and the derating rates of the individual technologies.

On October 28, 2021, the MiTE published the Decree approving the new capacity market scheme necessary to announce the 2024 auction. The Decree envisages that the auction for 2025 will be launched only after an assessment has been carried out on the adequacy of the system following procurement for 2024. If, for three consecutive years, the adequacy assessment of the system is positive, the capacity remuneration mechanism will be discontinued.

On October 21, 2022, the auctions were held for the delivery year 2024 and Tirreno Power was awarded all the capacity offered, equal to 1,883 MW, at the starting auction price for the existing capacity.

Acts directly relating to Tirreno Power

Refund of the energy efficiency certificates (EEC) component

By means of resolution 96/2020/R/eel, ARERA introduced a regulatory mechanism that provides for the right, for thermoelectric producers that withdraw natural gas for the production of electricity to be fed into the network, to submit a request to GSE access to an ex-post compensation mechanism for the higher costs incurred for the payment of the RE_tee tariff component, a component of the REt, on natural gas supplies.

For producers eligible for the benefit, the refund right takes effect from the first day of the second month after the one in which the request is submitted to the GSE for each thermoelectric productive unit and, nonetheless, effective from a date no earlier than July 1, 2021. The request is valid for one year and can also be tacitly renewed. Solely on first implementation, in order to benefit from the right to reimbursement from July 1, 2021, the request had to be submitted by April 1, 2021.

By means of Resolution 548/2020/R/com, ARERA approved the operating regulation prepared by the GSE for the purposes of the refund of said component.

In March 2021, Tirreno Power submitted a request to the GSE for accessing the refund mechanism.

Following the significant increase in the prices of the gas raw material recorded in 2021 and the related effects on the electricity bill, the Authority made provision for the cancellation of the entire REt component from October 2021 to March 2022. For this reason, the reimbursements of RE_tee concerned only the months from July to September 2021 for an amount of approximately Euro 2.5 million.

Premiums for adapting plants to the electricity network restoration service

With Resolution 324/2020/R/eel, ARERA introduces a premium mechanism for the adaptation of generation plants included in the restart plan drawn up in accordance with the provisions of Regulation 2017/2196 (Emergency & Restoration Regulation).

As regards Tirreno Power, the only adjustments required were initially envisaged at the Torrevaldaliga Sud site with a premium mechanism which provides for a fee modulated on the basis of the completion times of the works up to an amount of Euro 50 thousand.

By means of a subsequent communication from Terna, further adjustments were requested pursuant to Resolution 44/2021/R/eel to the Torrevaldaliga Sud plant and also to the Vado Ligure plant. Both sites implemented the necessary adjustments within the time-frame that provide the possibility of obtaining the bonus envisaged in accordance with the Regulations, for an amount of Euro 375 thousand already recognised for the Vado Ligure site, while for the Torrevaldaliga Sud site, definition of the amount is pending.

Replenishment for recalculation of the ignition tokens (NMROA)

In application of ARERA Resolution 65/2014/R/eel, between July and September 2021, Terna made the adjustments due to the recalculations of the incorrect application of the NMROA parameter (index of non-compliance with the ignition orders). For the events recorded by Tirreno Power, the recalculations concerned the years from 2013 to 2018 for a total positive amount of Euro 1,130 thousand.

Italian Simplification Decree Law 2018 - Hydroelectric concessions

With reference to the changes introduced by means of Italian Decree Law no. 135 of December 4, 2018, regarding the simplification and support for development ("Italian Simplification Decree Law"), converted to law in February 2019, it should be noted that some amendments were introduced to the regulatory framework of hydroelectric concessions. The main changes concern: (i) the extension against consideration of the concessions already expired until 2023, (ii) the regulation of the reassignment of the concessions upon their expiry; (iii) the system for the compensation of the outgoing concession holder for the transfer of assets connected with the hydroelectric concession. These are regulations, which establish a series of general principles and which will be subject to implementing provisions by the Regions within the term set for March 2020, and the competent authorities for the purpose of detailed regulation of the renewals of concessions in observance of the principles dictated by the Constitution.

The deadline for the adoption of this regulation was extended from March 31, 2020 to October 31, 2020 by article 125-bis of Italian Law Decree no. 18/2020.

It should be pointed out that the hydroelectric concessions currently held by the Company, which fall under the scope of application of the provision in question, will reach their natural expiry in 2029. With regard to the effects of the new regulations, please refer to the information provided in the notes to the financial statements in the paragraph on tangible fixed assets.

To date, only the Piedmont, Lombardy, Friuli Venezia Giulia, Abruzzo and Emilia Romagna regions have issued their own laws implementing the new legislation.

For the regions affected by the administrative elections of last September 2020, including Liguria, provision was made for an additional 7-month postponement of the terms (publication between April and May 2021). As of today, Liguria has still not legislated on the matter. As far as Tirreno Power is concerned, only Piedmont issued the regional law on the matter, introducing, starting from 2021 for large diversion plants, an additional fee of 3% of the normalised revenues quantified by adding, on an annual basis, the product of the hourly quantity of the electricity injected into the network and the corresponding hourly zone price (Northern zone) recorded on the Day-Ahead Market. The economic impact for the Company, on the portion of the only plant in Piedmont, is insignificant.

On November 4, 2021, the Council of Ministers approved the annual bill for the market and competition. The text requires the procedures for the assignment of concessions for large-scale hydroelectric diversions to be carried out according to competitive, fair and transparent parameters, on the basis of an adequate economic value of the concession fees and an appropriate technical development of the initiatives for improving the safety of existing infrastructures.

Start of proceedings for the evaluation of potential abuse in the wholesale electricity market

As indicated in the previous financial statements, in June 2016, by means of resolution 342/2016/R/eel, the Authority had launched an investigation against a number of electricity operators, including Tirreno Power, relating to alleged abusive behaviour in the wholesale electricity market. The investigation concerns two separate cases: the first refers to the alleged adoption of consumption unit scheduling strategies and plants powered by non-programmable renewable sources not consistent with the standards established by the Authority. The second regards production units authorised to submit offers on the Dispatching Services Market that would not have offered their capacity on energy markets, encouraging Terna to establish units for balancing the system and subsequently increasing its costs.

As regards Tirreno Power, in July 2017, by means of resolution 511/2017/E/eel, the dismissal of the proceedings relating to the adoption of consumption unit scheduling was ordered. The outcome of the proceedings has still not been notified in relation to the other strand of the investigation and, at the current state of play, any negative consequences for the Company are considered unlikely.

The dispute over the recalculation of the capacity payment for the years 2010/2011

Following a complex administrative dispute, by means of resolution 400/2014/R/eel, the Authority ordered the recalculation of the fees to cover the second component for the remuneration of the production capacity for the years 2010 and 2011. In particular, the measure levied costly reimbursements on some operators, including Tirreno Power, which was required to repay a total of around Euro 5.5 million in 2014. Given the seriousness of the situation brought about by the resolution and in consideration of the lack of legitimacy of the measure, Tirreno Power joined other operators penalised by the Lombardy Regional Administrative Court in filing an appeal against the aforementioned resolution before the latter. In 2016, a substantive hearing was held, which led to a ruling that cancelled the measure contested and established the need to renew the procedure for determining the fee.

The Authority filed an appeal against the first instance ruling: the Council Chamber met in May 2017 and, at the end of December, the Council of State upheld the requests presented by the appellant, cancelling the first instance ruling.

In June 2018, Tirreno Power, together with other operators, appealed the matter before the European Court of Human Rights (ECHR), which still needs to issue a ruling on the matter.

The regulation of imbalances for the period 2012-2014

The regulation of the actual imbalances in the electricity market for the period 2012-2014 was the subject of a long dispute, which ended with the second instance cancellation of a number of the Authority's resolutions. In respect of this cancellation, Terna has performed recalculations of imbalances by using the criteria defined by the Authority before the issuing of the acts found to be unlawful. This generated, for Tirreno Power, the billing of negative amounts in relation to the periods covered by the recalculation of approximately Euro 4.5 million, collected in 2015.

Tirreno Power challenged, before the Lombardy Regional Administrative Court, the communication in which Terna acknowledged its desire to perform the recalculations.

Simultaneously, the Authority initiated proceedings for the adoption of a new regulation for the period in which the cancellation judgments determined legislative uncertainty. In that context, following a consultation process, the Regulator issued a new resolution (333/2016/R/eel), which takes account of the confidence generated in operators by the regulation in force at the time of its production planning, although subsequently cancelled. According to the resolution, Terna performed recalculations for the adjustments of the considerations in October 2016.

The aforementioned resolution was challenged at the Lombardy Regional Administrative Court by several operators, but the rulings published by the Court confirmed the resolution. Many of the first instance plaintiffs filed an appeal against the ruling: the appeals are currently pending at the Council of State and, in June 2020, a first ruling confirmed the legitimacy of the regulation defined by ARERA. Tirreno Power objected at both the first and second instance proceedings and, in the 2016 financial statements, the Company had allocated the amount received as adjustment, in respect of the risk of having to repay the amount to Terna. This risk, also based on the opinion of the legal representative appointed, is currently still considered likely.

Appeal against the Italian Ministerial Decree on the regulation of the Capacity Market and related acts

In September 2019, Tirreno Power filed an appeal for the cancellation of the Decree of the Ministry of Economic Development of June 28, 2019 on the "Regulation of the remuneration system for the production availability of electricity" and related deeds.

The appeal challenges the violation of the objectives set for the instrument by the implementing Decree, the opening of the instrument to new non-authorised capacity, the modification of the essential rules of operation of the mechanism and the non-compliance with the consultation obligations. In November 2019, Tirreno Power submitted an appeal to the European Court of Justice for the annulment of the EU Commission's decision in which said entity did not raise objections to the document regarding "Modification of the mechanism to remunerate capacity in order to guarantee system adequacy. Introduction of environmental requirements" notified by the Italian State in 2019.

The first hearing before the Regional Administrative Court was held on February 26, 2020, to discuss the precautionary petition. In the second half of 2020, Tirreno Power submitted its replies to the briefs submitted by the parties involved in the proceedings.

The substantive hearing was held on March 24, 2021 and the Court decided to suspend the proceedings, pending the decision of the European Court on the same matter, alleging that the two cases are closely interconnected.

Given the continuity with the previously challenged legislation, the new Ministerial Decree establishing capacity market auctions for 2024 delivery was challenged by Tirreno Power in December 2021.

PRODUCTION SCENARIO

The energy injected during the period amounted to 3.80 TWh, down by 0.51 TWh compared to 2020.

The following table provides details of the energy injected, with respect to the same period last year, broken down by unit and plant:

Energy Injected (GWh)	12.31.2021	12.31.2020	Changes
Combined Cycles	**3,705**	**4,147**	***(442)***
- TV5	753	1,070	*(317)*
- TV6	413	467	*(54)*
- VL5	1,623	1,265	*358*
- NA4	916	1,344	*(428)*
Renewable Sources	**95**	**167**	***(72)***
Total	**3,800**	**4,313**	***(514)***
By plant			
Vado Ligure	1,623	1,265	*358*
Torrevaldaliga	1,166	1,537	*(371)*
Naples	916	1,344	*(428)*
Renewable Sources	95	167	*(72)*
Total	**3,800**	**4,313**	***(514)***

(source: Company database)

In 2021, CCGT production was lower than the previous year. In particular, the Naples plant was affected by the lower operations in the dispatching services market (211 GWh less energy sold on this market), the scheduled shutdowns performed during the year, including the HGPI of the gas turbine from July 19 to August 13, and the failure of the steam turbine in April.

The TV5 plant was affected by the planned shutdown (during which the HGPI of the gas turbines and the upgrade of the main control systems of the plant was carried out) from October 4 to December 17, the date on which the commissioning tests began.

The VL5 plant, adversely impacted by the rotor failures that limited its availability until the end of August, nonetheless benefited from the high market margins recorded between the end of October and mid-December, a period in which the unit made about 40% of total production.

Hydroelectric production recorded a decrease of 72 GWh compared to the previous year, as a result of the shutdown of the Bevera, Airole and Argentina plants, severely damaged by the floods of October 2020. In this regard, it should be noted that, in 2021, the reconstruction activities of the Argentina plant were completed (2 units of 0.5 MW each). On November 12, the plant returned to normal operation.

Plant maintenance

As regards the Vado Ligure plant, on January 13, 2021, the scheduled annual shutdown of 2020, which began in November 2020 (HGPI on both gas turbines), was completed. In the second half of the year, the planned shutdown for 2021 began on October 4 and was completed on October 31.

During the course of 2021, three accidents were reported at the Vado Ligure plant, the most significant of which was the failure of the TG52 gas turbine alternator on April 30, which involved the disassembly of the component and its transport to the supplier's workshops. The latter event ended on August 31.

At the **Torrevaldaliga Sud plant** in the first half of 2021, only two planned works of short duration were carried out. In the second half of the year, scheduled annual shutdowns were carried out on both units: from August 30 to September 26 on TV6; while from October 4 to December 25 for TV5.

During the reference period, for the Torrevaldaliga Sud plant, the TV6 unit was unavailable due to the failure of the gas turbine C gearbox from December 23 to December 30.

The **Napoli Levante plant** carried out its scheduled shutdown from March 1 to 29 inclusive. The shutdown, planned from March 1 to 17, lasted longer due to the failure on a pole of the circuit breaker identified during the tests for the plant's return to service. In the second half of 2021, the NA4 unit carried out the scheduled shutdown to perform the HGPI on the gas turbine 41 from July 19 to August 13.

During the first half of 2021, an accident was reported at the Napoli Levante plant due to a fault on the unit's steam turbine switch, and in the second half of the year, a blockage due to high accelerations (humming) was reported on gas turbine 41, which required an internal inspection with the consequent shutdown for about three days in October.

With regard to the **hydroelectric plants**, September saw the completion of the scheduled works, which commenced in 2019, that involved adjustments in respect of the 1000-year flood of the Zolezzi dam, in the municipality of Borzonasca

It should be noted that in October 2020, the Airole, Bevera and Argentina plants were hit by a flood that affected the Roja and Argentina valleys in the province of Imperia, causing significant damage to the intake works and the plants. Following the restoration works, the Argentina plant returned to operation in November 2021. With regard to the Airole and Bevera plants, restoration activities are under way, while contracts for the replacement and/or repair of damaged machinery on the plants have already been formalised. The activities are expected to be completed in 2023.

ENVIRONMENT AND SAFETY POLICY

Introduction

During the course of 2021, with a view to making its activities increasingly sustainable, not only from an economic point of view but also from an environmental and social perspective, the Company continued to aim to achieve high levels of protection of the territories where it operates, the safety of workers, both internal and belonging to third-party companies, and control of all aspects that have potential social and reputational repercussions.

The Sustainability Policy sets out the Company's founding values and the guidelines for implementing a process of sustainable development, and is the reference applied by the site's Environmental Policy, present in the Environmental Statements of the EMAS registered thermoelectric plants, or which have obtained the UNI EN ISO 14001:2015 certification. In the latter, the Heads of the production units specify the commitments, objectives and actions they intend to put in place to improve the environmental performance of the site, taking due account of both the results of the analysis of the context in which the plant operates, and satisfaction of the Compliance obligations, i.e. the requirements that the Company is required to comply with, or which it has voluntarily chosen to comply with. This document favours a more rational management of the Company's environmental aspects on the basis not only of compliance with legal limits, but also of the continuous improvement of its environmental performance, the active participation of employees and transparency with institutions and the public.

The organisation

In order to effectively achieve the maximum levels of environmental protection, the Company's organisational model provides special powers of attorney with which the General Manager assigns the Heads of the Production units full powers for the fulfilment of the duties related to the protection of the environment, of workplace health and safety and of plant safety.

To consolidate its process of sustainable development, in an integrated way with the strategic priorities of the business, the Company has established the Sustainability and Environment operating unit, which, by identifying the most relevant issues through stakeholder mapping (at national and local level) and the materiality analysis, reports the results obtained through the Sustainability Report externally and within the Company.

Environmental management tools

The Company has chosen to acquire the EMAS registration (Eco Management and Audit Scheme), the most prestigious environmental certification in Europe.

During 2021, the EMAS registrations were maintained by Tirreno Power at the Torrevaldaliga and Naples sites, while the Environmental Management System certified according to the ISO 14.001: 2015 standard was implemented at the Vado Ligure site.

Training and information

Environmental and sustainability training and information are used to improve employees' skills and to increase their professionalism and strengthen their cohesion and sense of belonging to the Company. During the course of 2021, activities continued targeted at personnel training, including remote training on environmental issues, taking into account the evolution of the applicable legislation.

In addition, the dissemination of company values and training sessions on sustainability and non-financial reporting took place in conjunction with the collection of data in preparation for the drafting of the 2020 Sustainability Report.

Environmental and sustainability reporting

The environment management systems of certified sites provide periodic reports on environmental data and performance that are subject to management review for the analysis of any comments and non-conformities that have emerged during the audits, in order to identify and implement the necessary corrective actions. EMAS certified sites update the public on their environmental performance through the *Environmental Statement*.

In 2021, with the involvement of a large number of employees, quantitative and qualitative data was collected, as required by the *GRI Sustainability Reporting Standards* for the company's reporting of the non-financial aspects of its business that have the most significant impacts on stakeholders (local communities, employees, environment).

The main environmental events

During the year 2021, for the Napoli Levante, Vado Ligure and Torrevaldaliga plants, the procedures for the overall review of the Integrated Environmental Authorisation (AIA) were completed with the release of the following measures:

- no. 181 of May 20, 2021;
- no. 264 of June 25, 2021;
- no. 329 of August 6, 2021.

The new AIA for the Napoli Levante and Torrevaldaliga Sud plants will have a duration of 16 years, while the AIA for the Vado Ligure plant will have a duration of 12 years.

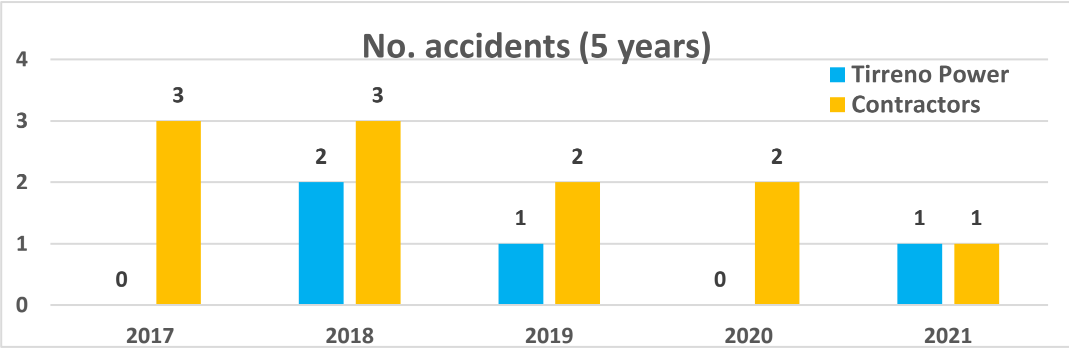
Safety management systems

The Company pays special attention to safety-related problems.

Through the management systems, continuous monitoring of safety aspects is carried out both on Tirreno Power personnel and on the staff of third-party companies.

One of the most closely monitored aspects is the number of accidents.

The following chart shows the number of accidents that have occurred in the last 5 years (2017-2021)



In 2021, there was one minor injury to TP personnel (5 day absence) and 1 injury to personnel of third-party companies, which resulted in an absence from work of approximately 60 days.

During 2021, Tirreno Power personnel continued to use the application called “Safety App” from their smartphones, which allows them to inform the Head of the Site Prevention and Protection Service (RSPP) in real time of any near misses (i.e. accidents that by pure chance did not result in injuries). During 2021, 14 near misses were recorded and managed.

Using the same app, it is also possible to report any situations involving a potential hazard, also in the environmental field, as well as flag any company safety issues. This innovation makes it possible to optimise and speed up the communication method, also making the management of reports from the competent staff more habitual and easy to document.

The programme for monitoring work activities during scheduled maintenance shutdowns was regularly carried out after the break following the COVID-19 emergency.

All Tirreno Power sites are certified according to the UNI ISO 45001 standard (which replaced the BS OHSAS 18001), which defines the requirements of the Worker Health and Safety Management System.

Compliance with these requirements is verified by a qualified body, which, in the event of a positive outcome, issues the relevant Certificate.

Training, information and education

In 2021, training on occupational health and safety was partly resumed face-to-face and partly provided remotely. To date, all the planned training has been provided.

Risk Assessment Documents (DVR)

During 2021, the various sites continued to update the Risk Assessment Document, where necessary, in compliance with the provisions of Italian Legislative Decree no. 81/08 and subsequent amendments and additions.

Tirreno Power, similar to the behaviour adopted by other operators in the sector, did not see fit to revise the risk assessment documents (DVR) of each site for the part relating to the biological risk, since the COVID-19 infection does not represent a specific risk of its productive processes.

However, an addendum to the biological risk has been included containing:

- the classification of "low risk" in accordance with what is defined in the INAIL (National Institute for Insurance against Accidents at Work) Technical Document of April 2020, in which a matrix is applied that takes into account the exposure, proximity and aggregation variables, and also provides some guidelines relating to prevention strategies, which are in line with what has been adopted by our Company;
- the regulatory references, the indications of the health authorities and the corporate documents to be adopted to deal with the spread of the pandemic.

INVESTMENTS AND DEMOLITIONS

INVESTMENTS

In 2021, the Company made investments totalling Euro 37,941 thousand, of which Euro 37,210 thousand in tangible fixed assets and Euro 731 thousand in intangible fixed assets.

The Company defined an organic plan of investments in all production units in order to improve the performance of the plants before the entry into force of the Capacity Market.

With regard to tangible fixed assets, the investments mainly concerned:

- for the Napoli Levante plant (Euro 5,848 thousand) the upgrade of the DCS, the upgrade of the electrical protection mechanisms, the purchase of blades for the steam turbine, the replacement of a pole of the machine switch and the activities carried out during the scheduled shutdown;
- for the Vado Ligure plant (Euro 5,160 thousand), the supply and installation of new exciters, the upgrade of the DCS, the adaptation of the 380 V bars, the reconditioning of the 52BAT01 transformer, the installation of a battery bank, the activities carried out during the scheduled shutdowns in March and October;
- for the Torrevaldaliga Sud plant (Euro 19,420 thousand), the milestone to General Electric for the HGPI carried out in November and December, the renewal of osmosis systems, the restoration of GVR gratings, the overhaul of rotating machinery (Euro 894 thousand), 'purchase of strategic spare parts for the steam turbine, the activities carried out during the planned shutdowns.
- with regard to the hydroelectric power plant, a total of Euro 5,638 thousand was invested, mainly relating to flood damage restoration activities (Euro 2,619 thousand), the partial replacement of the Zolezzi pipeline, activities relating to seismic upgrading, as well as activities relating to the construction of new control units for the exploitation of the minimum vital flow.

Investments in intangible fixed assets are attributable to new licences and the development of software applications.

DEMOLITIONS

The main events relating to the demolition of disused plants are outlined hereunder:

Vado Ligure

During the first half of 2021, the Company carried out the insulation removal activities and subsequent demolition of the smoke pipes relating to the decommissioned coal units VL3 and VL4; at the same, a contract was awarded for the demolition and insulation removal of units VL3 and VL4 and, on June 30, 2021, the areas and plants were handed over to the contractor. In this regard, it should be noted that, to ensure better optimisation of resources and implementation methods and based on the extremely favourable market conditions in terms of the sale prices of scrap metal recorded in the final few months of the half, the Company saw fit to bring forward demolition activities by signing a single contact for the total dismantling of the coal units.

During the second half of the year, activities began for the insulation of unit 3 (electrostatic precipitators and DeNOx) and demolition (connection pipe rack, Tower 9 and part of the precipitators).

Torrevaldaliga

Work to clear Asbestos-Containing Materials (MCA) and insulation removal in the TV4 unit and some auxiliary buildings continued and was completed.

Naples

Work on decommissioning the Vigliena plant continued. More specifically, the strip-out of all equipment was completed, as was the clearance of Asbestos-Containing Materials in buildings and the 30 MW boiler. The 60 kV building was demolished.

During the second half of the year, reclamation and demolition activities continued, which concerned all the buildings, and in particular the 60 MW boiler.

All demolition activities are in line with the provisions and allocated to the relevant dismantling provisions.

HUMAN RESOURCES AND ORGANISATION

The year 2021, in continuity with the previous year, was heavily impacted by the Covid-19 health emergency.

The company, as manager of a public utility service, has put in place all the technical-organisational measures to ensure the production of electricity even in this very delicate phase for the country, maintaining the initiatives and protocols already adopted in 2020. As regards the operational activities to be carried out at the production plants, specific internal procedures have been confirmed to guarantee the reduction of the risk of contagion.

The use of continuous smart working followed the government guidelines, acknowledged in trade union agreements which, for all activities capable of being performed remotely, saw the confirmation of personnel being able to operate from locations outside the company premises.

Company performance bonus

In June 2021, the company performance bonus was finalised for the objectives assigned for the year 2020, intended for all non-executive employees. By virtue of the economic results achieved by the company in the reference year, the final balance for the share of profitability was equal to 120% of the basic calculation share, while the productivity portion recorded an average of 98.1%, releasing, for the organisational units that have fully achieved the productivity targets, the final balance at 120% also for the portion of this second item. The final balance of 120% for both items resulted in an additional charge of Euro 0.15 million compared to what was recorded in the 2020 financial statements.

The breakdown of the bonus, defined in 2018, provides for the possibility for workers to allocate an amount, up to a maximum of 60% of the total bonus available, to alternative forms aside from salary payments and each employee can choose how to manage the amount of the bonus for which he/she is the beneficiary.

The final allocations were as follows:

- 114 out of 223 employees (around 51%, compared to 52% in 2020) elected for the payment of the entire bonus in cash;
- 75 employees (around 33% compared to 27% in 2020) took the option to receive a portion of the bonus in the form of welfare and/or supplementary pension and the remainder in cash;
- 34 employees (around 15% compared to 21% of 2020) allocated the entire bonus to welfare and supplementary pension.

The decision to focus on the company welfare initiatives made available by the company or allocate part of the performance bonus to the company supplementary pension reduced the tax wedge, allowing employees to maximise the value of the bonus received and, correspondingly, the company to reduce the contribution, as the institutions are the recipients of special regulations on contribution and tax relief.

MBO

With reference to the MBO incentive plan for the year 2020 for company management, the results achieved allowed the achievement of 100% of the reference base value. This incentive was disbursed in the first four months of 2021.

LTI

On June 8, 2021, the shareholders approved the Long-Term Incentive (LTI) plan of the General Manager for the three-year period 2021-2023. A similar plan was then approved by the Board of Directors, on June 24, 2021, for the first line reporting directly to the General Manager.

Trade union agreements

In June 2021, a trade union agreement was signed which renews the structure of the performance-related bonus for the 2021-2023 three-year period, and improves some of its operating aspects, by specifying the process of selection, sharing and final reporting of alternative targets, in the event it is objectively impossible to achieve those included in the assignment phase. The agreement also sets forth that the amounts allocated by the individual employees to Welfare and Supplementary Pension grant the right to an additional credit equal to 15% of the amounts converted, up to the subsidised tax limit (today standing at Euro 3,000).

During the second half of 2021, after lengthy negotiations, an agreement was reached with the trade unions on the recognition of the seniority accrued by some employees for the period of the Work Training Agreement carried out before being hired on an open-ended contract, for the purposes of the remuneration provided for in the contract for increases in seniority.

The agreement, formally concluded in January 2022, sees the recognition of a lump-sum individual figure, to cover the salary differences relating to the arrears periods, and the adjustment, from January 2022, of the monthly compensation in favour of employees for which, due to the addition of the CFL period, is of a higher amount.

Adherence to the agreement is voluntary and, in any case, requires the subsequent signing of an individual settlement report in a protected context.

A total of 12 employees can benefit from this agreement, for a total cost of approximately Euro 0.05 million, for which the company decided to proceed with an allocation.

Starting from June 1, 2021, in application of the provisions of the National Collective Labour Agreement for the electricity sector, the final increase in the contractual minimums was paid to employees with an increase of approximately Euro 31 per month on average equal to 1.21%, in absolute value, with an impact on the total cost of labour of approximately 0.6%.

Measure so-called “Decontribuzione Sud”

The year 2021 was impacted by the new measure, the so-called Decontribuzione Sud (“Southern tax reduction”) provided by the government in order to limit the persistence of the extraordinary effects on employment, caused by the COVID-19 epidemic in areas characterised by serious situations of socio-economic hardship, and to guarantee the protection of employment levels. This is a social security contribution exemption, to the extent of 30% for the year 2021, of social security contributions due by the employer. The concession is set forth for employment relationships provided that the workplace is located in one of the following regions: Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia and Sicily, and is granted upon adoption of the authorisation decision by the European Commission, which approved the measure for the whole of 2021. Therefore, the exemption from contributions in question concerned all employees based in Naples and allowed total annual savings of approximately Euro 0.3 million.

Voluntary redundancy plan

The voluntary redundancy plan launched by the General Manager in December 2019 and finalised with the union agreement of February 2020, which saw the voluntary participation of employees who will meet the pension entitlement requirements by December 31, 2027, with termination of the employment relationship by December 2022, with 19 employees leaving in 2021.

It is confirmed that due to the professional profiles involved in the redundancy, the replacement rate of the outgoing personnel will be around 90%, guaranteeing an adequate number of employees and a lower cost, due to the lower seniority, as well as a lower average age.

In 2021, the company continued, with the support of an agency specialised in the field, the selection process for the replacement of the professionals involved in the turnover, especially for profiles that require a significant period of training and coaching.

In addition to the 14 searches already launched in 2020, a further 21 publications were added on specialised channels to gradually cover the positions that will become available in the coming months, making provision for a period of coaching consistent with the needs linked to the specific professional figure to be replaced.

For entry into the company, flexible forms of contract are offered depending on the profiles, with the use of internships, staff leasing, fixed-term contracts and permanent contracts.

In particular, as part of the placements of future shift operators, March 2021 saw the conclusion of the internship period that involved 19 young interns in the theoretical-technical training course developed in collaboration with the Department of Industrial Engineering of the University of Naples Federico II. For 9 of these, the training experience continued with fixed-term contracts of 12 months, during which they were directly involved in the plant operational approaches through to coverage of the target role.

In 2021, the following were also included in the company:

- 11 temporary workers (3 in the Renewable Sources Sector, 6 at the Civitavecchia site, 2 at the Vado Ligure site)
- 11 permanent staff (1 in the Renewable Sources Sector, 3 at the Naples site, 4 at the Civitavecchia site, 3 at the Vado Ligure site)
- 1 intern (at the Vado Ligure plant)
- 1 staff member under a leasing arrangement (in the Vado Ligure plant)

As part of the personnel recruitment process, special attention was paid to the selection of staff who are also recipients of the rules on mandatory placement, in order to safeguard the company from any under-coverage regarding the number of disabled people and protected categories employed by it (or employed by social cooperatives to which the company assigns work orders) required by law.

Of the total staff hired until December 31, 2021, 3 belonged to the above categories.

Training

The development initiative "Verso la leadership" (Towards leadership) was designed and launched in collaboration with LUISS Business School, targeted at a group of people who may, based on their potential and performances, take up managerial roles in the future.

The session, launched in June, saw the participation of 11 employees, coming from different company areas and territories, who together attended training modules in person and on-line on managerial issues common to the entire company (megatrends, team building, accounting, communication, project management, organisation...), with the common thread of Tirreno Power values, which enrich their interpretation and guide their objectives.

Also for 2021, COVID-19 required intense use of remote training and, where possible, the use of e-learning and live streaming courses continued. In addition, an innovative course was launched called BBS “Behaviour-based Safety” for safety training, which combined methods and tools for managing and influencing workplace safety behaviour, in order to reduce the impact of human error in the trend in the majority of accidental events.

The Company continued to enhance the internal e-learning platform and has identified new suppliers for distance learning, proposing traditional topics (managerial, technical, environmental and safety training) and courses dedicated to digitalisation, with workshops in live streaming and on-line short training clips for optimal use of Microsoft Office collaboration tools (Planner, Teams...).

In quantitative terms, 2021 saw the provision of 13,000 hours of training, approximately 40% more than 2020, with an average of 49 hours per employee. About 30% of the training was provided using on-line platforms and methods.

Information & Communication Technology

In the application domain, continuing on with the analysis conducted last year for the activation of new digital instruments, in 2021 the computerisation of business processes continued; specifically a platform was released into production, through which users can sign and manage any digital document called "pratica", via the web and mobile device.

In addition, using the same application, the process of assigning and finalising the MBOs was digitalised, as well as the process of transmission by the company departments to the AFC Department of the information supporting the preparation of the financial statements.

For the AFC Department, with the aim of maximising the digitalisation of all processes where possible, an integrated solution was released for the management of cash forecasting that allows to speed up many treasury activities with low added value, such as bank reconciliations, to shift attention to cash management. Finally, the analyses were completed and the environments were prepared where the new solution for the full digital acquisition of foreign invoices will be implemented.

For the Legal Department, the new application was released, which will make it possible to manage and store the documents under its responsibility, and the functions necessary for the management of legal procedures, both from an organisational and an economic and financial point of view, were implemented.

For the Energy Management Department, the new functions for the management of the MRR and XBID markets were released into operation.

For hydroelectric operations, the application in use was integrated with the function of works assignment in digital form.

For thermoelectric operations, the shift manager register form of the management application in use was released and consolidated. During the second half of the year, the periodic and field check forms were issued. These checks will be carried out through the use of a specific APP. In addition, for the safety and environmental obligations organisational unit, specific forms for the management of obligations and meetings were issued.

In the ERP area, new functions were released to support internal auditor activities, which will allow the identification of new risk indicators. In addition, licences were purchased for the new release of the ERP management software. This investment allowed the redefinition of the number of domain users and the consequent re-parameterisation of the operating maintenance costs.

As regards telephony, the distribution of the new portable telephone terminals managed through a specific enterprise platform was completed in the first half of 2021, in compliance with the GDPR.

In the infrastructural domain, the technological refresh of the company servers was concluded, which delivered increased computing power able to guarantee adequate scalability, also in view of future requirements.

The installation of new network devices (switches) in the company offices was also completed, through which the logical access control system (NAC) will be implemented.

As regards the perimeter security devices, the technological refresh plan was completed in the second half of the year.

Purchases, Services and Security

In May 2021, the procedure for the management of subcontracts was finalised, and in November 2021, the procedures for the management of the Commissioning Plan for the planning of company purchases. Contract management processes were also updated, introducing specific separate procedures for the management of tenders and services and for the supply of goods.

The surveillance of the Naples and Civitavecchia sites was increased by activating the 24-hour monitoring service and dynamic patrols.

Obligations regarding Italian Legislative Decree no. 231/01

In 2020, the Model was reviewed as a whole and updated with the inclusion of the so-called "Tax Offences". Italian Decree Law no. 124 of October 26, 2019 (so-called "Tax Decree"), converted with amendments by Italian Law no. 157 of December 19, 2019, introduced, within Italian Legislative Decree no. 231/2001 ("231 Decree"), art. 25-quinquiesdecies (entitled "Tax Offences").

The updated Model was approved by the Board of Directors with resolution of November 25, 2020.

A risk analysis was also carried out following the entry into force of Italian Legislative Decree no. 75 of July 14, 2020, implementing Directive 2017/1371/EU "*relating to fight against fraud to the Union's financial interests by means of criminal law*" (the so-called "PIF Directive"), which took place on July 30, 2020. Italian Legislative Decree no. 75/2020 made some changes to the Italian criminal code and intervened directly on the 231 Decree, introducing new predicate offences.

The analysis showed that the changes made have no substantial impact on the activities carried out by Tirreno Power. In any case, all the regulatory references introduced by Italian Legislative Decree no. 75/2020 have been included in the Model and some supplementary principles have been envisaged, from a prudential perspective, as part of the Special Part dedicated to offences in relations with the PA and the Special Part dedicated to Tax Offences. The Supervisory Board reported positively to the Board of Directors on the effectiveness of the Model for the prevention of predicate offences.

Obligations for compliance with Regulation EU 679/16 regarding personal data processing ("GDPR")

The GDPR - General Data Protection Regulation - i.e. the European privacy regulation approved on April 14, 2016, directly applicable to EU member states, which rolled out a new regulatory framework governing personal data protection, entered into force on May 25, 2018. In Italy, the regulation was completed with Italian Legislative Decree no. 101/2018, adjusting the Italian legislation into line with the European regulations.

In order to comply with the regulatory obligations governing personal data protection set forth in the GDPR, the Company, among other things:

- appointed, pursuant to art. 37 of the GDPR, on May 25, 2018, Ivan Rotunno, from Studio Orrick, Herrington & Sutcliffe, as Data Protection Officer, who was assigned the task of ensuring that the personal data are processed correctly;
- conducted an analysis of the gaps with respect to the GDPR;
- prepared a summary document and a set of disclosures and appointments of entities authorised for data processing and of external managers;
- adopted a privacy manual that summarises the contents of the GDPR;
- prepared a data processing register.

The Company, after having complied with the regulatory obligations regarding the protection of personal data (GDPR), carried out checks on the data processors, identified the DPO representatives and carried out training activities for the Company's employees.

By means of resolution of the Board of Directors of April 28, 2021, the Company renewed the DPO appointment for one year.

AUDIT Committee

The company also has an Audit Committee which supervises the Internal Audit activities, reporting the results to the Board of Directors every six months.

Risk management

For a detailed analysis of risk management, please refer to the Explanatory Notes in the section "Type of risks and management of hedging activities".

OPERATING PERFORMANCE DURING THE YEAR

The criteria used for the construction of the reclassified statements that contain alternative performance indicators with respect to those obtained directly from the financial statements are reported below:

Gross operating profit: an operating performance indicator, calculated as "Operating profit" plus “Amortisation, depreciation and write-downs" and "Provisions".

EBITDA: an operating performance indicator, calculated as "Operating profit" plus “Amortisation, depreciation and write-downs."

Net fixed assets: calculated as the difference between the "Non-current assets" and "Non-current liabilities" with the exception of:

"Payables for loans";

"Provisions for risks and charges";

"Post-employment and other employee benefits";

"Deferred tax liabilities".

Net working capital: defined as the difference between "Current assets" and "Current liabilities" with the exception of:

"Payables for loans";

"Cash and cash equivalents";

"Provisions for risks and charges";

the bank current account advances and bank current account debt exposures included in "Other current financial liabilities".

Net capital employed: calculated as the algebraic sum of "Net current assets", "Net working capital" and provisions.

Net financial debt: defined as the sum of “Payables for loans", the bank current account advances and bank current account debt exposures included in "Other current financial liabilities, net of "Cash and cash equivalents" not previously considered in the definition of other balance sheet performance indicators.

Return on Investment (ROI): defined as the ratio between Operating profit and Net average capital employed (opening and closing).

Return on Sales (ROS): defined as the ratio of Operating profit to total Revenues.

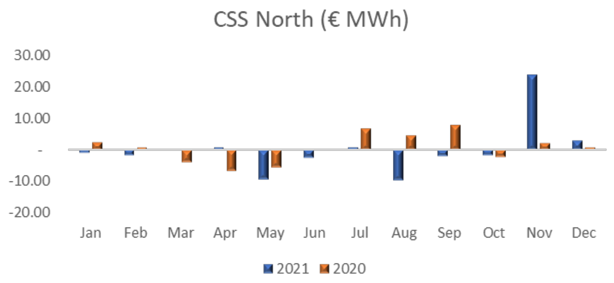
Equity yield: defined as the ratio between the Net Profit and the Share Capital plus the Share Premium Reserve.

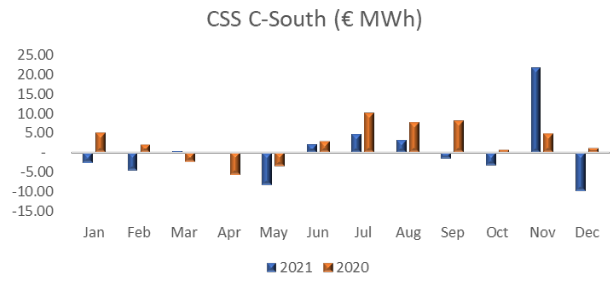
Unit revenue from energy sales (€/MWh): calculated as the ratio of revenues from energy sales for the period to energy sales in the period.

Incidence of financial expenses on total revenues: defined as the percentage ratio between the financial expenses in the period and the total revenue for the period.

ENERGY BALANCE

The energy injected in 2021 came to 3,800 GWh, down by 514 GWh compared to the previous year. The year 2021 was characterised by market margins (energy price net of fuel costs and emission rights) consistently lower than 2020, with the sole exception of November. Market margins contracted both in the North (on average -0.55 €/MWh) and, especially, in the Centre-South (on average -2.34 €/MWh). This, together with lower operations in the dispatching services market and significant maintenance programmes (HGPI of NA4 and TV5 plants), led to lower generalised sales on all markets.





The energy balance is presented below with a reconciliation of the quantity of energy purchased and unbalanced that makes it possible to reconcile the volumes sold with the actual energy injected to the grid.

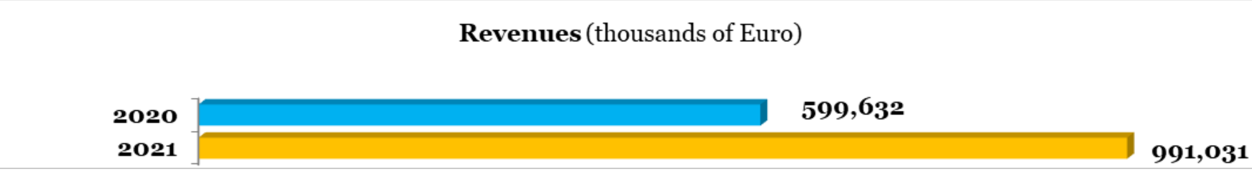
Energy balance (GWh)	12.31.2021	12.31.2020	Changes
Energy injected	**3,800**	**4,313**	***(514)***
Energy purchased	**2,120**	**2,731**	***(611)***
Energy sold	**5,929**	**7,000**	***(1,071)***
-on free market	1,582	1,998	*(416)*
-on Power Exchange - day-ahead market	3,595	4,005	*(410)*
-on Power Exchange - dispatching services market	752	997	*(245)*
Imbalances	**10**	**(44)**	***53***

RECLASSIFIED INCOME STATEMENT

The values of the reclassified income statement are reported in Euros, without decimals. For a better disclosure, comments on the individual items are expressed in thousands of Euro.

(Euro)	12.31.2021	12.31.2020	Changes
Revenues	991,031,079	599,631,870	391,399,209
Other revenues	14,507,063	3,694,030	10,813,032
Total revenues	**1,005,538,141**	**603,325,900**	**402,212,241**
Own work capitalised	1,803,319	953,424	849,895
Consumption of raw materials	(758,514,286)	(258,518,231)	(499,996,055)
Personnel costs	(22,771,120)	(21,683,139)	(1,087,981)
Service costs	(19,263,781)	(17,310,530)	(1,953,251)
Other costs	(86,260,157)	(51,166,290)	(35,093,866)
Total costs	**(885,006,025)**	**(347,724,766)**	**(537,281,259)**
Gross operating profit	**120,532,116**	**255,601,134**	**(135,069,018)**
Provisions	(5,921,773)	(27,538,563)	21,616,791
EBITDA	**114,610,343**	**228,062,570**	**(113,452,227)**
Amortisation, depreciation and write-downs	(50,919,978)	(58,111,852)	7,191,874
EBIT	**63,690,365**	**169,950,718**	**(106,260,353)**
Financial expenses	(4,304,796)	(8,945,008)	4,640,212
Financial income	423,480	698,038	(274,557)
Pre-tax profit	**59,809,049**	**161,703,748**	**(101,894,699)**
Taxes	(12,806,101)	(36,190,920)	23,384,818
Net income for the period	**47,002,948**	**125,512,828**	**(78,509,881)**

Revenues, amounting to Euro 991,031 thousand, show a net increase compared to the previous year (Euro 391,399 thousand).



The breakdown of the item is summarised in the table below.

(Euro)	12/31/2021	12/31/2020	Changes
Free market (other)	182,188,534	88,045,470	*94,143,064*
Power Exchange - day-ahead market	584,711,877	183,567,147	*401,144,729*
Power Exchange - dispatching services market	207,448,700	309,255,011	*(101,806,310)*
Hydro sales to GSE	8,525,786	10,585,211	*(2,059,425)*
Capacity payment	6,514,900	7,892,840	*(1,377,940)*
Other	1,641,282	286,191	*1,355,091*
TOTAL	**991,031,079**	**599,631,870**	***391,399,209***

2021 was characterised by sharply rising energy prices, driven by the increase in commodities, especially in the last part of the year. The average PUN recorded an increase of around 86.14 €/MWh, equal to 221%, compared to 2020.

This led to an increase in revenues from sales on the MGP (day-ahead) market, which recorded an increase of Euro 401,145 thousand despite a decline in volumes sold of 410 GWh (-10%).

Revenues from sales on the Free Market were also affected by the increase in commodities, as they were indexed to the price of gas. Average sales revenues on bilateral contracts increased by approximately 161% and more than offset the decline in sales volumes (-416 GWh, equal to approximately 21%). In view of the above, revenues from the free market increased by Euro 94,143 thousand compared to 2020.

Revenues from sales on the dispatching market instead showed a decrease of Euro 101,806 thousand. The average revenues from sales in this market remained substantially in line with the previous year and there was a significant decrease in the volumes of energy sold on this market, mainly due to the increase in electricity requirements, heavily impacted in 2020 by the effects of the epidemic. In 2020, indeed due to the decrease in energy demand, ancillary services requirements were particularly high also as a result of the need to balance the contributions from intermittent sources, in a generally difficult context with the forecast of a greatly reduced load generated by electricity demand.

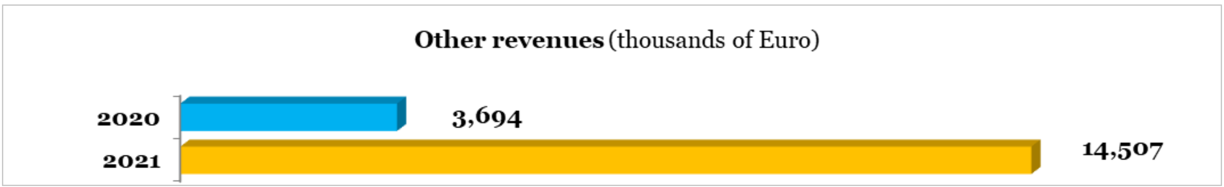
The decrease in hydroelectric revenues is attributable to the lower production deriving from the shutdown of the plants damaged by the flood of 2020.

The item “other” includes revenues from the sale of ferrous materials from demolitions (Euro 1,557 thousand).

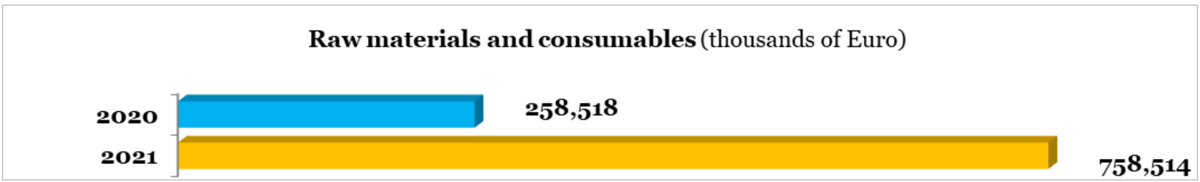
Other revenues amounted to Euro 14,507 thousand, compared to Euro 3,694 thousand in 2020 and include the insurance reimbursement relating to damages to hydroelectric plants caused by the flood of October 2020 (Euro 11,290 thousand including the advance for Property damages), the insurance reimbursement relating to the Vado Ligure rotor (Euro 1,235 thousand) and revenues from the sale of ferrous materials from demolitions (Euro 1,557 thousand).

Positive adjustments to energy items of previous years were also recorded (Euro 1,385 thousand), mainly attributable, for Euro 1,003 thousand, to Terna's repayment of part of the extra costs charged in previous years for "non-compliance with ignition orders". An additional Euro 375 thousand refers to the premium pursuant to Resolution ARERA 44/2021, awarded to Tirreno Power for investments made to improve the stability of the network.

In the previous year, other revenues were mainly attributable to the capital gain deriving from the sale of the areas of the Vado Ligure plant to the company Vernazza (Euro 1,864 thousand) and to the company Q-invest (Euro 684 thousand).



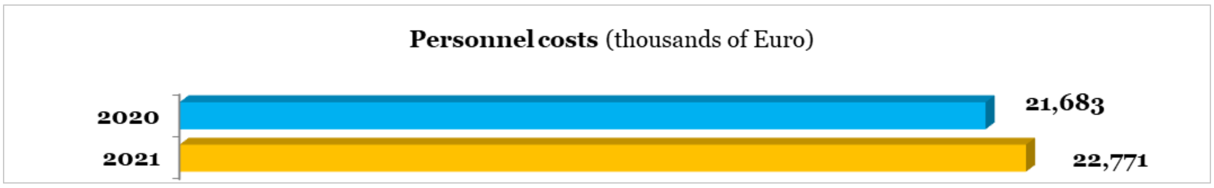
Costs for consumable raw materials amounted to Euro 758,514 thousand, up by Euro 499,996 thousand compared to 2020.



The cost of fuel consumed in the period, amounting to Euro 471,350 thousand, was up by Euro 330,884 thousand compared to the cost incurred in 2020 following a significant increase in the price (the PMP - weighted average price - rose by approximately 278% from 165.9 €/ksmc - thousand standard cubic metres - to 627.6 €/ksmc). This increase was only minimally offset by a positive volume effect (quantities consumed show a drop of around 10% as a result of lower production).

The charges related to the purchase of energy and power exchange operations amounted to Euro 284,747 thousand, up by Euro 169,142 thousand compared to 2020. This increase is mainly due to higher purchases of energy from the GME and bilateral contracts (Euro 135,238 thousand), due to the increase in the PUN and the higher purchases in the MSD (dispatching services) market (Euro 25,531 thousand). The imbalance charges were affected not only by the higher volumes of unbalanced energy, but also by the increase in the PUN and recorded an increase of Euro 6,801 thousand compared to 2020.

Personnel costs amounted to Euro 22,771 thousand, up by Euro 1,088 thousand compared to the figure recorded in the previous year. The rise is mainly due to the increase in amounts due to the overlap between new entries and exits to favour the support process needed to complete the turnover process, planned from 2020.

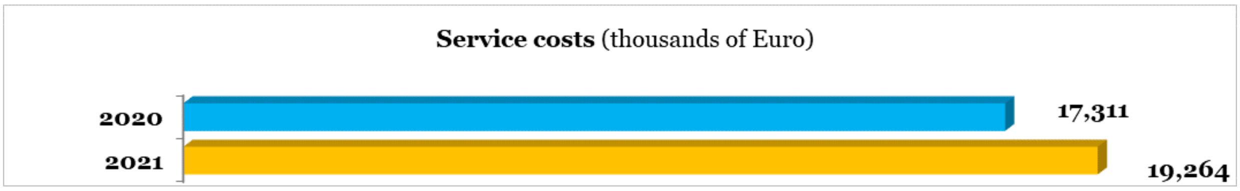


The table shows the average balance by job classification in 2021 compared with the previous year.

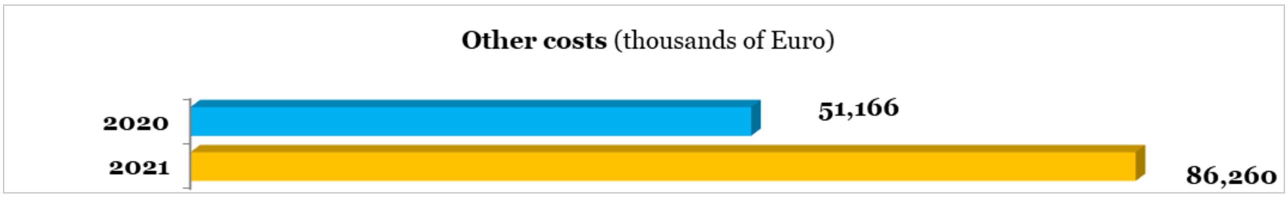
Average amount	12.31.2021	12.31.2020	Changes
Executives and Middle Managers	47.8	46.8	*1.0*
Employees	160.1	154.8	*5.3*
Workers	39.0	31.5	*7.5*
TOTAL	**246.9**	**233.1**	***13.8***

The headcount as at December 31, 2021 was 244, compared to 234 as at December 31, 2020.

Costs for services in the period amounted to Euro 19,264 thousand, up by Euro 1,953 thousand compared to the previous year. The increase is mainly due to higher insurance costs (Euro 1,764 thousand) in relation to the current phase of hard market with generalised increases in premiums.



Other costs amounted to Euro 86,260 thousand, up by Euro 35,094 thousand compared to 2020.



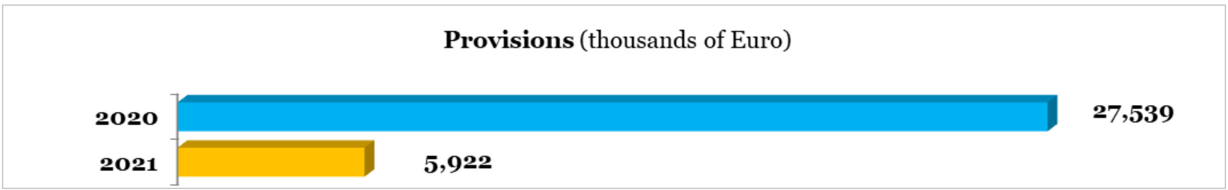
The change is essentially attributable to higher charges for emission rights, for Euro 38,674 thousand, due to the significant increase in the CO_2 enhancement weighted average price (51.63 €/ton in 2021 compared to 24.05 €/ton in 2020). Emissions are approximately 10% lower than the previous year (1,543 Kton. In 2021 compared to 1,704 Kton. in 2020).

It should also be noted that in 2020 capital losses were recorded on the disposal of assets amounting to Euro 1,947 thousand, due to the disposal of hydroelectric assets irreparably damaged by the flood event in October 2020.

EBITDA amounted to Euro 120,532 thousand, compared to Euro 255,601 thousand realised in 2020.

Net provisions, amounting to Euro 5,922 thousand, mainly concerned:

- Euro 2,127 thousand for the asbestos dispute;
- Euro 1,513 thousand for the hydro imbalances (Euro 1,194 thousand) and of the TV5 unit (Euro 319 thousand) charged by Terna, but not recognised by the Company and allocated pending the settlement of the dispute;
- Euro 1,232 thousand for the adjustment of the provision for demolition of the Vigliena plant;
- the estimate of the Long-Term Incentive Plan for Euro 544 thousand;
- for Euro 230 thousand, the estimated damage to the Ortiglieto dam following the 2021 flood;
- for Euro -407 thousand, the write-off of provisions for redundancies in previous years.

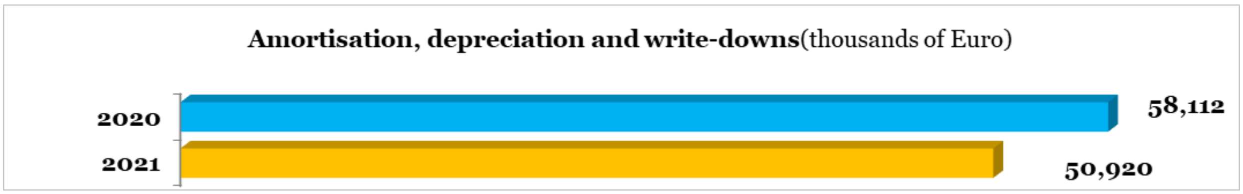


In 2020, provisions (Euro 27,539 thousand) mainly concerned: for Euro 10,644 thousand the adjustment of the provision for dismantling the coal-fired units VL3 and VL4; for Euro 8,840 thousand the estimate of the damages suffered by the hydroelectric plants following the flood events in October; for Euro 4,031 thousand the adjustment of the redundancy incentive fund; Euro 2,000 thousand for the adjustment of the provision for dismantling the TV4 unit.

EBITDA amounted to Euro 114,610 thousand, down by 113,452 thousand compared to the previous year. The substantial deterioration in the year is mainly due to lower margins in the Dispatching Services Market, attributable to both lower sales volumes and the significant increase in commodity prices, which drastically reduced unit margins on this market.

Amortisation, depreciation and write-downs (Euro 50,920 thousand) decreased by Euro 7,192 thousand compared to 2020. The decrease is mainly due to lower amortisation of maintenance. In particular, the maintenance of VL5 and NA4 was affected by the amendment with the contractor, which extended the maintenance interval from 25,000 to 33,000 operating hours. Therefore, the maintenance carried out at the end of 2020 on the VL5 unit and in August 2021 on the NA4 unit have a lower

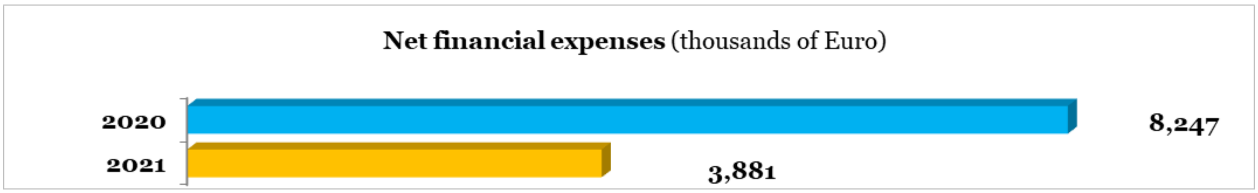
amortisation than the works carried out respectively in 2016 and in 2017 (which had an impact like the amortisation also in 2020). In addition, the maintenance of the NA4 unit was also affected by the positioning of the shutdown; 2021 was missing 5 months of amortisation (amortisation of the last HGPI carried out in 2017 ended in March 2021, while the subsequent one was carried out in August).
These effects led to lower amortisation on the Major Inspections of NA4 for Euro 1,948 thousand and of VL5 for Euro 4,339 thousand.
It should also be noted that the review of the useful life of the assets relating to the "wet works" of the Large scale hydro plants recorded in company assets, following the regulatory changes introduced by Italian Law Decree no. 135 of December 14, 2018 (converted into Law on February 11, 2019) led to a reduction in depreciation of Euro 533 thousand. For more details, please refer to note no. 1.



The **Operating Profit** therefore amounted to Euro 63,690 thousand, compared to an Operating Profit achieved in the previous year of Euro 169,951 thousand.

In 2021, **financial expenses** of Euro 4,305 thousand were recorded, down by Euro 4,640 thousand compared to the previous year, mainly due to the early repayment of the Tranche B credit facility, which took place following the "Cash sweep" mechanism and the prepayment.

Financial income amounted to Euro 423 thousand, compared to Euro 698 thousand in 2020, and refers mainly to positive exchange differences.



Taxes as at December 31, 2021 amounted to Euro 12,806 thousand and essentially refer:

- for Euro 9,800 thousand to the estimate of current IRES (corporate income tax) taxes and for Euro 2,200 thousand to the estimate of current IRAP (regional business tax) taxes, calculated on taxable income;
- for Euro 3,275 thousand to the generally negative effect of changes in deferred tax assets relating primarily to the use of provisions for risks and charges and the plant write-down provision;
- for Euro 589 thousand, to the positive effect relating to the use of the deferred tax liabilities generated on previous excess and early tax amortisation;
- for Euro 1,879 thousand to the positive effect relating to lower taxes of previous years.

For more details, please refer to note 30.

The **net profit** for 2021 amounted to Euro 47,003 thousand (Euro 125,513 thousand in 2020).

ANALYSIS OF THE CAPITAL STRUCTURE

Reclassified Balance Sheet

The values of the reclassified balance sheet are reported in Euro, without decimals. For a better disclosure, comments on the individual items are expressed in Euro.

(Euro)	12.31.2021		12.31.2020		Changes
Net fixed assets					
Tangible and intangible assets	613,126,215		626,083,732		(12,957,518)
Other net non-current assets/(liabilities)	16,319,149		33,919,459		(17,600,310)
Total net fixed assets	**629,445,363**		**660,003,191**		**(30,557,828)**
Net working capital					
Inventories	92,324,150		61,049,580		31,274,570
- of which purchased emission rights	*77,744,984*		*48,354,611*		29,390,373
Trade receivables	139,303,179		82,492,420		56,810,759
Tax (payables)/receivables	(2,619,906)		(8,602,479)		5,982,573
Trade payables	(127,748,530)		(29,924,477)		(97,824,053)
Other net current assets/(liabilities)	(23,633,473)		(17,089,077)		(6,544,396)
Total net working capital	**77,625,420**		**87,925,967**		**(10,300,547)**
Gross capital employed	**707,070,783**		**747,929,158**		**(40,858,375)**
Other provisions					
Provisions for risks and charges	(99,368,100)		(107,017,097)		7,648,997
Post-employment and other employee benefits	(4,919,273)		(5,639,103)		719,830
Deferred tax liabilities	(32,023,707)		(32,572,027)		548,320
Total other provisions	**(136,311,080)**		**(145,228,227)**		**8,917,147**
Net capital employed	**570,759,704**	**100%**	**602,700,932**	**100%**	**(31,941,228)**
Shareholders' equity	**565,514,663**	**99%**	**518,564,687**	**86%**	**46,949,975**
Net financial debt	**5,245,041**	**1%**	**84,136,244**	**14%**	**(78,891,204)**

Tangible and intangible assets decreased by Euro 12,958 thousand. The main changes concerned:

- amortisation/depreciation in the period amounting to Euro 50,920 thousand,
- investments in the period of Euro 37,941 thousand.

For details of investments made in the period, please refer to the appropriate section **"Investments and Demolitions".**

Other net non-current assets/(liabilities) show a decrease of Euro 17,600 thousand. This change is attributable to the disposal of the security deposit in favour of Terna (Euro 6,057 thousand), of the escrow account established in favour of the Central Tyrrhenian Sea Port Authority, in relation to the contract for the demolition of the Vigliena plant (Euro 5,720 thousand) following the issue of bank guarantees, the security deposit in favour of SNAM (Euro 2,440 thousand) established in November 2020 to guarantee the feasibility project of the connection to the pipeline as an essential requirement for the start of the authorisation process of a new plant at the Torrevaldaliga site.

A decrease was also recorded in the receivable for deferred tax assets (Euro 3,199 thousand) following the use of the period.

Inventories of Euro 92,324 thousand show an increase of Euro 31,274 thousand compared to December 31, 2020. This change is due to the significant increase in the CO2 enhancement weighted average price (51.63 €/ton in 2021 compared to 24.05 €/ton in 2020). Emissions are approximately 10% lower than the previous year (1,543 Kton. in 2021 compared to 1,704 Kton. in 2020).

Trade receivables are Euro 56,811 thousand higher than as at December 31, 2020. In particular, we note:

- higher receivables for bilateral sales (Euro 29,136 thousand) as a result of higher revenues from bilateral sales in December 2021 compared to December 2020;
- higher receivables from GME (Euro 56,307 thousand) as a result of greater revenues in the MGP market in the last two weeks of 2021 compared to the same period of 2020;
- lower receivables from Terna (Euro 28,469 thousand) attributable to lower revenues in the MSD market achieved in the last two months of 2021 compared to the last two months of 2020;

Tax payables of Euro 2,620 thousand refer to the estimate of IRES taxes for the year. The IRAP payable was slightly lower than the advances paid during the year.

The balance of **Trade payables** increased by Euro 97,824 thousand compared to December 31, 2020. In particular, we note:

- higher payables to Terna (Euro 27,809 thousand) as a result of higher costs for the purchase of energy in the MSD market in the last two months of 2021 compared to the last two months of 2020;
- higher payables to GME (Euro 17,968 thousand) as a result of higher purchases of energy in the MGP market in the last two weeks of 2021 compared to the same period of 2020;
- higher payables for fuels (Euro 47,848 thousand) due to the sharp increase in the price of gas.

Other net current assets/(liabilities) showed a decrease of Euro 6,544 thousand compared to December 31, 2020. This change mainly derives from the increase in payables for CO2 rights to be delivered (Euro 38,674 thousand) in relation to the return of the quotas relating to the 2020 emissions and the increase in the payable for emissions for the period. An increase was also recorded in the VAT credit (Euro 29,590 thousand) due to the receivable accrued in the period, partially offset by the collection of the VAT receivable in the 3rd quarter of 2020 (Euro 5,900 thousand) and 2020 annual VAT receivables (Euro 21,500 thousand).

The **Provision for Risks and Charges** decreased by Euro 7,649 thousand as a result of the changes as better illustrated in note no. 11.

The **net invested capital** therefore amounted to Euro 570,760 thousand (Euro 602,701 thousand as at December 31, 2020).

Shareholders' equity stood at a positive value of Euro 565,515 thousand and essentially changed when compared to December 31, 2020, due to the net profit for the period, equal to Euro 47,003 thousand, as well as the net decrease of Euro 53 thousand in IAS 19 and IFRS 9 reserves.
For more details, please refer to note 10.

Net financial debt, standing at Euro 5,245 thousand, refers mainly to the bank loan that was renegotiated in 2015 following the debt restructuring agreement reached with the banks. For more details, please refer to the explanatory notes.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Company did not carry out research and development activities in 2021 nor are there, as at December 31, 2021, deferred costs relating to this type of activity.

OWN SHARES AND SHARES OF THE PARENT

As at the date of the financial statements, the Company does not own treasury shares or shares of parent companies, either direct or indirect.

RELATIONSHIPS WITH SUBSIDIARIES, AFFILIATES, PARENT COMPANIES AND COMPANIES CONTROLLED BY THE LATTER

No significant related party transactions were carried out in 2021. For more details, please refer to the notes to the financial statements.

FINANCIAL RISKS, MARKET RISKS AND OTHER RISKS

Please refer to the explanatory notes to the financial statements.

BUSINESS OUTLOOK

Evolution of the Business Plan

As is well known, in 2015, a Debt Restructuring Agreement was signed with the main creditors (the Lenders) pursuant to art. 182-bis of the Bankruptcy Law, aimed at structurally resolving the existing financial and equity imbalances as at said date. The ADR (Debt Restructuring Agreement) included a refinancing plan - "Restated Facility Agreement" - negotiated on the basis of a Business Plan (hereinafter the "Plan") which, among other assumptions, envisaged the introduction of the Capacity Market starting from 2018.

The Capacity Market mechanism was formally launched in 2019, in which the economic and technical parameters were established for the delivery years 2022 and 2023. Tirreno Power was awarded all the capacity offered, equal to 1,875 MW.

On February 28, 2022, the Board of Directors approved the update of the Business Plan. This Plan is based on the market scenarios developed by the company REF-E until 2040 in which, inter alia, the extension of the capacity market mechanism is envisaged at least until 2029.

The results achieved in 2021 are in line with the Budget and Plan forecasts, confirming the soundness of the assumptions made.

On the whole, considering that:

- the Company's Shareholders' Equity came to Euro 565,515 thousand, deemed suitable by the Directors to ensure adequate capitalisation of the Company with respect to the future objectives set out in the Plan;
- the economic results achieved in previous years, and in 2019 and 2020 in particular, confirmed the better performances than those forecast in the Business and Financial Plan and subsequent updates;
- the results of 2021 are in line with budget expectations. The Gross operating profit amounted to Euro 120,532 thousand, and the EBIT amounted to Euro 63,690 thousand;
- the ability to generate cash allowed an acceleration in the repayment of the loan such as to extinguish the entire Tranche A three years earlier than the natural due date of the instalments, and to repay a considerable portion of Tranche B earlier than the contractual maturity of December 2024, totalling Euro 220,868 thousand, equal to 88%;
- the cash and cash equivalents as at December 31, 2021 allowed the full repayment of Tranche B in February 2022 through the cash sweep mechanism. Following this repayment, the only restructured debt line will be represented by the Revolving Facility;

the reasonableness of the assumptions used by the directors to draft the "Plan" and its updating was confirmed, instilling confidence in them regarding the Company's ability to be able to reach the results expected in the "Plan" also in future years, despite being fully aware that the results envisaged in the aforementioned Plan may only materialise if the assumptions contained therein are satisfied.

These assumptions are primarily related to the market trends and regulatory developments which are subject, owing to their nature, to uncertainties in terms of the methods and timing of their realisation.

In light of what is set out in the COVID-19 Emergency chapter, as well as the indications provided by the main Authorities on the matter, it is confirmed that the Company's management has constantly monitored, also in 2021, the actual and potential impacts of the COVID-19 Emergency on business activities and on the Company's financial and economic position. In consideration of the Company's economic performance during the health emergency period, there were no impacts that could represent an indicator of impairment. However, in consideration of the persisting uncertainties that characterise the reference macroeconomic framework, the directors will continue to closely monitor the evolution of the health emergency.

Based on these assumptions, the directors reasonably expect the company to continue to operate in the foreseeable future as an operating entity, therefore, drafting these financial statements on the basis of the going concern assumption.

Business outlook

As reported in the *Bank of Italy Economic Bulletin* published in January 2022, after a widespread slowdown in economic activity in the third quarter, at the end of last year there were signs of a return to a more sustained recovery in the United States and in other advanced nations, compared to prolonged weakness in emerging economies. However, the resurgence of the pandemic and the persistent supply-side bottlenecks pose downside risks to growth. Inflation further increased almost everywhere, mainly affected by the increase in energy prices, those of intermediate inputs and the recovery of domestic demand. The Federal Reserve and the Bank of England have started the process of normalisation of monetary policies.

In the Eurozone, GDP decelerated markedly at the turn of the year, due to the resurgence in the virus and the persistence of supply chain tensions that hinder manufacturing production. Inflation reached its highest value since the launch of the monetary union, due to exceptional increases in the energy component, in particular gas, which in Europe is also affected by geopolitical factors. According to the projections of the Eurosystem experts, inflation stands to gradually decrease in the course of 2022, sitting at 3.2% on average this year and at 1.8% in the two-year period 2023-24.

Inflation rose to high levels (4.2% in December), driven by energy prices. Net of volatile components, the annual change in prices remains moderate. The increases in production costs have thus far only been passed on to retail prices to a limited degree.

The macroeconomic projections for Italy for the three-year period 2022-24 presented in Bulletin 1 of 2022 are based on the assumption that the recent rise in infections will have negative repercussions in the short-term on mobility and consumer behaviour, but does not require a severe tightening of the restrictions. It is assumed that the spread of the epidemic will ease from the spring.

GDP, which at the end of last summer was 1.3 percentage points below the pre-pandemic levels, would recover them around the middle of this year. The expansion of activity would then continue at a robust pace, albeit less intense than that observed following the reopening in the central part of 2021. On average for the year, GDP would increase by 3.8% in 2022, by 2.5% in 2023 and by 1.7% in 2024. The number of employees would grow more gradually and return to pre-crisis levels at the end of 2022.

The growth prospects are subject to multiple risks, primarily downside. In the short-term, the uncertainty surrounding the forecast scenario is related to health conditions and tensions on the supply side, which could prove to be more persistent than expected and show a more pronounced degree of transmission to the real economy. In the medium-term, the projections remain subject to the full implementation of the spending programmes included in the budget and the full and timely implementation of the measures envisaged in the PNRR (National Recovery and Resilience Plan).

Gas consumption will continue to play a central role in the decarbonisation process, in line with the objectives set (2020 Climate-Energy Package) by providing, in particular, a significant contribution to the thermoelectric sector, in view of the gradual exit from coal production and increase in intermittent renewable sources. The use of the latter, insufficiently programmable, will require greater support from natural gas, a source that guarantees production continuity and flexibility.

Management actions will continue to target protecting profitability through a constant focus on seizing all the opportunities in the electricity market, increasing process efficiency, and personnel training and motivation. In particular, in 2022 the Company will continue to commit efforts to digitally develop some of the business processes, with a particular focus on the planning of requirements.

The Company, in line with what is presented in the Business Plan, is committed to achieving an increasingly high level of plant performance through a production unit investment plan aimed at ensuring the necessary flexibility to best respond to the volatility of electricity demand on the market and the reliability required to comply with the commitments undertaken in relation to the Capacity Market.

SIGNIFICANT EVENTS AFTER THE CLOSE OF THE PERIOD

In February 2022, the Company repaid a portion of debt of Euro 35,155 thousand as a cash sweep on cash and cash equivalents as at December 31, 2021. As a result of this repayment, Tranche B is fully repaid approximately 2 years before the natural due date (four years in advance if the possible extension is taken into account).

On February 11, 2022, the refund of the VAT credit in the third quarter of 2021 was collected for Euro 13,031 thousand (including accrued interest).

Article 16 of Italian Law Decree no. 4 of January 27, 2022, paragraph 1, envisages that from February 1, 2022 to December 31, 2022, the electricity injected into the network, from plants with power exceeding 20 kW fed by hydroelectric sources that do not access incentive mechanisms, is to be subject to a mechanism of fair remuneration on the price of energy determined on the basis of the historical average of the market prices for each plant from entry into operation until the end of 2020 (i.e. an amount of approximately 60 €/MWh). On the basis of this mechanism, the producers to whom the regulations are addressed will have to repay the difference between the prices achieved on the market and, in fact, “fair remuneration” equal to the historical average. The impact of the regulation for the Company is estimated at approximately Euro 2,600 thousand in lower revenues due to the repayment.

On February 21, 2022, the Capacity Market auctions were held for the 2024 year of delivery and Tirreno Power was awarded all the capacity offered, equal to 1,883 MW, at the starting auction price for the existing capacity.

Urgent measures for the electricity and gas sector following the state of war in Ukraine

The serious international geopolitical crisis linked to the developments of the ongoing conflict in Ukraine has brought to the attention of the institutions not only problems related to the high prices of energy, but also to the security of the supplies themselves. In this context:

- last February 26, the Ministry of Ecological Transition declared the state of early warning with reference to the Emergency Plan of the natural gas system.
- On the following 28 February, the Council of Ministers approved Italian Law Decree no.16 which contains urgent measures related to the Ukrainian crisis, including preventive rules for the filling of gas storages, which also consider the possible planned reduction of consumption, even in the absence of a declared emergency of the national gas system. Among other things, in the event of the adoption of measures aimed at reducing the consumption of natural gas in the thermoelectric sector, the Decree requires Terna to define a programme for maximising the production of electricity generation plants with a nominal thermal power exceeding 300 MW that use coal or fuel oil that can be assimilated to essential units.

At present, the Company is not directly exposed to these two countries. However, the conflict situation and the sanctions imposed on Russia could have effects for the Company with regard to both the increase in gas prices and the reduction in supplies.

On the basis of the information currently available, constant monitoring of changes in macroeconomic and business variables is in place in order to have the best estimate of the potential impacts on the Company available in real time, and to allow for their mitigation with reaction / contingency plans.

Preliminary analyses, in any case carried out in a constantly evolving scenario, do not currently indicate significant impacts on the Company resulting from the conflict between Russia and Ukraine.

PROPOSALS OF THE BOARD OF DIRECTORS

Dear Shareholders,

We invite you to approve the financial statements as at December 31, 2021 as a whole and their individual items.

Taking into account the contents of this Report on Operations, as well as the provisions of article 2430 of the Italian Civil Code and the provisions of the Company's Articles of Association, it is proposed to allocate the net profit, amounting to Euro 47,002,948, in full to retained earnings, as the legal reserve has already reached the amount of one fifth of the share capital.

Rome, February 28, 2022

For the Board of Directors

(Chairman)

FINANCIAL STATEMENTS SCHEDULES

BALANCE SHEET

(Euro)	Note	12.31.2021	12.31.2020
Assets			
Property, plant and equipment	1	611,643,365	624,756,903
Intangible assets	2	1,482,850	1,326,829
Non-current financial assets	3	4,321,496	18,657,632
Deferred tax assets	4	12,686,510	15,885,143
Other non-current assets		608,589	673,218
Total non-current assets		**630,742,809**	**661,299,726**
Inventories	5	92,324,150	61,049,580
Trade receivables	6	139,303,179	82,492,420
Other current assets	7	63,517,144	32,141,422
Derivative financial instruments	8	249,978	109,776
Other current financial assets		9,145	31,678
Cash and cash equivalents	9	49,910,079	14,044,174
Total current assets		**345,313,676**	**189,869,051**
Total assets		**976,056,485**	**851,168,777**
Liabilities and Shareholders' Equity			
Share capital		60,516,142	60,516,142
Other reserves		135,764,989	134,773,997
Accrued gains (losses)		322,230,584	197,761,720
Profit (losses) for the period		47,002,948	125,512,828
Shareholders' equity	**10**	**565,514,663**	**518,564,687**
Payables for loans	11	-	74,158,808
Provisions for risks and charges	12	71,169,217	72,654,784
Post-employment and other employee benefits	13	4,919,273	5,639,103
Deferred tax liabilities	14	32,023,707	32,572,027
Other non-current financial liabilities	15	1,297,446	1,296,534
Total non-current liabilities		**109,409,643**	**186,321,257**
Payables for loans	11	55,155,120	24,021,610
Provisions for risks and charges	12	28,198,883	34,362,312
Trade payables	16	127,748,530	29,924,477
Payables for income taxes	17	2,619,906	8,602,479
Other current liabilities	18	86,358,608	48,431,336
Derivative financial instruments	19	566,295	486,797
Other short-term financial liabilities	15	484,838	453,821
Total current liabilities		**301,132,180**	**146,282,833**
Total shareholders' equity and liabilities		**976,056,485**	**851,168,777**

INCOME STATEMENT

(Euro)	Note	12.31.2021	12.31.2020
Revenues	20	991,031,079	599,631,870
Other revenues	21	14,507,063	3,694,030
Total revenues		**1,005,538,141**	**603,325,900**
Own work capitalised	22	1,803,319	953,424
Consumption of raw materials	23	(758,514,286)	(258,518,231)
Personnel costs	24	(22,771,120)	(21,683,139)
Service costs	25	(19,263,781)	(17,310,530)
Other operating costs	26	(92,181,929)	(78,704,854)
Amortisation, depreciation and write-dow	27	(50,919,978)	(58,111,852)
EBIT		**63,690,365**	**169,950,718**
Financial expenses	28	(4,304,796)	(8,945,008)
Financial income	29	423,480	698,038
Pre-tax profit		**59,809,049**	**161,703,748**
Taxes	30	(12,806,101)	(36,190,920)
Net income		**47,002,948**	**125,512,828**

STATEMENT OF COMPREHENSIVE INCOME / (LOSS)

(Euro)	Note	2021	2020
Net income for the period		**47,002,948**	**125,512,828**
Other components of comprehensive income:			
Change in fair value of financial instruments on POWER	*19*	(496,825)	557,937
Change in fair value of financial instruments on GAS	*8*	525,763	(834,953)
Change in fair value IAS 19 - Post-employment and other BEN	*13*	(108,597)	(97,459)
Change in fair value of financial instruments on CO2	*8*	26,686	-
Total other components of comprehensive income		**(52,973)**	(374,475)
Total comprehensive income		**46,949,975**	**125,138,353**

STATEMENT OF CASH FLOWS

(Euro)	Note	Dec-31-21	Dec-31-20
OPERATING ACTIVITIES			
Net income for the period	14	47,002,948	125,512,828
Amortisation, depreciation and write-downs	32	50,919,978	58,111,852
Net provisions for deferred taxes and other provisions		(8,917,147)	21,678,085
Increase (decrease) in IAS 39, IAS 19, Interest Rate CAP reserves		(52,972)	(374,475)
Other non-monetary changes		(21,461)	2,650,090
Change in other non-current assets and liabilities		17,600,310	47,138,703
Change in other current assets and liabilities		10,300,547	8,876,591
Cash flow from operating activities		**116,832,204**	**263,593,675**
of which:			
- Interest income collected		-	-
- Interest expenses paid		*(918,819)*	*(1,134,680)*
- Income taxes paid		*(16,129,675)*	*(13,987,138)*
INVESTMENT ACTIVITIES			
Investments in tangible assets		(37,210,000)	(42,336,135)
Investments in intangible assets		(731,000)	(875,678)
Cash flow from investment activities		**(37,941,000)**	**(43,211,813)**
FINANCING ACTIVITIES			
Increase in share capital		-	-
Increase (decrease) in payables for non-current loans		(74,158,808)	(210,406,617)
Increase (decrease) in payables for current loans		31,133,510	(22,355,346)
Participating Financial instruments		-	-
Changes in other short-term financial liabilities			
Cash flow from financing activities		**(43,025,298)**	**(232,761,963)**
Increase (decrease) in cash and cash equivalents		**35,865,905**	**(12,380,101)**
Opening cash and cash equivalents		**14,044,174**	**26,424,275**
Closing cash and cash equivalents		**49,910,079**	**14,044,174**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Euro)	Note	Share capital (a)	Other reserves (b)	Accrued gains (losses) (c)	Profit (loss) for the period (d)	Total (a+b+c+d)=e
Balance as at January 1, 2020		**60,516,142**	**126,793,526**	**39,017,754**	**167,098,912**	**393,426,335**
Allocation of profit for 2019			8,354,946	158,743,966	(167,098,912)	-
Comprehensive profit / loss as at December 31, 2020			(374,475)		125,512,828	125,138,353
of which:						
Income/losses booked directly to shareholders' equity	*10*		*(374,475)*			*(374,475)*
Profit / Loss as at December 31, 2020					125,512,828	125,512,828
Balance as at January 1, 2021		**60,516,142**	**134,773,997**	**197,761,721**	**125,512,828**	**518,564,687**
Allocation of profit for 2020			1,043,964	124,468,864	(125,512,828)	-
Comprehensive profit/loss as at December 2021			(52,973)		47,002,948	46,949,975
of which:						
Income/losses booked directly to shareholders' equity	*10*		*(52,973)*			(52,973)
Profit/loss for December 2021					47,002,948	47,002,948
Balance as at December 31, 2021		**60,516,142**	**135,764,988**	**322,230,585**	**47,002,948**	**565,514,663**

EXPLANATORY NOTES

DECLARATION OF CONFORMITY

These financial statements are prepared in accordance with IFRS international accounting standards issued by the 'International Accounting Standards Board (IASB) and provide complete information on the basis of IAS 1.

IFRS means all the "International Financial Reporting Standards", all International Accounting Standards ("IAS"), all of the interpretations of the International Financial Reporting Standards Committee ("IFRIC"), all the interpretations of the Standing Interpretations Committee ("SIC"), adopted today by the European Union and contained in the EU Regulations published on G.U.C.E. (Official Journal of the European Union) up to today's date, in which the Board of Directors of Tirreno Power S.p.A. authorised the publication of these financial statements. Lastly, still on the subject of interpretation, account was also taken of the documents on IAS / IFRS in Italy prepared by the Italian Accounting Board (OIC).

STRUCTURE AND CONTENT OF FINANCIAL STATEMENTS

These financial statements consist of the Balance Sheet, Income Statement, Statement of Comprehensive Income/Loss recorded in the period, Statement of Cash Flows, Statement of Changes in Shareholders' Equity, as well as the Explanatory Notes and are drafted on the basis of the going concern assumption, based on the indications of the paragraph "Business outlook".

As for the financial statements that the Company has chosen to adopt it should be noted:

- in the "Balance sheet" assets and liabilities are sorted by due date, separating current and non-current items by expiry, respectively, within or after 12 months;
- the "Income statement" is presented in a scalar form by nature;
- the "Cash flow statement" is prepared using the indirect method, as allowed by IAS 7;
- the "Statement of comprehensive income / loss" is prepared separately in accordance with IAS 1 Revised.
- the "Statement of changes in Shareholders' Equity" is prepared in accordance with IAS 1 Revised.

The functional currency used for the presentation of financial statements is the euro and all amounts are expressed in thousands of Euro unless indicated otherwise. For disclosure purposes, the values are reported without decimals.

This document is subject to auditing by the Independent Auditors *EY S.p.A.*, a company which was also entrusted with the legal auditing of accounts.

ACCOUNTING POLICIES AND VALUATION CRITERIA

The accounting policies and valuation criteria adopted are summarised below. The valuation criteria are adopted on a going concern basis and comply with the principles of accrual accounting, relevance and materiality of accounting information and the prevalence of economic substance over legal form.

The general principle used in preparing these financial statements is the cost method with the exception of any derivatives for which IFRS 9 requires the fair value measurement.

Current/non-current classification

Assets and liabilities are classified in these financial statements according to the current/non-current criterion.

An asset is current when:

- it is expected to be realised, or held for sale or consumption, during the normal course of the operating cycle;
- it is held primarily for trading purposes;
- it is expected to be realised within twelve months of the date of year-end; or
- it is composed of cash or cash equivalents unless it is prohibited to exchange or use it to extinguish a liability for at least twelve months from the date of year-end.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be extinguished during its normal operating cycle;
- it is held primarily for trading purposes;
- it must be extinguished within twelve months of the date of year-end; or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months from the date of year-end.

All other liabilities are classified as non-current.

Discretionary valuations and significant accounting estimates

The application of generally accepted accounting standards for the preparation of the financial statements entails that the Company's management makes accounting estimates based on complex and/or subjective judgements, on past experience and on assumptions considered reasonable and realistic on the basis of the information known at the time of the estimate. The use of these accounting estimates affects the carrying amount of assets and liabilities, as well as the disclosure on contingent assets and liabilities at the reporting date, as well as the amount of revenues and costs in the reference period. The actual results may differ from those estimated, due to the uncertainty that characterises the assumptions and the conditions that generate the estimates. The main accounting estimates included in the process of preparing the financial statements, which involve the use of subjective judgements, assumptions and estimates on issues that are uncertain by their nature, are indicated below.

1. *Recoverability of non-financial assets*

Assets such as property, plant and equipment, intangible assets, assets consisting of the right of use of an underlying asset are subject to impairment when their book value exceeds the recoverable value, represented by the higher of the fair value, net of costs of disposal, and the value in use.

These recoverability tests are carried out according to the criteria envisaged by IAS 36 and described in more detail in the following Note “Property, plant and equipment”.

In determining the recoverable amount, the Company generally applies the value in use criterion. Value in use is the present value of future cash flows that are expected to originate from the asset being measured, discounted using a discount rate, gross of taxes, which reflects current market valuations of the time value of cash and the specific risks of the business.

The expected future cash flows are prepared on the basis of the most recent approved business plans and information available at the time of the estimate; therefore, the assumptions used in estimating the cash flows are based on the management’s judgement with particular reference to the performance of future variables indicated in the “Business outlook” section and in note no. 1.

2. *Disputes*

The Company is a party to some legal disputes relating mainly to labour, the operation of some production plants, environmental damages, and criminal disputes. Given the nature of these disputes, it is not always objectively possible to predict their final outcome, some of which could be concluded with an unfavourable outcome.

Provisions were set up to cover all significant liabilities for cases in which the Company, also supported by legal advisors, has assessed an unfavourable outcome as probable and a reasonable estimate of the amount of the loss can be made.

3. *Provisions for risks and charges*

Provisions for risks are made on the basis of expectations of specific events deemed reasonably certain whose effects, on the basis of the information available and the support of the consultants, are estimated as probable.

4. *Deferred tax assets*

The financial statements include deferred tax assets, related to income components with deferred tax deductibility, for an amount whose recovery in future years is considered highly probable by the Directors.

The recoverability of the above-mentioned deferred tax assets is subject to the achievement of future taxable profits that are sufficiently large enough to attain the benefits deriving from the deferred tax assets.

Significant judgments of management are required to determine the amount of deferred tax assets that can be recognised in the financial statements, based on the timing and amount of future taxable income as well as future tax planning strategies and tax rates in force at the time of their transfer.

Estimates and assumptions are reviewed periodically and the effects of each change are simultaneously recognised in the income statement.

Translation of foreign currency items

The functional and presentation currency is the Euro.

Foreign currency transactions are recorded at the exchange rate prevailing at the transaction date. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at the balance sheet date. Exchange differences arising from the conversion operations are reflected in the income statement and recorded under financial income and expenses. Non-monetary assets and liabilities denominated in foreign currencies and valued at cost are translated at the exchange rate prevailing at the date of initial transaction.

Tangible assets

Property, plant and equipment are stated at acquisition or production cost, less accumulated depreciation and any accumulated impairment losses. The cost includes expenditure directly incurred to prepare the assets for use, as well as any charges for dismantling and removal (as provided by IAS 37), recorded at the present value of the future expense which is estimated will be incurred. The cost also includes any interest paid on the purchase or construction of property, plant and equipment incurred to bring these into operation.

They also include the costs relating to spare parts considered strategic for guaranteeing plant productive activities.

Depreciation commences when the asset is available for use and is recognised systematically over the remaining useful life of the same, i.e. on the basis of the estimated useful life.

The useful life of property, plant and equipment and their residual value are reviewed and adjusted if appropriate, at least at the end of each year. The presumed realisable value which is deemed recoverable at the end of its useful life, if determined, is not depreciated.

Where the asset subject to depreciation is composed of separately identifiable elements whose useful life differs significantly from that of the other parts that make up the asset, depreciation is calculated separately for each of these parts, in application of the component approach.

Ordinary maintenance costs are fully expensed in the year they are incurred.

The costs incurred for maintenance carried out at regular intervals (*known as* Major Inspections) are recorded as assets in the balance sheet and are amortised on the basis of the intervention cycle, as planned by management.

The amortisation of assets that can be transferred free of charge outside the scope of IFRIC 12 is calculated on a straight-line basis over the shorter of the residual duration of the concession, and the estimated useful life of the same, with the exception of exemptions regarding investments in accordance with the provisions of the current legislation.

Land, whether free of constructions or annexed to civil and industrial buildings is not depreciated as it has an unlimited useful life.

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

Buildings	25/40 years
Equipment; steam generator; mech. mach.; hydraulic works	20 years
Combined cycle plants	30 years
Maintenance	2 to 8 years
Electronic calculators; office machines; IT equipment	5 years
Transport lines	35 years
Penstocks	50 years
Long distance transmission systems and industrial equipment	10 years

The book value of an element of property, plant and equipment and each significant component initially recognised is eliminated at the moment of disposal (i.e. as at the date on which the purchaser acquires control of it) or when no future economic benefit is expected from its use or disposal. The profit/loss that emerges at the moment of the derecognition of the asset (calculated as the difference between the net book value of the asset and the consideration received) is booked to the income statement when the element is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are revised at the close of the year and, where appropriate, corrected prospectively.

In the event of signs of deterioration, tangible fixed assets are subject to a recoverability test (so-called “impairment test”) which is illustrated in the following paragraph “Impairment of Assets”. At the same time, the restoration of an asset previously written down as a contra-item in the income statement is also booked to the income statement.

Intangible assets

Intangible assets are composed of non-monetary, identifiable elements without physical substance, controllable and capable of generating future economic benefits. They are carried at cost of purchase and/or production cost, including directly attributable costs of preparing the asset for use, net of accumulated amortisation, in cases where there is an amortisation process, and any impairment. Amortisation commences when the asset is available for use and is recognised systematically over the remaining useful life of the same, i.e. on the basis of the estimated useful life.

Research costs are expensed in the year they accrue. Development costs are capitalised if the cost can be measured reliably and it is shown that the asset is able to generate future economic benefits.

Impairment of assets

As at each balance sheet date, property, plant and equipment and intangible assets with indefinite lives are tested in order to establish whether there are indicators of impairment. When the presence of these indicators is identified, the recoverable amount of the assets is estimated and any impairment loss recognised in the income statement. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, where the latter is the present value of estimated future cash flows of the asset. In determining the value in use, expected future cash flows are discounted with a discount rate that reflects the assessment of the cost of money for the company, in relation to the investment period and the specific risks of the asset. An impairment loss is recognised in the income statement when the asset's carrying amount exceeds its recoverable amount.

In the case of goodwill and other intangible assets with indefinite useful life or assets not available for use, this test is performed at least annually.

For tangible and intangible fixed assets (but not for goodwill), should the reasons for a write-down effected previously no longer exist, the carrying value is reinstated by an entry in the income statement, in accordance with the limits of the net book value that the asset would have had if it had not been written down and depreciation had been charged.

Inventories

Raw materials, consumables and supplies are valued at purchase cost determined using the weighted average method and are not written down below cost given held to be used in the production process.

The purchase cost is determined for the reference period, in respect of each inventory item. The weighted average cost includes the relevant accessory charges relating to purchases in the period.

The value of obsolete and slow-moving inventory is written down in relation to the risk of use or sale, through the allocation of risk in a specific provision for the write-down of inventories.

With regard to the so-called emission rights, as better specified in the previous annual financial statements, as from January 1, 2020 Tirreno Power decided to privilege a classification of the rights purchased to meet its own needs (so-called own use), among the inventories of the current assets.

Financial instruments

Financial instruments include financial assets and liabilities whose classification is determined at the time of their initial recognition, depending on the purpose for which they were purchased. Purchases and sales of financial instruments are recognised on the trade date.

The financial instruments include not only investments available for sale, but other non-current financial assets, receivables and non-current loans, trade receivables, other receivables originated by the enterprise as well as other current financial assets such as cash and equivalents or bank deposits and financial receivables due within three months. Financial payables, trade payables, other payables and other financial liabilities and derivative instruments also fall under financial instruments.

All assets and liabilities for which the fair value measured or stated in the financial statements are categorised on the basis of the fair value hierarchy, as described below:

- Level 1 - prices listed (not adjusted) in active markets for identical assets or liabilities which the company can access at the measurement date;
- Level 2 - inputs other than prices listed in Level 1, observable directly or indirectly for the asset or for the liability;
- Level 3 - valuation techniques for which the input data are not observable for the asset or the liability.

The fair value measurement is classified entirely to the same level of the fair value hierarchy in which the input of the lowest level of the hierarchy used for the measurement is classified.

It should be noted that no changes were verified in the levels of the fair value hierarchy used for the purposes of measuring the financial instruments with respect to the last financial statements.

For assets and liabilities booked to the financial statements at fair value on a recurring basis, the company determines whether transfers between levels of the hierarchy have taken place.

Their initial assessment takes into account the transaction costs directly attributable to the acquisition or the issue costs that are included in the initial measurement of financial instruments. The fair value of instruments listed on public markets is determined with reference to quoted prices (bid price) as at the balance sheet date. The fair value of unlisted instruments, including those related to electricity, is instead measured with reference to the financial valuation techniques or using major financial counterparties. In particular, the fair value of interest rate swaps is measured by discounting the expected cash flows, the fair value of foreign exchange forwards is determined on the basis of market exchange rates at the balance sheet date and the rate differentials between the relevant currencies, while the fair values of derivatives related to commodities are calculated using models based on industry best practices.

In general, in applying those models, market data are used rather than internal company data.

Trade receivables

Trade receivables, which accrue within the normal commercial terms, are not discounted and are recognised at cost (identified by their nominal value) net of related impairment losses.

The management verified that the fair value of the trade receivables and trade payables, as well as of the cash and cash equivalents and short-term deposits and other current liabilities approximates the book value as a result of the short-term maturities of these instruments.

Cash and cash equivalents

Cash and cash equivalents include cash, i.e. assets that meet the requirements of availability on demand or at short notice, successful outcome and absence of collection expenses and are measured at fair value. For the purposes of representation in the cash flow statement, the cash and cash equivalents are represented by the liquid funds defined above.

Cancellation (derecognition) of financial assets

Financial assets are derecognised from the balance sheet when the rights to receive cash flows from the instrument expires and the entity has transferred substantially all the risks and rewards relating to the instrument and the relative control.

Non-current assets held for sale

Non-current assets held for sale include any disposed assets if is presumed that their carrying value will be recovered primarily through sale rather than their continuous use.

This classification criterion only applies when the non-current assets are available in the present conditions for immediate sale and said sale is highly likely.

Non-current assets classified as held for sale are presented separately from other assets and liabilities in the balance sheet.

The amounts for non-current assets classified as held for sale are not reclassified or represented for previous years.

Immediately prior to the initial classification of non-current assets as held for sale, the book values of these assets are measured according to the IFRS/IAS applicable to the specific assets. These non-current assets classified as held for sale are measured at the lower of their carrying value and their fair value less costs to sell. Costs to sell are additional costs directly attributable to the sale, excluding financial expenses and taxes.

Non-current assets are not amortised, while they are classified as held for sale.

Trade payables

The trade payables, which accrue within the normal commercial terms, are not discounted and are recognised at cost (identified by their nominal value).

Financial liabilities

Financial liabilities, including borrowings and other payment obligations are initially recognised at cost corresponding to the fair value of the liability net of costs incurred to secure loans (transaction costs). Following initial recognition, financial liabilities are measured at amortised cost using the effective interest rate. Net financial charges are consequently restated on the basis of the effective interest rate method.

If there is a change in expected cash flows and the possibility exists to reliably estimate the value of the loans is recalculated to reflect this change on the basis of the present value of expected future cash flows and the internal rate of return originally determined. Financial liabilities are classified as current liabilities unless the entity has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

A financial liability is derecognised when the obligation underlying the liability is extinguished, cancelled or fulfilled. Where an existing financial liability is replaced by another of the same lender, under substantially different conditions, or the conditions of an existing liability are substantially modified, this exchange or modification is treated as a derecognition of the original liability, accompanied by the recognition of a new liability, with any differences in the book values posted to the income statement.

Derivative financial instruments

The Company uses derivative financial instruments including: interest rate swaps and forward commodity purchase contracts to hedge interest rates and commodity price risks respectively. These derivative financial instruments are initially recognised at fair value on the date in which the derivative contract is signed and, periodically, updated at each reporting date. Derivatives are accounted for as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. For hedge accounting purposes, there are three types of hedge:

- fair value hedge in the event of hedging of the exposure to changes in the fair value of the asset or liability recognised or unrecognised irrevocable commitment;

- cash flow hedge in the case of hedging of exposure to changes in cash flows attributable to a particular risk associated with all assets or liabilities recognised or a highly probable forecast transaction or foreign currency risk on an unrecognised firm commitment;
- hedge of a net investment in a foreign operation.

At the start of a hedging transaction, the company designates and formally documents the hedging relationship, to which it intends to apply hedge accounting, its risk management objectives and the strategy pursued.

The documentation includes the identification of the hedging instrument, the hedged element, the nature of the risk and the methods the company will use to evaluate whether the hedging relationship satisfies the hedge effectiveness requirements (including an analysis of the sources of hedge ineffectiveness and the way in which the hedging relationship is determined).

The hedging relationship satisfies the hedge accounting eligibility criteria if it meets all the following hedge effectiveness requirements:

- there is an economic relationship between the hedged element and the hedging instrument;
- the effect of the credit risk does not dominate the changes in value resulting from the aforementioned economic relationship;
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

The transactions that satisfy all the criteria to qualify for hedge accounting are accounted for as follows:

(i) Fair value hedges

The fair value change in hedging derivatives is recognised under other costs in the statement of profit/(loss) for the year. The fair value change in the hedged element attributable to the hedged risk is recorded as part of the carrying value of the hedged element and it is also recognised under other costs in the statement of profit/(loss) for the year.

As regards fair value hedges relating to elements accounted for using the amortised cost method, each adjustment of the carrying value is amortised in the statement of profit/(loss) for the year over the residual period of the hedge, using the effective interest rate method. Amortisation determined in this way may start as soon as adjustment exists but cannot extend beyond the date in which the element subject to hedging ceases to be adjusted due to the fair value changes attributable to the risk subject to hedging.

If the hedged element is cancelled, the fair value not amortised is recognised immediately in the statement of profit/(loss) for the year.

When an unrecognised firm commitment is designated as an element subject to hedging, subsequent cumulated changes in its fair value attributable to the hedged risk are accounted for as assets or liabilities and the corresponding profits or losses booked to the statement of profit/(loss) for the year.

(ii) Cash flow hedge

The portion of the profit or loss on the hedged instrument, relating to the effective part of the hedge, is recognised in the statement of comprehensive income, under the “cash flow hedge” reserve, while the ineffective part is booked directly to the statement of profit/(loss) for the year. The cash flow hedge reserve is adjusted to the lower of the cumulated profit or loss on the hedging instrument and the cumulated variation in the fair value of the hedged element.

The Company only designates the spot component (intrinsic) of forward contracts as hedging instrument. The forward component (time) is cumulatively recognised in a separate item of the statement of other comprehensive income.

The amounts accumulated under other comprehensive income are accounted for depending on the nature of the underlying hedged transaction. If the transaction subject to hedging subsequently involves the recognition of a non-financial component, the amount accumulated under shareholders’ equity is removed from the separate component of shareholders’ equity and included in the cost value or other book value of the hedged asset or liability. This is not considered a reclassification of the items recognised in other comprehensive income for the period. This also applies in the event of a planned hedge of a non-financial asset or non-financial liability that subsequently becomes a firm commitment to which the accounting of fair value hedging transactions is applied.

For any other cash flow hedge, the cumulated amount in other comprehensive income is reclassified to the income statement as a reclassification adjustment in the same period or in periods during which the hedged cash flows impact the income statement.

If the accounting of the cash flow hedge is suspended, the cumulated amount in other comprehensive income must remain as such if the future hedged cash flows are expected to materialise. Otherwise, the amount must be reclassified immediately to profit/(loss) for the year as a reclassification adjustment. After the suspension, once the hedged cash flow is verified, any accumulated amount remaining in other comprehensive income must be accounted for depending on the nature of the underlying transaction as described previously.

It should be noted that the company considered that the bilateral contracts stipulated with Terna in order to guarantee the availability of productive capacity for the years 2022 and 2023 (capacity market) fall within the scope of application of the own use exemption.

Embedded derivatives

Embedded derivatives included in other financial instruments or in other contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the latter are not stated at fair value with recognition of gains and losses in the income statement. The Company verifies the existence of any embedded derivatives, analysing the facts and circumstances which could have originated them, including, for example, any contracts regarding the receipt or sale of "non-monetary" assets according to specific company purchase, use or sale requirements.

Employee Benefits

The short-term benefits are recognised in the income statement in the period in which the working activity is performed.

It is noted that, in connection with the pension reform of 2007, the provision for Post-employment benefits was restated, by adopting the new methodological approach, or considering that the amounts accrued as of January 1, 2007 are a defined contribution benefit and, therefore, not included in the calculation of liabilities. Where the provision accrued as at December 31, 2006 is treated as a defined benefit plan, the benefits granted to employees are recognised over the vesting period, as well as other long-term benefits (Additional months' salaries, Tariff Incentives and Loyalty Bonuses).

The cost of providing benefits under the various plans is determined separately for each plan, using actuarial assumptions to estimate the amount of future benefits that employees have accrued as at the reporting date.

The valuation of the liabilities in question is determined on the basis of independent actuarial assumptions. Gains and losses resulting from actuarial calculations are recognised in the income statement.

For defined contribution plans, contributions are only recorded when the employees have carried out their activities and therefore those contributions are accrued. In the latter case Tirreno Power pays fixed contributions into a separate entity (e.g. a Fund) and will have no legal or constructive obligation to pay further contributions if the fund is not solvent.

Provisions for risks and charges

Provisions are recorded to cover losses and charges of a specific nature, certain or probable, in respect of which, however, the amount and/or date of occurrence cannot be determined.

Provisions for risks and charges are recognised when, as at the reporting date, in the presence of a present obligation (legal or constructive) to third parties arising from a past event, it is likely that, to fulfil the obligation, an outflow of resources whose amount can be estimated reliably will be required.

When the financial effect of time is significant, the provision is discounted using a yield curve that reflects the time value of money expressed by the market and the risks associated with the liability.

If the provision is estimated taking into account the discounting process, the increase in provisions, due to the passage of time is recognised in the income statement as a financial charge. If the liability relates to tangible assets (e.g. dismantling and restoration of sites), the provision is recorded against the asset to which it relates; the expense is recognised in the income statement through the depreciation of the tangible asset to which the expense relates, as well as through the measurement of the financial expenses of the revaluation of the liability.

The estimate of the costs of future dismantling and remediation works is reviewed annually. Changes in the estimates of future costs or the discount rate applied increase or decrease the cost of the asset if they refer to the portion of the asset that will depreciate in subsequent periods.

The allocation of restructuring expenses takes place when the general criteria for allocation of a provision are respected. The Company has an implicit obligation when a detailed and formalised plan identifies the business unit concerned, the location and number of employees forming the object of the restructuring, the detailed estimate of costs and the implementation timescales. In addition, the personnel concerned must be informed of the main characteristics of the restructuring plan.

Revenue recognition

Revenue is recognised to the extent that it is possible to reliably determine its value (fair value) and it is probable that the associated economic benefits will be enjoyed by taking into account any discounts and reductions linked to quantities.

The company recognises revenues in order to faithfully represent the transfer of goods and services promised to customers, for an amount that reflects the consideration the company expects to be entitled to in exchange for the goods and services supplied. The recognition takes place through the application of this key principle and the use of the 5-step model provided by IFRS 15.

Revenues related to the sale of electricity are recognised at the time of delivery of supply, even if not invoiced, based on the actual sales prices on the Power Exchange or the conditions set forth contractually, taking into account the existing legislation.

Other revenues are determined according to the terms and conditions which take account of the risks and benefits transferred.

Recognition of costs

Costs are recognised in the periods in which the related revenues are recorded and, in general, in accordance with the accrual principle. Costs that cannot be associated with revenues are immediately recognised in the income statement. For the criteria for recognition and measurement of specific costs, the Company considers their nature and the reference accounting legislation.

Financial income and expenses

The financial income and expenses are recognised according to the accrual method, based on the interest accrued on the amount of the related financial assets and liabilities using the effective interest rate.

Government grants

Government grants, in the presence of a formal resolution by the disbursing entity, are recognised on an accruals basis in direct correlation with the costs incurred. In particular, the operating grants are classified to the item "Other revenues" in the income statement, while public capital grants that relate to property, plant and equipment are recorded as deferred revenue in balance sheet liabilities. The deferred income is recognised in the income statement as income on a straight-line basis over the useful life of the asset to which it directly relates.

Income taxes

Current income taxes are recognised as tax payables and calculated based on the estimated taxable income determined in accordance with the provisions in force as at the reporting date.

Deferred tax assets and liabilities are calculated on temporary differences between the carrying amounts and the corresponding amounts recognised for tax purposes applying tax rates that are expected to apply in the period when the asset is realised or the liability settled.

Deferred tax liabilities are recognised without exception for all taxable temporary differences. Deferred tax assets are recognised only if it is considered probable that, within a reasonable period of time, a sufficient amount of taxable income will emerge to absorb the deductible temporary differences and any IRES losses underlying said deferred taxes.

Current and deferred taxes are recognised in the income statement, except those relating to items charged or credited directly to shareholders' equity; in which case, the tax effect is recognised as a separate item in shareholders' equity.

New accounting standards, interpretations and amendments adopted by the Company

The following new standards and amendments are effective from January 1, 2021 but have no significant impact on the Company's financial statements:

- *Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform*

The amendments include the temporary easing of the requirements with reference to the effects on the financial statements when the interest rate offered on the interbank market is replaced by an alternative rate that is essentially risk-free.
The amendments include practical expedients such as allowing contractual changes to be treated as changes in a variable interest rate, equivalent to a movement in an interest rate in the market, and allowing changes to be made to the documentation for the designation of the hedging relationship.
These amendments had no impact on the Company's financial statements as there are no interest rate hedges.

- *Amendment to IFRS 16 Covid-19 Related Rent Concessions after June 30, 2021*

On May 28, 2020, the IASB published an amendment to IFRS 16. The amendment allows a lessee not to apply the requirements of IFRS 16 on the accounting effects of the contractual amendments for the reductions of the lease payments granted by the lessors that are a direct consequence of the COVID-19 epidemic. The amendment introduces a practical expedient according to which a lessee may choose not to assess whether the reductions in lease payments represent contractual changes. A lessee who chooses to use this expedient accounts for these reductions as if they were not contractual changes in the scope of IFRS 16.

The amendments were to be applicable until June 30, 2021, but since the impact of the COVID-19 pandemic is persisting, on March 31, 2021, the IASB extended the period of application of the practical expedient until June 30, 2022.

Standards issued but not yet in force

The standards and interpretations that, as at the date of drafting of these financial statements, had been issued but were still not in force, are illustrated hereunder. The Company intends to adopt these standards and interpretations, if applicable, when they enter into force.

No material impacts are expected for the Company with reference to these standards and interpretations.

IFRS 17 Insurance Contracts

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

Reference to the Conceptual Framework – Amendments to IFRS 3

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

Definition of accounting estimate - Amendments to IAS 8

Disclosure on accounting standards - Amendments to IAS 1 and IFRS Practice Statement 2

TYPE OF RISKS AND MANAGEMENT OF HEDGING ACTIVITIES

Risk management is an integral and fundamental part of the strategies of every organisation and the process through which companies tackle the risks connected with their activities, with the objective of obtaining long-lasting benefits.

The basis of good risk management consists of identifying and dealing with risks in order to allow an understanding of the potential positive and negative aspects of all factors that can influence the organisation. Risk management, a continuous and gradual process that involves the entire organisation strategy and its implementation, must be engrained in the company culture through an effective policy and a project managed by the company's top management, in order to turn the strategy into objectives and assign responsibilities at all levels of the organisation, making every person responsible for risk management.

For Tirreno Power S.p.A., in general, risk-taking is limited, in nature and extent, to those which, according to principles of sound and prudent management, are the risks considered ordinary. The "Risk Management Manual" sets out, on the one hand, the general principles for managing the company's main risks, consistently with the strategic objectives identified and, on the other, the methods of coordination between the entities involved in order to maximise the effectiveness and efficiency of the Internal Control and Risk Management System.

The Manual sets forth that the General Manager, as the company's Risk Owner, has the responsibility and ownership for the management of company risks, with the exclusion of "Environmental risk" and "Health and safety risk" for which the responsibility falls to the "Employer" of the various Organisational Units. The Risk Owner and the Employer are supported by Management in identifying and assessing risks, as well as defining the risk management policies.

The Company distinguishes two risk macro-categories: **Financial and Market Risks** and **Other Risks**. Financial and Market Risks mean those deriving from the impact they could have on margins and expected cash flows and, more specifically: future fluctuations in one or more specific interest rate or exchange rates, financial instruments, prices of energy and raw materials, prices of CO_2 emission rights. Other types of risk that are also associable to the category of financial risks, and in particular credit and liquidity risk, are dealt with separately.

Financial and Market Risks include ***Market Risk***, ***Interest Rate Risk*** and ***Exchange Rate Risk***. By contrast, Other Risks include the following sub-categories: ***Counterparty Risk, Liquidity Risk, Environmental Risk, Legal Risk, Legislative/Regulatory Risk, Image Risk and Health and safety risk.***

The different types of risk are monitored in order to assess early the potential adverse effects and take the appropriate actions to mitigate them. The optimisation and the reduction of the level of risk is pursued through an adequate organisational structure, the adoption of rules and procedures, the implementation of certain trade and procurement policies, the use of insurance coverage and hedging derivative financial instruments.

For the monitoring and management of Financial and Market Risks, the Risk Owner is supported by the Risk Committee, with advisory functions in relation to the risk management process. The Committee, composed not only of the General Manager, but beyond the Head of Energy Management and Production and the Head of Administration, Finance and Control, meets once a month and is responsible for supporting the Risk Owner in analysing and preparing the necessary documentation for implementing the hedging strategies, as well as proposing the “Hedging Policy” and the quarterly updates to be submitted to the BoD for approval.

We focus below on the risks, from those listed, with the biggest impact for the Company.

Market risk

Market risk is the risk that the value of a financial instrument, as defined by IAS 32, will fluctuate because of changes in market prices or exchange rates.

Owing to the nature of its business, the Company is exposed to changes in the prices of electricity, fuel and environmental costs (CO_2 emission rights) that can significantly influence the financial results.

To mitigate this exposure, it has developed a strategy of stabilising margins by means of the early negotiation of fuel supply. Through formulas or indexing, the company pursues, as far as possible, a policy of standardisation between sources and physical uses.

The Company has also implemented a formal procedure that provides for the measurement of the residual price/commodity risk and the implementation of hedging operations. Hedging transactions may have the objective of stabilising the margin on an individual transaction or a group of similar transactions, or to limit overall exposure to price risk. Tirreno Power does not adopt speculative positions in financial instruments.

As at December 31, 2021, the value (Mark to Market) of the electricity price hedging instruments was a negative Euro 566 thousand, a positive Euro 213 thousand in relation to the gas price hedging instruments and a positive Euro 37 thousand in relation to the CO2 price hedging instruments.

Interest rate risk on cash flows

The exposure to the risk of changes in the Company's interest rate is linked primarily to the financial debt, which, even if now to a lesser extent, is at floating rate. The Company, taking into account the contractual obligations, regularly assesses its exposure to the risk of changes in interest rates and manages these risks through the use of non-speculative derivative financial instruments.

The Hedging Policy aims to stabilise cash outflows relating to financial expenses, reducing the effects of increases in interest rates and at the same time retaining some of the benefits associated with a reduction of the same through a combination of debt between fixed and floating rate.

In 2021, the only variable rate loan facility is the Revolving Facility of Euro 50,000 thousand, used as at December 31, 2021 for Euro 20,000 thousand.

Counterparty risk

Counterparty risk, or more commonly known as credit risk, represents the Company's exposure to potential losses arising from the default of a counterparty.

Credit risk is the risk that a counterparty will not fulfil its obligations linked to a financial instrument or a commercial contract, therefore leading to a financial loss. The company is exposed to credit risk deriving from its operating activities (especially for trade receivables) and from its financing activities, including deposits with banks and financial institutions, and other financial instruments.

Credit risk is limited due to the characteristics and the creditworthiness of the customers served. The portfolio of accounts receivable is constantly monitored by the relevant departments. Tirreno Power also pays particular attention to the selection of prime counterparties (both commercial and financial), the evaluation of supplier references in terms of the customers served and respect for supply/service obligations, in the definition of contractual penalties in cases where the non-fulfilment of the obligation by the third party may have economic consequences for the company in the issue and request for guarantees, especially financial, for entering into derivative contracts according to ISDA standards.

As for the payment terms applied by most customers, deadlines are mostly concentrated within thirty or sixty days from billing, normally monthly, and is carried out within the month following the month of the supply.

The monitoring and analysis of counterparty risk is entrusted to the Internal Credit Risk Committee, composed of the Risk Committee (mentioned above), with the addition of the Head of Legal and Corporate Affairs, which evaluates existing exposures on a monthly basis per individual counterparty and deliberates on credit facilities. The main monitoring tool used is the weekly statement of exposure for each individual counterparty, also containing alert mechanisms when given exposure thresholds of attention are reached.

As at the date of these financial statements, the credit risk is reduced as the trade receivables relate to counterparties with a high credit standing; in fact, around 90% of current trade receivables are attributable to institutional counterparties like Terna SpA, Gestore dei mercati energetici SpA (GME) and Gestore dei servizi energetici SpA (GSE).

Liquidity risk

The liquidity risk is related to the possibility that the Company finds itself in a situation of difficulty in meeting the financial obligations arising from contractual commitments and, more generally, from its financial liabilities.

This risk is closely tied to the Restated Facilities Agreement signed with the lenders, as described in note 14 "Payables for loans". The following table summarises the contractual expiry date for the financial and trade assets and liabilities as at the date of these financial statements.

Maturity of financial assets and liabilities (Euro thousands)	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Cash and cash equivalents	49,910				49,910
Derivative financial instruments	250				250
Trade receivables and other assets	202,829	609	4,321		207,760
Total Financial assets	**252,990**	**609**	**4,321**	**-**	**257,920**
Financial payables	55,640		1,297		56,937
Trade payables and other liabilities	216,727				216,727
Derivative financial instruments	566				566
Total Financial liabilities	**272,933**	**-**	**1,297**	**-**	**274,231**
Total net exposure	**(19,944)**	**609**	**3,024**	**-**	**(16,311)**

Legal risk

This is the risk of the Company suffering negative repercussions from violations of laws or regulations and contractual and non-contractual liability.
Through the Legal and Corporate Affairs Department, the company monitors the risks identified through:

- verification of compliance with the regulatory provisions;
- an analysis of the legal documents and contracts, by verifying, in particular, the clauses of acceptance of the Code of Ethics and of the Organisational and Management Model pursuant to Italian Legislative Decree no. 231/01;
- monitoring of the contractual standards in use.

In the event of the signing of international contracts, the Legal and Corporate Affairs Department verifies that they are consistent with the frameworks set forth in international conventions or approved by international trade associations.

Legislative/Regulatory risk

This risk identifies the eventuality that the Company may suffer negative consequences, in economic or capital terms, or which damage its reputation, as a result of the issuing of primary legislation or resolutions of the regulatory authorities. For the analysis of legislative and regulatory risk, and the monitoring of the activities impacted, Tirreno Power has, through the following functions, implemented the following instruments:

- Institutional and Regulatory Affairs Work Group – The work group meets monthly and the General Manager and Heads of the main functions exposed to risk (Energy Management, AFC and Production) take part. In this context, on the basis of a document prepared by the Regulatory, Institutional and Communication Affairs Organisational Unit, all the main regulatory and legislative events, which could have an impact on Tirreno Power are discussed and any actions to be taken are evaluated (if necessary, also through the launch of specific studies, also assigned to specialist advisors). A closer coordination was activated between the Energy Management Department and the Regulatory, Institutional and Communication Affairs Organisational Unit, which periodically meet to discuss matters of reciprocal interest.

- Regulatory Dashboard – Every four months, the Regulatory, Institutional and Communication Affairs Organisational Unit prepares a document that summarises all the regulatory and legislative issues that, during the reference period, have determined potential impacts for the Company. The document is published on the company intranet and made accessible to all employees. In addition, a periodic newsletter, for use by the functions most impacted, contains a specialist press review on the regulatory, institutional and market issues.

- Association activities – Tirreno Power participates in some trade associations (for example, Energia Libera and Unione Industriali di Savona), with the objective of monitoring the legislative-regulatory framework, promoting the relationship and the exchanging of information with the institutions, and promoting and participating in initiatives to protect the company's position.

Image risk

Image risk is the risk of the Company suffering negative repercussions on its reputation, with particular regard to the management of institutional communications.

Control of the activities exposed to risk through the constant monitoring of the perception of the Tirreno Power brand by stakeholders and specific communication and information activities, targeted at maintaining an excellent brand reputation.

The Corporate Affairs Department is responsible for the actions targeted at the correct implementation of the risk management policies, which ensures the development of relational capital and the identity of the company, the definition of the corporate image and brand identity strategies and strengthening of the Company's reputation.

The Company monitors and manages the risk through the following non-exhaustive list of analyses and instruments:

- Press Review – The company is equipped with a press review service, which, through a daily newsletter, reports the news that appears in the press in relation to the Company, its shareholders, the reference areas and some important themes.

- Media relations – The Regulatory, Institutional and Communication Affairs Organisational Unit deals with the press office functions, supported by an advisor who handles relations with the local and national press publications.
- Practice of management of critical events – The Company has defined a communication flow dedicated to the management of emergences, in order to monitor any particularly urgent or relevant cases.

Furthermore, the company implements proactive communication initiatives in the media and takes part in conferences in order to improve the company's reputation, by reducing its image risk.

Environmental risk

This risk identifies the eventuality that the Company may suffer negative consequences, in economic or capital terms, or which damage its reputation, or in terms of the safety of personnel, as a result of environmental pollution resulting from the operation of thermoelectric plants.

The Company's policy consists of the prevention of all forms of environmental pollution or damage connected with the operation of its thermoelectric plants; of the prevention of possible risky events through the development and implementation of plant management and maintenance procedures certified according to ISO 14001 standard, of the development of regular technical-operating training programmes for personnel in the field and in the mapping and analysis of near accidents; as well as of the transfer of risks through the stipulation of adequate insurance policies to cover any damages and civil liability connected with accidents.

The Company monitors and manages the risk through the following non-exhaustive list of analyses and instruments:

- stipulation of adequate insurance policies to cover any damages and civil liability connected with accidents. It should be noted that Tirreno Power has also always been equipped, accompanying its Third-Party Civil Liability Insurance Policy, with a specific Pollution Civil Liability policy to cover the risk of "gradual pollution", where the Third-Party Civil Liability Policy only covers damages stemming from "accidental" pollution;
- implementation of an appropriate Environment Management System for the company and for thermoelectric assets, regulated by the proper Manual, which conforms to the UNI ISO 14001 standard;
- development of regular technical-operating training programmes for personnel in the field and the mapping and analysis of near accidents;
- plants in line with the Best Available Techniques.

NOTES TO THE BALANCE SHEET

ASSETS

NON-CURRENT ASSETS

1. PROPERTY, PLANT AND EQUIPMENT

Details of tangible fixed assets are provided below, by individual category, along with the changes in the period:

(thousands of Euro)	FIXED ASSETS IN OPERATION					Fixed assets in progress and advances	BOOK VALUE
	Lands and buildings	Rights of use	Plant and equipment	Industrial and commercial equipment	Other assets		
-historical cost as at 12.31.2020	175,585	2,700	2,042,180	8,955	5,550	36,731	2,271,700
-write-downs (-) as at 12.31.2020	(419)	0	(115,970)				(116,390)
-accumulated depreciation (-) as at 12.31.2020	(110,329)	(974)	(1,406,105)	(8,612)	(4,531)		(1,530,552)
Values as at 12.31.2020	**64,836**	**1,726**	**520,103**	**343**	**1,019**	**36,731**	**624,757**
Opening values as at 01.01.2021	**64,836**	**1,726**	**520,103**	**343**	**1,019**	**36,731**	**624,757**
Changes							
-acquisitions	935	500	30,984	75	383	4,333	37,210
-disposals (-)							
of which:							
historical cost	(758)		(484,080)				(484,838)
accumulated depreciation	318		372,741				373,059
use of write-down provision	402		111,335				111,737
-depreciation	(5,346)	(495)	(44,069)	(97)	(341)		(50,348)
-write-downs (-)							0
-write-backs (+)			66				66
-commissioning	178		34,273		22	(34,473)	0
-other changes							0
Total changes (B)	**(4,271)**	**5**	**21,250**	**(22)**	**64**	**(30,140)**	**(13,114)**
Values as at 12.31.2021	**60,566**	**1,731**	**541,351**	**320**	**1,081**	**6,591**	**611,643**
Of which							
-historical cost	175,940	3,200	1,623,357	9,030	5,955	6,591	1,824,072
-write-downs (-)	(17)	0	(4,569)				(4,586)
-accumulated depreciation (-)	(115,357)	(1,469)	(1,077,433)	(8,709)	(4,872)		(1,207,842)
Net value	**60,566**	**1,731**	**541,351**	**320**	**1,081**	**6,591**	**611,643**

As at December 31, 2021, the value of property, plant and equipment amounted to Euro 611,643 thousand. During the year, the Company made investments totalling Euro 37,210 thousand, of which Euro 4,333 thousand relating to “work in progress and payments on account”, Euro 32,377 thousand relating to “fixed assets in operation” and Euro 500 thousand euro in capitalisation for rights of use.

Investments relating to non-current assets (Euro 66,850 thousand including transfers into operation) mainly concerned:

- the Napoli Levante plant for the upgrade of the DCS, the upgrade of the electrical protection mechanisms, the purchase of blades for the steam turbine, the replacement of a pole of the machine switch and the activities carried out during the scheduled shutdown;
- the Vado Ligure plant for the supply and installation of new exciters, the upgrade of the DCS, the adaptation of the 380 V bars, the reconditioning of the 52BAT01 transformer, the

installation of a battery bank, the activities carried out during the shutdowns scheduled for March and October;

- the Torrevaldaliga plant for the HGPI carried out in November and December, the renewal of the osmosis plant, the restoration of GVR gratings, the overhaul of rotating machinery, the purchase of strategic spare parts for the steam turbine and the activities carried out during the scheduled shutdowns.
- the hydroelectric power plant for the restoration activities following flood damage, the partial replacement of the Zolezzi pipeline, the activities relating to the seismic adaptation, as well as the activities relating to the construction of new control units for the exploitation of the minimum vital flow.

The **disposals** essentially concerned the assets pertaining to the VL3 and VL4 coal-fired units of the Vado Ligure plant, fully written down in previous years.
In fact, it should be noted that, in June 2021, the contract was stipulated for insulation removal and demolition of the aforementioned plants, with the associated handover of the areas to the contractor on June 30, 2021.

The **impairment test** as at December 31, 2021 was carried out on the only CGU of Tirreno Power, using the cash flows relating to the period 2022 - 2039, the period in which the useful life of the production plants ends, extrapolated from the 2022 - 2027 Business Plan approved by the Board of Directors, which incorporates the market scenario required of REF-E until 2040 with the latest available curves on the energy market forecast and which assumes the extension of the Capacity mechanism at least until 2029. The dispatching model then processed the values up to 2035, while from 2035 to 2039 zero growth values are assumed with the only increase stemming from inflation. Lastly, the Plan takes into account both the additions and changes in regulatory and industrial terms, and the main actions undertaken to date by management that will have an impact in future years.

The flows are also updated with the final data for 2021 and with the data of the 2022 budget.

The impairment test showed a recoverable amount exceeding the net book value. Therefore, there was no need for write-downs of corporate assets.

Operating cash flows are stated net of taxes and the post-tax discount rate of operating cash flows (WACC) used was 5.43%. This value is the result of the valuation of the rates and prospective returns forming the basis of the calculation of said perimeter in December 2021. The updated WACC is aligned with that used for the impairment test in December 2020 (5.98%), consistent with the trend in market rates and the reference yields.

Sensitivity analyses carried out on the recoverable value in response to a change of +/- 100 bps in the WACC or on the Risk scenario, with a 10% reduction in MSD revenues, confirm the recoverability of the corporate assets.

Depreciation of property, plant and equipment for the period mainly concerns the combined cycle thermoelectric production sites (Euro 36,626 thousand), the related Major Inspections (Euro 7,127 thousand) and the dismantling costs (Euro 715 thousand), and are calculated by applying the economic-technical rates representative of the useful life of each component.

As regards freely transferable assets, it should be noted that with Italian Law no. 12/2019, converting Italian Law Decree no. 135 of December 14, 2018 (so-called Simplifications Decree), the Legislator made changes to art. 11-quater with an overall reorganisation of the regulations regarding large-scale hydroelectric concessions (> 3 MW). The new regulations introduced (which amended art. 12 of Italian Legislative Decree no. 79/1999) set forth that the Regions will regulate, based on their own laws, the methods, procedures and criteria for the assignment of concessions, which may be entrusted to economic operators identified through their tenders, or to mixed public / private companies with the selection of the private partner via tender, or through forms of public/private partnership pursuant to Italian Legislative Decree no. 50/2016.

In addition, the aforementioned regulatory provisions envisage that the “wet works” relating to the large diversions pass free of charge to the Regions at the end of the concession; however, the investments in the "wet works" components carried out during the period of validity of the concession must be compensated to the outgoing concessionaire, for the part of the asset not amortised, provided that they are envisaged by the concession deed or in any case authorised by the grantor and have been incurred at its own expense.

Tirreno Power is the owner of 7 concessions for water diversions for hydroelectric purposes classified as “large diversions”, expiring in 2029; when preparing the financial statements as at December 31, 2021, also taking into account the fact that the Piedmont, Lombardy, Friuli Venezia Giulia, Abruzzo and Emilia Romagna regions have issued their own laws on the matter, the Company deemed it appropriate to entrust an assessment of the useful life of the regularly authorised investments relating to the “wet works” recorded in its assets to a leading hydroelectric consultancy company, in order to identify the value of the part of the asset not amortised equal to the expected indemnity, taking into account the new regulatory framework with respect to the current duration coinciding with that of the concession.

Based on the results of this valuation, the Company therefore redefined the depreciation plans of the assets concerned (previously commensurate with the duration of the related concession as it was shorter than the useful life of the works) and updated the depreciation rates based on the economic-technical life of the individual types of investments incurred on the assets of the “wet works”. This led to the recognition of lower amortisation for the year 2021 of approximately Euro 533 thousand.

Tangible fixed assets as at December 31, 2021, classified according to their use, are broken down as follows:

Production plants	Original cost	Accumulated depreciation	Net value	Write-down provision	Net reported value
Thermoelectric plants	1,669,434	(1,124,253)	545,181	(4,586)	540,595
Freely transferable assets	2,132	(2,132)	0		0
Total	**1,671,567**	**(1,126,385)**	**545,181**	**(4,586)**	**540,595**
Renewable Sources Plants	86,991	(44,385)	42,606		42,606
Freely transferable assets	34,660	(17,591)	17,069		17,069
Total	**121,651**	**(61,976)**	**59,675**		**59,675**
Total production plants	**1,793,218**	**(1,188,361)**	**604,857**	**(4,586)**	**600,270**
Other plants and machinery, equipment, other assets	24,261	(19,480)	4,781		4,781
Total operating assets	**1,817,479**	**(1,207,843)**	**609,639**	**(4,586)**	**605,052**
Fixed assets in progress and advances	6,591		6,591		6,591
Total	**1,824,072**	**(1,207,842)**	**616,230**	**(4,586)**	**611,643**

As at December 31, 2021, there are no tangible fixed assets for which collateral has been given to third parties.

2. INTANGIBLE ASSETS

A table is provided below, which details the original values and changes:

(thousands of Euro)	Industrial patents and software applications	Other assets	Fixed assets in progress and advances	BOOK VALUE
-historical cost as at 12.31.2020	10,549	44	145	10,738
-accumulated amortisation (-) as at 12.31.202	(9,376)	(35)		(9,411)
Opening values as at 01.01.2021(A)	***1,173***	***9***	***145***	***1,327***
Changes as at 12.31.2021				
-acquisitions	712		19	731
-reclassifications	145		(145)	0
-amortisation (-)	(573)	(1)		(574)
-other changes				0
Total changes (B)	**284**	**(1)**	**(126)**	**157**
Values as at 12.31.2021 (A + B)	***1,456***	***8***	***18***	***1,483***
Of which				
-historical cost	11,405	44	18	11,467
-write-downs (-)				
-amortisation (-)	(9,949)	(36)		(9,985)
Net value	***1,456***	***8***	***18***	***1,483***

Acquisitions in the period, amounting to Euro 731 thousand, mainly relate to the development of application software.

3. NON-CURRENT FINANCIAL ASSETS

This item refers to financial receivables due after 12 months.

(thousands of Euro)	12.31.2021	12.31.2020	Changes
- loans to personnel	307	389	(82)
- security deposits	4,014	18,269	(14,255)
Total non-current financial assets	**4,321**	**18,658**	**(14,337)**

Guarantee deposits mainly include, for Euro 3,711 thousand, the deposit for participation in the auctions relating to the Capacity Market as per the Ministerial Decree of June 28, 2019, which then formally launched the Capacity Market mechanism in Italy on the basis of which the auctions were held relating to the delivery of energy for 2022 and 2023.

It should be noted that "loans to employees", remunerated at current market rates and guaranteed by post-employment benefits, were granted for the purchase of a first home or to meet important family needs.

As at December 31, 2021, there were no financial assets recognised at a value higher than their fair value.

4. DEFERRED TAX ASSETS

The changes in the period are shown below:

(thousands of Euro)	Situation as at 12.31.2020	Situation as at 12.31.2021		
	Balance	Provisions	Uses	Balance
Deferred tax assets				
Provisions for risks and write-downs	15,162	1,510	(4,785)	11,887
Fair value IAS 19 and IFRS 9 to shareholders' equity reserve	723	86	(10)	799
Total deferred tax assets	**15,885**	**1,596**	**(4,795)**	**12,687**

Uses mainly regard the recovery of amounts recognised in relation to the dismantling provisions, the voluntary redundancy provision and the provision for the write-down of the VL3 and VL4 coal units.

CURRENT ASSETS

5. INVENTORIES

The item, amounting to Euro 92,324 thousand, includes the CO2 quotas purchased to meet the company's delivery obligations and the materials mainly intended to be used for plant maintenance.

With regard to the changes in CO2 quotas, the following steps were taken during the current year:

- the purchase of no. 1,195,000 CO2 emission certificates for a total of Euro 70,372 thousand;
- the delivery of no. 1,703,806 emission rights for a total of Euro 40,982 thousand in compliance with the Company's obligations for 2020.

Therefore, as at December 31, 2021, no. 1,501,526 quotas amounting to Euro 77,745 thousand, as well as advances to suppliers for Euro 2,217 thousand in relation to certificates awaiting delivery, were recognised under inventories.

Inventories of materials amounted to Euro 12,323 thousand and are recognised in the financial statements according to the weighted average cost method.

Due to their intrinsic characteristics, these inventories show a slow movement typical of spare parts for these types of plants, as can be seen also from the modest net change in the value of stocks.

These inventories are recorded net of an obsolescence provision, equal to Euro 1,432 thousand, recognised in previous years in relation to coal-fired units and fully written down.

The overall increase in inventories is essentially attributable to changes in CO2 quotas as shown above.

Details of inventories are provided below by type:

(thousands of Euro)	12.31.2021	12.31.2020	Changes
Tangible inventories	12,323	12,652	(329)
Other inventories	39	42	(3)
CO2 certificates	79,962	48,355	31,607
Total inventories	**92,324**	**61,050**	**31,274**

6. TRADE RECEIVABLES

This item, amounting to Euro 139,303 thousand, essentially includes trade receivables for the sale of energy.

(thousands of Euro)	12.31.2021	12.31.2020	Changes
Receivables for sale of energy:			
-GME	58,800	2,492	56,308
-Terna S.P.A.	32,614	66,200	(33,586)
- Other operators	47,327	13,682	33,645
Total receivables for sale of energy:	**138,741**	**82,374**	**56,367**
Other trade receivables	562	118	444
Total trade receivables	**139,303**	**82,492**	**56,811**

It should be noted that almost all of these receivables arose over the last two months of the year and that, as at the date of drafting these notes, are essentially fully collected or collectible, given that the relevant expiries are in 30/60 days.

For more details on the changes, please refer to what was indicated previously in the Management Report in the “Analysis of the capital structure” section.

7. OTHER CURRENT ASSETS

The item, amounting to Euro 63,517 thousand, mainly includes tax receivables. The latter amounted to Euro 57,769 thousand at the reporting date and mainly include the receivable from the tax authorities for VAT from monthly payments accrued in 2021 (Euro 44,161 thousand) and the VAT credit in the third quarter of 2021 requested as a refund (Euro 13,000 thousand), collected on February 11, 2022 together with the interest accrued (Euro 31 thousand).

The item includes also loans to Shareholders, amounting to Euro 509 thousand, relating to IRES (corporate income tax) refund requests for non-IRAP deductions, presented when the Company signed up to the tax transparency regime in accordance with art. 115 of the Consolidated Law on Income Tax (TUIR). The monitoring and management of the collection of these receivables subject to the tax transparency regime were handled directly by the Shareholders.

Lastly, Euro 965 thousand was recognised for insurance premiums paid in advance and receivables from social security institutions for Euro 900 thousand, essentially relating to amounts paid in advance to employees for social security benefits relating to the Cassa Integrazione Guadagni Straordinaria (extraordinary wage guarantee fund) and previous solidarity contracts.

8. DERIVATIVE FINANCIAL INSTRUMENTS

The item, amounting to Euro 250 thousand, includes the fair value of derivative financial contracts in place as at December 31, 2021 to hedge primarily the fluctuation in the price of methane gas (Euro 213 thousand).

9. CASH AND CASH EQUIVALENTS

This item, amounting to Euro 49,910 thousand, essentially includes the credit balances of accounts held with leading banks.

LIABILITIES AND SHAREHOLDERS' EQUITY

10. SHAREHOLDERS' EQUITY

For information on changes in shareholders' equity, please refer to the Statement of Changes in Shareholders' Equity.

The item "Other reserves", equal to Euro 135,765 thousand, is composed as follows:

- Reserve from contribution of subscription of Junior PFIs amounting to a nominal Euro 284,386,754, approved at the Extraordinary Shareholders' Meeting on December 16, 2015 and recorded at fair value, amounting to Euro 204,000,000. This reserve was also reduced for the coverage of losses resolved at the same extraordinary shareholders' meeting amounting to Euro 88,735 thousand. The value of this reserve as at December 31, 2021 was therefore Euro 115,265 thousand;
- Legal reserve for Euro 12,103 thousand;
- Available reserve for coverage of losses for Euro 9,243 thousand;
- IAS 19R reserve - Post-employment benefits and other benefits - negative for Euro 615 thousand;
- CFH reserve to hedge gas supplies and the sale of energy, negative for Euro 231 thousand.

The item "Accumulated gains and losses" includes the carry-forward of profits from 2018, 2019 and 2020, amounting to Euro 38,186 thousand, Euro 158,744 thousand and Euro 124,469 thousand, respectively, as well as the IFRS reserve for retained earnings of Euro 831 thousand.

The share capital as at December 31, 2021 is represented by 60,516,142 ordinary shares with a nominal value of Euro 1.00 each, fully paid up and held 50% by ENGIE Italia SpA and 50% by ENERGIA ITALIANA S.p.A.

Details of items of shareholders' equity and an indication of their possibility of use and distribution, as well as their use in previous years, is provided below:

Nature/description	Amount	Possibility of use	Amount available	Summary of uses made in previous three years	
				To cover losses	For other reasons
Share capital:	60,516				
Capital reserves:					
Reserve from contribution of subscription of Juni	115,265	B			
Available reserve for coverage of losses	9,243	B			
Profit reserves:					
Legal reserve	12,103	B			
IFRS 9, CFH and IAS 19 reserves	-846	B			
Retained earnings	322,231	B			
TOTAL RESERVES	**457,996**				

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

Based on the provisions of the Company's Articles of Association, the distribution of profits cannot be approved until the credit lines of the Restated Facilities Agreement are repaid in full, and the additional conditions governed in the Restructuring Agreement are satisfied.

The Participating Financial Instruments (PFIs) issued by the Company for a total nominal value of Euro 284,386,754, as defined in art. 2346, paragraph 6 of the Italian Civil Code, are financial instruments with property rights or administrative rights, excluding voting rights at the general meeting of shareholders. The articles of association govern their methods and conditions of issue, the rights of entitlement, sanctions for non-performance of the services and, if permitted, the methods of circulation. The PFIs are therefore included in the so-called hybrid financial instruments. This definition means instruments with similar characteristics, both shares and obligations in relation to the characteristics outlined for the instrument, but with their own identity.

Each financial instrument is measured according to its own characteristics, from which is also derived the valuation method that is better able to define the value. The features of the PFIs can be identified by their own regulation.

The Junior PFIs are fully regulated by the Company's Articles of Association, and more precisely, Annex 1 "Regulations of the participating financial instruments of the Senior and Junior categories of Tirreno Power S.p.A.".

PFIs do not, under any circumstances, entitle holders the right to attend or to vote at the ordinary and extraordinary shareholders' meeting of the Company.

NON-CURRENT LIABILITIES

11. PAYABLES FOR LOANS

"Payables for loans" refer to the Restated Facilities Agreement signed with the financial institutions on December 15, 2015 and modified with the Amendment Agreement on January 31, 2018.

The original composition of the credit lines is as follows:

Credit Line	Original amount thousands of Euro	Rate	Expiry	Residual amount thousands of Euro
Tranche A	300,000	Euribor +2.07%	December 2022 (+ optional extension for a further 2 years)	fully repaid in 2020
Tranche B	250,000	Fixed 3.42% PIK	December 2024 (+ optional extension for a further 2 years)	29,132 (*)
Revolving Credit Facility	50,000	Euribor +2%	December 2022 (+ optional extension for a further 2 years)	20,000
Hedging	2,309	Euribor +2%	December 2019	fully repaid in 2019
Total	**602,309**			**49,132**

(*) fully repaid in February 2022

It should be noted that, from June 30, 2020, the Company is required to respect the following two financial covenants every six months:

- total amount of shareholders' equity of no lower than Euro 37.5 million;
- leverage ratio, i.e. the ratio between the Net Financial Position and the cumulative EBITDA of the previous 12 months, which, as at December 31, 2021, must not exceed 5.39 for the purposes of the above conversion and 5.98 for the purposes of default.

It should be noted that, as at December 31, 2021, the financial covenants were fully respected.

It should be noted that Tranche A was fully repaid in 2020 and in 2021 the company made a prepayment of Tranche B for a total of Euro 37,543 thousand.

As at December 31, 2021, the residual debt relating to the credit lines indicated above, net of repayments made and including capitalised interest, is composed as follows:

- Euro 35,155 thousand for Tranche B ("Convertible" credit line);
- Euro 20,000 thousand for "Revolving Facility".

The Restated Facilities Agreement requires, at the end of each calendar year, the cash and cash equivalents (including the "Revolving Credit Facility" line) exceeding Euro 40,000 thousand, to be used for the early repayment of the credit lines, together with interest capitalised on the principal portion repaid early.

The Company therefore reclassified to current liabilities the portion of debt for Euro 35,155 thousand as a Cash Sweep on cash and cash equivalents as at December 31, 2021, repaid in February 2022, as better described in the paragraph "Significant events after the end of the period ". Following this repayment, Tranche B is also fully repaid.

12. PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges amounted to Euro 99,368 thousand, down by Euro 7,649 thousand compared to December 31, 2020.

The size of the provision and the changes are summarised below:

(thousands of Euro)	12.31.2020	Allocations	Uses	Other changes	12.31.2021	of which current	of which non-current
Dispute provision	**5,762**	2,192			**7,954**	**65**	**7,889**
Provision for redundancy and mobility i	**9,102**	395	(3,647)	(238)	**5,612**	**5,612**	
Provision for sundry risks:	**92,153**	**5,237**	**(11,416)**	**(172)**	**85,802**	**22,521**	**63,281**
- site dismantling and restoration	*72,451*	*2,727*	*(8,957)*		66,220	12,317	53,903
- other	*19,705*	*2,510*	*(2,459)*	*(172)*	19,583	10,204	9,379
Total provisions for risks and charges	**107,017**	**7,824**	**(15,063)**	**(410)**	**99,368**	**28,199**	**71,169**

Allocations for the period, amounting to Euro 7,824 thousand, increased the provisions mainly for the following:

- Euro 1,495 thousand for the recognition of financial charges pertaining to 2021 on provisions for future plant dismantling costs;
- Euro 1,513 thousand for the hydro imbalances (Euro 1,194 thousand) and the TV5 unit (Euro 319 thousand) charged by Terna, but not recognised by the Company and allocated pending settlement of the dispute;
- the estimate of the Long-Term Incentive Plan for Euro 544 thousand;
- Euro 1,232 thousand for the adjustment of the provision for demolition of the Vigliena plant;
- Euro 2,127 thousand for charges relating to compensation claims for asbestos damages.

Uses, in particular, included:

- Euro 6,407 thousand for the insulation removal of the decommissioned Vado Ligure and Torrevaldaliga plants;
- Euro 2,020 thousand for the restoration of the hydroelectric plants damaged by the flood of October 2020;

- Euro 2,547 thousand for the demolition of the areas relating to the old Vigliena facility of the Naples plant.

The provision for sundry risks includes for Euro 65,612 thousand the estimate of the discounted costs that are expected to be incurred at the end of the production activities of the Torrevaldaliga, Naples and Vado Ligure sites for the abandonment of the area, the dismantling, the removal of the structures and the restoration of the site in the presence of current obligations. The non-current portion mainly refers to the dismantling and restoration works that will be carried out over a period of time between 2035 and 2039.

The item "Provisions for sundry risks - Other", amounting to Euro 19,583 thousand, mainly includes Euro 5,055 thousand for unbalancing charges from previous years, Euro 1,221 thousand for the risk of non-recognition of receivables relating to the 'cassa integrazione guadagni' (wage guarantee fund) and Euro 1,534 thousand for ICI / IMU (municipal property tax) disputes and, finally, Euro 6,820 thousand for the restoration of hydroelectric plants damaged by the flood in early October 2020, as better specified in the previous financial statements.

The provision for disputes, amounting to Euro 7,954 thousand, refers essentially to the asbestos dispute for which a total of Euro 7,889 thousand has been allocated to date, with an increase of Euro 2,127 thousand compared to 2020 for the updating of the appeals.

For this type of dispute, there are currently no elements to be able to estimate further potential claims for damages.

13. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

These amount to Euro 4,919 thousand and reflect severance indemnities and other benefits accrued at the end of the year by employees, which are valued according to the actuarial criteria of IAS 19R set forth for defined benefit plans. In particular, as regards the economic and financial scenario, the parameters used for the evaluation are as follows:

POST-EMPLOYMENT BENEFITS	2021	2020
Annual technical discount rate	0.44%	-0.02%
Annual inflation rate	1.75%	0.80%
Annual rate of increase in post-employment benefits	2.81%	2.10%
Other employee benefits	**2021**	**2020**
Annual technical discount rate	0.44%	-0.02%
Annual rate of salary increase	0.50%	0.50%

The following table illustrates the changes:

(thousands of Euro)	Post-employment benefits	Substitute indemnity - Electricity discount	Additional months' pay	Loyalty bonuses	BOOK VALUE
Values as at 12.31.2020 (A+B)	**4,260**	**546**	**474**	**359**	**5,639**
-Provisions			14	(5)	9
-Financial expenses (+)	1	(2)	1		0
-Gains (losses) from discounting (-/+)	144	30	(24)	(23)	127
-Uses (-)	(683)	(96)	(31)	(46)	(856)
Total changes (B)	(538)	(68)	(40)	(74)	**(720)**
Values as at 12.31.2021 (A + B)	**3,721**	**479**	**434**	**285**	**4,919**

Costs for employee benefits amounting to Euro 9 thousand were recognised under personnel costs.

Lastly, the gains from discounting amount to Euro 127 thousand and are recognised in the equity reserve (net of taxes), excluding those relating to loyalty bonuses, which are booked directly to the income statement.

As a result of the issuance of the new IAS 19 revised, the additional information is summarised in the tables below:

Sensitivity analysis of the main valuation parameters on the data as at 12.31.2021

	Post-employment benefits	Additional months' pay	Energy discount indemnity
Inflation rate +0.25%	3,684,362.47	N/A	N/A
Inflation rate -0.25%	3,661,407.94	N/A	N/A
Discount rate +0.25%	3,783,094.78	427,025.30	470,301.27
Discount rate -0.25%	3,684,362.47	441,726.40	487,745.75

	Post-employment benefits	Additional months' pay	Energy discount Indemnity
Pro future service cost	-	26,499.29	-
Duration of the plan	7	7	7

The number of employees by category is shown in the following table:

(units)	12.31.2020	Entries	Exits	Other/Reclassifications	12.31.2021
Executives and Middle Manage	47	1	2	1	47
Employees	155	17	15		157
Workers	30	16	5	-1	40
Total	**232**	**34**	**22**	**0**	**244**

14. DEFERRED TAX LIABILITIES

The item includes deferred taxes relating to costs not charged to the income statement, but deducted from taxable income in the tax return, as detailed in the following table:

(thousands of Euro)	Situation as at 12.31.2020	Situation as at 12.31.2021		
	Balance	Provisions	Uses	Balance
Deferred tax liabilities				
Amortisation	32,476		(589)	31,887
FV IAS 19 to shareholders' equity reserve	69			69
FV of derivative financial instruments to shareholders' equity	26	41		67
Total deferred tax liabilities	**32,572**	**41**	**(589)**	**32,024**

The uses of the item "Amortisation" refer to the completion of the time period of tax amortisation for IRES purposes, with respect to the economic-technical one (statutory amortisation).

15. OTHER NON-CURRENT FINANCIAL LIABILITIES

The item, amounting to Euro 1,297 thousand, includes the non-current part of the financial payable recognised as a result of the application of new IFRS 16 - Leases. The current portion of the debt, for Euro 485 thousand, was stated under other current financial liabilities.

CURRENT LIABILITIES

16. TRADE PAYABLES

"Trade payables" of Euro 127,749 thousand concern the supply of fuels, materials and equipment, tenders and services, as well as payables to TERNA and GME for supplies and activities carried out by December 31, 2021. The maturities of these payables are generally comprised between 30 and 120 days and duly respected.

The increase of Euro 97,824 thousand is due to:

- higher payables to Terna (Euro 27,809 thousand) as a result of higher costs for the purchase of energy in the MSD market in the last two months of 2021 compared to the last two months of 2020;
- higher payables to GME (Euro 17,968 thousand) as a result of higher purchases of energy in the MGP market in the last two weeks of 2021 compared to the same period of 2020;
- higher payables for fuels (Euro 47,848 thousand) due to the sharp increase in the price of gas.

17. PAYABLES FOR INCOME TAXES

The item, amounting to Euro 2,620 thousand, includes payables for IRES determined by applying the current rate to the estimate of taxable income for the year 2021, net of the advances paid. The payable for IRAP, on the other hand, is fully offset by the advances paid.

18. OTHER CURRENT LIABILITIES

Other current liabilities, amounting to Euro 86,359 thousand, refer mainly to the payable relating to the expense for the year for CO_2 emission rights (Euro 79,659 thousand) valued at the weighted average purchase price.

The item also includes payables to employees and payables to social security, welfare and insurance institutions.

The table below provides a breakdown:

(thousands of Euro)	12.31.2021	12.31.2020	Changes
Payables for CO2 emission rights	79,659	40,985	38,674
Other taxes	943	776	167
Payables due to social security institutions	1,609	1,899	(290)
Payables due to personnel	3,902	3,575	327
Other	246	1,196	(950)
Total other current liabilities	**86,359**	**48,431**	**37,928**

The change is essentially due to higher costs for emission rights, due to the significant increase in their enhancement weighted average price.

19. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes Euro 566 thousand for the fair value of derivative financial contracts in place as at December 31, 2021 to hedge the fluctuation in the sale price of energy.

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COMMITMENTS AND GUARANTEES

Commitments to suppliers are detailed below:

(thousands of Euro)	12.31.2021	12.31.2020	Changes
Tenders and miscellaneous supplies	70,389	72,882	(2,493)
Purchase of thermal fuel	18,467	17,548	919
Total commitments to suppliers	**88,856**	**90,430**	**(1,574)**

Commitments for the purchase of thermal fuel relate exclusively to the fixed term on natural gas purchase contracts.

The sureties requested in favour of third parties, amounting to Euro 34,077 thousand, concern policies issued by banks and insurance institutions, at the request of the Company, and mainly relating to the guarantee of gas and energy supply contracts (Euro 10,027 thousand), participation in the energy markets (Euro 15,830 thousand), as well as to guarantee state concessions (Euro 2,307 thousand).

NOTES TO THE INCOME STATEMENT

20. REVENUES

The table below provides a breakdown of sales revenues:

(thousands of Euro)	12.31.2021	12.31.2020	Changes
Sale of energy:			
-Power Exchange	801,534	503,712	297,822
-Free market	182,189	88,046	94,143
-incentivised contributions - ex Green Certificates	5,667	7,588	(1,921)
-photovoltaic contributions	19	28	(9)
Total energy sales:	**989,409**	**599,374**	**390,035**
Other sales and services	1,622	258	1,364
Total revenues from sales	**991,031**	**599,632**	**391,399**

Tirreno Power's commercial portfolio consists of two types of customers, customers that operate in the free market and those, instead, that operate on the Power Exchange. Revenues from Power Exchange sales include the results of trading on the dispatching services market. Sales on the free market instead refer to physical bilateral contracts.

The average PUN recorded an increase of around 86.14 €/MWh, equal to 221%, compared to 2020. This led to a significant increase in turnover despite a decline in volumes sold of 410 GWh (-10%).

The item "Other sales and services" mainly refers to the sale of materials deriving from demolition activities (Euro 1,557 thousand).

For more details on the changes compared to December 31, 2020, please refer to the Management Report.

21. OTHER REVENUES

"Other revenues", equal to Euro 14,507 thousand, mainly refer to insurance reimbursements (Euro 12,525 thousand) and refer to:

- to damages to hydroelectric plants caused by the flood of October 2020 for Euro 11,290 (including the advance to cover Property damages);
- damages to the Vado Ligure rotor for Euro 1,235 thousand.

They also include, for Euro 1,003 thousand, the repayment by Terna of part of the additional costs charged in previous years for "non-compliance with ignition orders" and, for Euro 375 thousand, the premium pursuant to Resolution ARERA 44/2021, awarded to Tirreno Power for investments made to improve the stability of the network. As regards the changes compared to December 31, 2020, please refer to the Management Report.

22. OWN WORK CAPITALISED

The item, equal to Euro 1,803 thousand, mainly relates to the capitalisation of materials taken from the warehouse for Euro 1,018 thousand and for Euro 785 thousand to the capitalisation of internal resources during the multi-year maintenance carried out in 2021.

23. CONSUMPTION OF RAW MATERIALS

(thousands of Euro)	12.31.2021	12.31.2020	Changes	%
Energy purchased on the Electricity Market	284,747	115,605	169,142	146%
Purchase of fuel for heat production	471,350	140,466	330,884	236%
Purchase of materials and other equipment	2,084	2,493	(409)	-16%
Change in fuel stocks	0	(10)	10	n.s.
Change in other stocks	332	(36)	368	n.s.
Total consumption of raw materials	**758,514**	**258,518**	**499,996**	**193%**

The purchase of fuels related exclusively to natural gas supply.

The increase in procurement costs is mainly due to a significant increase in the price of gas (the PMP rose by approximately 278%, from 165.9 €/ksmc to 627.6 €/ksmc). The energy purchased also shows a significant increase compared to 2020, mainly due to the increase in the PUN and to higher purchases in the MSD market.

For more details on the changes compared to December 31, 2020, please refer to the Management Report.

24. PERSONNEL COSTS

Personnel costs amounted to Euro 22,771 thousand, up by Euro 1,088 thousand compared to the figure recorded in 2020.

The rise is mainly due to the increase in amounts due to the overlap between new entries and exits to favour the support process needed to complete the turnover process, planned from 2020.

The headcount as at December 31, 2021 was 244, compared to 234 as at December 31, 2020.

25. SERVICE COSTS

The service costs, amounting to Euro 19,264 thousand, are detailed below:

(thousands of Euro)	12.31.2021	12.31.2020	Changes	%
Costs of services and tenders	7,979	8,100	(121)	-1%
Expenses for transactions on the Electricity Market	1,326	1,247	79	6%
Insurance costs	4,468	2,704	1,764	65%
Security, cleaning and other building costs	364	235	129	55%
Waste disposal	185	232	(47)	-20%
IT services	1,441	1,420	21	2%
Telephone and data transmission expenses	481	472	9	2%
Other services	3,020	2,901	119	4%
Total service costs	**19,264**	**17,311**	**1,953**	**11%**

The increase is mainly due to higher insurance costs (Euro 1,764 thousand).

"Other services" mainly refer to costs for studies and consultancy (Euro 1,292 thousand), costs for legal professional services (Euro 821 thousand), expenses for travel and training (Euro 297 thousand), fees of the Board of Statutory Auditors (Euro 182 thousand), as well as fees to the independent auditors (Euro 141 thousand).

26. OTHER OPERATING COSTS

Other operating costs amounted to Euro 92,182 thousand, up by Euro 13,477 thousand compared to December 31, 2020.

The following table shows a breakdown of other operating costs:

(thousands of Euro)	12.31.2021	12.31.2020	Changes	%
Contributions and fees	3,222	3,291	(69)	-2%
Provisions for risks and charges	5,922	27,539	(21,617)	-78%
Expenses for CO2 rights	79,659	40,985	38,674	94%
Taxes and duties	2,707	2,769	(62)	-2%
Other expenses	671	4,120	(3,449)	-84%
Total operating costs	**92,182**	**78,705**	**13,477**	**17%**

The change is essentially attributable to higher charges for emission rights, for Euro 38,674 thousand, due to the significant increase in the CO_2 enhancement weighted average price (51.63 €/ton in 2021 compared to 24.05 €/ton in 2020). Emissions are approximately 10% lower than the previous year (1,543 Kton. in 2021 compared to 1,704 Kton. in 2020).

As regards provisions for risks and charges, please refer to note 12.

27. AMORTISATION/DEPRECIATION AND WRITE-DOWNS

The item refers to the depreciation/amortisation in the period, calculated on the basis of economic-technical rates.

The table below sets out the depreciation/amortisation by type of asset compared with data for the previous year:

(thousands of Euro)	12.31.2021	12.31.2020	Changes	%
Depreciation of buildings	5,346	5,433	(87)	-2%
Amortisation of rights of use	495	497	(2)	0%
Depreciation of plant and equipment	44,069	50,036	(5,967)	-12%
Depreciation of industrial equipment	97	104	(7)	-7%
Depreciation of other assets	341	574	(232)	-41%
Amortisation of intangible fixed assets	638	439	199	45%
Write-downs of tangible fixed assets	0	1,030	(1,030)	n.a.
Write-back	(66)	0	(66)	n.a.
Total	**50,920**	**58,112**	**(7,192)**	**-12.38%**

For the changes to amortisation/depreciation, which have taken place, please refer to the Management Report.

28. FINANCIAL EXPENSES

Financial charges amounted to Euro 4,305 thousand, down by Euro 4,640 thousand compared to the 2020 financial year. The following table shows a breakdown:

(thousands of Euro)	12.31.2021	12.31.2020	Changes	%
Interest expenses and charges on loans	1,973	6,502	(4,529)	-70%
Interest expenses for decommissioning, post-employment and other benefits	1,497	1,693	(196)	-12%
Other financial expenses	835	750	85	11%
Total financial expenses	**4,305**	**8,945**	**(4,640)**	**-52%**

The decrease is mainly due to the effect of the accelerated repayment of the Term Loan line of Tranche B, which took place as a result of the “Cash sweep” mechanism and voluntary prepayment described in note 11.

“Interest expense for decommissioning”, equal to Euro 1,495 thousand, is offset by the provisions for site dismantling and restoration, while “Interest on post-employment benefits and other benefits” recognised in application of IAS 19R, amounted to Euro 2 thousand.

The item “Other financial charges” essentially refers to commissions on sureties for Euro 744 thousand.

29. FINANCIAL INCOME

Financial income amounted to Euro 423 thousand, down by Euro 275 thousand compared to December 31, 2020 and refers mainly to positive differences on the Euro / US dollar exchange rate.

30. INCOME TAXES

Taxes as at December 31, 2021, amounted to Euro 12,806 thousand and refer:

1. for Euro 9,800 thousand to the estimate of current IRES (corporate income tax) taxes and for Euro 2,200 thousand to the estimate of current IRAP (regional business tax) taxes, calculated on taxable income.
2. for Euro 1,510 thousand to the positive effect of deferred tax assets estimated as recoverable in relation to future taxable income;
3. for Euro 4,785 thousand to the negative effect of deferred tax assets relating mainly to the use of decommissioning provisions, the early retirement provision and the provision for write-downs of the VL3 and VL4 coal-fired units;
4. for Euro 589 thousand, to the positive effect relating to the use of the deferred tax liabilities generated on previous excess and early tax amortisation.

(thousands of Euro)	12.31.2021	12.31.2020	Changes
IRES	9,800	8,900	900
IRAP	2,200	8,850	(6,650)
Deferred tax assets	3,275	29,889	(26,614)
Deferred tax liabilities	(589)	(1,146)	557
Taxes of previous years	(1,879)	(10,302)	8,423
Total	**12,806**	**36,191**	**(23,385)**

Taxes from previous years, amounting to Euro 1,879 thousand, are essentially a consequence of the 2019 supplementary income tax return, sent to take into account the positive response received to the 'interpello' (request for a tax ruling) submitted to the Revenue Agency, regarding the interpretation of the tax treatment of the electricity discount fund.

The reconciliation between the theoretical and effective tax rates is presented below:

(thousands of Euro)			
IRES	**Taxable**	**Tax**	**%**
Pre-tax result (A)	**59,809**		
Theoretical rate			**24.00%**
Theoretical taxation		**14,354**	
Increases in taxable income	13,692	3,286	
Decreases in taxable income	(25,206)	(6,049)	
10% IRAP (regional business tax) deduction and ACE (aid for economic growth)	(7,461)	(1,791)	
Taxable income	**40,833**		
Actual tax (B)		**9,800**	
Actual rate (B/A)			**16.39%**
IRAP	**Values**	**Taxation**	**%**
Pre-tax result (C)	**69,612**		
Theoretical rate			**4.84%**
Theoretical taxation		**3,369**	
Increases in taxable income	4,190	203	
Decreases in taxable income	(28,348)	(1,371)	
Tax result	**45,455**		
Actual tax (D)		**2,200**	
Actual rate (D/C)			**3.16%**

31. EARNINGS PER SHARE

For the calculation of earnings per share, the net profit attributed to shareholders was considered. The denominator used in the calculation is represented by the number of shares issued, both in the calculation of the Basic Earnings and the Diluted Earnings, since there are no dilutive elements either as at December 31, 2021 or as at December 31, 2020.

(values in Euro)	Period ended as at 12.31.2021	Period ended as at 12.31.2020
Net income for the period	47,002,948	125,512,828
Average number ordinary shares (units)	60,516,142	60,516,142
Earnings per share - basic and diluted	0.78	2.07

32. NET FINANCIAL POSITION

The breakdown of the net financial position as at December 31, 2021 is detailed in the following table:

	(thousands of Euro)	12.31.2021	12.31.2020	Changes
A	Cash at bank and in hand	18	23	*(5)*
B	Bank deposits	49,892	14,022	*35,870*
C	Securities	-	-	-
D	**Total cash and cash equivalents (A+B+C)**	**49,910**	**14,044**	***35,866***
E	**Current financial receivables**	-	-	-
F	Current bank payables			-
G	Current portion of non-current debt			-
H	Other current financial liabilities	(55,155)	(24,022)	*(31,133)*
I	**Total short-term financial liabilities (F+G+H)**	**(55,155)**	**(24,022)**	***(31,133)***
J	**Net current financial position (D+E+I)**	**(5,245)**	**(9,977)**	***4,732***
K	**Non-current financial receivables**	-	-	-
L	Non-current bank payables	-	(74,159)	*74,159*
M	Other non-current payables	-	-	-
N	**Non-current financial debt (L+M)**	-	**(74,159)**	***74,159***
O	**Net non-current financial position (K+N)**	-	**(74,159)**	***74,159***
P	**OVERALL NET FINANCIAL POSITION (J+O)**	**(5,245)**	**(84,136)**	***78,891***

33. OTHER INFORMATION

33.0 Cash flows

(thousands of Euro)	12.31.2021	12.31.2020	Changes
Opening cash and cash equivalents	**14,044**	**26,424**	**(12,380)**
Cash Flow from operating activities	116,832	263,594	(146,761)
Cash Flow from investment activities	(37,941)	(43,212)	5,271
Cash Flow from financing activities	(43,025)	(232,762)	189,737
Closing cash and cash equivalents	**49,910**	**14,044**	**35,865**

Cash flow from operating activities was positive for Euro 116,832 thousand, a decrease of Euro 146,761 thousand compared to 2020, mainly due to the worse results in the period. Also note the negative impact of the VAT credit which, mainly as a result of the sharp increase in the price of gas, recorded an increase of Euro 27,590 thousand.

The cash flow from operating activities allowed the coverage of investment activities (Euro 37,941 thousand), as well as a reduction in financial debt of Euro 43,025 thousand.

The cash flow from financing activities is the result of the amount repaid in the period, in terms of principal and interest through the cash sweep and prepayment mechanism, of Tranche B (Euro 44,321 thousand). These reductions were partially offset by the increase deriving from the capitalisation of financial charges for the period of Euro 1,296 thousand.

Cash and cash equivalents, equal to Euro 14,044 thousand as at December 31, 2020, increased by Euro 35,865 thousand due to the aforementioned changes and amounted to Euro 49,910 thousand as at December 31, 2021. This amount of cash will allow the full repayment of Tranche B and the related PIK interest (Euro 35,155 thousand) in the first months of 2022 through the cash sweep mechanism.

Net financial indebtedness increased from Euro 84,136 thousand as at December 31, 2020 to Euro 5,245 thousand as at December 31, 2021.

33.1 Relations with subsidiaries, associates, parent companies and companies controlled by the latter

Any transactions carried out with other related parties, as described below, were carried out under normal market conditions and in the interest of each company:

(thousands of Euro)	Receivables 12.31.2021	Payables 12.31.2021	Advances 12.31.2021	Costs 12.31.2021	Revenues 12.31.2021
Financial					
ENGIE ITALIA Spa					
Tax transparency	87				
ENERGIA ITALIANA S.p.A.					
Tax transparency	422				
Trade					
ENGIE Global Markets Italia	12,795			10,307	40,746
Sorgenia Trading Spa	916				5,526
Sorgenia S.p.A.					76
Tractebel Engineering Suez		72	65		

Loans to Shareholders, amounting to Euro 509 thousand, relate to IRES (corporate income taxes) refund requests for non-IRAP deductions, presented when the Company signed up to the tax transparency regime in accordance with art. 115 of the Consolidated Law on Income Tax (TUIR).

The items of a commercial nature with regard to Sorgenia Trading SpA and ENGIE Global Markets Italia, on the other hand, relate to sales of energy.

33.2 Contingent assets and liabilities

There are no additional contingent assets and liabilities to be highlighted arising from events that occurred during the year 2021, in addition to what has already been reported in the Management Report and in the notes.

With regards to the contingent liabilities arising from the proceedings pending at the Office of the Public Prosecutor of Savona, please refer to the “Information regarding criminal proceedings of the Vado Ligure site” paragraph.

To date, also taking into account the opinion of the legal advisors who assist the Company, since the proceedings have still not completed the examination of all the relevant court-appointed experts for the purposes of the charge, and in particular, the acquisition of the contribution of the defence court-appointed experts of the civilly liable party and the defendants, the risk of losing the case must be considered possible and the compensatory consequences for the Company stemming from the pending criminal proceedings cannot be predicted.

33.3 Atypical and unusual transactions

There were no atypical or unusual transactions, or outside normal company operations or able to significantly impact the Company's financial position.

33.4 Significant events after the end of the period

Please refer to the relevant paragraph of the Management Report.

33.5 Proposed allocation of profit for the year

Please refer to the "Proposals of the Board of Directors" paragraph of the Management Report.

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